

# The Resource Curse's Next Episode: The World Bank's Intentions and Reality in Chad†

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*The oil development project was supposed to be the last hope for poverty stricken Chad. However, despite high expectations for the project, Chad is in danger of being the latest example of the "resource curse". The negative outcomes could be explained as a combination of project failures and fragile political institutions. This combination of failures makes it unlikely that the oil project will be considered as a model case for oil revenues-driven development in developing countries. In order to mitigate the increasing negative outcomes in Chad, the World Bank should consider a greater intervention in revenue management and revision of the contract. Moreover, the World Bank should retain the lessons learned from this oil project in Chad for future extractive industries projects.*

## Introduction

The Chad-Cameroon Petroleum Development and Pipeline Project was designed as the last hope for Chad, one of the poorest countries in the world<sup>1</sup>. The project was aimed at overcoming the "resource curse".<sup>2</sup> The term is often used to describe some causality in which countries dependent on natural resources in the absence of good governance are more likely to experience worsened economic, political, and social situations than other developing countries. The World Bank designed the oil development project cautiously, and the Chadian government responded to the World Bank's request to establish a binding law, which ensures that oil revenues are spent for poverty reduction purposes. Despite a well-designed project, the intended outcomes have not all been achieved. Failures have been caused by poor planning and implementation of the project, which lacked the proper appraisal of Chad's capacity for governance. In January 2006, two years after the first flow of oil revenues, President Déby approved amendments to the law, significantly modifying the World Bank's plan.

The aim of this paper is to examine the causes of failure in Chad's oil development project, to address possible ways to mitigate the situation, and to learn from the failure. First, I will explain how the Chad-Cameroon oil development project was designed and then describe the negative outcomes. Second, I will examine negative outcomes with regards to the loopholes and weaknesses of the project and the political and institutional problems in Chad. Third, I will argue that the World Bank's planning was inadequate to overcome the "resource curse". Finally, recognizing that this project does not seem to be working, I will suggest recommendations for Chad's current situation and for future extractive industry-related projects.

## A Model for Sub-Saharan Oil Riches? The Oil Development Project in Chad

The oil development project in Chad is aimed at boosting economic development through the revenues

gained by exporting oil. According to the project's stated objectives, Chad should be able to contribute to poverty reduction using the increased revenues from the project. Over the project's 25-year life span, it is estimated that royalties, tax revenues, and dividends will generate USD 2 billion. The development of the oil field facilities, including construction of pipelines, would cost USD 3.5 billion. Sixty to seventy percent of the costs are financed by the oil consortium, which is comprised of ExxonMobil, Petronas of Malaysia, and Chevron (World Bank & International Financial Corporation, 2000). The International Bank for Reconstruction and Development (IBRD) loaned USD 39.5 million to the Chadian government for construction. The International Development Association (IDA) is engaged in capacity-building training of the Chadian officials to improve the management of oil revenues.<sup>3</sup>

The uniqueness of this oil development project is the nature of the World Bank's intervention from the earliest stages. In order to ensure that this oil revenue is spent properly, the World Bank required the establishment of a law that restricts the allocation of oil revenues. In response, a revenue management legal framework, Law 001, was passed by the Parliament and approved by President Idriss Déby in 1999. Law 001 applies to the revenues generated from the three Doba oil fields, and all direct revenues, including royalties and dividends paid for by the oil consortium, are sent to a Citibank escrow account in London. After debt payments are withdrawn, 10 percent of the revenues is saved for the Future Generation Fund to prepare for the post-oil period, and of the remaining, 80 percent is allocated for priority sectors,<sup>4</sup> five percent is earmarked for the oil producing regions, and 15 percent is spared to balance the treasury until 2007; thereafter this proportion will be allocated for the priority sector. Under Law 001, an independent revenue oversight body, the Petroleum Revenue Oversight and Control Committee (Collège), was also established (Gray & Reisch, 2005).

Other efforts were also made in response to

the criticisms from civil society and lessons learned from the past extractive industries. Along with other monitoring bodies, the World Bank established the International Advisory Group (IAG) to ensure the project's transparency.<sup>5</sup> In addition, the World Bank and the oil production consortium conducted extensive environmental studies, created regulations, and appointed an inspection company to monitor compliance (Norland, 2003).

