

DISCUSSION PAPER 29

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**CHAD – TOWARDS DEMOCRATISATION  
OR PETRO-DICTATORSHIP?**

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*Indexing terms*

Democratisation

Petroleum extraction

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## Abbreviations

- AU – African Union  
bpd – Barrels per day  
BEAC – Banque des États de l’Afrique centrale (The Central African Central Bank)  
BP – British Petroleum  
CAR – Central African Republic  
CCSRP – Collège de Contrôle et de Surveillance des Ressources Pétrolières  
(The Petroleum Revenue Oversight Committee)  
CEFOD – Centre d’Étude et de Formation pour le Développement  
(Chadian research institute)  
CEIP – Carnegie Endowment for International Peace  
CEMAC – La Communauté Économique et Monétaire de l’Afrique Centrale  
(The Central African Economic and Monetary Union)  
CFA – Communauté Financière Africaine  
(the common West and Central African Currency for former French colonies)  
CNS – National Sovereignty Conference  
COTCO – The Cameroon Oil Transport Company  
CSR – Corporate Social Responsibility  
CTNSC – Comité Technique National de Suivi et de Contrôle  
(The National Technical Committee of Surveillance and Control)  
ECMG – External Compliance Monitoring Group  
EIR – Extractive Industries Review  
EITI – Extractive Industries Transparency Initiative  
EIU – The Economist Intelligence Unit  
EMP - Environmental Management Plan  
FAR – Fédération Action pour la République (party of Ngarlejy Yorongar)  
HIPC – Heavily Indebted Poor Countries  
IAG – International Advisory Group  
IFI – International Financial Institutions  
IMF – International Monetary Fund  
JAI – Jeune Afrique l’Intelligent  
MDJT – Chadian Movement for Justice and Democracy  
MPS – Le Mouvement patriotique du Salut, Déby’s ruling party  
NEPAD – New Partnership for Africa’s Development  
NGO – Non-Governmental Organisation  
OAU – Organisation of African Unity  
PRSP – Poverty Reduction Strategy Paper  
PSA – Production Sharing Agreement  
RCP – Resettlement and Compensation Plan  
RMP – Revenue Management Plan  
RML – Revenue Management Law  
UN – United Nations  
WB – The World Bank

## 1. Introduction

The Central African country Chad is currently being transformed into an oil economy with at least a billion barrels of oil under its territory. At the same time, the country has been undergoing a democratisation process for the last fifteen years. The president and former warlord Idriss Déby and the World Bank have obviously given the oil export and its management control mechanism higher priority than the democratisation, but the two are inter-dependent. This study provides detailed backgrounds to both processes and analyses how the democratisation process could be positively affected by the oil incomes.

In 1990 Chad saw another military takeover of government. Chad had never experienced any other type of power succession and probably expected the current one to be just as violent. In the wave of democratisation rolling over Africa, a new democratic constitution was adopted and a presidential election took place which the initiator Idriss Déby as the winner. Fifteen years later the same president is still in power, and an amended constitution will allow him to be a candidate for a third period in 2006. Is this evidence of governmental excellence or democratic failure? Has the internally led post-conflict reconstruction and democratisation process in Chad achieved progress in national reconciliation, human rights, power sharing or creation of national unity? What are the future prospects?

Oil was discovered in Chad as early as in the 1970s. The country's history of continuous civil wars postponed the extraction, and meanwhile the international experience of the black gold showed a cruel paradox: immense revenues from oil neither benefit the poor, nor the growth of the economy as a whole. Typically, they generate rich and corrupt elites and aggravate internal conflicts. In Chad today, three oil companies, the World Bank and the governments of Chad and Cameroon are working together on the oil project, and external control mechanisms have been installed to assure the use of oil incomes for socio-economic development and poverty reduction. Export started in late 2003 and the economic growth in 2004 exceeded 30 per cent! What are the chances that the oil incomes controlled by external conditionalities will have a positive effect on good governance, poverty reduction and the democratisation process in the long term? How have the mutual dependencies and incentives of the actors developed and what are the future prospects?

The study is based on broad research of secondary sources. Academic articles, books, magazines, daily newspapers as well as publications and documents from the WB, the oil companies, Chadian, French, and Dutch research institutes, and non-governmental organisations (NGOs) have been weighed together in a manner

intended to give a balanced picture of the contemporary situation in Chad. No field studies have been conducted at this point. The study stretches over political science and development economics, but aims to reach out to a broad audience with an interest in African development and innovative systems for good governance, regardless of academic background. The research has been performed in cooperation with the Nordic Africa Institute (NAI) in Uppsala, Sweden. An earlier version was presented as a paper at the Institute's "Africa Days" in October 2003 under the research programme "Post-Conflict Transition, the State and Civil Society in Africa". A NAI study grant has also contributed to the research.

In the following chapter, a conceptual framework is built as a basis for the analysis of the state of governance in Chad. The theories explaining the process and constraints involved in transforming oil wealth to social welfare are presented. The possibilities that external influence from donors, corporate social responsibility and civil society opinions would enhance the chances of successful management and investment of the oil incomes are analysed. In chapter 3 the present state of the democratisation process in Chad is studied against the long conflictual background. The foreign influence and the lack of state of law and democratic institutions are analysed to make an assessment of the future prospects. The oil project is presented in chapter 4. It deals with the agreement with the oil companies, the management control mechanisms, the environment and compensation measures and the criticism from civil society organisations and how the project has been readjusted. An assessment is made of how capable the Chadian government is to handle the difficult challenges to use the oil incomes to promote a fair socio-economic development, followed by an analysis of how the various actors (the governments, WB, oil companies, civil society) are dependent on each other today and will be in the future. Finally, the relationship between the oil project and democratisation process is assessed. The last chapter presents the main findings and can be read as an executive summary.

## 2. Conceptual framework

The understanding of the Chadian state of democratisation today takes its point of departure from various studies of state reconstruction and authoritarian states.

As an oil rich country Chad also has to face specific economic and political problems linked to the management of natural resources, which in most other countries have led to increased poverty, the so called resource curse. In this chapter the theoretical framework regarding these problems is explained.

### 2.1 Rebuilding state authorities, respect for state institutions and rule of law in collapsed states

A minimum respect for the state authorities by the population and the political leaders of a common nation is necessary to develop trust and promote democracy and ensure a minimum of fair distribution of the national wealth.

In the third wave of democratisation, countries entered political transition because of internal conditions. In the fourth wave of democratisation, countries have during the last ten to fifteen years undergone a period of democracy promotion and political change essentially because the world required it. Marina Ottaway (2003c, the main source for this section) defines these as semi-authoritarian regimes and others have called them electoral democracies, virtual democracies or pseudo-democracies that superficially appear to have democratic institutions. They are countries that hold elections regularly, have elected parliaments, some degree of separation of powers, and some degree of political space with relatively independent media.

However, there are several deficiencies in the democratisation process. The first deficiency is that power is neither exercised through institutions, nor is it transferred through democratic processes. For example, a lot of these countries have elected parliaments, but they have no real power and still very much rubberstamp organisations. Concerning the transfer of power in semi-authoritarian regimes, the power of the incumbent is never really threatened by the elections.

The second characteristic, of the semi-authoritarian regimes, Ottaway argues, is the very limited interest aggregation, and therefore interest representation in the political system. The political parties do not represent the interests of particular constituencies. Most political parties in semi-authoritarian regimes are clientelistic networks around a particular individual. They are not parties of members that see the party representing a policy line.

The third characteristic is that democracy is a game played exclusively by political elites. The majority of people in these countries consider that democracy has very little to do with them and is completely irrelevant.

Robert Jackson (1990) differentiates between two types of states, *de jure* and *de facto* states. *De jure* states are those recognised by the international community, whether or not they are capable of efficiently controlling the territory. Post-colonial states fall in this category and collapsed states are the extreme form of *de jure* states. Jackson contrasts the *de jure* state with the *de facto* state where people occupying the territory have organised an effective government. Marina Ottaway (2002 and 2003b) redefines this concept by differentiating between two types of *de facto* states along a continuum (see Figure 2.1). One is where the state enjoys international recognition and exercises control over people and a territory preferably with democratic institutions. This is a state *de jure* as well as *de facto* characterised by the rule of law, a modern state with working institutions, i.e. a Weberian state (Henderson, Hulme, Jalilian, and Phillips, 2003). At the other end of the continuum there is the state with no international recognition and weak institutions, constructed on the basis of power. It is a *de facto* state but not a *de jure* state, which Ottaway refers to as ‘raw power state’. Examples are the emerging Somaliland and the parts of DR Congo controlled by warlords negotiating peace deals and appointing administrators.

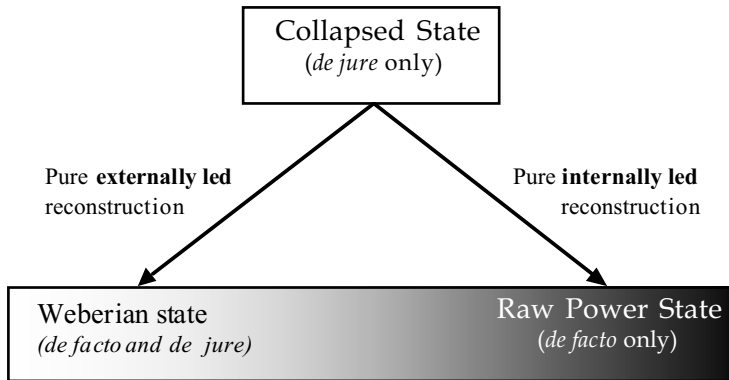
Figure 2.1: Ottaway's continuum of *de jure* states



The distinction between the two types of *de facto* states links to two forms of reconstruction of collapsed states. An internally led reconstruction process, according to Ottaway, accepts a transition from the collapsed *de jure* state to a raw power *de facto* state at the right end of the continuum, which slowly develops institutions, though not necessarily democratic ones. This is the traditional way of reconstruction, where superior military power and administrative capacity only slowly develop institutional strength. The alternative argued by Ottaway is the externally led reconstruction (the donor model). If correctly implemented, this model would by external pressure on the reconstructing state lead to the left end of the continuum, the Weberian *de facto* state (see Figure 2.2).

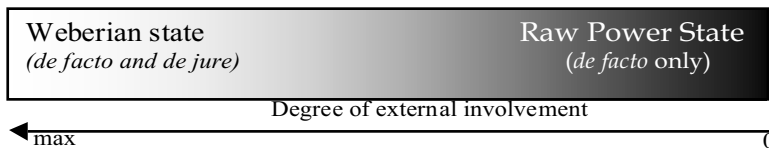


Figure 2.2: The development paths of reconstruction



Increased external involvement is normally believed to lead to higher degree of good governance (as shown in Figure 2.3), but without strong national unity and political determination it is impossible to build institutions by only outside support, whatever effort is extended.

Figure 2.3: Degree of external involvement



Below the two concepts are analysed, starting with the internally led reconstruction, which is closer to the historical experience of collapsed states.

### 2.1.1 Internally led reconstruction

Internally led reconstruction attempts hinge on re-establishing power. Democratic-oriented national actors want to reconstruct a *de facto* state but may not have the resources to do so. The actors who have the capacity to reconstruct the *de facto* state are likely to be reluctant to share acquired power and move from raw power to institutionalised politics and the rule of law. In internally led reconstruction processes, the second phase of state reconstruction often fails to take place because those who have consolidated power have little incentive to limit its exercise by developing institutions. Reconstruction can only be successful when sufficient power is generated to break the hold of existing resistance groups.

Ottaway takes up four examples of collapsed states that have been internally reconstructed; Uganda, Ethiopia, Eritrea and Somalia. The first three have been reconstituted as *de facto* states, where the governments are capable of making deci-

sions and enforcing them while Somalia remains a *de jure* state, but the attempt to rebuild it as a *de facto* state has failed. A new *de facto* state, Somaliland, has emerged, but received no international recognition. Military force was what made the state reconstruction from inside possible, but raw power is not an effective tool for governing a country. Even the most authoritarian governments need to transform raw power into authority by creating government institutions that earn some acceptance from the population. For Uganda these included strengthened local government elections under a non-party system and a new constitution, in Eritrea transforming the liberation movement into a political party, for Ethiopia transforming the country into a federation of states built on ethnicity but held together by a strong network of political parties. For all three the effort to transform raw power into authority also depended on a degree of economic reconstruction urgently needed not only to improve the human conditions but also to give the government the resources to govern. Transforming raw power into authority by regularising the institutions and the process of government led to the reconstitution of the state but not to the emergence of democratic states. Major components such as free choice and popular participation were missing. In both externally and internally led state reconstruction, a major challenge is moving from an order imposed through power to generally accepted institutions that will be maintained in the long run.

### 2.1.2 Externally led reconstruction

The externally or donor led reconstruction process of collapsed states is a fairly new phenomenon. Many aid agencies have worked in collapsed states during the 1990s and several ideas have developed about how the international community could assist. With the increased understanding of the multiple factors that cause state collapses, the prescriptions for state reconstruction have become so exhaustive that they could not possibly be followed in practice. Most cases of transition from collapsed state to democracy have failed because donor-led reconstruction rushes to develop institutions but tends to withdraw too soon like in Cambodia after the UN peace process broke down.

An issue of debate is whether outsiders can ever set up institutions.<sup>1</sup> Ottaway is of the opinion that they can set up organisations, which will only become significant and established when the national actors believe they provide solutions to real problems. Donors think of institution building less in terms of finding solutions to what local actors perceive to be problems and more in terms of transplanting best practice. In spite of the limited and quite negative experience, attempts at externally led reconstruction continue. The most obvious example today is Iraq. The methodology of external influence in sovereign states, which keeps evolving, either takes the

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1. Merriam Webster Online Dictionary defines an institution as a “significant practice or organisation in a society or an established organisation, especially of public character” (2004).

form of donor conditionalities and/or Corporate Social Responsibility (CSR) actions by foreign companies in natural resource rich countries. These types of external influence are taken up in chapter 2.3.

### 2.1.3 Other definitions of the African state

Describing the democratisation process taking place in Africa, Jean Bayart (1991) uses the term ‘authoritarian decompression process’. The democratic claims come from the crisis of the state and the crisis of development. It is not possible to build democracy without changing the state. The International Institute for Strategic Studies has concluded that despite several elections in Africa during the 90s, many political changes did not take place, because the leaders had learned how to manipulate the voting procedures. A democracy for the donor developed where the ruling party managed the democratic process in a way that only satisfied the *minimalist* requirements of donors without any risk of losing power (Buijtenhuijs, 1996). Another phenomenon is when political leaders adopt new rules (for example constitution amendments) to remain in power in order to continue exercising power as usual behind a wall of multi-party democracy. Bayart calls this ‘authoritarian restoration’.

If it is agreed that all politics concerns allocation of resources, the concept of ‘patrimonialism’ (Bayart, 1991) must be understood as that political competition is about sharing the national cake. In a patrimonial African state the competition is very direct and immediate. Access to the state means access to the economic resources. In the Western political democracies conflicts are solved in a more peaceful way because of a higher level of institutionalisation of the state and a greater differentiation of the political and economic spheres. The state leaves a place for the civil society. According to Weber, there is a structural relation between authoritarianism and patrimonialism (Ottaway, 2002 and 2003b). In an authoritarian state, accumulation of resources is based on violence combined with clientelism. The African authoritarian states try to legitimate their power either by ideology, a single party, national unity, or symbolic legitimating such as clientelism, nepotism and patronage. The degree of patrimonialism is what can be considered as the opposite of institutionalisation with democratic governance. Medard (1991) classifies the African regimes according to their degree of authoritarianism and introduces the concept ‘neo-patrimonial state’ to define a state with a certain degree of institutionalisation leading to another more rational mode of handling violence.

## 2.2 Managing oil wealth for development and poverty reduction

Basic economic theory would predict that endowments of natural resources would offer economic development opportunities for a poor country (see for instance Adam Smith, 1791). History and most empirical studies show however the opposite

– oil wealth impoverishes rather than blesses poor countries. Furthermore, oil-exporting countries are prone to having political problems. This paradoxical link between export of natural resources and overall economic performance has concerned researchers for many years.<sup>1</sup> Why does natural wealth lead to misery instead of prosperity? Not a single African state has managed to transform oil wealth to welfare.

Countries that are resource poor (without petroleum) grew four times more rapidly than resource rich (with petroleum) countries between 1970 and 1993 (Gary and Karl, 2003).

Many countries near Chad are oil producers. The oil in Sudan has been a tool to wage war. In Nigeria the oil has been the reason to wage war. In Algeria and Angola the national oil companies have grown to strong powers dominating the economies and obstructing other economic sectors. In Cameroon oil revenues made the economy prosper until oil prices fell in the 80s and disappeared in corruption. The oil rich Congo-Brazzaville is faced with an unbelievable indebtedness. None of the countries mentioned has managed the oil to improve either the economies in the long run or the governance. Gabon has despite big resources and a limited population become an oil *emirate* with one of the worst health systems in the world. There are not many successful natural resource exporting countries in Africa but Botswana has experienced a stable democracy since independence in 1966 with a relatively fair distribution of the incomes from its natural resource, diamonds.

### 2.2.1 *The Resource curse*

In this chapter the economic and political problems linked to oil revenues, called the resource curse,<sup>2</sup> will be analysed.

A main economic problem with natural resources is the tendency to favour capital-intensive production in often labour-abundant countries. Important foreign investments are needed to extract the resources. They generate extensive incomes for the country but the investments create only limited and mostly short-term employment. Simultaneously, large amounts of foreign currency flow into a country, which appreciates the local currency and makes other export products relatively more expensive on the world market. On the other hand, the import costs decline and the non-natural resource based industry sectors are crowded out by cheaper foreign consumer goods. These macro-economic problems, called the *Dutch Disease*<sup>3</sup>, have one of their worst effects on employment. The resource-based industry is not only capi-

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1. Stevens (2003c) gives a brief summary of the literature on the subject.

2. The term was coined by Auty (1993). The phenomenon is also called *The Paradox of Plenty* (Karl, 1997) or *The Oil Paradox* (Obi, 2004).

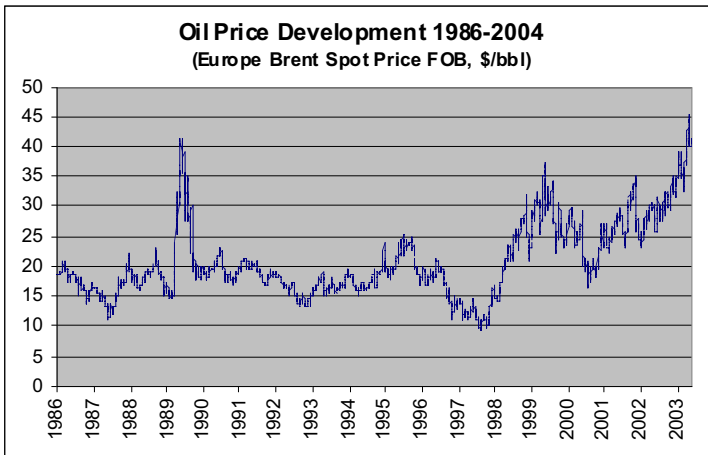
3. There is no consensus on the definition of the term. The original Dutch Disease literature was written by Corden and Neary (1982). Cordens credit *The Economist* November 26th 1977, for the coining of the term.

tal-intensive – it exists at the expense of other more labour-intensive sectors. Generating only limited employment, it creates great income inequalities as the lion's share of the population stay in rural and other low-income sectors.

