Can Corporate Power Positively Transform Angola and Equatorial Guinea?

Published in Wayne Visser ed. *Corporate Citizenship in Africa.* Greenleaf Publications, UK, 2006.

Authors:

Jose A. Puppim de Oliveira
Brazilian School of Public and Business Administration – EBAPE
Getulio Vargas Foundation – FGV
Praia de Botafogo 190, room 507
CEP: 22253-900, Rio de Janeiro - RJ, BRAZIL
Phone: (55-21) 2559-5737
Fax: (55-21) 2559-5710
e-mail: puppim@fgv.br

&

Saleem H. Ali
Rubenstein School of Environment and Natural Resources
University of Vermont
153 S. Prospect St.,
Burlington VT, 05452, USA
Ph: 802-656-0173
Fx: 802-656-8015
Email: saleem@alum.mit.edu

ABSTRACT

While there is considerable literature on the adverse effects of oil development on developing economies through “Dutch Disease” or “Resource Curse” hypotheses, studies have neglected to pose the question in terms of positive causal factors that certain kinds of oil development might produce. We do not dispute the potential for negative effects of certain kinds of oil development but rather propose that some of the negative causality can be managed and transformed to lead to positive outcomes. Using a comparative study of oil company behavior in Angola and Equatorial Guinea, the research detects three main factors that have affected the behavior of oil companies since the Earth Summit in 1992. First, there is a growing movement of corporate social responsibility in businesses due to changes in leadership and corporate culture. Second, the ‘globalization’ of environmental movements has affected the behavior of companies through threats of litigation and stakeholder action. Third, governments in Africa have increasingly become stricter in regulating companies for environmental and social issues due to a transformation of domestic norms and international requirements. The research tries to understand these three factors and how they are affecting different multinational oil companies in the emerging oil markets in Africa. The comparison between Angola and Equatorial Guinea is particularly compelling because in the Angolan case, the country also has many alternative development paths (diamonds, agriculture, timber), whereas with Equatorial Guinea the only alternative development path in terms of comparable returns appears to be large-scale tourism. How companies and governments leverage these opportunity costs is particularly important to understand in the context of African development.

1) INTRODUCTION:

Oil production has been a major source of export revenues for many African countries, and yet has played a questionable role in the development of sub-Saharan Africa. Multinational companies in the oil sector have established operations in the continent for several decades, despite many operational difficulties. In some countries, they endured an institutional environment that was not particularly attractive to business, such as civil wars, famine, lack of safety, disease and widespread corruption. On the other hand, once they were established, they could operate with limited government regulation or social control from civil society, especially with respect to environmental and social standards. Allegations of bribery, environmental degradation, social conflict and lack of integration with the local economy have historically plagued the behavior of corporations in Africa (Bayart et al, 1999). Recently, however, there appears to be some positive movement towards responsible management of African oil revenues that is gaining attention (Katz et al., 2004).

Our research examines the changes in some aspects of corporate social responsibility of multinational oil companies in Africa, particularly in the new markets of Angola, and Equatorial Guinea. We attempt to analyze positive contributions of certain kinds of oil development in African countries beyond the "Dutch Disease" or "Resource Curse" hypotheses (Karl, 1997, Ross, 2001, Le-Billon, 2003), while recognizing the perils of a mismanaged oil sector. The comparison between Angola and Equatorial Guinea is particularly compelling because in the Angolan case, the country also has many alternative development paths (diamonds, agriculture, timber), whereas with Equatorial Guinea the only alternative development path in terms of comparable returns appears to be large-scale tourism. How companies and governments leverage these opportunity costs is particularly important to understand in the context of African development.

2) BACKGROUND ON OIL IN AFRICA

Oil has become one of the main sources of revenues for countries in Sub-Saharan Africa (Table 1). Several countries have turned into oil exporters in the last decade: Nigeria, Angola, Congo-Brazzaville, Gabon, Equatorial Guinea, Cameroon, Chad, the Democratic Republic of Congo and Sudan. Many others are exploring their subsoil in search of the "black gold", such as Sierra Leone, Mauritania, Niger and Uganda.

The estimates for Sub-Saharan Africa run around 7% of the world's reserves of oil. Fields in the Gulf of Guinea alone contain an estimate of 24 billion barrels. There is a trend of increase in these values, as most of the new discoveries of oil reserves happen in the region. In 2001, the fields of West and Central Africa's Atlantic coast accounted for 7 billion out of 8 billion barrels of new crude oil reserves found around the world (CRS, 2003).

Table 1 – Weight of Oil in Some African Economies (2002 estimates)

Country	%GDP	%Exports	%Govt. Revenue
Nigeria	40	95	83
Angola	45	90	90
Congo-Brazzaville	67	94	80
Equatorial Guinea	86	90	61
Gabon	73	81	60
Cameroon	4.9	60	20

Source: Data from the World Bank, IMF, CIA World Factbook 2002, U.S. Department of State, U.S.Energy Information Administration.

Sub-Saharan oil is attractive to the main oil markets of the United States (USA) and European Union (EU) because of several technical factors, such as its high quality crude (low sulfur content) and the proximity to the main markets. However, the region's socio-political factors are even more appealing as compared to other regions. Sub-Saharan countries are more open to foreign companies than countries in the Middle-east or Latin America, whose oil reserves are mostly in the hands of State companies. Moreover, Nigeria is the only country affiliated to the Organization of Petroleum Exporting Countries (OPEC).

