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Betting on Oil: The World's Bank's Attempt to Promote Accountability in Chad

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Betting on Oil: The World Bank's Attempt to Promote Accountability in Chad



Matthew S. Winters and John A. Gould

Can international donors ensure that poor countries spend their natural resource revenues on development? This article reviews the Chad-Cameroon Oil Pipeline Project and the World Bank's fourteen-year effort to foster pro-poor expenditure of resource revenues in Chad. The World Bank used its leverage as a gatekeeper of private sector oil investment to write fiscal restrictions and extragovernmental oversight into Chadian law. These efforts, however, were not sufficient to overcome the country's poor governance and weak political accountability. The article argues that external donor efforts to build better governance in undemocratic states are unlikely to overcome resource curse and obsolescing bargain dynamics. They may even do more harm than good. The article recommends that the World Bank implement the 2003 Extractive Industry Review suggestion to cease investing in oil production. If the Bank does continue to lend to countries like Chad, it must ensure that it retains leverage across the life of the project in order to achieve its goals. KEYWORDS: Africa, Chad, governance, resource curse, World Bank.

ON 9 SEPTEMBER 2008, THE WORLD BANK ENDED ITS FOURTEEN-YEAR involvement with the government of Chad in the Chad-Cameroon Oil Pipeline Project. The decision concluded the Bank's effort to set a new standard for the involvement of international donors in resource-rich, but democracy-poor countries. The Bank had sought to build institutions that would help Chad avoid the economic and political problems typically associated with oil booms in poor countries. The new institutions sought to direct oil revenues toward reducing poverty and ensuring fiscally sound and transparent government spending.

The project in Chad has failed. Oil revenues did not substantially reduce poverty or promote development. Neither, despite tens of millions of dollars spent on capacity building and encouraging Chadian civil society to monitor oil revenues, is Chad's government more accountable. The Bank insisted on the creation of an oversight institution that ultimately was unable to adequately check President Idriss Déby's self-dealing and did little to prevent him from further consolidating his hold on power. In 2006, when the government sought to divert oil resources from poverty reduction to meet its immediate fiscal and security needs, the Bank froze the flow of oil revenues. Yet donor

country pressure and the threat of state failure convinced the Bank to back down. By 2008, Chad's government had given up all pretense of permitting oversight of its oil revenue spending, and the Bank quietly concluded the project. This failure arguably violates the "do no harm" principle of foreign aid.¹ Today, Chad remains a corrupt and unstable authoritarian state with little hope for political liberalization.

This does not bode well for other international efforts meant to use natural resource revenues for development. Similar to the Bank's Chad project, the Publish What You Pay global civil society coalition and the Extractive Industries Transparency Initiative seek poverty responsive uses of natural resource revenues. In authoritarian political settings, however, such institutions alone are typically "incapable of reducing corruption and mobilizing citizens to hold government officials accountable."² Without prior domestic institutional change, international actors are fairly limited in what they can accomplish.

In this article, we review the World Bank's involvement in the Chad-Cameroon Oil Pipeline Project. Paying particular attention to the Bank's attempt to foster good governance in an illiberal political setting, we conclude that externally imposed governance mechanisms are unlikely to catalyze responsible expenditures in authoritarian states. We begin by describing the origins of the project and situating it within the literature on the natural resource curse. We then focus on the Bank-crafted governance institutions and show how the Déby regime was able to eviscerate them. We conclude with some general policy suggestions for the World Bank and some specific reflections on what might have been done differently in Chad. Ultimately, we are pessimistic about the possibilities of donors bringing about good governance in resource-rich, authoritarian states.

The Origins of the Chad-Cameroon Oil Pipeline Project

The discovery of significant petroleum reserves in Chad in the 1970s generated only passing interest among investors. The oil was low grade and isolated in a landlocked country with no means of transport to coastal ports. There also were persistent concerns about central government control in the face of an ongoing civil war. Beginning in 1982, however, Hissène Habré's brutal consolidation of rule over Chadian territory made the exploitation of Chad's oil fields more commercially viable.

In 1988, an Exxon-led consortium of multinational oil companies entered into an exploration agreement with the government. Two years later, the government's chief military adviser, Idriss Déby, a Muslim from the Zaghawa group, broke away from Habré and invaded Chad with a rebel force from Sudan to seize power. French troops stationed in Chad did not oppose the invasion and have supported Déby's rule since that time.