Auty (2003, pp. 4–6) categorises developing countries into two groups: the resource-poor countries that follow the competitive industrialisation model, and the resource-rich that follow the staple trap model. In the absence of natural resources, the government has to promote development by public spending and industrialisation. As they lack investment capital, labour-intensive industries are built and urbanisation is accelerated. This in turn enhances the positive demographic development and reduces the number of dependants on the work force, building a base for saving and investment. A more diversified economy develops, which creates progressively more productive employment. In the staple trap model, on the contrary, the primary incentives to promote a diversified economy are less obvious, as money flows in from abroad anyway. The government can use the rent from the natural resource export to control the population – either through rent distribution or through the use of force. The urbanisation and demographic processes sketched above will not materialise or be delayed because of the absence of appropriate institutions and management skills in most developing countries. The long-term perspectives for employment creation will be forgotten. Oil incomes build up great expectations of growth in wealth for all. Citizens tend to be discontented and require urgent spending of the new revenues (Gary and Karl, 2003, p. 21). Governments without experience of managing higher public budgets let money flow to meet the expectations. Contracts tend to be given to companies with contacts close to the government. Efficiency becomes secondary and nepotism and corruption are very common. Spending on other objectives than welfare, such as political patronage and vote seeking, undermines and distorts the markets and obstructs private enterprises. Due to prestige and employment reasons, government projects are rarely terminated even if very inefficient. Big investments in foreign currency push up the inflation in oil countries, decreasing the value of savings. As the oil sector employs a limited number of labourers, the general public suffers from increased prices.

Foreign debt is another paradox of oil countries. Saudi Arabia, with a large share of the world's oil find, has a huge foreign debt due to exaggerated subsidised public welfare spending and big state projects. In times of high oil prices governments increase their spending, and when prices later fall, the habits of a high level of public expenditure create budget deficits and accumulate debts instead of reducing expenditure (Tsalik 2003a, p. 7–8). Spoiled children become angry when generosity is cut back, and populations react in the same way. In this situation governments tend to borrow abroad against future oil incomes rather than risk popular discontent (Gary and Karl, 2003). This is due to the lack of economic stabilisation mechanisms, weak institutions and political leadership.

Figure 2.4: Oil Price Development 1986–2004



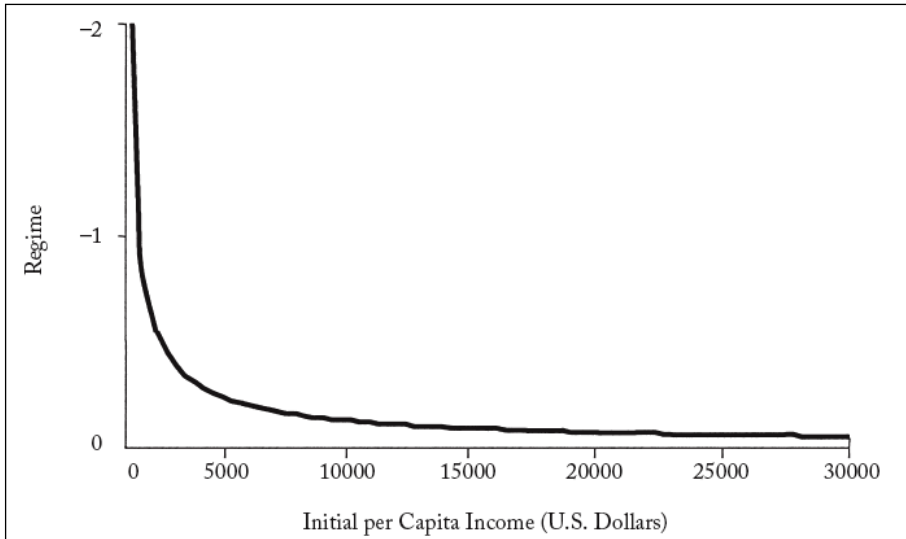
Data source: United States Energy Information Administration, 2004.

The high oil price has received broad attention in 2004, exceeding USD 50 per barrel. As seen in Figure 2.4, variation of the oil price over time is important, and this requires a discipline in public spending in the oil-producing countries. In order to be effective, long-term perspectives should be adopted in the economic management of oil incomes and temptations to overspend and accept deficits against future oil incomes should be restrained.

Turning to the political problems of the resource curse, natural resource-abundant countries tend to have bad results in the WB's good governance surveys<sup>1</sup> (Tsalik, 2003a, p. 4). Ross (2001a) has shown this negative impact with econometric analysis. His study shows that the negative impact on governance grows with the amount of oil export revenues (with a decreasing marginal impact). Furthermore, the impact is larger in poor countries. Figure 2.5 below (Ross, 2001a, p. 343) shows the effect on governance (Y-axis) of a sudden rise of oil exports. Governance is measured on a scale of 1 to 10, where 10 is the most democratic (Ross, 2001a, p. 338). The graph shows that the negative impact on governance is bigger when the initial GDP per capita in the country (X-axis) is low.<sup>2</sup>

1. IMF's definition of good governance is: "the effective and transparent management of public resources; and a stable economic, regulatory, and legal environment conducive to sound management and efficient use of private and public resources" (quoted in Tsalik, 2003a).
2. The effects graphed are the impact on governance in a country of 20 million inhabitants, five years after an increase in oil income of USD 10 billion per year.

Figure 2.5: Oil revenue impact on governance



Source: Ross 2001a, p. 343.

The normal procedure for oil extraction is that foreign oil companies negotiate with the government of a country, or that a state-owned company is responsible for the extraction. In both cases most of the oil income, staying in the country go to the government, little is left for entrepreneurs in the private sector, which makes the government very powerful and political opposition risks becoming marginalised (Tsalik 2003a, p. 8). The enormous revenues from oil production, combined with poor democratic traditions, leave the government with few incentives to share the oil power. Corrupt behaviour is an effective way to control the society and maintain political power, and is present to a great extent in oil states (Transparency International, 2004). The power of regional government institutions is often reduced.

Democracy is rare in oil states, but not only due to the centralised powers in the contracting process. The income inequality that appears in these states creates a lack of a middle class, which is usually is a driving force for democracy (Ross, 2001a). Another important factor in a democracy is the mutual link between government and people created by taxes. Some oil-exporting countries remove or lower taxes, making it harder for citizens to claim for their rights and their demands make fiscal transparency and accountability (Gary and Karl, 2003). Stable regimes in non-democratic environments can show advantages.

Paul Stevens (2003b) has studied poor countries that have avoided the resource curse,<sup>1</sup> and their governance methods. Botswana was a consensual democracy i.e. a

1. These were Botswana, Chile, Indonesia and Malaysia. Industrialised countries are different. Well diversified economies with disciplined revenue management, such as Norway, Canada, and Australia have successfully managed to escape it.

democracy where the same party was elected all the time. Thanks to a very homogeneous population and appreciated policies it became a “de facto one party state through the ballot box” (p. 12). Malaysia had a strong state able to control political opposition without compromising on economic policy. Indonesia had an authoritarian regime and Chile had a military dictatorship. Both were able to act independently without letting greed take the upper hand (even though corruption certainly embezzled money). What they all had in common was stable power. They could thereby maintain consistent long-term economic policies.

The strong state was also a prerequisite for a second factor Stevens found the “blessed” to have in common: the developmental state.<sup>1</sup> This is when the ruling elite set *developmentalism* as their main objective. They convince their population about this strategy, creating an ideological hegemony, and then stick to it continuously, without departures for short-term interests – they develop a trust between the government and people.

Stevens also found that positive regional role models can have positive effects on a country. Unfortunately, the role models are few for most poor oil-exporting countries. Political leaders often feel obliged to buy and use arms to keep or consolidate power. Sudan’s prolonged conflict, Nigeria’s and Chechnya’s regional conflicts, and the Iraqi attack on Kuwait are examples of how oil brings war. Military rearmament is common to meet internal discontent and external threats.

Transnational pipelines bring another threat to regional relations. Paul Stevens has assessed these in a study (2003a), and found that high fixed costs, low variable costs, and limited competition make bargaining useful (p. 22–24). Lack of an overarching legal regime in an environment of parties with different interests complicates the picture further. Stevens states that the problems can be mitigated by leverage from international finance institutions (p. 25), and regards the contracting process as key. The contract shall define the rules clearly and make sure that there is a flexible balance of interests, to stay balanced over time.

The Carnegie Endowment for International Peace (CEIP) arranged a study group that looked at 5 countries with failed oil projects (Algeria, Nigeria, Sudan, Azerbaijan, and Indonesia), and discussed problems these had in common that could hamper political reforms. These were: not fully consolidated national identities; ethnic or religious cleavages; tradition of centralised/authoritarian military-supported government; serious demographic problems; lack of economic reforms and weak institutions of governance and decision-making (CEIP, 2000).

### 2.2.2 Policy recommendations

The most important objective in the management of oil revenues is to prevent macro-economic problems, Dutch disease. As stated above, disciplined long-term

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1. Stevens refers this term to Mkandawire (2001).



policy is the key to success. Currency appreciation must be limited, which was the case in many of the successful countries investigated by Stevens. Botswana had a fixed exchange rate (tied to the South African Rand), Chile and Indonesia managed exchange rate policies of depreciation. Stevens (2003c, p. 20) points out, that a currency depreciation policy is one way, even though it is internationally unpopular.

Another component of a successful oil revenue policy advocated by researchers is a high savings rate. Auty (2003, p. 10–11) claims that for sustainability in development a country must have investment rates that at least equal the consumption (the concept of genuine saving). Stevens (2003b) recognises the high savings rate of Malaysia as a part of its success in oil revenue policy. According to Auty, citizens in general have a higher propensity to save than their government, but as mentioned at the beginning of the chapter, ordinary citizens in natural resource-rich countries are often too poor to save and inflation must be limited if saving is to be stimulated.

Due to the volatile nature of oil prices and the finiteness of reserves, most researchers (Tsalik, 2003b; Stevens, 2003b) recommend Natural Resource Funds (NRFs). These can be of two types: stabilisation funds that smooth out fluctuations in the oil price, and savings funds that save money for future generations (Tsalik, 2003a, p.10). Tsalik argues that NRFs clarify that the oil revenues are public money and under ideal conditions, transparency can be maintained. Stevens (2003c), however, also refers to authors that are sceptical to NRFs, arguing that they can undermine fiscal discipline and usually suit governments' needs. Tsalik wants to solve this by sharing the power over these Funds between the president, the legislature, the judiciary, the public and the oil companies. She regards the NRF as a compact between the government and its citizens. Gary and Karl (2003, p. 48) agree that NRFs have been successful in industrialised countries, but point out that badly-managed states would not be able to run future generations' funds, and that no successful stabilisation fund exists in Africa today.

In order to avoid unemployment, income inequalities and poverty, poor oil-exporting countries must try to diversify their economies. As long as there are other sectors working, people can escape these problems. The policy of economic diversification meets, not unexpectedly, a broad consensus among researchers (Auty, 2003; CEIP, 2000; Ross, 2001b; Stevens, 2003c; Tsalik, 2003a), and was more or less successful in all of the successful countries studied by Stevens (2003b). Stevens suggests that becoming less dependent on the oil sector is also a way to mitigate the problems of oil price fluctuations. He advocates free trade to diversify the economy and elimination of market failures. The CEIP study group (2000) considers the privatisation of national oil companies and opening up the energy sector for foreign equity capital as effective policies. Tsalik argues for investments in education, basic health care and poverty alleviation, and agrees that a good business climate for small and medium-sized enterprises is important to develop the non-oil sector.

Stable exchange rates, high savings rates (possible using NRFs), and a diversified economy are hence the main recommendations from researchers. If these policies are maintained on a long-term basis, the resource curse can be avoided. If the long-term perspective is well explained to the people, their expectations can be modified, even if it can be harder in poor oil-exporting countries. Stevens (2003b) points out that this communication with the people is a key success factor. He also emphasises the positive role of good experts, often foreigners, in the administration. Unfortunately, experts are usually not enough for handling the impulsiveness, greed and power monopolisation of political leaders.

Concerning policy recommendations for good governance, Tsalik (2003a) discusses three principles for the public administration in oil producing countries to restrain governments from using oil revenues for private economic and political interests: transparency; public oversight; and accountability. If oil income flows are transparent (i.e. officially published), public oversight can be maintained to ensure proper usage of the revenues. Corruption and exaggerated military expenditures become harder to carry through without public awareness. Inappropriate spending can be revealed and persons held accountable for their actions. The role of civil society organisations and independent and responsible mass media is crucial for successfully combating corruption and promoting law enforcement.

Transparency should be maintained in the management of the government budget, national oil companies and special oil funds. The accounts into which oil incomes flow should be independently audited. According to Steiner (2003, p.72), the public oversight must have “a legitimate and formalised role overseeing and interacting with industry and government”. As civil society organisations usually lack necessary funds and some may be short-lived, he sees the need to provide full funding for independent and empowered citizen institutions, overseeing the physical oil extraction and administrative and financial management of the oil incomes from the planning stage to the revenue collection, including environmental compliance (on a regional level citizen councils can be very effective in environmental overseeing). The advantages of these proposed policy recommendations are apparent and uncontested (Gary and Karl, 2003; Christian Aid, 2003; Soyir-Yariga, 2004). The problem is how to implement them.

In authoritarian and undemocratic countries there is probably political will to implement the economic policy recommendations to avoid the resource curse. However, the economic surplus obtained from oil export is often mismanaged and limited to the elite around monopolised political power. The only possible implementation strategy is hence external pressure for equal distribution of the resources for poverty reduction, which will be discussed in the next section.

## 2.3 External influence in natural resource rich states

None of the principles of transparency, public oversight and accountability can successfully be installed in a country without political and social reform ambitions. Dictators or leaders in a pseudo-democracy would not accept such constraints if they did not gain from them in some way, or had no choice. This section explains how external political pressure in the form of conditionalities on public financial aid can force developing countries to accept donor principles, for example adopting democratic rules and devoting more resources to poverty reduction.

Demands on foreign companies in natural resource rich countries to make direct social investments in the areas where they operate are also a kind of external influence. The concept of Corporate Social Responsibility (CSR), which has already been mentioned in 2.1.2, has received increased attention during the last 10 years. For the purpose of this study the focus in this section is on the WB and oil companies.

### 2.3.1 Aid conditionality and the World Bank

When giving aid to developing countries, the donor usually sets up conditions that the country must live up to in order to obtain the economic resources. Until the mid-eighties the WB and other donors had a purely economic view on the problems in Africa and insisted on economic reforms in accordance with structural adjustment programmes as a condition for loan disbursement. In the nineties, after the end of the cold war, donors started to call for political and institutional reforms including democracy, reliable judicial systems and efficient public service (Ihonorvber, 1994). The WB wrote in its World Development Report 1991 that governments should abandon their protectionist policies, protect property rights, provide judicial, legal and regulatory systems and let the markets work more freely. In 1989 the European Community adopted political conditionality as an aid regime principle (Baylies, 1995). The French President François Mitterand announced in 1990 that France would reduce its aid to African countries if a democratisation process was not initiated.<sup>1</sup> The US Agency for International Development (USAID) wrote in 1991 that promotion and sustainability of democracy was one of its main policy objectives.

Political conditionality in the international aid arena was born. Even if this seems to be a more responsible action than purely economic conditionalities, it has been far from a success. The other side of political conditionality is that it at some point intervenes in national sovereignty. Where this point is can be argued forever but in practice, the donors usually leave the aid recipient country outside the deci-

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1. The famous La Baule speech was a change in French African politics, which had earlier promoted stability rather than democracy. Several countries in francophone Africa initiated democratization processes shortly after the speech; one of them was Chad. See Bourgi (2000).

sion process. The results of democracy-related conditionalities were mostly the adoption of democracy-like reforms leading to the appearance of pseudo-democracies. The Organisation of African Unity (OAU; today the African Union) considered the point of sovereignty intrusion to have been passed (referred by Ihonvbere, 1994) and claimed that the International Financial Institutions (IFIs) did not achieve democratic states in Africa. According to OAU, the West was just trying to impose its system and values in order to incorporate Africa in the global market economy.<sup>1</sup> This point has also been argued by Nkrumah (1965) in his discussion on neo-colonialism in Africa. Many researchers agree that when reforms are not compatible with the national way of thinking, there is little chance of success. Baylies (1995, p. 329) stresses that it might even “undermine the very stability, which it is presumably intended to promote”.

Joseph Stiglitz, the former WB chief economist and the 2001 Nobel Prize laureate, has argued that aid conditionalities are an ineffective way of changing national policies: “Good policies cannot be bought” (cited in Checkel, 2000). The WB and the International Monetary Fund (IMF) have later reconsidered the conditionality concept and the structural adjustment programmes of the eighties (economic conditionalities). The Bank has tried to orient its loans more towards social sectors and poverty reduction with a better national ownership of the development process. The concept of Poverty Reduction Strategy Papers (PRSPs) was introduced, which put more emphasis on national ownership and stakeholder consultations and less on conditionalities. PRSPs are national strategies drafted by the recipient countries, then reviewed and approved by the World Bank. Financing of sector programmes, national budget support and debt relief are offered to governments that agree to follow the PRSP. The intention is to achieve long-term development through national ownership and responsibility for the development process (Stites, 2003). Even though most donors have appreciated the new orientation, criticisms have appeared stating that PRSPs have become a new conditionality. In many cases it seems as if the participation of the local population has been limited to avoid delayed approvals and consequently the disbursement of funds.

After many WB supported natural resource projects have failed to promote development, these have received particular attention. Many of the problems referred to in Chapter 2.2 were not addressed in most PRSPs (Stites 2003). The WB President James Wolfensohn agreed in 2000 to set up an independent investigation about the WB role, the Extractive Industry Review (EIR), which published its report in 2004. One of the important conclusions is that the WB should not engage in oil or mining projects for the next 5 years. During that period development poli-

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1. Along with the demands for democratic reforms came demands for liberalising the economies. Popularly called the Washington Consensus, the development countries were forced to open their economies for international investors and be incorporated in the world market (Williamson, 2003).

cies and models of how to handle poverty and good governance in extractive industry projects should be elaborated. The Bank response has been to develop more careful policies but not to refrain from such projects. The measures include the promotion of transparency and all new major extractive industry projects will have to disclose revenue figures (WB, 2004b).

In the Bank, we have found that programmatic operations have emerged as a promising approach to reconcile the objectives of ownership and resource predictability. In that sense conditionality has evolved into a mutual commitment device which holds governments accountable for reliably making progress toward their own poverty reduction strategies and the development community reliably providing financial support to help achieve these results. (WB, 2004c)

One of the WB's main lending instruments, Adjustment Lending, has recently been replaced by the new Development Policy Lending. The new policy desires to see:

governments working with civil society in putting together policies to reduce poverty. The Bank is willing to support a country's agenda, if truly owned by the government and its citizens. The programmatic operations are a promising approach to reconcile the objectives of ownership and resource predictability. In that sense conditionality has evolved into a mutual commitment which holds governments accountable for reliably making progress toward their own poverty reduction strategies and the development community reliably providing financial support. (WB, 2004b)

The IMF has also revised its guidelines for conditionalities. The new aim is to be more flexible and sensitive to local situations and more transparent in the purpose of its conditionalities (IMF, 2002). How these new agendas turn out in reality is still too early to predict.

The recent strategy document for Africa's development, The New Partnership for Africa's Development (NEPAD), initiated by South Africa and Nigeria, constitutes an African initiated attempt to mobilise additional economic support from the international community by imposing common commitments on political issues, such as good governance, broadening of the democracy and respect for human rights. These commitments are promised in exchange for increased financial aid flow. However, in addition to criticism for lack of consultation with the people and acceptance of the liberal globalisation, some critics see NEPAD as another opportunity for donor conditionality (Blom Mondlane, 2003).

### *2.3.2 Corporate social responsibility and the oil companies*

The World Business Council for Sustainable Development (WBCSD) has defined CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life". After the disastrous environmental consequences in the Niger Delta, where particularly Shell received extensive complaints and press criticism, CSR has become an important issue for oil companies (Otta-

way, 2001). All oil companies have nowadays developed CSR programmes, but the present debate is still far from attaining consensus. Arguments on the concept usually take off from two different base points: state sovereignty or corporate responsibility. NGOs and civil society frequently argue that multinational companies have an important ethical responsibility. On the other hand recipient states, Western governments as well as NGOs fear that CSR undermines state sovereignty and state incentives to lead the development.

