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BRIEFING

CHRONICLE OF A DEATH FORETOLD: THE COLLAPSE OF THE CHAD-CAMEROON PIPELINE PROJECT

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THE LARGEST SINGLE PRIVATE SECTOR INVESTMENT in sub-Saharan Africa, the Chad-Cameroon Petroleum Development and Pipeline Project, attracted worldwide attention not for the size of its oil reserves or the technical complexities of constructing a 1,070-kilometre pipeline from southern Chad to Cameroon's Atlantic coast, but for the elaborate World Bank-sponsored capacity-building initiatives designed to ameliorate the seemingly damaging 'resource curse' effects that oil production has had in other sub-Saharan African countries such as Angola, Equatorial Guinea, Nigeria, and Sudan.[1] The project ran into trouble long before the oil started flowing in 2003 as construction activities rapidly outpaced the institutional capacity-building initiatives designed to ensure that Chad actually used its forthcoming oil revenues for poverty alleviation. Throughout 2005 and 2006, as it dealt with a myriad of domestic and international political crises, the government of Chad also engaged in a series of disputes with both the World Bank and members of the oil consortium (ExxonMobil, Petronas and Chevron) that culminated in the formal ending of the World Bank's role in this project in September 2008.

This briefing focuses on the events leading up to the collapse of the pipeline project and identifies lessons that can be learned from the abject failure of the international community's most significant attempt yet to confront the resource curse. In doing so, it seeks to avoid the reductionist argument that oil wealth caused this or that to happen. Rather, following Benjamin Smith, it argues that leaders like Chad's President Idriss Déby

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1. General background on the pipeline project and its design features can be found in Scott Pegg, 'Can policy intervention beat the resource curse? Evidence from the Chad-Cameroon Pipeline Project', *African Affairs* **105**, 418 (2006), pp. 1–25.

incorporate oil revenue windfalls 'into pre-established institutions and patterns of decision making' with the end result that 'the windfall revenues merely magnified existing patterns'.[2] In this regard, the World Bank grossly overestimated its ability to alter these existing institutional patterns and it failed to appreciate the extent to which oil wealth would amplify many of Chad's pre-existing problems such as corruption and political instability. The World Bank also neglected one of the central findings of the African politics literature, which is the consistent ability of African leaders to outmanoeuvre external pressures for reform, a phenomenon by no means limited to oil exporters.[3]

In addition to oil, a variety of factors including Chad's religious, linguistic, and clan diversity, the fractured nature of the opposition and the heterogeneous external interests pursued by such states as China, France, Libya, Sudan, and the United States all help explain Chad's current predicament.[4] Similarly, while oil revenues are an important factor underpinning President Déby's continued hold on power, they are not the only one.[5] Yet it is entirely reasonable to conclude that 'the existence of the oil exercises the minds of actors both internal and external'.[6]

A dénouement in multiple acts

Although the pipeline project started running into fundamental problems from its earliest stages, 2004 was the year in which major alarm bells started ringing about the longer-term viability of this project. In January 2004, Chad's poverty reduction and growth facility agreement with the IMF expired. Although oil revenues had started accruing in a London-based escrow account in November 2003, Chad was not able to begin repatriating them until July 2004. The first half of 2004 was thus characterized by a major fiscal crisis, including the non-payment of military salaries for several months which led to an unsuccessful coup attempt in May 2004.

The political instability and fiscal crisis greatly increased President Déby's urgency to obtain oil revenues. In October 2004, arguably the first act in this long dénouement took place when the government issued a sharply worded press release delineating numerous areas of dispute with the oil

2. Benjamin Smith, *Hard Times in the Lands of Plenty: Oil politics in Iran and Indonesia* (Cornell University Press, Ithaca, 2007), p. 122.
3. See, for example, Nicolas van de Walle, *African Economies and the Politics of Permanent Crisis, 1979–1999* (Cambridge, Cambridge University Press, 2001).
4. These assorted dynamics are well covered in Simon Massey and Roy May, 'Commentary: the crisis in Chad', *African Affairs* **105**, 420 (2006), pp. 443–9.
5. Han van Dijk, 'Briefing: Political deadlock in Chad', *African Affairs* **106**, 425 (2007), p. 698.
6. Massey and May, 'Commentary: the crisis in Chad', p. 446.

