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THE POTENTIAL OF AID TO BREAK THE 'CURSE OF OIL':

THE CASE-STUDY OF THE CHAD-CAMEROON OIL PIPELINE PROJECT

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A research report submitted to the Faculty of Humanities, University of the Witwatersrand, Johannesburg, in fulfilment of the requirements for the degree of Master of Arts

Johannesburg, 2008

Abstract

This paper analyses the feasibility of aid as an effective instrument to break the 'curse of oil' and contribute to poverty alleviation in oil-rich but dirt-poor African countries. The analysis applies insights from research on the "curse of oil" and aid effectiveness to the Wolrd Bank-sponsored Chad-Cameroon Oil Pipeline Project (CCOPP) with a focus on issues of good governance and economic growth. Firstly, this paper shows, at the theoretical level, that aid is a rather unviable instrument to break the 'curse of oil' and reduce poverty unless good governance is in place. Secondly, this paper investigates the kind of aid the CCOPP implied. Although aid was dispersed in conditions of bad governance, the World Bank applied a number of specific capacity-building instruments aimed at improving the quality of governance in Chad. However, in spite of these instruments, the quality of governance in Chad has not improved and seeds for sustainable economic growth have not been planted. On the basis of these findings, this research paper concludes that aid cannot be regarded as a viable instrument to break the 'curse of oil' and promote sustainable development as much in practice, as it is in theory, at least in the shape and form it was provided to Chad.

Declaration

I declare that this research report is my own unaided work, conducted under the supervision of Prof. Rod Alence. It is submitted for the degree of Master of Arts in the University of Witwatersrand, Johannesburg, South Africa. No part of this research has been submitted in the past, or is being submitted, for a degree or examination in any other university.

Analyse

_____

Natalija Dombrovskaja

_____day of _____, 2008

Acknowledgements

I would like to express my appreciation to Prof. Rod Alence for advising on the topic of this research report and providing dedicated supervision throughout my time at the University of the Witwatersrand.

The author is further indebted to Pam Buckingham at Japan External Trade Organization for proof-reading the research report.

Love and respect for their enduring support and patience during the time period of my studies at the University of Witwatersrand go to my parents, Igor Dombrovskis and Irina Dombrovskaja, and to my fiancée, Youri Dolya.

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Life in the world of oil is such that morals will never have a place in it.[1]

Loic le Froch-Prigent
Ex-CEO of Elf Aquitane

Chapter 1: Introduction

1.1 Research Question

The United Nations (UN) have identified poverty as one of the main threats to human security because it denies people a chance to be "free from want" and to be empowered to satisfy basic needs. For this reason, the UN aims to halve the portion of people living on less than one US dollar per day by 2015. This goal is of the highest priority on the list of Millennium Development Goals (MDG).[2] The problem of poverty and its resolution is of particular importance to the region of Sub-Saharan Africa (SSA) where almost half of the population lives on less than US 65 cents a day and only six countries have been on track in achieving the goal of significantly reducing the levels of poverty by 2015.[3] Hence, donor community has committed itself to double the amount of aid to the region by year 2010 in order to assist in the process of poverty eradication.

At the same time, many of SSA countries including Nigeria, Angola, Congo-Brazzaville, Sudan, Equatorial Guinea, Sao Tome, Gabon, Cameroon and Chad are in possession of vast mineral resources and, as such, are subject to an oil boom sweeping across the African continent. It has been estimated that in the next ten years African oil producers will generate

[1] S. Nguiffo, S. Breitkopf, 'Broken Promises: The Chad-Cameroon Oil and Pipeline Project: Profit at Any Cost?' Friends of the Earth-International, Center for Environment and Development, Urgewald, June 2001, <http://www.foe.org/camps/intl/worldbank/brokenpromises.pdf>, p. 1.
[2] United Nations General Assembly, *UN Millennium Declaration* A/Res/55/, New York, 2000, <http://www.un.org/millennium/declaration/ares552e.pdf>, p.5
[3] A. Jerome, 'Managing Oil Rent for Sustainable Development and Poverty Reduction in Africa', Paper Presented at the UNU-WIDER Jubilee Conference, Thinking Ahead: The Future of Development Economics, Jun 2005, < http://www.wider.unu.edu/conference/conference-2005-3/ conference-2005-3-papers/Jerome.pdf>, p.2

well over US$ 200 billion in revenues from oil, which could be useful in implementing effective poverty-reduction policies.[4] However, up until today, oil exports have hardly contributed to improving poverty levels in these countries. Oil is famous for being a curse, rather than a blessing, and causing a "paradox of plenty' in countries, where it is found.[5]

The possibility of avoiding the 'curse of oil' and making petroleum work for the poor has, therefore, become a truly important challenge to be addressed by international developmental institutions, such as the World Bank and the International Monetary Fund (IMF). Faced with this uneasy task, the World Bank approved the Chad-Cameroon Oil Pipeline Project (CCOPP) in 2000, in which, for the first time, development aid was tested as a tool to tackle the 'curse of oil'. This research paper aims to investigate the case of the CCOPP to determine whether aid can be a viable mechanism to eradicate poverty in oil-rich countries.

The incorporation of the case-study in the research question is justified on the basis of its uniqueness: up to this date the project is the only one of its kind. [6] It was donors' first experiment to use their technical expertise and financial capacity to help an oil-exporting developing country overcome the 'curse of oil' and ensure that oil revenues are used for the benefit of the poor. As an experiment in development aid, the CCOPP embraced a number of innovative features, which represent important sub-research issues, namely:

[4] Gary I. and Karl T.L., 'Bottom of the Barrel: Africa's Oil Boom and the Poor', Catholic Relief Services, June 2003, < http://www.crs.org/get_involved/advocacy/ policy_and_strategic_issues/oil_report_full.pdf>, p.5
[5] I. Gary, 'Do Oil and Democracy Mix?', *Policies in Context* 1(3), 2005, p. 36
[6] Although there is a similar initiative – the West African Gas Pipeline Project (WAGPP) (approved in 2004), which is being financed by the World Bank, its main objectives include improving competitiveness of the energy sectors of Ghana, Benin and Togo by promoting the use of cheaper and cleaner gas from Nigeria and fostering regional integration in West Africa. In contrast to the CCOPP, poverty reduction is not the ultimate goal of the WAGPP.

1) **New practice** of development aid being directed to increase oil revenues of a recipient country;
2) In the CCOPP, the World Bank had to fulfill a **new task** of ensuring that aid-initiated oil revenues are utilised for the benefit of the poor in Chad;
3) For this reason, the World Bank applied **new capacity-building mechanisms** in Chad, including the Revenue Management Plan, the Future Generations Fund and the Revenue Oversight Committee, which were specifically developed to guarantee positive effects from oil;
4) Finally, the CCOPP implied a **new partnership** between donors, the recipient government, the private sector and civil society to tackle the curse of oil.

In the course of addressing these research issues, this paper will, firstly, provide an overview of the project. Secondly, it will identify and evaluate new capacity-building mechanisms applied in the CCOPP. Finally, in order to estimate how successful the World Bank together with its partners were in performing their task of breaking the 'curse of oil' in Chad, this paper will assess progress in the project in terms of its contribution to poverty alleviation in Chad. On the basis of these analyses, it will be possible to draw tentative lessons regarding the more general viability of aid as an instrument to break the 'curse of oil' in oil-rich but poverty-stricken countries.

Therefore, even though the research paper focuses on a single case-study, the found answers might be relevant to a broader set of developing countries affected by the 'curse of oil', such as Angola, Nigeria, and Gabon etc. The majority of developing resource-rich countries share the same negative effects from oil, including low standards of living, extreme poverty, inequality levels, corruption, authoritarian regimes, "Dutch Disease" and violent civil conflict.

On the basis of this fact, one could suggest that developing oil-rich countries could have similar, if not the same causal mechanism explaining the relationship between oil prompting harmful effects on poverty levels and, consequently, the same approach to turning the 'oil curse' into a blessing.

1.2 Existing Research and Its Limitations

The existing research that is relevant to this research paper can be divided into two categories. The first set of literature deals with the effects oil tends to have on the poor; while the second spins around the issue of aid effectiveness.

The 'paradox' of oil wealth is the primary focus within the first set of literature. Logically thinking, oil-rich countries should not be poor. In conditions of constantly growing global demand for oil, the exploitation of this commodity could provide an oil-rich country with enormous revenues for poverty reduction. The evidence, however, suggests the opposite: "oil has, more often than not, undermined development"[7]. Many scholars, including Henderson, Sachs and Warner, Gylfason, Ross and Collier and Coffler, found that oil dependency is closely associated with such poverty-related factors as underdevelopment of labour-intensive sectors;[8] slow growth rates;[9] high corruption levels;[10] lack of democratization;[11] and high

[7] Christian Aid. 'Fuelling Poverty: Oil, War and Corruption', 2003, <http://www.christian-aid.org.uk/indepth/0305cawreport/cawreport03.pdf>, p.4
[8] E.A. Henderson, 'When States Implode: The Correlates of Africa's Civil Wars, 1950-1992', *Studies in Comparative International Development* 35(2), Summer 2000, p.35
[9] J.D. Sachs, A.M. Warner, 'Natural Resource Abundance and Economic Growth', Development Discussion Paper No.517a, Harvard Institute for International Development, Cambridge, Oct 1995
[10] T. Gylfason, 'Natural Resources, Education and Economic Development', *European Economic Review* 45(4), May 2001, pp.847-859
C. Leite, J. Weidmann, 'Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth', IMF Working Paper WP/99/85, Washington, DC: International Monetary Fund, 1999, < http://www.imf.org/external/pubs/ft/wp/1999/wp9985.pdf>
[11] M. L. Ross, 'Does Oil Hinder Democracy?', *World Politics* 53(3), Apr 2001, pp.325-361

incidence of violent conflicts.[12] Nevertheless, there are some scholars, who believe that the 'curse of oil' idea is slightly exaggerated. Stijns, for instance, claimed that oil tends to help the poor because it generates great revenues for the government and, as such, becomes an impetus for high government spending on social welfare.[13]

The major limitation of this research category is that there are no studies exploring the direct relationship between oil and poverty. At best, as in studies presented by Ross, Davis and UNCTAD, the linkage between oil and such indirect measures of poverty as infant mortality rates and life expectancy, is considered. [14]

The second set of literature implies the debate around the issue of World Bank and IMF's aid effectiveness. It largely stems from the fact that aid has had limited impact on poverty alleviation in the recipient countries. For example, while aid volumes to Sub-Saharan African over the period between 1990 and 2001 increased substantially, the average income of the extreme poor in SSA declined from US 62 cents to US 60 cents.[15]

Aid effectiveness debate revolves around two main aspects, namely 'good governance' and 'economic growth', - aspects perceived as the most conducive to poverty reduction. Generalising the debates' arguments, it emerges that aid has had limited impact on the quality

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[12] P. Collier, A. Hoffler, 'Greed and Grievance in Civil War', Centre for the Study of African Economies, University of Oxford, 2002, <http://www.bepress.com/csae/paper160>, p.26

[13] Referred to in Ross M., 'How Does Mineral Wealth Affect the Poor', UCLA: Department of Political Science, Apr 2003, <http://www.polisci.ucla.edu/faculty/ross/minpoor.pdf>, p.9

[14] *Ibid*, p.28

G.A. Davis, 'Learning to Love the Dutch Disease: Evidence from the Mineral Economies', *World Development* 23(10), 1995, pp.1765-1779

UNCTAD, 'The Least Developed Countries Report 2002: Escaping the Poverty Trap', Geneva: UNCTAD, 2002, <http://www.unctad.org/templates/WebFlyer.asp?intItemID=3075&lang=1>

[15] United Nations, *The Millennium Development Goals Report*, New York, 2005, pp.6-7

of governance[16], as well as on economic growth rates[17] of the recipient countries. Some scholars, like Djankov et al., Harford and Klein, Knack etc., even claimed that aid can cause a resource curse, similarly to oil.[18] However, 'aid selectivity' – directing aid to countries with good governance in place – has the potential to improve aid's chances to be effective, as suggested by Burnside and Dollar, Svensson, and Joyce.[19]

The limitation of the whole aid effectiveness debate is that while being extensive, it has been extremely inconsistent – a number of paradoxes have been encountered. Perhaps, as a result, the debate has not yet delivered some of the truly positive outcomes, such as "credible rating of aid agencies or rigorous randomized trials of specific programs".[20]

* * *

In spite of existing limitations of both of the research categories, the relationships between 'oil and poverty' and 'aid and poverty' have undergone a considerable amount of thorough analysis. However, it seems that these relationships have been discussed only in parallel to

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[16] C. Burnside, D. Dollar, 'Aid, Policies, and Growth', *American Economic Review* 90(4), 2000, pp. 847–68, p.30
M.A. Thomas, 'Getting Debt Relief Right', *Foreign Affairs* 80(5), Sep/Oct 2001, p.36

[17] R.G. Rajan, A. Subramanian, 'Aid and Growth: What Does the Cross-Country Evidence Really Show?' IMF Working Paper 05/127, Washington, DC: International Monetary Fund, Jun 2005
S.G. Reddy, C. Minoiu, Development Aid and Economic Growth: A Positive Long-Run Relation, Columbia University, May 2006, p.1
C.J. Dalgaard, H. Hansen, F. Tarp 'On the Empirics of Foreign Aid and Growth', *Economic Journal* 114 (496), 2003, p.1

[18] S. Djankov, J.G. Montalvo, M. Reynal-Querol, 'The Curse of Aid', Apr 2005, <http://www.econ.upf.es/docs/papers/downloads/870.pdf>, p.4
T. Harford and M. Klein, 'Market for Aid: Understanding Aid by Looking Forward and Looking Back', *Public Policy for the Private Sector* 293,Washington, DC: World Bank, Jun 2005, <http://rru.worldbank.org/Documents/PublicPolicyJournal/291Harford_Klein.pdf>, p.1
Knack S., 'Aid Dependency and the Quality of Governance: A Cross-Country Empirical Analysis', Working Paper 2396, Washinton, DC: World Bank, 2000, <http://www.worldbank.org/wbi/governance/pdf/wps2396.pdf>, p.6

[19] World Bank, *Assessing Aid: What Works, What Doesn't and Why*, New York, Oxford University Press, 1998, p.1
J. Svensson, 'Aid, Growth and Democracy', *Economics and Politics* 11(3), Nov 1999, pp.275-297
J.P. Joyce, 'Promises Made, Promises Broken: A Model of IMF Program Implementation', *Economics and Politics* 18(3), Nov 2006, <http://ssrn.com/abstract=935717>, p.20
C. Burnside and D. Dollar, *op.cit,* p.30

[20] T. Harford and M. Klein, *op.cit,* p.1

each other. Most of the relevant research seems to have neglected the links between oil, aid and poverty. This means that there is a theoretical gap that needs to be covered. This is what this research paper intends to contribute to.

This research paper will analyse one of the possible linkages between aid, oil and poverty through the analysis of the experimental case of the CCOPP, which, as it was already indicated above, implied the provision of aid to Chad as a tool to break the 'curse of oil' and contribute to poverty reduction in this country.

1.3 Rationale

The primary focus of this research paper is the case of the CCOPP, as it represents the only case where aid, oil and poverty were incorporated in an interlinking manner. The other factor that makes the project worth-while investigating is its recent occurrence: the World Bank approved the project in 2000, while in December 2006 it published the Project Implementation Completion Report (ICR), which usually marks the end of the World Bank's active involvement in the project. This means that not much in-depth research and analysis has been performed on this case.

In the course of the paper it will be demonstrated that the World Bank approved the project disregarding the principle of 'aid selectivity', but it took into account the importance of capacity-building and the recipient government's participation. This was reflected in the nature of the specific instruments that were applied in the CCOPP. However, these specific instruments have had a very limited success in fulfilling their designated tasks. It will also be revealed that the project had little positive effect, if at all, on such conducive to poverty

alleviation factors as good governance and sustainable economic growth rates in Chad. On the basis of these findings, this paper will suggest that aid, at least in the shape and form it was provided to Chad, cannot be regarded as an effective tool to address negative effects from oil on poverty levels in the least developed countries.

