

West Africa's Sustainable Development and United States Energy Security Interests

Leon Sullivan Foundation Congressional Briefing

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I would like to thank the organizers of this event, the Sullivan Foundation and the honorable members of Congress who are sponsoring the briefing, for inviting us to speak today.

Sub-Saharan Africa is increasingly important in terms of future US energy security. West Africa accounted for 6.3% of worldwide oil exports in 2004. 13% of US oil imports are from the region. US reliance on W Africa is set to grow sharply in response to the need to secure reliable sources of oil, particularly outside OPEC, to around 25% by 2015 according to the United States Geological Survey.

Unfortunately, the oil states of the Gulf of Guinea/West Africa region such as Nigeria, Angola, Cameroon, Chad, Gabon, Equatorial Guinea and the Republic of Congo also fall into the category of what is called 'resource curse' countries. Such states have historically been characterised by unaccountable, untransparent and authoritarian government, high levels of indebtedness and a lack of economic development. A major cause of this is corruption and mismanagement of public revenues, often including wholesale misappropriation of public goods or 'state looting' by unscrupulous officials. Corruption is a major hindrance to the development of the region. The African Union estimates that corruption costs African economies more than \$148 billion each year, equal to 25% of Africa's GDP, and increases the cost of goods by as much as 20%, to the detriment of investment and development.¹

To give some brief examples:

In its just published Corruption Perceptions Index for 2005, Transparency International ranked Angola very low, 151 out of 159 countries surveyed.² Angola's Oil revenues for 2005 are estimated at around \$6.9 billion³ but it remains one of the world's poorest countries. Most Angolan citizens live on less than \$2 per day and at least 45 percent of Angolan children are severely malnourished.⁴ According to IMF reports, between 1997 and 2001, \$8.45 billion of public money was unaccounted for (an average of 23% of GDP), and the Angolan government still has no transparent system for managing its oil money.⁵

¹ *Combating Corruption in Africa*, report presented at January 2003 African Union Conference, <http://www.u4.no/helpdesk/helpdesk/queries/queryattach/q44Addisreport.pdf>

² See Transparency International Corruption Perceptions Index 2005, http://www.icgg.org/corruption.cpi_2005.html

³ *IMF Country Report* for Angola, August 2005, <http://www.imf.org/external/country/cog/index.htm>

⁴ See *IRIN*, United Nations News Service, 'Angola: Legacy of war, failed harvests combine to erode security', September 12 2005, http://www.irinnews.org/report.asp?ReportID=49134&SelectRegion=Southern_Africa&SelectCountry=ANGOLA

⁵ See Global Witness, *Time for Transparency*, March 2004, p. 47.

Congo Brazzaville is also ranked in the bottom 30 countries for corruption by Transparency International. Congo is expected to earn just under \$1.5 billion in oil revenues in 2005.⁶ Yet around 70% of its population live under the poverty line and it is one of the most indebted countries in the world (\$8.6 billion).⁷

Equatorial Guinea is our lowest scorer, 152nd, on the TI Corruption Perceptions Index. Last year, a Senate report detailed how \$700 million of the country's oil revenues were kept offshore in a bank not too far from here. There is still no public information as to where the Riggs money was transferred. EG ranks only 121st out of 177 countries on HDI, despite its \$1.1 billion annual oil revenues, a per capita income equivalent to a country like Denmark. In fact, its HDI ranking has gone down since oil revenues came onstream in late 90s.

Global Witness⁸ and our partners in the **Publish What You Pay** campaign,⁹ the vast majority of whom are citizens of resource-rich-but-poor countries in sub-Saharan Africa, believe US foreign policy goals of promoting good governance, democracy and fighting corruption, AND US energy security objectives can best be served by promoting a stable investment environment through support for political reform and sustainable development. A key element of this is the promotion of basic fiscal transparency.

It would not be costly to the USA to promote fiscal transparency and anti-corruption through its position as a major trading and aid partner,¹⁰ and this would have a major effect in spurring the region's development and future stability. The promotion of stronger institutions can only be beneficial in stimulating investment into the region from the current minimal levels.¹¹

⁶ See *Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report*, International Monetary Fund, January 10 2005 and http://www.mefb-cg.org/petrole/certification_concordance.htm.

