Fuelling poverty

Oil, war and corruption

Christian Aid

We believe in life before death

Contents

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Above: British troops hand out bottled water and food aid in a village south of Basra, in the second week of the war against Iraq
Front cover: A British soldier guards the approaches to oil installations near Basra, while oil fires burn in the background
Front cover photo: AP Photo/Dan Chung/ The Guardian/Pool

Fuelling poverty
– Oil, war and corruption

'All Iraqi military and civilian personnel should listen carefully to this warning. In any conflict your fate will depend on your action. Do not destroy oil wells, a source of wealth that belongs to the Iraqi people.'
George W Bush, US President, in his 'ultimatum' speech to the Iraqi leadership, 17 March 2003

'The oil revenues, which people falsely claim the US and UK government want, should be put in a trust fund for the Iraqi people, administered through the UN.'
Tony Blair, UK Prime Minister, during a Commons debate on war with Iraq, 18 March 2003

'You've got to go where the oil is. I don't think about it [political volatility] very much.'
Dick Cheney, US vice president and former CEO of oil-services company Halliburton.[1] Speech to Panhandle Producers and Royalty Owners Association annual meeting, 1998

The iconic image from the latest war in Iraq will undoubtedly be the toppling of Saddam Hussein's 20ft statue in Paradise Square, on the day US marines arrived in Baghdad. But two other striking images from that conflict could have equally eloquent things to say about Iraq's future. One is of British troops standing guard over the oil fields near Basra in the early hours of the war, while wells were burning. The other is of those same troops, days later, trying to keep order as they distributed meagre supplies of bottled water and other aid to a desperate population.

The contrast between these two military exercises – in terms of resources, effort and planning – was startlingly clear. And the contrast is instructive, in a wider context, when considering the relationship between the world's most sought-after natural resource and the people on whom it most directly impacts. Put simply, when oil is involved the needs of ordinary people – such as the need for a secure supply of clean water – usually come a very distant second.

Indeed, all available evidence indicates that the presence of oil in a developing country makes life worse, not better, for the people who live there – particularly the poorest people. That is what this report is about.

In global terms, it can be argued that oil and the oil economy are all but irrelevant to the world's poorest people – the very people for whom Christian Aid seeks to speak – as they struggle to live their lives. They do not own cars, they often have no access to electricity and their fuel comes from animal dung or dwindling supplies of wood. Again, their greatest need is likely to be water.

It can also be said that the global economy's addiction to oil – its drug of choice – has done more than anything else to skew the world's priorities. The craving – just to get us through our daily lives – is such that we will go to almost any lengths to get hold of the stuff. Moreover, like an addict in need of a fix, we don't care who gets hurt along the way. Global climate change, for example, already wreaks its most serious damage on developing countries and seems certain to intensify in the years ahead.

The UK's dependency on oil was graphically illustrated by the fuel protests of September 2000. Within weeks of supplies being seriously disrupted, the country was in danger of grinding to a halt and even the government was threatened. But before the Iraq crisis gained serious momentum, people here barely gave a second thought to where fuel comes from and the misery that its exploitation can create. We might think hard about what to put in our trolley when going around the local supermarket, balancing the ethical implications of one item of shopping over another. Yet when we go to fill up the car afterwards, how many of us wonder about the impact of that purchase?

This report shows that for many developing countries, oil reserves are more likely to prove a curse than a blessing. New research from Christian Aid – along with important studies from some of the world's leading development specialists, and research by both the World Bank and the International Monetary Fund – indicates that poor countries dependent on oil revenues have a higher incidence of four great and interconnected ills. Oil, in these conditions, becomes the key ingredient in a 'lethal cocktail' of:

- greater poverty for the vast majority of the population
- increased corruption
- a greater likelihood of war or civil strife
- dictatorial or unrepresentative government.

In cases where oil has been the cause of wars, or has funded the prolonging of wars, it can justifiably be regarded as 'blood oil'.

Christian Aid research reveals that at least US$20 billion (£13 billion) worth of public money from the rich world has gone into supporting oil exploration and exploitation in the past decade. How many British taxpayers realise that some of their money has gone, and continues to go, into pump-priming this misery?

In Iraq, vast oil reserves – at some 112 billion barrels, second only to Saudi Arabia[2] – are seen as the panacea to all that blighted country's ills. Analysts have estimated that, once rejuvenated, the Iraqi oil industry could produce up to six million barrels per day.[3] At 2001 prices, this would mean an average £100 million per day for Iraq's much talked-about reconstruction. This is not Afghanistan, the argument goes, and once the oil industry is put back on its feet, there will be sufficient revenue to breathe new economic life into a nation devastated by three major wars, UN sanctions and decades of dictatorial rule.

If so, that industry has a serious job to do. In its heyday, around the time the Ba'ath Party nationalised it in 1972, Iraq's oil industry pumped up to 3.5 million barrels of oil per day.[4] Even in 1991 – after the ruinous Iran-Iraq war and in the year of the first Gulf war – Iraq ranked 50th out of 130 countries in the United Nations' Human Development Index. By 2000 it had fallen to 126th out of 174. Even before the latest war, some 19 per cent of the population did not have safe drinking water, more than 46 per cent of its people are illiterate and almost one-quarter of under-fives are underweight.[5]

Iraq, then, has already drunk a deep draught of oil's 'lethal cocktail'. As this report shows, merely pumping more oil will by no means guarantee that the situation will improve. Case studies from other oil-producing countries show that unless a dramatically different approach to using oil revenues is adopted, the situation could continue to decline.

Angola – where oil revenues have fuelled a 30-year civil war, from which the country is only just emerging.

Now, up to 90 per cent of the government's revenue comes from oil. In Angola, almost two-thirds of the population have no access to safe drinking water and the country now ranks as one of the world's poorest – 151 out of 173 in world human-development tables. Of the $5 billion the Angolan government receives in oil revenues every year, it is estimated that more than US$1 billion goes missing.

Sudan – a country still gripped by a civil war that has been fuelled, prolonged and part-financed by oil. The two sides are currently locked in peace talks, but one of the most acrimonious issues at the heart of negotiations is the sharing of oil wealth between the government-controlled north and the south of the country, where much of the oil is located. At the same time, international companies, including two from Europe, continue to exploit Sudan's oil.

Kazakhstan – formally part of the Soviet Union, an emerging economy with massive oil revenues but also shocking poverty. The country's weak infrastructure is crumbling and the ordinary people of Kazakhstan have the least access to safe water of all the people of the former Soviet Union. In spite of the billions brought in by oil, and a special fund set up with oil revenues, one-third of the population live below the UN's US$1 per day absolute poverty line. Meanwhile, the autocratic president has put his relatives in most of the positions of power and he directly administers the oil fund. He is the richest man in Kazakhstan.

How the Iraqi people benefit from oil revenue will depend, according to our evidence, on how open, transparent and justly distributed the spoils of oil exploitation are in the future. If the crimes and misdemeanours of the past – where vast revenues funded a corrupt and totalitarian regime – are not to be repeated, Iraq's people must be allowed to scrutinise the spending of oil money.

So Iraq, as well as providing an example of what can go wrong in an oil economy, also offers a vital opportunity to demonstrate that pumping oil does not have to mean pumping more misery. If that opportunity is seized, then it would offer hope that the people of other oil-producing countries could also see a better future.

Christian Aid is therefore calling for a Global Oil Deal, a chance for the world to get it right on oil. An international commission should be established to review the overwhelming evidence that oil wealth is driving countries into poverty and to draw up new, global regulations to reverse this injustice. Poorer, oil-producing countries demonstrably cannot do this on their own.

Among the measures that should be adopted, we recommend:

- regulations requiring oil companies to publish what they pay to oil-producing countries
- transparency of oil money in these countries' budgets, with public-sector contributions to governments being used as the lever to achieve this
- a proportion of oil revenue being held in trust for the people of the country
- a system of restrictions and embargos within the oil trade to restrict the sale of 'blood oil'.

The opportunity is there, possibly the last opportunity. The dangers of continuing to get it wrong, as highlighted in this report, must not be ignored.

The oil curse

'Ten years from now, 20 years from now, you will see, oil will bring us ruin. It's the devil's excrement. We are drowning in the devil's excrement.'

Juan Pablo Perez Alfonso, former Venezuelan oil minister and a founder of the Organisation of Petroleum Exporting Countries (OPEC), speaking in the early 1970s.

When Venezuela began exploiting its oil, the country had the highest per capita income in Latin America. In 1973, during the Arab oil embargo, the world turned to Venezuela for its oil supply, and the country enjoyed unprecedented income as a result. Today, Venezuela is still more than 86 per cent dependent on oil exports[1] and is the world's sixth largest oil producer,[2] but the country's political system is close to collapse and its per-capita income is lower than that of Brazil, Chile, Mexico and Uruguay.[3] It seems that when he called oil 'the devil's excrement', Juan Pablo Perez Alfonso, Venezuela's former oil minister, was being all too prophetic.

Logic dictates that a country wealthy in natural resources, especially in oil, cannot by definition be poor. Hitherto, the argument has been simple: countries that have large communities of poor people need to exploit natural resources in order to generate income, which can be used to bring an end to poverty and deprivation. It should follow that once the exploitation of these resources begins, people will no longer want for clean water, for nutritious food, for access to healthcare and education, and for strong industrial growth and development.

Tragically, the exploitation of natural resources in general, and oil in particular, belies this assumption. Vulnerable communities in many oil-producing nations are paying a terrible price to satisfy the world's thirst for oil. Christian Aid has reviewed ten years of studies and research by academics and international institutions, and has undertaken its own, original research. The evidence is conclusive: far from igniting progress and fuelling growth, far from delivering millions from poverty and providing poor communities with essential services, oil has, more often than not, undermined development.

The exploitation of oil reserves has plunged poor nations into further economic decline, has made them more prone to wars, civil tensions and rule by dictators or authoritarian politicians, and has damaged their environments. Oil has not only failed to bring benefits to the world's poor communities – it has been decisive in making them poorer.

Is there something intrinsic to oil that leads to this undermining of development and triggers or prolongs conflict and rotten rule? Is the oil curse inevitable? Christian Aid's research indicates that when mixed with prevailing conditions in poor countries – weak institutions, governance and democracy – the result is a lethal cocktail that poisons oil-producing developing countries and hits poor communities hardest. People living in oil-rich developing countries are crying out for an entirely new approach to the way their oil is exploited. It must now become their blessing, not their curse.

Oil and the economy

In 1995, Professor Jeffrey Sachs, a high-profile economist then at Harvard University, along with his colleague, Andrew Warner, decided to investigate the real impact of natural resources – including oil – on producing countries. They took data from 97 such nations and measured their economic performance against the level of dependence on exports of natural resources. Their study showed that, over time, the more a country depended on these resources the lower its economy's growth rate.[4] Sceptical of their own findings, they tested

Pumping poverty

New Christian Aid analysis compares economic, poverty and human-development statistics for six oil-producing countries – Angola, Iraq, Kazakhstan, Nigeria, Sudan and Venezuela – with corresponding data from a group of six countries that do not produce oil – Bangladesh, Bolivia, Cambodia, Ethiopia, Peru and Tanzania. The latter were chosen because they represented a reasonable geographical spread of similar-sized countries without oil or that weren't over-reliant on any one natural resource.

Working from statistics recorded as long ago as 1960, through to the most recent figures available, the results for the six oil-producing countries bear out the findings of other, more exhaustive studies. The figures for this group of countries support the 'curse theory' of oil economies:

- Oil economies achieved **slower economic growth** – an average of 1.7 per cent per annum – than non-oil economies – an average of four per cent per annum.

The figures also support another element of Christian Aid's argument – that oil-producing developing countries are highly prone to conflict. If arms spending is a measure of this tendency then:

- **Military expenditure** in oil economies – an average of 6.8 per cent of Gross National Income (GNI) per annum – has been far higher than that in non-oil economies – an average of 2.9 per cent of GNI per annum.

- **Oil economies also maintain bigger armies** – 2.6 per cent of the population – than non-oil economies – one per cent of the population.

The findings also indicate, although less clearly, a link between oil-wealth and poor human development. At the very least, they show that oil has done nothing to significantly improve the lives of ordinary people in oil-rich countries.

- **Life expectancy at birth** has improved slightly more in non-oil economies than in oil-economies.

- **Literacy rates** have increased slightly more in non-oil economies than in oil economies.

and retested the data introducing different variables – such as initial income levels, government inefficiency, inequality and trade policies – into the equation. But their results held true.