1.4 Roadmap

The question will be approached from two levels: theoretical and practical. At the theoretical level, the debates around the issues of 'the curse of oil' and 'aid effectiveness' will be highlighted to determine whether aid could actually break the 'curse of oil' and contribute to poverty alleviation. Whether aid can be successful at the practical level, the case-study of CCOPP will be analysed reflecting on major theoretical issues discussed in the paper. In the course of analysis a thorough overview of the project will be provided. First of all, the environment of the target country – Chad – prior to the project will be studied. Secondly, the special instruments employed in the project by the parties involved will be explained and explored to identify whether they were suitable and compliant with the environment of Chad and capable of addressing the challenges posed by that environment. Finally, the project will be evaluated in terms of its contribution to poverty alleviation in Chad. The conclusion will summarise the major findings of the paper thereby determining the viability of aid as an effective tool to tackle the 'curse of oil' in oil-rich, but poor countries.

Chapter 2: Uncovering 'Aid-Oil-Poverty' Nexus

Without going into much of the discussion about why it might be so, the prospects for improving poverty levels in Africa are believed to depend primarily on two mutually reinforcing factors: good governance and economic growth.[21] Hence, to analyse aid as an instrument to improve poverty levels, one should analyse the following two issues. First of all, the link between oil and poverty should be explored with respect to those two factors. Secondly, the role donors' aid plays in promoting good governance and economic growth in SSA should be scrutinised.

2.1 'Oil - poverty' nexus

As it was claimed in the introduction, the levels of poverty in oil dependent countries are usually very high. Ross's study uncovered that a state's dependence on natural resources exports in 1970 was largely responsible for worsened conditions for the poor in the late 1990s.[22] UNCTAD's research established that dependence on exports of primary commodities and the prevalence of extreme poverty are clearly interrelated.[23] Indeed, in the 34 developing countries with oil and gas accounting for at least 30 percent of their exports, half of their combined populations survive on less than one US dollar per day.[24] For example, in Angola oil makes up 90 percent of its exports.[25] At the same time Angola ranks 160th out of 177 countries[26] with about 65 percent of population living below the poverty line.[27]

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[21] J. Cilliers, *Human Security in Africa: A Conceptual Framework for Review*, Monograph for the African Human Security Review, June 2004, p.11
[22] M.L. Ross, Apr 2001, *op.cit*, p.2
[23] Quoted in *Ibid*, p.11
[24] UNDP, *Human Development Report 2005: International Cooperation at a Crossroads*, New York: UNDP, 2005, <http://hdr.undp.org/reports/global/2005/pdf/HDR05_complete.pdf>, p.125
[25] I. Gary I. and T.L. Karl, *op.cit*, p.16
[26] UNDP, *op.cit.,* p.226
[27] T.L. Karl and I. Gary, 'The Global Record', Foreign Policy in Focus, Washington, DC and Silver City, NM, Interhemispheric Resource Centre/Institute for Policy Studies/SEEN, Jan 2004, <http://www.fpif.org/pdf/petropol/ch4.pdf>, p.36

This evidence contradicts and questions the arguments of the scholars, who claim that oil-generated revenues help alleviate poverty. According to Stijns, commodity booms that bring about enormous revenues allow the governments of oil-exporting countries to significantly increase their social welfare spending, which, in turn, has positive effects on the poor.[28] However, while the booms indeed allow the governments to increase their investments in social welfare, the governments do not necessarily choose to do so - political will needs to be there. It should also be noted that improving the social welfare of the poor is not equivalent to reducing poverty - that is to reducing the number of people living on less than one US dollar per day. For example, Gabon spends more money per pupil than most African countries, yet this has not been reflected in general improvements of social conditions.[29] Therefore, it seems that arguments about oil benefiting the poor do not have a solid support to take them further into research.

Pessimistic outlooks seem to be more appropriate. Indeed, countries that depend upon commodity exports, over time, acquire all the characteristics pertaining to poverty. Oil-dependent countries are amongst the most economically troubled, conflict-ridden, corrupt and undemocratic.

According to Karl and Gary, countries that are non-oil producers grew four times more rapidly than oil-producing countries between 1970 and 1973.[30] Sachs and Warner, in their turn, estimated that over time, oil-rich country's economic growth deteriorates in line with increasing reliance on its oil resources.[31] Collier, by investigating oil price booms and busts,

[28] Referred to in M.L. Ross (Apr 2003), *op.cit,* p.5
[29] I. Gary and T.L. Karl, *op.cit,* p.36
[30] *Loc.cit.*
[31] J.D. Sachs and A.M. Warner, *op.cit.*

found that long-term effects of higher oil prices at the world market have substantial negative influence on GDP growth rates of an oil-exporting country.[32]

Economic troubles of oil rich countries start from heavy dependence on oil being associated with the phenomenon known as 'Dutch Disease', in which booming resource sector draws the majority of capital investments, including those coming from the government, away from labour intensive economic sectors, such as manufacturing and agriculture.[33] Gabon represents a very good example of this phenomenon. Being an oil dependent country and raising enormous revenues from oil, Gabon depends entirely on imports for its food. Only about one percent of total land area is under cultivation.[34]

Moreover, the volatility of oil prices makes state planning very difficult, prompting the government to overspend and borrow more and more from foreign sources. Most of OPEC members, including Algeria, Indonesia and Nigeria, have experienced budgetary deficits year after year. The external debt of most oil-exporting countries (except for Mexico) has been rising since 1973.[35] The volatility of oil prices also causes fluctuations in country's currency strength, which is detrimental for investment and income distribution.[36]

In oil-rich states the availability of oil rents[37] inhibits the necessity of effective tax policies, as

[32] P. Collier, 'Managing Commodity Booms: Lessons of International Experience', A Paper Prepared for the African Economic Research Consortium, Center for the Study of African Economies, Oxford University, Jan 2007, <http://www.africa-sbo.org/cabri/uploads/files/**Managing**%20**Commodity**%20**Booms**%20by%20Paul%20Collier.pdf>, p.4
[33] Sachs J.D. and Warner A.M., *op.cit*
[34] I. Gary and T.L. Karl, *op.cit*, p.38
[35] *Ibid*, pp.36-37
[36] P. Collier (Jan 2007), *op.cit*, p.5
[37] Rents are the surplus of export revenue over the costs of production including normal profit

according to a "resource curse" theory.[38] A "resource curse" theory suggests that governments that have "unearned" income, such as revenues from oil and other natural resources, lack incentives to build strong institutions and address interests of the general population. Le Billion claimed that in states, where other sources rather than the collection of taxes form the basis of revenues, democratic pressures to hold government accountable are reduced.[39]

Indeed, in an oil-rich rentier state the ruling elites have absolutely no incentives to reflect on and address the needs of the locals. Addressing their own materialistic aspirations, as well as the interests of a limited number of constituents who otherwise could threaten regime's stability, and certain needs of those, like foreign oil companies, who are the main contributors to oil revenues, becomes more than enough.[40] This contributes to imprudent public spending, unequal distribution of resources, fraud and corruption. Thus, it should come as no surprise that many oil-rich countries, including Angola, Nigeria and Cameroon have the highest corruption levels, as according to Transparency International.[41] In Angola, for instance, 20 percent of total income from oil (about US$1 billion) disappears every year.[42]

The availability of oil rents has also inhibited the process of democratisation and has maintained "a long line of authoritarian rulers – from the Shah of Iran to Nigeria's Abacha to the House of Saud to Saddam Hussein."[43] Tsui's research estimated that a country's democracy level is reduced by 30 percentage points every time 100 billion barrels of oil is

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[38] A. Jerome, *op.cit* , p.6
[39] Le Billion P., 'The Political Ecology of War: Natural Resources and Armed Conflicts', *Political Geography* 20(5), 2001, p.579
[40] 'What is A Rentier State?' Suburban Emergency Management Project Biot Report 227, Nov 2005, <http://www.semp.us/biots/biot_227.html>
[41] Transparency International, 'Global Corruption Report 2004: Coalition against Corruption', Berlin, 2004, <http://www.transparency.org/publications/gcr/download_gcr/download_gcr_2004>, p.8
[42] Christian Aid, *op.cit*, p.9
[43] I. Gary and T.L. Karl, *op.cit*, p.39

discovered.[44]. Ross also found that oil hinders the development of representative politics.[45] In support of this argument, oil-exporting countries, such as Angola, Nigeria and the Republic of Congo, score very low on World Bank's governance indicators of 'voice and accountability' and 'the rule of law'.[46]

In addition, for reasons of preserving authoritarian regime's safety and suppressing increasing grievances among ordinary citizens dissatisfied with ignorant "rentier state", the governments of oil-dependent African countries tend to embark on militarisation. In 1997, the typical government spent 12.5 percent of its budget on military. For every 5 point rise in oil dependence they spent a further 1.6 percent of their budget on improving the military. For example, close to 36 percent of Saudi Arabia's budget is allocated for military expenditures.[47] Greater militarisation means less money available to address the basic needs of the population.

Finally, according to Collier and Hoffler's research, there is a strong statistical correlation between natural resources and conflict. They estimated that a country's susceptibility to conflict depends on its GDP's dependence on natural resources. An average country faces a 23 percent risk of civil war when its natural resources account for more than 26 percent of GDP. However, when the same country has no natural resources sector, this risk falls to 0.5 percent.[48] Havlik also discovered that if a country's revenue comes mainly from one

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[44] K.K. Tsui, 'More Oil? Less Democracy?: Theory and Evidence from Crude Oil Discoveries', University of Chicago, Nov 2005, <http://are.berkeley.edu/courses/envres_seminar/KTsuijobmarketpaper.pdf>, p.1

[45] Referred to in Christian Aid, *op.cit*, p.9

[46] D. Kaufmann D., Kraay A., and Mastruzzi M., 'Governance Matters VI: Governance Indicators for 1996-2006', Washington, DC: World Bank, 2007, <http://www.worldbank.org/wbi/governance/pubs/govmatters6.html>
Voice and accountability' indicator measures political, civil and human rights, while 'the rule of law' - the quality of contract enforcement, the police and the courts.

[47] M.L. Ross, "Extractive Sectors and the Poor", An Oxfam America Report, 2001, <http://www.oxfamamerica.org/pdfs/eireport.pdf>, p.15

[48] P. Collier and A. Hoffler (2002), *op.cit*, p.26

commodity, such as oil, the chances of civil conflict increase.[49] Fearon and Laitin, in their turn, claimed that the higher the dependence of a country's export on oil, the greater the risk of violent conflict in that country.[50] The examples of oil-exporting and conflict-ridden countries such as Sudan, the Republic of Congo, Nigeria, Indonesia (Aceh), Iraq, Angola etc. support these arguments. For instance, in violent conflict that erupted in Nigeria in the mid 1960s the Igbo elite fought the ruling northern elite "over the private distribution of petro-dollars".[51] In Congo-Brazzaville, the control of the oil rents was the main reason behind the coup initiated by the former president Denis Sassou Nguesso against the elected president Pascal Lisouba, which then slipped into the civil armed conflict in 1997. [52]

However, to assume that the mere presence of oil creates a poverty-prone environment on the basis of the evidence discussed above would be unwise. The example of oil-rich and highly developed Norway would immediately deny this assumption. Norway, as such, exhibits an example of oil being a blessing rather than a curse, an example from which one could draw lessons about how to make oil revenues work for the poor. The main lesson is the transparent and accountable management of oil revenues.[53] Norwegian government established a Petroleum Directorate, which ensures that new field development plans benefit everybody. Moreover, with the growth of the petroleum sector, the Petroleum Fund was established to

[49] M. Havlik, 'Weak States and Weak Economies: The Problem of Post-colonial conflict in West Africa', Creighton University, 2003, <http://puffin.creighton.edu/pls/Missouri_Valley_Journal/2004_articles/havlik.pdf>, p.3
[50] J.D. Fearon and D. Laitin, 'Ethnicity, Insurgency and Civil War', *American Political Science Review* 97(1), Feb 2003, <http://www.yale.edu/leitner/pdf/PEW-Fearon.pdf>, p.14
[51] Quoted in A. Ylonen, 'Institutions and Instability in Africa: Nigeria, Sudan and Reflections from Mises's Nation, State and Economy', *New Perspectives on Political Economy* 1(1), 2005, <http://pcpe.libinst.cz/nppe/1_1_2.pdf>, p.52
[52] P. Le Billion, *op.cit*, p.574
[53] Christian Aid, *op.cit*, p. 20

protect non-oil Norwegian economy against possible fluctuations in oil revenues.[54] These factors paved the way for Norway to become the UNDP's best development performer. One should take into account, however, that transparency and accountability become possible only under conditions of good governance, which is the basis for economic growth and poverty alleviation.

2.2 'Aid – good governance' nexus

Problems of poverty and governance are closely associated. If power is abused, or exercised in inappropriate ways, poor people become the primary victims. The examples of the governments of Liberia under Charles Taylor and of Zaire under Mobutu Sese Seko prove the point. [55] Bad governance that is characterised by corruption undermines effective delivery of services and diverts allocation of resources away from the poor. State policies and programs come to address interest of only the most powerful groups in a society. Therefore, strengthening governance is an essential precondition for improving poverty worldwide.

The aspect of good governance, which implies the framework of transparent and accountable institutions that are willing and able to design and implement reforms, promote the rule of law, and effectively distribute resources, has been traditionally regarded as one of the primary purposes of aid.[56] However, this is no longer the case. Several studies estimated that the impact of aid on good policies has been insignificant.[57] Thus, for instance, Burnside and Dollar, on the basis of 56 countries analysed, found that aid and good policies do not

[54] W.H. Olsen, "'Petroleum Revenues Management – An Industry Perspective', Workshop on Petroleum Revenue Management, Washington, DC, Oct 23-24 2002, <http://www.earthinstitute.columbia.edu/.../Petroleum%20Revenue%20Management%20-%20An%20Industry%20Perspective.pdf>, pp.2-3
[55] Girishankar N. et al., 'Governance', *Core Techniques and Cross Cutting Issues* 1, 2001 p.261
[56] P. Mosley, 'On Persuading Leopard to Change His Spots', in Bates R.H. (eds.), *Towards a Political Economy of Development: A Rational Choice Perspective*, Berkley: University of California Press, 1988, pp.63-64
[57] T.M. Tsikata, 'Aid Effectiveness: A Survey of the Recent Empirical Literature', International Monetary Fund, Policy and Review Department, March 1998, p.13

correlate.[58] Thomas, in her turn, claimed that one of the reasons for past aid ineffectiveness had been bad economic and political governance of the recipients, which in combination with money fungibility contributed to misuse and misappropriation of the resources.[59] The examples of individual countries illustrate the argument. One could refer to Zaire (now the Democratic Republic of Congo), where aid left not a trace of progress on the authoritarian and extremely corrupt regime of Mobutu Sese Seko. In Tanzania, over 20 years donors poured over US$ 2 billion in building and rehabilitating roads, but the road network somehow did not improve.[60]

Consequently, good governance came to be regarded as a precondition for, not a result, of aid flows to low-income countries. The World Bank estimated that in a country with good governance 1 percent of GDP in assistance translates into a 1 percent decline in poverty.[61] Burnside and Dollar's study also found that good governance contributes to aid bringing about positive results.[62]

Good governance is often associated with democratic regime, which is viewed as the most participatory, transparent, accountable, and respecting human rights.[63] On the basis of this fact Svensson offered empirical support that aid is positive in democratic countries.[64] Joyce's research is consistent: it demonstrated that there is a strong correlation between democracy

[58] C. Burnside and D. Dollar, *op.cit,* p.30
[59] M.A. Thomas, *op.cit*, p.36
[60] World Bank, *Assessing Aid: What Works, What Doesn't and Why*, New York, Oxford University Press, 1998, p.1
[61] *Ibid*, p.2
[62] C. Burnside and D. Dollar, *op.cit*, p.27
[63] A Abdellatif A.M. 'Good Governance and Its Relationship to Democracy and Economic Development', *Global Forum III on Fighting Corruption and Safeguarding Integrity*, Seoul, 20-31 May 2003, <http://www.undp-pogar.org/publications/governance/aa/goodgov.pdf>, p.10
[64] J. Svensson, *op.cit*

and the success of IMF aid.[65] It was argued that democratic governments are usually more inclined to address the interests of the general population to have better prospects for re-election.[66] This kind of research put the principle of selectivity high on the development aid agenda: to ensure greater effectiveness donors are called to channel their money to poor countries with good policies in place.