3. CASE OVERVIEWS AND METHODOLOGY

We follow a comparative case research methodology to understand the patterns of corporate influence on development trajectories in Angola and Equatorial Guinea. This study is not meant to be a detailed ethnography of the cases and instead uses a prospective methodology. Our aim is to develop an argument with stipulated assumptions that could potentially be considered in policy formulation.

3.1 THE ANGOLAN CASE

Since its independence in 1975 from Portugal until 2002, the established Angolan government and the rebel group UNITA fought a ruthless war that killed thousands and left more than 4 million displaced, out of a total population of approximately 11 million (estimated in 2004 according to EIA, 2005).

Angola is the largest oil producer in Southern Africa, and second in Sub-Saharan Africa, only behind of Nigeria. Crude oil production reached over 900,000 barrels per day in 2003 (see Figure 1). More than half of the oil is found in the Cabinda province, an enclave north of the country and separated from the rest of the country by a sixty kilometers of Congolese (DRC) territory. In 2008, it is estimated that the production goes over 2 billion barrels a day, as the new deep-water sites are expected to operate at full capacity. According to table 1, in Angola, oil accounts for 90 percent of total exports, more than 90 percent of government revenues and 45 percent of the country's GDP.

The low operating costs and large reserves attract most of the large oil companies to the country, including Chevron-Texaco, ExxonMobil and Occidental (Angola Embassy in the UK, 2004). Chevron (now Chevron-Texaco) has the largest operations in the country and a long history, with more than 40 years of operational experience. The company produces more than 500,000 barrels a day in Angola (Chevron, 2005). In the 1990s, Chevron developed deep-water oil fields in the country, increasing its production capacity. It has also invested in the production of natural gas.

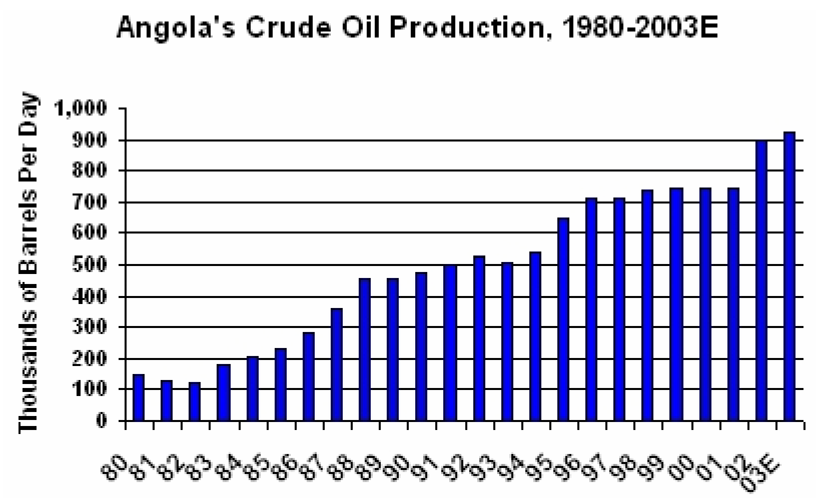

Figure 1 – Oil Production in Angola (from EIA, 2005).

There are a series of issues involving oil business and Corporate Social Responsibility (CSR) issues in Angola.

First, oil production has always been linked to supporting conflicts in the country. Oil revenues, from the activities of multinational oil companies, undoubtedly helped the government war structure, and the diamonds, on the other hand were helping the rebel group UNITA (Cilliers and Dietrich, 2000). The war is over, but other conflicts remain, such as the separatist movement in Cabinda, Angola's prime oil production region. In production terms, Cabinda generates about 60 percent of the country's oil, but it has a tiny population (around 170,000, compared to the country 15 million). Cabinda has a separatist movement since the independence, and claims oil money keeps the repression over their claims of freedom.

Second, there is a large imbalance in the relation between the huge oil companies and national governments of Africa, and Angola in particular. For example, ExxonMobil's profits of $15 billion in 2001, are almost double of Angola's GDP of $8.8 billion (in

2000) and more than tenfold greater than the $1.4 billion GDP of Chad in 2001 (CRS, 2004). The differences in resources lead to a huge asymmetry of power in negotiations with governments.

Third, there are claims that some of the government money from oil goes unaccounted. For example, a total of $4.22 billion (or approximately 9 % of the GDP) was unaccounted between 1997 and 2002 from Angolan accounting books, according to an analysis by Human Rights Watch (HRW, 2004). Corruption suspicions were also raised when the International Monetary Fund set up a Staff Monitored Program (SMP), which found out that revenues from oil had been diverted to the presidency and the state company Sonangol. Moreover, Sonangol is pointed by some authors as a distributor of benefits to the local elites, such as scholarships abroad and travel expenses (Hodges, 2004). This bonanza from oil revenues has also led to over-borrowing by the government in the so called oil-backed loans. The IMF calculated the oil-backed debt reached 33% of Angola´s total external debt – thus a large part of the oil revenue is used to pay loans.

Fourth, oil companies have been accused of many oil spills, which have affected the environment and the local population. There are many examples in Nigeria with Shell and Angola with Chevron (BBC, 2002).