In the Sachs and Warner study, oil-producing countries – especially, and surprisingly, Gulf states such as Kuwait, Saudi Arabia, the United Arab Emirates, Bahrain and Iran – were among the worst performers, with their economies actually contracting between 1970 and 1989. This, according to Sachs and Warner, shows that oil economies appear to be cursed. Other oil-producers, such as Nigeria, Gabon and Venezuela, also performed badly.

Saudi Arabia, traditionally seen as the epitome of oil wealth, stands out as an example of a country that is rich in oil and yet surprisingly poor. The country owns one-quarter of the world's oil reserves and is its largest producer, yet has an annual per-capita income of £4,300.[5] While this does not make Saudi Arabia a poor country per se, it makes it poorer than countries such as Puerto Rico and Slovenia, and only a few pounds per capita better off than St Kitts and Uruguay. Oil and gas are still the country's main exports, accounting for 80 per cent of annual revenues.[6]

In 2001, Sachs and Warner updated their research by producing a paper for the *European Economic Review* which summarised their argument and attempted to explain the phenomenon of 'the natural resource curse'. They concluded that the exploitation of natural resources 'crowds out' other economic activity.

Massive new income from oil cannot be absorbed by the economy, say Sachs and Warner. Wages and prices inflate and the oil-producing country's currency gains value rapidly. Oil revenues act as a wealth 'shock', kick-starting the economy into a boom, but high local prices and an expensive exchange rate make it difficult for domestic producers to compete. Fewer goods are produced because of the high input costs, and fewer are sold because exports become more expensive as a result of the inflated exchange rate.

Wealth finds its way into other sectors of the economy, as people earning money from oil have more to spend on goods that aren't usually traded across their borders, such as services (like building contractors) and goods from the informal sector. These sectors start to benefit, but they also drag workers away from mainstream manufacturing, further damaging the manufacturing base of the economy, frustrating the expansion and 'deepening' of the economy.

The economic curse of oil 'wealth', described empirically by Sachs and Warner, points to a central paradox – that wealth derived from natural resources does not lead to economic growth. Oil, as the most sought-after and politically significant, is also one of the worst offenders. Oil economies appear to suffer from what is known as Dutch Disease (because it was first observed when Holland's economy crashed after the discovery of offshore gas in the late 1950s and 1960s). Dutch Disease has since been detected in both industrialised and developing-world economies, and its effects can be highly destructive.

Even in Norway – the world's most developed country[7] – Dutch Disease infected the economy when oil began flowing. According to Arvind Ganesan, an oil expert with Human Rights Watch, Norway experienced a contraction in manufacturing and rapid inflation in the 1960s and 1970s. 'It wasn't until the trade unions and the government got together and started an oil trust fund, which took oil revenue out of the main economy and held onto it for the future, that the economy began to recover,' he says.

There is, of course, a world of difference between Norway, where strong democracy and wide scrutiny of government – including trade unionism – are already highly sophisticated, and developing countries where governments and institutions are often weak to begin with. Countries like Norway can usually 'manage' the worst effects of the oil curse. But in developing countries, with weaker institutions and governance structures, and little welfare provision, the fallout from the economic impact oil exploitation is likely to be devastating and can trigger much deeper social problems.

Oil wealth can also be a source of deep frustration for people living close to oil fields who do not benefit. In July 2001, 150 women occupied the Escravos Island oil terminal off Nigeria's south coast, an installation owned by Chevron Texaco, and

Shetland Islands Council Charitable Trust

In the mid-1970s, when the rush to exploit North Sea oil was underway, the Shetland Islands became the focus of oil-industry attention. In 1973, work began on a massive oil terminal at Sullom Voe, through which the majority of oil from the UK's sector of the northern part of the North Sea still flows.

Some 10,000 workers moved to Shetland to construct the Sullom Voe terminal and, anxious to begin the pumping of oil as quickly as possible, the companies agreed to compensate the local community.

'The Islands Council acted very smartly at the time,' says Jeff Goddard who is now the financial consoler for the Shetland Islands Council Charitable Trust. 'They managed to negotiate a deal with the oil companies whereby, for the next 25 years, they received payments for the disturbance caused by the oil terminal.'

All the money paid to the council under this agreement – now totalling £150 million – is held in the trust. 'We disburse around £15 million per year for community projects such as care homes, playgroups and facilities for disabled people,' says Goddard. 'Spending is restricted to an amount that will allow our capital to continue growing.

'When they struck the deal, the council was clearly acting in the interests of the people of Shetland. They managed to get a piece of legislation through the UK parliament allowing the council to take over planning controls for the Islands,' says Goddard. 'This meant the development was controlled, because people couldn't sell-off their land piece-meal to oil companies, and that the benefits accrued to all of the Islanders.'

The money paid by oil companies to the Islands Council is perhaps analogous to so-called 'signature bonuses' – quite literally cash paid to governments at the signing of a drilling deal. Although signature bonuses tend to be up-front payments, they are given to win commercial advantage, outside of any exploitation agreement. In Angola, signature bonus payments can be as much as £200 million for each drilling block, but Angola's people have not benefited in anything like the same way as Shetland's communities did from the payments made to the Islands Council.

threatened to take off their clothes if their demands were not met.[8] Armed with food and cooking pots, the women wanted jobs for their husbands and sons, and better facilities in communities close to Escravos, which remain poor in spite of the wealth created by oil extraction. They halted oil production at the terminal – an estimated 500,000 barrels per day – for one week, and trapped around 800 workers on the island. Their protest was peaceful, but similar protests in Nigeria have often turned violent and the kidnapping of oil workers is common.

Oil and poverty

Oil wealth has not ended poverty in developing countries. In fact, in many, people have become poorer – more people have gone without many basic necessities, even as their oil has been exploited. Nigeria is perhaps the starkest example of oil fuelling poverty. It has Africa's largest oil reserves and began exploiting in the 1960s. Since then, human development has been at a virtual standstill, with poverty levels rising dramatically. According to the Nigerian office of the World Bank, the proportion of households living below the UN's US$1 per day absolute poverty line has grown from 27 per cent in 1980 to 66 per cent in 1996. While rural areas have been worst affected, the incidence of poverty in towns and cities has climbed from 17 per cent to about 58 per cent. Today, Nigeria's richest ten per cent controls 40 per cent of the country's wealth and its poorest 20 per cent has a share of just 4.4 per cent.[9] The global average of malnutrition in children under five is 26.5 per cent, but in Nigeria the rate is 37.7 per cent.[10]

A 2001 study by Michael Ross of the University of California, Los Angeles found a clear link between poverty and the exploitation of oil, gas and minerals. The report showed that oil dependence in particular was associated with high rates of child malnutrition, low healthcare spending, low school enrolment rates and poor adult literacy – all significant indicators of poverty.

In the study, Ross plotted a country's dependence on oil and minerals against a variety of United Nations human-development indicators. Each five point rise in the percentage of oil exports to GDP took one-third of a year off life expectancy and the same rise in oil dependency was connected with a one per cent rise in malnutrition in children under five.

'There are always two arguments about oil and development. The first says that countries would be better off without oil, and the second is more measured and says oil leads to a kind of development but that better development comes from other sources,' says Ross. 'I subscribe to the second, because it's difficult to deny countries the opportunity of exploiting oil. But many countries – like Angola, Nigeria and Sudan – would clearly be better off if they had no oil in the first place.'

In the same report, Ross reveals how six of the world's 25 most oil-dependent countries – Angola, Cameroon, Ivory Coast, Congo Brazzaville, Vietnam and Yemen – are classified as highly indebted by the World Bank.[11] Technically, this means they qualify for debt relief through the Heavily Indebted Poor Countries (HIPC) initiative. HIPC is an international process that reschedules a country's debt repayments. Paradoxically, these six are unlikely to progress through HIPC because while they have large debts, they also have oil reserves and are earning vast sums of money from pumping crude.

Not only does oil squeeze out other sectors, in particular manufacturing, of producing countries' economies, but trade barriers in the rich world offer little incentive to those countries to manufacture even oil-based products.

Like many other primary commodities, oil can be exported from developing countries to almost anywhere in the world without incurring duties or tariffs. However, once oil is refined or processed into products such as plastics and fabrics, these products are likely to face significant tariffs in order to enter other markets – especially those in rich countries.

The phenomenon observed by Sachs and Warner, and supported by the evidence of Dutch Disease, suggests there is inevitability about low growth in resource-rich countries. Some developing nations, such as Venezuela, which have in the past tried to use oil revenue to kick-start the rest of their economies have fallen foul of low growth rates in spite of their efforts.

But decisive economic policies, driven by a desire to see oil wealth used for the public good, should be capable of mitigating against Dutch Disease.[12] Both Norway and the Shetland Islands have successfully managed to compensate for the shock effects caused by a rapid injection of oil revenue (and the Netherlands itself has clearly managed to deal with its eponymous economic syndrome). Nevertheless, the way the likes of Norway and Shetland are governed is fundamentally different from Gulf states, such as Saudi Arabia and Iraq, or developing countries, such as Angola, Kazakhstan, Nigeria and Sudan.

According to political scientist Terry Lynn Karl, author of *The Paradox of Plenty*, a seminal book about the impact oil on economies, Dutch Disease is not automatic. The book concludes: 'The extent to which it takes effect is the result largely of decision-making in the public realm.'

Oil and corruption

In industrialised democracies – even those rich in natural resources – government expenditure is principally funded through taxation (and public-sector borrowing). But in countries with oil that start out poor, a huge, often the largest, proportion of government income comes from the sale of oil and of the rights to exploit oil, and from taxing companies which carry out oil extraction. In the case of Angola, an estimated 87 per cent of the country's income comes from oil, much of it paid directly to the government by foreign companies.[13]

When a government earns a significant and direct 'rent' from a natural resource, it hinders the development of representative politics by removing the need to collect taxes effectively. Without paying taxes, people's stake in society is reduced and their desire to see their money spent on providing the services they need is diminished. In this way, the governments of oil-dependent developing countries become less accountable to their people, even though they may have been chosen through elections. In short, oil impedes democracy.[14]

Huge amounts of money washing about with scant levels of accountability create the text-book conditions for corruption. If people do not know where their government's money is going, or even where it is coming from, then it is probable that at least some of it will find its way into the private pockets of the powerful.

Another report by UCLA's Ross demonstrated a firm link between oil and authoritarian rule. Ross was intrigued by the absence of democracy in the Middle East and decided to test whether it was linked to the heavy reliance on oil of many of the states concerned. 'Does oil have anti-democratic properties?' he asks.

Ross took a sample of 105 countries and analysed data from 1971 to 1997 asking three questions of the claim that oil impedes democracy. First, is it true? Second, does it only affect Middle Eastern regimes? Third, why does it happen?

His results were startling. For every one-point rise in oil wealth, Ross observed a 0.72 drop on a 0-10 democracy scale. In other words, his research suggests oil works directly against the development of representative politics. He also found that this effect is not restricted to the Middle East, but is observed in other areas where oil-rich states are clustered, such as sub-Saharan Africa. Ross concluded that the likely explanation for the phenomenon was that oil encouraged high 'rent-seeking' by public officials and politicians, money which is used to 'allay popular demands for democracy'.[15]

'Oil makes matters worse in countries where governments are already weak,' says Ross. 'It provides the income for a government to ignore its people and get on with the business of spending oil revenue without questions being asked. But it is the weakness of governments and institutions that lay the foundations for this behaviour. Oil provides the reason and the means – it is a terrible opportunity foregone.'

The IMF estimates that in Angola more than US$1 billion of government income from oil – or 20 per cent of the total – disappears every year. Some believe this sum could be as high as

Chad/Cameroon pipeline

Could the land-locked African republic of Chad be the next country to be blighted by the oil curse? Chad is already politically unstable having experienced recent armed rebellions . According to Amnesty International: 'Hundreds of people were extra-judicially executed by the security forces; many were tortured before being killed.' On several occasions, Chad has been voted the world's most corrupt country in Transparency International's annual survey. But Chad has oil.

In spite of the security risks, oil companies including Exxon Mobil and TotalFinaElf are currently working in Chad's oil fields, which are believed to have the potential to produce 150,000 barrels per day. But exploiting Chad's oil depends on being able to get it to market. Hence the construction of a 660-mile pipeline from the country's oil-rich Doba basin to the Cameroonian port of Kribi.

The planned Chad-Cameroon pipeline is expected to cost US$3.7 billion and in 2000 the World Bank's International Development Association, International Finance Corporation and International Bank for Reconstruction and Development, as well as the US Export-Import Bank agreed to support it. Collectively they have approved investments of more than US$700 million of public money in the oilfields and pipeline.[18] By 2004, the oil pumping through the pipeline is expected to increase Chad government revenues by 45-50 per cent per year.