Déby's initial promise to allow greater pluralism and to respect human rights soon gave way to renewed repression and growing tensions between the largely Christian south and the Muslim north. Concerned about the risk of expropriation and the association with an authoritarian regime, the oil companies and their financiers sought guarantees from multilateral institutions that their investments would be safe and would not raise the ire of human rights activists. Exxon flatly stated that it would not proceed without international support "to help defray risks and complications."³

The World Bank took on the role of international guarantor with the explicit goal of showing how natural resource wealth could successfully promote widespread economic development. The Bank subjected both the international consortium and the host government to strict conditions. It withheld approval from plans to develop Chad's oil resources until the consortium undertook extensive consultations with local communities and a complete program of environmental assessment and impact mitigation. It also set out to ensure that Chad would spend future revenues on development.

From the beginning of negotiations in 1994, the Chad-Cameroon Pipeline Project raised a storm of protest. Numerous international and local nongovernmental organizations (NGOs) criticized the project, arguing that the consortium's community "consultation" did more to market the project among the people affected than to identify and incorporate their needs. Despite Bank measures in 1998 to stiffen environmental safeguards, critics felt they were inadequate. In July 1998, eighty-six NGOs from twenty-eight countries sent an open letter to World Bank president James Wolfensohn calling on the Bank to suspend its participation.⁴

Tackling the Resource Curse

The World Bank's critics shared a general pessimism about the ability of oil revenue to promote equitable, democratic development in Chad.⁵ On the one hand, Chad's needs were dire; landlocked and mostly desert, Chad ranked 128 out of 134 countries on the UN Development Programme's Human Development Index in 2000. Most of Chad's people made a living in subsistence agriculture, and gross domestic product per capita was less than \$0.50 per day.

The country also suffered from severe institutional weakness. The legislative and judicial branches were largely subservient to the president. Key security forces served the interests of the president's Muslim Zaghawa clan and abused human rights with impunity. Civil society was a poorly formed and inarticulate arbiter of societal interests; elections suffered from fraud; and political office served mainly as a means of rewarding or punishing elites from Chad's diverse, ethnically divided regions.⁶ Given the low starting point, it appeared that tapping oil revenues could hardly make things worse.

On the other hand, analysts have long understood that a boom in resource revenues can be devastating to development. The phenomenon has both economic and political sources—both of which the Bank tried to address. The best known economic mechanism for antidevelopmental outcomes is referred to as “Dutch disease,” the macroeconomic dynamic under which a boom in the resource sector damages nonresource sectors of the economy and leads to poverty-intensifying price increases.⁷ A related problem is that the government may become fiscally overdependent on revenues from a single global commodity market with its corresponding fluctuations in prices: overoptimistic fiscal commitments during booms must then be deficit-financed during subsequent busts.⁸

The apparent cure for such economic ills is to build the capacity to manage oil revenues wisely. The domestic economy should be protected from inflationary pressures by creating offshore funds that fiscal authorities can tap gradually to maintain a steady, nondisruptive inflow of revenue. Money should also be set aside to meet needs during times of low international prices and to help smooth the future transition to a post-oil economy. These were the types of policies that the World Bank advocated for Chad.

Yet the implementation of such policies requires both expertise and self-restraint. The provision of expertise is relatively easy. Encouraging self-restraint in a country like Chad is vastly more complex: the problems raised by resource extraction are not limited to managing economic effects. In the political realm, natural resource exploitation creates distributional problems that complicate efforts to build effective oversight and accountability mechanisms. Unless high-quality institutions exist to channel distributional conflict, adding large rents to the political mix is likely to contribute to ongoing dysfunction.⁹

There are multiple possible pathways to this result. As Michael Ross argues, oil wealth has a “rentier effect” in which governments “use their oil revenues to relieve social pressures that might otherwise lead to demands for greater accountability.”¹⁰ Less dependence on taxation implies lower citizen leverage over the government.¹¹ In addition, oil wealth spent on patronage will prevent the formation of independent social groups. This too stymies the development of checks and balances on executive authority.¹²

Patronage dynamics are more intense and complicated in fractious, clan-based countries like Chad.¹³ Clan identity serves as a mechanism for sharing resources according to the principle of reciprocity. This can be particularly problematic for marketization and democratization efforts: network wealth distribution reduces the degree to which local capitalists must rely on the basic institutions of the self-restraining state to generate wealth.¹⁴

To make matters worse, in countries like Chad where clans rival for political control over geographically concentrated “point” resources such as oil, politics is more likely to become a zero-sum contest over control of the perks of power.¹⁵ Oil wealth can both fund repression and inspire its use as authoritarian governments seek to ensure that they will retain access to the resource revenues.¹⁶

Less noted in the literature on resources is oil's impact on the state's dynamic relations with international capital. Unlike other forms of capital, wealth that is in the ground cannot flee the grabbing hand of the state. However, extraction infrastructure requires heavy initial investment, and this in turn gives investors some leverage over the government at the point of entry. In Chad, the World Bank used this leverage to create specific policies and institutions.