⁷ See World Bank Country Report April 2005, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CONGOEXTN/0,,menuPK:349223~pagePK:141132~piPK:141107~theSitePK:349199,00.html> and *Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report*, International Monetary Fund, January 10 2005.

⁸ Global Witness investigates the links between the exploitation of natural resources and the funding of conflict and corruption. It is non-partisan in all its countries of operation. Global Witness was co-nominated for the 2003 Nobel Peace Prize for its leading work on conflict diamonds and awarded the Gleitsman Foundation prize for international activism in May 2005.

⁹ The *Publish What You Pay* campaign was launched in June 2002 and now has more than 270 members worldwide (see www.publishwhatyoupay.org). The coalition believes that revenue transparency is an essential condition for alleviating poverty, promoting just development, improving corporate social responsibility, and reducing corruption in many resource-rich developing countries, and calls for stock market and international accounting rules to require oil, gas and mining companies to disclose their net payments to governments and for all non-humanitarian multilateral and bilateral aid to such countries to be conditional on there being a transparent and functional system of accounting for public revenues.

¹⁰ See, for instance, 'Does Corruption Affect Income Inequality and Poverty?', by Sanjeev Gupta, Hamid Davoodi and Rosa Alonso-Terme, IMF working paper, 1998.

¹¹ See 2005 UN World Development Report, <http://www.unctad.org/Templates/webflyer.asp?docid=6087&intItemID=3489&lang=1&mode=downloads>) Africa accounted for under 3% of global FDI inflows, and Sub-Saharan Africa under 2%.

Similarly, if there was more transparency over how much US extractive sector companies were paying to the governments in the region, this would show the positive contribution they are making to these economies, and assure citizens both in those countries and here that they are not complicit with a culture of corruption, whether this is an accurate perception or not. **Publish What You Pay** believes that extractive sector companies should publish individually all fiscal payments made, and that correspondingly African oil producers should also publish their receipts. Rhetoric is not enough: citizens of natural resource dependent countries must see that oil wealth is benefiting them, not going to line the pockets of corrupt leaders.

If things don't change, such states will become increasingly unstable: the worst case scenario from an energy security perspective is that social unrest will result in the disruption of energy supply, as occurred last year in the delta region of Nigeria. Here, civil conflict shut down 25% of Nigeria's production and 5 Chevron employees were amongst those killed. Nigeria is the world's seventh-biggest oil exporter and provides one-fifth of U.S. oil imports. Its government is also now taking significant steps to implement political and fiscal transparency reforms and we welcome their efforts.

Here are some further, specific ways in which we believe the US government and US oil, gas and mining companies could support goals of good governance, anti-corruption and also ensure US energy security:

1. We welcome the US government's commitment to support the Extractive Industries Transparency Initiative, a voluntary Initiative which many of the countries we are focussing on today wish to join. to the EITI. It should now step up its diplomatic support through outreach via its Embassies, particularly in strategically important countries in Africa such as Algeria, Libya, Angola and Equatorial Guinea.
2. We also need to ensure that important energy consumers and global competitors such as China, India and Brazil are drawn in to such international transparency initiatives. As has been seen in East Africa, competitive pressures from oil-buying nations such as Egypt are creating problems for the US, whose companies struggle to compete with less responsible actors. The solution is not a race to the bottom but to raise the bar of transparency to promote development and stability. In other words, let's lock in some gains now by creating coherent and effective global rules.
3. The US should support an effective, multipartite EITI process at the international level, including a validation process to ensure proper implementation of the Initiative's minimum criteria, including the active participation of civil society in the process, by participating countries and companies.
4. The US should support capacity building efforts not just for governments around the revenue transparency issue but also for civil society, so as to enable citizens to understand what is happening and to carry out effectively their oversight role.
5. In terms of its voice and vote in the multilateral development banks and IMF, the US already supports revenue transparency in extractive sector project finance through language in last year

and this year's Appropriations for Foreign Operations. We very much welcome this and would like to see the US pushing for revenue transparency to be a condition of all assistance by the multilaterals to countries where natural resource revenues are macro-significant and where there is a history of corruption and bad governance.

6. Revenue transparency should also be a condition of all US non-humanitarian bilateral assistance to such countries, including from the Millennium Challenge Account and through AGOA. EXIM and OPIC should also require disclosure as a condition of their support for extractive sector projects.