The role of oil companies has differed extensively over time. During the colonial era a company could set up institutions, appoint leaders and build fortifications, in order to maximise its ability to exploit the countries resources (Ottaway, 2001). The resources were regarded as belonging to the company. This was called 'The United Fruit Model' by the CEIP study group (2000). After independence it developed to what CEIP called 'The Blinders Model' – when companies narrowly obeyed local laws - frequently not even that – even though they were obviously inadequate compared to international standards. Anthony Sampson (1975) has written the influential book *The Seven Sisters* on the behaviour of the oil industry in the 1970s. The next level of CSR according to CEIP was 'The Excellent Corporate Citizenship Model' – when oil companies cared about their workers, the local environment and the development of the local society. The situation today can be regarded to correspond to somewhere in between the two latter models. After the Niger Delta disasters, the oil companies realised that 'The Blinders Model' was not a viable concept any longer, as it brought them big losses.

Currently, CSR is driven by the business incentives of the oil companies. The project risk can be mitigated by CSR as social mistakes can cause production losses in the producing country, but also goodwill losses in the home countries. The latter has been an increasing success for NGOs working with monitoring company actions and publishing their findings in the companies' home countries. Profit maximising is still the primary objective for the companies, but CSR is now an integrated part of it (Lekunze, 2004). However it seems that corporate CSR actions are more undertaken to satisfy public opinion demands in the home country on ethical behaviour than to take care of the welfare of the local populations (Lekunze, 2004, p. 16). NGOs will certainly continue their pressure on multinational companies and achieve further improvements of the CSR concept within the business framework.

Extensions of CSR are not only controversial in the business sphere. National laws are frequently ignored when oil companies for example provide the security around their installations. If companies are willing to do that, their argument for not wanting to intervene in state responsibilities by CSR measures is illegitimate, some researchers argue (Lekunze, 2004, p. 14; Kapelus, 2002; Idahosa, 2002). Others argue that if the development of states is taken over by foreign companies, it undermines the sovereign state, and may change the perceptions among the people about who is responsible for development. State building is harmed and govern-

ment legitimacy may decline. The important role given then to the company would threaten to be a recolonisation of the country, and must be regulated in some way, Lekunze argues (p. 15).

CEIP (2000) also concluded that the best way to stimulate CSR in oil companies would be to adopt shared international standards of what constitutes corrupt practices, and to work with multilateral organisations to develop common strategies for economic and political development in the host countries. There are no international binding standards today, but recommendations to be followed on a voluntary basis (Freeman, 2001). In 2000 seven big oil companies, nine NGOs and the governments of Great Britain and the United States agreed on the “Voluntary Principles on Security and Human Rights”. In spite of the preference for binding standards among many NGOs, the voluntary approach has been widely endorsed by western governments. The British government has launched a CSR Academy in cooperation with the industry to develop CSR, accessible for any firm that desires to do so (Upstream, 2004b). Ottaway (2001) and the oil industry strongly advocate this voluntary approach.

One key question is whether company expenditures on social development that are part of a negotiated agreement with the host country should be considered as CSR or if only voluntary contributions in addition to the agreement should be included.

### *2.3.3 Transparency initiatives*

Several NGOs have adopted transparency as a main objective in their strategy to make companies work for the development of the host countries. The campaign ‘Publish What You Pay’, founded by Global Witness, The Open Society Institute, Oxfam, Save the Children, and Transparency International Britain is a coalition of more than 200 NGOs and civil society organisations that tries to make the oil companies publish their payments to the host governments (Publish What You Pay, 2004; Global Witness, 2003).

Another initiative is the ‘Extractive Industries Transparency Initiative’ (EITI), presented by Tony Blair at the World Summit on Sustainable Development in Johannesburg, in 2002. It is a British led group of governments, oil companies and NGOs with the aim to make all income flows publicly known. The initiative has made progress, at least rhetorically. The WB endorsed EITI as a response to the EIR, undertaken to advise the WB whether to continue its support to oil projects. Natural resource rich countries such as Nigeria and Peru are also adapting to the initiative (EITI, 2004) and major oil companies that have agreed on the terms of EITI are British Petroleum (BP), Shell, Anglo-American, Newmont, Rio Tinto, and Statoil. The G8 countries have also expressed commitment in their Action Plan on Fighting Corruption and Improving Transparency.

If the transparency initiatives could pressure companies to disclose their payments, corruption and embezzlement would diminish. Stevens (2003c, p. 23) points out, however, that it would be insufficient to reduce corruption, due to the many different capital flows to governments. According to Global Witness (2002, p. 41–42), BP tried the concept of transparency in Angola. The response was a threat of terminated contracts if disclosure continued, sent not only to BP, but also to other operators in Angola. Cyril Obi has argued that this is not the only reason for companies to refrain from disclosure.<sup>1</sup> He stresses that companies can have great economic incentives not to publish the right figures – a point that also is implied by Stevens. As the oil corporations are the biggest in the world and as oil is a very important commodity, the international community is by tradition less keen on insisting on principles in oil-producing countries (CEIP, 2000). The concept is making progress, but where it is leading has yet to be seen.

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1. Nigerian researcher at the Nordic Africa Institute (personal communication 17.8.2004).



### 3. State and politics in Africa: Chad's democratisation process

Chad is one of the world's poorest countries, ranked 167 out of 177 by UNDP's Human Development Index in 2004 (United Nations Development Programme, 2004). The GDP per capita is USD 1020 – less than USD 3 per day, presumably unevenly distributed over the population – and the illiteracy rate is over 50 per cent. 70 per cent of the population has no access to drinking water. In order to understand the difficult democratisation process taking place in Chad today, it is important to study the historical background to find the roots of the culture of violence and authoritarian regime. That is the subject of this chapter, which also analyses the political situation today and briefly describes the newly inaugurated oil project.

#### 3.1 Historical background

Before colonisation, non-centralised societies in the South without state organisations co-existed with Islamic kingdoms in the Sahelian zone in the middle of the country.<sup>1</sup> In the North the Toubou Hadjerai Guera lived from trans-Saharan trade (salt, gold etc.) and bought slaves from the Southern animistic communities. This economy based on slavery has deeply influenced the mentalities in Chad; the feeling of superiority of the nomads over the Southern sedentary communities – the 'Arabs' over the 'blacks'. This heritage still affects the situation in Chad and the pattern is similar in Sudan, Niger and Mali.

The French conquest destroyed the Sahelian states, but complete control was not achieved in the north before 1918. The colonial powers drew up the borders arbitrarily, locking in some 200 ethnic groups speaking 100 different languages. The nomads continued their traditional migration and no Chadian nation existed – there were, rather, groups of communities with different conceptions of space and power. The dominant groups (Sara 20 per cent, Arabs 15 per cent) are only strong minorities. Due to colonisation, nomadic warriors in the desert, used to non-state organisation, had to live with the sedentary agricultural population in the south. The main trans-Saharan routes from north to south were cut and the commercial roads reoriented towards the south of Chad where the cotton (employing 40 per cent of the rural population to deliver 30 per cent of the public income) is exported via Cameroon.

Like other African countries faced by slavery, the oppressed communities approached the colonisers as allies. In particular the 1.5 million people of the Sara adopted the Christian religion and sent their children to the catholic schools to later

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1. This section is based on Pierre Conesa (2001) and Thierry Michalon (1997).

be recruited to the colonial administration. No Muslims were recruited as the Islamic families sent their children to Egyptian universities. The ethnic cleavages continued.

Chad's first president after the French left in 1964 was Tombalbaye of the Sara people, and he talked about a 'Chadisation' of the country. Such a process would prove to be very distant though. A tax revolt in 1965 soon set the Muslim North and East against the Southern-led government in a long civil war. For twenty years the war ravaged Chad with varying intensity. French, Libyan and other African troops tried to help in solving the problems with little success. In 1982 the northern Muslim Hisssein Habré took over as the new president after reconciliation with some of his powerful opponents, and he managed to control most of the Chadian territory. The international Court of Justice granted Chad the sovereignty of the Aouzou strip, ending the Libyan occupation. At the end of the 1980s the former Habré army general, Idriss Déby, defected and fled to Sudan. There he started an armed rebellion that culminated in 1990 when he marched on N'Djamena with Libyan assistance without opposition from the French troops stationed in Chad. Habré fled into exile in Senegal and Déby seized power. Chad, a country that had never seen a non-violent change of power nor a sustainable national unity, was now to start a democratisation process.

### 3.2 Political development and democratisation

When Déby came to power a wind of democratisation was blowing in over francophone Africa, confirmed by the La Baule speech of French President Francois Mitterrand (Bourgi, 2000; Bayart, 1991). Would a democratic development also be possible in Chad? As a result of popular protests against authoritarian regimes, the collapse of the communist regimes in Eastern Europe and French pressure, several francophone countries including Benin, Burkina Faso, Central African Republic, Congo-Brazzaville, Côte d'Ivoire, Gabon, Niger, Mali, Senegal, and Togo took more or less successful steps towards democratisation. Newly arrived in power, Déby had to accept that the process also started in Chad in 1991. Opposition parties were legalised and a transitional legislature established until a new constitution was adopted by a referendum in 1996, and elections were held (Buijtenhuijs, 1996b). Déby had faced two coup attempts during his first two years, but was now elected president for a five year mandate. He gradually restored basic government institutions and entered into agreements with the WB and IMF to carry out substantial economic reforms. Peace deals were signed with various rebel groups in 1997. However, the democratic process in Chad has been far from uncontested and successful. Déby has continuously been criticised for electoral fraud and human rights violations (Eriksson, 2002).

### 3.2.1 Electoral fraud

According to international observers, the legislative elections of 1997 experienced numerous serious irregularities and every election in Chad since then has faced similar accusations.

In 2000, the National Assembly revised the electoral law in favour of Déby's party Le Mouvement Patriotique du Salut (MPS), giving the Eastern and Northern regions disproportionate weight in future elections. If this was not sufficient, the revision also contained presidential control of the independent electoral commission. The President appoints 25 of the 31 members of this commission (EIU, 2003b).

The 2001 presidential election was described after extensive fraud as one of the most controversial in francophone Africa since 1990 (Conesa, 2001). The legislative election in 2002 was accomplished with less fraud, but observers still noticed some complaints, and the population showed its opinion through boycott. The turnout was just above 50 per cent and only 22 per cent in the capital N'Djamena. According to the official figures Déby obtained 67 per cent of the votes in the presidential election and his party MPS 112 out of 155 seats in the National Assembly election. The main opposition leader is Ngarlely Yorongar, a Southern federalist who was regarded as the "real winner" in 2001 presidential elections and whose party received 6,5 per cent of the seats in the National Assembly. Interpreting the voting results, the national division between the south-west Christian/animist part, with almost no support for Déby and the rest of country, mostly Islamic, appears clearly. The ruling president obtained around 90 per cent of the votes in those areas in the 2001 presidential election. The Christian south, where most of the oilfields are situated, is apparently hoping for a federalist solution in Chad. However, after the low participation in the 2002 National Assembly election the MPS made a breakthrough and won many seats in the south as well.

The Chadian constitution limits the presidential mandate to two terms of 5 years in office. President Déby has now held power for almost 15 years, but was elected for the first time in 1996 after the new constitution was adopted. He would then normally have to resign in 2006, but in May 2004 the National Assembly, however, passed an amendment of the constitution. The most important point was the abolition of the limitation of the number of re-elections, which offers Déby the possibility to be a candidate for re-election in 2006. A referendum will confirm the revised constitution and constitute an 'authoritarian restoration' (using Bayart's notation). The referendum has been set to June 6, 2005 (AFP, 2005). A group of 25 opposition parties have formed a coalition to stop the constitution amendment (Jeune Afrique l'Intelligent [JAI], 2004a, Economist Intelligence Unit [EIU], 2004a). Their prospects of success are very limited, not due to low popular support, but because the president controls the referendum process. The opposition has said

that they will refuse to participate in any future elections if transparency is not guaranteed. It has demanded the removal of the electoral commission from government control and for a new electoral roll to replace the one from 2001. The intention to change the constitution has also been heavily criticised by international opinion and cast further doubt on the political will of Déby to maintain the democratisation process. Political tension and increased violence has been registered in N'Djamena during 2004, mostly attributed to the upcoming controversial referendum. The slowly regained political stability is seriously threatened again.

### *3.2.2 Human rights violations*

Chad is a country without a tradition of respect for human rights. President Déby and his predecessors have systematically violated their own and international law. The democratisation process has not changed this. Every report on human rights in Chad agrees about extensive violations, but criticism raised by EU and NGOs has not had any effect in the past. The ex-President Habré is awaiting trial for crimes against humanity<sup>1</sup>. A former victim leads the campaign to bring him to justice. During Habré's reign Déby was head of the security forces and reports say that he now is trying to hinder the Habré trial to save his own skin (Human Rights Watch, 2002). Habré is accused of responsibility for the 40,000 killed and 200,000 persons who disappeared during a period of 8 years (Libération, 2001), while Déby is claimed to have been responsible for the death of 25,000 people since seizing power in 1990.

Torture and maltreatment of civilians by government forces are continually reported. At least one death was reported from possible excessive use of force by members of the security forces in the context of the presidential elections in 2001. Troops from Déby's ethnic group dominate the security forces and the harassments are often ethnically related. Over 100 persons were arbitrarily arrested and many maltreated by the security forces during 2002.

Freedom of expression and press freedom are guaranteed by the constitution. The freedom of speech is formally respected, but opposition leaders always have hard times, especially when elections are close. Amnesty International has reported continued attacks in its annual reports. The most important media in Chad is the radio. The freedom of expression came under increased attack as the legislative elections in 2002 approached. During the election campaign, non-state radio stations were not allowed to broadcast political programmes or debates. General insecurity and violent crime increased in 2003 (Amnesty International, 2004). Nine executions took place, at least four after unfair trials. The judicial investigations of former President Hissein Habré's human rights violations continue. The impact of the oil pipeline on the local population's rights to compensation and the risk of environ-

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1. See further Amnesty International (2001) and Human Rights Watch (2002).

mental disasters have remained of concern. In 2004, opposition radio stations have been forced to shut down and newspapers have been attacked (IRIN News, 2004b). In an extraordinary victory for press freedom, the administrative chamber of N'Djamena's Supreme Court ordered the government to pay USD 11 200 in damages to the community radio station *FM Liberté*, for losses incurred when the station was forced to close for 3 months in 2003. *FM Liberté* lives under a renewed threat of closure by the High Council for Communications after it aired a programme in which civil society groups commented on the draft amendment of the Constitution.

People in general distrust the government. "Government backed killings and torture show that the present Chadian government can only be expected to misuse loans" says Delphine Djiraibe, President of the Chadian Association for the Promotion and Defence of Human Rights. Diplomats have described Déby's government as one of the most corrupt in Africa, which was confirmed by Transparency International in the Corruption Perception Index, CPI, for 2004, were only 4 countries behind it.

With a historical background of violent power changes to control the state for the interests of the ruling clan, which type of state exists in Chad today? In the next section the development after the reconstruction and democratisation process started in 1990 is analysed. This will contribute to understand the challenge of creating a lasting peace and transforming the state into an institutional, democratic and pro-poor development state.

### 3.2.3 Definition of state

Following Ottaway's concepts presented in chapter 2 Chad can be defined as a semi-authoritarian state with an internally led state reconstruction aiming at democratic institutions (constitution, election system, freedom of expression etc.). Internal reconstruction processes often fail because those who have consolidated power have little incentive to develop institutions. Déby started the democratic process in Chad in 1991. It was clearly influenced by Mitterrand's La Baule speech and French pressure following the new democratic winds blowing over Africa. A national conference was held, a new constitution adopted and elections held. In spite of government army harassment of the civilian population, the political opposition continues and violations of human rights are frequent, it can be argued that Chad is in a position of slowly moving from raw power to institutionalised politics.

Medard's concept 'neo-patrimonial state' (1991), a state maintaining a certain degree of institutionalisation with a more rational mode of handling violence, can well be argued as suitable to describe Chad today. The clan around President Déby (and some opposition parties that have agreements with him) have priority access to the state resources. Though continuously and systematically offended by human rights violations, some democratic rules are followed and a political opposition and free press are tolerated to some extent, though frequently harassed.

### 3.2.4 Analysis of the basis for political mobilisation

Chad started its democratic process in a particularly difficult situation: after a 15 year structural adjustment programme, a neo-patrimonial state structure and a civil war which ended in 1990 after 25 years. Two groups have emerged on the political scene in Chad – the democratic political parties basing their power on popular support and the politico-military movements basing their power on the armed forces.

The democratic experience has not aggravated the civil war or created new conflicts as in countries such as Yugoslavia, Congo-Brazzaville, and Central African Republic (CAR). Chadians have started to dream of a reconciliated country, but peace is still fragile (see section 3.2.6). What has been rejected is the bad state or non-state but not the state itself. It is wrong to say that Western democracy does not make sense in African eyes. The political elite believes in democracy or follows foreign advice, like the French offer of turnkey democracy to its old colonies. The electoral base has no experience of democracy, but it might well be possible that imported democratic values can be adopted and integrated, even if they sometimes meet obstacles and risk failing. Remember that it is not long since many European countries started their democratisation; the Chadian democracy is 15 years old. So far, however, the pseudo-democratisation of African states discussed in chapter 2 is without doubt present in Chad as well.

Interpreting the voting results the national division between the southern Christian part, with almost no support for Déby, and the rest of the country, which is Islamic, can clearly be observed. The ruling president obtained around 90 per cent of the votes in the northern areas in the 2001 presidential election. In the Christian south Yorongar of *Fédération action pour la République* (FAR) is the strong man. Coming from the region where most of the oilfields are situated, he has argued for a federal solution in Chad. Yorongar officially got 16 per cent, second best, of the votes in the presidential elections of 2001, but he and many others claimed he had won the majority of the votes in this contested election. However, in the 2002 National Assembly election with a low participation MPS made a breakthrough in the south as well. Yorongar's FAR received only 6.5 per cent of the seats in the National Assembly.

The main factor for political mobilisation is traditionally the tribal, ethnic or clan vote, but it is also common to vote for a candidate from the region or the prefecture level – often corresponding with a dominating ethnic group (Weissman, 1993). In the 1996 presidential election in Chad, 15 candidates participated, and the country is composed of 140 ethnic groups. All the candidates are officially national but campaigns and election results reveal that they are based on ethnic identity and community sentiments. In 1996 there were two candidates who reached outside their own regions with their campaigns, and in 2001 Déby was the only candidate to cover the whole country.

Robert Buijtenhuijs (1998a, 1998b) analysed the political situation in Chad 1993–97 more deeply, following Weissman's analysis of the political mobilisation vectors in Congo-Brazzaville (Weissman, 1993). He found that the voting pattern was not purely of a North–South nature in Chad, rather threefold: the North with Déby, the South under Kamougué and the Southwest with Kebzabo (Yorongar in the south has emerged after Buijtenhuijs' analysis). There were alliances between North and South and the Southwest leader Kebzabo challenged Déby from a weak position in the presidential election of 1996. There existed serious tension within each block. The independent Southwest with many heterogeneous political formations and the appearance of fundamentalist Islam divided the local strongholds both in the South and the North. From the assumption that a civil war required heterogeneity within the regions, Buijtenhuijs hence drew the conclusion that a North-South civil war was unlikely. The cleavages within the respective regions persist; the south was split between Yorongar (16 per cent), Kebzabo (7 per cent) and Kamougué (6 per cent) in the presidential election of 2002, and the politico-military movement in the North continues to be active (see below in this section).

Furthermore, Buijtenhuijs (1998b) found that the religious *vote* was hardly present in Chad, as it represented too big a danger in a multi-confessional country where religious parties were prohibited. The clientelist vote would according to Weissman serve as the base for the ethnic link. In Chad, however, where MPS and Déby did not exclude any region to secure political support, it did not seem to apply (except for the South-West). As a political mobilisation vector, the reality was more complex. Buijtenhuijs pointed out that certain politicians were ethnic entrepreneurs while others were patrons in their multi-ethnic political home region where community sentiments were dominating. Déby and Kamougué exceeded the regional limits and had become sub-nationals. He also found that the politicians in Chad with the exception of Déby dispose of few private resources, a clientelism of the poor.