Yet this leverage is temporary. It erodes once the initial, fixed capital investments are made. "Obsolescing bargain theory" predicts that foreign actors have the greatest leverage over a host country at the moment just before they begin to invest in the infrastructure necessary for extraction. As investment capital morphs into immobile infrastructure and, as domestic partners develop greater expertise and operational capacity, foreign-financed infrastructural investments can become hostages in host-country efforts to obtain an improved share of the final revenues. Bargaining power therefore shifts to the host country.¹⁷

The choice to renegotiate is not necessarily predetermined, but there is evidence that more autocratic actors—those with fewer veto points governing their actions—are more likely to threaten international actors with expropriation.¹⁸ Where a government is accountable to diverse domestic constituencies, expropriation might threaten one of the constituencies' interests.¹⁹ Although not expropriation of a traditional sort, Chad's move to restructure its bargain with the World Bank was not challenged by domestic interests exactly because no serious checks or balances existed. Moreover, the rise of Chinese firms as an alternative to the Exxon-led consortium further increased the government's leverage.²⁰

In summary, it is difficult to convince self-dealing elites to subject themselves to robust institutions of accountability. Temporary leverage wielded by international actors is no substitute for an empowered civil society and strong domestic checks and balances. The remainder of this article illustrates the World Bank's failed attempt to catalyze the use of oil revenue for developmental ends in Chad through both a domestic good governance institution and the Bank's own international leverage.

The World Bank's Failed Experiment

In early January 1999, Chad passed the Petroleum Resource Management Law 001 (PRML). Designed with World Bank guidance, the law created an offshore escrow account that aimed to help Chad avoid macroeconomic problems; more important, it also created a schedule detailing how the government could spend its direct revenues (royalties and dividends) from the project. Direct revenues would flow into the escrow account from which funds would be gradually introduced into Chad's budget. After initial deductions for debt service payments, the schedule allocated 10 percent of revenues to a Future Generations Fund to help Chad make its eventual transition to a post-oil economy.

Of the remaining funds, 85 percent were allocated to priority, prodevelopment sectors. Five percent of the 85 percent were to be spent on community development projects in Doba, the oil-producing region. This would help reduce regional inequalities and lower ethnic tensions. The remaining funds would go into the general budget; the PRML stipulated that this revenue also would be shifted to “priority” poverty-reducing sectors starting in 2008. Notably, the law did not cover indirect revenues from the oil extraction such as those from taxation.

The Bank also took steps to ensure that Chad’s authoritarian government would face internal accountability for its expenditure of the oil revenues. The PRML created the Collège de Contrôle et de Surveillance des Ressources Pétrolières (hereafter Collège) to monitor revenues and spending. Members included four civil society representatives (one each from local NGOs, unions, human rights groups, and religious groups), two members of parliament, the head of the Central Bank, the director of the treasury, and a Supreme Court justice.

In January 2000, the World Bank approved its first pipeline project-related loan—a \$17.5 million capacity-building credit that supported the Collège.²¹ According to the Bank, this credit was a response to critiques of the project.²² Six months later, the World Bank approved a second capacity-building credit, valued at \$23.7 million, and an additional \$39.5 million loan that would directly support pipeline construction. In general, the consortium provided the majority of money for building the infrastructure.²³

Several external observers have critiqued the slow implementation of the capacity-building projects, pointing out a “failure of sequencing” in which pipeline construction outpaced the development of institutional capacity to monitor oil revenues.²⁴ In 2001, the International Advisory Group, a World Bank-sponsored international monitoring institution, referred to a “two-speed problem” in which “the commercial project is moving forward while the institutions are limping along.”²⁵

Early actions signaled that Déby, in fact, would be accountable to the few rather than the many, as he manipulated the PRML to the advantage of northern and eastern Muslims and particularly his own Zaghawa clan. Allegations began to circulate that the Bank’s funds for capacity building went overwhelmingly to members of the Zaghawa tribe and that Déby used the signing bonus from the consortium to purchase military goods, a violation of the spirit, if not the letter, of the law.²⁶ While state security is a legitimate concern, in Chad, internal opponents could not help but fear that oil benefits were going to enhance the power of their once and future internal rivals.