In this project, the involvement of the World Bank and other commercial financial institutions were significant in catalyzing the project since they gave political cover to the country where political and commercial risks are so high that two out of three oil companies in the initial consortium withdrew from the project. This project would not have gone ahead without the sponsorship of the World Bank (Gray & Reisch, 2005).

Chad's oil development project, the largest development project in Africa, was expected to be a model case for other developing countries with rich natural resources. If revenues generated by oil export are managed properly, Chad will have experienced rapid economic growth and increase public expenditure, which promises further investment in social development. As the World Bank realized that a key for success is transparency, there was widespread optimism: "innovation of transparency...opens the broader prospects...of Africa's vast wealth into tangible benefits for the people of that beleaguered continent" (Norland, 2003, p. 59). Indeed, Chad experienced economic growth of 29.7 percent in 2004 as a result of the oil flow, and the growth was expected to be above the 10 percent level in the following years (Economic Intelligence Unit, 2006; Economic Intelligence Unit, 2003).

Despite high expectations, the project has drawbacks. Benefits to the people of Chad, based on the assumption that the oil-generated revenues would be managed properly and invested for the long-term human capital development (Ndumbe, 2002), have not been fully realized. Indeed, the government's handling of the revenues has been questionable. There was also a worrisome sign that Chad could be just another example of the extractive industry-fueled corruption and concentrating power as exemplified in Sierra Leone and Angola (Ndumbe, 2002). Furthermore, a pessimistic view notes "the argument that the project in Chad will yield a different result fall short of reality and available facts" (Ndumbe, 2002, p.87).

As oil began to flow in late 2003, negative outcomes emerged. From the beginning, the transfer of the revenue into the escrow account was delayed, and this incident led to suspicion of the government's handling of the oil revenues (Gray & Reisch, 2005; International Advisory Group, 2004). Unwise use of the revenue was also reported.<sup>6</sup> The strike by civil servants, who had not been paid salaries for several months, and the retired, who had not received benefits since 2004, shows the Chadian government's mismanagement of the revenue (Polgreen & Dugger, 2006). There have also been signs of nepotism.

For instance, a large part of the construction contract went to a company led by Daoussa Déby, the president's brother, and the president's brother-in-law, Idriss Ahmed Idriss, was appointed as head of the central bank (Gary & Reisch, 2005; Polgreen & Dugger, 2006). Some argue that the attempt by the president's ruling party to seek a third term for President Déby, which is prohibited without constitutional change, was motivated by the 'stable' revenue source (Gary & Reisch, 2005). The worry arose when the parliament passed several amendments to Law 001 relaxing the use of oil revenue, and the president finally approved the amendments in 2006, which led to the World Bank's suspension of the loan and freezing of the escrow bank account.<sup>7</sup> As the project proceeds, the problems have diversified and deepened.

### **Examination of the Outcomes**

Negative outcomes are caused by a number of failures in project implementation and the World Bank's poor appraisal of political risks in Chad. One might argue that Chad is another victim of the so-called "resource curse", in which countries dependent on revenues from exported natural resources without good governance or sound economic management are more likely to experience worse economic, political, and social conditions than those countries not dependent on natural resources.<sup>8</sup>

#### *Weaknesses and Loopholes in the Project*

The project itself has several weaknesses and loopholes. In their critical report, Gray and Reisch (2005) point out a number of crucial loopholes. For example, negotiation processes on key determinants of revenue has not been disclosed. While Law 001 restricts the allocation of the direct revenue, the use of indirect revenue, which includes an expected USD 3 billion in income taxes paid by oil companies, is not bound by any legal restriction. In addition, the law does not cover oil fields outside of the Doba basin; therefore, all revenues generated from other oil fields, where many other oil companies are already showing interests for operation, are not subject to any restrictions.<sup>9</sup>

In a bigger picture, the "two-speed nature" of the project is more problematic. The consortium of oil companies with advanced technology aimed to construct the facilities as quickly as possible and completed their job accordingly. The oil consortium, indeed, completed the construction earlier than planned, and oil started to flow in late 2003, a year earlier than anticipated. Meanwhile, the capacity building of the Chadian officials had been delayed (Gary & Reisch, 2005). Indeed, even after the IAG's report had already warned of the delay in capacity building in 2001, the situation was not improved. The IAG's tenth report of the mission in 2005 still reports the ongoing discussions between the World Bank and the Chadian government over the funding of new capacity building programs for financial management (IAG, 2005; IAG, 2001).