Analyses of abstention rates show that when a candidate is certain to win and less threatened by adversaries, the abstention rate is high. Benoudijita (1994) points out that northern Chad has little political participation, and often there is only one candidate in the elections. In the South the participation rate is higher and more candidates are available. Hence, he sees a risk that the democratic process is slower in the North, more dominated by traditional conservative sultanates. In the South people are more committed to struggle for the respect of human rights.

### 3.2.5 Lack of civic behaviour

A problem for the young Chadian democracy is the lack of civic behaviour. It has been stated that Chadians lack fair play in negotiations and discussions and use a warrior language, which does not facilitate reconciliation. Excuse and pardon have become synonyms of fear and weakness. The reason for the failure of all peace agree-

ments is found in the politicising of all daily relations between ordinary citizens. The search for consensus to find a solution to political conflicts is not considered on a serious basis.

For many parties the politicising of the notion of peace has become the only possibility for power change. Some politicians applaud when a rebel movement launches an offensive while others support the government forces to clean up regions from rebels. All initiatives to build a lasting peace are seen from different angles: conquest of political power for some and questioning of the legitimacy of the head of state for others. How can peace be obtained when faced with this ambiguity?

Linked to the lack of civic behaviour and national identity is non-respect for the law. It has become evident that law texts and important decisions to consolidate the state of law are difficult to enforce in practice (Kanika, 2002). There are three factors blocking the application of the law with serious negative consequences for the democratisation process. The first factor is the high rate of illiteracy. Non-educated patriots offered high-level posts as compensation after a military take over have not learned to follow laws but only to obey orders. The second factor is that the notion of power and responsibility is linked to the family and the ethnic group and not to the nation. The third factor is linked to nomination practices, which betray one of the recommendations of the National Sovereignty Conference (CNS): “set the right person in the right position”. The desire of CNS was not only the respect of State institutions but also the importance of credible persons to work there. The partisan phenomenon leads to a situation where many morally doubtful persons are nominated to sensible posts. The disputes around these nominations have weakened their authority. The absence of State authority leads to disorder and impunity. The involvement of politics in the legal system leads to further distrust from the general public. The Chadians identify themselves very rarely with the state and don't regard the state as being responsible for maintaining justice and security, neither for providing social welfare. This can explain the need for strong conditionalities in the management of oil revenues and the need for the oil companies to contribute directly to social development in the oil producing areas and around the pipeline.

### *3.2.6 Origins of the internal conflict*

In a liberal democracy competition usually takes place between organised groups and political participation is achieved by elections with political and civic freedom. In Chad, however, politico-military movements are still active, though the number of rebels has diminished and represents a less serious threat today.

The movements have their roots in the clan-based dictatorships that have prohibited all opposition and provoked rebellions. This has caused a crisis cycle (Conesa, 2001). Tombalbaye, Habré and Déby; all the Chadian rulers have had this same character trait: the benefits of power have been restricted to the president's



clan and the resources of the state have been systematically eroded, and led to unpaid civil servants, corruption, and repression of ethnic groups. Slowly the rebellions have developed and the social bases of the regimes have fallen. Repression has made the civil population suffer most. The rebel movements have progressively been strengthened and the regimes weakened until small military expeditions have been able to seize power, like the situation when Déby overthrew Habré with only 2,000 soldiers.

According to this crisis cycle the new power, which bases its legitimacy on the military victory, gradually leaves the initial consensus for the president's growing authoritarianism. The murder of the opposition becomes part of political management. The internationalisation of the clanic conflict can appear at any moment when each of the factions seeks foreign support according to its need for cash or arms, religious or political support. Each allied country like Libya or France is asked to pay salaries and train civil servants and members of the military. Personal and ethnic conflicts explain more than political principles; every political party is based on ethnicity. None of the warlords has so far shown any political arguments in the interest of the general public.

Azevedo (1998) attempted to find the roots of Chadian conflict. He argued that Chad could resolve ethnic and religious differences, but the memory of past slavery would still be alive and continue to determine people's perception of one another. It was too fresh to be forgotten and forgiven – especially in the South – less than a generation after the slave raids. Religion became a major divisive factor in Chad because most active slave traders were Muslims and slave activities were justified on the basis of Islam. Under French rule the cleavage continued but with the Christians as the privileged religion.

The main rebel movement, Chadian Movement for Justice and Democracy (MDJT), fought for a long time under leader Togoimi, a former Déby minister of defence. The movement had its base in the Tibesti Mountains in northern Chad and was supported by Libya. A peace agreement was signed in 2002, but after Togoimi was killed later the same year when his vehicle ran over a landmine, the struggle continued (Gueye, 2002). Since 2004 MDJT is part of a military opposition alliance of six different groups. Their force has decreased though; the support from Libya has diminished or disappeared completely and the leadership appears to be weak. In 2003 Déby also signed a ceasefire agreement with a southern rebel group, ANR.

With the domestic military opposition under control, Déby faced new problems in 2004 within his own military support base, dominated by his ethnic group, the Zaghawa. In a radio speech Déby denounced an attempted coup d'état, showing once again his clanic power base and dependence on the loyal army from his own region and the ethnic group Zaghawas. Speculations about the reasons for the mu-

tiny point out discontent over the president's audit of the military payroll<sup>1</sup>, which presumably undermined the corruption base of mutineers (IRIN News, 2004a). Other reasons could be discontent among Zaghawa military staff about the lack of assistance to the Zaghawa people in Darfur. The mutiny led to purges within the national military, but Déby still depends on its support. The Darfur conflict poses a threat to that support, and also threatens to spill over the Chadian border. However, it is certainly in Déby's interest to dramatise the situation and involve American and French interests to support his regime (JAI, 2004b).

The conflict in the Darfur region in western Sudan on the eastern border of Chad began in February 2003 when two rebel groups of ethnic Zaghawas (sedentary farmers) started an uprising against continued discrimination and political and economic marginalisation of their region. The Sudanese government response was to support the Arab *Janjaweed* militia (from nomadic herders) in attacking the rebels and their support in villages, starting what may be called genocide (The Economist, 2004). The *Janjaweed* militia ravaged the region and harassed its people, the Zaghawas, for more than a year, killing an estimated 70,000 people and forcing about 1.4 million people to leave their homes in a campaign of ethnic cleansing against the black African population. "The situation in Darfur risks degenerating into an inter-ethnic war between a coalition of Arabs and other ethnic groups in the region", Chad's former chief mediator in the peace talks has warned (IRIN News, 2004c).

The apparent problem for Chad is that about 200 000 of the refugees have fled to Chad, but the picture is much more complicated than that. The Chadian President Déby belongs to the same ethnic group as the harassed people, the Zaghawa, and Darfur was his base when preparing the coup in 1990. Officially, Déby has acted as a mediator in the conflict, but according to an IRIN report (2004c), the Sudanese and Chadian governments entertain mutual suspicion against each other. Déby has officially supported the Sudanese military with resources, but he is also suspected of supporting the Zaghawas in Darfur. The dilemma for Déby is that he simultaneously must uphold good relations with the militarily powerful Sudan, and his Zaghawa generals in the National Army who want a stronger support to their people. Déby's survival tactic seems to be trying to obtain international recognition of the conflict as genocide in order to receive American and French support. French troops stationed in Chad already assist refugees. The situation is unclear and Déby's regime remains fragile. There is a risk that the war in Darfur will spread into Chad, where both the feared *Janjaweed* militia and the two Darfuri rebel groups are reported to increasingly operate. The rebel groups have local support and are supplied with arms (IRIN News, 2004c).

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1. The payroll covered 24,000 men, but a survey showed that there were only 19,000 employed (Sudan Tribune, 2004a).

The UN Security Council approved in September 2004 a US proposed resolution, requesting the Sudanese government to protect the civilian population in Darfur against the *Janjaweed* militia or face UN sanctions against the oil export. It also requested the UN to set up a commission to investigate whether genocide has been committed. The peace negotiations between the Sudanese government and two rebel organisations were suspended because of disagreements on key issues. The international community has not yet decided to intervene and only a limited number of peace observers from the African Union are stationed in Darfur.

Another type of conflict, which is partly due to the economic attraction of the oil fields, is the recently reported ethnic fighting between rival mobs of Muslim and non-Muslim residents in the southern Chadian town of Bebedjia, near the Doba oil field, with several persons were killed (IRIN, 2004d).

### 3.2.7 Foreign interests in Chad

At the time of Déby's coup in 1990, the Sudanese President Hassan el Tourabi supported him. Déby went into exile in Sudan from where he started his rebellion, and he regarded the Sudanese president "as his spiritual father" (Réseau-Voltaire, 1996). On the Sudanese side, there were interests to introduce a fundamentalist view of Islam and the Sharia law in Chad. Robert Buijtenhuijs argued that what Tourabi's Sudan wanted was political control of Chad, an ideological-religious influence. *N'Djaména Hebdo*, a Chadian weekly paper, concludes in an article: "the Sudanese want to transpose to Chad their north-south and Muslim-animist conflicts" (Réseau-Voltaire, 1996).

Libya has been deeply involved in internal Chadian conflicts since the 1980s and occupied for many years a part of Chad's northern territory, the Aouzou Strip. The International Court of Justice ruled that the territory belonged to Chad in 1994. Libya has also supported the MDJT rebels in northern Chad. Nowadays, trying to normalise relations with the international community, Libya has mediated in the conflict between the government and MDJT, but Chad still suspects that Libya is helping the movement. The relation between the two countries is tense, and it was aggravated by the Chadian involvement in the CAR coup in 2002 (see below).

The former colonial master France maintains its sphere of interest. There is a contrast between the Mitterrand La Baule speech in 1990 and the actual policy of serving French interests. The reason why the Déby regime has been able to stay in power behind the democratic wall is, according to many observers, the permanent French support. For France "Chad remains central in the French military mechanism in Africa" read a headline in *Le Monde* (1998). It is from Chad that France can plan the intervention force *Epervier* in the central African region. France has a force of 900 men in Chad, originally to serve as a buffer against Libya. Recently, some 200 of them were moved to the eastern border to maintain stability disturbed

by the Darfur conflict. It is difficult to imagine any other explanation for the continued French support of the Déby regime.

The Chad–France relations have experienced some difficulties during the 1990s. The French oil company Elf-Aquitaine withdrew from the oil project in Chad in 1999, and Déby interpreted it as that the French government had started to support a new potential leader in Chad, Togoimi of the MDJT. Togoimi was as a former Minister of Defence appreciated by the French military cooperation. Déby expelled the French ambassador, but the relations have been re-established, as the MDJT did not prove to be a real threat. France supported the organisation of the presidential election in 2001 and the French President Jacques Chirac also paid a visit to Chad in 2002.

As Chad is emerging as an oil state, a new friend has appeared: the United States. As will be explained in detail in chapter 4, the two American oil companies Exxon-Mobil and ChevronTexaco are now producing oil in Chad. The United States is diversifying its oil imports in order to rely less on the Middle East, and West Africa is a central part of this strategy – it has been forecast that Sub-Saharan African oil constitute 25 % of American oil imports by 2015<sup>1</sup> (Gary and Karl, 2003, p. 14). The reliance is of course mutual – oil now represents 70 % of African exports to the US (Washington Post, April 2003). Furthermore, the US counter-terrorist campaign has recently reached Chad. The Chadian army has received training and 19 tonnes of non-weapon equipment in order to prevent terrorists from operating in the remote desert regions of the country (Sudan Tribune, 2004b, EIU, 2004b, p. 7). A good relationship between Chad and the United States seems to be a stable win–win situation. A drawback though, was that the Chadian Ambassador to the US recently criticised Déby in the American media, causing his own dismissal (Africa Confidential, 2004, p. 7).

### *3.2.8 Chad's foreign interests*

“Idriss Déby is setting himself up as the boss of central Africa. He already had the military power, and with the oil he's now got the economic power.” This statement was made by a high-ranking official from one of the six Central African Monetary and Economic Community (CEMAC) countries (AFP, 2003).

Chad's southern neighbour the Central African Republic experienced a failed coup attempt in November 2002, followed by a successful one in May 2003. Apparently, Chad had a key role in these coups, supporting the new leader General Bozize. The democratically elected president, Patasse, was supported by Libya, Chad's old enemy. According to some sources, President Déby has big regional ambitions. Earlier interventions have taken place in Congo-Brazzaville in 1997 and in Congo-Kinshasa in 1998. Déby routinely rejects the accusations, denying intervention in

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1. For an overview of American oil strategy in Africa, see Volman (2003).

Congo-Brazzaville and any coup incentives in CAR. The motive for Déby's intervention was officially that nationalists harassed the Chadian minority in the CAR, but it may rather have been to secure the oil fields situated near the CAR border.

It is difficult to determine how real or realistic these regional ambitions are. In spite of oil resources and American cooperation Chad is still a weak country, surrounded by powerful neighbours such as the Sudan, Libya and Nigeria. The domination of CAR is obviously an advantage for the security of the oil fields, but the delicate situation at the Darfur border makes any regional ambition from the Chadian government quite ironic.

### 3.3 Struggle for a real and lasting peace

The national unity and sovereignty are not threatened, even if the Darfur conflict should threaten to spread into the Chadian border areas. Although social and political tensions are frequent, every respected leader in Chad has historically wished to maintain a united country (some with a federal system). Even during the worst moments of the civil war nobody wanted to see the country disintegrate. The rebels and defenders of the status quo remain nationalists at heart (Azevedo, 1998). Peace has become the principal political issue for all Chadians, political parties and groups from the civil society. What is needed for this peace to be installed permanently?

During 2002 many peace proposals were discussed following the peace agreement between the MDJT and the government. All, internal and external political opposition, the politico-military movements, the ruling party, the civil society, human rights associations and trade unions, spoke about peace and national reconciliation. A public forum for a 'real and lasting peace' was organised by a Chadian research institute CEFOD<sup>1</sup>, but peace takes time to concretise because of different interpretations. The ruling party claims that the Chadians have lived in peace since 1990. However neither the politico-military opposition nor the civil society, even if they use different tools to fight, consider that peace has been re-established in the country, as armed conflicts and inter-communal antagonism still take place.

A peace which is so difficult to achieve is the result of many years of continued political, economical and social crisis with an absence of an ideology of common nation building and development vision. This opens up for regionalism, linkage to the ethnic groups and the defence of the identity. The conflicts have deeply modified the social relations where the notions of hierarchy and mutual respect for the individual have been broken down. For many Chadians live as a good citizen is not a valid principle. They live rather for the family and the ethnic group. In such a con-

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1. CEFOD (Centre d'Étude et de Formation pour le Développement), founded in 1966, is a documentation and research institute in N'Djamena.

text it is difficult to generate a lasting peace without inventing a neutral peace concept.

There are those who question the national unity state in Chad and advocate that a new form of state is necessary to create the dynamism for peace, allowing shared management of the power, a federation of two states – north and south – or 7 states based on historical, economic, social and cultural criteria (Feckoua, 1996). A federal constitution would permit participation of all parties and constitute a guarantee for national unity. The problem with the installation of an effective federal executive body at central and local level would be the lack of a responsible bureaucracy. There would be a need for the federal function to control the emergence of regional dictators.

Others believe that the promotion of decentralisation is necessary to strengthen the state of law and to make the citizens more responsible for the development. Today people in Chad have to some extent experienced democracy, press freedom, the right to strike, and trade union liberties mostly in urban areas. In rural areas it is still common that military staff and public administrators violate basic rights without fear of the law, because people are frightened to denounce the crimes. It is argued that it is only after the election of regional and municipal councils that the Chadian citizens would really be aware of their civic rights (Hassan, 2001). In order to strengthen the local democratic structures, a solution must be found to the relationship between the traditional power structures and the new rural councils. However, necessary support and control must be exercised from the central level as well as by the civil society over the rural councils. Experience says that decentralisation is more difficult to achieve when huge oil incomes come to the central government.

Decentralisation in Chad has been planned for several years, and the government has repeatedly announced its intention of holding local elections. However, the process has incited disputes among local politicians competing to control local institutions, even within MPS. It will contribute to improving basic services, but the real issue is the local governments's revenue from the central government and the scope for local resource mobilisation (EIU, 2004c).

### 3.4 The future of democracy in Chad

The Déby semi-authoritarian or neo-patrimonial regime will have to accept more transparency in the execution of power and be more accountable to the majority of the population in order to achieve real democracy. They must see the advantage of greater justice in the distribution of resources. Justice must be separated from state power. The internally led reconstruction process has so far mostly resulted in a pseudo-democracy. Formally a state of law exists to a considerable extent, but in practice many harassments still take place and impunity is common.

However, against the background of the complex socio-political situation, it is already progress that most of the political parties have participated in elections and that the struggling democratic process is still continuing. Other positive signs are the increased political activity at the local level, the relative freedom of expression and the press and activities by human rights movements. They have contributed to an increased political awareness among the population, even if the Chadian democracy is still very weak. The political opposition has been marginalised and no serious threat to the Déby regime exists today. However, the acquired democratic experiences will be valuable the day when a broader democracy becomes a reality. Another sign of progress is that the immunity against Habré has been lifted and a juridical process been initiated, which is carefully monitored by the human rights organisations. However no real progress has so far been achieved.

Beside these few positive indications of democratic development in Chad, election frauds, constitution amendments and continued harassment of the media are serious signs of democratic backlash. The decentralisation of power and an independent jurisdiction are remote in Chad. According to EIU (2004b, p. 6) it is a widespread perception that the election in 2006 is the last chance to change the president by democratic means, but with the control over the election procedures, this seems improbable today.

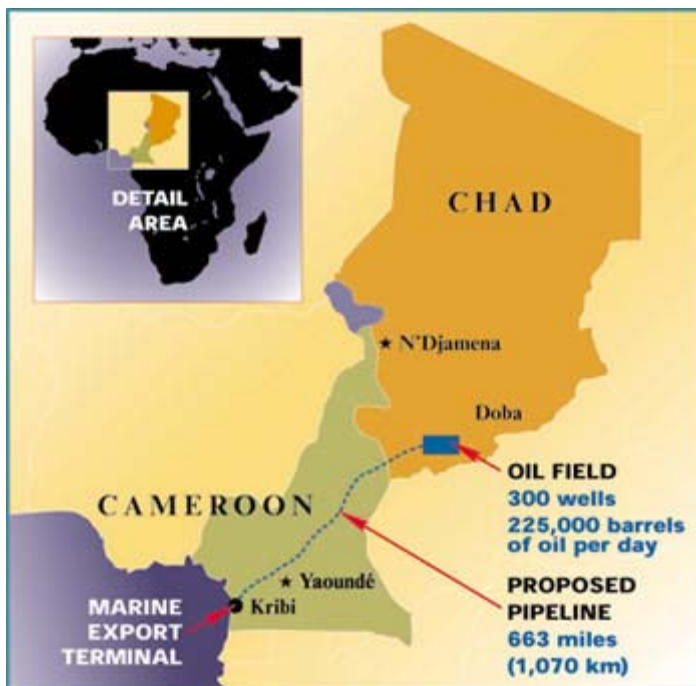
Although the cyclical process of reinstalled authoritarian rule after armed rebellion has not continued since the democratisation process started in 1990, neither national reconciliation nor a real and lasting peace has been achieved. The national reconciliation has been delayed even if several agreements have been reached with different rebel movements both in the north and in the south. However, the negotiations have mostly led to a division and parts of these movements have refused the conditions and continued their armed struggle. An attempt by CEFOD to facilitate a discussion on the concept of peace has revealed deep distrust among various politico-military movements. A daily politicising of social contacts among ordinary citizens prevails. A neutral peace concept accepted by all has to be invented to obtain a lasting peace (Kanika, 2002).