Construction began on the 1,070-kilometer pipeline on 18 October 2000. World Bank vice president for Africa Callisto Madavo noted that “the world is watching this experiment closely.”²⁷ In technical terms, the experiment went quite well. The consortium completed pipeline construction ahead of schedule,

and oil began flowing in October 2003 with the first royalties paid into the escrow account the following month. Given the problems in building financial monitoring and public expenditure capacity, the first funds were not actually repatriated to Chad until July 2004 when it received \$32 million. By the end of the year, the government had received \$88 million; in 2005, this amount jumped to \$222 million. As the revenues grew, so too did the stakes of holding power and controlling how revenues would be spent.

Déby Consolidates Power

We predict that the introduction of large oil revenues into an illiberal, institution-poor society will intensify domestic institutional stress. Governing elites might prefer to maintain access to oil-related benefits by violating the rule of law rather than to lose those benefits by adhering to it. Attempts to function according to the rule of law are especially likely to run into conflict with existing clan-based networks of patronage. Conflict is thus likely to break out around institutions like the Collège that seek to hold networked elites accountable for their actions.

It did not take long after the realization of the pipeline agreement for these expectations to be born out. Even before resource revenues started entering the budget, President Déby took steps to exert influence over the Collège. With pro-presidential members of parliament controlling 79 percent of the votes in parliament (the result of a 2002 opposition boycott of parliamentary elections), the parliamentary representatives in the Collège were Déby associates. In 2003, Déby replaced the Central Bank chief, giving the president close ties with a third member of the Collège. In 2004, Déby unconstitutionally replaced the head of the Supreme Court—giving himself greater influence with a fourth member. The government also appears to have interfered in the selection of the Collège’s nongovernmental members, refusing to approve a qualified technical specialist nominated by the Catholic Church. All told, the president had direct influence over at least six of the nine members in the Collège.

An additional problem for the Collège was inadequate capacity. Despite grants from the World Bank, the Collège simply did not have the resources to do its job adequately. For example, the Collège had only two vehicles and a small staff to monitor the vast infrastructure project and associated spending. Neither did the Collège have any legal standing with which to compel the government to adopt its recommendations. Unsurprisingly, the Collège’s vice president complained that “the committee is under-funded, understaffed and deprived of information by both Exxon and the Chadian government.”²⁸

To the credit of its members, however, the Collège released a remarkably independent inspections report in 2004, citing “incidents of irregularities in transfers of funds; poor quality of and long delays in the delivery of goods and services; lack of competitive bidding processes, and cases of overpricing of

goods and services.”²⁹ The Bank commended the Collège for its work and called on the government to implement the recommendations for improved governance.³⁰ Lacking any teeth, however, the critique carried no bite.

Beyond marginalizing the Collège, Déby worked to consolidate and strengthen his grasp on political power. In May 2004, the National Assembly initiated a controversial constitutional amendment allowing Déby to run for a third term. It also replaced the Senate with a presidentially appointed council and gave the president the right to amend the constitution. The amendment was enacted by national referendum in June 2005 in yet another dubious exercise of democracy.

Déby also undermined checks from civil society. Journalists, always at risk in Chad, were heavily repressed during the 2005 referendum campaign. Meanwhile, pro-presidential parties created numerous partisan NGOs that could both win lucrative government contracts and lessen civil society’s independent social check on executive power.³¹

The news was not all bad. As transfers from the escrow account began to flow, Chad’s growth accelerated into the double digits, its balance-of-payments position improved, its external debt declined, and money flowed into the Future Generations Fund. The country’s macroeconomic situation looked to be sufficiently good to avoid severe Dutch disease problems—although people in the oil-producing regions complained of inflation.³² External monitors noted growing ministerial capacity, and in the Doba region a “5 percent fund” financed a new market, walls around two schools, equipment for a third school, and a new water tower. The Collège also continued to demonstrate independence in discharging its mandate: “Of the \$162.1 million allocated to the priority poverty alleviation sectors in 2005, 90.7 percent was effectively committed and approved by the Collège.”³³