Because there is a gap between the work speed of

the consortium and of the Chadian government, the oil companies have significant leverage over the Chadian government in managing oil production. Chad depends on the consortium for other costs calculation<sup>10</sup> including transportation costs because the government is simply incapable of doing so (Gray & Reisch, 2005). In addition, the government depends on the consortium for its monitoring capacity. CTNSC, the Chadian government's monitoring body on environmental and social issues, currently financed by the World Bank, relies on the consortium for their data on evaluating environmental and social impacts (Eriksson & Hagströmer, 2005; Gray & Reisch, 2005), and thus is unable to be independent in monitoring.

'Effective' monitoring turned out to be dysfunctional. This fact can be easily recognized by observing critical reports by IAG.<sup>11</sup> As noted earlier, there have been urgent recommendations for capacity building of the Chadian officials, but there has been no progress. In some cases, the international monitoring team has made it clear that "no response has been given to this recommendation" (IAG, 2005, p. 9). One of the oversight committee members reported that their work has been ignored (Polgreen & Dugger, 2006). Recommendations have not received responses partly because appropriate organizations are under-funded,<sup>12</sup> and thus the monitoring system seems effective only on paper.

#### *Political and Institutional Unreadiness in Chad*

Political and institutional conditions are more serious compared to the weaknesses and loopholes of the project. First, it must be recognized that Chad is one of the poorest countries with one of the most corrupt governments, and has a long history of civil wars and political unrest.<sup>13</sup> Before the exploration of oil, cotton and livestock were the main export products, and excluding oil, those commodities remain Chad's main exports today. Gary and Reisch (2005) characterized Chad's long history of instability as pervasive corruption, centralized power around President Déby, and long lasting conflicts. These trends have continued even after the first flow of oil revenue. In 2004, there was a coup attempt against the government, and the president himself claimed that the attempt was aimed at his assassination. This happened in part because Chad lacks strong opposition parties (Uriz, 2001). It is likely that there will be another controversy after a constitutional change to prolong the presidential term in office is realized. The combination of the new massive wealth inflow and political instability makes the situation more complex and serious.

More importantly, the judicial structure in Chad has been far from ready to regulate the proper management of the increasing revenue. Although the Chadian government's oversight committee, the Collège, is tasked to oversee the revenue management, the limited capacity in the judiciary system hinders effective oversight. The Supreme Court of Chad was only established in 1999. Even though it included an Auditor General, the World

Bank reported in 2000 that "it had no capacity" (Gray & Reisch, 2005, p. 65). In another case, the head of the Supreme Court was replaced by the president in 2004. More apparently, the government is actively attempting to take over the control of the Collège. In Chad, where checks and balances of institutions are not established, the capability of the oversight committee is highly doubtful. Even if the committee discovers illegal deeds by government officials, they might go unpunished. This is a major reason besides under-funding for dysfunction of the oversight committee. A reform or re-creation of the functioning judiciary system itself requires long-term commitment, and the accomplishment of that task is also in question.<sup>14</sup>

#### *Inadequate Approach to Address the Resource Curse*

The World Bank itself does not seem to believe that there is such a thing as the resource curse (World Bank & International Financial Corporation, 2002), but the project certainly took some of the measures into account to avoid negative impacts frequently observed in natural resource dependent countries. Indeed, the Chad-Cameroon oil development project was carefully planned with the idea that, with policy intervention, oil can be a major source of development (Collier, 2005; ODI, 2006). This theory was not without weaknesses.

There have been discussions to establish a sound management plan that prevents the mismanagement of the revenues. Proposed plans include greater transparency, establishment of stabilization or future generation funds, and modifications in contracts are suggested as potential improvements. Stiglitz (2005), Gray and Karl (2003) and others have suggested a greater transparency of the oil revenue management. The argument is that when oil companies and host governments disclose what they pay and earn, both sides will be responsible for the exchange of money, which potentially affects a country's development process. Thus, transparency in the management of oil revenue is vital to the success of the oil for development project.