However, critics argue that increased levels of aid can do more harm than good, even if directed to environments characterised by good governance. Aid can actually erode good governance by causing a "resource curse", similarly as oil revenues do. Aid, just as oil, represents a 'sovereign rent' and, as such, may also cause "dysfunctional rent-seeking behaviour."[67] Heller and Gupta, for example, argue that aid creates a moral hazard because it eliminates incentives to design and pursue good policies and build effective institutions.[68] The analysis of the foreign aid for education purposes in Uganda showed that during the period of 1991-1995 schools received about 13 percent of the total financial assistance for education purposes received by the government.[69] In Tanzania, increasing aid levels were a source of large government subsidies to sustain state-owned enterprises and parastatals.[70] In some cases, the availability of aid rents can lead to a civil conflict. Maren, for instance, claimed that the struggle between different groups over the control of the large food aid destined to Somalia caused Somalia's civil war.[71]

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[65] J.P. Joyce, *op.cit*, p.20
[66] World Bank (1998), *op.cit*, p.52
[67] P. Collier, 'Is Aid Oil? An Analysis of whether Africa Can Absorb More Aid', World Development 34 (9), Jun 2005, p.2
[68] P.S. Heller and S. Gupta, 'Challenges in expanding development assistance.' IMF Discussion Paper PDP/02/5, Washington, DC: International Monetary Fund, 2002
[69] S. Djankov et al., *op.cit*, p.4
[70] S. Knack, *op.cit*, p.6
[71] Reffered in S. Djankov et al., *op.cit*, p.4

First paradox of aid: for aid to be effective there should be good governance in place; but large inflows of aid may themselves negatively affect the quality of governance by causing a resource curse.

Resource curse is not the only way through which aid can affect negatively the quality of governance. The peculiar to aid aspect of conditionality can have a similar effect. Conditionality is when donors attach conditions (in terms of how aid should be used or which institutional reforms have to be accomplished) that the recipients of aid have to comply with in order to qualify for further inflows of financial assistance. Donors impose conditionality as an instrument to hold the recipients of their aid accountable. This is essential for donors themselves to be able to be accountable to taxpayers on how their money has been used. In the process, however, the accountability of the recipient governments to *their* own citizens can be eroded.

Moss, Peterson and de Walle claimed that conditionality might force the recipient governments to ignore the interests of the general population as those might interfere with the conditions prescribed by the donors. It becomes unclear whom the recipient governments should be accountable to and for what.[72] Moreover, local population might find it useless to put pressure on the government to address their demands, as that government is already under too much pressure from the donor side to comply with conditionalities.[73] Conditional aid, for

[72] T. Moss, G. Pettersson, and N. de Walle, An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa', CGD Working Paper 74, Washington, DC: Center for Global Development, Jan 2006, p.15
[73] *Loc.cit.*

example, can force line ministries to release or obtain funds for the projects that were not overseen in the budget thereby undermining the process of prioritising government spending.[74]

On the other hand, one should consider Scholl's finding that aid effectiveness is low when no conditions are attached irrespectively of the political regime of the recipient country. He also estimated that while unconditional aid has good prospects in countries characterised by good governance, it will do more harm than good in institutionally weak countries.[75] Husain argued that irrespective of the quality of governance conditionality is never troublesome if there is an ownership factor in the recipient country. Ownership consists of two elements: consensus among major social and political groups that comprise national civil society on the conditions attached and the presence of technocracy within the recipient government that approves and strongly supports those conditions.[76]

Moreover, Boyce and Pastor, in their turn, suggested that in countries with civil conflicts in place, donors should use peace conditionality to foster peace processes in those countries thereby improving human security. Peace conditionality proved to be successful in resolving crisis in Bosnia in October 1996. Authors claimed that Rwandan genocide of 1994 could have also been averted through peace conditionality. In the period of 1991-1993 donors increased

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[74] O. Barder, 'Are the Planned Increases in Aid too much of A Good Thing?' Centre for Global Development, Working Paper No. 90, July 2006, <http://www.cgdev.org/content/publications/detail/8633>, p.17
[75] A. Scholl, "'Aid Effectiveness and Limited Enforceable Conditionality', Economic Risk SFB 649, Humboldt-University of Berlin, Aug 2005, p.27
[76] J.Husain, 'Why Do Some Economies Adjust More Successfully than Others: Lessons from Seven African Countries', Policy Research Working Paper 1364, Washington, DC: World Bank, 1994, <http://www.wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1994/10/01/000009265_3970716141810/Rendered/PDF/multi0page.pdf>, p.5

their aid to Rwanda by 50 percent. Government's human rights abuses, which could have been used as the basis to cut aid, were disregarded.[77]

Second paradox of aid: conditionality is required to increase aid effectiveness; it is required more in countries with the poorer quality of governance, but conditionality itself can weaken institutions and worsen governance quality.

A number of studies investigated the direct relationship between aid and institutions and came to a conclusion that aid, which in most of the cases is conditional, does affect negatively the quality of institutions. Djankov et al. in a sample of 108 countries identified that aid-dependent countries suffer a 2 points reduction in democracy. For countries least dependent on aid the figure is 0.9 points.[78] Harford and Klein found that the ten biggest deteriorations in democratic institutions encountered since 1960s are associated with large aid inflows in the previous year, averaging 4 percent of GDP, well above the mean.[79] Some of the examples include Gambia in 1994, Lesotho in 1970 and Sudan in 1989.[80] Knack's cross-country study also found that higher aid levels worsen corruption levels, bureaucratic efficiency and the rule of law.[81] One could perhaps suggest that this kind of research trumps the paradoxes of aid presented above. However, one should also take into account that paradoxes are not mere suggestions, but also have an extensive, although of other kind, research base and, as such, cannot be overlooked.

[77] J.K. Boyce and M. Pastor, 'Aid for Peace: Can International Financial Institutions Help Prevent Conflict?' *World Policy Journal* 15, 1998, p.8
[78] S. Djankov et al., *op.cit*, p.7
[79] T. Harford and M. Klein, *op.cit*, p.2
[80] *Loc.cit.*
[81] S. Knack, *op.cit*, p.1

2.3 'Aid - economic growth' nexus

An important argument behind the calls for increased volumes of foreign aid is that aid contributes to economic growth. It is argued that "bad as Africa's growth performance has been over the past three decades, it would have been markedly worse without aid".[82]

It is often argued that economic growth is the most powerful way to alleviate poverty and increase human security. It presents people with better opportunities to generate higher incomes and provides governments with greater funds to invest in infrastructure and social services required for further economic growth.[83] On the basis of empirical evidence it has been estimated that a 5 percent increase in per capita income, overall, results in a 5 percent increase in incomes for the poor.[84] Dollar and Kraay discovered that income of the poor almost always increases (in 101 out of 108 analysed cases) when per capita income is increasing by at least 2 percent per annum; but when the growth is negative it almost never rises.[85] Moreover, an extensive research demonstrates that economic growth reduces the probability of civil conflicts. A country with GDP per person of just US$250 faces a 15 percent probability of conflict outbreak. For a country with GDP of just US$ 600 the probability is reduced by half and is reduced by half again to below 4 percent for a country with income of US$1250.[86]

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[82] P. Collier (2002, *op.cit*, p.5
[83] Department for International Development, *Eliminating World Poverty: Making Governance Work for the Poor*, A White Paper on International Development, Jul 2006, <http://www.sarpn.org.za/documents/d0002082/index.php>, p.57
[84] B. R. Bolnick, 'Economic Growth as an Instrument for Poverty Reduction in Mozambique: Framework for a Growth Strategy', Gabinete de Estudos Discussion Papers 12a, Center for International Development: Harvard University, 2001, < http://www.sarpn.org.za/documents/d0002025/Bolnick_Mozambique_Econ-growth.pdf>, p.3
[85] D. Dollar and A. Kraay, 'Growth Is Good for the Poor', *Journal of Economic Growth* 7, Mar 2002, pp.195-225
[86] Millennium Project, 'An Enhanced Strategy for Reducing Extreme Poverty by the year 2015: Interim Report of the Millennium Project Task Force on Poverty and Economic Development', New York: United Nations University, Feb 2004, p.27

However, has the role of aid in increasing economic growth rates been as significant as many tend to believe? The correlation between foreign aid and economic growth rates has been debated for many years, but with little resolution. Using a panel data for 40 low income and 16 middle income countries over 6 four-year periods from 1970-1973 and 1990-1993, Burnside and Dollar estimated that aid can lead to greater levels of economic growth, but only in countries characterised by good institutional framework.[87]

However, the relationship between economic growth and good governance is not absolute. Consider Malawi and Vietnam, for instance. Malawi actually ranks higher than Vietnam on aggregate governance indicators, yet Malawi has experienced general economic stagnation, while Vietnam has enjoyed a sustained economic boom.[88] While governance does play a role in economic development, the examples show that it is far from the only thing that matters. Reddy and Minoiu, as well as Dalgaard et al., confirmed that aid has no greater impact on economic growth in "good" policy environments as opposed to "bad" policy environments.[89] Reddy and Minoiu though found that total aid to poor countries has no effect on economic growth of the country. Yet, when differentiating between various types of aid, namely developmental (investments in transport infrastructure hospitals, schools etc.) and geopolitical (aid motivated by certain political and strategic interests of the donor), it emerged that developmental aid causes growth especially after long periods of time, while geopolitical, in contrast, can be growth-depressing.[90] On the other hand, it is unclear whether such a differentiation can be made since geopolitical aid can actually be developmental and vice versa.

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[87] C. Burnside and D. Dollar, *op.cit*, p.30
[88] M. Pangetsu and J. Sach, *op.cit*, p.29
[89] S.G. Reddy and C. Minoiu, *op.cit*, p.1
C.J. Dalgaard, H. Hansen, F. Tarp, *op.cit*, p.1
[90] S.G. Reddy and C. Monoiu, *op.cit*, pp.19-20

Clemens et al., in their turn, distinguished between timing impacts of aid. They argued that a "short-impact" (four-year period) aid, which in form is identical to Reddy and Minoiu's developmental aid, leads to economic growth. Clemens et al. estimated that higher-than-average inflows of a short-impact aid to SSA raised per capita growth rates of the countries in the region by about half a percentage point over the growth that would have been achieved by average aid flows over a longer period of time.[91]

However, the flaw of the Clemens' et al. analysis is that they based their research on data for the period of 1990-onwards; thereby ignoring the fact that many countries in SSA had been receiving increasing amounts of aid for more than three decades. For example, in Burkina Faso aid accounted to 40 percent of the government budget and 6.2 percent of GDP between1960 and1999; in Mauritania - for 37 percent and 12 percent respectively. The situation has been similar in countries like Rwanda, Niger, and Mali.[92] This suggests that Clemens' et al. research, although useful, is not as plausible.

Rajan and Subramanian established that in the long-run aid and economic growth are sometimes negatively correlated. In terms of why aid could have negative effects on economic growth rate, the appreciation of local currency that usually follows increasing financial inflows into the country is worrisome. This appreciation might cause a "Dutch Disease". Similarly to oil revenues, large inflows of aid can also cause a shift in production "from tradable goods and services (such as food and textiles), towards non-tradable goods and

[91] M. Clemens, S. Radelet, R. Bhavnani, 'Counting Chickens when they Hatch: the Short-Term Effect of Aid on Growth', CGD Working Paper No.44, Washington, DC: Center for Global Development, July 2004, p.1
[92] S. Djankov et al. *op.cit*, p.2

services (such as education and health care)."[93] This shift might reduce the competitiveness of exports thereby inhibiting economic growth rates.

Rajan and Subramanian's 'aid-economic growth' analysis reached another important conclusion. They found no evidence that aid has a robust positive impact on growth. Rajan and Subramanian's analysis is attractive because it accounted for various interrelated variables that might affect the quality of aid, including various types of aid, the timing impact of aid, geographical position of the recipient country, and/or its institutional quality.[94] Such an analysis perfectly corresponds with the multi-dimensional reality of foreign aid.

Third paradox of aid: while aid should promote economic growth, most of the researchers find little evidence that it actually does. High and sustained aid inflows can even have a negative impact on economic growth in the long run.

However, it seems that donors themselves have already realised that aid on its own does little to promote economic growth. In combination with the fact that *trade* has proved to be a vital instrument for instigating growth and significantly reducing poverty levels in a number of developing countries, including Korea, Singapore, Malaysia and China, donors have developed and integrated into their poverty reduction strategies a new concept of 'aid-for-trade' to help improve living standards in African countries.[95] 'Aid-for-trade' aims at assisting African countries to get market access and become active players in the global trading system.

[93] A. Barder, *op.cit*, p.12
[94] R.G. Rajan and A. Subramanian, 'Aid and Growth: What Does the Cross-Country Evidence Really Show?' IMF Working Paper 05/127, Washington, DC: International Monetary Fund, Jun 2005, p.5
[95] P. Lamy, and D. Kaberuka, 'Aid Critical To Ensuring Benefits from Trade for Africa', African Development Bank, 2006,

Although African trade has expanded five times in twenty years and its exports have been increasing at an average of 15 percent annually since 2000, the continent's share of world trade is less than 3 percent (Sub-Saharan Africa's trade share is less than 2 percent); in 1950 it was 10 percent.[96] Besides tariff barriers, which are dealt with in the World Trade Oganization's Doha Round, the volumes of African trade are also challenged by significant supply-side constraints, such as poor infrastructure, high transport costs and excessive red tape etc. It has been estimated, for instance, that in Sub-Saharan Africa infrastructure needs are US$17-22 billion a year, while actual spending is about US$ 10 billion. Transport costs for trade within Africa are twice as high as those within South East Asia.[97] With regards to red tape, custom delays in Africa average 11.3 days, compared with 7.2 days in Latin America and 5.5 days in Asia.[98] It is these kinds of infrastructural backlogs that 'aid-for-trade' is trying to address to ensure increased market access for African countries.

Whether 'aid-for-trade' has been effective is difficult to assess at present stage. First of all, 'aid-for-trade' is a recent development, which has only started gaining its practical momentum since the G8 Gleneagles Summit in 2005, when it was decided to scale official development assistance (ODA) up to US$130 billion by 2010. Hence, the share of 'aid-for-trade' in overall ODA is yet to increase and prominent results are yet to appear. The second reason behind not being able to evaluate 'aid-for-trade' phenomenon is absence of a clear definition of what 'aid

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http://www.afdb.org/pls/portal/docs/PAGE/ADB_ADMIN_PG/DOCUMENTS/NEWS/AID%20CRITICAL%20TO%20ENSURING%20BENEFITS%20FROM%20TRADE%20FOR%20AFRICA.DOC, p.1

[96] *Loc.cit.*

[97] 'Aid for Trade: Why, What and How? World Trade Organization Initiative, Nov 2007, <http://www.upu.int/development_cooperation/en/dcag/2007-11-01_presentation03_aid_for_trade_world_organization_initiative_en.ppt>, p.8

[98] P. Lamy and D. Kaberuka, *op.cit*, p.2

for trade' entails. "Even assistance that is targeted at boosting domestic productivity will have an impact on imports and thus the balance of trade".[99]

Yet, the probability of 'aid-for-trade' effectiveness has been assessed at the theoretical level. For instance, Stiglitz claimed that improvement of infrastructure alone would not guarantee an expansion of trade and higher economic growth rates. Improvement in infrastructure could only bring benefits when coupled with good policies. "The value of infrastructure projects is easily eroded by poor economic policies, or inefficient and corrupt customs services".[100] This means that for 'aid-for-trade' to be effective the principle of selectivity should be applied. OECD, in its turn, argued that 'aid-for-trade' could only be effective under stable macroeconomic conditions and when political leaders of a recipient country are determined to integrate the program into their national development strategies (the 'ownership' factor).[101] Therefore, whether 'aid-for-trade' is conducive to economic growth in practice, or it rather fits into the context of the third paradox of aid as outlined above, will still have to be evaluated once proper data becomes available.

2.4 'Aid-Oil-Poverty' Nexus?

The discussion above left us with two important conclusions. First of all, oil is famous for negatively affecting poverty levels in countries where it is found, unless good governance is in place. Secondly, whether aid does contribute to poverty alleviation is unclear: the existing research that analysed the correlation between aid and conducive to poverty alleviation

[99] OECD, 'Aid for Trade: Making It Effective', *OECD Journal on Development* 8 (1), Feb 2007, p.75
[100] J.E. Stiglitz and A. Charlton , 'Aid for Trade', Annual World Bank Conference on Development Economics, Tokyo, Japan, May 2006 , p.21
[101] IMF and World Bank, 'Aid for Trade: Harnessing the Global Economy for Economic Development', Development Committee Meeting, Washington DC: International Monetary Fund and World Bank, Sep 2007, <http://siteresources.worldbank.org/DEVCOMMINT/Documentation/21510688/DC2007-0019(E)**Aid**for**Trade**.pdf >, p.13

factors, such as economic growth and good governance, is contradictive and full of paradoxes. When bridging these two conclusions, the viability of aid as an effective instrument to reduce poverty becomes extremely questionable and almost impossible to defend, at least from the theoretical perspective. Theoretically, only adverse effects could be expected from such a phenomenon.