Finally, revenues from the oil sector have abounded for the companies and governments, but life of most Angolans has not changed much. An estimated 900,000 Angolans are displaced from the civil war times. Many more have no access to basic needs and citizenship, such as education and health care. The United Nations cites that 67% of the urban population is poor in Angola (UNDP, 2000). Part of the oil money could be used to remediate those problems, but not much is left at the local level. For example, Cabinda produces most of the Angolan oil, but gets only a small fraction of the revenues, equivalent to 10% of the tax paid by Chevron-Texaco and partners in its operations in the province. Moreover, the oil boom and the liberalization of the economy seems to have contributed to an increase social inequality in the country. The Gini coefficient increased from 0.45 in 1995 to 0.54 in 1999 (UNDP, 1999).

However, there are some positive developments in the last few years since the civil war ended and companies have reacted to the wave of Corporate Social Responsibility and strengthening in regulation as discussed in Section 5.

4) THE CASE OF EQUATORIAL GUINEA

In many ways Equatorial Guinea (EG) has been an anomaly in African history. It is the only Spanish-speaking country amidst a profusion of Anglophone, Francophone and Lusophone countries – owing to its colonial lineage. It is also a country that is geographically separate into two segments with a mainland entity called Rio Muni and an archipelago of islands about a hundred miles offshore. The capital, Malabo, is situated on the largest of these islands called Bioko. Apart from European colonization, the island has also been colonized by the Fang tribe from the mainland and now constitute more than 70% of the population. The indigenous inhabitants of the island, particularly the Bubi, have been relegated to a minority and somewhat underprivileged status (Bolender, 2003).

While the past decade has seen relative political stability in the country, it has been at the expense of democracy and human rights. The EG government is considered by many commentators as one of the most notorious kleptocracies in Africa (Wood, 2004), and has eluded accountability long before the advent of oil. The World Bank and IMF withdrew financial support from EG in the late nineties on account of corrupt governance but have initiated some limited assistance since 2003 as part of the Regional Integration Assistance Strategy (World Bank, 2003).

Though much of the literature on kleptocracies and their survival would lead us to believe that oil wealth might perpetuate the regime's strength (Acemoglu et al., 2004; Global Witness, 2004), we would like to offer an alternative prospect, based on a recent developments in corporate social responsibility (CSR). In contrast to Angola, we hypothesize that a smaller more tightly dependent economy such as EG might be more amenable to positive influences from CSR, even though the baseline for kleptocratic governance is far more acute in EG.

A detailed history of oil development in EG has already been provided in very recent publications (Frynas 2004; Wood, 2004), and our aim here is to focus instead on developments pertaining to corporate governance in EG and its influence on the regime in terms of environmental and social responsibility.

It is important to note, however, that there appears to have been a noticeable improvement in the human development index of Equatorial Guinea since the oil industry began activities there in the last decade or so. Figure 2 shows this change in comparison to other countries in sub-Saharan Africa and the average global HDI. While there are methodological critiques that can be made of the HDI measure, it is a fairly useful composite measure of health, education and standard of living changes. Comparable data for Angola is unavailable; however, the HDI for Angola in the 2004 Human Development report is reported to be 0.381, which is well below Equatorial Guinea.

Some scholars have attributed rapid development and investment in infrastructure as occurred in the Middle East oil states or indeed in African states such as Gabon to "rentier theory" (Yates, 1996). Thus the increase in HDI, according to this theory is predictable but not sustainable since the rentier economy according to this theory considers development to be a commodity that can be purchased rather than a process that has to be exercised. Based on this trajectory, rentier theorists contend that while diversification may be the answer, oil economies are resistant to diversification because of their structure of revenues that encourage complacency. However, recent scholarship and indeed the economic performance of many Gulf States such as the United Arab Emirates is questioning the validity and universal applicability of rentier theory (Moore, 2002).

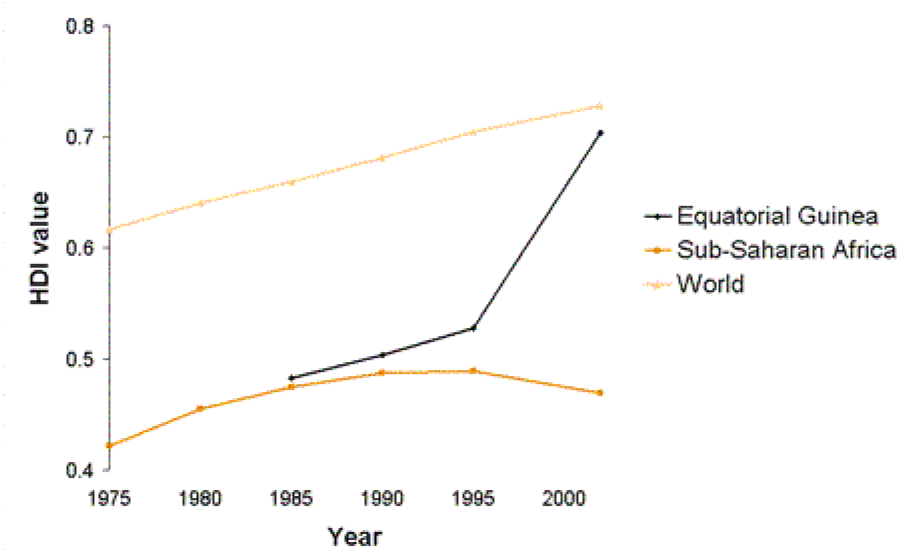

Figure 2: Changes in Human Development Index for Equatorial Guinea over time

The United States reopened its embassy in Malabo in 2003 and the State department asserts that U.S. "intervention has resulted in positive developments, such as the release of a half dozen persons detained without charge. The position of 'second vice prime minister over human rights and public administration' was created to improve and monitor the human rights situation in the country" (U.S. Embassy in Equatorial Guinea, 2005).