The World Bank insisted that the Chad government adopt a revenue-management law, which would dedicate 80 per cent of oil revenue to public health, social services, education and rural development, and keep 10 per cent for future generations. The deal also included the setting up of an independent Advisory Group to monitor this process. So far, so good.

But a leaked internal World Bank report revealed that only five per cent of the project's revenues were destined for Chad's oil-producing region. Moreover, the report described the World Bank's failure to undertake a proper environmental assessment of the project as 'serious'. An earlier World Bank report had already questioned the efficacy of funding Chad's oilfields and pipeline due to corruption.

Even as the project was getting underway, in November 2000, Chad's President Idriss Deby declared that he had used US$4.5 million of the government's first oil receipts to buy weapons. 'It is patently obvious,' said Deby, 'that without security there can be no development programmes.' While this does not come under the purview of the World Bank's Advisory Group, the move sent warning signs to those hoping to make Chad's oil benefit poor people.

The World Bank stands behind the project. A spokesman said: 'What we have set up – a coalition between national governments, private companies and international organisations – is unprecedented anywhere in the world. It's a move towards making oil extraction more sustainable and transparent. It may not be the definitive move, but it is a bold initiative which might just mean that oil exploration does not have the catastrophic effects that it does so often.'

The early indications may not be encouraging, but the developing world will be watching to see if, finally, the oil curse can be lifted.

US$1.4 billion.[16] But it is not only the misuse and disappearance of public money that is at stake. The payment of bribes or commissions by foreign oil companies – sometimes using public money from western countries – to secure lucrative oil contracts is also common.

Loik Le Floch Prigent, the former president of French state oil company Elf Aquitaine – now privatised and merged with TotalFina – is, at the time of going to press, standing trial in France charged with presiding over the commission payments on oil deals with African countries, including Angola. In court, Le Floch Prigent has recently admitted that intermediaries were used to keep the system opaque. 'We know that there were people between us and the leaders of these countries,' he said.[17] It is perhaps no coincidence that the country's president, Eduardo dos Santos, is also Angola's richest citizen.

In April 2003, a federal court in New York heard how Mobil Oil, now part of Exxon Mobil Corp, was part of a US government investigation into allegations of corruption involving American executives and Kazakhstan government officials over oil deals. An indictment against a former senior Mobil executive accused him of evading taxes on a US$2 million kickback he allegedly received for negotiating oil deals with Kazakhstan. A New York businessman was also indicted on conspiracy charges accusing him of making more than US$78 million in unlawful payments to two senior Kazakh officials to win oil deals. Prosecutors said that one official used bribe money to buy jewellery worth more than US$180,000 and pay for a Swiss spa visit while the other official used at least US$45,000 to send his daughter to an exclusive Swiss finishing school. Both men and Exxon Mobil denied any wrongdoing.

Generally, people in oil-rich developing countries do not have the information on which to seriously scrutinise their governments. So much of their governments' revenue comes from direct payments made by international oil companies. These are neither declared when the companies make the payments, nor when the government spends the revenue. An abundance of oil therefore creates opportunities for so-called 'rent-seeking behaviour' by politicians[19] who find themselves privy to large amounts of unscrutinised income. And once they have received their payments – both legitimate and illegitimate – they are largely free to spend it on ensuring that they remain in power.

In the 1990s it is estimated that rebels, warlords, corrupt governments and other predatory groups earned an estimated US$12 billion worldwide in revenues from marketing their countries' natural resources.[20]

In a letter to campaigning group Global Witness dated 6 February 2001, BP confirmed its intention to declare payments made for Angolan oil contracts.[21] The company's move was widely reported and was rapidly followed by announcements that it was planning to invest £4.9 billion during a ten-year period to expand its Angolan operation, including drilling six new deep-water licenses in the Gulf of Guinea.[22] But BP was forced to reconsider its promise when the government of Angola threatened to expel the company if it published payment details.

Oil and conflict

Ongoing negotiations to find a solution to Sudan's lengthy civil war hinge on the issue of dividing the country's wealth, much of which comes from oil, between the north and south. The country's reserves sit precariously between the government-controlled north and the south, where southern Sudanese have been fighting for decades in an attempt to secure self-determination.

In 2001, Christian Aid documented massive human-rights abuses around Sudan's oilfields as the government and allied militia bombed and burned people out of villages close to oil installations.[23] Thousands of people were either killed or displaced. The report predicted that the

Would they publish what they pay?

The UK government has launched an Extractive Industries Transparency Initiative (EITI), a new set of voluntary standards for companies encouraging them to 'publish what they pay'. The EITI was launched by Tony Blair, the UK Prime Minister, at the World Summit in Johannesburg in 2002. It aims to bring together governments, companies, international agencies and NGOs to promote transparent payments in oil, gas and mining. The UK government has so far given no details of companies and countries that are prepared to support the EITI.

Research by the Business and Finance Research Group at the University of Strathclyde, however, shows a range of reactions to the idea from those working in the oil industry. Most, however, take an 'if they show theirs, then we'll show ours' approach.

'We support efforts such as the Extractive Industries Transparency Initiative, Publish What You Pay and work by the World Bank and others to support transparency,' says Shell. 'We believe the push for transparency needs to include governments, multi-lateral organisations, regulatory agencies, financial and lending organisations, NGOs and the industry. It should be applied to all oil and gas companies and we actively support efforts in that area.'

TotalFinaElf says its latest report contains a figure for payments to Africa, rather than rest of the world payments as a whole, but this is not broken down country-by-country. 'If everyone published what they spent in those countries then we would,' said the company, 'But they don't and that makes it difficult for us.

'I don't think our competitors would mind and we'd be happy to do that, it's a matter of when we agree the contracts and what the state does,' continues TotalFinaElf. 'It's really for them to chose to publish what they get paid.'

But in reality, full disclosure of payments could prove uncomfortable for many companies, according to industry insiders. As one oil analyst said: 'If you're operating in some of these places which are less than wholesome there's only one way to get licences, and there's only one way to get things moving, and that's to "facilitate", as they say.

'These are not easy countries. It's not like the UK where everything is upfront and clear. If you go to Angola, no-one will openly say how much they had to pay to get a licence, it's just impossible because it's a business that no legitimate company wants in any way to acknowledge.'

BP has published details of payments to the government of Angola, but it was subsequently threatened with the termination of its Angolan contracts. 'By 2008 we will have invested US$7 billion in Angola, on both licences and upstream [drilling and pumping equipment],' says the company. The first big year for signature payments was 1999, when all the ultra deepwater blocks were awarded. We paid a US$111 million signature bonus for block 31.'

'We don't know what they [the government of Angola] do with it,' says BP. 'We have no control over that – we're just an oil company.'

Oil and conflict in Iraq

'The good Lord didn't see fit to put oil and gas only where there are democratic regimes friendly to the United States.'
Dick Cheney, US vice president and former CEO of oil services company Halliburton.[28]

Oil, many have said, was the underlying motivation behind the US's wish to attack Iraq. Others say it explained the reluctance of some countries on the UN Security Council to sanction the invasion. No one is credibly saying that oil is irrelevant.

After the limit on oil production under the UN's Oil for Food programme was lifted in 2000, something of a stampede for Iraqi oil took place with, among others, France and Russia agreeing exploitation deals with Iraq. Russia is owed billions of dollars by Iraq and currently has the largest interest in Iraqi oil fields, including a US$3.5 billion, 23-year deal to rehabilitate oilfields, particularly the 11-15 billion-barrel West Qurna field, located west of Basra near the Rumaila field.[29]

Claims and counter-claims abound. Richard Perle, the hawkish former US assistant defence secretary, accuses France's anti-war stance of being driven by economic interests. He claims French oil giant TotalFinaElf has exclusive exploration contracts worth between US$60 billion and US$75 billion to develop the massive Majnoon and Bin Umar oilfields in southern Iraq.[30]

But had it not been for sanctions against Iraq, American companies would doubtless also have a foothold. In 2000, Dick Cheney, the US vice president, who was at the time head of oil-services company Halliburton, called for an end to the sanctions regime, which prevented US oil companies from investing in the world's second most significant oilfields.[31] However, in 2001 the Washington Post revealed that two foreign companies in which Halliburton held a stake had signed contracts with Iraq worth US$73 million between 1997 and the summer of 2000.

Cheney resigned as chief executive of Halliburton in August 2000 in order to run for presidential office alongside George W Bush. Halliburton was originally on a list of five US firms in line for reconstruction contracts in Iraq. The company's name has since been taken off the list but Halliburton could still benefit as a sub-contractor.[32]

The biggest oil-services company in the world, Halliburton has given US$1.5 million to the US Republican Party in the past ten years.[33]

process would continue, as the government sought to control more and more of the oilfield area. It was proved tragically prophetic.

Reports from the start of 2003 said that, despite a cessation of hostilities being agreed as part of peace negotiations, the government-backed militias continued to clear populations in the oil areas and work continued on the 'oil road' to give the government and oil companies yet more access to the fields in the south.

Oil has provided the raison d'être for the government's bombing raids around the oil fields – it needed to ensure continued production. And oil has also provided the revenue to support escalating military action. The government of Sudan was earning more than US$1 million per day from its oilfields once production began, while at the same time spending US$1 million per day on the war.[24] Gerhard Baum, the UN's special raporteur in Sudan, reported in 2001 that oil exploitation '... has led to a worsening of the conflict which has turned into a war for oil.'[25]

This link between oil and war is not only found in Sudan. During the 1990s, resource-driven conflicts killed more than five million people, forced five to six million to flee to neighbouring countries, and displaced between 11 and 15 million people inside the borders of their home countries.[26] In Angola, 3.1 million people were forced to flee their homes in the last phase of the civil war, which began in 1998.[27]

Since the mid-1970s there have been civil conflicts in six other highly oil-dependent countries.[34] And the greater a poor country's dependence on oil, the more conflict is likely. In the past, 23 per cent of states dependent on oil exports have experienced civil war in any five-year period – a figure that falls to just 0.5 per cent for countries with no natural resources.[35]

There is also a clear relationship between oil dependence and military spending – a phenomenon no doubt related to the increased risk of civil war associated with oil. For every five per cent increase in oil dependence, governments spend a further 1.6 per cent of their budget on the military.[36] In 1997, typical military expenditure was worth 12.5 per cent of a country's budget. Saudi Arabia's military expenditure consumes 35.8 per cent of its budget. Between 1994 and 1997, when the government was still fighting the civil war, Angola spent 34.1 per cent on 'defence and public order'.[37]

Oil and public money

With so much evidence to show the harmful impact of oil exploitation in developing countries, it is almost inconceivable that public money from rich countries should be used to prize open new oil investment opportunities around the world. But it is.

Astonishingly, large sums of public money are invested in developing-world oil projects each year. This money – from western taxpayers – is not only important seed-funding for many oil projects, it also gives the oil industry the confidence to take advantage of new opportunities for pumping oil in countries where political and economic conditions make investment risky.

Compared with the amount of revenue oil generates each year – around £400 billion – the annual public expenditure on oil projects is small. But the role this financing plays is critical. Without the backing of the World Bank, or the political risk insurance and contract underwriting of the export credit agencies, many projects would not go ahead. Money from the world's taxpayers, including British and US citizens, is spent helping to open-up, win confidence for and underwrite oil projects that will maintain and increase the profits of oil companies and bring revenue to countries with oil reserves.

Christian Aid has calculated that between 1992 and 2002 an average of almost US$£2 billion (£1.25 billion) per year of public money from western governments was invested in developing-world oil projects through grants, loans and insurance.[41] Much of this is finance provided by rich-country governments through the World Bank, whose various financing agencies spend an annual average of US$433 million (£270 million) on oil and gas projects.

Export credit guarantees account for another significant slice of this annual public expenditure on developing-world oil projects. The Multilateral Investment Guarantee Agency of the World Bank underwrites political risk for private investors, as do the export credit agencies of national governments, in particular the US Overseas Private Investment

Oil and conflict in Nigeria

In the final week of March 2003, three of the world's giant oil companies, Shell, ChevronTexaco and TotalFinaElf, were forced to withdraw from some of their oil installations in Nigeria because of 'ethnic violence'.[38]

Shell, which pumps more than 50 per cent of Nigeria's oil, cut its production by 175,000 barrels per day and withdrew staff from offshore platforms in the western Niger Delta, Nigeria's main oil-producing region, because of threats against oil facilities. Similar action was taken by the other oil giants working in Nigeria, cutting back the country's oil production by one-third.