consortium. Although these matters were ostensibly resolved a few months later, the press release signalled both growing frustration on the government's part with the terms of the pipeline project and an increased recognition that its ability to change those terms was improving. As John Gould and Matthew Winters convincingly demonstrate, such a development should not have come as a surprise to anyone with rudimentary familiarity with obsolescing bargaining theory. In their words, 'As obsolescing bargaining theory predicts, the Consortium and the World Bank had invested their resources in the country, providing infrastructure and expertise, and now, with those costs sunk, Chad had a hostage to deploy in its efforts to redefine the bargain.'[7]

Tensions remained high throughout 2005 as Chad's financial woes continued. In October 2005, it announced its intention to amend Law 001/PR/99 (also known as Revenue Management Law 001), which was the core foundation underlying the pipeline project's entire attempt to ensure that oil revenues were predominantly spent on behalf of the poor. After numerous behind-the-scenes dialogues with the government, on 8 December 2005 World Bank President Paul Wolfowitz expressed 'serious concern' about the proposed amendments to the revenue management law. Such concerns did not dissuade Chad's Parliament, which voted 119–13 on 29 December 2005 to amend Revenue Management Law 001 in direct violation of its Loan Agreement with the World Bank, which states that 'the Petroleum Revenue Management Law shall not be amended or waived so as to materially and adversely affect the implementation of the Program'.[8] The amendments had three main effects. First, whereas the original law identified five priority sectors for poverty reduction (education, health and social services, rural development, infrastructure, and environmental and water resources) that would receive the lion's share of direct oil revenues (royalties and dividends), the amendments added justice, security, and territorial administration to the list of priority sectors. Second, the share of direct oil revenues that could be spent on non-priority sectors increased from 13.5 to 30 percent. Third, the Future Generations Fund, a savings fund which received 10 percent of all direct revenues, was abolished.[9]

7. John A. Gould and Matthew S. Winters, 'An obsolescing bargain in Chad: shifts in leverage between the government and the World Bank', *Business and Politics* **9**, 2 (2007), p. 18.

8. 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, 15 December 2006), p. 6.

9. World Bank, 'Implementation completion and results report on a credit in the amount of SDR17.4 million (US$23.7 million equivalent) to the Republic of Chad for a Petroleum Sector Management Capacity-Building Project' (Report No. ICR0000553, 30 June 2007), p. 23.

Whether out of conviction, hope, or desperation, the World Bank swiftly responded by playing the strongest cards left in its hand. On 6 January 2006, it suspended all new loans and grants to Chad and all disbursements ($124 million) yet to be released from its eight active loans in Chad. Suspending the loan disbursements automatically triggered a freeze on the oil revenues in Chad's escrow account in London. This freeze, however, did not cover the $36.2 million already accumulated in the Future Generations Fund, of which the government now took possession.[10] Neither did the freeze cover indirect oil revenues (taxes), which were just starting to arrive in 2006.

This situation escalated further in the spring after President Déby's regime was almost toppled on 13 April 2006 by a rebel attack launched from neighbouring Sudan. Although ultimately repelled with French logistical support, the rebels succeeded in making it all the way to N'djamena. In the immediate aftermath of the rebel assault, President Déby raised the stakes for the World Bank by threatening to expel an estimated 200,000 Darfur refugees from Chad and to cut off all oil supplies until Chad was given access to the frozen funds or the oil consortium paid $125 million directly to the government.

In doing this, Déby shrewdly played on the fear that the alternative to his regime was state collapse and he carefully targeted his threats at situations the larger international community did not want to get worse: the crisis in Darfur and the volatile and rapidly rising oil market. After coming under pressure from France and the United States, the World Bank reached an interim agreement with Chad on 26 April 2006. Under the terms of the agreement, Chad agreed to pass a revised 2006 budget which would specify that 70 percent of direct oil revenues would be devoted to priority poverty sectors, excluding security, and that it would take some measures to improve transparency and accountability in the use of oil revenues. In return, the World Bank lifted the disbursement freeze on seven of its eight active loans (leaving just $0.1 million of funding frozen) and agreed to let Chad access one-third of the accumulated revenues in the escrow account over each of the next three months.[11]

This phase of the story concluded on 14 July 2006 when the government and the World Bank signed a new Memorandum of Understanding. For its part, Chad agreed to strengthen oversight, commit 70 percent of its 2007 budget to priority poverty reduction sectors, set some funds aside in a stabilization fund, and continue to earmark 5 percent of the direct oil