Given the high level of publicity accorded to the role of oil companies in U.S. politics, the State department decided to support precautionary measures against capital flight and corruption in the case of oil development in Equatorial Guinea. A Social Needs Assessment was commissioned by the State department which led to a comprehensive set of recommendations from Businesses for Social Responsibility (BSR), a nonprofit group that works to improve social practices of companies. A detailed plan for setting up a Social Development Fund were also part of the project, completed in May 2005.

5) ANALYSIS OF THE CASES

While there is considerable literature on the adverse effects of oil development on developing economies through "Dutch Disease" or "Resource Curse" mechanisms (Karl, 1997, Ross, 2001, Le-Billon, 2003), studies have neglected to pose the question in terms of positive causal factors that certain kinds of oil development might bring about, especially with the recent changes mentioned above.

We do not dispute the potential for negative effects of certain kinds of oil development but rather propose that some of the negative causality can be managed and transformed to lead to positive outcomes. Thus we eschew the fatalistic tendency of resource curse theorists and approach the issue from a prescriptive planning perspective using evidence from two recent cases of oil development in Africa, particularly in Angola and EG.

This study aims to potentially provide analyses for understanding mechanisms by which the investment of multinational oil companies could potentially play a role in promoting more transparent and responsive States. Both countries being studied were in dire economic and political predicaments even before the advent of oil and hence provide a common baseline to look for any positive or negative developments since oil development began.

Our analysis harkens back to the divergence of perspectives in the political economy of development literature. On the one hand a more negative view of dependence leading to "peripheral states" has been offered, often through a Marxist critique (dos Santos, 1970) or using rentier theory (Yates, 1996). On the other hand, a relatively positive view of dependence on resources and external involvement from multinationals corporations and international actors has been offered by some scholars working in Nigeria and Brazil (Bierstecker, 1987; Evans 1979). These dependency theorists recognize that states such as Nigeria and Brazil are by no means role models of development but that they are probably better off than what they might have been in the absence of resources and international involvement. The key failure has been in the accountability and enforcement means on multinationals. Our research tries to understand and provide some alternatives to improve this point.

International Foreign Investments (IFIs) probably have a far more limited impact on Angola than they might on EG because of the differences in internal resource capacity of both countries. Hence for Angola to have positive change, the development of a civil society sector and internal influence is more likely to be effective than external influence.

How companies and governments leverage these opportunities is particularly important to understand in the context of African development. Angola and Equatorial Guinea provide examples of how geographic differences in size, demographics, post-colonial linkages as well as alternative industrial sectors can lead to different development trajectories. This is not to say that those trajectories are immutable but rather that different regulatory mechanisms might be needed to bring about change.

We identified three groups of positive changes that have happened in the last years. First, there is the global movement for Corporate Social Responsibility (CSR). Many companies are adopting corporate policies and initiatives to become more socially and environmentally responsible because of many factors, such as fear of litigation or improvement of their image. Second, international organizations - multilateral, governmental and non-governmental – have increasingly strengthened their involvement with and mechanisms of control over multinational companies in Africa. These mechanisms range from safeguards for receiving credit in the multilateral institutions or more effective overseeing activities of non-governmental organizations. Finally, some African countries have developed minimum regulatory over certain issues such as environmental impacts of oil activities. Those three trends seem to have influenced companies to change their behavior regarding issues related to social responsibility. We will analyze the trends with more details below.

Angola and Equatorial Guinea provide examples of how geographic differences in size, demographics, post-colonial linkages as well as alternative industrial sectors can lead to different development trajectories. This is not to say that those trajectories are immutable but rather that different regulatory mechanisms might b needed to bring about change.

5.1) RISE OF CSR MOVEMENT

Companies are increasingly worried about being considered socially and environmentally responsible by their peers, consumers and society in general. The World Business Council for Sustainable Development (WBCSD) and other industry organizations have played a fundamental role in organizing business and spreading concepts and tools to deal with social and environmental issues.

Historically, CSR reputation has not affected the profitability of companies. However, there is growing evidence that this trend is changing (Schneitz and Epstein, 2005). This is not due as much to consumer demand changes as it is due to the growing threat of litigation costs that may result through civil society action. In particular the oil industry is beginning to feel this impact as illustrated by a recent study by Gueterbock (2004) of the impact of the Greenpeace campaign against ExxonMobil.

Since most of the companies operating in EG and Angola are American companies or have strong economic interest in America, there is also the possibility that US legal recourse would be more easily applicable to operations in these countries. Hence any potential violations of environmental and human rights might be litigated under the Alien Torts Statute of 1789 (ATS). While this law was originally enacted to combat piracy on the high seas, it has been applied in lower courts to violations of human and environmental rights by companies with American linkages.