Overall, however, the Collège remained underfunded and toothless. An independent May 2005 report complained that money was being wasted on unfinished infrastructure projects and inferior goods purchased at inflated prices. The report documented the emergence of a Zaghawa-based patronage system in which firms with ties to the president received preferential consideration.³⁴ According to Stephen Reyna, spending proposals came from government ministries that were heavily dominated by Zaghawa clan members and other clients. Reyna found this to be particularly true in the oil-producing region, where by 2007 most of the development fund had gone to a mere seven investments located in two cities; 39 percent of the funds went to building Doba’s new stadium. According to Reyna’s sources, the Doba projects originated from the president’s office with the contracts going to politically connected firms.³⁵

The picture was worse in eastern Chad, where “development” was limited to the construction of an east-west road used primarily for military purposes.³⁶ While the east’s status as a war zone made the lack of projects understandable,

the local perception was that available funding went primarily to the military—enhancing the power of the Zaghawa clan that dominated it.

We are not claiming that oil revenues have been the main cause of Déby's consolidation of power. Since the 1990 coup, he has continually extended his reach, fighting off competing rebel groups and elite challengers. It is difficult to imagine that, without oil, Déby would have become a force for liberal democracy. Instead we wish to emphasize, along with Scott Pegg and Stephen Reyna, that Déby was able to subordinate the Bank's best intentions to the needs of his patronage networks.³⁷ In fact, his desire to make even more use of oil revenue for his own ends caused him to call for renegotiating his agreement with the Bank at the end of 2005.

Chad Renegotiates

Obsolescing bargaining theory predicts that large infrastructure investments might later serve as hostage to a host government's attempts to negotiate a larger portion of the benefits. This will be particularly true when there is strong international demand for resources. Moreover, autocrats may be more willing than broadly accountable governments to threaten expropriation. While most of the literature on this topic focuses on multinational corporations, the Chad experience shows that international financial institutions like the World Bank can also fall victim to these dynamics.

The government claimed that the original compact, limiting the use of oil revenues to development purposes, was too restrictive in light of an immediate need to pay salaries to soldiers and civil servants. Chadian officials complained that the PRML had been "a leap into the unknown," which had created a budget crisis that had pushed the government's "back to the wall."³⁸ They demanded an expansion in the number of sectors in which money could be spent. As a concession to the Bank, the government said that the revised law would apply to other oil fields that Chad might develop.

On December 29, the National Assembly passed legislation amending the PRML; it also demanded the transfer of the \$36 million stored in the Future Generations Fund into the general budget. On 6 January 2006, the World Bank responded by freezing \$125 million in direct oil royalties in the escrow account. It also suspended its lending to Chad and halted disbursement of \$124 million in projects unrelated to the pipeline.

While not acknowledging the extent to which Chad's fiscal problems were endemic to Déby's patronage system, the Bank had identified public mismanagement as the source of Chad's fiscal woes in early December 2005. In a press release, it urged Chad "to take urgent and credible measures to strengthen the safeguards in the management of the country's public finances" and offered to help Chad uncover the sources of its fiscal problems and improve its fiscal management.³⁹

The Bank was right in arguing that Chad's financial woes were partly self-inflicted. What the Bank did not admit was that a significant portion of Chad's governing elite stood to benefit from this fiscal mismanagement. In the absence of strong internal accountability mechanisms—checks and balances based in an independent judiciary or parliament or a watchful, articulate civil society—there was little incentive for any of these beneficiaries to make the spending of oil revenue more equitable. The Bank's demands that Chad's elites find the political will to regulate themselves fell on deaf ears. Beyond freezing the escrow account and its other projects, it was unclear what the Bank could do to correct this problem.

The growing threat of rebellion from Chad's eastern borders increasingly undermined Chad's stability. Remarkably, this weakness strengthened Déby's hand. As one Western diplomat surmised, "The world can't afford for Chad to become a failed state and President Idriss Déby knows it."⁴⁰ Insofar as donors like the United States and France wanted to avoid a failed state, they opposed the halt in World Bank lending. The discontinuation of other World Bank support also was probably directly painful for Bank officials and their ultimate clients—Chad's poor. Resources dedicated to preventing HIV, improving education, and rehabilitating electrical and water systems stopped reaching their intended destinations. And even though Déby's government was not able to continue to tap the direct oil revenues in its London account, it still had access to indirect oil revenues from taxes.