The oil incomes give new economic resources, which, if managed well and really used for poverty reduction, could contribute to the consolidation of the democratisation in Chad. However, the opposite is rather the rule and a big risk in Chad as well. Vigilance and a hard struggle on the part of the political democratic forces and civil society are needed to overcome all the obstacles blocking the democratic progress. The unique oil management mechanism could contribute to improved governance and poverty-oriented socio-economic development. This could indirectly lead to improved democratisation

## 4. Natural resources: The Chad-Cameroon oil project

The huge oil resources in the Doba region in southern Chad and around Lake Chad give the country an opportunity to reduce its extreme poverty. But to do this it has to escape the resource curse first. With a democratic government a remarkable change of living conditions for the poor population could be achieved, but with the semi-authoritarian regime in power, even though elected by universal suffrage, there is an obvious risk that the increased state revenues will cause even wider injustices and violence. A well-managed and fair distribution of the oil incomes is decisive for Chad's post-conflict reconciliation, economic reconstruction, democratic development and poverty reduction. The political importance of the Doba oil project is hence tremendous – it will have an immense impact on the future development of the country.

Figure 4.1: Map of the project



Source: <http://www.esso Chad.com/eaff/esso Chad/index.html>



Oil was already found in Chad in the 1970s, but the extraction was obstructed by civil wars and other armed conflicts. After the initiation of the democratisation process at the beginning of the 1990s, oil companies started to plan an extraction. The landlocked localisation of the country made the transportation difficult and the start-up costs enormous. A 1,070 km underground oil pipeline from Doba, through Cameroon to the Atlantic coast was needed, and it took seven years of planning and negotiations between the WB, the oil companies and governments to come to an agreement. The WB is supposed to guarantee the control of the use of the revenues generated by the project, and of the environmental impact.

The construction of the pipeline started in 2000 and the first oil was pumped in June 2003, one year earlier than planned. The American oil company Exxon Mobil leads the project consortium as main financier. Chevron, also American, and Petronas from Malaysia are important financial partners, while the WB and the governments of Chad and Cameroon contribute with more modest shares of the financial resources, paid by foreign loans. A huge project in a poor country means not only the construction of production facilities (300 oil wells and export terminal) but also 600 km of roads, telecommunication systems and other infrastructure investments. The costs are calculated to USD 3.7 billion, which currently makes it the largest single private investment in Sub-Saharan Africa (Gary and Karl, 2003). The consortium has financed 60 per cent from its own resources, 25 per cent as loans at market rate. The WB financed 3 per cent and the remaining 7 per cent was financed from the private sector wing IFC of the WB. World Bank credits to Chad and Cameroon amount to 35 million USD and 55 million respectively (Réseau-Voltaire, 1999). The participation in the pipeline companies, TOTCO for Chad and COTCO for Cameroon, has been financed with USD 140 million as a loan from the WB and the European Investment Bank (JAI, 2003e). The pipeline has the capacity to transport 225,000 barrels of oil per day (bpd). The export from the Doba oil fields was expected to reach this peak volume in 2009, after which the daily volume will decline rapidly (WB, 2000b, p. 65), but continue to yield revenues to Chad until 2032. However, it has been reported that the consortium would reach peak production in November 2004 (International Advisory Group [IAG], 2004b). When the Doba field, estimated to one billion barrels, is fully exploited, other fields are expected to take over the oil export. Several fields are already being explored in Chad and its neighbouring countries. ExxonMobil plans to start production at Nya and Moundoli in 2005 and 2006 respectively and Encana (Canadian) leads a consortium exploring fields in northern Chad (EIU, 2004a, p. 20; IAG, 2004b).

The project documentation calculations point to total revenues of USD 1.677 billion to the Chadian state over the whole Doba project, which would be an average of around USD 60 million per year (WB, 2000b, p. 68), an increase by 40–50 per cent of the annual state budget. The peak revenue is calculated to USD 116 million (WB, 2000b, p. 68, and EIU, 2003b, p. 24). However, this was calculated on

an oil price of USD 15.25 per barrel, which is considerably lower than today's prices. In 2003, the WB estimated the total revenues to USD 5–6 billion, based on a sale price of USD 25 per barrel (WB, 2003). These are huge amounts relative to Chad's other incomes, but the country's "take" from the oil companies, 12.5 per cent, is low compared to other countries. Sudan, with a similar project – reserve size, pipeline length, country risk – receives a 50 per cent take (Gary and Karl, 2003, p. 60).

For 2005, the Chadian Ministry of Finance have estimated the Brent oil price (benchmark price for North Sea oil) to average USD 38,5 per barrel. For Chad, that should be discounted by USD 9.8 for the lower quality of Chadian oil, and yet USD 7.8 for transport costs, i.e. arriving at a price of USD 20.9 per barrel (IAG, 2004b, p. 13).

#### 4.1 The oil agreement

The agreement between Chad and the oil consortium about how the oil money should be shared and how profits and revenues should be calculated was closed at a very early stage. It was signed in 1988 between the Habré regime and a consortium of other oil companies than today's (Shell and ElfTotal). When the present consortium was formed some amendments were made to the agreement, but the core of it persisted. In 1988, Chad had just ended a long civil war and was in need of the oil income, which would explain the low share of the oil source for Chad, 12.5 per cent royalties (JAI, 2003h; Maoundoé, 2002b).

With the two sides having unequal knowledge and experience of negotiating this kind of contract, the agreement became very advantageous to the oil companies. The WB did not participate in the amendment negotiations of 1997, but is said to have undertaken a study about the outcome of the negotiations that "concluded that the agreement provides an 'acceptable' share of revenues for the Government of Chad" (WB, 2002). In the project documentation, it is stated that the project's overall rate of return to Chad and Cameroon is "reasonable" in comparison with similar cases (WB, 2000a, p. 61).

Unlike most African oil producing countries, Chad has adopted a concession contract system instead of a production sharing agreement, PSA, (Gary and Reisch, 2005, p. 38). Under this system concession contracts are agreed before exploration takes place. They entitle the explorer to extract what is found in the permit area during the contract time span, and set a royalty fee that should be paid to Chad on what is extracted (Mbendi Information for Africa, 2000). Chad has no national oil company participating in the extraction of oil. The royalty was set in the 1988 convention to 12.5 per cent on all oil sold (Gary and Reisch, 2005). Gary and Reisch provide a graph of how big the "take" of the oil production in Chad and a number of other African oil countries will be. It shows that Chad's government will receive

only 28 per cent of the total value while all other countries will take at least 60 per cent (2005, p. 39). In May 2004, Exxon and Chad signed a new convention for the 'H permit', where Exxon is prospecting for new oil fields, resulting in a small increase in the royalty rate for future fields. The convention is confidential but the Bank Information Center (2004) has information about a new royalty rate of 14.5 per cent.

The percentage was regarded as reasonable at that time, as Chad in practice was too poor to contribute to any investments in the pipeline. The immense infrastructure investments needed in Chad were costly, and the lion's share of the investment costs were paid for by the foreign companies. These costs are deducted today from the oil sale revenues, and will thereby be covered by Chad through lower profit tax incomes, explaining some of the 'take gap' between Chad and other producers. Furthermore, all future costs for oil exploration outside the Doba region are deductible from the oil sale revenues in addition to normal recurrent costs, royalties, depreciation on investments and commissions (Maoundoé, 2002a). This is the standard procedure in African production sharing agreements (Gary and Karl, 2003, p. 10) and applies in Chad's concession contract system as well. The oil companies carry the risk of exploration, but are reimbursed by the host government afterwards. The first explorations in Chad took place in 1969, and the contracted reimbursements of all these costs have recently met strong criticism.

Additionally, according to Article 24 about fiscal exonerations, they are exonerated from all future taxes except profit tax and royalties. This makes in reality all the oil exploring areas free trade zones for the oil companies. The human rights defence organisations, especially Federation Internationale des Ligues des Droits des Hommes (FIDH), have severely criticised these clauses as abuse. Article 3 constitutes the right for the consortium to freely use all public installations without any payment for damages caused. Normally, a special tax would be imposed to cover damages. The National Assembly voted for the agreement between the state and the consortium in 1997. Remarkably, they thereby allowed the oil companies (Article 4.4 amendment No. 2) to ask for assistance from foreign insurance companies, which is against an international law of the CFA franc zone (article 308 of the Code CIMA,<sup>1</sup> according to Maoundoé, 2002a). The badly negotiated agreement can partially be explained by the fact that the Chadian state did not use the services of lawyers and judicial advice. An outside observer could well question if the two parties have really negotiated the contract or if it was a contract proposal elaborated by the oil companies, which was only to be accepted or rejected. Even if the responsible persons from the Chadian side may have received informal payments or other personal gifts for their signatures, it is surprising that the WB could accept these conditions. It had

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1. CIMA (La Conférence Interafricaine des Marchés d'Assurances) is an agreement on the insurance market between African states.

the power to request much more favourable fiscal conditions for the Chadian state, especially as the consortium always stated that it would not sign any contract without WB participation (Maoundoé, 2002a).

What can the Chadian state do to correct this disequilibrium? Revision of the Petroleum Law by introducing a new and better type of contract for the new oil sources is one option. A revision of the Petroleum Code should soon be presented to the National Assembly (Maoundoé, 2002a). It appears, although the IAG was unable to verify it, that the new code will authorise production sharing, unlike the 1962 Code, which only provided for a concession system. In addition, royalties on production will be progressive rather than fixed (IAG, 2004b).

An increase of the present very low tax rates on the companies, and especially a cancellation of the exoneration of expatriate staff from paying certain taxes would be other ways to correct the present disequilibrium. Such changes would improve the state revenues, but does the state have the resources to do so? Recently, Chad has put the agreement in question and criticised the oil companies for exploiting their host. According to experts, Chad could request a re-evaluation of the royalties, but the oil companies would not appreciate such demands. This dispute will be studied in detail in Chapter 4.4.1.

## 4.2 Precautionary actions and their compliance with recommendations

African countries endowed with black gold are associated with conflicts, corruption and poverty, rather than development. No other country before Chad has accepted so many rules and external supervision (JAI, 2003f). The National Assembly adopted in 1999 the Revenue Management Law (RML) to ensure that the oil revenues would be used for social development sectors, future needs and the local population in the Doba-region. The WB has insisted on transparency and accountability measures in two governments known for widespread corruption. Environmental issues were investigated and inhabitants affected by the construction were promised compensation.<sup>1</sup> A special plan was elaborated for indigenous people.

In order to assure that the deals and plans are correctly implemented and followed, there are several monitoring mechanisms working in the project. The International Advisory Group (IAG) is a five-member group appointed by the WB that supervises the implementation issues, including the project's broader development objectives. Another external monitoring group is the Inspection Panel. The WB cre-

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1. Formally, the project consists of six different projects: Revenue Management Plan, the Environmental Management Plan, the Resettlement and Compensation Plan, a Petroleum Environment Capacity Enhancement Project in Cameroon, a Petroleum Sector Management Capacity Building Project in Chad, and the Management of the Petroleum Economy Project in Chad. Furthermore, the WB through its private sector branch IFC supports several complementary projects on capacity building and promotion of small enterprises to meet the resource curse threat.

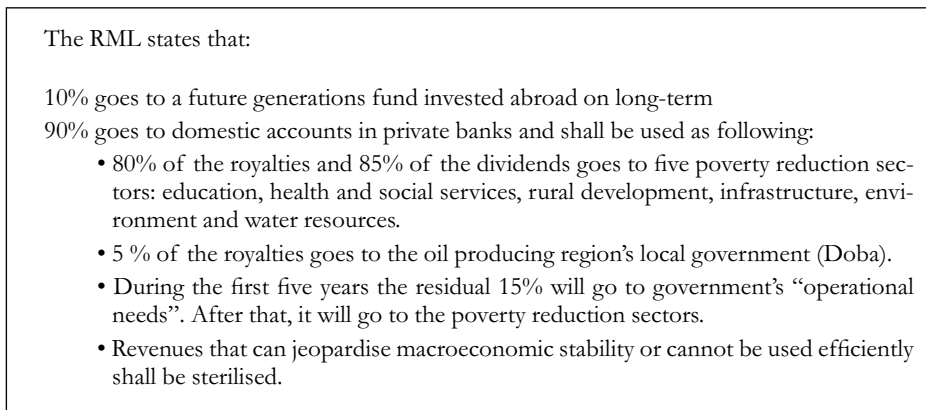
ated this three-member body in 1993 to provide an independent forum for private citizens who believe that they or their interests have been or could be directly harmed by a project financed by the WB. The opposition leader Yorongar presented complaints to the Inspection Panel on behalf of the population in the Doba region, and the IP investigated the complaint and published reports. Moreover, there are several other sector specific monitoring institutions. Beyond the formal structures, the project has received great attention from international and domestic NGOs that have produced numerous reports about its negative impacts, mistakes and prospects. The precautionary actions agreed upon are referred to below together with criticism reported by the monitoring organs and the civil society organisations (NGOs).

#### 4.2.1 The Revenue Management Plan

The most innovative precautionary action in Chad is the Revenue Management Plan (RMP).<sup>1</sup> It includes a legislated package of rules about how the oil revenues should be distributed. The management control mechanisms would not have been set up if the Chadians had a reputation of transparency. The low morality in management is well known and risks are worsening in an economy under transition where the demand for public goods is strong in all regions (Toriaïr, 2002).

Through the pressure of the WB and civil society opinion, the Chadian National Assembly in 1999 adopted the RML, concerning transparency in reporting of the oil income, as well as a distribution formula (there is no similar law enacted about the revenues in Cameroon, see section 4.4.3). The formula is presented in Figure 4.2.

**Figure 4.2: The distribution formula for direct revenues**



Source: WB, 2000b, p. 95.

1. Thoroughly explained in WB, 2000b.

The oil revenues are used for debt service on loans for the investments in the pipeline etc., before entering the distribution system. They are channelled through offshore accounts, which are audited (WB, 2000b, p.16–18, 96). In October 2003 the first 6.5 million USD was paid to the Chadian government by Esso Exploration and Production Chad Inc. into a blocked account in Citibank, London (JAI, 2003k). From July 2004, when the first delayed disbursement actually arrived in the government bank account in the BEAC,<sup>1</sup> Chad must manage the funds carefully according to the agreed formula in order to escape the resource curse.

To deal with the macroeconomic problems caused by fluctuating oil prices, a stabilisation fund has been set up. The actual revenues received are compared with the revenues budgeted for and the difference is automatically regulated with the sterilising account.<sup>2</sup>

An independent Petroleum Revenue Oversight Committee (CCSRP) with representatives from the government, NGOs and the civil society is controlling and authorising any disbursement from the account and is to issue reports quarterly<sup>3</sup> (WB, 2000b, p. 97).

The WB hails the RMP as the new model for oil projects. Yet, it has met mixed appreciation among researchers, journalists and NGOs. Criticisms heard about the technical arrangements include:

- The most serious problem, mentioned in almost every report, is that the capacity building projects have lagged far behind. The IAG calls this the “two-speed problem” and has concluded: “The commercial project is moving forward while the institutions are limping along: this places a dangerous handicap on the hopes of achieving a true development project.” (Gary and Karl, 2003, p. 65)
- Taxes on profits and customs duties are not covered by the distribution and flow into the national budget.<sup>4</sup> These have been estimated by *Agence Francaise de Developpement, AFD*, to represent up to 45 per cent of the total revenues (Gary and Karl, 2003, p. 69). In the project documentation income taxes are esti-

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1. BEAC is the Central Bank of the monetary union CEMAC that Chad is a member of. It is an abbreviation of Banque des États de l’Afrique Centrale.

2. Gary and Reisch (2005, p. 46) described the function as follows: “When planned revenues exceed actual revenues by up to 20 per cent, the difference is withdrawn from the sterilization account. If the difference exceeds 20 per cent, then the budget must be revised. If this situation lasts for more than three months, the government must revise the macroeconomic framework and the medium-term expenditure framework.” This framework has been set up by decree 238 and 239.

3. CCSR is an abbreviation of its French name *Collège de Contrôle et de Surveillance des Ressources Pétrolières*. According to the project documentation, the committee will consist of one Supreme Court magistrate, one deputy, one senator, the National Director of BEAC, the Director of the Treasury, and four civil society representatives (Gary and Reisch, 2005, p. 102).

4. The law covers direct revenues only. It states that “[i]ndirect income, namely taxes, charges, and customs duties, shall be deposited directly with the Treasury” (WB, 2000b, p. 101).

mated to 39 per cent of the total revenues. Customs duties are not included in the revenue calculations (WB, 2000b, p. 68). The indirect incomes are expected to increase in 2007 when a tax exemption for the oil companies expires (Gary and Reisch, 2005).

- The law covers only the three Doba fields included in the present project. New oil fields are already being explored and the oil companies plan to use the pipeline for them as well when the Doba fields have passed their peak production. The new fields are not covered by the RML, but the Council of Ministers of the Government has reiterated that Chad will treat revenue from future oil development according to the same principles governing the current three fields, including allocating a portion to the producing region, and setting aside part for future generations. This is encouraged by IAG (2004b) and Gary and Reisch (2005).
- Funding to the judiciary and rule of law institutions is not included in the priority sectors, even though these belong to the main weaknesses of the Chadian democracy. This is especially emphasised by Gary and Reisch (2005), stating that the “reliance on Chad’s judicial system represents possibly the weakest link in the revenue management system” (p. 64). Capacity building in good governance is however included in other WB supported projects and will probably slowly have a positive impact.
- The 5 per cent allocated to the oil-producing region seems to have been set arbitrarily. Investigations show that the figure of 5 per cent is not motivated in any documentation (Inspection Panel, 2003) and the corresponding figure in Nigeria is nowadays 13 per cent (Daniel, 2002). This is important, as it was the discontent of the local Ogoni population that started the armed resistance in the Niger delta. Additionally, the Doba region investments are extra-budgetary and may disturb the macro-economic stability. Furthermore, the fact that the President can change this allocation by decree every 5 years is worrying for many observers (including Gary and Reisch, 2005).

The CCSRP is the most innovative part of the RML, but has received most criticism in its implementation. Nothing is mentioned in the law about how the delegates of the CCSRP are to be selected. Furthermore, “the operational and organisational procedures of CCSRP and the conditions governing its control and supervisory functions shall be set out by decree” (WB, 2000b, p. 103). It has also been pointed out that the CCSRP can only earmark revenue for broad sectors, including education and health care, but it has no jurisdiction over the actual use of funds within these sectors (Finkle, 2004).

A CCSRP committee member, Vice President Therese Mekombe has complained about insufficiencies in the government and Exxon Mobil’s cooperation: “The committee is under-funded, understaffed and deprived of information by

both Exxon and Chadian government” (BBC News, 2004). Peter Rosenblum at Harvard Law School agrees and mentions that the government delayed the establishment of the committee, proposed a decree that would have paralysed it, and was reluctant to fund it (2002, p. 11). He also found that the RML is “essentially vague and thus inadequate to prevent large-scale corruption” (Referred by CED et al., 2001, p. 9).

When the IAG visited Chad in May 2004, their main concern was that the establishment of administrative procedures was running late. In May 2004 the CCSRP were still working on their procedure manual, and IAG identified a lack of staff for the expected large influx of cases when the funds were available (IAG, 2004a, p. 11). Furthermore, the president of the committee, Amine Ben Barka, was removed in April 2003 without official reason. Ben Barka was “seen as competent, independent, technically skilled and widely respected” (Gary and Karl, 2003, p. 72). President Déby instead appointed his own brother-in-law to be the new President of the Chadian Central Bank, making him a candidate for the chairmanship in the CCSRP as well. In October, however, IAG regarded the CCSRP as functional, as but in need of proficiency (IAG, 2004b).

In its report from the third quarter of 2004, the CCSRP itself complains about not having received enough resources to visit project sites. Its budget is limited and many planned activities have not been implemented (CCSRP, 2004).

Gary and Karl suggest that the CCSRP should have a flexible mandate covering all parts of the revenue flows (including the Future Generations’ Fund) and intervene where necessary (2003, p. 75). Today CCSRP is not allowed to monitor the implementation of projects funded by oil export (IAG, 2004b, p. 12). Furthermore, the IAG point out that continuous training of the staff is imperative to follow new laws and main high standards in the processes (2004b).