The recent supreme court ruling on the applicability of the ATS of in *Sosa vs. Alvarez-Machain et al.* (2004), has limited the applicability of the ATS but has kept the "door ajar" for some specific cases of violations in which corporations may be culpable. Additionally, action in state courts such as the recent ruling to move to trial in a case against the Californian gas company Unocal (*Doe et al. vs. Unocal, 2004*) for alleged complicity in human rights violations in Burma / Myanmar may also be an additional recourse for litigants.

In the World Summit on Sustainable Development in South Africa in 2002 in Johannesburg, the International Association of Oil & Gas Producers presented a social report, which described their intentions and actions to be more socially and environmentally responsible in their operations. Those actions range from projects of water provision and AIDS/HIV programs to the enormous revenues they have generated to local and central governments in Africa.

Social projects and philanthropy have been the chief CSR actions of oil companies in Africa. Chevron-Texaco reports that it has invested heavily in all kinds of social projects, such as construction of health centers and schools, technical training to local population, funding of small business and AIDS programs. For example, it supports the development of the Futila Industrial Park in Angola. Although some organizations claim that many of those projects are useless or not working anymore (CRS, 2004), the attitude of investing more resources than before in the countries and communities they have operations is a significant change in the behavior of oil companies.

Under pressure from NGOs and some governments in their own home-countries, many companies have introduced codes of conduct to deal with governments in Africa. BP was the first to create an initiative of transparency in its contracts in Angola in 2001. The company promised to release all its payments to the government, including net production, aggregate payments, total taxes and signature bonus. However, in its first release of information,[1] the Angolan government through the state controlled oil company (Sonangol) reacted firmly, saying that a confidentiality clause and legislation did not allow the disclosure of information (CRS, 2004). Thus, a well-intentioned unilateral attitude of a company can have backlashes and hurt the company that tries to be responsible. In a competitive business environment, such as oil, and in a context like parts of Africa with centralized governments with little accountability, companies cannot go against local authorities alone. The Publish What You Pay campaign led by NGOs can force more companies to act together and generate a more transparent contracting environment and make governments more accountable in the region.

The viability of corporate responsibility as a means of initiating change in EG was tested by a recent scandal involving the alleged siphoning of funds from oil revenues to an account held by the President Obiang's family at Riggs Bank in Washington, DC. There were direct linkages made to acquisition of property in Washington suburbs from these accounts (Global Witness, 2004). This led to a senate hearing on the issue and an investigation by the Office of the Comptroller of Currency (OCC). However, the focus of the investigation has been more on the bank than on the oil companies or the EG government.

Even so, the EG government has vehemently objected to this interference in its affairs since oil revenues and their use are considered a "state secret" by the E.G. authorities. Nevertheless, the government is obliged to cooperate with authorities in the investigation since U.S. companies are bound by the Foreign Corrupt Practices Act.

5.2) INFLUENCE OF INTERNATIONAL ISSUES: INTERNATIONAL FINANCIAL INSTITUTIONS AND GLOBALIZATION OF CIVIL SOCIETY

Empirical research is showing that International Financial Institutions (IFIs) and international networks of NGOs are important drivers of changes worldwide (Vives,

[1] BP said that it paid $111 million signature bonus for the government of Angola for 26.7 percent operating share in Block 31 (CRS, 2004).

2004). Many countries depend significantly on the monies and expertise from international organizations to implement development programs and projects. Groups of civil society and NGOs in Africa are still relatively weak to force much change, but they are increasingly getting organized and connected with larger local and world networks of movements related to CSR. Moreover, NGOs in the Northern countries are progressively building institutional capacity to monitor multinational corporations in Africa, directly or with the help of local partners. The recent campaign led by Friends of Earth against Shell in Britain is an example. Friends of Earth publish in partnership with other organizations, their own social and environmental report of Shell activities around the world, denouncing many shortcomings. There is also a group of NGOs that have specialized in being the watchdogs of multinationals, such as Corporate Watch, or even networks of NGOs that focus their activities on oil issues in Africa, such as Oilwatch Africa.

IFIs are particularly important in shaping African governments and companies in certain aspects. Besides direct finance of development projects, IFIs act as risk reducers for private investment, such as development of oil fields. The World Bank Group and export credit agencies (ECAs) work together with many oil companies in Africa. The latter give even more resources than the traditional multilateral organizations. In Angola, ECA of nine countries funded 3 billion dollars in projects, or more than 25% of the estimated foreign direct investment that came to the country in the same period (Carbonell, 2002 cited by CSR, 2004). IFIs can put conditions to finance projects or release credits, so they can be fundamental for improving legal and administrative systems. Even though ECAs generally do not ask strict social or environmental safeguards, the World Bank has increasingly demanding social and environmental conditions to release their loans, as well as supporting innovative projects, such as the Chad-Cameroon pipeline. This project is supported by the World Bank and introduced a series of innovative social and environmental guidelines. NGOs and local communities have an important role in monitoring the project.