Negotiations between the Bank and Chad proved inconclusive and, for the next several months, neither side gave way. In March, Déby's military announced it had foiled a coup attempt, which was apparently sparked by the government's failure to pay wages. Heavy fighting broke out in the capital within a month, led in part by former government officials who sought "to control petroleum revenue."⁴¹ On 15 April, Chad's oil minister threatened to cut off oil flows in three days unless the World Bank either released the freeze on the escrow account or the consortium paid \$125 million directly to the state treasury. The United States intervened, and Chad extended the deadline. In subsequent negotiations, France and the United States put the Bank under intense pressure to resolve the dispute.

Within two weeks, the World Bank and the government of Chad reached a temporary agreement. The government committed to spending 70 percent of its 2007 budget on priority poverty sectors and to financing its security expenses from general treasury revenue. The Bank, in return, agreed to distribute the money in the escrow account and to lift the suspension on undisbursed Bank credits. The Collège would continue to monitor spending. In the meantime, the two sides would work toward a final agreement. One week later, on 3 May, Déby won reelection with 65 percent of the vote in an election that again met with an opposition boycott and international criticism.

A July 2006 Memorandum of Understanding did not progress significantly beyond the interim agreement. Chad agreed to provide the Bank with medium- and long-term expenditure plans and accepted commitments to increased auditing, monitoring, and transparency. The Bank, however, agreed to Déby's decision to divert spending on the community-driven development program for the pipeline region. Although within the letter of the original agreement, the decision violated the norm of cross-regional equity and served to increase the perception that oil wealth primarily served the interests of the president's clan and political clients. The Bank also conceded to the elimination of the Future Generations Fund and agreed to recognize expenditures in the governance and justice sectors as "poverty-reducing." Money originally intended for the poor could now be diverted to state salaries and even some military expenditure. Overall, the World Bank's agreement with Chad had been drastically revised.⁴² Chad quickly followed on this victory against the Bank by threatening Chevron and Petronas with expulsion from the country unless the oil companies paid \$450 million in allegedly unpaid taxes. Despite claims that they had paid all the taxes they owed, the companies quietly agreed to a significantly higher tax rate. As "indirect" revenue, this money was exempt from the Bank's spending restrictions.⁴³

In the following year, Déby continued to chip away at the agreement with the World Bank, increasingly centralizing expenditure powers and devoting larger percentages of the oil revenue to the military instead of social spending. By March 2007, the Collège had stopped reporting on budget allocations. Meanwhile, the price of oil on international markets spiked, and it is estimated that Chad earned over \$1 billion in oil revenue in 2008.⁴⁴

The Bank Withdraws

With hindsight, the World Bank's internal evaluators asserted that the Bank should have sought greater enforcement powers in its agreement with Chad. Unable to enforce the spirit or even the letter of the original agreement, however, the World Bank quietly decided to remove itself from the oil pipeline project. In early 2008, the Bank requested that Chad prepay the remaining amount due on the pipeline loan. Chad quickly complied. In contrast to the 2006 crisis bargaining, the Bank did not suspend its other operations in Chad, and it has pledged to continue working with Chad to fight poverty.

Formerly critical of the Bank's foray into Chad's politics, civil society leaders in Chad were critical of its decision to leave on such terms. They wanted the Bank to continue to encourage the government to spend its revenues on development and poverty reduction. The alternative was much worse. As one NGO leader said, "Chadians can only now cry because the oil money has not contributed to improving their living conditions but rather to fuel armed conflict."⁴⁵

Conclusions and Policy Recommendations

In 1999, the World Bank set out to ensure that oil revenues would help alleviate poverty in Chad. It attempted to create local governance institutions and a pro-poor expenditure scheme. In 2008, the World Bank acknowledged that this effort had failed and withdrew from further participation in the project. How do we assess this endeavor?

As initially hoped, oil revenue in Chad has financed some development projects, and some of Chad's poor have seen a rise in their incomes. Yet in so many ways, the country is as bad or worse off than it was ten years ago. The addition of oil revenues to Chad's political mix has accompanied—and might even have fueled—a consolidation of authoritarian power, a reaffirmation of the clan-based patronage in Chad's politics, imports of arms, further repression of civil society, and armed rebellion. Chad's civil and political rights are now at their historically worst levels, and Chad currently ranks among the world's seventeen most repressive countries.⁴⁶

Propagated as a model project for helping poorly governed countries make use of natural resource revenues to facilitate development, the Chad-Cameroon Oil Pipeline Project let the Chadian people down. The Collège made a noble stand—publicly and vocally revealing many of the failings of the government's expenditure plan under the project—but it ultimately was marginalized by the authoritarian institutions that it was supposed to monitor.⁴⁷