Yet, in spite of the argument above, it is still feasible to bridge aid, oil and poverty into a single unit of analysis. Aid and oil represent two largest external resource flows, both of which have been discussed in relation to poverty alleviation and have been perceived as potential instruments to reduce poverty. Moreover, when disregarding the paradoxes related to aid-poverty debate, both aid and oil seem to share certain conditions, under which aid and oil funds can be more effective. Thus good governance, in terms of transparency and accountability, democratic regime, and political stability represent three factors that can increase the probability of both aid and oil in contributing to poverty alleviation. In the absence of these factors both aid and oil are more likely to play an adverse role of "sovereign rents" that often generate "dysfunctional rent-seeking behaviour"[102] that in no way benefits the poor.

The statement made at the meeting of G8 Finance Ministers in 2007 that donors should "integrate energy issues into poverty reduction and country assistance strategies, including options for the least developed countries to tap their natural resources potential"[103] also gives way to analysing aid, oil and poverty as a single unit. Providing aid to address the 'curse of

[102] P. Collier (Jun 2005), *op.cit*, p.2
[103] G8 Finance Ministers Statement on Access to Energy Services for the Millennium Development Goals, St. Petersburg, Jun 9-10, 2006, <http://www.mof.go.jp/english/if/su060610a.pdf>

oil' perhaps represents one of the shapes and/or forms of such an approach. Investigating the feasibility of such a phenomenon at the practical level hence becomes important.

Chapter 3: The Case of Chad-Cameron Oil Pipeline Project

3.1 Outlining the Project

Chad is one of the poorest countries in the world. In the latter half of the 1990s its GDP per capita averaged US$215. In 2000, only ten developing countries in the world were ranked poorer in terms of GDP per capita.[104] Close to 80 percent of the 8.3 million population in Chad, live below the poverty line[105]. At the same time, Chad has great reserves of oil within its territory. First oil discoveries date back to 1970s, but being a landlocked poor country with a long history of civil war and continued political instability, no sufficient infrastructure and financial resources, widespread corruption and extremely weak institutional capacity,[106] Chad had been deprived of benefiting from the commodity boom and making a good use of its oil. The situation was expected to change when, on the 6th of June 2000, the World Bank approved what currently represents the single largest on-shore investment in Africa - the US$4.2 billion CCOPP.

The project's ultimate objective was to boost "the Chadian government's expenditures on poverty alleviation activities" by means of "environmentally and socially sound private investments in the petroleum sector";[107] investments bound to significantly increase revenues of the Chadian government. The project had two dimensions. First of all, it was an infrastructural development: the project consisted of the drilling of 300 oil wells in the Doba

[104] World Bank, 'Chad at a glance', Washington, DC: World Bank, 2000, <http://devdata.worldbank.org/AAG/tcd_aag.pdf>
[105] I. Gary and N. Reisch, *op.cit*, p.15
[106] *Ibid*, p.1
[107] World Bank, 'Implementation Completion Report on Two IBRD Loans in the amount of US$39.5 million and in the amount of US$53.4 million Respectively to the Republic of Chad and the Republic of Cameroon for a Petroleum Development and Pipeline Project', Report No. 36560-TD, Washington, DC: World Bank, December 2006, p.2

Basin of Southern Chad, the construction of a 1070 km pipeline to export oil to the Atlantic coast of Cameroon, and the establishment of export terminal facility offshore, which is linked to the port of Kribi in South Cameroon by an 11 km underwater pipeline.

Secondly, and more importantly, the project was underlined by World Bank's capacity-building efforts in Chad to ensure that money earned from oil production are not cursing the country, but are, instead, used for the benefit of the poor populations of Chad. In the Project Appraisal report in 2000, the World Bank claimed that the success of the project would be measured by a number of people lifted out of poverty rather than by barrels of oil produced or millions of dollars received by Chad for oil exports.[108] To serve this goal, the World Bank developed two capacity-building programmes: one related to public finance management and management of the oil economy in Chad, while the other focused on the petroleum sector management (including the environmental aspect).[109] Through the application of these arrangements, the World Bank sought to make the CCOPP a "new model" for "harnessing oil revenues to benefit development".[110]

The project was mainly sponsored by a consortium of oil companies led by ExxonMobil, with partners Petronas (Malaysia's state oil company) and Chevron - these companies covered 85 percent of the project's costs. The World Bank contributed only about 3 percent of the total project costs. However, despite such a minimal financial contribution, the World Bank bears the responsibility for the project. First of all, the oil companies, as well as other funding institutions, would not have invested in the project unless there was a 'political risk' coverage

[108] World Bank, 'Chad-Cameroon: Petroleum Development and Pipeline Project', Project Appraisal Document, Washington, DC: World Bank, 20 April 2000, p.13
[109] *Loc.cit.*
[110] Keenan J. H., 'Chad-Cameroon Oil Pipeline: World Bank and Exxon Mobil in 'Last Chance Saloon', *Review of African Political Economy* 32 (104/5), Jun/Sep 2005, p.397

provided by World Bank's participation. Secondly, it was the World Bank, who perceived potential oil revenues in Chad as an instrument to lift one of the least developed countries out of poverty. The willingness of the oil companies to get involved in the project stemmed from the growing global demand for oil, which pushed oil prices to historic heights.

The Chad-Cameroon oil pipeline became operational in July 2003. While Chad produces about 50,000 barrels a day, the project's maximum production capacity stands at 225,000 barrels per day. The lifetime of Doba oil reserves is estimated at 25 years, over which a total of 1 million barrels of oil is planned to be extracted, earning the Chadian government quite a few billions of US dollars (depending on oil prices).[111] In 2007, alone, the government of Chad earned US$1.2 billion in total oil revenues.[112] However, in spite of these significant additional financial resources at the Chadian government's disposal and the World Bank's participation in the project, poverty levels have not improved in Chad and, as some analysts claim, the situation of the poor has even worsened as a result of the project.[113]

In December 2006, the World Bank released a CCOPP Implementation Completion Report (ICR), which evaluated the project, thereby marking the end of the project. Although the outcome is labeled "satisfactory", [114] the World Bank admits that there has not been any impact in terms of poverty reduction. [115] Other parties involved in the project, have also been pointing to the project's rather unimpressive results. For instance, the ExxonMobil's top manager in Chad, Ron Royal, claimed they should have never called the CCOPP a

[111] I. Gary and N. Reisch, *op.cit*, p.8
[112] Horta K, Nguiffo S., Djiraibe D., 'The Chad-Cameroon Oil & Pipeline Project: A Project Non-Completion Report', Environmental Defense, ATPDH, CED, Apr 2007, <http://www.environmentaldefense.org/documents/6282_ChadCameroon-Non-Completion.pdf>, p.9
[113] *Ibid*, p.3
[114] World Bank (Dec 2006), *op.cit*
[115] 'The Chad-Cameroon Oil and Pipeline Project: A Non-Completion Report', Meeting Summary, Chatam House, 24 Jul 2007, p.3

development project.[116] Independent observers of the project also voiced their concerns. Thus, the German Parliamentary Delegation to Chad concluded that "the pipeline project has not solved the real problems in Chad, but has further aggravated them…and there is a concern about creeping deterioration".[117]

However, how does this failure, in terms of non-improvement in poverty levels in Chad, relate to the ultimate objective of this research paper of determining the viability of aid as an effective instrument to break the 'curse of oil'? On the basis of the fact that oil in Chad only started flowing in late 2004 and it is now year 2008, one could argue that longer time would be required to make a conclusive assessment about the success of the CCOPP in terms of its impact on poverty reduction.[118]

What would be more plausible at the current stage, is to reflect on the theoretical discussion outlined in the first part of this research paper in trying to identify the potential of aid to break the 'curse of oil'. This means that the approach, including all of the specific instruments the World Bank applied in the project to tackle the 'curse of oil' and contribute to poverty alleviation, should be analysed and evaluated, with particular reference to the aspects of good governance and sustainable economic growth, as guarantors of aid effectiveness. This analysis would also help to identify the potential of the CCOPP to have a positive impact on poverty reduction in Chad in the longer term.

[116] K. Horta et al., *op.cit*, p.5
[117] U. Koczy and Dr. B. Kofler, Parliamentary Fact Finding Mission, Jan 19-27, 2007. Report presented to the Parliamentary Committee on Economic Cooperation and Development, Berlin
[118] Chatam House (24 Jul 2007), *op.cit*, p.4

This chapter will proceed as follows: first of all, the environment of the target country – Chad, prior to the project, will be analysed. The background to any petroleum project is crucial in determining its development outcome. Secondly, the special capacity-building instruments employed in the project by the World Bank will be explained and explored to identify, whether they have been capable of addressing the significant challenge of averting the 'curse of oil' in Chad. Next, the impact these capacity-building instruments have had on the quality of governance and sustainable economic growth rates in Chad will be discussed.

3.2 Prior to the project: No Capacity, No Democracy, and No Stability

The socio-political environment of Chad, in which the World Bank approved the project was characterised by significant institutional weakness, undemocratic practices and instability. Prior to the project, Chad was a vivid example of a badly governed poor African country.

The World Bank described Chad's institutional weakness as "all-encompassing and greater than in most Sub-Saharan African countries, reflecting the impact of almost three decades of civil strife."[119] Corruption has been pervasive in Chad. The Transparency International ranked Chad, together with Burma, as the third most corrupt country in the world in its 2004 Corruption Perception Index.[120] Moreover, from the 21 countries surveyed by the World Economic Forum, Chad had the worst Public Institution Index.[121] Finally, as according to World Bank's governance indicators data of 1998, Chad was among the most corrupt,

[119] World Bank, Project Appraisal Document on a Proposed Credit… to the Republic of Chad for Management of the Petroleum Economy Project, Washington, DC: World Bank, 29 Dec 1999, <http://www.worldbank.org/afr/ccproj/project/tdpadmpe.pdf>, p.3
[120] Transparency International, *op.cit.*
[121] Public Institution Index is a ranking of the strength and integrity of laws and institutions and the presence of corruption

unaccountable and politically unstable countries in the world. It scored below the lowest quarter percentile in all six of the governance indicators.[122]

President Déby of northern Zaghawa ethnic group took office in 1991 by overthrowing Hissein Habre of northern Tubu group, who established a militarily dominated one-party state. Déby lifted the ban on political parties in 1993 and multiparty elections were held in 1996 and 2001, but numerous serious irregularities were reported. In 2001, for instance, Déby was re-elected with more than 67 percent of the vote, while his Zaghawa ethnic group represents just two percent of the population. Alleging widespread fraud, the six opposition candidates were arrested after calling for the results to be annulled.[123] To contain further political protests, the government then banned gatherings of more than 20 people and retained the military dominance.

Déby's rule, in general, has been characterised by the concentration of power in the hands of a northern ethnic oligarchy, the Zaghawa people, and its allies. Power has been highly centralised. All of the sub-national government officials were appointed by the National Government; for their funds and the administrative personnel they also relied on the Central Government. In addition, most of the 17 newly appointed governors were former high-ranking military officials.[124] Moreover, there have been no checks and balances in place and judiciary has been weak. For instance, the Chadian Supreme Court, containing the office of the Auditor

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[122] D. Kaufman et.al, *op.cit*
The governance indicators include 'voice and accountability', 'political stability', 'government effectiveness', 'regulatory quality', 'rule of law', and 'control of corruption'.
[123] Freedom House, *Freedom n the World – Chad* (2006), 19 Dec 2005, <http://www.freedomhouse.org/template.cfm?page=22&year=2006&country=6939>, pp.1-2
[124] U.S. Dept. of State, Country Report on Human Rights Practices for Chad 2003, US Department of State: Bureau of Democracy, Human Rights, and Labour, 25 Feb 2004, <http://www.state.gov/g/drl/rls/hrrpt/2003/27719.htm>

General (Chambre de Comptes), was only established in 1999, pointing to the lack of capable judicial and financial accountability mechanisms in Chad prior to the project.[125] The result of this has been persistent abuse of power and resources. Endemic poverty prevailed with wages unpaid for months and social services remaining obsolete.[126]

Besides this, since receiving independence from France in 1960, the process of nation-building has been obstructed by tensions and civil conflicts between the populations in southern Christian Chad, where most of agricultural activity and oil deposits are located, and Muslim north dominated by the government in N'Djamena. The cycle of civil conflicts took off in 1966 when the northern Chadian tribes (Tubu) rose in revolt against the southerners, who gained political control of the country at independence, and have never been at ease ever since. The conflicts have involved tortures, executions, rapes and other human rights abuses from the government side, as in 2000, against the supporters of opposition member, National Salvation Committee for Peace and Democracy, which took up arms after its leader, Moise Kette, lost its position as the director of national intelligence.[127]

Although not a single barrel of oil had been extracted in Chad and not a single dollar had been earned until 2003, there has always been instability around the issue of oil. The Chadian case had been rather a "booty futures" story - in which resources matter because revenues can be raised in advance to gain control of them".[128] Trade in weapons and activity of more than 20 armed fractions on the territory of Chad has further exacerbated insecurity in the country. In

[125] I. Gary and N. Reisch N., *op.cit*, p.65
[126] S. Massey, R. May, 'Commentary: The Crisis in Chad', *African Affairs*10 (420), July 2006, p.443
[127] Amnesty International, 'Chad Reports', <http://www.amnestyusa.org/countries/chad/reports.doc>
[128] M. Humphreys, 'Natural Resources, Conflict, and conflict Resolution: Uncovering the Mechanisms', March 2005, *Journal of Conflict Resolution Humphreys* 49(4), 2005, <http://www.columbia.edu/~mh2245/papers1/MH8JCR05_paper.pdf>, pp.3-4

late 1990s, tens of thousands of Chadian people left the country to escape violence.[129] The decisions by the US Peace Corps to withdraw all its volunteers from Chad because of the spread of violence in 1998 once again confirms the instability and unrest that prevailed in Chad prior to the project.[130] It is in this kind of political reality that the World Bank approved its aid package to Chad.

3.3 The Unique Instruments of the Project

For the World Bank to begin releasing its assistance to Chad, the government of Chad had to comply with an important condition of establishing a revenues management system to guarantee that oil revenues would be used for priority poverty programs. In line with this condition, the government of Chad passed a new law in January 1999, which outlines the allocation of direct oil revenues. The law also establishes a Future Generations Fund to save for the post-oil era in Chad and a joint government-civil society petroleum revenue oversight committee (the Collège) to approve plans for poverty reduction and monitor the quality of their implementation.[131] Each of these provisions are analysed below.

3.3.1 The Revenue Management Plan

According to the Petroleum Revenues Management Law, 80 percent of oil revenues have to be dedicated to "priority sectors" for poverty reduction, such as public health, social services, rural development, environment and infrastructure; 10 percent has to be allocated to a Future Generations Fund (FGF) to save for the post-oil era in Chad; 5 percent to be assigned for the

[129] Freedom House (2002), *op.cit,* p.2-3
[130] 'Peace Corps Pulls Out of Chad', *The Washington Post*, 21 Apr 1998
[131] I. Gary and N. Reisch, *op.cit*, p.42

oil-producing region itself, while the remaining share of oil revenues has to be used to finance recurrent government expenditures.[132]

However, there are serious flaws in this Revenue Management Plan (RMP). First of all, "indirect revenues", including income taxes on oil companies, which could constitute as much as 45 percent of total oil revenues over the life of the project, are not RMP's prerogative and go directly to the government. Secondly, RMP is only in charge of oil revenues that are produced in the three original Doba fields. This is an inadequate provision, as oil reserves in Chad are said to be several times more than the proven reserves at Doba. Since 2005, the exploration works have been extensive and new oil fields have been developed. Yet, these potential revenues fall outside the RMP. Thirdly, while priority sectors for poverty reduction are identified, there is no specification how money should be spent in those sectors. "There is no ruling about whether money be spent, for example, on primary health clinics in rural areas or state of the art hospitals in the capital."[133] Fourthly, institutions related to the judiciary and strengthening of the rule of law are not classified as priority sectors. This means that there is little effort to establish effective democratic institutions to counterbalance and monitor presidential decree.[134] Fifthly, the 5 percent allocation of revenues to withstand the negative effects of oil development in the Doba region can be changed by the presidential decree five years after the passage of the law.[135] This means that from 2004 onwards the fate of the communities in the oil-producing region has been dependent solely on the will of the president.