While the protest was in part related to the forthcoming Nigerian presidential elections, some of those involved gave mistreatment by multinational oil companies as one of their reasons for taking part. The Ijaw tribe, who believe they have been marginalised by the government of Nigeria, were demanding reparations from the oil companies for their past actions, and a greater share of the national oil revenue.

The actions of the Ijaw, who claim that their communities came under sustained bombardment from government forces trying to secure the oilfields, mirrored those of the Ogoni people, whose leader, poet and activist Ken Sara Wiwa, was executed by the military government of Sani Abacha in 1995. Sara Wiwa had led a lengthy campaign against Shell's Nigerian subsidiary, claiming that the company was responsible for widespread environmental pollution of Ogoni lands and that it colluded with the military government in human-rights abuses. Shell has always denied these claims.

Shell quit the Ogoni lands in 1993. But its Nigerian subsidiary has recently been instructed by the country's House of Representatives to pay US$1.5 billion in reparations to the Ijaw people for oil spills and other environmental incidents in Bayelsa State, where the company has been operating since 1956.[39]

'Nigeria shows how corporations are not practising what they preach,' says Isaac Osuoka from Environmental Rights Action in Port Harcourt.[40]

Osuoka is, above all, angry that the benefits of oil have not accrued to local people. 'They live a few hundred yards away from installations where they see staff from oil companies operating with constant electricity when they have none,' he says. 'People see facilities that have been there for 30 years with clean water and they still drink from puddles. They are impoverished in the midst of extreme wealth, it's no wonder they get angry.'

Has oil brought any benefits to the Niger Delta? There are a range of views, but few in Nigeria deny the harm oil has done. 'Let's be honest,' says one activist. 'Oil has had an enormous impact on Nigeria for good as well as bad.'

Bronwen Manby, a lawyer and Africa oil expert from Human Rights Watch, is more downbeat. 'The impact of the oil companies has been mostly negative and Nigeria would be a much better country if it did not have any oil,' she says.

Corporation and the Export-Import Bank of the USA. Britain's own Export Credit Guarantee Department (ECGD), which now has stricter lending criteria, still helps to finance oil projects. In the past five years, the ECGD has supported oil or oil and gas projects worth £355 million using UK taxpayers' money.[42]

In December 2000, the ECGD introduced new business principles into its criteria for support. It assesses the environmental, social and human-rights impacts of all project proposals, including oil projects. 'Oil projects can have a significant benefit to developing countries in terms of generating foreign exchange earnings or decreasing reliance on imported oil,' said an ECGD statement to Christian Aid. 'It is probably safe to say that without economic and financial benefits accruing to the host country it is unlikely that ECGD support would be available.'[43]

Christian Aid's statistics on public support for oil projects are incomplete. Other European export credit agencies, such as those of France and Germany, are less willing to provide detailed breakdowns of their expenditure and support. A final figure should also include the vast cost to rich countries of 'securing' oil interests, through the deployment of military forces to protect supplies and supply routes. It has been estimated that, before the war in Iraq, the US government alone spent as much as US$60 billion per year protecting its Middle East oil interests.[44]

Much of this money is not given or loaned in ignorance of the oil curse.

- The World Bank has launched a review of its lending to extractive industries' projects, including oil, after research published by the Bank itself found evidence of the curse of natural resources. 'In the case of Nigeria, which is emblematic of many oil-producing developing countries, GDP per capita remains at less than US$1 a day, despite the fact that US$300 billion in oil rents have been generated over the past 25 years,' says Charles McPherson, senior advisor at the World Bank Group's Oil, Gas, Mining and Chemicals Department.[45]

- The international Monetary Fund (IMF) has entered the debate with reports and working papers linking natural resources to corruption. In an interview with Christian Aid, Carlos Leite, the IMF's country representative in Angola, agreed with the premise that countries with oil wealth have lower economic growth rates, higher levels of corruption and more extreme poverty.

- The European Bank for Reconstruction and Development (EBRD) has observed, that '...the presence of natural resources wealth reduced incentives to reform, as reforms would have limited the opportunities for direct rent appropriation. Moreover, it allowed incumbent elites to remain in power and shut out reformers.'[46] In 2000, the EBRD lent more than £200 million to oil and gas projects in developing countries.[47]

Oil and water

While water is often said to be the oil of the 21st century – its scarcity and value are both increasing – the world has hitherto chosen, and continues to choose, to put far more resources into oil exploitation. As a result of the current lack of investment, 1.1 billion people worldwide are still living without access to safe drinking water.[48]

The latest illustration of this obscene imbalance comes from the war in Iraq, where billions of dollars have been spent on a military expedition which, whatever its original causes, will lead to the west securing access to huge oil reserves. Yet while US and British troops were guarding the oil fields in the immediate aftermath, much of the population was crying out for clean water – many sources of which had been destroyed by the war and the looting that followed it.

Halving the global number of those without access to safe and clean water by the year 2015 is one of the Millennium Development Goals (MDGs) set by the United Nations, to which the majority of member states, including Britain and the US, have pledged themselves. Water experts estimate that it would cost an additional £8.5 billion a year to provide all those in need throughout the world with a safe water supply.

The comparative statistics are glaring: just over one per cent of the revenue generated by the global oil industry would be enough to pay for the fulfilment of the water Millenium Development Goal.

- In 2001, more than 27 billion barrels or 3.5 billion tonnes of oil was produced,[49] which raised in excess of £400 billion gross for the oil industry and, by extension, oil-producing countries.[50]

- It would cost just over £4 billion a year to halve the number of people without a safe water supply.

The world is currently engaged in a desperate round of global negotiations to try and raise the extra cash required to help poor communities reach the MDGs, including the water target. In order to stand any chance of halving the number of those living in absolute poverty and, no doubt, to save face, rich countries and institutions must double the amount they give in aid.

And yet rich governments continue to pump £1.2 billion per annum of public money into the oil sector, which, as this report shows, is more likely to increase poverty levels than radically reduce them. This money could make a real impact in giving some of the world's poorest people access to safe water.

Not even poor people in oil-producing countries are immune from this injustice. Here at least, one might think, the governments would be able to direct enough resources towards water provision to make sure that their populations were properly provided for. But, as our case studies show, this is not the case – all are oil-rich but clean-water poor.

Angola – Dirty money, dirty water

'If the government had nothing to hide, it wouldn't keep it secret. Secrecy on both sides means there is something fishy.'

The Rev Dr Daniel Ntoni-Nzinga, executive secretary of the Inter-Ecclesial Committee for Peace in Angola

The centre of Luanda, Angola's capital, curls around a shimmering bay, a jumble of faded colonial buildings pressed up against crumbling tower blocks. Its oil economy has produced the highest property prices in Africa, and Luanda ranks as the second most expensive city in the world to live in – after Tokyo.

But while living on the 14th floor here does give a spectacular view of the bay, the lift seldom works – the electricity supply is intermittent. The shanty towns surrounding the city centre don't even enjoy basic sanitation. Luanda is a city of contradictions, with a yawning gap between the elite grown rich on oil money and the vast majority of its poor people.

Most of Luanda's infrastructure was built before Angola gained independence from Portugal in 1975, when the city had a population of only half a million. Luanda is now home to some four million people. Many of those displaced by the country's 27-year civil war, which only ended in April 2002, live in the shanty towns. They lack piped water, sanitation and waste removal. There is very little drainage and sewers are clogged with rubbish; when it rains the refuse flows through the roadways and water collects in huge pools. Malaria and diarrhoea are common.

Angola's vital statistics are equally depressing. For years it has remained at the bottom of the United Nations' social indicator indexes; almost 30 per cent of children die before the age of five and life expectancy is 46 years.

Angola is a tragic bench-test of the destructive impact that the exploitation of natural resources can have on a developing country. Its government has the dubious reputation of being one of the world's most corrupt. The International Monetary Fund (IMF) estimates that of the annual US$ 5 billion Angola earns from oil, more than US$1 billion goes straight into private bank accounts. It is almost totally dependent on oil, which accounts for about 90 per cent of its income, but it does not publish its oil revenues in the national budget. For decades the government used the country's civil war as an excuse for its lack of transparency and accountability. But a ceasefire was signed last year, and it's still not saying where the money is going, or even how much there is.

Indeed some activists say that the role of oil and the oil companies in helping to finance the government side of the civil war should now be looked at with the same rigour as the diamonds and illegal diamond trade which funded the UNITA rebels, and which continue to fund other African conflicts. While these are known as 'blood diamonds', the companies should now explain their involvement with 'blood oil'.

Angola is potentially one of the richest countries in Africa with its huge reserves of offshore oil and a population of just 12.4 million. It is a 'paradox of plenty', according to Carlos Leite, the resident representative of the IMF. Unfortunately, natural resources alone do not guarantee a high standard of living – good government must accompany them. 'If domestic policies are poor and institutions are weak, the effect is not simply neutral,' says Leite. 'It is strongly negative.'

Dirty money

Francisco Filomeno Vieira Lopes is an economist and oil expert working with a Christian Aid partner to find ways to make the sums the government receives – and the oil companies give – more transparent. Angola' s economy and social fabric has been distorted by years of corruption, he says: 'We are not a normal country. The people who work have little money and the people who don't work have a lot of money.'

Church-based groups and human-rights organisations are joining the fight. They insist that unless both the government and the oil companies become accountable, the people of Angola will never see the true financial benefits of the oil.

According to a national law, ownership of Angola's oil, and presumably the wealth it produces, belongs to its citizens.

'Since oil revenues form the basis of the state revenues, it is important they are registered and managed in a transparent way,' says the Rev Dr Daniel Ntoni-Nzinga, the executive secretary of the Inter-Ecclesial Committee for Peace in Angola (COIEPA), a Christian Aid partner. But since it is not in the interest of either the government or the oil companies to reveal their true figures, pressure will need to come from both inside and outside Angola. 'If the government had nothing to hide, it wouldn't keep it secret. Secrecy on both sides means there is something fishy.'

The government and the oil companies work in 'a perfect complicity', according to Ntoni-Nzinga. Oil companies claim they cannot publish their figures, as the government obliges them to sign confidentiality laws. When BP announced in 2001 that it would publish its payments to Angola, the government threatened to cut off the company unless it 'scrupulously respected' confidentiality clauses. A BP spokesman dismissed the incident as a 'misunderstanding', but admitted it had taken a long time to clear up.

Ntoni-Nzinga wants oil companies to at least abide by the same rules and regulations that apply in developed countries, whether they have to do with the environment or tax declarations to stock exchanges. 'The oil companies must be subject to the regulations which are in force in their home country,' he says.

One suggestion is that stock exchanges in the United States, the UK and France make the declaration of all payments to all governments a condition of being listed. Currently, all taxes paid by companies in rich countries belonging to the Organisation for Economic Cooperation and Development (OECD) have to be declared. Other countries such as Angola are lumped together as 'ROW' – rest of the world – in company accounts. If oil companies routinely reveal details of payments to developed countries, why should these details not be available on payments to Angola and other developing countries? Smells fishy, indeed.

In Angola, the difference that this could make is huge. The IMF says that US$1 billion a year goes missing from government oil revenues, and this compares with US$386 million in aid from the whole of the United Nations Consolidated Appeal for Angola for 2003 – or almost three times the fund's size. Christian Aid partners also worry that the aura of corruption may put off potential donors, despite the country's enormous need for post-war reconstruction. These organisations add that they, in particular, need continued support in order to fight for increased transparency from both the government and the oil companies.

If Angolans knew how much money was coming in, they could, at the very least, work out how much was going missing. This would allow civil society groups to put more pressure on the government to spend the money in Angola – on schools, health clinics and, that most basic of human rights, safe water.

Dirty oil

The engine of Angola's economy floats far out on the Atlantic Ocean. From the beautiful promenade along Luanda's bay the ships in the port and the country's single refinery are the only evidence of the oil industry. To catch a glimpse of Angola's 'black gold' you have to take a half-hour flight to Cabinda, the small territory separated from the rest of Angola by a sliver of the Democratic Republic of Congo.

Cabinda has a complicated history; separatists have been fighting there since the 1960s. The armed struggle is led by the Liberation Front for the Cabinda Enclave (FLEC). It was established before Angolan independence in 1975 to fight against

Christian Aid/Paul Botes

Angola's oil is all offshore; only in Cabinda are the oil platforms and flares visible

Portuguese rule. The separatists refer to documents that demonstrate that Angola and Cabinda were seen as separate entities under colonial rule and claim that the two territories should therefore have formed separate states at independence.