Although commentators both inside and outside the Bank have said that the Collège should have had more enforcement powers, it is hard to envision an institutional arrangement that would have constrained Déby and still respected Chad's sovereignty. In a perfect world, the Bank would have done more to build a liberal domestic political foundation in which effective oversight institutions could operate. Yet the Bank's charter prevents it from intervening in domestic politics. Moreover, given that such efforts would have directly threatened the network distribution of oil rents to Déby's Zaghawa clan and other clients, it is unlikely the ruling regime would have agreed to them. In reality, the Bank lacks both the capacity and the mandate to undertake such a difficult challenge.

We assume that few in the World Bank desire an autocratic government for Chad. We also recognize that if Bank officials could create good governance with the wave of a wand, they would have done so. Yet if the Bank is really serious about relieving poverty and promoting development through greater elite accountability, we question its decision to provide Chad's authoritarian elite with access to hundreds of millions of dollars in oil revenue. If bad governance is the problem, the last thing that the Bank should do is give the bad governors both additional incentives and additional means to hold on to power.

We conclude this article with two general recommendations about the Bank's involvement in the extractive sector and two hindsight recommenda-

tions on how the Chad project could have been improved. First, we support the conclusion reached in the December 2003 report of the Extractive Industries Review that the World Bank Group “should phase out investments in oil production . . . and devote its scarce resources to investments in renewable energy resource development and other clean energy initiatives.”⁴⁸ Where there is sufficient commercial interest to develop oil production, then the World Bank does not need to be involved. And it certainly does not need to provide political cover for multinational corporations, as it was asked to do in Chad.⁴⁹ The Bank should promote environmental public goods through clean energy projects.

More broadly, the Bank should reward good governance by investing primarily in countries that have demonstrated the capacity to manage their revenues effectively. We also concur with Scott Pegg and Graham Davis that countries without this capacity are better off with their oil stored in the ground.⁵⁰ This does not preclude more intensive Bank efforts to “front load” capacity-building projects but, unless these projects produce real improvements in local elite accountability, they are vulnerable to the same fate that reduced the Collège to insignificance.

Second, if the World Bank is considering investments in fossil fuel extraction in authoritarian countries, it should conduct thorough “resource curse due diligence.” The Bank should contract for honest, independent assessments of the potential that increased revenues will exacerbate incentives for domestic conflict, authoritarian consolidation of power, and broken agreements between the host government and the Bank/external investors.⁵¹

As a practical matter, due diligence should ensure that the World Bank assesses the strength of its leverage across the life of the project. Where it cannot retain adequate bargaining power after the initial negotiations are concluded—where an obsolescing bargain is a threat—it probably should not invest. As a moral matter, due diligence must also assess the impact that resource extraction will have on the social and political fabric of the society. The do no harm imperative implies a Bank responsibility to account for how new resource wealth will affect social conflict and political institutions. These points must apply particularly when the Bank negotiates with governments that have an established reputation for falsifying elections, repressing civil society, ignoring human rights, and violently suppressing their opponents.

While others may disagree,⁵² we believe that little could have been done by the Bank to improve the PMRL in ways that would have substantially altered the outcome. There are, with hindsight, two improvements we would have sought in the original agreement with Déby’s government. First, the Bank should not have omitted indirect revenues from the coverage of the PRML.⁵³ Insofar as the Déby regime was able to continue to collect taxes and fees even when the World Bank had frozen the escrow account into which royalty revenues were accumulating, this provided Chad with additional bargain-

ing power against the World Bank. We cannot be sure that the Bank would have been more successful in pressuring the government against revising the law in December 2005, but the odds would have risen at least marginally.

Second, for similar reasons, we would have insisted that the Bank require a constitutional amendment conditioning revenue transfers from the escrow accounts on such things as real improvement in the government's performance in improving regional equity and human rights; progress toward resolving inter- and intraclan conflicts; and the creation of effective checks and balances on executive power from truly independent actors across government and society.⁵⁴

The obvious problem with both recommendations is that, in addition to pushing the World Bank's mandate to the edge, Déby would have been unlikely to give up so much sovereignty. Yet from our perspective, the deadlock that would have ensued is perfectly acceptable. Unless the Bank secures the ability to press for fundamental changes in governance, we believe it has little business undertaking extractive energy investments in deeply authoritarian climates.