A coalition of the transparency initiatives Publish What You Pay and Publish What You Earn was formed in 2004 in Chad. The coordination of the 14-member coalition will be led by the National Justice and Peace Commission and La Cellule de Liaison des Associations Féminines (CELIAF). The Groupe de Recherches Alternatives et Monitoring du Projet Pétrole Tchad-Cameroun (GRAMP/TC) will serve as the permanent national secretariat. The PWYP/PWYE campaign in Chad is also supported by the NGOs Catholic Relief Services and Intermon Oxfam. In its declaration the coalition will focus on four main themes: transparency in the management of petroleum revenues in Chad, transparency in the management of public funds, transparency of extractive industry companies, and transparency of the IFIs (Publish What You Pay, 2004)

#### *4.2.2. The Environmental Management Plan (EMP)*

According to the WB, no other project in Africa or perhaps in the world has conducted as much public consultation as the Chad/Cameroon Oil Development



Project. Tens of thousands of people have participated in dialogues and nearly two thousand meetings have been held. The EMP has strict requirements and specifications, spelled out in legally binding agreements and the direction of the pipeline has been carefully chosen. Some rainforest has been cut down in Cameroon, and to compensate for the lost biodiversity two new nature reserves have been established. The pipeline mainly affects the Cameroonian environment, while in Chad a large area is required for the production.<sup>1</sup>

The oil spills in Nigeria, destroying the Niger Delta environment, were one reason for the Ogoni armed movement there. The technology used in Chad is much more modern and has been tried at several other sites in the world, but there is no perfect system. After criticism from NGOs and political opposition in Chad a separate Oil Leakage Management Plan to cater for environmental accidents was produced, which was about to be finalised in 2004 (IAG, 2004b, p. 9). In Cameroon an oil spill response plan was implemented at the end of 2004 (IAG, 2004a, p. 19 and 26; Ransom Lekunze, personal communication Jan.10, 2005).

There have been many criticisms of the environmental impact and compensation schemes in Chad and Cameroon. The various precautions have not prevented many NGOs from combating the implementation of the pipeline plans from the beginning. Some of the issues raised by NGOs are:

“The pipeline will cross ecologically fragile zones with flooding valleys and remarkable bird sites.” (Martin Tchamba, responsible for the WWF in Cameroon, quoted in JAI, 2002)

Oil spills may contaminate the groundwater, and the upgrading of existing seasonal roads could lead to illegal poaching and logging in areas that would otherwise be inaccessible (CED et al., 2001).

Ongbwa underlined that several species of flora and fauna have disappeared from the project area, and that watercourses have been altered from their normal routes, dried by electrical pumps or polluted by oil from motors used in the construction of the pipeline (2002, p. 16). Djiraibe, Horta and Nguiffo claim that the EMP inadequately addresses water depletion and pollution, that there will be severe dust pollution threatening public health, and the disappearance of forests and wildlife (2002, p. 2).

The EMP is implemented by Esso-Chad (the responsible subsidiary of Exxon Mobil) and the joint-venture pipeline companies in collaboration with the governments of the hosting countries. The governments are responsible for managing and monitoring indirect environmental effects and, advised by an environmental panel. The EMP is monitored by an External Compliance Monitoring Group (ECMG), which makes site visits at least four times a year. The ECMG is commissioned to an Italian consulting company – *D’Appolonia S.p.A.* A National Technical Committee

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1. These facts mainly come from the WB (2000b, Appendix 14).

for Monitoring and Control (*Comité Technique National de Suivi et de Contrôle*, CTNSC) also monitors the EMP compliance in the country.

The two-speed problem seems to be the most serious for EMP as well. The capacity-building projects and environmental issues have worked on time or slower, while the construction of the pipeline was ready much faster than planned. Another feared problem concerning the environment management was that the joint Chadian and Cameroonian governments' responsibility would result in no one taking responsibility.

No serious issues were raised about Chad's environment in the latest reports from the IAG and the Inspection Panel (IAG, 2004b; Inspection Panel, 2003). A concern is though the limited resources of the CTNSC. Further environmental training is needed, and finalisation of regulatory and legislative frameworks must be achieved. The problem is now rather limited funds and staff reduction (IAG, 2004b, p. 23–24). The Inspection Panel report points out that the CTNSC has failed to work independently of the Chadian government. The ECMG report, written at a time at the end of the transition from construction phase to operation phase, also observed some relaxation of the EMP monitoring and supervision. It confirmed some of the problems identified by the NGOs, like water pollution, though they were not too serious. The ECMG cooperates with NGOs in the environmental monitoring, but the organisation's neutrality is still questioned.

#### 4.2.3 Resettlement and Compensation Plan (RCP)

The first paragraph of the RCP reads:

The Chad Compensation and Resettlement Plan was developed to meet WB Group policy on involuntary resettlement and compensation, as well as local laws. The objective of the Plan is to ensure that the standard of living of people affected by the project will not be lower after compensation is complete than it was before the project. Extensive consultation has been carried out with the potentially affected rural communities in Chad about the plan. As a result of these consultations, all resettlement and relocation cases in the oilfield development area have been identified, and households which need to be resettled or relocated (between 60 and 150) during Phase I of the project have given their consent. No resettlement or relocation is expected along the pipeline easement in Chad. (WB, 2000b, p. 155)

The picture above differs greatly from the one stressed by most NGOs. At early stages of the project NGOs estimated that 10 000 families would have to move because of the pipeline. There were serious complaints about the consultation process, which was carried out in the presence of armed forces. "In 1997 and 1998, hundreds of civilians were massacred in the project area by national troops, for the sake of 'pacifying' the region to make way for oil development." (CED et al., 2001, p. 8) Since the end of the 90's, much has changed though. The entry of the WB and the change of the consortium partners brought other priorities into the project. Meet-

ings in villages were monitored by NGOs.<sup>1</sup> The direction of the pipeline was changed and according to the project documentation it would affect less than 100 families in Chad and a few hundred in Cameroon. The figures are contested and the definition of ‘affected’ most probably inconsistently defined. According to the project documentation, the pipeline was directed so that no one would have to move, but now at least four cases have been identified in Cameroon (Ongbwa, 2002, p. 16–17). According to ECMG the land acquisition has rendered about 300 households non-viable (2004, p. 76).

The compensation is paid to individuals (money) and to communities (schools, market places and wells, school and medical equipment). ECMG has reported that 20 schools have been built in Chad and almost all the planned schools in Cameroon are finalised (2004). Schools are the most popular compensation – followed by water supply infrastructure. The compensation paid to individuals is finalised, but has met massive critic. Compensation paid to farmers is ridiculously small and without technical assistance in how to invest, it has in many cases led to spending on alcoholic beverages and new wives (Wax, 2004; Ongbwa, 2002; Yimga and Hilbert, 2002, p. 13–15).

The Indigenous People Plan addresses the Bakola/Pygmies and Bantu ethnic groups. Unfortunately, it has failed to recognise that only the Bantus cultivate the land, while the Bakola are hunters. This has led to conflicts with changed inter-community power relations between the groups, and the Bakola have received very limited compensation (Nelson, 2002, p. 18; CED et al., 2001, p. 9 and 14).

### 4.3 Chad’s ability to handle the resource curse

“An efficient and transparent use of the first oil incomes by the Chadian government will be decisive to strengthen the confidence of the Chadian population”, the WB Country Head Tcheyan said at the inauguration of the oil production in October 2003 (Tcheyan, 2003). Good economic management as part of good governance is needed to achieve the objectives.

#### 4.3.1 Political situation

The analysis in chapter 3 is very clear about the democratic situation in Chad today. President Déby has ruled for almost 15 years and is unthreatened in the political arena. He has been elected twice and the ongoing revision of the Constitution will allow him to be a candidate for a 3rd term. Déby maintains his position by continuous electoral fraud and human rights violations, and it is possible that his removal

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1. In Cameroon the plan was implemented by COTCO and meetings were monitored by RENSET – a local NGO. In Chad the implementation was done by a German agency, GTZ, in collaboration with local NGOs (IAG, 2004a, p. 15 and 28).

from office will have the same violent nature as the way in which all his predecessors in this traditionally clan based society and patrimonial state have been replaced. The military that brought him to power has the means to remove him if they are discontented. The theory of the resource curse in chapter 2 predicts that the Chadian government would centralise the power even more and that opposition politicians would face harder times when oil arrived. According to Figure 2.5, showing the relationship between per capita income and good governance, a very poor country like Chad would face worse governance under a rapid increase of oil incomes.

Chapter 2 also showed that many successful oil states had good model states nearby. However, there are no such good examples around Chad.<sup>1</sup> Cameroon had some prosperous years of income from oil production (which still amounts to one third of budget revenues), but the economy has stagnated (Gary and Karl, 2003, p. 63). Sudan uses its revenues to fuel civil war and Nigeria is a nightmare example of the resource curse. A number of characteristics from countries with *failed* oil projects were also presented in chapter 2, referring to the CEIP study group (2000). These were: not fully consolidated national identities; ethnic or religious cleavages; tradition of centralised/authoritarian military-supported government; serious demographic problems; lack of economic reforms and weak institutions of governance and decision-making. Unfortunately, chapter 3 showed that all these characteristics are present in Chad. Hence, the prospects for successful oil management were not bright, and therefore the conditionalities imposed on Chad were justified. However, these are far from enough to guarantee an improvement in nation building, functioning institutions and good governance.

A reconstruction of the economy would have a positive impact on the state authority and the government legitimacy. The conditionalities imposed by the WB on the management of oil incomes would, using Ottaway's concept referred to in chapter 2.1, mean a shift towards externally led or donor-supported reconstruction, supporting transparency and accountability in a situation with extensive distrust between the ruling government, the opposition and the civil society. Chad has traditions of inept policy to overcome, and a deep patrimonialism in the public administration with corrupt civil servants to change. This is doubtless a long-term and difficult process. Peter Rosenblum has commented:

The Chadian government's hostile attitude to the RMP and the CCSRP is a continuing reminder of the fact that these measures were not adopted willingly, but rather at the insistence of the World Bank (2002, p. 11).

The political and governance situation before the oil incomes arrived was already severe and has not improved by 2004. All activities related to the Doba oil development are under the direct supervision of the president (WB, 1999, p. 4). The first

1. The African exception from the resource curse, Botswana, is situated far from Chad and was quite different in government system and ethnic structure.

year of oil production has seen several closures of opposition radio stations, increased military spending, continued violations of human rights, and governmental nepotism/patrimonialism reaching the independent CCSRP. All are examples that cast doubts on the government's political ambition and/or ability to fulfil the commitments signed with the WB.

A positive sign, however, is that the Chadian government has expressed interest in joining the EITI. In addition, the WB is elaborating a disclosure and communication strategy together with the government and the CCSRP to ensure that information on oil productions; exports and revenues will be disclosed to the public. The implementation of this measure has yet to be proved (WB, 2004c). The presence of the PWYP coalition would strengthen a continued monitoring on these matters.

#### 4.3.2 Macroeconomic management

Adequate macroeconomic management is vital for development success as an oil-producing country. As explained in chapter 2.2, macroeconomic policymaking in oil-rich countries is rather complex. Even if avoiding the resource curse would have been in the interest of the Chadian government, it was imposed as a conditionality in the project. As the administrative ability to handle the *Dutch Disease* in Chad was very limited, a capacity-building project was included in the oil project to be implemented during the pipeline construction: the Management of Petroleum Economy Project.

The proposed project would help Chad build capacity to implement its petroleum revenue management strategy to enable it to effectively absorb and allocate expected oil revenue, and thus pursue the poverty-reduction objective of petroleum resources development. (WB, 1999, p. 1)

In addition to improved macroeconomic management, this project included objectives to strengthen transparency and accountability and thereby prevent increased corruption, measures to give a stronger voice to civil society, and improvement of the legal framework and the judiciary and good governance. The strategy for achieving these objectives included reforms of public administrative procedures, education of administration staff, development of poverty databases and support to oil income overseeing and monitoring capacity, which was to include the civil society. IAG has reported that the objectives of the Management of Petroleum Economy Project have not been met; especially the training of staff and managers is delayed. Apparently, the funds are exhausted due to poor priorities in the project management, and the question of more funds is under consideration (IAG, 2004a and b). The Project was also responsible to established and financing the CCSRP, which was also delayed as stated above. The WB is now preparing another USD 11.5 million in order to extend these technical assistance projects. That would include USD 3.1 million to the CCSRP (EIU, 2004c).

The two-speed nature of the oil project (rapid start of oil production with new incomes and the slow improvement of the control mechanism capacity) has caused severe problems for the implementation of the safeguard actions. Fortunately, the arrival of the oil revenues has also been delayed. The first oil revenues did not reach the government until July 2004, when an amount of USD 32 million was deposited in the government BEAC account, followed by monthly amounts of USD 15–30 million. The delays were due to government negotiations of payment arrangements with the BEAC (EIU, 2004a). In these negotiations procedures for the stabilisation fund and the allocation of 5 per cent to the oil-producing region were agreed, but the future generations' fund is still pending. This delay gave the capacity-building project a respite, but some problems remained until October 2004 when the CCSRP was considered functional (IAG, 2004b).

The major challenge now is to allocate Chad's oil revenues efficiently and transparently to finance projects for road construction, water supply, education, health, and rural development in accordance with the country's poverty reduction strategy. In the 2004 budget, oil revenues amounted to USD 110 million. After payment for debt service and allocations to the stabilisation fund, the Future Generations' Fund, and the oil-producing region of Doba, about USD 64 million were spent on priority sectors for poverty reduction. Almost 60 per cent or USD 38 million were allocated to transport infrastructure, principally road construction. The rest was allocated to urban and housing works, environment, water supply systems, agriculture and livestock, education and health and social affairs. The budget distributions of 2004 and 2005 are presented in Table 4.1. Although infrastructure is a priority sector in this large country and important for the business climate, it is also a sector known for being sensitive to corruption. According to IAG (2004b), the large infrastructure investments were due to the sector's ability to start up projects at short notice. In the proposed budget for 2005 oil revenues are allocated more evenly between priority sectors. Especially the education sector will receive more resources though infrastructure will still receive the largest share.

**Table 4.1: Spending of oil incomes in priority sectors in the 2004 and 2005 state budgets (%)**

Priority sector	2004	2005
Infrastructure	59.4	37.0
Education	13.6	19.5
Rural development	11.1	11.0
Health & social services	7.1	15.0
Environment & Water resource management	6.0	[no data]

Note: The numbers do not add up to 100% due to source incompleteness. The figures for 2005 are proposed but not approved. 9% of the oil revenues are allocated to the Energy Department. This may not be a priority sector agreed upon, but the extremely bad state of electricity supply justifies the urgent need for funds in order to facilitate business and relieve the population of Chad.

Source: WB (2004b) and IAG (2004b)

The base case oil price in the project agreement was originally calculated on USD 15.25 per barrel (WB, 2000b, p. 13), while the world market prices today are much higher. Even with this relatively low oil price the new oil incomes will cause major impacts on the Chadian economy. Chad is expected to have been the fastest growing economy in the world in 2004 with a growth rate of about 38 per cent!<sup>1</sup> This may threaten the economic stability. If the Chadian government becomes used to such high state revenues and establishes spending levels corresponding to them, the economy will suffer when oil prices fall. It will certainly also increase an already growing inflation. The solution to fluctuations in oil prices, referred to in chapter 2, is to save money when prices are high, and to spend it when prices are low. The Chadian government has pledged to deposit 5 billion CFA Francs in a stabilisation account, but this was only half of the sum recommended by the IFIs (EIU, 2004a, p. 8). Gary and Reisch (2005) reported however that Chad has been complying with the rules of the stabilisation fund. As mentioned in chapter 2, a macroeconomic measure to avoid the resource curse was high savings rates in general. Unfortunately, the Chadian government does not seem to be prepared to save enough even when the oil revenues are extraordinarily high.

Chad belongs to the CFA Franc zone together with 13 other countries and is one of six members of the CEMAC.<sup>2</sup> This excludes Chad from the threat of currency appreciation. The CFA Franc is linked to the Euro and will not be affected by big oil incomes in a small country like Chad. The French Treasury guarantees the stability and convertibility of the currency and the CFA Franc governments are required to follow rules of reserves. The monetary policy, the tool to control inflation, is set by the BEAC, the Central Bank of CEMAC. However, member states are expected to follow a convergence criterion of a maximum 3 per cent inflation. This may be difficult to maintain in an overheated economy like the Chadian. The increased oil incomes are expected to raise the inflation rate to 5.5 per cent in 2005 (EIU, 2004c). Even much higher local inflation was observed during the pipeline construction phase and it will certainly continue to be high in the oil-producing region.<sup>3</sup>

The Inspection Panel believes that the macroeconomic discipline is not expressed clearly enough in the RMP (Inspection Panel, 2003, p. 89–90). There are reasons for concern about the political commitment of the Déby government to manage the oil revenues in a good manner, of which the limited stabilisation deposit

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1. Expected world growth is 5% and the figure for EU 2.3%. IMF forecast a growth of 37.8% in Chad for 2004 (EIU, 2004a, p. 2), while EIU estimated it to 38.7 % (2004c).
  2. CEMAC is the abbreviation for Communauté économique et Monétaire de l'Afrique Centrale. The other countries in this union are Cameroon, Central African Republic, Chad, Congo (Brazzaville), Gabon and Equatorial Guinea.
  3. According to Economist Intelligence Unit (2003b), the inflation increased from 3,8% to 12,4% from 2000 to 2001.

referred to above is an example. At the beginning of 2004 IMF cancelled its disbursements for debt relief for the poverty reduction programme PRSP, due to concerns over the budgetary process and growing amounts of funds to the military. As long as oil prices stay high, Chad will probably not suffer too much from macroeconomic instabilities except for a higher inflation rate. However, in order to keep the economy on track when prices fall, a disciplined long-term policy must be adopted, which is not an easy task.<sup>1</sup>

#### 4.3.3 Microeconomic management

As concluded in chapter 2, the most important microeconomic tool for handling oil wealth is to diversify the economy. Development of non-oil sectors of the economy mitigates the effects of oil price fluctuations, unemployment, and income inequalities. Most Chadians work in the agricultural sector<sup>2</sup> – cotton, meat and livestock are the main non-oil export products. The country will need new ventures to diversify the economy. If the RMP works, economic resources will be injected into non-oil sectors of the economy and increase employment. However, the positive impact may take long time to materialise because of the low general level of development, and the non-oil sectors are dwarfed by the new industry. According to EIU, the infrastructure and conditions for private sector development have to be improved. The budget for 2004 includes major infrastructure investments, as will future budgets, but Chad's pre-oil industrial development was very limited. Industry lacks the base to accomplish economic growth matching the oil-sector so that it would mitigate the resource curse effects. Obviously, the oil sector is one of the few with growth potential, especially with several new oil fields under exploration. The cotton production suffers from low international prices and increased competition, but the production has grown slightly in 2004 (EIU, 2004c).

The Chadian development has long suffered from high energy prices. Therefore, the discovery of oil has been seen as an opportunity. Especially the exploitation of oil around Lake Chad has been destined for the national market for petrol and electricity, while Doba will strengthen the financial capacity of the state. Unfortunately these two projects have not been developed in synergy, which means that Chad will still depend on imported oil for quite some time depend on imported oil. In the 2005 budget proposal, this problem is seriously assessed.

Development of international airline services and increased occupancy rates in hotels and restaurants in N'Djamena were noticed as soon as the pipeline project started. Unfortunately, increased prostitution and night-club activities were other side effects. Other changes caused by the oil project are new employment patterns,

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1. See Biaka (2002) for discussion on the macroeconomic impact of oil incomes and poverty reduction.

2. 72% in 2002 according to EIU (2003b).