Establishment of a stabilization fund or future generation fund is frequently suggested as a remedy to the resource curse. The former is aimed at stabilizing fiscal conditions, and the latter is to prevent the early usage of the revenue and to keep it for the future when natural resources are no longer available (ODI, 2006). Successes in Norway and Alaska are often cited, but it seems that the funds have not worked in most of the developing countries including Sub-Saharan African states (Shaxson, 2005). Funds in Central Asia do not seem to have shown positive impacts (Bentakas, 2005). The terms of use in those funds in Venezuela and Oman have frequently been modified (Fasano, 2000).

The modifications in contracts with different levels of interventions are proposed to replace contracts negotiated between oil companies and host governments. By examining discussions regarding the oil revenue

management, Pegg (2005) argues that there are three levels of interventions in contract. The first level is at the minimum level. The World Bank becomes a negotiator between the oil companies and host governments to ensure their mutual benefits. The second level is more the interventionist approach of sovereignty sharing in oil revenue management. In this case, the World Bank or industrialized countries directly manage oil revenue. As Krasner (2005) argues, because of high political risks, oil production in some countries is not possible without the World Bank's guarantee. The World Bank's engagement gives incentives for sharing their sovereignty because the oil producing countries would otherwise receive nothing from the potential oil fields. The most radical level is to distribute oil revenues directly to citizens.

Despite considerations emphasizing the promotion of transparency, establishment of funds, and intervention in contracts, remedies applied in Chad did not eliminate conditions for the latest case of the resource curse. Transparency has been pursued in the established advisory and inspection bodies, the Future Generation Fund was established and the World Bank required the law binding allocation of oil revenue to tackle poverty. Nonetheless, the loopholes and weaknesses in the project still exist, making the success of the aforementioned remedies unlikely. Furthermore, the binding law is subject to manipulation as is evident in the amendment to Law 001 approved by President Déby.

It is also important to consider the fact that Chad lacks the preconditions necessary to ensure that the remedies will promise a successful development project. In the successful cases of Norway, Alaska, and Alberta, there were democratic institutions, trained officials, and an established civil society. In Chad, none of these existed. Despite an increasing demand for greater transparency, it is merely one of the essential factors for success. Transparency does not lead to better revenue management unless there exist other elements such as an independent judicial system to punish illegal deeds, free and fair elections for the citizens to be able to change the government, and information provided in a form people can understand. It could be summarized as: there is "a need to ensure minimum conditions of... the rule of law, respect for human rights, and demonstrated capacity to implement pro-poor programs exist prior to promoting investment in the extractive industries" (Gray & Reisch, 2005, p. 92). President Déby's action to modify Law 001 is evidence of what can happen in the absence of these preconditions.

In sum, Chad's oil development project was not planned well, and the project has not been implemented well. In addition, Chad was not and is not ready to manage the project. Some of the innovative plans applied in Chad seem to be inadequate to overcome the next episode of the resource curse.

*Rethinking the Resource Curse and the Role of the World Bank*

A large amount of research done on the subject of the resource curse has emphasized negative consequences (effects) or correlation in the earliest analyses, while only a few studies have focused on preconditions for such consequences (causes) (Figure 1). Studies such as Karl (2005) and the World Bank's project appraisal document describe the significance of good governance in managing natural resources, but only as a sub-topic. Although the World Bank and International Financial Corporation (2002) stressed the significance of sound economic policies in managing extractive industries, it does not provide a sound solution on how to overcome situations in which sound management is absent.

Figure 1  
*Effects and Causes of the Resource Curse*  
*Well studied effects and less emphasized causes*

Effects:
<u>Economic</u>
<input type="checkbox"/> Slow economic growth
<input type="checkbox"/> Failure of industry diversification
<input type="checkbox"/> High level of poverty
<u>Political</u>
<input type="checkbox"/> Rent-seeking behavior
<input type="checkbox"/> Loss of representation by taxation
<input type="checkbox"/> Rampant corruption
<input type="checkbox"/> High level of inequality
<input type="checkbox"/> More conflicts and civil wars
<u>Social and environmental</u>
<input type="checkbox"/> Dismal social indicators
Devastating environmental effects
Causes
<input type="checkbox"/> Overwhelming dependence on revenues from natural resources
<input type="checkbox"/> Lack of sound economic policy (poor governance)

Sources: Bonnan & Collier (2003), Gray & Karl (2003), Karl (2005), Ross (2004), Ross (2003), and Pegg (2005).