10. World Bank, 'Implementation completion report', pp. 6–7; World Bank, 'World Bank suspends disbursements to Chad' (Press release No. 2006/232/AFR, 6 January 2006).
11. World Bank, 'Implementation completion and results report', p. 6; World Bank, 'The World Bank, Chad reach interim agreement on funding, oil revenue management' (Press release No. 2006/383/AFR, 26 April 2006).

revenues for the oil-producing region. The World Bank lifted entirely the freeze on the escrow account and the last loan programme.[12]

Having largely dispensed with the specific strictures of the original pipeline project in exchange for one year's budget commitment and vague future promises, the Déby regime now turned its attention towards the oil consortium. On 27 July 2006, Chad's Parliament passed legislation creating the Société des Hydrocarbures du Tchad (SHT), a new national oil company. The announcement coincided with statements from President Déby that Chad should have an ownership stake in the oil industry of 60 percent – a figure equalling the combined shares of Petronas (35 percent) and Chevron (25 percent) in the existing oil consortium. Shortly thereafter, on 6 August 2006, Chad switched its diplomatic recognition from Taiwan to China, a move widely interpreted as welcoming future Chinese investment in the oil sector. With these moves, Déby pre-emptively strengthened his negotiating position *vis-à-vis* the Consortium by signalling the availability of other options.

Perhaps emboldened by the success of his brinkmanship tactics with the World Bank, Déby moved aggressively against Petronas and Chevron on 26 August 2006, accusing them of failing to pay $450 million they owed in taxes and ordering them out of the country. Déby also replaced the oil minister and two other cabinet officials, ostensibly because of their role in negotiating agreements with Petronas and Chevron. Ultimately, this episode was resolved after Petronas and Chevron agreed to pay Chad $289 million in taxes on 10 October 2006. Referencing this negotiation and the one with the World Bank preceding it, Gould and Winters conclude that 'Over the course of 2006, it seems that the predictions of obsolescing bargaining theory proved twice true in Chad.'[13]

Following these negotiating victories, the Déby regime moved to consolidate its autonomy throughout 2007. On 25 May, the governor of the oil-producing region issued a communiqué banning all vehicular traffic on roads near the oil facilities and requiring all non-project vehicles to obtain prior administrative permission to drive on those roads. Local non-governmental organizations working in the oil zone reported 'having difficulty obtaining the necessary travel permits'.[14] The following month, the President dissolved the first interim management committee for the 5 percent Fund of Oil Royalties Paid to the Oil-Producing Region and replaced its members with hand-picked government appointees. On 10 October 2007 the

12. World Bank, 'Implementation completion and results report', p. 6.
13. Gould and Winters, 'An obsolescing bargain in Chad', p. 23.
14. International Advisory Group, 'Report of Mission 13 to Chad and Cameroon November 11–December 1, 2007' (International Advisory Group, Montreal, 2008), p. 24.

Coordination Nationale du Projet Pétrole (National Coordination for the Oil Project, CN) was abolished by presidential decree.[15]

Ultimately, the World Bank realized that its position as 'moral guarantor' of the pipeline project was not sustainable. On 25 August 2008, the Bank conveyed its concerns to Chad that the 2006 Memorandum of Understanding was not working. Chad responded on 5 September by fully pre-paying all outstanding World Bank loans relating to the pipeline project ($65.7 million), thus effectively ending the Bank's involvement in this project.[16]

Lessons learned and yet to be learned

One of the lessons the World Bank claims to have learned from its experience with the Chad-Cameroon pipeline project is what might be termed the costs of complexity in project design. According to the Bank's evaluation of one of the loans for this project, 'In hindsight Project design proved to be extremely complex, especially for a country with limited institutional capacity like Chad.'[17] The revenue management scheme offers an excellent illustration of this problem. The original revenue management scheme distinguished between direct (royalties and dividends) and indirect (taxes) revenues and only applied to the former. It then earmarked 10 percent of the direct revenues for the Future Generations Fund and then divided the remaining 90 percent of direct revenues amongst different priority sectors, the Doba oil-producing region, and general government expenditures, making further distinctions between different percentages of royalties and dividends that would be earmarked for the priority sectors before and after 31 December 2007.[18]