Deposits in Cabinda produce 60 per cent of Angola's oil and this has heightened the protracted struggle between the separatists and the government.

The town of Cabinda has a sleepy, forgotten air about it. It feels lush and green with wide, tree-shaded streets and a striking absence of rubbish – a stark contrast with Luanda. Cabinda benefits from having a population a fraction the size of Luanda's. From the beach and high points in town, the platforms and oil flares stretched out on the horizon are visible, pumping oil day and night.

Otherwise there is very little presence of the oil companies' foreign employees in town. They all live in Malongo, a gated compound some 15km down the road. Malongo bears the legacy of Cabinda's long history of war; it is still surrounded by landmines. The employees go by helicopter from the airport to their compound and bypass the town completely. The oil companies are clearly the main source of employment, but there is very little visible evidence of them in town. Cabindans complain they are hired as drivers, cooks and cleaners, not in skilled or managerial positions. There are none of the facilities one associates with an influx of foreigners, such as restaurants, bars or shops.

Living conditions are not noticeably worse in Cabinda than in other Angolan provinces, but the contrast between its poverty and the more obvious wealth there has sparked more vocal dissent. The cost of living is high, since Cabinda has no port facilities and consumer goods are flown in from the capital, Luanda, or trucked in from the neighbouring countries of the Democratic Republic of Congo or Congo-Brazzaville. Petrol is cheap, only eight kwanzas a litre (65 kwanzas = US$1), but shortages result in long queues. This is particularly galling since oil exports from Cabinda are worth the equivalent of US$100,000 for every Cabindan. The street vendors, who have a captive market in the petrol queues for their cold drinks and cakes, are the only obvious beneficiaries.

The Catholic Church here has been particularly prominent in the fight for more oil company accountability. Jorge Casimiro Congo, the charismatic priest of the Immaculate Conception parish has a high profile in town because of his outspoken campaigning. He feels the government has marginalised Cabindans. 'Why is it,' he asks 'that we have no head offices here, no refinery and that the only school for oil technology is built down in Sumbe?' He suspects the government

Roque Santeiro

Although Luanda's formal economy is almost at a standstill, the informal sector is flourishing. In the shanty town area, sprawling along the port, is the famous Roque Santeiro market, one of the biggest open-air markets in Africa.

If you look hard enough, Angolans say, you can find whatever you want in Roque Santeiro.

It sells almost everything from medicines, furniture and cookers to car parts and fishing nets. Restaurants operate around the clock; at night another profession takes over from the market vendors. Moneychangers sit with huge stacks of bills; it's said the exchange rate is determined here, not in the banks.

One enterprising man has managed an electrical hook up and is showing films under a canvas tent. Small bags of water are sold for five kwanzas.

Most people living in the shanty towns, such as Flora and Cristina, survive by working here, reselling imported articles. The average daily income for these families is US$3.50. The inventive entrepreneurial energy on display here could have tremendous impact on Angola's economy under the right conditions.

has a political strategy to disempower the people of Cabinda.

The environment is the most obvious victim of the lack of accountability. Cabinda's beaches, which should be white and a magnet for tourists, are black as a result of countless spills. Agostino Chicaia, of the environmental group Gremio ABC, is very worried about the environmental degradation. The most recent big oil spill was in December 1999. The government was forced to compensate the fishermen, and oil companies had to pay for the clean up.

'But there are many smaller oil spills which are not made public. We find out about them when workers alert us or when we see the oil,' says Chicaia. 'We also find out when the fishermen start complaining that the fish smells of oil. We should have the same environmental protection you have in Britain.'

Jorge Casimiro Congo echoes these concerns: 'We are treated as strangers in our own country, even when we are just trying to protect our environment.'

Dirty water

In Angola, a scandalous 69 per cent of the population do not have access to clean water. Even in Luanda, more than half of its residents, and most shanty town inhabitants, do not have access to piped water. For the poor, finding and paying for water is one of the day's most urgent tasks. Privately owned tankers sell often untreated water from the nearby Bengo River to informal vendors who store it in underground tanks in their compounds. It is then sold on by the bucketful at exorbitant prices.

There is another way. Development Workshop, a Christian Aid partner in peace-building efforts, has built a network of over 200 community standpipes

Christian Aid/Paul Botes

Water is sold in shanty towns from tankers; the stagnant water is the cause of much malaria and diarrhoea

in partnership with EPAL, the provincial water company. Water committees have been set up to represent the 100 families served by each standpipe. Fees are collected by the committee members to cover maintenance and to pay EPAL for the water supply.

The standpipes are hugely popular because of the low cost, but they are dependent on EPAL for water. At the time of Christian Aid's field visit, there had been no water for two months as EPAL's pumps had broken down, a not infrequent occurrence. This has meant health risks and a financial burden for the residents.

In a busy compound in Sambizanga shanty town Flora Victorino, 19, is collecting water for her family. She lives with her parents and five brothers and sisters. They need a minimum of 180 litres of water a day, more if they have laundry to do. The informal vendors charge one kwanza per litre. Flora will have to pay 180 kwanzas or US$2.75. Compare that with the price at the standpipes of five kwanzas per 40 litres. At the standpipes, for the water she is buying today, she would have paid about 20 kwanzas or US30 cents.

'Normally we eat once a day,' she says. 'But when we have to buy water here we sometimes don't eat at all. When we drink the tank water the children get sick. When we have water from the standpipes we are not as sick.'

Angola is a country that could be rich not only in oil and diamonds, but also in fish, agriculture and hydro-electricity. But war and economic mismanagement has devastated the productive

Cristina José Gonsalves uses the rainwater she collected to do the dishes. In the rainy season Cristina has more money to spend on food

sectors of the economy – Angola now imports almost all of its consumer goods and services.

Supply and demand rules in the shanty towns. When water is available in the standpipes, the price of the water sold by the tank owners goes down accordingly. And the same thing happens when it rains.

The morning after a torrential rainstorm, the price of water from tanks has plummeted to 15 kwanzas per 40 litres and business is slow. Brightly coloured buckets and containers surround the shacks in Sambizanga to catch the rainwater. Cristina José Gonsalves, 41, is sitting outside, preparing to wash a huge pile of dishes. The one-room shack, which she shares with her husband and eight children, is crammed with jerry cans and old oil drums full of the night's rain.

'Water is so expensive,' she says. 'You have to do to this when it rains. But I can only use it to wash dishes and clothes, after one day it tastes strange, so I still have to buy water.'

If it had not rained, Cristina would have spent 300 kwanzas (US$4.60) on water. Cristina sells fruit in the market, but she says: 'If I don't sell enough I buy a little food and then get water on loan from a neighbour.' That water is even more expensive since the neighbour will charge more than the owners of the tanks.

'It is wrong that water is so expensive, water is necessary. The children are always sick.'

A window of opportunity

Angola is already an important source of oil for the developed world and is courted by some big international players. Along with the rest of west Africa, it is being eyed by gas-guzzling countries such as the US as a possible short-term alternative to the volatile Middle East. Angola is not a member of the Organisation of Petroleum Exporting Countries (OPEC) and, because its oil is offshore, there is less potential for ugly confrontations with the local population, as has been seen in Nigeria.

Transactions between the government and the oil companies in Angola consist of a byzantine tangle of payments, which don't appear in any comprehensive detail in corporate annual reports. This provides ample opportunity for large fund diversions from Angola's budget. The government requires foreign investors to contribute to a 'social bonus fund', which is managed by the national oil company Sonangol. But neither the government nor Sonangol will reveal the amount held in this fund. Then there are the 'signature bonuses', the lump sums oil companies are required to pay the government on signing a contract for an exploration or exploitation concession.

Any attempt to force the oil companies to make public these amounts will have to be imposed worldwide, as no company will relinquish its competitive edge in order to comply with demands for transparency. However, a worldwide obligation to publish all data could play in the oil companies' favour, as it would be more difficult for governments to demand large, questionable payments.

Carlos Leite, of the IMF, insists that there is a window of opportunity for change. Angola is highly indebted and desperate for low-interest loans to finance its post-war construction. The next big jump in oil production is not expected for about two years. So Leite says this is the moment for international donors to apply some leverage and tie aid to strict demands for transparency.

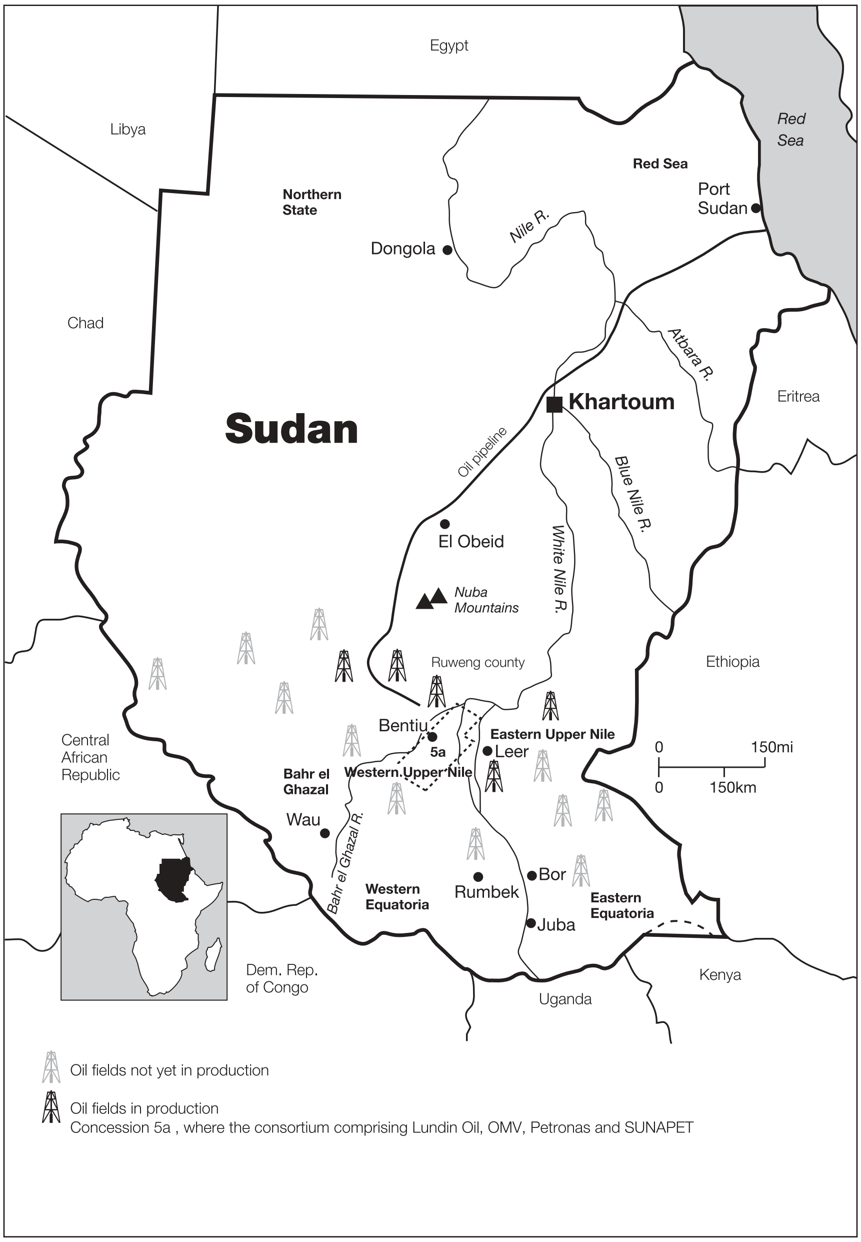
Groups in Angola know the oil companies will act only when obligated by international regulation, but they feel that there is also a moral obligation to come clean, given the relationship between the companies and the warring factions during Angola's long civil war. Oil fuelled the government's war effort, while the country's rich veins of diamonds financed the UNITA rebel movement.

'Those who financed the war which destroyed this country cannot exonerate themselves from the destruction,' says Ntoni-Nzinga of COIEPA. 'You talk about blood diamonds, this was blood oil.'

Sudan – Oil war, oil peace?

'Oil is right on the front line of our civil war. But if there's peace then money from oil must be used to put right the damage that's been done to people living around the oil fields, rather than being the reason for their suffering.'

Acuil Banggol, from SUPRAID, a Christian Aid partner organisation from southern Sudan.



Christian Aid/John Davison

Women and children shelter from the midday sun at the Ti-ir camp for displaced families in Western Upper Nile. Ruothkei says her village was attacked by the government's helicopter gunships

The women sat around in pools of shade, flies crawling over their faces and their children. It was the hot part of a very hot day, sun battering down with full equatorial force, and the constant work of survival was on hold for a couple of hours.