Widely reported project implementation failure and lack of good governance are evidence there may be a causal relationship between poor governance and negative impacts from developing extractive industries. Pegg (2005) describes the causality simply: poor governance + extractive industry = exacerbated poverty; good governance + extractive industry = poverty reduction (Figure 2). The World Bank has been aware that it is sound economic management that leads to economic growth. Therefore, the question should be whether policy intervention can prevent the resource curse in the absence of good governance, instead of whether policy intervention can prevent the resource curse. The situation in Chad suggests it is very challenging, but not impossible.

Figure 2

*Countries with rich natural resources*<sup>15</sup>

<p>Good governance + Extractive industry =          Alaska (United States), Alberta (Canada), Australia,          Botswana, Chile, Malaysia, Norway</p>
<p>Bad governance + Extractive industry =          Algeria, Angola, Cameroon, Chad, Central African          Republic, Equatorial Guinea, Gabon, Nigeria, Sierra          Leone</p>

As this paper and other critical documents that examined Chad's oil project agree, governance in Chad has been inadequate to manage a sudden increase in the revenue. Successful examples cannot be applied in the case of Chad because of crucial differences in institutional and political preconditions. Exceptions to the resource curse include Malaysia, Australia, Norway, Botswana, Chile and Canada (Figure 2), because these countries had effective and 'strong' institutions, diversification of industries, and/or transparency in management (Damania & Bulte, 2003; Karl, 1997; Robinson, Torvik, & Verdier, 2005). Even the most successful case of Norway<sup>16</sup> does not give consensus on the reasons for success. It is obvious that there is no 'one-size-fits-all' policy.

The Chad-Cameroon project has lured more investment from other oil companies in other parts of Chad and in neighboring Central African Republic, Niger, and Cameroon (Gary & Reisch, 2005). While the World Bank is not achieving its objectives in Chad, its engagement is not announced in those other countries. Consequently, the outcomes are expected to be worse than the case of Chad in other countries in the region because of a lack of many preconditions, including the restriction on revenue management. Results of oil exploration in the countries without good governance, earmarked use of oil revenue, adequate monitoring bodies, sufficient training of officials, and other essential preconditions, will be likely to fall into the state of the resource curse, reducing the prospects for poverty reduction.

It is too early to evaluate whether the World Bank should stay away from investing in the extractive industry. Although the cases in Chad and other countries, especially in Sub-Saharan Africa, have not yet promised success, the removal of the World Bank's intervention is likely to result in a worse scenario when considering the increasing investment from state-owned oil companies, who tend to be less concerned with human rights (Pegg, 2005).

## Recommendations

Despite its negative outcomes and bleak prospects, the extractive industries have potential for poverty reduction in developing countries. In addition, the extractive industries, especially oil companies, and governments with abundant natural resources are willing to invest in the

sector. In order to prevent the resource curse, the World Bank should stay engaged in funding extractive industries. As the case of Chad shows, the World Bank's involvement catalyzes projects. Without the Bank's intervention, oil companies would have been unwilling to invest in a country with such high political risks. Furthermore, the absence of the World Bank's intervention would be more disastrous if state-owned companies with less concern for human rights were allowed to expand their businesses unchecked in developing countries. I shall conclude this paper with urgent recommendations for Chad, and broader recommendations for the World Bank's involvement in future extractive industries projects.

### *Urgent Recommendations for Chad*

First, the World Bank should recognize the fact that the project in Chad is failing, and there is no other way to improve the situation than dialogue with the Chadian government. Having the attitude of "You broke your promise" and suspending loans for capacity building training is a step away from solving the problem. A failure in Chad will most likely result in the latest case of the resource curse. If that occurs, the World Bank's reputation will be further damaged, and it will be difficult to obtain legitimacy for its involvement in future extractive industries projects, especially in Sub-Saharan Africa (Extractive Industry Review, 2003). Because the World Bank is determined to stay engaged in the extractive industries (World Bank Group, 2004), it is in their interest to prevent this project from collapsing. For the purpose of concentrating on critical issues, this paper focuses on the World Bank's greater involvement in oil revenue management and the revision of contract between the Chadian government and the oil companies.