My original article noted that a major design flaw was not covering the indirect revenues and cited an estimate that these might account for as much as 40 percent of the total government revenues generated.[19] As it turns out, of the $3.256 billion in cumulative government revenues as of June 2008 (a figure that largely because of higher oil prices is more than a third higher than the original estimated revenues over the entire 25-year lifespan of the project), $1.858 billion came from taxes and $1.240 billion came from royalties (with the remaining sums being $111 million in fees, permits and duties and $47 million in pipeline-related income).[20] That

15. *Ibid.*, pp. 11 and 18.
16. World Bank, 'World Bank statement on Chad-Cameroon Pipeline' (Press release No. 2009/073/AFR, 9 September 2008).
17. World Bank, 'Implementation completion and results report', p. 4.
18. Discussed in greater detail in Pegg, 'Can policy intervention beat the resource curse?', p. 11.
19. *Ibid.*, p. 12.
20. Esso Chad, 'Chad/Cameroon Development Project' (Project update No. 24, Mid-Year Report 2008), pp. 77–8.

breaks down to 57.06 percent in taxes (indirect revenues) versus 38.08 percent in royalties (direct revenues). The elaborately complex revenue management scheme ultimately did not cover more than half of the oil revenues coming to Chad. Beyond this, its assorted stipulations placed additional demands on institutions whose capacity was still far from built and its complexity was not something that Chad's citizens could easily understand or rally around. A simpler design with a bi- or tripartite division of spending covering all oil revenues would have made more sense.

The institutional lessons to be taken from this project are nuanced. Arguably, one of them is that it is not impossible to build important elements of local capacity even when dealing with complex sectors like oil in low-capacity countries like Chad. The Comité Technique National de Suivi et de Contrôle (Committee for Monitoring and Evaluation of the Pipeline Project, CTNSC, the principal monitoring body for environmental and social impacts), for example, 'had gained credibility in its dialogue with the Consortium through excellent technical reviews of the successive environmental packages submitted by the Consortium for new fields'.[21] The Collège de Contrôle et de Surveillance des Ressources Pétrolieres (Petroleum Revenues Oversight and Control Committee, CCSRP, the principal monitoring body for oil-revenue expenditures) also earned widespread praise for its report on how the government spent its 2004 oil revenues.[22] Yet these and other institutions were ultimately reliant on continued financial support from the government of Chad. When that support was withheld, their monitoring capacities withered, resulting in a 'nearly complete absence of government presence in the oil zone, apart from security units'.[23] If local monitoring capacity is to be built into future oil projects, clearly it must have its own independent call on revenues.

Another institutional lesson concerns the limits to transparency. Interventions like the Extractive Industries Transparency Initiative are fundamentally premised upon the idea that providing citizens of resource-rich countries with information on revenue flows will better enable them to hold their own governments accountable for how they spend that money. Yet there has never been any shortage of critical information about the sundry failings of the Chad-Cameroon pipeline project. In addition to local and international NGOs, internal monitoring agencies like the CTNSC and the CCSRP and external monitoring agencies like the International Advisory Group and the External Compliance Monitoring Group have all

21. World Bank, 'Implementation completion and results report', p. 25.
22. Gould and Winters, 'An obsolescing bargain in Chad', p. 16; World Bank, 'Implementation completion report', p. 9.
23. International Advisory Group, 'Report of Mission 13', p. iv.

publicly documented an incredible array of problems and offered detailed recommendations to address them. Unfortunately, such transparency and monitoring proves to be not much more than words on paper in the absence of high-level host-country political commitment.

This project also highlights the importance of rigorous and honest evaluations. Incredibly, while noting that the institutional development impact was 'modest' and that sustainability was 'unlikely', the World Bank's project implementation completion report on two of the three loans that comprised its involvement with the pipeline project somehow ranks World Bank performance as 'satisfactory' and the overall outcome as 'satisfactory'.[24] In response, a coalition of NGOs released its own 'project non-completion report' and colourfully noted that the World Bank 'ratings can only be described as incomprehensible, detached from reality and, therefore, misleading'.[25] Sadly, such self-serving evaluations seem to be a recurrent feature of many development projects and are arguably a significant explanatory variable behind the poor performance of many aid programmes.[26]