For many this swampy place was a new home, with only plastic sheeting for shelter and no certainty of how long it would be before they would have to move on again. Most had been walking for days to get there, some had arrived after months of enforced wandering – chased by marauding militias, helicopter gunships and Antonov bombers. All spoke of 'many, many' people having died along the way. These are the human faces of Sudan's oil war.

The place is known as Ti-ir, in Mayam county in the region of Western Upper Nile. Much of the area was previously controlled by the rebel forces of the Sudan People's Liberation Army, which has spent much of the past 20 years fighting for self-determination against the forces of the Khartoum government. But in the past few years Western Upper Nile has been subject to a policy of systematic clearance by government forces and the militias they support. The prize is the rich oil field that lies under the swamps and extends hundreds of miles to the south. As the exploitation of the oil has increased, pumped by foreign companies including some from Europe, the pressure on the people of Western Upper Nile has intensified.

Among the women was Ruothkei, who spoke more quietly than the young mothers sitting around her but whose age ensured respectful silence for whatever she wanted to say. Her tragically typical account of how they all got there, chased from their village further north, was delivered in a steady, flat monotone.

'The enemy came in the early morning, when it was still dark. First the Bagara Arabs attacked us with horses, then the other militias. Our forces [SPLA] were fighting with them, and we were able to carry some of our children and animals with us,' she says. 'After some time the helicopter gunships came, and we were running. Then the Antonovs came and attacked us. The fighting went on until the evening, we were running all day. The attack killed many in the village, and animals were also taken.'

There was constant danger, in fact, for days after, as the villagers headed west towards the neighbouring province of Bahr el Ghazal – moving every day. Sometimes the attacks came in the day, sometimes at night – harassing and snapping at the villagers' fleeing heels. Sometimes the families would hide in the forest for hours, as the Antonovs circled overhead.

'Many people died, you can't count them,' said Ruothkei. 'If somebody falls near you then you have to keep going, otherwise you too would be killed.'

This was not the first time they have been driven from their homes, the women explained. The difference this time was that with government forces established around their villages, they could not go back. Without peace, they said, they had left their homeland for good. Denied the chance to plant a harvest, they must stay at airstrips like Ti-ir and wait for help. This displaced life had taken a particular toll on children, said Ruothkei. Many had died, including two of her own – a daughter aged two and a son aged four.

'For the time being we need food and we need medicine. But what we need most is peace,' she says. 'If we had peace our children would not be dying of disease or being killed in the war.'

Sitting under a nearby tree was Peter Barar Liah, commissioner for the Sudan People's Liberation Movement (the civilian arm of the SPLA) for Mayam county. This was his new headquarters after he also had to run from the attacking government forces, he said. He apologised for not having accurate figures with him for those in Ti-ir and the exact dates of attacks and numbers of casualties. He did, however, produce a page torn from an exercise book, which claimed to show that 350,000 people from the county had been displaced.

'The main problem here is oil,' said Barar Liah. 'The government of Sudan doesn't want us to live here, it wants our land. It needs the land and the oil, but it doesn't want the people.'

This policy was first highlighted by Christian Aid in 2001. Its report, *Scorched Earth*, detailed how the northern-most fields had been virtually cleared of population in the preceding years. The report predicted that this policy would move to the oil-rich areas further south, and proved to be depressingly prescient – that is exactly what happened to the people at Ti-ir and thousands of others across Western Upper Nile during last year.

A 'cessation of hostilities agreement' was signed in October 2002, weeks after Christian Aid visited the people of Ti-ir, with high hopes for the future. Progress has been made in the continuing peace talks, but clearances in the oil areas have continued, threatening to undermine the process.

Elsewhere in the Ti-ir camp, even the idea of a future seemed to cause bemusement bordering on humour. Angeline Nyobei Lame crouched under another group of trees, a small baby feeding from each of her shrivelled breasts. The mother of one of the children she was nursing died of disease during their village's three-month flight from the 'Arabs', she explained.

'We keep on giving birth to children. We can't stop, even though we're suffering. I don't know what will happen, I don't know what to do,' she said. 'I don't have the power to stop the war, I don't know the cause of the war, I don't understand anything. We just see the Arabs coming to kill us, and we have to run away. It is always like that.'

Just where Angeline, Ruothkei or any of the thousands of people seen in Ti-ir are now is anyone's guess. Somewhere, they are on the move again – for this was one of the latest places to be cleared in the on-going government offensive.

Oil on the horizon

Oil rigs are visible from Holland's north-west coast. But few of the Sudanese delegates who gathered in the Dutch seaside resort of Noordwijk would have lingered long enough on the town's promenade to pick them out in the distance. To do so required a face-to-face encounter with a gusty April wind blowing arctic air towards mainland Europe. But the rigs formed a singularly appropriate backdrop for a meeting between the two main warring parties from oil-rich Sudan.

The conference, six months after Christian Aid's field visit to Western Upper Nile, was not a formal part of the peace process, but an attempt to assess the best way to make a 'quick impact' to help those people hardest-hit by the war – including the displaced. Representatives from rich countries joined with those from the World Bank, the International Monetary Fund (IMF) and the Sudanese delegations to work out where aid could best be deployed after the signing of a peace deal. Fat carrots, such as debt relief and massively increased aid packages, were dangled – with the implicit 'stick' that that meaningful peace talks must be concluded, and soon, before any of this could flow.

Sharing the wealth from Sudan's revenues was not specifically on the agenda at Noordwijk. But no one was in any doubt that this issue, like the North Sea rigs, was always in the background. Oil was not an original cause of Sudan's civil war, a conflict, in one form or another, that dates back almost 50 years. But oil was one reason that war resumed in 1983 and it has led to an escalation in fighting as the reserves, and the land above them, have become increasingly important to the government of Sudan. The oil fields are currently the only region of the country in which there is significant conflict.

Independent delegates think that the oil question is beginning to dominate the whole peace agenda. Acuil Banggol, from SUPRAID, a Christian Aid partner organisation from southern Sudan, was one of only four representatives of non-governmental organisations – only two of which were from Sudan – to take part in the conference.

'Our fear is that this time they [the government and SPLM] will cook up a peace deal and feed it to us, but it won't take account of our many special dietary requirements,' said Banggol. 'Oil is making us [Sudan] strategically important. The pressure to get it [the peace deal] signed is mounting. Oil has complicated this war further. Suppose if the oil was in the north of the country, then peace would have been easier and there would not have been the massive displacement of civilians in the oil field.'

The venue for the conference was the lavish five-star Hotel van Oranje, on Noordwijk's seafront. Officials scurried from room to room, trying to agree the wording of a communiqué from the three-day meeting. In the end, as is often the way after such hurried diplomacy, the published text was anodyne.

In the pack of cards continually being shuffled during the peace talks proper, taking place in Machakos, Kenya, the joker is oil. Once all the country's oilfields are producing, oil will be the source of much of the country's income. The SPLM is demanding that clear

Angeline Nyobei Lame nurses a child whose mother was killed when government militias raided her village in Western Upper Nile.

percentages are written into the peace agreement which acknowledge that the south of the country is extremely poor, in need of rapid investment and has suffered most devastation during the war.

'We want to see a fair distribution of Sudan's wealth, but one that recognises the oil is in the south and has been used to terrorise the people of the south,' said Nhial Deng, head of the SPLM delegation. 'Significant oil wealth has to be used for southern reconstruction.'

The government of Sudan delegation, headed by Najeib El-Kheir Abdelwahab, the minister of state for foreign affairs, was even less precise about the deal on oil-wealth sharing. 'When we have a peace agreement, the resources [from oil] could be used to preference the south,' said Abdelwahab. 'But there is no need to agree on percentages now. Our southern brothers should be patient.'

In an unprecedented move, the warring parties signed an agreement on 15 October 2002 to suspend hostilities while peace talks continued. The agreement included a commitment to freeze existing military positions and to refrain from any acts of violence against the civilian population. But, according to independent observers, the government of Sudan has continued to displace civilians from communities around the oil road and is still building the road towards the town of Leer.

On 26 January 2003, government troops and allied militia were reported to have attacked Leer on the ground and from the air. A statement by Richard Boucher, spokesman for the US State Department, issued the following day, said, 'Khartoum risks losing its credibility as a serious partner for peace with both the United States and the international community.'

The SPLM and the government of Sudan signed an addendum to the ceasefire agreement ten days later, promising a return to 15 October positions and a freeze on oil-road construction. 'The government took ten locations after the cessation of hostilities was signed in October, and since the addendum they've taken a further five,' said John Duku, the SPLM's representative to the EU. 'The objective of the fighting is related to protecting the oil concessions. We see this as a serious undermining of the peace process.'

The government of Sudan was dismissive of the SPLM's claims. 'The SPLM is not happy that oil is now contributing to main national revenues,' said Najeib El-Kheir Abdelwahab, when asked whether hostilities have continued in Western Upper Nile, around the oil fields.

But the US-backed Civilian Protection and Monitoring Team (CPMT), set up in March 2002 to monitor and report on the situation of civilians in southern Sudan, has witnessed government clearances of civilian populations in Western Upper Nile, and continued building of the oil road, since the cessation was signed – both of which are in violation of the agreement. And immediately after the signing of the addendum, the CPMT photographed further oil road construction work.

One month later, on 7 March, CPMT monitoring flights were effectively grounded when Sudanese military intelligence stopped processing the team's notification documents. Without formal acknowledgement from military intelligence, the safety of the team's flights cannot be guaranteed.

'There is a lack of agreement between the government of Sudan and the team on their responsibilities,' said Laney Pankey, CPMT Director of Operations on 7 April 2003, one month after the grounding of the flights. 'There have been no visits to sites to complete investigations and no new investigations have been initiated.'

Muhammad Ahmad Dirdeiry, a spokesman at the Sudanese embassy in Nairobi, said with disarming honesty that Sudanese intelligence had discovered that the CPMT was verifying alleged violations of the cessation of hostilities agreement, and the government had therefore 'denied it permission to verify such violations'. The government of Sudan believes this is not the CPMT's remit, which it thinks should be restricted to monitoring attacks on civilians only.

CPMT flights were resumed after a month's suspension.

European companies threatening peace

Christian Aid's *Scorched Earth* report, published in March 2001, accused oil companies of complicity in the killing or displacement of tens of thousands of civilians living in communities around the oilfields, by allowing the government use of oil infrastructure (particularly airstrips and roads) for military operations, and because the government was using oil revenue to step-up military action.

The report called on oil companies operating in Sudan to suspend their operations until a just and lasting peace deal could be agreed and implemented. One consortium, operating in Block 5a and involving Lundin Oil of Sweden and OMV of Austria finally suspended its Sudanese operations in January 2002, because of a 'deteriorating security situation'. As the Noordwijk meeting was about to get underway both companies announced they were planning to return to the oil fields to 'recommence work'.

Members of the Block 5a consortium, including Lundin and OMV, had repeatedly stated that they would not resume operations until there was a comprehensive and sustainable peace. Their decision to go back in ahead of the signing of a peace deal, albeit for limited operations, contradicts this position.

'As a result of the positive developments in the peace process...' said a Lundin statement, 'the consortium (including Lundin and OMV) has decided to carry out work on the existing infrastructure within Block 5a and the equipment stored in the Rubkona base camp, as a first step towards an eventual recommencement of activities.'

In an email to the European Coalition on Sudan (ECOS), of which Christian Aid is a member, Lundin was keen to downplay the return to Sudan. 'This is not a resumption of activities, but we are preparing the ground for an eventual resumption, since it takes weeks to get started again,' said Christine Batruch, an adviser to Lundin Oil on corporate social responsibility.

Some of those involved in the peace process are also keen to downplay the significance of the announcement by Lundin and OMV. Alan Goulty, the UK's special representative in Sudan and a former ambassador to Khartoum, thinks the oil companies are simply keen to demonstrate willing to the government of Sudan. 'By the time they're ready to do much, we'll be about to enter the rainy season and I suspect they'll use this as an excuse to pull out again,' he says.

But others are angry. 'It's very negative for the peace process because the government of Sudan will have to secure the oil fields around Lundin and OMV,' says John Duku. He also claims the government of Sudan had put pressure on the companies to return.

The difficulty for western oil companies in Sudan is that any efforts they make to avoid endangering the peace process – especially suspending their operations – are unlikely to be matched by the Chinese or other Asian companies operating in the country. Nevertheless, their decision to go back, especially if only to tinker with existing equipment until the rainy season arrives, indicates they can no longer resist contractual pressure from the government.