### *World Bank's Greater Intervention*

In order to ease the worsening situation in Chad, the World Bank should further intervene in oil revenue management, should continue monitoring the project, and should help empower and inform the Chadian civil society.<sup>17</sup> Since the capacity building is not sufficient, the World Bank should form an external revenue management support team comprised of experts from international financial institutions and donor countries. Even though this interventionist approach will not be easy to implement due to sovereignty concerns, it will be crucial for the improvement of the current status of the project. In order to mitigate and make such an interventionist approach acceptable, careful teaming will be required. The team should work along with Chadian officials so that it does not entirely take over their jobs. Experts from the former colonizer, France, should be deeply committed. As President Déby's approach to President Chirac for obtaining access to the Citibank account in London after the World Bank's freeze shows, France can have influence and mitigate the interventionist approach. In the process of forming the team, international financial institutions and donors should consult with President Déby and

other key ministers to prevent difficulties in managing this team.

Even though obtaining acceptance for such an interventionist approach will not be easy, some trade-offs should be considered to make this intervention convincing to the Chadian government. Assignment of this revenue management support team should accompany a lifting of the suspension of loans and freezing of the bank account. This approach is not impossible because such a move leads to acclaim for President Déby, who has been losing support from the general public. While providing support for an authoritative leader is highly controversial, the loss of oil revenue and consequence with the latest resource curse will have long lasting and more negative effects on the people of Chad.

#### *Revising the Contract*

Along with the revenue management support team, revision of the contract between the Chadian government and the oil consortium should be considered. As has been frequently noted, the Chadian government's take from oil is too low even considering the low quality of oil extracted from the Doba basin. Indeed, 12.5 percent of royalties and an overall take of 28 percent are extremely low compared with other Sub-Saharan oil producing countries (Gray & Reisch, 2005). In addition, as opposed to the increasing oil price worldwide, and because the promise that the price will be calculated every three months has not been kept since 2003, Chad is not receiving the amount of what it is supposed to gain (Eriksson & Hangströmer, 2005; ODI, 2006). Some other negotiations, especially regarding technical terms, have not been disclosed. The World Bank should be involved in the revision of the contract with the Chadian government to ensure a fairer contract. Oil companies, in particular ExxonMobil and Chevron, should be encouraged to cooperate in revising their contract with the Chadian government in response to NGOs' call for greater transparency. The experience of Shell in Nigeria, in which the oil company was blamed for its involvement in human rights abuses by the Nigerian government and lost its reputation, must be a reminder to all oil companies. This revision of the contract should also be in the Chadian government's interest. By providing a fairer amount of revenue and rebuilding trust between the government and oil companies with the involvement of the World Bank, the Chadian government will have no excuse to blame oil companies. Another incentive for the government will be the fact that it will be receiving more revenue by revising the contract.

### **Recommendations for Future Extractive Industries Projects**

While the failure of project planning and implementation in Chad cannot be reversed, there are lessons to be learned. As long as the World Bank remains engaged in the extractive industries, stricter conditions for both host countries and oil companies should be required.

In addition, the appraisal of the state of governance should be improved. In countries where political risk is high, obtaining access to commercial banks will continue to require the World Bank's involvement as a catalyst for future projects. Oil companies' concern over their reputations in doing business in politically sensitive places will also require guarantee from the World Bank.

Nevertheless, in a case where a state-owned oil company is less concerned about its reputation because it operates in its home country, human rights abuse is not taken seriously or such abuses are hidden from the public, the World Bank's role for guaranteeing a safer business place is unlikely to be applied. Bearing such a scenario in mind, it will be necessary for an international community to agree on how to run extractive industries in politically fragile states. Since this issue requires greater cooperation and effort from the international community, I leave this as another critical issue to be examined on another occasion.<sup>18</sup>

Western oil companies are vulnerable to reputation damage in their home countries, and they are trying to explore new oil producing regions with conditions similar to Chad, in which the political or judicial structure cannot be changed over a few years. For them, there are at least four principles to ensure better oil revenue management: setting clear standards and improved appraisal; obliging oil companies to join transparency initiatives; mandating capacity building training for the oil producing countries prior to the oil flow; and empowering civil society.