[132] *Loc.cit.*
[133] *Ibid*, p.44
[134] *Ibid*, p.45
[135] *Ibid*, p.46

Furthermore, even these flaws aside, the Chadian government has shown little commitment to implement the RMP from the very inception of the project. As early as January 2001, it became public that the government had used major part of its US$25 million signature bonus from the oil consortium to acquire arms. This incident questioned the government's willingness to be transparent about the use of its oil revenues.[136] Yet, this incident was overlooked and the project carried on. In the meantime the Oversight Committee continued to report irregularities in the government spending of oil revenues. However, the World Bank did not take action up until January 2006, when Chadian authorities ratified major amendments to the Revenue Management Law, which negated the initial objectives of the agreement with the Bank. The amendments included adding military expenditures to the definition of priority sectors for development, increasing the share of oil revenues for recurrent government expenditures and abolishing the FGF.[137]

The World Bank reacted, by suspending further loan disbursements to Chad and by freezing the London-based escrow account, into which oil revenues were being deposited by the oil consortium, thereby denying the Chadian authorities access to crucial funds. However, as this was one of the reasons of increasing instability in Chad (to be discussed below), which made the Chadian authorities threaten to cut off the pipeline, the World Bank announced the "interim agreement" [138] with Chad, and as a result, resumed its loan disbursements to Chad. This move was largely interpreted as the World Bank's support for President Déby in the

[136] K. Horta et al., *op.cit*, p.12
[137] *Loc.cit.*
[138] The "interim agreement" made the Chadian authorities revise the budget law to guarantee that 70 percent of direct oils revenues would be used for priority poverty programs, military expenditures would be excluded and measures to improve transparency and accountability in the use of oil revenues would be taken.

upcoming presidential elections of May 3 2006. By then it was known that these elections would be extremely fraudulent and undemocratic.[139]

Despite the nature of elections, the World Bank did not hesitate to sign with the re-elected President Déby a new Memorandum of Understanding (MoU) in July 2006, which outlined the framework for government spending. This MoU requires the government of Chad to allocate 70 percent of its budget resources to priority poverty reduction programs and improve transparency and accountability in public finance management. Whether this MoU has been complied with remains to be seen. Yet, the document does not incorporate any additional measures that could guarantee the government of Chad sticking to its MoU obligations. Hence, given the past record of Chadian non-compliance, it is extremely doubtful that the government of Chad will behave in accordance with the MoU.

3.3.2 The Future Generations Fund

The Future Generation Fund was applied in Chad on the basis of a model championed by Norway to invest a share of oil revenues thereby saving for post-oil era. The Chadian government agreed that unless total oil revenues are less than or equal to 10 percent of the total state revenues from the preceding year no money could be withdrawn from the FGF. The maximum withdrawal could not surpass the total amount of funds deposited in the FGF for the preceding year. The investment strategy would be decided by the investment committee, the members of which would be directly appointed by the President of Chad. The proceeds from the investments would be directed to benefit the poverty alleviation objectives.[140]

[139] *Loc.cit.*
[140] I. Gary and N. Reisch, *op.cit*, pp.46-47

In 2004, the Chadian government set aside US$ 11.3 million for the FGF; in 2005 the figure was US$24.5 million.[141] However, as it was already mentioned, in January 2006, due to the result of the amendments to the Revenue Management Law, the Future Generations Account was abolished. In addition, in response to the World Bank's punishment for the amendments, the government of Chad withdrew all the money from the Future Generations Account, which was not subject to the World Bank's freeze.[142] These aspects demonstrate that the FGF proved to be an ineffective instrument to deal with poverty issues in the Chadian environment. Why did the FGF fail in Chad? – is the question that needs to be addressed next.

The FGF has been useful in Norway, for instance, to successfully deal with "Dutch Disease" and the overheating of the economy during oil windfall periods. Yet, one should take into account that Norway has been a high-income country, with a strong institutional capacity in place, of which Chad is the opposite. Collier and Goderis claimed that such low-income countries with poor governance as Chad, need to accumulate real capital within their economies to promote development instead of focusing on saving for future generations.[143]

Moreover, as according to Gary and Reisch, FGFs often become subject to "early withdrawals" by politicians, corruption and mismanagement, as in Nigeria.[144] It is hence unclear, how the World Bank expected the corrupt, largely undemocratic authorities of Chad, with limited skills in place, to devise effective investment strategies and utilise the returns on investment for the benefit of the poor. There have been absolutely no guarantees that the FGF would work in the way it was supposed to. Therefore, it seems that the FGF was an

[141] *Ibid*., p.47
[142] K. Horta et al., *op.cit*, p.12
[143] P. Collier and B. Goderis, 'Prospects for Commodity Exporters: Hunky Dory or Humpty Dumpty?', Centre for the Study of African Economies, Oxford University, Jun 2007, p.9
[144] I. Gary and N. Reisch, *op.cit*, p.46

inappropriate instrument to apply in Chad. Establishing control over the volumes of government expenditures in correspondence with a moving average of the world price for oil[145] perhaps would have been a more suitable model for a poverty-ridden country like Chad where every extra penny could make a difference.

3.3.3 The Collège

A joint government-civil society petroleum revenue oversight committee (the Collège) has been established to play a "watchdog" role to ensure Chadian compliance with the Revenue Management Law. Its tasks include, first, to ensure that only potentially effective programs for poverty reduction are approved and then monitor the process of their implementation. This means that the Collège can discard the proposed government expenditures and track the use of oil revenues by the government. However, the Collège has no legal power of enforcement. It performs its tasks solely by issuing reports. Whether its recommendations are applied, depends on Chad's judiciary and the government's political will.[146]

One the basis of this description, one could argue that Collège's success as an effective institution would be primarily determined by the existence of good governance in Chad. As the quality of governance in Chad has been very far from exceptional, the chances of the Collège to be effective have been minimal from the very inception of the project. This means that, paradoxically, Collège's capacity to enforce government's accountability in compliance with the Revenue Management Law has been constrained by the very same law, as it provided the Collège with an inadequate mandate to effectively perform its duties.

[145] P. Collier and B. Goderis, *op.cit*, p.9
[146] I. Gary and N. Reisch, *op.cit*, p.51

Furthermore, the Collège has been characterised by major structural and operational weaknesses. First of all, its members are part-time employees having full-time jobs outside the committee. Yet, monitoring the use of oil revenues seems to be a very important and difficult task, requiring a lot of time and attention, especially as these revenues enlarge the national budget of Chad on an annual basis. Hence, one could suggest that this kind of task may require greater contribution than part-time members can actually afford to make. Moreover, as the term of the part-time Collège's members is limited to six years, it has been questionable if it is worth making expensive and time-consuming investments in capacity-building activities. The frustrations have been expressed by the committee, regarding the lack of appropriate training and absence of certain skills within its ranks.[147]

The instability of Collège's government membership, as a result of a frequent cabinet reshuffling, has also undermined the committee's potential to be effective. As of November 2004, the government members have changed at least once since the Collège's establishment and in some cases as many as three times, thereby jeopardizing institutional memory and capacity building.[148]

In addition, there have been worrisome attempts by the government officials to influence Collège's civil society appointments.[149] For example, at the end of 2004, when the religious seat became available, the Chadian authorities refused to confirm the Catholic Church's nominee Mark Beremadji. Mark Beremadji had served as a Chadian finance minister and has had great skills in fiscal oversight. As a result, claims were made that the government was

[147] *Ibid*, p.59
[148] *Ibid*, p.60
[149] In the Revenue Management Law there is no mention of the government's right to review or object to chosen civil society representatives; the government's task is simply to make the appointment official by issuing a decree confirming the appointee's name and position as a member of the Collège.

reluctant to appoint such a qualified man because he could easily and effectively monitor government's fiscal activities highlighting all of the irregularities. However, according to the Chadian authorities, Beremadji's appointment could not be confirmed because he was a lay member of the Church, while the seat is supposed to be filled by a clergy member. The Church, therefore, had to change its nomination: a priest was nominated and then approved by the Chadian government to become a religious member of the Collège.[150] Yet, Chadian government's attempts to control the selection of Collège members should not be underestimated: there have been rumours about the creation of a pro-government civil society, sponsored by Déby administration, which would allow "regime friendly" civil society representatives on the oversight committee's board.[151]

The Collège has also suffered from budgetary constraints, as it lacks independent financing. The committee's budget is determined annually and is authorised by the Ministry of Finance – "the very body whose fiscal operations the Collège oversees."[152] Since the beginning of the project the government has been allocating only a fraction of the requested funds to the Collège. Notably, in 2004, the committee requested US$1.3 million, while the government granted only US$ 149,000. Although some have argued that the Collège's prioritisation expenditures have been inadequate, the budgetary constraints have definitely limited the Collège's ability to conduct investigations and effectively trace the oil money to its final destination. As of November 2004, the Collège only had two vehicles at its disposal, of which one needs to be permanently in the capital in N'Djamena. However, as Chad's territory is vast and there are few paved roads it is doubtful that the committee could have conducted proper

[150] I. Gary and N. Reisch, *op.cit*, pp.62-63
[151] *Ibid*, p.63
[152] *Ibid*, p.61

investigations of the petroleum revenue projects on the ground.[153] In addition, tracing the oil money has been difficult as the Collège has been struggling to get access to information from both the oil consortium and the Chadian government. [154] ExxonMobil is obliged to supply information to the Ministry of Petroleum, which, in turn, has to share it with the Collège. However, the committee has voiced its frustration regarding the inability to easily obtain all the information from the government, including from the Treasury and the Ministry of Finance. There is no regularity in meetings, as well as no routine in forwarding the information to the Collège. This means that there has been great probability that Collège's reports would be delayed and out of date.[155]

The analysis above points to the fact that even at the theoretic level the Collège has been a largely ineffective institution to monitor the use of oil revenues by the Chadian government. Hence, it should come as no surprise that it has been futile at the practical level as well. One of the most important signs of the lack of Collège's power has been its inability to keep the Chadian authorities accountable for spending portions of its oil revenues on weapons, unnecessary building renovations and on the purchase of numerous vehicles for the government.[156]

Moreover, on many occasions the oversight committee has failed to ensure that approved oil funds for a certain project actually reach its final destination. For instance, the government allocated finances to build a technical high school in Moundou; but when the Collège conducted its investigation into the project there were no signs of a new high school and, what

[153] *Ibid*, pp.61-62
[154] J.H. Keenan, *op.cit*, p.398
[155] I. Gary and N. Reisch, *op.cit*, p.61
[156] *Ibid*, p.57

is worse, the local authorities did not even know about the project. It has been also estimated that in 2004, only 38 percent of budgeted funds for a number of schools had actually reached those schools.[157] The World Bank itself blamed this on corruption among the Chadian government's officials. In addition, the Collège's authority has been questioned as certain projects subject to oversight committee's approval were in the implementation phase even before being submitted for Collège's perusal. The Ngoura-Bokko road construction project worth US$68 million is one of the examples.[158] Finally, Collège's recommendations, submitted to the Chadian government, regarding the irregularities in the execution of various projects, have been largely ignored by the Chadian authorities. This apparent incapacity of the Collège to effectively carry out its mandate has made the World Bank to conclude in the project's ICR that although "the Collège has been a positive innovative experience … its recommendations remain to be applied".[159]

The investigation of the specific instruments applied in the CCOPP by the World Bank leaves us with the following conclusion: in addition to profound weaknesses in their design, the practical application of these instruments has been hindered by bad governance that has prevailed in Chad. As a result, these instruments failed to effectively perform their assigned tasks.

3.4 The Impact of the Project: As "Special" as Its Content?

The conclusion regarding the performance of the CCOPP's capacity-building instruments significantly contributes to meeting the ultimate objective of this research paper of determining the viability of aid as an effective instrument to avert the 'curse of oil' in the least

[157] *Ibid*, p.58
[158] *Ibid*, p.56
[159] The World Bank (Dec 2006), *op.cit*, p.17

developed countries. Should there have been no oil in Chad, these instruments would have never been developed and applied. Hence, the failure of these instruments indicates of the unfeasibility of aid as an effective instrument to tackle the 'curse of oil'.

However, the analysis of the research question cannot be complete unless the impact these instruments have had on the overall quality of governance in Chad, as well as on its economic growth rates, is examined. As it was claimed in the theoretical part of the paper, aid effectiveness is weighted against its effect on the ultimate variables of 'the quality of governance' and 'economic growth'.

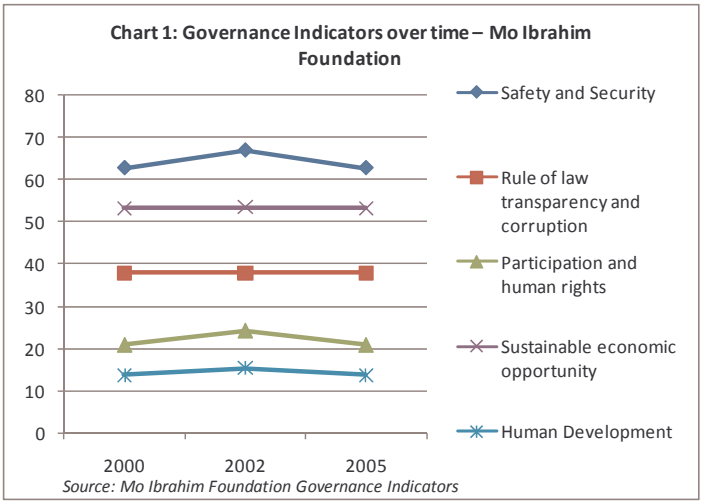
3.4.1 The Impact on the Quality of Governance

By looking at statistical data available, there is no clear-cut proof that the World Bank succeeded in improving the quality of governance and human rights in Chad. One should note, however, that measurement methodologies are fairly crude. In addition, as the project is very recent, and, hence, the period, for which governance indicators are accounted for, is short-term, it would be unwise to perceive any changes or non-changes in the indicators as entirely *significant*. Nevertheless, the statistics is worth considering as it could indicate further trends.

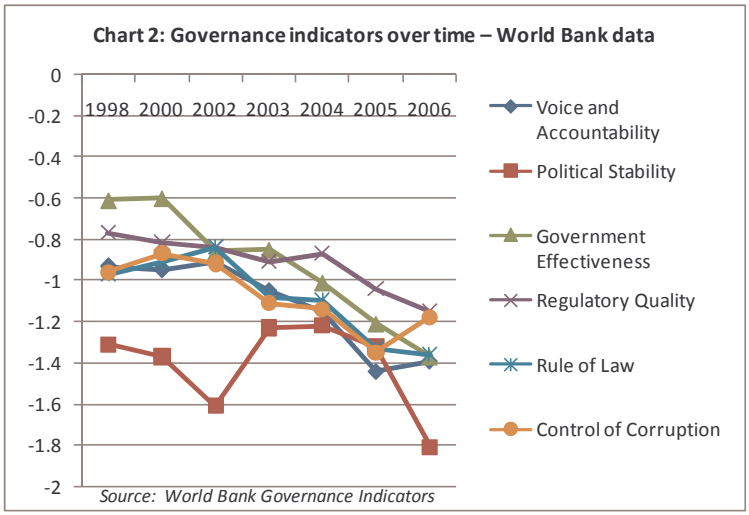
The 'rosier' picture appears from Mo Ibrahim Foundation's data.[160] (Chart 1) The Foundation rates the quality of governance in 48 African countries according to five indicators, namely; 'safety and security'; 'rule of law, transparency and corruption'; 'participation and human rights'; 'sustainable economic opportunity'; and 'human development'. Reflecting on Chad's

[160] The Ibrahim Index of African Governance has been created in recognition of the need for a more objective and quantifiable method of measuring governance in the 48 countries of sub-Saharan Africa. Based on five categories of essential political goods, each country is assessed against 58 individual measures, capturing clear, objective outcomes.

ratings (data is available for three years: 2000, 2002 and 2005), it emerges that, in 2005, the quality of governance in Chad remained at the pre-project levels of 2000. Moreover, in spite of slight improvements witnessed in 2002, in terms of 'safety and security', 'sustainable economic opportunity' and 'human development', Chad was at the bottom of the list of all 48 African countries rated by the Foundation in all three years. In 2005, Chad had the overall score of 38.8, which earned it a 46th position, better only than the Democratic Republic of Congo and Somalia. To compare, Mauritius, which topped the list, had the score of 86.2.[161]



Data from the World Bank points to an even more worrisome situation in Chad. On a scale between -2.5 and 2.5, according to which the quality of governance is measured, Chadian values over the period from 1998 to 2006 had been amongst the lowest in the world, as Chart 2 demonstrates. From Chart 2 it is also apparent that the quality of governance in Chad had declined from 1998 to 2006. Over this period the worst