5.3) REGULATORY CAPACITY

The regulatory capacity of some African governments over oil activities has grown in the last years. Some governments have gained expertise in the technical matters of the oil business, improved their capacity to negotiate concession contracts and regulate social and environmental issues. For example, Chevron-Texaco got a US$2 million fine from Angolan authorities because of an oil spill in the sea in 2002. Even though companies have a history of oil spills and pollution in the region, this was the first time an oil company was fined due to environmental degradation in Africa.. Chevron-Texaco also compensated local fishermen for losses in their incomes.

Another institutional improvement in government is the consolidation of Sonangol (Angolan state oil company) in terms of technical and management capacity. Over the years, even during the civil war, Sonangol gained technical capacity in many aspects of the oil business including regulation, contracting, product distribution, industry support services, refinery, as well as noncommercial areas such as education, training and health. It has also entered other areas of the economy such as insurance, airline and telephone.

Sonangol has been almost a state within the state. The state company is a kind of role model to other countries in the region. It is using its experience to increase Angola's influence in Southern Africa. Sonangol has passed technical expertise to the government of Congo-Brazzaville and Sao Tome e Principe, a new entrant in range oil producing countries in the region.

In Angola, the partnership between the State and oil companies is done through Sonangol, the state oil company. There have been concession contracts (Contratos de Partilha) that specify the terms of division between Sonangol and the partner. They are very important because oil is the main economic activity and source of revenues for the state.

A new Petroleum Law was passed in 2004 (Law 10/04 of 12 November 2004). Under this law the powers of the Ministry of Petroleum increased, and new safeguards were introduced. The previous contracted concessions are kept and the changes are valid for new contracts. Two basic principles permeate the law: oil reserves are a property of the state and Sonangol is the sole and exclusive concessionary of this property. The law tries to give more power to the Ministry of Petroleum, promote local content and firms in the oil sector, require to hire Angolan citizens to all positions when possible and forbid discrimination in terms of salary between local and expatriates (US-Angola Chamber of Commerce, 2005).

In the concession contracts there are few safeguards for oil spills. Besides that there are the environmental laws and the a specific environmental law for the oil sector, the Environmental Law for the Oil Sector (Lei do Ambiente do Sector Petrolífero). This law determines what companies should do to prevent pollution or accidents and determine contingent plans in case of accidents and fines for oil spills. At the national level, there has been some improvement in the enforcement of the environmental laws and strategic actions, such as the national plan for contingencies. The elaboration of this plan had the participation of the oil companies and two international organizations, IMO (International Maritime Organization) and IPIECA (International Petroleum Industry Environmental Conservation Association).

E.G.'s regulatory capacity is severely limited as compared to Angola. The level of dependence for technical expertise extends even to the regulatory arena. Much of the regulatory capacity is managed by a British consulting firm Exploration Consultants Limited (ECL). According to the Ministry's public web site (www.equatorialoil.com), the current Law concerning hydrocarbon exploration and production activities is Decree Law No. 7/1981 of June 1981 (the Hydrocarbons Law) as amended by further decree in November 1998. While the production-sharing contract legislation is under review, it contains provisions for a minimum royalty of 10%, escalating to a maximum of 16%. Environmental and social concerns are being addressed primarily through the impact assessment process rather than through regulatory compliance.

6) CONCLUSIONS/ALTERNATIVES

The argument has been made by resource curse theorists as well as social/environmental activists that good governance must be a prerequisite for oil development in Africa. The reasoning they present is that oil development once begun can perpetuate corruption, despotism and economic inequality because of the spatial and economic nature of oil operations and revenue management. However, instead of being trapped in the resource curse or the Dutch disease hypotheses, we have to move on and look at the changes the region and the oil sector are undergoing in the last years in order to make a more positive assessment and policy analysis of how more changes can happen and how the different actors may influence those changes.

A simple sequence of events with contingent prerequisites leading to a positive set of outcomes shown in Table 2, based on a stakeholder scenario analysis for four key stakeholders: the oil companies, international financial institutions, government and civil society. What is important to consider in this table are the three key assumptions about a positive scenario, which are described below.

Table 2: Stakeholder scenario analysis for positive governance in the oil sector

Stakeholder	**Action**	**Motivated by**	**Result**
Oil companies	Ensuring labor rights and environmental protection	CSR reputation and threat of litigation hurting profits and need for IFI financing	Environmental and social equity
Government	Relative transparency of revenues	Need for oil revenues to maintain economic growth and lifestyle changes	Reduction of corrupt capital flight
International Financial Institutions (IFIs)	Making financing contingent on transparency	Interest in oil as a development tool; civil society pressure on transparency	Government action and accountability
Civil Society	Monitoring enforcement and providing objective analysis of conditions	Humanitarian mandate and technical expertise	Independent verification of progress

1. *The level of influence which IFIs may have on the government with regard to stipulations on revenue management:* This leverage is likely to be far greater with a small country such as EG than perhaps with a larger country such as Angola that has more alternatives sources of financing. However, the case of the Chad-Cameroon pipeline shows that IFIs can have considerable leverage over

even despotic regimes regarding revenue management. It is also important to consider that the same U.S. multinationals are involved in the Chad-Cameroon project as are present in EG, largely dominated by Exxon-Mobil. The need for technical assistance and massive capital influx for oil projects (particularly off-shore projects) further necessitates the role of IFIs. The high risk investment climate in countries such as EG also tightens the dependence of private investors on international institutions such as the Multilateral Investment Guarantee Agency (MIGA).