#### *Establishing Standards and Improved Appraisal*

One of the project failures was the World Bank's poor appraisal of the government's willingness to reduce poverty. Therefore, clear standards for project approval and improved appraisal should be established. If the criteria are not met, there should be an option for no-go. Incorporation of the assessment of extractive industries into the Country Assistance Strategies (CAS) seems a promising and feasible way to start, as the World Bank has been doing in response to recommendations of the Extractive Industries Review (World Bank Group, 2005). For an effective and improved project appraisal, a checklist should be selected carefully. The protection of human rights, a level of good governance, and a close examination of the incumbent regime to assess its willingness to help its people are some of the critical factors to be considered. Some of the proposed criteria are not easy to measure, but existing assessment measures in the World Bank Group or relevant NGOs will improve the standards and level of appraisal.

#### *Obliging Greater Transparency*

The World Bank should also mandate greater transparency for potential oil companies by obliging them to participate in the Extractive Industry Transparency Initiative (EITI) and to follow the guidelines of the Publish What You Pay (PWYP) campaign. In the case of Chad, companies such as

ExxonMobil and Chevron would have had an incentive for joining the voluntary transparency act because of growing awareness and pressure from home country consumers and shareholders. Indeed, Save the Children (2005) has published a ranking of oil companies' performance in terms of transparency. Save the Children (2005) points out that though ExxonMobil is a participant in EITI, there is a gap between what ExxonMobil promised to do and what it has done. While Chevron shows a relatively better performance on transparency, it could and should do more to improve its performance (Save the Children, 2005). Since transparency has become an important standard for oil companies, including Chinese state-owned PetroChina, which is now gaining a reputation for its socially responsible performance (Lines, 2003), it is not difficult to encourage Malaysian state owned Petronas to join such an initiative. It is essential for all oil companies to participate in transparency initiatives for securing their business.

#### *Mandating Capacity Building Prior to Oil Flow*

As it has been stressed in this paper, delayed capacity building training is one of the significant project failures. Thus, capacity building of government officials in revenue management and monitoring the oil production should be required before the first flow of oil. This would require cooperation from oil companies to slow their production of oil-related facilities or to slow oil flow. This would address the "two-speed" nature of the project. Since the level of capacity is not too difficult to measure as IAG has been giving critical reports on the unpreparedness of Chadian officials, if the level of capacity building seems far from ready, the World Bank will need to intervene further as this paper suggested in the section of World Bank's Greater Intervention regarding urgent recommendations to be handled in the current situation of Chad. The suggestion is not exactly the same as Krasner's (2005) shared sovereignty because host governments are still responsible for managing the oil revenue.

#### **Conclusion**

The World Bank-sponsored oil development project in Chad has not been working as planned. Initially, this project was intended to tackle the "resource curse" in one of the poorest and most politically fragile states in Sub-Saharan Africa. However, as the project proceeds, loopholes and weaknesses in the project became apparent. More seriously, despite the World Bank's appraisal, it turned out that political and institutional conditions in Chad were not ready to handle the oil revenues. When oil revenues flow into a country in the absence of good governance, a number of cases of the "resource curse" provide evidence of negative impacts in the country and miserable effects on its citizens. Because the oil development project in Chad was originally designed to tackle human misery in Chad, the World Bank will lose its legitimacy for its involvement

in future extractive industries unless the situation in Chad improves. The World Bank should recognize the fact that this project is failing despite hoped success and apply some of the remedies learned from the past. The World Bank should mitigate the worsening situation in Chad. This paper urges the World Bank to consider a greater intervention in oil revenue management and revision of the contract made between the Chadian government and the oil consortium. Although it is impossible to turn back the clock, projects can be planned only if lessons are learned from past mistakes. By taking failures experienced in Chad into account, for future extractive industries' involvement, the World Bank should consider: establishing clear standards and improved appraisal methods; obliging greater transparency for investing oil companies; and mandating capacity building training of government officials in handling oil revenue. Even though the oil for development project in Chad is unlikely ever to be a model case of success, one can still hope the potential of oil revenues benefiting the people of Chad can one day become a reality. However, this will happen only when the World Bank tackles the issue seriously and ensures that this is the last time it earns harsh criticism for project failure in extractive industries.