[161] Mo Ibrahim Foundation, 'The Ibrahim Index of African Governance', London, 25 Sep 2007, <http://www.moibrahimfoundation.org/index/index2.asp>

deterioration was recorded in the levels of 'government effectiveness' and 'the rule of law'. In 1998, 28.4 percent of countries worldwide ranked worse than Chad in terms of 'government effectiveness' and 16.2 percent - in terms of 'the rule of law', respectively. In 2006, the corresponding figures were 7.1 percent and 6.2 percent. With respect to 'political stability' and 'control of corruption', Chad had also slipped into the lowest ranking category of countries globally in 2006. Although there had been an improvement in the control of corruption in the last two years, the 2006 rating was still worse than in 1998 and 2000, in pre-project times. Chadian scores on 'voice and accountability' and 'regulatory quality' indicators put Chad extremely close to the status of the worst performers worldwide.[162]

It would also be relevant to consider the Corruption Perception Index (CPI) calculated by the Transparency International to get a better idea of the quality of governance in Chad in the aftermath of the project. CPI ranks countries in terms of the extent to which corruption is perceived to exist among politicians and public officials by business people and country analysts. Chad has been included in the CPI rankings from 2004 onwards. When comparing Chadian CPI score over time from 2004 to 2007, the score improved by almost 6 percent. Yet, although the prospects became more certain, the room for possible improvement has decreased drastically, by 17 percent.[163]

World Economic Forum's Competitiveness Index, which estimates the favorability of conditions for doing business in various countries all over the world, accounts for institutional quality as one of the conditions. According to the Chadian Competitiveness Profile, Chadian

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[162] D. Kaufmann et al., *op.cit.*

[163] Transparency International, 'Corruption Perception Index 2004', Berlin, <http://www.transparency.org/content/download/1532/7971/file/media_pack_en.pdf>
Transparency International 'Corruption Perception Index 2007', Berlin, <http://www.transparency.org/policy_research/surveys_indices/cpi/2007>

overall institutional rank for 2007 was the worst out of all of the 128 countries covered. Corruption was defined as the most problematic factor for doing business in Chad. Among other institutional factors undermining the easiness of doing business in Chad the most, were instability of policies, government instability/coups and inefficient government bureaucracy.[164] In addition, reflecting on the latest Freedom House data, political rights and civil liberties in Chad remained at low pre-project levels in 2005. Again, it was amongst the worst performers within its respective Low Income group of countries.[165]

All of the statistics discussed above do not provide any precise evidence that the World Bank succeeded in improving the quality of governance in Chad through its aid. Rather it indicates the opposite effect, thereby clouding long-term governance quality prospects for Chad. Chad remains one of the worst performers on most of the governance quality indicators measured by various international organizations. To give these statistics proper justification, one should perhaps support it with at least some relevant facts about governance situation in Chad. For lack of information available, only three governance-related factors were selected for detailed analysis. These factors include democracy levels in Chad, the extent of stability and the scope of government's accountability.

- *Absence of Democracy*

President Déby's undemocratic practices prior to the project were briefly outlined in this research paper earlier on. The beginning of the pipeline project did not stop President Déby from undertaking largely undemocratic moves aimed at strengthening and consolidating his

[164] World Economic Forum, 'Competitiveness Profiles: Chad' in *Global Competitiveness Index 2007,* Geneva, 2007, pp.136-137
[165] Millennium Challenge Corporation, 'Chad FY07', 2007, <http://www.mcc.gov/selection/scorecards/2007/lic/score_fy07_lic_chad.pdf >

power. First of all, he reshuffled the cabinet at least three times during 2003 and 2004, appointing family members and members of his Zaghawa ethnic group to key positions. Déby's nephew was appointed as prime minister, while his brother-in-law – as National Director of the central bank of Chad. This game of "ministerial musical chairs" has not only angered the opposition, but has also undermined the capacity of key ministries.[166]

Secondly, the President sought to alter the constitution to abolish the two-term limits on the presidency to consolidate his power in advance of scheduled 2006 elections. This was achieved in result of a referendum held in June 2005. The referendum was characterised by widespread irregularities: for instance, voter turnout stood at a highly suspicious 67.8 percent.[167] In addition, the government suppressed independent media during the campaign period.[168] In response to this constitutional amendment, all main opposition parties boycotted the May 2006 elections, which saw Déby winning 64.7 percent against five "opponents", who were government stalwarts. Voter turnout was declared at 53.1 percent.[169] However, this figure did not correspond with the estimates of the opposition parties, as well as the press, who reported that no more than between two and ten percent of the electorate voted.[170]

Besides abolishing the term limits on the presidency, the referendum of June 2005 approved other significant changes to the constitution. Thus, the Senate was abolished and replaced with an Economic, Social and Cultural Council, whose members would be appointed by the president, and the provision was made to put the presidency in charge of future constitutional

[166] I. Gary and N. Reisch, *op.cit*, p.18
[167] Economic Intelligence Unit (EIU), 'Country Profile 2007: Chad', London, 2007, p.6
[168] Freedom House, *op.cit*, p.2
[169] EIU, *op.cit*, p.7
[170] S. Massey and R. May, *op.cit*, p.448

revisions. These amendments have allowed Mr. Déby to further centralise the political decision-making processes around the presidency.[171]

In addition, President Déby curtailed the freedom of the press to restrain any criticisms of his regime. Several radio stations, which are essential instruments of government's accountability to largely illiterate Chadian people, have been shut down after voicing their criticism. Other radio stations had to pay extremely high fees to stay on the air.[172]

Hence democracy is virtually non-existent in Chad. There has never been a free and fair transfer of power through democratic elections in Chad. Democratic rights were further undermined by constitutional amendments in result of the referendum in 2005. Although about 60 political parties exist legally, none of them has considerable influence. Constitutional protections regarding search, seizure and detention are overlooked and independent journalists are dealt harshly with.[173]

- *Instability flourishes*

Since getting its independence from France in 1960, Chad has rarely known peace: civil wars and rebellions have been commonplace. In 1989, Idriss Déby, a leading military commander, initiated a rebellion from Sudan against Hissene Habré, whose one-party regime had been in power since 1981. Habré did not hesitate to use violence against individuals and ethnic groups

[171] EIU, *op.cit*, 2007, p.11
[172] I. Gary and N. Reisch, *op.cit*, p.21
[173] Freedom House, *op.cit*, pp.3-4

perceived as threats to the regime.[174] With help from Libya and Sudan, Déby seized power in 1990 and managed to maintain uneasy peace up until 2004.[175]

Coincidently, since early 2005, just after oil began to flow through the new pipeline in 2004, Chad has become heavily involved in the neighbouring Sudanese Darfur conflict supporting the insurgency, as many insurgents belonged to Déby's tribe, the Zaghawa. The conflict actually migrated across the border and quickly evolved into a conflict of its own. Well over 500,000 people in Chad are now considered to be 'war affected".[176]

The Chadian conflict has evolved as very few citizens of Chad support the existing regime of President Déby. There are growing pressures from the southerners, who have been marginalised by northern governments since 1966[177]; from the northern Tubu ethnic group, which was ripped of country's control by the Zaghawa group in 1990; and from the modern educated urban elites, whose grievances over the mismanagement of oil revenues have been accumulating.[178] In addition, Déby's change in the constitution seems to have "broken up the consensus that existed among Chad's governing elite" – the Zaghawa group - itself.[179] Even some of President Déby's family members have begun showing their disloyalty to the existing rule by leaving the ruling circle and launching rebellions against the President from Chad's border with Darfur.

[174] After years in exile, Habré now faces a trial against humanity in Senegal.
[175] Freedom House, *op.cit*, p.1
[176] G. Prunier, 'Chad's Tragedy', *openDemocracy,* 7 Sep 2007, p.4
[177] S. Massey and R. May, *op.cit*, p.449
[178] G. Prunier, *op.cit*, p.4
[179] K. Horta et al., *op.cit*, p.9

The only support for Déby comes from France, "as usual with France's Africa policies, stability is a kind of mantra which is recited for intrinsic reasons, no matter what is supposed to be stabilised"[180]. However, the continuation of this support is under great threat, as Africa seems to have lost its priority in French foreign policy following the election of a new President Nicolas Sarkozy.[181] This aspect also explains why Chad is now aspiring for greater cooperation with China: Beijing is on extremely good terms with the Sudanese government (China imports most of Sudanese oil) and, as such, could perhaps convince Déby's Sudanese enemies to be more loyal to his regime.

Hence, instability in Chad has been on the rise. In October 2006, rebel activity increased in eastern Chad, with rebels claiming to have seized the town of Am Timan in southeastern Chad on October 23, 2006. The rumours appeared in late August 2007 suggesting that preparations were underway to stage a coup in Chad to overthrow President Déby. According to Executive Research Associates, the rumours "have been picked up in several quarters, and some companies operating in that country have been warned to exercise caution."[182] Although the main armed rebel groups and the government signed a ceasefire and peace agreement under the Libyan auspices in early October 2007, the rebels announced an end to the cease-fire in late November and fighting resumed. More than 100 government troops were killed.[183] The only hope is that the UN's approval of a peacekeeping force in Chad, including the deployment of an EU military operation scheduled for early 2008, might reduce the military

[180] G. Prunier, *op.cit*, p.4
[181] M. Sieff, 'A New Paradigm for Africa: Sarkozy's vision for a Eurafrique', *World Politics Review*, 24 Sep 2007, <http://www.worldpoliticsreview.com/Article.aspx?id=1170>
[182] Executive Research Associates, 'Chad: Coup Rumours', *ERA ALERT* 60, 20 Aug 2007
[183] 'Clashes End Chad's Fragile Truce', *Business Day,* 29 Nov 2007

threat to Déby's regime. Anyone contemplating a coup would face a great risk of a military reaction from the EU troops.[184]

It was not the CCOPP that created instability problems in Chad, but it has made peacemaking more difficult because enormous revenues from oil exports represent a prize. "Rebels now attack the government and get paid off with oil money – there is sort of an economy of peacemaking developing."[185]

- *Accountability compromised*

As the main objective of the project has been to ensure that Chadian oil money is used to improve the lives of all Chadians, investigating how accountable the Chadian government has been in spending its oil revenues is very important.

Since 2003, there has been a clear increase in the absolute value of money allocated to poverty reduction sectors. In 2003-2004 the government had allocated US$68 million to priority sectors that went up to US$178 million in 2005, US$218 million in 2006 and US$588 million in 2007. Yet, what is important is that these allocations' share in total oil revenues has been less than 70 percent determined by the 2006 agreement with the World Bank. Those allocations have been in the range of 60-65 percent.[186] The World Bank claims, that 70 percent target could actually have been achieved, but as there has been no sufficient capacity to ensure efficiency in the use of oil revenues, there was no reason to demand full compliance with the

[184] *Loc.cit.*
[185] 'The Short Sad History of Chad's 'Model' Oil Project', *The New York Times*, 12 Feb 2007
[186] World Bank, Chad: Revenues and Allocations Table 2007, Washington, DC: World Bank, 23 Oct 2007, <go.worldbank.org/61FPU7TRR0>

target.[187] Nevertheless, there is little evidence that even the allocated millions were spent efficiently.

First of all, during the period between 2004 and 2006, there was a large gap between allocations to poverty reduction sectors and actual spending by the priority ministries. For example, in 2004, only 76 percent of allocated money to the priority ministries was spent. Although there was a marked increase in 2005 to 91 percent, there was a drastic decline to 64 percent in year 2006.[188] Data on the fate of unspent money is unavailable.

Secondly, in terms of budget allocations for the various socio-economic sectors, allocations have been largely imbalanced, as infrastructure has received the lion's share of direct oil revenues since 2004 (Table 1). Although more funds were allocated to different sectors

Table 1: Proportion of Direct Oil Recenues Allocated to the Priority Sectors

%	2004	2005	2006	2007
Infrastructure	62	21	35	41
Human Resources	21	30	40	37
Rural Production	11	14	17	15
Utilities	6	12	8	7

Source: International Advisory Group

including human resources, rural production and utilities in 2005 and 2006, there is a number of concerns. For example, funds for education were increased to cover salaries and personnel expenses and were achieved by reduced allocations for health etc. As for rural production, the focus had been on the cotton sector and, in spite of increased allocations, the ministries supporting the rural production – the real source of sustainable wealth in Chad, as a previously

[187] Chatam House (24 Jul 2007), *op.cit*, p.9
[188] International Advisory Group, Chad-Cameroon Petroleum Development and Pipeline Project: Report of Mission 12 to Chad and Cameroon, Montreal,Quebec: IAG Secretariat, 18 Jul 2007, <http://www.gic-iag.org/edocs.htm>, p.14

agrarian economy - continue to be under-funded.[189] In addition, as it was already mentioned above, the Collegé has been finding numerous irregularities in what and how has been accomplished in the priority sectors.

Thirdly, poverty-related data on Chad also suggests that Chadian government has largely failed to be accountable to its people, although some progress has been achieved in certain areas. For example, in the primary-education sub-sector, the gross enrolment rate went up from 72 percent in 1999/2000 to 87.58 percent in 2003/2004; this is much higher than the average for the 15 francophone African countries (80.4 percent). The drinking-water supply rate for the Chadian population has also improved from 23 percent in 2001 to 42 percent in 2004. With regards to health, a substantial number of health centers and hospitals has been built since the beginning of oil money flows.[190] Yet, when looking at a broader poverty-related picture in Chad, the results are very disappointing. Since the oil pipeline project took off in 2000, Chad has slipped on the UNDP's Human Development Index from No.167 to No.173 in 2005; average life expectancy has dropped from 44.7 years to 43.6 years; access to sanitation remains extremely limited, especially in the rural areas; and qualified healthcare personnel is scarce.[191]

Finally, since 2001, the government of Chad has undertaken a number of moves aimed at reducing World Bank's pressure on the government to be accountable. Arms acquisition with first oil-related money in 2001 and amendments to the Revenue Management Law to get more

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[189] *Ibid*., p.15
[190] International Monetary Fund, 'Chad: Poverty Reduction Strategy Paper', IMF Country Report 03/209, Washington, DC: International Monetary Fund, Jul 2003, <http://www.imf.org/external/pubs/cat/longres.cfm?sk=16720.0>, pp.42-28
[191] Organization of Economic Cooperation and Development/African Development Bank (OECD/AfDB), 'African Economic Outlook 2007', pp.189-190

control over the use of oil revenues[192] are primary examples, but not the only ones. In August 2006, President Déby ordered Chevron and Petronas - main financers of the project, in which they hold a 60 percent stake - to leave the country within 24 hours for failing to comply with tax obligations, which they were actually exempt from. There had been suggestions made that tax dispute was initiated in order to realise government's intention to enter into the oil consortium "at a reasonable level of 60 percent"[193] by seizing the share of both Chevron and Petronas. This move would have necessarily increased government's control over oil money thereby limiting World Bank's ability to hold the government of Chad accountable. The companies, however, capitulated giving the government of Chad an additional US$281.6 million tax windfall, and that intention has not been realised.

"The move [also] came on the heels of Chad's shift of diplomatic relations from Taiwan to China" .[194] The shift was quickly followed by official visits from Chad to China aimed at promoting cooperation between two countries. Ahmad Allam-Mi, the foreign minister, and Hourmadj Moussa Doumgor, the communications minister and government spokesman, conducted their respective visits to China in April and September 2007. In this regard one should remember the following. First of all, China is becoming a major oil investor in Africa. Secondly, Chinese investors, unlike their Western counterparts, believe in non-interference in domestic affairs, which is useful for Déby's bad-governed administration. Thirdly, in return for getting access to African oil, Chinese investors tend to spice up the deals with infrastructural projects and 'soft loans' - no poverty-related conditions and/or strings attached. Hence, one could perhaps suggest that Chadian authorities are aspiring for Chinese cooperation to become capable of kicking out the oil consortium and getting rid of "the

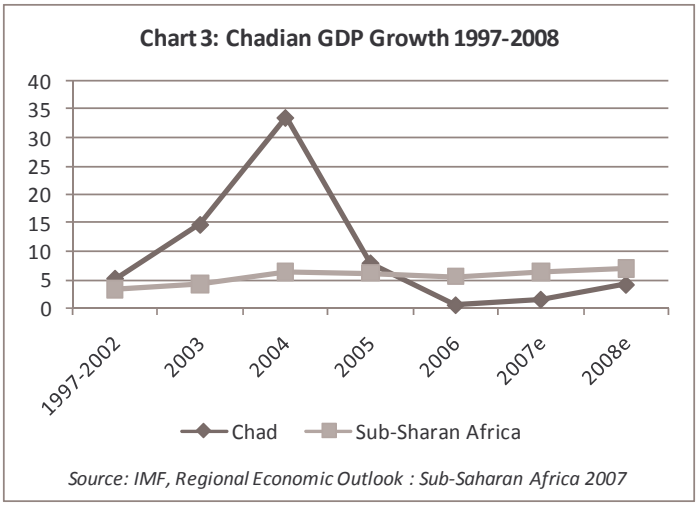
[192] Freedom House, *op.cit*, p.3
[193] 'Chad Denies 'Plot' to Take over Oil Giants', *Business Day,* 31 Aug 2006
[194] B. Miarom, 'Déby orders Chevron, Petronas out of Chad', *Business Day*, Aug 28, 2006

painfully restraining contract"[195] signed with the World Bank.[196] To support the point, one could refer to recent rumours about Chadian determination to replace ExxonMobil with a Chinese oil firm to get a bigger share of profits and work on a new development program with the help of the Chinese government.