Micha Ela Reeh, an OMV spokesperson, said she hoped the resumption '...won't disturb the peace


Christian Aid/John Davison

Women start to arrive in Ti-ir from early morning along the main bush route from the west, carrying large bundles wrapped in matting on their heads and often with children in tow.

process. We are confident with the peace process and that things will improve.' But Reeh did not deny that the government of Sudan had applied pressure. 'We have contracts to fulfil and we have to consider this too,' she said. 'Suspension was agreed with the government of Sudan, but our contract is with the government. Our contracts are always with governments, this is true for every country in which we work, not only Sudan.'

For its part, the government of Sudan says it put 'no pressure' on Lundin and OMV to return. Foreign Minister Abdelwahab is also sanguine about the role of business. 'The work [in the oilfields] shall continue because this is business and business can never be controlled by government,' he says.

Ironically, further clearances of civilians in Western Upper Nile, along with the advancing of the oil road towards Leer – both in violation of the cessation of hostilities agreement – have opened up the possibility of Lundin and OMV returning to the oil fields. The security fears that precipitated their withdrawal have now been allayed as a result. But their announcement has been met with much concern and sources inside the peace negotiations say it would have been much better had the companies chosen to stay out until a peace deal is signed and sealed.

Duku of the SPLM thinks Europe should bring pressure to bear on its businesses. 'The governments of Sweden and Austria should play a role in stopping their oil companies going back in,' he says. But when asked whether the UK government would be making representations to the governments of Sweden and Austria, Alan Goulty said he was not sure there was any particular sanction that governments could apply to oil companies.

Sharing the spoils of Sudan's oil

For oil to be a blessing for Sudan, rather than cursing the communities around the oilfields and stoking the fires of war, the wealth it earns must be used to benefit the whole population and be distributed fairly between the north and south. Perhaps, oil revenues should be put in a trust fund for the Sudanese people and administered with international scrutiny. This concept is supported by Acuil Banggol.

'We will need some mechanism for peering into the budget of the government, both in the north and south,' he says. 'The people of Sudan must be the ones who do this, but we need help from the international community.'

Banggol's point certainly holds true for the whole peace process. In the early stages of any peace in Sudan, third-party monitoring and guarantees will be critical in determining whether the government in Khartoum, and the emerging authority in the south, remain faithful to what they have agreed. But the twin issues of land and oil – intrinsically intertwined since Sudanese law states that those who own land also own the subterranean assets – not only threaten the peace process, but could also threaten any future peace if not adequately dealt with in the agreement.

Alan Goulty, the UK's representative for Sudan, thinks that either party will be 'quick to squeal' if they don't derive any agreed benefits from oil. But he also suggests an 'oil commission' may be necessary to oversee the spending of the money from oil. 'It might be that international involvement would help, but both sides would currently say that they would sort it out themselves,' he says.

During the discussions in Noordwijk, against the backdrop of the North Sea's oil industry, a 'large carrot', in Alan Goulty's words, was dangled in front of delegates from the north and south of Sudan. Peace will doubtless now bring new loans from the IMF and World Bank, and the repayment of Sudan's enormous debt – US$14.8 billion in 2000[1] – is likely to be rescheduled. IMF sources at the meeting suggested the international financial institutions will insist on transparency in Sudan's budgets for their own purposes but are unlikely to go as far as insisting that details of budgets are opened up to local people.

One of the first challenges of peace will be to demonstrate a social dividend so that people do not go back to fighting. The UN estimates that half a million people have now been displaced in and around the oilfields – their needs are an urgent priority. Both sides have promised to '...take all necessary steps to effect immediate voluntary return of civilian population to Western Upper Nile.' This will be an important initial move.

Alongside this, wealth-sharing and transparency of government budgets in both the north and south, will need to be an essential part of any peace deal if a process of reconciliation is to take place, with sustained development at its heart.

Rebecca De Mabior is the wife of Dr John Garang De Mabior – the founder and chairman of the SPLM. She places the role of oil in more stark relief. 'They have stolen our stick and used it to beat us,' she says. 'If the oil were in the north then we wouldn't have a say, but it is our oil.'

Stop press: On 28 April, Lundin Petroleum announced it was selling its 40 per cent share in block 5a to Petronas of Malaysia. 'We have left our mark on corporate responsibility in Sudan and we hope our successor will continue our work,' said Christine Batruch from Lundin. She denied pressure from the government of Sudan had played a part in the company's decision. Lundin retains a 24.5 per cent stake in block 5b.

Kazakhstan – Slick business, bad water

'It does make me angry that millions of dollars are being obtained in oil, but we don't even have drinking water.'

Svetlana Voitiva, unemployed villager from Narynkol, eastern Kazakhstan.

The word Almaty, the name of Kazakhstan's principal city, comes from 'alma-ata' – literally 'father of apples'. But the shiny red and green fruit on sale in the market stalls here is no longer local. It comes from Iran.

In this vast land of fertile plains, much of the fruit, milk and vegetables have to be brought in from neighbouring countries because local farming systems have broken down. In Aktau, a town in western Kazakhstan on the shores of the teeming Caspian Sea, the produce on display in the fishmongers' windows come from Russia, not from the waters on its doorstep. Locals have lost the will to fish.

Almaty's streets are lined with dilapidated buildings, and the roads are riddled with potholes. There are power cuts most days and even important offices, such as law firms and international think-tanks, are housed in unlit, ramshackle shells. By night a browny-grey smog settles on the city – and in its residents' throats.

Almost 30 per cent of the nation's 15 million inhabitants live below the poverty line.[1] Outside the cities, infrastructure and services are even more run down. Many villages have no school or medical facilities and trains run with old, filthy rolling stock.

Christian Aid/Mark Edwards/Still Pictures

Children collect water in front of a luxury hotel for oil executives in Atyrau, western Kazakhstan

Unemployment is a major problem too. Official unemployment figures show that 11 per cent of the population is out of work,[2] but some estimate the real figure is as high as one in four. Large numbers of skilled labourers have migrated as a result.

But Kazakhstan earns vast sums from its oil. It has a National Oil Fund that bulges with US$2 billion[3] – and this is widely predicted to hit US$100 billion by 2020. The economy as a whole grew by 9.5 per cent in 2002, following a GDP growth of 13.2 per cent in 2001.

So what is happening to Kazakhstan's wealth? 'This is a question I have often asked myself,' says Olga Taushtanova, a translator living in Almaty. 'We are supposed to be such a wealthy country, but it's certainly not being spent in this city which is falling down.' She, like many others, thinks that in lots of ways life was better in Soviet times.

The good news

Oil is the country's biggest source of income. Last year Tengizchevroil (TCO), the biggest consortium in the country, made direct payments of US$916 million[4] to the Republic of Kazakhstan government.

Some oil revenues have been used to address the ills that Kazakhstan suffered following its independence in 1991, as well as the problems it inherited from the Soviet era. In 1995, the country was almost on its knees, there was no food available in shops and much of its infrastructure had collapsed. Since then inflation has been brought down from its 1994 peak of 1,975 per cent, to a more reasonable 6.5 per cent last year. Poverty-reduction programmes have also been put in place, as part of the Stalinist-sounding Kazakhstan 2030 plan.

Many commentators agree that the macroeconomic situation looks relatively good, particularly for a country which was hit hard by the Asian financial crisis of the late-1990s.

A United Nations report on the Millennium Development Goals in Kazakhstan even says: 'In the past ten years, Kazakhstan has made considerable progress in implementing complex political, economic and social reforms to establish a democratic state with a market economy.'[5]

As part of this process, President Nursultan Nazarbaev also set up the National Oil Fund in which the royalties paid by foreign companies, such as those that are part of TCO, are placed. The stated purpose is to put oil money in trust for the nation, as well as stabilising the economy. This is welcomed by most experts as an effective buffer against oil-price fluctuation.

The bad news

There is, however, an almost total lack of transparency around the fund. People who know the process can find out the total amount in the fund. What is not publicly known is whether this represents all of the royalties paid by the international oil companies.

These companies sign strictly confidential product sharing agreements (PSA) with the government of Kazakhstan, forbidding them to reveal the sums they pay for being allowed to extract the oil. TCO, for instance, makes public what it pays to the government as a whole. But it does not break this down into royalties, which go into the National Oil Fund, and taxes, which the government receives as normal revenue. This goes straight into the budget to pay for, among other things, new infrastructure, schools, healthcare and welfare.

This all means that the people of Kazakhstan cannot determine how much their natural resources are earning the country, and where this money is going.

This was brought into sharp relief in April 2003 when a US federal investigation into the bribing of Kazakh officials by US businessmen was broadened to include the possible role of Mobil Oil, now part of the Exxon Mobil Corporation. The connection was made through a tax evasion case against a former senior Mobil executive, J Bryan Williams, who was accused of failing to declare a US$2 million kickback over an oil deal. His indictment alleges that Williams was paid the cash for his work to complete negotiations with Kazakhstan over Mobil's US$1 billion purchase of a 25 per cent stake in the huge Tengiz oil field in the west of the country. The field has oil reserves estimated at more than six billion barrels and is controlled by the TCO consortium. Both Williams and Exxon Mobil deny any wrongdoing.

The same deal also forms part of the indictment against another US businessman, James H Giffen, on conspiracy charges of making illegal payments of more than US$78 million to two senior Kazakh government officials to secure oil deals. Some of the money was allegedly used to buy one of the officials jewellery worth US$180,000. In his indictment, Giffen is accused of defrauding Kazakhstan out of

Christian Aid/Mark Edwards/Still Pictures

The pipes at this refinery near Akystau are old, leaking oil and fumes into the surrounding area millions of dollars. He worked as a consultant to the former Soviet Union and Kazakhstan for many years, and held various titles awarded by the Kazakhstan government, including counsellor to the president. Giffen also denies any wrongdoing.

Next, although there are manufacturing and agricultural sectors in Kazakhstan, you could be forgiven for not noticing them. Oil and gas tower over the rest of the economy, accounting for 40 per cent of Kazakhstan's GDP.[6] The economy urgently needs to diversify: currently the non-oil sector accounts for just ten per cent of foreign direct investment. In the countryside farms lie idle, with most machinery and tools obsolete.

Part of Kazakhstan's problem is that of any economy in transition. Not only is it recovering from the cataclysmic break up of the Soviet Union, it has also suffered from decades of central organisation – where the concepts of markets and supply and demand were not widely understood. However, these problems also show that far from the country actively benefiting from its oil wealth, its oil is causing Dutch Disease.

Atyrau is the centre of the oil industry. Surely here you would expect to see the wealth which oil brings. This is where TCO has built its new gleaming cream-coloured 'village' to house expat and Kazakhstani executives. With its wheelie bins and satellite dishes, it could be a well-to-do suburb somewhere in Middle America, but for the high metal fence surrounding the compound patrolled by security guards. But elsewhere in town, there is little evidence of oil improving the life of the average resident. Most people live in old wooden houses with no water supply, or high rises with stinking stairwells.

Although import-substitution rules introduced by the government mean international companies are obliged to buy local products and employ local people, in reality oil extraction is a capital, rather than labour-intensive, industry and few locals benefit. Of course, some residents have got jobs with TCO, or the other international consortia such as Agip KCO, and their wages are four times higher than the town's average, according to a spokesperson for TCO. But these higher wages also push up the cost of living, which hits those not employed by the oil sector especially hard. Bread is twice as expensive here as in other parts of the country. With biting irony, in 2001, more than 40 per cent of the people living in this district were below the poverty line, making it one of the poorest areas of Kazakhstan.[7]

Dr Tulegen Askarov, a prominent financial journalist and consultant for Transparency Kazakhstan, says that Atyrau is exhibiting clear signs of Dutch Disease. 'The place looks like hell. The people, except oil people, have no incentive to work. They believe that the amount that is being made from the oil companies means the government should have enough to spend on welfare,' he says.

This, he says, is why people in Aktau, further down the Caspian coast, no longer go fishing. Again, it is an attitude that goes back to Soviet times when people relied on the state to provide a job rather than having to find one. It is also a symptom of Dutch Disease.

Dr Askarov says that compared to these oil towns, even the run-down Almaty is a model of hard work. 'It's because in Almaty there are no oil deposits. There is only mineral water in the mountains just outside the city. So people there are much more motivated to work and the services much more developed,' he says.

Throughout the country, political reform has a long way to go too: although it is a republic, the President has all the power – and lifetime immunity from prosecution. Nazarbaev's relatives still hold most of the important government and business positions. His eldest daughter, for instance, is head of state-owned television and radio, including the state-run news agency Khabar.