The Chad-Cameroon Oil Pipeline Project was an experiment to see whether or not governance could be improved in an authoritarian country through external conditionality. The answer from this project is a rather clear no. In bargaining with Chad for governance improvements, the World Bank found itself lacking leverage once oil extraction had begun and ultimately found itself withdrawing from the endeavor after the gates had been opened for the Déby regime. Without true mechanisms of domestic accountability, the externally originated governance institution could do little. Chad has become another case where a small group of elites benefits from a country's resource wealth while the population suffers. 🌐

Notes

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6. For a rich description of Chad's social and political position, see Simon Massey and Roy May, "Commentary: The Crisis in Chad," *African Affairs* 105, no. 420 (July 2006): 443–449.
7. See Jeffrey D. Sachs and Andrew M. Warner, "Natural Resource Abundance and Economic Growth," National Bureau of Economic Research Working Paper No. 5398, Cambridge, MA, 1995.
8. See Terry L. Karl, *The Paradox of Plenty: Oil Booms and Petro-states* (Berkeley: University of California Press, 1997).
9. Halvor Mehlum, Karl Moene, and Ragnar Torvik, "Institutions and the Resource Curse," *Economic Journal* 116, no. 508 (2006): 1–20.
10. Michael L. Ross, "Does Oil Hinder Democracy?" *World Politics* 53, no. 3 (2001): 325–361.
11. See Douglass C. North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (New York: Cambridge University Press, 1973); Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: Evolution of Institutions Governing Public Choice in Seventeenth Century England," *Journal of Economic History* 49, no. 4 (1989): 803–832; and Charles Tilly, *Coercion, Capital and European States, A.D. 990–1990* (Cambridge, MA: Basil Blackwell, 1990).
12. Insofar as oil wealth retards economic modernization (e.g., specialization, urbanization, and education), it also will reduce consequent moves toward democracy. Ross, "Does Oil Hinder Democracy?"; Paul Collier and Anke Hoeffler, "Testing the Neocon Agenda: Democracy in Resource-Rich Societies," *European Economic Review* 53, no. 3 (2009): 293–308. In recent work, Thad Dunning argues that oil wealth can preserve democracy in countries that are not resource-dependent and where there is substantial inequality. On both counts, Chad appears different from the Latin American cases on which Dunning bases and tests his theory. See Thad Dunning, *Crude Democracy: Natural Resource Wealth and Political Regimes* (New York: Cambridge University Press, 2008).
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15. Roland Hodler, "The Curse of Natural Resources in Fractionalized Countries," *European Economic Review* 50, no. 6 (2006): 1367–1386; see also Philippe Le Billon,

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19. Edmund J. Malesky, “Re-thinking the Obsolescing Bargain: Do Foreign Investors Really Surrender Their Influence over Economic Reform in Transition States?” paper presented at the annual meeting of the International Studies Association, San Diego, CA, March 2006.

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22. “Implementation Completion Report,” World Bank, No. 36560-TD (Washington, DC: World Bank, 15 December 2006), p. 12.

23. Additional donor funding came from the World Bank Group’s International Finance Corporation, the European Investment Bank, the US Export-Import Bank, and France’s COFACE. The World Bank funded less than 3 percent of total project costs, which eventually totaled between \$4.2 billion and \$4.8 billion.

24. Kojucharov, “Poverty, Petroleum & Policy Intervention,” p. 486.

25. Ian Gary and Terry L. Karl, *Bottom of the Barrel: Africa’s Oil Boom and the Poor* (Washington, DC: Catholic Relief Services, June 2003), p. 65.

26. Aude Delescluse, “Chad-Cameroon: A Model Pipeline?” *Georgetown Journal of International Affairs* (2004): 43–53.

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28. BBC News, “Chad’s Oil Watchdog Powerless,” 25 May 2004; see also Ian Gary and Nikki Reisch, *Chad’s Oil: Miracle or Mirage for the Poor? Following the Money in Africa’s Newest Petro-state* (Washington, DC: Catholic Relief Services; Bank Information Center, 2005), p. 65.

29. World Bank, “World Bank Reaction to Chad-Cameroon Pipeline Oversight Committee’s Report on Mission to Sites of Projects Financed by Oil Revenues” (Washington, DC: World Bank, 26 July 2005).

30. *Ibid.*

31. Gary and Reisch, *Chad’s Oil: Miracle or Mirage for the Poor?* p. 64.

32. Reyna, “The Traveling Model,” p. 83.

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