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## End Notes

1 Although the author is aware of the fact that the excavation of oil and the construction of pipelines are harmful to environment and biodiversity of the region, the environmental concern, one of the most important issues to be discussed, is not emphasized because this paper primarily focuses on the difficulty of transferring oil wealth into social development. In addition, because Chad is experiencing the largest transformation by this project, another projected beneficiary, Cameroon is not explicitly mentioned.

2 The author adopts the definition of the "resource curse" from Pegg (2005), where she emphasizes the absence of good governance as a significant variable causing the curse rather than mere existence of natural resource wealth or a country's degree of dependence on the natural resources.

3 World Bank, The Chad-Cameroon Petroleum Development and Pipeline Project: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTREGINI/EXTCHADCAMPIPELINE/0,,menuPK:843277~pagePK:64168427~piPK:64168435~theSitePK:843238,00.html>.

4 Priority sectors include public health, social affairs, education, infrastructure, rural development, environment, and water resources.

5 The International Advisory Group (IAG) consists of five members, and as a watchdog, gives recommendations to governments and the World Bank. The External Compliance Monitoring Group (ECMG), under contract with International Finance Corporation, is made up of personnel from a consulting firm, and monitors compliance and environmental issues. Another monitoring body, CTNSC, was established by the Chadian government.

6 Polgreen and Dugger (2006) report that Ministry of Higher Education purchased unreasonably expensive office supplies, and that the Ministry of Health's contract was awful.

7 International Advisory Group reports that the amendment included the expanded definition of priority sector and the abolishment of the Future Generation Fund.

8 Classical discussions on resource curse come from, for example, Karl (1997) and Ross (2003), where authors tend to focus on the causations between the natural resource wealth or countries' dependence on them for revenue sources.

9 The 'promise' by the Chadian government that the revenues from other oil fields will comply with the 'spirit' of Law 001 is not convincing. The key is whether the revenue is bound by a legal framework, and whether the external actor has control over it.

10 For more details, see Gray&Reisch (2005).

11 The International Advisory Group, Report of Mission, available at: <http://www.gic-iag.org/>.

12 Gray and Reisch (2005) cites the President of Collège, an independent revenue oversight body, expressing her concerns over

the organization's disadvantages as "underfunded, understaffed and deprived of information by both ExxonMobil and the Chadian government". During the meeting in July 2006, strengthening Collège was reaffirmed as an important step to pursue the revenue management plan by both the World Bank and the government of Chad.

13 Chad ranked 173<sup>rd</sup> of 177 in UNDP's Human Development Index in 2005, and 142<sup>nd</sup> of 145 in Transparency International's Corruption Index in 2004. In the Failed States Index of Foreign Policy, Chad ranked 7<sup>th</sup> most failed country of 60.

14 A case from Peru shows its difficulty in Lundberg, Kirsten, "Aiding or Abetting? World Bank and the 1997 Judicial Reform Project," case study from Kennedy School of Harvard University, 2004, pp. 1-32.

15 Sources: Economic Intelligence Unit (2006), Gray & Karl (2003), Gray & Reisch (2005), Ndumbe (2002), ODI (2006), Shaxson (2005), Pegg (2005), Pegg (2003), and World Bank & International Finance Corporation (2002). Most OPEC member states are excluded due to the absence of sufficient studies reviewed for this research.

16 Murshed (2003) even questions Norway's long-term success by discussing the fact that there is increasing pressure from the public to utilize earmarked money in the Government Petroleum Fund.

17 Among others. Gray and Reisch (2005) emphasize the need for empowerment of civil society, and Ms. Delphine Djiraibe is one of the human rights advocates in Chad, who is committed to empowering the Chadian civil society. On July 25 2006, the World Bank President, Paul Wolfowitz, also emphasized "the active engagement of civil society" as a key engine in the poverty reduction scheme.

18 This topic will indeed be crucial for considering no-entry decision in a country with poor governance, where state-owned oil companies less concerned with human rights might continue episodes of the resource curse. If all companies in the extractive industry, especially in oil industry, could agree on standards as a part of fair competition ground, chances for the resource curse will be significantly decreased.