2. *The willingness of IFIs to leverage their financial authority in the face of state sovereignty concerns:* The realization of the first assumption is largely dependent on whether IFIs exercise their financial leverage and are willing to take on arguments of state sovereignty and caricatured accusations of neocolonialism. In recent communiqués, staff at the World Bank have indicated that they would follow a procedural course similar to the Chad-Cameroon project with any large-scale assistance to EG. The growing evidence from recent action on Chad-Cameroon revenues and reprimands from the World Bank for the Chadian government using the revenues for arms purchases shows that there is growing international will to exercise such authority (IAG, 2004).

3. *Local civil society forces would monitor effectiveness of initiatives where IFI does not have capacity to do so.* The relatively small size of EG and the authoritarian nature of the state has precluded the development of a strong civil society sector as well as any substantive international interest from environmental and human rights groups. The first detailed study of corruption in the oil sector in EG by an international NGO was conducted by Global Witness in March 2004 alongside other resource dependent countries such as Kazakhstan, Angola, Congo-Brazzaville and Nauru. Unlike other regions where local organizations and civil society provided much of the primary data, the EG study had to rely primarily on investigative journalism and U.S. State department documents. This goes to show the paucity of civil society activity in the country and could be an impediment to the positive scenario. Nevertheless, there can be pressure exerted by international institutions to allow for civil society organizations to be organized.

Out of these three factors the third one is clearly a matter of some concern with regard to internal leverage and moves towards democratization in Africa. The relative absence of civil society institutions in EG is in sharp contrast to Angola where, though limited, there has been far more activity at the local level. Again, the issue of scale and the unusual geographic situation of EG may have contributed to this predicament.

Indirect pressure from NGOs on various IFIs as well as on foreign governments appears to be having an impact, nevertheless.. For example, the E.G. government has agreed to seriously consider signing on to the Extractive Industries Transparency Initiative (Global Witness, 2004). Hence international NGOs and global civil society can certainly facilitate the development of local initiatives as well. While ideally one would envisage a bottom-up growth of such efforts, in cases of despotism global to local directionality of civil society development should be encouraged.

IFIs probably have a far more limited impact on Angola than they might on EG because of the differences in internal resource capacity of both countries. Hence for Angola to have positive change, the development of a domestic civil society sector and internal influence is more likely to be effective than external influence.

Our paper has attempted to provide a preliminary analysis of how negative presumptions might be reversed and instead oil development could potentially catalyze good governance in Africa. There are numerous cases of poor governance in Africa without any oil development as well and hence one question that might be asked is would these countries be any better off without oil? While such a question is impossible to address empirically, what we have attempted to provide is a scenario analysis that lays out conditions under which a positive role of oil development in Africa could be considered in two African states of varying size. Our analysis recognizes that the argument developed here is based on hypothetical behavior of certain organizations. The aim is to present a positive scenario that could be used to guide policy choice by various stakeholders in the process and provide a pragmatic development path for African oil states.

References:

Acemoglu, D, J.A. Robinson and T. Verdier. 2004. Kleptocracy and Divide-and-Rule: A model of personal rule. *Journal of European Economic Association*. 2(3):162-192.

Angola Embassy in the UK (2004). Site http://www.angola.org.uk/facts_resources_invest.htm. Accessed on September 14, 2004.

Bayart, Jean-Francois , Stephen Ellis and Beatrice Hibou. 1999. *Criminalization of the State in Africa*. Bloomington IN: Indiana University Press.

BBC News (2002). Angola fines Chevron for pollution, on 1 July, 2002. Site http://news.bbc.co.uk/1/hi/business/2077836.stm, accessed on January 15, 2004.

Bierstecker, T.J. 1987. *Multinationals, the state and control of the Nigerian economy.* Princeton NJ: Princeton University Press.

Bolender, J. 2003. Blind eye on Africa: Human rights, Equatorial Guinea and oil. *Z-Net,* August 16.

Carbonell, Tomas (2002). "Export Credit Agency Activity in Angola 1980-2002", unpublished paper, Environmental Defense, Washington, 2002.

Catholic Relief Services. 2003. *Bottom of the Barrel.* London: CAFOD, 2003.

Chevron (2005). Site http://www.Chevron-Texaco.com/operations/africa/angola.asp . Accessed on March 02, 2005.

Cilliers, Jackie and Dietrich, Chris (eds) (2000). Angola's War Economy: The Role of Oil and Diamonds. Johannesburg: Institute for Strategic Studies.

CRS - Catholic Relief Services (2003). Bottom of the Barrel: Africa's Oil Boom and the Poor. Report of Catholic Relief Services.

Culverwell, M. et.al. 2003. *Towards an Improved Governance Agenda for Extractive Industries.* London UK: Royal Institute of International Affairs.

Cusack, I. 2001. Nation-builders at work: The Equatoguinean 'myth' of Bantu unity. *Nationalism and Ethnic Politics* 7(3):77-97.

Dos Santos, T. 1970. The Structure of Dependence. *American Economic Review* 60(2): 231-236

Energy Information Administration -- EIA (2005). Site http://www.eia.doe.gov/emeu/cabs/angola.html. Accessed on March 02, 2005.

Equatorial Gunea, Ministry of Mines, Minerals and Energy. 2004. Web site: http://www.equatorialoil.com, accessed, November 5.