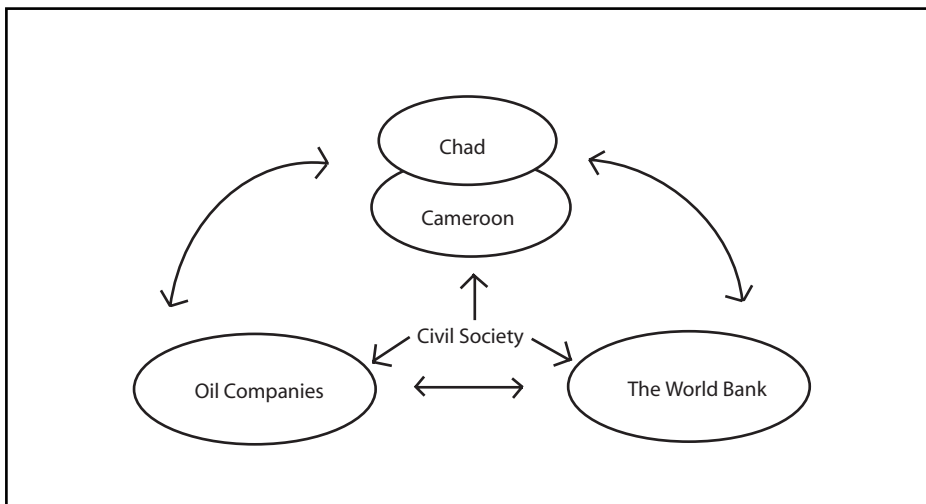
migration, spread of HIV/Aids, local and national corruption, environmental effects, and displaced people. The RMP, EMP, IPP and the RCP all address these issues and the Petroleum Sector Management Capacity-Building Project aims at giving Chad the capability to fulfil its implementation and monitoring functions of these plans (WB, 2000b, p. 5). As already mentioned, the progress of these projects is far from satisfactory, making the discontent of many people understandable.

#### 4.4 Actor Analysis

The oil fields in Chad have been known about for many years, and with the relative peace established in the 90s it was possible to start extraction in 2003. In order to exploit its oil wealth, Chad needed investors. The oil companies saw profitable oil fields but would not invest unless the risks could be mitigated. The WB saw a possibility to support the development in one of the poorest countries in the world and to assist it to repay its foreign debt.<sup>1</sup> The transit country Cameroon, with decreasing oil income, welcomed the new investment. The agreement between the actors satisfied their needs and motivation for participation and formed a situation of inter-dependence.

Through pressure from the civil society, a unique mechanism for revenue management and careful plans for environment and community compensation were established. The civil society has been and continues to be an important actor in the project. In Figure 4.3 the mutual dependencies are sketched in diagram form.

Figure 4.3: Inter-dependence between actors



1. A catalyst for the deal was surely the American strategic interest to diversify its oil import away from the insecure Middle East and the possibility to secure a valuable contract for two major US oil companies.

An example of the initial dependence situation was observed in 2000, when the Chadian government partly misused an oil bonus, received for signing the Project deal. This was a broken promise but not a broken law, and criticism would normally not have affected an authoritarian regime like Chad's. However, after reactions from the international community, the WB and the IMF used their leverage and threatened to cancel debt relief. The Chadian government accepted the remarks and promised a better order in the financial management. The rest of the oil bonus was frozen to be dealt with under the RMP. At this initial stage of the project, the actors were dependent on each other, and controlled each other's behaviour.

How has the inter-dependence developed? This actor analysis intends to give an understanding of the incentives and dependencies today, four years after the agreement was signed and one year after the oil production started.

#### 4.4.1 Chad

As seen in the example above, Chad was highly dependent on the WB in 2001. With the oil pipeline construction finished and the oil export started, the prerequisite to benefit from the oil incomes is now in place. In the long term the WB leverage will probably decrease when the Chadian economy grows stronger. Chad's economic thinking has improved since 2000 and the RMP has in general been followed in the first oil budgets of 2004 and 2005. At that time the government priority was the signing of the deal, but it has recently shown a change of attitude towards the oil companies and seems more concentrated on maximising the incomes from the oil export. Chad will still be unable to influence the policy of the foreign oil companies and for many years will be fully dependent on technical assistance, given by oil companies and external qualified staff.

At the time of the first anniversary of the start of the oil exploitation in October 2004, an international conference on oil and gas was held in N'Djamena. Déby then declared that he wanted to establish "new partnership relations" (JAI, 2004d) with the oil investors. "Everything requires a new spirit to adapt to change and to work together in dignity and respect for one another" he said. He also declared that a modern judicial framework for the extractive industry would be set up. "In return, we request from our partners honesty to avoid the syndrome in many other oil exporting countries and respect the contract terms all partners have signed" (JAI, 2004d). He regretted that at a time when oil-exporting countries benefits fully from the higher oil price by starting big development projects, N'Djamena still suffer from repeated electricity interruptions and expensive gasoline prices.

Déby's strong criticism has its origin in the disagreement about how to calculate the royalties paid to Chad. According to the agreement from 1988, the base price on which to calculate the royalties should be agreed upon every three months, but this has not been done since the end of 2003. Hence, Chad has not been able to benefit from the high oil prices during 2004. It remains unclear which of the parties

is delaying the negotiations. Chad does not have the capability to control the consortium's actions or to determine what sale price their oil raises on the market. The oil companies have held information days in Chad to communicate their pricing of the Chadian oil.

The deal behind the disagreement was signed by Hissene Habré, Chad's former president, in 1988. The low property share of the oil source endowment for Chad, 12,5 per cent royalties, was due to the political situation at that time. The country had just ended a civil war. According to experts, Chad could request a re-evaluation of the royalties. A new Petroleum Code, replacing the one from 1962, was expected to be adopted by the National Assembly around the end of 2004 (IAG, 2004b).

More than 50 million barrels have been exported from October 2003 to August 2004 for a sale value of USD 900 million, out of which Chad had only received USD 70 million as of 30 June 2004. About half of this amount was used to reimburse the debt related to the oil installations and Chad only received a net sum of USD 40 million. Another issue of debate between Chad and the oil companies is whether the oil should be counted at the Doba oil fields or at Kribi oil terminal on the Cameroonian coast. The 12 million barrels stored in the pipeline should not be paid for until the end of the project, according to the oil companies.

Exxon Mobil have rejected the criticism and stated that the oil companies pay the agreed price. The WB has not commented on the accusations (JAI, 2004c). This Chadian dissatisfaction suddenly reveals an open conflict between the Chadian government and the oil companies. The power struggle that Déby has started may pay off, as Exxon Mobil are certainly eager to participate in the next phase of the Chadian oil exploitation. There are other competitors that may raise the value of a future deal. The Chadian government has decided to engage an international chartered accountant expert to settle the dispute. A second agreement on oil exploitation with the same oil companies, situated close to the Central African border is currently being studied by the National Assembly (JAI, 2004f).

This brave move by Déby has to some extent united the country. The civil society (the oil network and Groupe de Recherche Alternative et de Monitoring sur le Projet Pétrole Tchad-Cameroun) has congratulated the Chadian government for its courageous attitude towards the oil consortium and asked the government to improve the cooperation with the civil society in the national interest (Bamb, 2004). Even Mekombe of CCSRP has taken the president's side and demanded clarifications of the oil companies' commitments (BBC News, 2004). Some believe that this was the objective of Déby, who has had problems with high expectations of oil revenue effects among the population (EIU, 2004c). A possible scenario of closer cooperation with the civil society in the national interest may open up an interesting claim for re-negotiation of the royalties share in the oil agreement.

As long as the Chadian economy is being strengthened by increased oil incomes, the Chadian government will also gain increased negotiation power with the oil

companies in future. An extremely poor country just ending a civil war and screaming for development capital settled the first oil agreement. With increasing know-how, experience and economic strength, the Chadians will be able to obtain better deals (JAI, 2004d).

#### 4.4.2 Civil society

From the beginning, local and international civil society organisations, especially environmental and human rights groups, raised strong concerns that the benefits of the project would not reach the poor in the context of endemic corruption and political repression. Civil society groups also believed that plans to address the impact on the environment, compensation for relocated people, and the problem of revenue management in weak government institutions were inadequate. Some groups were against the project under any condition, while others argued that political and state capacity reforms needed to take place well before any oil could flow.

Most African civil society and church groups in both countries were not against oil exploitation *per se*, but felt that the present conditions would not benefit the poor (Gary and Karl, 2003, p. 63). Distrust of the government was widespread, and many feared aggravated ethnic tensions that might lead to civil war.

After constructive criticism from the civil society, the WB agreed to work with the oil companies to design strategies to mitigate the social and environmental impacts. The WB, which had decided to make this oil project an example of good management unique in the world, consulted more than 250 NGOs, organised more than 10 conferences, where in particular questions about the use of oil incomes by non-democratic governments were raised. These consultations changed and improved many things which were important to the local population and the environment, but also delayed the start by a few years. The direction of the pipeline was carefully chosen and re-routed in order to reduce to a minimum the number of displaced persons, protect indigenous communities and avoid the most sensitive forestry areas. The Inspection Panel of the WB was engaged to examine complaints from the civil society, and a separate Oil Leakage Management Plan was produced after criticism from NGOs. The CCSRP would probably not have been set up by the WB without the insistence of the civil society. In Cameroon, Catholic Relief Services supports an independent pipeline-monitoring project to ensure that social and environmental objectives are achieved.

The impacts of the oil project have so far, of course, been both negative and positive. The Chadian economy is recovering (one example is the hundreds of second hand vehicles on sale in the streets of N'Djamena), and compensation projects have brought schools and other village infrastructure improvements. Along the pipeline and in the oil field area significant in-migration and the establishing of spontaneous settlements have taken place. On the other hand pollution complaints have been raised, inflation of basic commodity and housing prices has increased, and school-

teachers and students have left the schools to work on the pipeline construction. HIV/AIDS spreading along the pipeline route is perhaps the greatest individual problem generated by the pipeline construction project. The real concern is that the HIV-infected oil workers have now returned to their respective homes after the completion of the pipeline, taking the disease with them (Chesla, 2003).

Although positive signs are starting to be seen, it is still mainly negative voices that are heard. As the state of governance has certainly not improved since the project approval 2000, criticism remains, and the distrust of Déby is widespread:

[The] World Bank is colluding or even encouraging the embezzlement of public funds. I do not trust the World Bank representative here in N'djamena. (Yorongar, federalist opposition leader in the South, in Paris Radio France Internationale, 2003.)

My country's natural resources are being exploited in an atmosphere of suspicion and lack of confidence. Most of the Chadian population is disillusioned. (Therese Mekombe, a citizen representative on the CCSRP, in BBC News, 2004.)

When the funds arrive to the government, they have become experts in misappropriation so that they always find ways how to misuse the funds. (General Abdelkader Kamougué, former president of the National Assembly, in JAI, 2003i.)

We all know about the extensive corruption. Why should we believe that it would be different this time? (Chadian woman, in JAI, 2003j.)

Either they do not give information requested or they inundate you with a mass of facts so you will not see clearly. This is not good for the transparency. (Chadian woman about the oil companies, in JAI, 2003j.)

According to an exiled Chadian, Mody Arikollé, foreigners leave with all the money earned and the local economy does not benefit much. "Most of the skilled labourers come from West African countries and the higher qualified staff direct from Europe and USA" (PANA, 2002).

The physical (roads, bridges etc) and social (school, health stations etc.) infrastructure investments in the Doba region (the oil production region will receive 5 % of the revenues due to the RMP) will certainly increase. However, the relatively low resources going back to the oil-producing region are a potential threat for popular discontent. A higher inflation rate has already been noticed there. Ethnic violence has already been recorded when nomadic in-migrants from the North and East arrive in great numbers and risks growing in extent and intensity.

Even though most NGO groups from the civil society still have complaints about various aspects of the oil project, they will not pose any major threats to the governments in Chad and Cameroon and the existing oil production and export. However, civil society plays a very important role in monitoring the oil project and the other actors to ensure that they stick to their commitments.

#### 4.4.3 Cameroon

Pumping stations, floating storage facilities, an offloading vessel and more than 80 % of the pipeline are situated in Cameroon, making the country an important actor in the oil project. The impact of oil incomes will be smaller on the Cameroonian economy, which is five times larger than the Chadian but will receive much less income (EIU, 2003a). Cameroon is the fifth largest oil producer in Africa, producing 110 000 bpd. This accounts for 33 percent of government revenues, but depletion is approaching (Gary and Karl, 2003). As mentioned in Chapter 2.2, cross-border pipelines impose further risks of conflicts related to oil. If Cameroon did not follow the agreements and started bargaining about its share of the revenue, the Chadian oil export would be threatened. The WB regarded the political risks in Chad and Cameroon as “significant”<sup>1</sup> (2000a, p. 34). Pure transit countries, such as Cameroon, have much smaller barriers to disruption of transport (Stevens, 2003a, p. 21). In Chad, risks were mitigated with the RMP, the capacity-building projects, UNDP technical assistance project on Human Rights and Governance, and the government legal commitment. In Cameroon however, nothing similar has been done and the government’s commitment is accordingly much less. The corruption in Cameroon is known to be among the highest in the world (Transparency International, 2004) and President Biya passed constitutional amendments and electoral reforms (authoritarian restoration) similar to Déby’s many years ago.<sup>2</sup> According to Transparency International, the Cameroonian population is among the most pessimistic in the world with a majority believing that the corruption will worsen during the coming years (2003).

Well-balanced contracts with clearly defined rules, preferably between commercial actors, were recommended by Stevens to avoid cross-border pipeline related conflicts. The owner of the export system in Cameroon is COTCO, a joint venture between the government of Cameroon and the oil consortium. It has been calculated that Cameroon will earn USD 505 million from the pipeline transit fees during the next 28 years, which amounts to about 3 per cent of total fiscal revenue (EIU, 2004a, p. 36). This amount is obviously not as crucial for the Cameroonian national budget as the USD 2 billion is for Chadian. The rate of return on Cameroonian investments has been calculated to 39 per cent, which is, according to the WB, reasonable compared to other oil transit countries (WB, 2000b, p. 25). The Cameroonian revenues are not linked to the oil price, but to the quantity of oil flowing through the pipeline. As many exploration projects are carried out in the region, future transportation from new fields seems highly probable after the peak

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1. Its definition of significant is “<50% probability, but significant adverse impact”.

2. Biya has ruled the country since 1982. “Governance in Cameroon in terms of transparency, accountability and the responsibility of institutions and decision-makers has been weak. Corruption is rampant and the justice system is ineffective, corrupt and overburdened.” (EIU, 2003a:28).

of the Doba production. As Cameroon is qualified for the Heavily Indebted Poor Countries (HIPC) initiative and is negotiating its debt relief programme linked to its PRSP programme (EIU, 2003a) the WB and the IMF can use their leverage to ensure Cameroon's commitment to the project. Any attempt to break contracts would have negative impacts on other foreign direct investments, not to mention the lost revenues. As with any authoritarian state, a change of leadership brings uncertainty about the future. The day Biya resigns, the political stability can change, and the IFIs will have to transfer their leverage onto the new leader to secure continued oil transportation.

The environmental impacts of the oil project are mainly concentrated to Cameroon. Two new nature reserves have been established to compensate for lost rain forest. The problems related to the compensation process, the immigration to the pipeline area, the bad working conditions at the pipeline construction sites, and the spread of HIV/AIDS along the pipeline have already spread discontent in Cameroon. An environmental disaster, such as a large oil spill, would certainly aggravate such feelings. IAG has presented fears that the Cameroonian government could turn its interests to other issues than the oil project (IAG, 2004a). The need of foreign direct investments mitigates the risk of official action, but civil society hostility can become a threat.

Although Cameroon is a member of CEMAC, its economic integration with the other Central African countries, including Chad, is limited (EIU, 2003b, p.3). Increased integration between the Chadian and Cameroonian economies could mitigate the risks of transport interruption. The pipeline project brings them closer together through road construction and other infrastructure projects, and trade will increase.

#### *4.4.4 The World Bank*

Two reasons have motivated the WB to participate in the oil project: it constitutes for Chad an exceptional opportunity to use oil incomes to recover the delay in development caused by the internal conflicts and it ensures that the best possible conditions are in place regarding environment protection and social development in the regions affected by the project (JAI, 2003g). It is obvious that the role and responsibility of the WB in this project is crucial. The oil consortium agreed to the economic terms of the project on the condition that the WB guaranteed the political security.

With all the conditionalities limiting the sovereignty of the two host governments, especially Chad, the project represents a new approach for the WB in how to deal with the cursed natural resource branch. The WB has been heavily criticised by NGOs for placing too severe conditionalities on Chad to ensure that the oil incomes will benefit the population (JAI, 2003d). It has justified its involvement to critics by promoting the poverty reduction potential of the project, with social and

environmental safeguards and risk mitigation measures not found in other oil projects (Gary and Karl, 2003, p. 64).

The oil companies have paid almost the whole amount of the USD 3.7 billion invested in the project and the WB is assisting the host countries with loans for their shares of the investment. The WB participation is the reason for the international public opinion attention but also a reason for hope for democratic progress in Chad. A failure would be very embarrassing for the WB as the project's moral authority. The planning of the project has been very lengthy and careful compared to other similar projects. The WB has been very sensitive to criticism of environmental risks and low compensation to the local population along the pipeline. It has invested a lot of prestige in the project and its commitment should hence be real.

The WB insists on continuing its activities in the extractive industry in spite of its bad track record and recommendation by the Extractive Industry Review. This has been interpreted by critics as that intention is rather to satisfy the oil industry and the Western energy needs than the development of poor countries (Martinez, 2004). The fact that it allowed the oil production to start when the pipeline construction was completed earlier than planned despite the delayed implementation of the capacity-building measures, and that it accepted a revenue sharing agreement with the consortium to the obvious disadvantage of Chad, points in that direction. Oil projects are good business for the WB, as they offer high rates of return and enable debtors to easily repay their loans to the bank. However, if oil projects such as the Chadian one continue to fail, the Bank may have to leave the extractive industry.<sup>1</sup>

During the recent dispute on the oil agreement between the Chadian government and the oil companies the role of the WB during the negotiations has been questioned (Bambé, 2002). It will have to defend its behaviour and cannot only leave things to the Chadian government and the oil companies. As mentioned in Chapter 4.1, the WB regarded the royalty share of 12.5 per cent as acceptable in relation to international comparisons. It is doubtful whether the Chadian government did have the capacity to negotiate an acceptable deal. The WB has indirectly recognised this deficiency as technical training for Chadian government staff to engage in these types of negotiations and to monitor oil industry activity is now being implemented, but too late for this major project.

Another type of criticism of the WB role in the Chad-Cameroon Petroleum Project has been the cosmetic description of the political situation in Chad in order to get the oil project approved. Statements in the project documentation such as "Chad has successfully put in place democratic institutions" (WB, 2000b, p. 121) and "Chad is now at peace" (quote in Gary and Karl, 2003, p. 64) have made NGOs point out that the WB does not take the internal problems of the country

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1. This point was argued by Obi (personal interview, August 2004).



seriously (Breitkopf, 2002; Djiraibe, Horta and Nguiffo, 2002; CED et al., 2001). “[T]he World Bank approval of the project in June 2000 was at best naïve”, a report concludes (CED et al., 2001, p. 4).

It is obvious that the WB has opposing incentives. On the one hand it needs to maintain its reputation as a donor caring about poverty reduction, showing that oil can bring development to poor countries; and on the other hand the WB promotes business interests by contributing to a safe environment for the oil production. This could explain its inconsistent behaviour in Chad. The double incentives will persist, but the WB’s leverage effect on other actors may diminish in the long term. If the project fails in delivering wealth to the Chadian people, the WB will be the scapegoat, not the oil companies (as argued by Ottaway, 2001, p. 4). Such a failure will certainly have implications for its future engagement in extractive industries. Therefore the WB incentives to ensure that the oil project will lead to improved Chadian welfare are strong.