By bringing together all of the aspects discussed in this section it emerges that the aid package applied in Chad did not succeed in improving the quality of governance in Chad. In certain instances, the quality of governance has actually deteriorated. Chad continues to be one of the most undemocratic, unstable, and unaccountable and corrupt countries in the world. In line with these characteristics, the prospects for poverty reduction remain bleak.

3.4.2 The impact on economic growth

According to GDP growth figures (Chart 3), Chad's economy witnessed considerable growth rates between 2001 and 2004. In 2004, it reached 33.6 percent. This was attributed to the beginning of oil revenue flows. GDP growth slowed to 7.9 percent in 2005 as a result of lower than expected oil production and is estimated to have dropped to dismal 0.5 percent in 2006 as a result of increasing instability. In the next few years, however, economic growth rates are projected to accelerate, reaching 4.1 percent in year 2008.[197]



[195] G. Prunier, *op.cit*, p.5
[196] *Loc.cit.*
[197] International Monetary Fund, 'Regional Economic Outlook: Sub-Saharan Africa', World Economic and Financial Surveys, Washington, DC: International Monetary Fund, Oct 2007, p.42

Although these statistics are not as exciting as one might wish and the prospects are below the Sub-Saharan African average, they are still remarkable for such a low income country as Chad. The only concern is the sustainability of these economic growth levels and their positive impact on overall human development. For instance, double digit GDP growth rates achieved by African oil-producing countries, such as Angola and Equatorial Guinea, in the past 5 years have not led to significant improvements in terms of poverty alleviation and human security in those countries.

One should remember that oil resources are exhaustible and oil sector does not generate jobs. Hence, to ensure long-term sustainability of economic growth rates and its positive impact on human development in an oil-producing country such as Chad, there is a great need in economic diversification. Therefore, the perfect scenario for Chad should have been the following: the CCOPP should have contributed to increasing oil production, which then should have improved the terms of trade thereby generating sufficient resources to create an investment friendly environment and boost economic growth in productive labour-intensive sectors, such as agriculture, which employs about 80 percent of Chadian active population. Whether this has been achieved and to what extent is to be investigated next.

- *Oil production*

Oil production from the three Doba fields developed under the CCOPP had originally been projected to last for around 25 years, reaching maximum production of 225,000 barrels/day (b/d) in 2005 and then gradually declining to 150,000 b/d by 2010 and 100,000 b/d by 2014. Production began in July 2003 and reached 200,000 b/d by June 2004. However, output declined in 2005 to 170,000 b/d thereby failing to reach the projected maximum. The reservoir

being less pervious and containing more water than expected was the one to blame. Aiming to keep production at these levels, 89 new production wells were added at the Doba field in 2006. Production in other fields has also started. In spite of these developments, average oil output fell in 2006 to 155,000 b/d.[198] In 2007, production fell to less than 150,000 b/d, but was expected to stabilise in 2008 before starting to fall again in 2009.[199]

- *Terms of trade*

Despite the declines in the Chadian oil production, the terms of trade have been progressively improving, as shown in Table 1. Since 2003, when first oil was exported, the value of total Chadian exports increased by 380 percent to US$3.2 billion in 2005 leaving Chad with trade surplus. In the pre-oil era, Chadian exports had been at extremely low levels: over the period from 1998 to 2002 the value of total exports averaged US$268.6 million. These

Table 2: Chad - Trade in Goods and Services

Current prices US$ million	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Exports	323	282	234	251	253	675	2255	3239
Imports	516	495	480	850	1457	1611	2243	2328
Trade Balance	-193	-213	-246	-599	-1204	-936	12	911

Source: The World Bank, African Development Indicators

increasing exports have substantially expanded oil revenues received by the government. For example, total revenue paid by the oil consortium to the Chadian government in the first half of 2007 was US$757 million; over three times the level of revenue paid for the first half of 2006.[200] Such remarkable increases in oil revenues reflect high world oil prices, which, in 2006, both raised the royalty revenue and prompted the payment of corporate income tax. "Under the terms of the 1988 convention determining income from the three original fields,

[198] EIU (2007), op.cit., p.31
[199] EIU, 'Country Report: Chad', London, Dec 2007, p.14
[200] *Loc.cit.*

corporation tax of 60 percent is applicable when revenue exceeds operating costs and depreciation."[201]

However, one should note that oil-induced growth of export revenue has come at expense of export diversification. Chad reported a decline in its export diversification index from 1.5 in 2001 to 1.1 in 2005, implying that its range of exports has narrowed in spite of the 1190 percent expansion in its total exports over the same period of time. The share of crude petroleum in total Chadian exports was 94.9 percent 2005. To put this into perspective, the most diversified economy in sub-Saharan Africa, South Africa, had a diversification index of 23.1 in 2005. Its largest export – platinum – accounted for 12.5 percent of total exports in 2005.[202]

One should not, however, judge the extent of economic diversification in Chad on the basis of this data. Oil revenues have taken off only a few years ago and more time is needed to see if growth in other sectors was sufficient enough to start exporting. Hence, at present stage, it is more important to consider investment situation in Chad, as well as the developments taking place in non-oil labour-intensive sectors of the Chadian economy, such as agriculture. If positive changes can be traced, then future improvements in export diversification should not be underestimated.

- *Investment climate*

By looking at the Global Competitiveness Index, Chad ranked third from the bottom in year 2007. Problems for doing business in Chad are numerous and extensive. Political situation and

[201] *Loc.cit.*
[202] OECD/AfDB, *op.cit*, pp.588-589

macroeconomic conditions are unstable; there is no sufficient transport infrastructure; and electricity supplies are of the worst quality in the world.[203] Regulatory quality is low; more so it has been declining since 2003. The cost of starting a business remains extremely high and the number of days and procedures to start a business is among the largest in Africa.[204] The financial market is underdeveloped, characterised by high credit costs, small private deposits and banks' unwillingness to lend to small and medium enterprises (SMEs). The justice system is unreliable; crime is widespread; and due to weak state of education and training there are shortages of even minimally qualified workers.[205]

Therefore, although the construction of the Chad-Cameroon oil pipeline boosted gross domestic investments (GDI) in 2002 to 49.6 percent of GDP (US$1.2 billion), the value of GDI at current prices, as well as its share in GDP has been falling since then: in 2005 GDI accounted for only 12 percent of GDP (US$707 million).

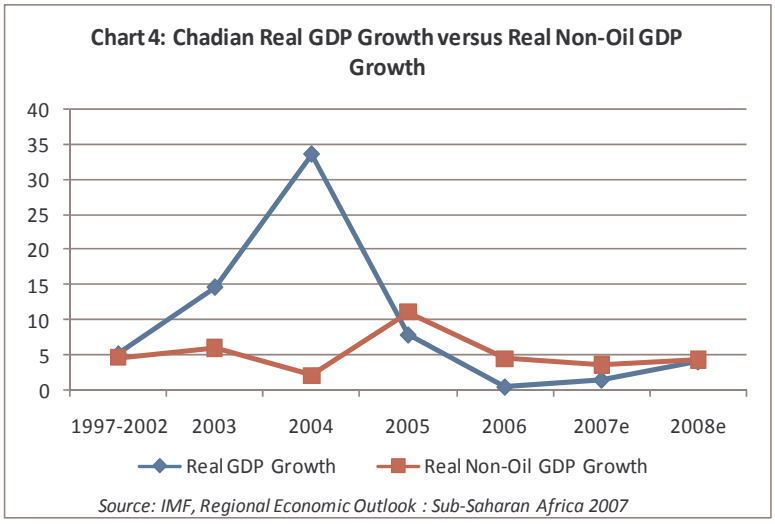
With regards to foreign direct investment (FDI), it has been significant in Chad, in spite of the negative investment climate. FDIs increased from US$25 million in 1999 to US$924 million in 2002. FDI inflows dropped to US$713 million in 2003 and US$ 478 million in 2004, but recovered in 2005, to US$705 million. Yet, most of these foreign capital inflows have been related to either the oil pipeline or to new oil exploration activities. Few investments have been directed to other sectors. In addition, "although FDI inflows into Chad are high for an African economy of its size, they are low compared with other African oil-producing countries".[206]

[203] World Economic Forum, *op.cit.*
[204] Millennium Challenge Corporation, *op.cit.*
[205] IMF (Jul 2003), *op.cit*, p.24
[206] EIU, *op.cit.,* p.35

Nevertheless, there have been certain developments taking place, although limited, which could improve the investment climate in Chad. With respect to general regulatory framework, for example, the International Financial Corporation has been working to strengthen Chad's Chamber of Commerce, to organize a forum for private-public cooperation on business setting in Chad, and to bring domestic regulations in line with those of Organization for the Harmonization of Business Law in Africa.[207] Also, as the next section will show, there have been some investments in transport infrastructure, electricity and the telecommunications sectors.

- *Economic Diversification*

According to the OECD/African Development Bank statistical data, the non-oil sector witnessed considerable growth levels since 2002. (Chart 4) In year 2005, for instance, the non-oil sector recorded an 11.0 percent growth rate and the sector remained buoyant in 2006, despite the decline in oil-sector activity. However, this data does not take into account the sustainability of growth in the non-oil sector and, therefore, one cannot make any conclusions about the prospects for economic diversification in Chad.



[207] IAG, *op.cit*, p.23

Non-oil sector growth in 2002-2006 period was achieved because of excellent agricultural seasons, recovery in research and development activities undertaken to overcome geological constraints, donor-backed infrastructure projects and some investments in electricity.[208] The sustainability of these is at best uncertain. Hence, this section will look at various developments in non-oil sectors that could indicate long-term sustainability of economic diversification in Chad. Agricultural sector, as the largest employer, will be given primary attention.

As it was already mentioned above agriculture provides employment to over 80 percent of Chadian active population and, as such, is the crucial sector for achieving significant improvements in terms of poverty alleviation. In 2006, agriculture is estimated to have accounted for 10.4 percent of GDP, down from 18.3 percent of GDP in 2002.[209] The contribution of the sector to overall GDP growth is estimated to be just 0.1 percentage point, for 2006. The growth or stagnation of the agricultural sector largely depends on weather conditions, as most of the output is produced under rain-fed conditions by small-sized farmers. Although the government of Chad has indicated its determination to provide support to boost agricultural activities,[210] its plans either have not been effective or are yet to be translated into action.

First of all, as the same southern part of Chad, where oil production takes place, is home for a major part of the Chadian agricultural activities, a Regional Development Plan has been designed to tackle social and environmental costs of the pipeline project and ensure that agricultural activity is not jeopardized and promoted further. However, as of April 2004, most

[208] OECD/AfDB, *op.cit*, p.181
[209] EIU (2007), *op.cit*, p.27
[210] IMF (Aug 2007), *op.cit*, p.35

of US$600,000 spent on the plan was paid to a Canadian consulting firm, whose work was not even approved by both the World Bank and the Chadian government.[211] Hence, environmental pollution has not been effectively dealt with thereby inhibiting the development of agricultural sector. The villages located closest to oil facilities continue to "stand in the shadow of gas flares' and are almost completely surrounded by oil field installations, earning them the name "*villages enclaves*."[212]

Secondly, one should look at the cotton sector, which represents the principal source of income for about 12 percent of the Chadian population and accounted for the bulk of Chad's export earnings prior to oil sector development.[213] In 2005, the government of Chad adopted a three-year plan for restructuring and privatising the cotton parastatal, CotonTchad, which has a monopoly over the production, processing and marketing of cotton. Privatisation is seen as vital to end pressure on the government's budget by ongoing financial difficulties experienced by CotonTchad and to stimulate cotton production by providing credit and training to farmers, improving infrastructure and establishing an effective oversight of pricing.[214] Although privatisation could, in fact, harm cotton production in the short-term since subsidised purchases of cotton by the government would be abolished, it is essential to improve Chad's agricultural competitiveness in the long-term. However, because of growing instability in Chad, it remains unclear when the privatisation process is to be completed. Until then, the cotton sector will continue to suffer from infrastructural backlogs, uncertainty in terms of the value of the fixed price and will continue to depend on weather conditions. Hence, the positive trend in cotton production is yet to be established.

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[211] I. Gary and N. Reisch, *op.cit*, p.83
[212] *Ibid*., p.23
[213] EIU (2007), *op.cit*, p.28
[214] IAG, *op.cit.*, p.20

The government of Chad has also failed to effectively deal with recurrent food shortages. Chadian authorities have plans to improve food security through the development of small-scale irrigation, diversifying food crops, increasing food protection and encouraging cooperative food banks and stocks. However, these plans are yet to take off. Recent recovery in the production of food crops after the worst famine for a decade in a crop year 2000/2001 was achieved due to favourable weather conditions alone. Food security is also undermined by increasing instability in the region: an increasing number of refugees from Sudan (280,000), Central African Republic and a growing number of internally displaced people in Chad contribute to growing food shortages and environmental degradation.[215]

Chad has a great potential to develop livestock and gum arabic production sectors. Chad is one of the Sahel's main livestock producers; its livestock population is 16.1 million. Chad is one of the world's largest producers of gum Arabic (used in the food and beverages industry) but it currently produces 5-10 percent of its potential output. The main challenge facing both of these sectors is inadequate transport infrastructure.[216] Road construction is included in the Chadian government's budget, but it is unclear if assisting livestock and gum arabic industries is one of the targets.

With regards to the secondary sector, economic activity has been much more impressive: showing a 17 percent growth in 2005 and 14.5 percent in 2006. It is estimated to have contributed 1.5 percent points towards overall GDP growth in 2006.[217] The manufacturing industries – sugar, beverages and cigarettes – showed greater performance because of tariff-

[215] *Loc.cit.*
[216] EIU (2007), *op.cit*, p.30
[217] OECD/AfDB, *op.cit*, p.181

protection measures set up by the government to restrain fraudulent imports.[218] For instance, the French-owned sugar company Compagnie sucrière du Tchad produced a record of 36,000 tons of sugar in 2006.[219] As a result, investments in the industrial sector have also increased. The water and electricity utility Société tchadienne d'eau et d'électricité (STEE) rehabilitated old generators and is set to build the new Farcha power station and the Kome topping plant. [220] While this could have a significant impact on bringing about reliable electricity in Chad, electricity prices will most probably remain among the highest in the world, as the cost of developing domestic energy supplies is extremely high in Chad and the government obstructs the privatisation of STEE. This factor could limit further expansion of the manufacturing base.

The performance of the construction sector has also been notable since 2001. While main boosters have been the construction of the oil pipeline and the donor-backed infrastructure projects, the government of Chad has also been allocating significant shares of its oil revenues for road construction projects. The total length of asphalt-paved roads increased from 287 km in 1999 to 736 km by the end of 2005. More than 2000 km of roads were maintained in 2004 and 2005. Moreover, the government adopted a 5-year investment plan for investing in rural roads during the period between 2006 and 2010: 3000 to 4000km of roads are planned to be rehabilitated per year.[221] On the basis of these facts, one could claim that growth in the construction sector will be sustained, at least in the medium-term. Improved transport infrastructure, in turn, might trigger growth in other sectors and stimulate domestic trade.