One institutional question that Chad's experience cannot answer is what level of institutional development is required to enable successful resource-led poverty reduction. It is increasingly accepted within the 'resource curse' literature that the effects that natural resources have on such things as economic growth or civil war are mediated through the quality of institutions. Mehlum, Moene, and Torvik, for example, claim that 'natural resources put the institutional arrangements to the test' and 'the quality of institutions determines whether countries avoid the resource curse or not'.[27] It was widely predicted that Chad would not be able to surmount this institutional hurdle. Conversely, one might stipulate that Botswana has generally done well in managing its diamond wealth. There is an awful lot of institutional space, though, between Chad and Botswana, and the collapse of the pipeline project does not offer us much insight into, say, whether or not Ghana's recent discovery of significant offshore oil deposits will or will not result in a resource curse there.[28]

One of the enduring debates surrounding the Chad-Cameroon pipeline project revolves around the importance of sequential timing. Ben Smith

24. World Bank, 'Implementation completion report', p. 1.
25. Korinna Horta, Samuel Nguiffo, and Delphine Djiraibe, 'The Chad-Cameroon Oil and Pipeline Project: a project non-completion report' (Environmental Defense, Washington, 2007), p. 4.
26. Paul Clements, Thomaz Chianca, and Ryoh Sasaki, 'Reducing world poverty by improving evaluation of development aid', *American Journal of Evaluation* **29**, 2 (2008), pp. 195–214.
27. Halvor Mehlum, Karl Moene, and Ragnar Torvik, 'Institutions and the resource curse', *The Economic Journal* **116**, 508 (2006), pp. 4 and 16.
28. See, on this, T. C. McCaskie, 'The United States, Ghana, and oil: global and local perspectives', *African Affairs* **107**, 428 (2008), pp. 313–32.

has argued in this regard that the question of *when* a country receives an oil revenue influx is more important than the question of *whether* or not it receives such an influx. As he explains, 'oil and oil wealth do not carry around one set of incentives and constraints that hang over all actors in all times and places. Rather, the incentives provided by oil rents present options to rulers that appear to vary according to timing'.[29] Put simply, having good institutions in place *before* oil wealth arrives is likely to generate much better results than trying to create those institutions as or after oil wealth arrives.

The World Bank has only begun to acknowledge the importance of this argument and it still resists following it through to its logical conclusion. To its credit, the Bank now admits that 'Linking the implementation of a capacity building project to the implementation of a large engineering project such as the Chad-Cameroon Petroleum Development and Pipeline Project was not practicable or realistic in a country with limited human resources and capacity.'[30] Yet the World Bank decisively rejected the argument put forward by the Extractive Industries Review that a clear framework of necessary preconditions must be in place *before* resource extraction commenced if it was going to contribute successfully to poverty reduction.[31] Even in the case of Chad, the Bank's tepid justification for starting future capacity-building projects as soon as possible is merely 'in order to have *at least some capacity* in place when the project is implemented'.[32]

Finally, there is no evidence that the World Bank has considered more fundamental departures in addressing this sequencing problem. One way the Bank could potentially front-load its technical assistance would be to encourage countries with weak institutions to leave their oil in the ground.[33] While world oil prices have recently dropped significantly from their record highs a few months previously, oil is likely to be an appreciating asset in the future. Surely, the World Bank can figure out some way to borrow against a share of the future revenues to fund capacity-building projects that can develop gradually without the incredible pressures Chad faced as it literally watched pipeline construction advance months ahead of schedule.

29. Smith, *Hard Times in the Lands of Plenty*, p. 198.

30. World Bank, 'Implementation and completion results report', p. 27.

31. The original recommendation can be found in Extractive Industries Review, *Striking a Better Balance, Volume I: The World Bank Group and Extractive Industries* (Extractive Industries Review, Washington, 2003), pp. 45–6. The Bank's response can be found in its *World Bank Group Management Response* (World Bank, Washington, 2004), p. 3.

32. World Bank, 'Implementation completion and results report', p. 26, my italics.

33. I first heard this suggestion in a personal communication with Graham Davis, Colorado School of Mines.

That would not solve the obsolescing bargaining problem, but if the oil contracts were structured in such a way as to ensure that the monitoring institutions had their own guaranteed stream of funding, not subject to executive discretion, the capacity-building institutions would at least have a better chance to stay in and possibly win the fight.