#### *4.4.5 The Oil companies*

Multinational companies often request public agencies, such as the WB Group and national export credit agencies, for guarantees against political risks in their investments. This also allows them to use public finance to mitigate financial risks, which is a powerful leverage for improving the legal as well as business environment in the oil producing countries. The WB and other public financing institutes hence often play catalytic roles for larger projects in high-risk areas, such as Chad (Gary and Karl, 2003, p. 14). The WB participation brings the oil companies out of the immediate media focus, and may reduce the oil companies’ CSR commitment. Exxon’s director general in Chad has even said:

This partnership is intended to ensure that the World Bank can confirm the best possible conditions are in place, both as regards the installation, taking all necessary steps to prevent an ecological disaster, as well as to protect us from accusations that the newly discovered providential wealth will not benefit the whole country (African News Bulletin, 2000).

Chapter 2.3.2 referred to the CSR concept and the diversity of opinions about to what extent oil companies should be held responsible for social development. Many critics only view oil companies as greedy actors, and this is true in a sense, but their profit-interest does not automatically make them bad boys. The profit calculations nowadays include costs for the social development of the local population, which contributes to good relations and maintains security in the project area. CSR is today also necessary for public opinion in their home countries.

The oil companies will work according to laws and agreements in the EMP and RCP and contribute to supporting the social development around their installations. However, no special ethics additional to normal business views can be expected. The oil agreements did not prevent the companies from starting the oil

pumps before the capacity building, including the CCSRP, was completed. Was it the oil companies' responsibility to wait when the pipeline was in place much earlier than planned? It can be argued that no one had thought of such a situation when signing the agreement and hence this was rather the responsibility of the WB in its role as safety guarantor. In any case – it only showed that the oil companies wanted to start the profitable oil production as soon as possible and cared less about the appropriate use of the oil incomes for Chadian socio-economic development. It could also be questioned whether the EMP and RCP – which are part of the three part agreement between the WB, the government and the oil companies – should be called CSR. These were forced on the oil companies, which had to accept them as part of a deal, and are hence not voluntary contributions to social development around the pipeline. It is in our opinion important to be careful what to include in the CSR concept. It is questionable if compensation to the local population as included in the business deal would qualify for the CSR-concept. It seems that additional research and international debate are necessary to come to a common understanding and definition of CSR and whether volunteer and mandatory codes of conduct should be advocated.

It has been common to argue that oil companies prefer stable regimes to maintain a stable production environment (Gary and Karl, 2003, p.19 and Obi, 2004). The oil companies in Chad – Exxon Mobil, Chevron Texaco and Petronas – have all cooperated earlier with corrupt regimes. Petronas is involved in projects in Sudan and the other two in Nigeria. A democratically elected new Chadian president in the next election in 2006 may change the relative political stability of today. The runner-up candidate of the 2001 presidential election, Yorongar, was opposed to the oil project from the beginning and would today probably try to increase the benefits to the Doba region if he came to power. In an actor analysis of the oil industry in Nigeria, Cyril Obi concluded about oil companies as follows:

As efficient extractors of oil globally, they accumulate not just energy, but power, and will do all in their might to stay in control of oil, and ensure the uninterrupted flow of oil (and profit), no matter what it takes (2004, p. 16).

In the short term the oil companies have little to gain from democratisation. This argument brings up another aspect of their interest to stay in Chad. Extensive exploration of future oil fields in Chad has already started with Exxon Mobil as one of the main actors. Finickiness in the present agreement may make the Chadian government choose other oil companies for future extraction. Yet, according to EIU, the companies will resist any Chadian claim to re-negotiate the present oil agreement, but will have to offer better conditions in future deals.

None of the companies involved in the oil consortium in Chad and Cameroon is connected to the transparency initiatives Publish What You Pay, PWYP, or EITI. Further transparency than what is already agreed upon is hence not to be expected.

Although disbursements to the offshore revenue accounts are audited and payments published every month, there is nothing preventing the companies from making informal payments to government officials in Chad and Cameroon. The oil companies have one clear advantage in Chad. In economic and oil fiscal matters, as well as in legal affairs, Chad's human resources are severely lacking. Only recently did Chad start to train lawyers, economists, qualified teachers etc. There are very few Geophysicists, petro-chemists and electro-mechanicals. Today only 6 per cent of the 3,600 Chadians working in the oil project occupy supervision posts. Most of them have been trained by the oil companies. The companies have long experience of the oil business and are capable of assessing any situation. Furthermore, they hold information about Chadian oil reserves that is very hard for the nationals to acquire. The main challenge today in managing the oil industry is to invest in human capacity, whose absence has led many oil countries to disastrous results (Toriaïr, 2002).

#### *4.4.6 Interdependence?*

The strategic partnership between the state, the WB and the civil society is a source of uncertainty. The controversy around the management of the oil bonus in 2001 showed how potential conflicts between the state sovereignty and control mechanism could appear, and also be solved. The Déby government had strong incentives to fulfil its commitment when the pipeline was under construction – it was the condition to obtain foreign capital. When the oil production from the Doba fields has started and new promising oil reserves are under exploration, Chad's negotiation power is growing and relations changing. The recent dispute over oil prices is a good example.

Chad was obviously powerless in the initial negotiations, while the oil companies with more than a century of oil business experience knew the risks and opportunities. The oil companies will have to accept a more powerful host in the future, but will certainly also maintain a superior position due to their knowledge of the oil industry. Chad is unable to influence the policy of the multinational oil companies, as the country is new on the world oil market. For the next 10–15 years Chad will be fully dependent on information, such as technical statistics, given by oil exploration companies. The oil companies will follow the revenue management plan as stated in the agreements, but they will probably not offer more CSR actions. The responsibility for environmental, social and economic problems will be officially borne by the WB, the project's safety guarantor.

The influence of the WB on the Chadian government was strong during the pipeline and oil terminal construction phase. A poor country like Chad is very dependent on the WB and the IMF decisions. The country has experienced severe financial liquidity problems since the IMF froze its disbursements at the beginning of 2004, after discovering that the Chadian government had not followed agreements. Chad's dependence on the IFIs will last for many years as its external debt

was almost 1.3 billion US dollars in 2002. Over time though, the IFIs' leverage will diminish. The WB is stretched between two sides in this project. Its donors want it to promote the oil companies' business interests, while NGOs pressure them to take social responsibility in Chad. The WB has invested much prestige in the project and is committed to poverty reduction in accordance with the PRSP. The success of the Chad-Cameroon oil project is decisive for its future in the extractive industry. Rational behaviour will make it promote social needs in Chad to be able to promote the oil business in the world in the future.

The innovative management control mechanisms are important achievements for the civil society participation. The NGOs continue to have very important roles in the implementation of these, as supervisors both independently and officially (CCSRP). The functioning of the internal monitoring institutions is vital for the success of the project. The control mechanisms would not have been set up if the Chadians had had a reputation for transparency (Toriair, 2002). Déby's power base is presently unthreatened by civil society movements. His control of both military forces and oil revenues makes him less dependent on civil society goodwill. Furthermore, the government decision in 2004 to criticise the oil companies about the unfavourable oil agreement has received support from the civil society organisations and to some extent united the country.

The Cameroonian risk factor is not the recently re-elected Cameroon president. He has nothing to win from hostile actions in his relations with Chad or the WB. The threat posed to the oil pipeline would be environmental disasters. Extensive oil spills can lead to violent social discontent in Cameroon. A change of power would probably not risk interrupting the oil transportation.

In the long term, we will see an increasingly powerful Chadian state, no matter whether the country is hit by the resource curse or not. The oil companies will have to adjust to this but will remain powerful. The WB will have a decreasing leverage on Chad, but their efforts to promote reforms and control together with civil society will persist and is of uttermost importance. The Chadian interest in attempts to share the power and the revenues is likely to decrease, and there is hence a risk that the WB lose control of the situation. The inter-dependence situation is evolving to be between Chad and the oil companies, with the WB on the side preaching morality.

#### 4.5 Implications of oil revenues on the democratisation process

The greatest challenge to Chad is how to benefit from the oil incomes in a non-conflictual manner that promotes the democratisation process. The success of the Chadian oil project depends on the transparency in the management and the dialogue with the civil society as well as the political stability, security, and infrastructure development. This requires a political ambition of openness and transparency from the administrative and political leadership (as argued by Bérilengar, 2002).

The traditional attitude to retaining information, deeply rooted in the Chadian administration, is still the rule. Perceived as one of the most corrupt states in the world, it would indeed be remarkable if the oil revenues were used in a fair manner. There are no signs of change in the political stalemate. The opposition parties have declared their intention to boycott the referendum on the revised constitution and not participate in the political game before transparency can be guaranteed. The future of the democratisation process is under serious threat and the new oil incomes cannot be said to have had a positive impact so far. If the tide were to turn it would be a remarkable achievement by the civil society, the WB and the Chadian government.

The WB capacity building projects strengthen the democratic thinking and institutionalisation. A ministry for control of the state and the morality has been created. Bid launch and assessment committees have been installed in various ministries for fair handling of the oil revenues. A private radio station closed by the Chadian government actually won its case in court (IAG, 2004b). According to IAG, the CCSRP is now working. These are positive steps in a democratic direction in favour of the rule of law, but several drawbacks have also been observed recently (for example the Constitution amendments and continued centralisation of power). The budgets for 2004 and 2005 have essentially followed the RMP, which is promising. However, the distribution between the priority sectors can be questioned, which has also been observed by the CCSRP.

The government dispute with the oil consortium in 2004 received support from the civil society. This shows that the role of the civil society is not always against the government, but defends the national interest when it is needed. In the new situation where the government needs the civil society support, it may be possible for the latter to obtain government concessions in the form of more transparency and resources to make the CCSRP function better to ensure that the distribution formula is followed in actual fact. In a declaration by the oil network and the alternative research group on monitoring of the oil project, civil society organisations asked the government to improve its cooperation with “the civil society in the national interest and make it a partner” (Bambé, 2004). This shows an open attitude from the civil society which if accepted by the government can create a unique partnership, that could change the relations and contribute in the longer term to an improved relationship with the political opposition too and thereby be positive for the struggling democratic process. As referred to in Chapter 2, Stevens found that all successful poor oil states had experienced stable regimes able to communicate long-term policies to the population. Déby may manage to form a compact with the civil society about broad economic policies, benefiting the whole country rather than the elite (creating an *ideological hegemony*), which he may be able to maintain even when pursuing controversial undemocratic policies. This development would in the long term be positive for democracy as well, as a middle-class and a stronger

private economic sector would emerge. The oil companies would encourage such a development, as they prefer stable political situations. The WB would certainly support such an economic development policy even if the democratic progress were delayed, especially if it also was in the interest of the oil companies.

In the long term, many unforeseen obstacles can occur in the economic, political, social and environmental arenas of Chad and Cameroon. The long-term economic outcome will to a great extent depend on the success of the capacity-building project to ensure an efficient control mechanism. The macro-economic advisors will certainly have a hard time to convince Déby to be restrictive in public spending when the development expectations of oil wealth are high. It is hard to convince a hungry man that he should save money for the future, and the economic development will be positive during the first years. A drop in oil prices later on can turn the budget into uncontrollable deficits if not handled with discipline. In the political arena, Déby is likely to stay in power unless his military powerbase removes him (not taking into account external threats, primarily from Darfur, that have to be analysed separately). The social development (school, health, housing, etc.) for most of the population will probably improve from its extremely low level, but it will not fulfil the general public expectations. Popular social discontent will depend on the level of corruption, the degree of democratic progress, and the ability to communicate long-term economic policies to the people in a clear manner. There is an imminent risk for such discontent, which must be handled with open dialogue. Oil companies could as part of a CSR strategy in the oil exploration area assist the government to mitigate such discontent. However, the companies seem to have contributed very little so far, except for what was explicitly included in the oil agreement.

Corruption and authoritarian governance chronically plague Chad. In most historical cases oil incomes will worsen these problems. Increased centralisation of power and creation of an oil bourgeoisie are probable features in the future. The unprecedented precautionary actions imposed on Chad by external conditionalities are however also likely to have a slow but positive impact. Without these measures the future would certainly have seen accelerated debts by spending on prestigious projects and on military weapons, foreign loans with future oil resources as guarantee, increased deficit in food production through economic stagnation of agricultural production, and possibly environmental disasters. These features are still possible but the negative impact may be more limited due to the external management advice and conditionalities. The monitoring role played by international NGOs and the local civil society will hopefully contribute to improved governance.

According to civil society sources, Chad shows more and more signs of a country reached by the rent syndrome (Bévilengar 2002). The external aid rent, democracy rent, geo-strategic rent, poverty rent and continued armed conflicts rent received in Chad earlier are now accompanied by the oil rent. This system leads to an increased

autonomy of the state in relation to the local socio-economic actors, because most of the incomes come from outside the society or from natural resources. The economic rent encourages the elites to domestic passivity and consumption of imported goods. The oil rent favours institutionalisation of neo-patrimonialism, clientelism and authoritarianism and disappearance of progressive counter-power. When revenues now flow, the temptation to use oil incomes for personal wealth is obvious. The judicial system is not independent from the state and often in the past the subject of political interference. In a state with one of the highest corruption rates in the world, it would actually be very surprising if transparency and honesty were suddenly achieved. Would the military power base not look for other leaders if they did not receive 'their share' of the oil rent? Large infrastructure investments and increased military spending in the budget of 2004 may indicate a maintained high level of corruption. The WB, CCSRP and civil society monitoring organisations must continuously address these issues.

Chad is improving economically even if few positive signs in the daily life of the population are noticed so far. The real challenge will come when the oil prices decline in the future. The provision in the Stabilisation Fund will, hopefully, with external advice mitigate such a fall. Successful new oil explorations in the Doba area and around Lake Chad will constitute a continued flow of oil incomes for a long time. The RML must continue and cover new fields as well. Then the inept management tradition will have a chance to be changed and a relatively positive development in Chad will be possible with improved accountability. There is a real hope that with relatively good financial management and fair distribution of the oil incomes installed by external pressure and supervised by a well operating CCSRP, increased wealth can be achieved. However, there is an obvious risk that once the external debts are reimbursed by increased oil incomes in the coming years, the donors, and NGO pressure on the government to follow the RML distribution to priority sectors will be weaker. Democratic progress will be slow and uncertain, in the short term, but if Chad at least partly escapes the resource curse and if, thanks to increased political maturity of the population, political conflicts can be solved without open violence, it is possible that the democratic space will widen in the long term.

## 5. Conclusions

Examining the democratic process since the beginning of the 1990s, it could be stated that Chad is formally a state of law, with a democratic constitution guaranteeing press freedom and human rights. In practice, however, President Déby stays in power by electoral fraud, harassment of the democratic political opposition and violence against politico-military rebel movements. The constitution amendment enabling a third presidential term in 2006 confirms this impression. The concepts of semi-authoritarianism, neo-patrimonial state, and pseudo-democracy all apply to the situation in Chad.

The long history of violence and disputes has influenced the social relations and the mentality of ordinary people in such a way that the respect for laws and civic behaviour is low. The Chadians primarily identify themselves with the ethnic group, the region and their family – never with the Chadian nation. Even though the culture is divided between the Christians in the south and the Muslims in the rest of the country, there are intra-ethnic divisions and inter-community solidarity within these groups. The attempts to seek lasting peace and national reconciliation have so far been unsuccessful, but the heterogeneity within the groups makes civil war improbable. What combination of centralisation and local autonomy would liberate the local initiatives while guaranteeing equal rights before the law?

The form the Chadian state should take is an issue of debate between the government and the opposition. The Déby government mostly adheres to the centralised concept, rejecting the regional division, to better apply the uniform law. The opposition leader Yorongar claims that federalism is the only method to allow for a peaceful co-habitation of two very different cultural entities. The culture of violence as a means for political claims must cease and be replaced by confidence building measures, if all Chadians are to be able to benefit from the oil incomes and reduced poverty. The search for consensus, regional balance, connection to the country and the historical/cultural heritage must be pursued by a politics based on tolerance and forgiveness.

There is no internal political threat to Déby today, although extensive discontent is felt within the Zaghawa power base at the passive policy against the harassment of their ethnic brothers and sisters in the troubled Darfur region in Sudan. In the worst scenario this external event may threaten the relative political stability in Chad.

A strong increase of financial resources in a poor country should normally create opportunities for economic growth and stimulate a dynamic development. However, going from oil wealth to development is an immense and complex challenge.



The oil revenues can create a real transformation of the country. As the WB correctly states it offers a chance to reduce poverty in Chad, and many persons and institutions in the country hope this will be so by linking the use of the oil incomes to the poverty reduction strategy. However, it could also, if not well managed, lead to the opposite, a dynamics of underdevelopment, of corruption and severe environmental damage. This is the crucial issue facing the Chadian state and the civil society today.

Chad is in fact one of the poorest nations in the world and is perceived to have among the highest corruption levels. The risks that the funds from the oil incomes will disappear are real. Oil has usually led to economic misery and totalitarian governance in poor states, and this study shows that Chad is facing all the problems other failing states have experienced. What is different in this project is the external pressure imposed primarily by the WB. Externally led reconstruction of collapsed states has not often been successful without national political will, but in the case of Chad there has been no alternative to strong conditionalities. The externally imposed advice on good governance will not end corruption overnight and there are true reasons to be skeptic about the future development in Chad. However, even if the situation has been and still is very bad, we do not believe that all the efforts with the RMP will be worthless. The budget allocations to priority sectors have in general been followed so far. Even if important amounts risk being mismanaged and indirect tax incomes are not included, the RMP will secure that relatively substantial amounts of oil revenues reach priority sectors in accordance with the poverty reduction strategy. Democratic reforms may not be a priority today, but many people will directly or indirectly benefit from the boosted economy and probably be better off than before the oil revenues. In the long term, the oil revenues can allow the population to become educated and better off with realistic demands for democracy. It must be remembered that successful poor oil countries according to Stevens have one thing in common – stable but in most cases undemocratic political power. If broader economic development is achieved, we believe that conditions for an improved democracy can be created in the long term.

The weak national private enterprise sector, the lack of infrastructure and the rent seeking mentality in Chad add to the oil-related problems of unemployment, inflation, environmental destruction, corruption, and democratic contraction. Great hope is placed in market forces contributing to economic growth and development, which requires transparency in the management of public procurement and economic affairs. Efforts must be made to strengthen capacities and reduce costs and risks in investments. In an environment of political and economic instability as well as insecurity many enterprises in the private sector only choose short-term strategies to minimise the risks. It is therefore urgent to create conditions to assist local communities and enterprises to act in long-term perspectives. It is very important that the WB continues its efforts on this matter.

The existence of decentralised democratic structures, good governance, good social and economic policies, and a broadening of the market economy to favour the poor constitute basic requirements to promote and guarantee an inclusive development. Chad has initiated a decentralisation process but there has been slow progress.

When the Chadian government in October 2004 criticised the oil companies for low royalties, it was supported by the civil society organisations. Such a national coalition could be the base for a common agenda for good development, compatible with the *de facto* undemocratic behaviour of Déby's regime. Stable governments with well-communicated long-term policies, creating ideological hegemonies, have been present in other oil-exporting countries that have avoided the resource curse. The oil companies would appreciate such a scenario, as stable regimes are safer for their production. Therefore it would be rational for them to adopt CSR strategies involving extensive volunteer actions in the producing area, directly benefiting the local populations. Satisfied oil companies, reimbursed loans, and less poverty in Chad would make the WB endorse this scenario as a success, even though it would not promote democracy on the short term. Broad economic development would bring a stronger private sector in the long term, the literacy rate would improve and a wealthier middle-class would emerge. These are important factors for a future democratic progress.

To come anywhere near these visions, the Chadian government must seriously comply with the laws and avoid severe corruption, domestic and foreign violence, and widespread popular discontent.

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<i>Oil companies</i>	
Exxon Mobil	<a href="http://www.essochad.com">www.essochad.com</a>
Petronas	<a href="http://www.petronas.com">www.petronas.com</a>
ChevronTexaco	<a href="http://www.chevron.com">www.chevron.com</a>
<i>Monitoring organisations</i>	
CCSRP	<a href="http://www.ccsrp-tchad.org">www.ccsrp-tchad.org</a>
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Ialtchad (Internet paper for Chadians in Canada)	<a href="http://www.ialtchad.com">www.ialtchad.com</a>
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