Extractive Industries Review, 2003. *The World Bank Group and Extractive Industries, The Final Report of the Extractive Industries Review.* Washington DC: World Bank.

Evans, P. 1979. *Dependent Development: The Alliance of multinational, state and local capital in Brazil*. Princeton NJ: Princeton University Press.

Frynas, J.G. 2004. The oil boom in Equatorial Guinea. *African Affairs* 103(413):527-546.

Frynas, J.G., G. Wood and R.M.S. Soares de Olivera. 2003. Business and Politics in Sao Tome e Principe: From Cocoa Monoculture to Petrostate. *African Affairs* 102(1):51-80.

Global Witness, 2004. *A time for transparency.* London UK. Global Witnbess Publications.

Goldwyn, D.L. and Morrison, J.S. eds. 2004. *Promoting Transparency in the African Oil Sector, A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa.* Washington: Center for Strategic and International Studies.

Goldwyn, D.L. 2004, "Extracting Transparency," Georgetown Journal of International Affairs 5(1):5-12.

Gueterbock, Rob 2004. "Greenpeace campaign case study – StopEsso." *Journal of Consumer Behaviour*, Vol. 3, No. 3, pp. 265-271.

Hodges, Tony (2004). *Angola: Anatomy of an Oil State*. Lysaker, Norway: Fridtjof Nansen Institute.

Hodges, Tony (2001). *Angola from Afro-Stalinism to petro-diamond capitalism.* Bloomington IN: Indiana University Press.

HRW - Human Rights Watch (2004). Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights. Site http://www.eia.doe.gov/emeu/cabs/angola.html. Accessed on March 02, 2005.

International Monetary Fund. 2004. *Are Developing Countries Better Off Spending their Oil Wealth Upfront.* Washington: IMF Publications.

Klitgard, R. 1991. *Tropical gangsters: One man's experience with development and Decadence in Deepest Africa*. New York NY: Basic Books

Karl, T.L. 1997. *The Paradox of Plenty: Oil Booms and Petro States.* Berkeley CA: University of California Press.

Katz, Menachem et al. 2004. *Lifting the oil curse: improving petroleum reveneue management in sub-Saharan Africa.* Washington DC: International Monetary Fund.

Kofi, Tetteh A. (1981). Prospects and Problems of the Transition from Agrarianism to Socialism: The Case of Angola, Guinea-Bissau and Mozambique, *World Development,* Vol. 9, No. 9110, pp. 851-870,198l.

Kyle, Steven (2002). *The Political Economy of Long-Run Growth in Angola - Everyone Wants Oil and Diamonds but They Can Make Life Difficult.*Working Paper. Ithaca, USA: Department of Applied Economics and Management, Cornell University.

Le Billon, Philippe. 2001. The Political Ecology of War: Natural Resources and Armed Conflicts, *Political Geography* 20(5):561-584

Liniger-Goumaz, M. 1988. *Small is not always beautiful: The story of Equatorial Guinea.* London UK: C. Hurst.

Moore, Pete W. 2002. "Rentier Fiscal Crisis and Regime Stability: Business-State Relations in the Gulf." *Studies in Comparative International Development*, Spring.

Ross, M. 2001. *Extractive Industries and the Poor.* Boston: Oxfam America.

Ross, Michael L. (2001). Does Oil Hinder Democracy? *World Politics* 53 (April), 325–61.

Schneitz, Karen and Marc Epstein 2005. "Exploring the Finanical Value of a Reputation for Corporate Social Responsibility during a crisis." *Corporate Reputation Review*, Vol. 7, No. 4, pp. 327-345.

Transparency International. 2003. *Corruption Perceptions Index.* London: Transparency International.

Transparency International. 2004., *Global Corruption Report 2004.* London: Transparency International.

U.S. House of Representatives. 2004. *United States Economic Assistance Conditionality Act of 2004.* 108th Congress, 2nd session, 13. May 2004.

UNDP – United Nations Development Programme (1999). Human Development report. Angola 1999. Luanda: UNDP.

UNDP – United Nations Development Programme (2000). Políticas de Redução da Pobreza, Procurando a Equidade e a Eficiência. Luanda: UNDP.

UNDP – United Nations Development Programme and GURN – Ministério da Administração do Território (2002). Descentralização em Angola. Luanda: UNDP.

US-Angola Chamber of Commerce. 2005 Business Symposium in Angola (May 04 and 05, 2005), in the site http://www.us-angola.org/2005business_sym1.htm accessed on June 14th, 2005.

Velloso, A. 2003. From cocoa fields to oil in Equatorial Guinea. *Counter Punch.* November.

Vives, Antonio. 2004. "The role of multilateral development institutions in fostering corporate social responsibility." *Development,* Vol. 47, no. 3, pp. 45-52.

Wood, G. 2004. Business and politics in a criminal state: the case of Equatorial Guinea. *African* Affairs 103(413): 547-567.

World Bank, 2003. *Africa: World Bank Presents a Regional Integration Assistance Strategy for the Central African Economic and Monetary Union.* Washington DC: News Release No:2003/217/AFR

Yates, D.A. 1996. *The rentier state in Africa: oil rent dependency and neocolonialism in the Republic of Gabon.* Trenton NJ: Africa World Press.