[218] *Loc.cit.*
[219] EIU (2007), *op.cit*, p.32
[220] OECD/AfDB, *op.cit*, p.181
[221] IMF (Aug 2007), *op.cit*, pp.6-7

There have been some positive developments in the tertiary sector as well, thanks to increasing investments in the telecommunications sector. In October 2005, Swedish company Millicom Tchad entered the Chadian market, thereby ending Celtel's monopoly there.[222] In addition, the Bahrain-based global telecom conglomerate Zain decided to extend its operations to Chad through its subsidiary One Network. Although the coverage area is limited to the capital, the companies plan to expand their operational network. As a result, the number of mobile lines per 100 inhabitants has increased from 0.07 in 2000 to 2.15 in 2005, representing a 2971 percent increase.[223] These statistics are of particular importance as a study by Leonard Waverman found that mobile phone penetration strongly impacts GDP: an extra 10 mobile phones per 100 people in a typical developing country leads to an additional 0.59 percent points of growth in GDP per person.[224]

The financial market, on the other hand, has remained narrow. Confidence in financial institutions damaged by Chad's history of instability has not improved. Hence, in spite of five commercial banks present in Chad most of the deposits continue to be placed with the Banque des Etats de l'Afrique centrale (BEAC), which is responsible for regional monetary and credit policy, or outside the country. Lending rates in Chad remain high thereby limiting access to financing for SMEs. Most of the domestic credit is lent to Coton Tchad to finance restructuring of the cotton sector. However, in recent years, some micro-financial institutions, like FINADEV-Tchad, have launched their operations in Chad. This development could

[222] EIU (2007), *op.cit*, p.23
[223] OECD/AfDB, *op.cit*, p.602
[224] L. Waverman, M. Meschi, M. Fuss, 'The Impact of Telecoms on Economic Growth in Developing Countries', *The Vodafone Policy Paper Series* 2, 2005, p.18

improve access to financing for SMEs signifying the expansion of the financial services sector.[225]

Although investments in transport infrastructure, electricity, manufacturing and the telecommunications sectors, perhaps, indicate of economic diversification at its early stage, the worrisome factor is that labour-intensive agricultural sector seems to have been falling by the wayside. Government initiatives have either been ineffective or are yet to be translated into action. In addition, growing political instability, as well as the worsening institutional quality, will necessarily impede the process of economic diversification in Chad.

On the basis of the aspects discussed in this section, one can claim that the CCOPP succeeded in accelerating economic growth in Chad. Yet, one should also note that that growth has been largely oil-driven. As oil resources are exhaustible, this type of growth is not sustainable in the long-term. In addition, such growth does not lead to significant poverty alleviation, as it is capital-, not labour-, intensive. Unfortunately, there have been little signs that sustainable and labour-intensive growth is on its way. Insignificant progress has been made in terms of improving investment climate and promoting growth in agricultural and manufacturing sectors. These kinds of results cannot be regarded as a significant achievement by the CCOPP, as they have not created favourable conditions for poverty alleviation in Chad.

3.5 Evaluating the World Bank's strategy in the CCOPP

As indicated several times throughout this paper, prior to the CCOPP, no development institution has ever attempted to reverse the 'curse of oil' and contribute to sustainable

[225] EIU (2007), *op.cit*, p.33

development in oil-rich but poor countries. World Bank's efforts, as a pioneer in this regard, deserve to be acknowledged. The unfortunate fact is that the results of the CCOPP have been far from the desired effect. The CCOPP has had limited success in creating a favourable environment for poverty alleviation in Chad. The quality of governance has not improved, and economic growth rates have not yet exhibited signs of sustainability.

To evaluate World Bank's involvement in the CCOPP one should, primarily, take into account the following contextual aspects of the CCOPP:

1) As it was demonstrated above, the World Bank approved the project in a badly governed and unstable environment of Chad.
2) The CCOPP was characterised by conditionality, as the government of Chad had to comply with the World Bank's requirement to invest a large part of its oil revenues in poverty-related priority sectors.
3) The project was approved in collaboration with the government of Chad and the civil society to ensure the recipient's ownership of the project.
4) The project implied the application of the capacity-building mechanisms in Chad to improve Chadian institutional capacity to avert the 'curse of oil' and promote sustainable development.

Reflecting on these contextual aspects of the CCOPP, one should consider the fact that World Bank's approval of the project contradicted two of the Bank's own developmental conclusions. In 1998, the World Bank concluded that good governance should be a precondition for aid flows, as it increases the probability of aid effectiveness. Hence, by approving the CCOPP in a badly governed Chad, the World Bank ignored one of the main

guarantors of foreign aid effectiveness – the principle of selectivity. This ignorance was "a potent recipe for poor development outcomes", according to Ndika.[226]

Secondly, in one of its reports about the economic causes of conflict,[227] the World Bank claimed that the risk for armed conflict is extremely high in a low income country dependent on exports of primary commodities. The conflict arises over the control of this most profitable of all economic activities.[228] As oil industry was estimated to become extremely lucrative in Chad in result of the project, and as Chad has had a long history of instability, the probability of another civil strife in Chad, in the aftermath of the project, seemed to be quite high from the onset of the project. The current increasing instability in Chad confirms the argument.

Moreover, although the World Bank claimed that the CCOPP was approved in collaboration with the civil society, the civil society's advice was actually overlooked. Although Chadian and international Non-Governmental Organizations (NGOs) have never been opposed to the project itself, they insisted on the application of the principle of selectivity. They argued that this kind of project could only have the potential to contribute to the development, if a minimum of good governance was in place.[229] As the quality of governance in Chad has been troublesome at the very least, the NGOs, ranging from the Trade Union Congress to Women for Peace to the Friends of the Earth, have expressed concerns that the project will not meet its objective of benefiting the poorest and called for the World Bank to delay its decision on funding the project. World Bank's own recognition of the "significant risks" in Chad, had also

[226] A.C. Ndika, 'A Happy Birthday? The Chad/Cameroon Oil Pipeline One Year On?', *Pambazuka News*, 23 Sep 2004
[227] This report was impeded about one week after the project's approval.
[228] P. Collier, 'Economic Causes of Civil Conflict and Their Implications for Policy', Washington, DC: World Bank, Apr 2000
[229] Chatam House (24 Jul 2007)*, op.cit,* p.2

been pointed out to, by various NGOs. Concerns about the environmental threats, government corruption and human rights abuses had been cited.[230]

Yet, the World Bank chose to ignore all of the civil society recommendations and to proceed with the project. Its argument was that poor people could no longer wait for the investments to happen - "they needed these investments because they provide the possibility to relieve poverty".[231] At the very same time, there had been rumours going around that the very same poor people, who the World Bank intended to help, were actually against the project. They were simply too intimidated to speak out, as consultations with them regarding the project were held in the presence of government forces and rebels. One of the villages' chiefs in Kome was even imprisoned for voicing his unfavourable attitude towards the project.[232]

However, the important aspect is that the World Bank acknowledged the risks associated with the poor quality of institutional governance in Chad. The World Bank defended its decision to approve the project, when it said it had devised a unique programme of controls in Chad to mitigate those risks through the application of specific capacity-building instruments. These instruments, on the whole, aimed at preventing the Chadian government structures from misappropriating the resources and ensuring that those resources are used for the benefit of the poor instead. Certainly, the process of capacity-building was identified by the World Bank as crucial for the CCOPP to succeed.[233]

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[230] 'Chad Oil Project Nears Decisions', *Bretton Woods Project,* 13 Jun 2000, < http://www.globalpolicy.org/ngos/int/bwi/2000/chad.htm>
[231] *Loc.cit.*
[232] A.C. Ndika*, op.cit.*
[233] S. Nguiffo and S. Breitkopf, *op.cit,* p.12

As good as the World Bank's intentions might have been regarding the application of the capacity-building instruments, these instruments proved to be worthless in reality. Instead of becoming a driving force capable of instigating a positive change in the quality of governance, as well as in the poverty levels, these instruments themselves got contaminated by the Chadian 'bad governance bacteria' and, as such, could not function efficiently.

The World Bank seems to have omitted the fact that capacity-building is a very long and a difficult process demanding maximum attention, especially in a country unfamiliar with good and effective code of conduct.[234] The World Bank also seems to have neglected the argument that absence of at least some of the aspects of good governance implies the lack of government's commitment and political will to take actions to create efficient institutions and promote sustainable development.

On the basis of the discussion above, one could perhaps question the reasons behind the World Bank's approval of the project. One should remember that the project was approved in circumstances of the growing world's demand for oil. As the world's oil reserves are limited, major developed and emerging economies seek to secure their access to oil, in order to sustain and/or promote further growth. Different strategies are used. China, for example, builds hospitals, schools, roads and railways in return for getting access to oil. India invests in transport and telecommunications infrastructure. Japan, in its turn, offers its technology. As the US is the most influential World Bank's member, one could suggest that the US used the World Bank to secure its access to Chadian oil. After all, the project brought enormous benefits to oil companies like US's Exxon Mobil and Chevron Texaco. The goals of poverty

[234] *Loc.cit.*

alleviation and sustainable development were just a very good cover of the genuine aims of the parties involved. By relating the project to the development of Chad, the oil companies involved in the CCOPP significantly reduced the cost of starting an oil business in Chad. Hence, there have been claims made that the World Bank's involvement in the project was primarily determined by providing comfort to the US oil companies and to their lenders.[235]

However, on the other hand, one should not doubt the World Bank's willingness to try and alleviate poverty in Chad through the targeted use of oil revenues. Contributing to the achievement of the ultimate MDG of halving poverty levels by 2014 is the main responsibility of the World Bank, as a developmental institution. In Africa, there is a great number of oil-producing countries, which are cursed by oil and, as such, remain extremely poor. Hence, one could claim that the World Bank decided to approve the CCOPP to, indeed, test the possibility of reversing the 'curse of oil' in oil-producing African countries, thereby making the ultimate MDG more attainable. Moreover, one should note that poverty reduction largely depends on private investments and responsible government policies. Oil companies sponsoring the CCOPP guaranteed the first, while the World Bank got involved in the project to ensure the latter. The limited success of the CCOPP either suggests that the choice of the World Bank's strategy in the project was inappropriate, or aid, in general, cannot be a viable mechanism to avert the 'curse of oil'.

[235] *Ibid*, p.3

Chapter 4: Conclusion

The aim of this research paper was to determine the viability of aid as an effective mechanism to break the 'curse of oil' and contribute to poverty alleviation in oil rich but dirt poor countries. As this is a totally new phenomenon, to achieve its objective, this paper, firstly, analysed two well-researched linkages: one, between oil and poverty, and the other - between aid and poverty. These linkages were analysed indirectly, by investigating the impact oil revenues and aid tend to have on conducive to poverty alleviation factors, such as good governance and economic growth. In result, it was established that countries that depend on oil exports tend to suffer from deep economic problems, instability, corruption and poor institutional quality. With regards to aid-poverty relationship, a number of paradoxes were encountered, which made aid effectiveness indefinite. On the basis of these conclusions, this research paper claimed that aid cannot be regarded as an effective instrument to tackle the 'cure of oil', at least at the theoretical level. Yet, good governance was identified as the factor, the presence of which could perhaps increase the chances for oil revenues and aid to positively influence poverty levels in oil-rich but poor countries.

These theoretical deliberations gained further ground, when practical viability of the phenomenon was discussed with reference to the unique case of the CCOPP. Up to date, this project represents the only case where aid was applied to tackle the 'curse of oil'. The analysis of this case-study, first, demonstrated that aid was directed to a badly governed environment of Chad. Secondly, it showed that the CCOPP failed to improve the quality of governance in Chad. In many instances, like in terms of democracy, stability and accountability, the quality of governance has, actually, got worse. This happened regardless of specific capacity-building mechanisms applied in Chad by the World Bank. In addition, the CCOPP fell short of

contributing to sustainable economic growth in Chad. Although economic growth rates increased, it was attributed to the rapid expansion of the capital-intensive oil industry. Such growth in no way represents a pro-poor growth. In addition, the unfortunate fact is that no clear-cut evidence was found about the process of economic diversification in Chad. These findings point to the lack of success of the CCOPP, as it did not succeed in creating favourable conditions for poverty reduction in Chad.

This failure, in turn, suggests that aid is not a viable instrument to break the 'curse of oil' at practical level, as much as at the theoretical level, especially in badly governed African countries. The 'curse of oil' seems to be more powerful than donors' multiple efforts at capacity-building to promote economic growth and poverty alleviation. In case of Chad, aid seems to have enhanced the curse. This result confirms World Bank's own conclusions reached in 2003 after assessing extractive industries in poorly governed countries: "When investment is increased in a poor governance environment, subsequent reforms [for good development outcomes] are likely to become even more difficult."[236] In addition, risks of environmental damage, violence and weakening of the quality of governance increase.[237]

Certainly this research paper has its own limitations since it includes only one case study of CCOPP. As it is the only project of its kind, there has been no opportunity to do a comparative analysis in terms of what would have happened should there have been good governance in place, prior to aid disbursement. There is no proof that under the conditions of good governance aid would have achieved remarkable results. There would have been a risk of governance deterioration since both aid and oil can have adverse effects on the quality of

[236] World Bank, 'Evaluation of the World Bank Group's Activities in Extractive Industries: Factoring in Governance', OED Working Paper, Washington ,D.C: World Bank, 1 Sep 2004, p.13
[237] *Loc.cit.*

governance, as it was elaborated on in the theoretical part of the paper. Yet, as there were no elements of good governance in Chad prior to the project, it would be unwise to anticipate worse results than what has been actually accomplished.

In addition, the project is a very recent phenomenon, while it usually takes a long time to see the full benefits of a project. One could, hence, argue that things might turn out positive in a longer term. On the other hand, four years (since the beginning of oil money flows) should be enough to see the beginning of improvements. The opposite has been happening in Chad – the situation has been deteriorating. On that ground, it is unlikely that long-term results will be favourable for poverty alleviation in Chad.

The last but not the least limitation of this research paper is that it did not provide a direct analysis between aid and its impact on poverty levels in Chad. As it was already mentioned above, only aid's impact on conducive to poverty reduction factors of good governance and economic growth, was considered. However, the direct analysis could not be accomplished, as data about poverty situation in Chad is extremely limited. In addition, as most of the research around the 'curse of oil' and aid effectiveness focuses on the aspects related to the quality of governance and economic growth, one could argue that an indirect analysis between aid and poverty in Chad, provided in this paper, was a justifiable choice. Such an indirect analysis did not only help establish practical unfeasibility of aid as an instrument to break the 'curse of oil' phenomenon without having to consider unavailable poverty data, but it also provided basis for contributing to the resolution of the paradoxes within the debate about aid effectiveness.

Therefore, in the context of the first paradox, the case-study demonstrated that large inflows of aid directed to countries characterised by bad governance erode the quality of governance even further, in spite of a number of capacity-building mechanisms being employed by donors. Hence, donors should consider the state of governance in a recipient country, when contemplating the potential effectiveness of aid, especially in countries where aid is directed to increase oil relevnues, because oil itself is known to be a governance-eroding factor.

With respect to the second paradox, the CCOPP was conditioned on the factor that oil revenues have to be spent on priority sectors linked to poverty alleviation. This type of conditionality was essential for *badly* governed *poor* Chad. Whether conditionality should be blamed for aggravated governance quality in Chad, one should take into account the following factors. First of all, ownership, which is believed to improve conditionality's prospects, was undermined. Although civil society was consulted on the content of aid package, the World Bank went against its recommendations about how to proceed with the project. Secondly, although conditionality in Chad was accompanied by donors' provision of technical assistance along financial, aid conditionality was directly dependent on detrimental oil revenues.

In regards to the final paradox of aid, aid package succeeded in promoting economic growth in Chad, at least in the short-term. However, it has been an oil-driven growth, while World Bank's objective has been to utilise oil revenues to promote growth in labour-intensive productive sectors, such as agriculture. This means that while aid may contribute to economic growth, it does not ensure that growth becomes sustainable and pro-poor.

Besides establishing that aid is a rather ineffective instrument to break the 'curse of oil' and besides putting the paradoxes of aid to another test, this paper also deserves attention because it gives way for further research. Thus one could analyse the specific capacity-building instruments employed by the World Bank in the project in more detail, to better understand why they failed to break the curse of oil and contribute to poverty alleviation in Chad. By adding the Chadian experience to the experiences of other oil-producing countries, both developed (Norway) and underdeveloped (Nigeria, Angola, Gabon etc.), it would be possible to design instruments that could have better prospects for breaking the oil curse.

Also, in trying to address one of the limitations of this research paper – considering only the short-term effects of the project – the subsequent research would be required to analyse long-term effects of the project. This research would be vital for a more credible and objective evaluation of the project.

Finally, in the paper it was once suggested that World Bank's involvement in the project was primarily, determined by oil interests of its most influential member - the United States. Although the failure of the project to create conditions conducive to poverty alleviation does not necessarily support the argument, it nevertheless highlights its importance. Therefore, further research into motives behind World Bank's involvement in the CCOPP, as well as in other projects, would be plausible. This kind of research would give further insight into World Bank's commitment to developmental objectives it claims to pursue.

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