Last year the Solidarnost Union of Independent Journalists said that media outlets are subject to government harassment if they do not adhere to the official viewpoint. It cited the firebombing of the offices of the independent newspaper *Delovoye Obozreniye Respublika*.[8] A major opposition figure, Galymzhan Zhakiyanov, was imprisoned last year, to the concern of the local office of the Organisation for Security and Cooperation in Europe (OSCE).[9]

In gathering the evidence for this report we spoke to a number of fledgling non-governmental organisations (NGOs) in Kazakhstan. We have not mentioned their names, because some feared repercussions from the state. Some names of individuals have also been changed.

The Open Society – a US-based think-tank that works on strengthening democracy around the world – even says that Kazakhstan's peace may be threatened by its oil. In a report entitled *Caspian Oil Revenues*, it says: 'As hydrocarbon revenues balloon in the next five to ten years, assuming that OPEC is reasonably successful in keeping the oil price within a US$22-28 per barrel range, discontent and pressure for change may well become a destabilising force in Kazakhstan.'[10]

Oil and water

Atyrau and its outlying region also have some of the worst water problems in the country. While the TCO village has its own water system, in the city itself most people do not drink the water even after boiling. In rural areas, they have little option.

Akystau village is 80km from Atyrau. Here residents say getting hold of clean drinking water is their biggest difficulty; harder even than trying to breathe in summer, as the unpaved mud roads turn to dust and fumes from the nearby oil refinery fill the air with their acrid stench. The local school is regularly closed because of hepatitis outbreaks caused by contaminated water.

'We know that the water is not good. It tastes very bitter and is unclear. But we have no alternative but to drink it. It is not purified in the first place; it is just pumped from the Volga river. The local authority is obliged to provide clean water, but their excuse is that they have no money,' says Berik Kaliev, who has lived in the village all his life.

Primja Service, a Russian water consultancy, is advising on the cleaning up of the water supply in Atyrau and further south in Aktau. Primak Anatoly runs the company: 'In Aktau, you open the tap and the water runs yellow. It has a high quantity of rhodium and other noxious substances. It's so bad that foreign-made washing machines often stop working. We have already started the process of installing new filtration systems which will, when finished, deliver six tonnes of clean water to each home.'

But he says the company's work is being hampered by a lack of funding from the Kazakhstan government. 'We could solve the problem in three years, but we've only had US$1 million from the government so far. We need US$5 million a year to do this. There are lots of problems in this country and water is the last in a long list as far as the government is concerned.'

Across the board, Kazakhstan has the worst drinking water provision of the former Soviet republics,[11] so it is perhaps not surprising to see the same problems replicated all over the country.

About seven hours' drive east of Almaty, near the Chinese border, is Narynkol village. Here the story is similar. 'We do not have water in our homes, so we use the village pumps or the river,' says Svetlana Voitova, an unemployed baker. 'But often even these pumps are turned off because people do not have enough money to pay the local authorities for the supply.'

In fact, the water system has been in decline for several years. According to the State Programme

Christian Aid/Mark Edwards/Still Pictures

Poverty in Akystau means living in a disused oil tanker

for Poverty Reduction 2003-05, 48 per cent of water-supply facilities are turned off permanently because they are obsolete or fall below technical and sanitary standards. Around one million people living in rural areas drink untreated water from rivers. 'This water is frequently contaminated with field and farm effluents,' says the paper.[12]

Oil and poverty

In spite of the money flowing into the country, poverty is still prevalent and basic services are not being provided. Wealth is simply not 'trickling down'. Indeed, the gap between rich and poor is increasing, with the poorest ten per cent of people receiving just two per cent of national income.[13] In 2000 Kazakhstan ranked lower on the United Nations Human Development Index than it had in 1990.

In Almaty, thousands of people who have migrated from rural areas in search of work are homeless and forced to seek refuge in unused basements or corridors.

In rural areas the living conditions are worse still. One NGO has recently carried out field research in Kyzl-Orda district, one of the poorest areas of Kazakhstan. There the researcher says young people can only find seasonal work, earning 3,000 tenge (£13) a month, although the minimum wage is supposed to be 5,000 tenge (£22). Often people are paid in flour, sugar or rice.

'The agricultural season lasts from March to September. In winter, if their family receives a state pension they are lucky,' says the NGO's chief researcher. 'The pension varies in amount but the minimum is 5,000 tenge a month. Otherwise, your relatives have to help you. The majority of poor people don't have cattle or land, and even if they do, it is often on poor-quality ground or too far away.

'Some people have only bread to eat, while traditionally we eat lots of meat. This causes serious problems – in some families those over 40 have no teeth. There is also lots of TB and anaemia.

She says that according to Red Cross/Red Crescent data, a TB epidemic is classified at 60 people per 100,000. In Kyzl-Orda more than 280 people in 100,000 suffer from the disease.

'This is a disease of poor living conditions. Sometimes they eat meat only once a month and they have nothing to replace the lost nutrients,' she says.

NGOs say that, on paper, the government's poverty-reduction plans – including employment schemes – look good. But they question why sufficient funds have not already been released from the budget to address all these problems.

In Narynkol the main cause of poverty is unemployment. Voitova has not worked for six years, since the village's bakery closed down. She and her husband survive only by selling the milk and meat of their cows.

'My daughter had to migrate to Almaty, but she hasn't found work. She only just survives,' she says.

So what do the people of Kazakhstan think about the gaping chasm between rich – including those who earn their money from oil – and poor? Voitova says that she knows about the oil. 'This is a rich country. We have oil and gas from our natural resources and these belong to us. I read in the newspapers that foreigners get profit and we just provide our labour. It is not good. But I hope that this will bring good things in the future even if it does not benefit us much now.'

She adds: 'But it does make me angry that millions of dollars are being obtained in oil, but we don't even have drinking water.'

The oil fund

Once again, on paper the National Oil Fund looks positive for Kazakhstan. It is certainly better than what came before, when large sums of oil money went into secret Swiss bank accounts in President Navarbaev's name.

These only emerged after questions were asked about the whereabouts of the country's oil money, following a rise in price to US$28 a barrel and a pensions crisis. It was only after the US Justice Department started investigating the role of James Giffen in allegedly transferring millions from oil companies to these accounts, that the president decided to bring the money back on shore. This eventually led to the creation of the National Oil Fund.

The Fund, set up in 2000, is modelled on that of Norway. Its stated purpose is twofold: to stabilise the economy and to save money. At the end of October 2002, the fund had accrued US$1.7 billion, and according to the IMF, it now holds more than US$2 billion.

In line with the Norwegian model, no money from the fund has yet been spent. Most economists, as well as policy experts, agree that accruing money in this fund is good for the country. Not only does the fund provide protection from fluctuations in the price of oil, it also means that Kazakhstan will have an investment pot to finance improvements to trains, roads, schools and hospitals.

Some commentators, however, suggest that the fund's pot is already sufficiently full to allow for some immediate investment in Kazakhstan. This could work as it does in the Shetlands, where money is spent, providing that the fund's capital is not eroded. After all, immediate need in

Kazakhstan is much greater than that in the Shetland Islands or in Norway.

But there are still serious concerns about the way the fund is operated and its continuing lack of transparency – according to Transparency International, Kazakhstan is the 13th most corrupt country in the world.

Despite the National Oil Fund, expenditure of oil royalties is still at the president's discretion. There are no caps on how much of the fund can be drawn down every year, and although there is a management board, all lines of accountability lead to the president. The fund's regulations do not say when, or for what purpose, the savings portfolio can be drawn down.[14] The fund is audited by Ernst & Young, but Nazarbaev approves this audit. He also has the ability to scrap the audit at will.

Perhaps most importantly, details of the royalties paid by the oil companies to the Republic of Kazakhstan government are kept tightly secret. This means that no one can verify whether the money is going into the Oil Fund, or whether, as happened in the 1990s, the money is being siphoned off elsewhere.

Dr Askarov says: 'We are pushing for the Oil Fund to be made transparent. We want the audited budget to appear in the newspapers, like the normal budget. We are happy that the last year's report was transparent, and we are happy that the Fund is in the hands of the National Bank, which is one of the best central banks in central Asia.

'But we want the oil fund to be a legal entity. At the moment it is nothing more than a bank account, which can be closed on the whim of the president. This is very dangerous,' he says.

The Open Society is also recommending that civil society groups and independent financial professionals be represented on the committee which oversees the fund. US academic Pauline Jones Loung agrees. 'Democratisation is the key to ensuring that Kazakhstan's citizens can hold their leaders accountable for the way in which oil and gas revenues are used,' she says.[15]

While most Kazakhstanis know that the country earns money from its oil resources, the majority of citizens do not realise that this fund exists.

Greater transparency would increase awareness of the fund. Once more people know about it – and once civil society is more involved in its monitoring – then calls for disbursement of jam today to address some of Kazakhstan's social, political and economic problems might become too strong for President Nazarbaev to ignore. Even if this means less jam tomorrow.

Recommendations

The world is looking at post-war Iraq, and at whether this oil-rich country can use its potential wealth for a reconstruction of the country that will benefit all its people. At such a critical time, this report is a warning about what could go wrong, and what has gone wrong, in other countries which have staked their future on oil. The evidence is conclusive – a better way of using revenues from this most sought-after natural resource must be found if it is to become a blessing for the poor of oil-producing countries, instead of a curse.

We all have a responsibility here. As consumers from a rich country that needs oil as its very lifeblood, we have been happy to turn a blind eye to the misery it causes. We complain loudly enough when the price of petrol, for instance, rises, but seldom acknowledge that poor people far away are the ones paying the highest price.

This report, however, can also point a way forward to a situation where oil can fuel development, not poverty. Where it can pay for sustainable reconstruction and not to bank-roll destruction. Christian Aid has concluded that if oil revenue is to lead to a positive future, then the path that money takes – from the point when it is first paid to governments to the point when it is spent by them – should be clearly laid out for all to see.

The international community must use its influence to ensure that the money generated by oil benefits the many for the future, rather than the few immediately.

Now, as Iraq struggles to create a new future, Angola to stabilise its peace, and Sudan to agree a viable peace deal, the stakes have never been higher. There is an opportunity, perhaps the last opportunity, for the world to prove it can get it right on oil. That chance must be seized.

Christian Aid is calling on the UK government to champion a Global Oil Deal to benefit poor people as well as the rich. As a first step, an international commission should be established to review the evidence that oil fuels poverty in developing countries and then draw-up details of the new plan.

In order to be both effective and just, the Global Oil Deal must achieve the following:

1. Oil companies to publish payments to governments

New international recommendations must be developed requiring oil companies to publish details of payments to all oil-producing countries. Currently they are obliged only to reveal payments to individual industrialised nations – specifically the 30 countries of the Organisation for Economic Cooperation and Development (OECD).

To achieve this, the stock-market regulations allowing money paid to all countries outside the OECD to be lumped into a non-specific 'rest of the world'(ROW) category should be reformed. Alternatively, national regulation in the countries where companies are operating could be extended to cover payments to those countries' governments.

Christian Aid is already calling for the establishment of international, legally binding regulation of transnational corporations to set minimum human rights and environmental standards. In the UK, Christian Aid is working with other NGOs in the Corporate Responsibility (CORE) coalition to influence the current UK company law review to ensure key corporate accountability principles are included. As well as holding companies to international standards, this would require them to prepare and publish an annual report on the amount of tax and other payments they make to governments for any country of operation.[1]

2. Citizens of oil-producing countries to gain access to details of their governments' oil revenue spending

The people of any oil-producing country must be able to exercise their right to know how their government is spending its oil revenue. Civil society groups and non-governmental organisations – especially those from poor communities – must take a new but crucial role in scrutinising governments' oil-revenue spending and budgets. Training and funding must be made available to support them in doing so effectively.

However, a fundamental problem of exploiting oil in developing countries is the lack of democratic institutions essential for good governance; indeed oil has demonstrably further corrupted the weak structures that already exist. This must be reversed. The future should not allow for deals such as that in Angola, which has led to the haemorrhaging of billions of dollars from an already poor and ailing country.

Therefore, the Global Oil Deal must include transparency agreements requiring oil-producing developing countries to declare details of payments made by oil companies, and publish full spending plans for the revenue and audited accounts once the money has been spent.

3. Strict criteria to be introduced for public support for oil projects

The influence wielded by public investment in the oil industry will be crucial in ensuring the success of transparency agreements. Christian Aid has discovered that more than £1.25 billion of western taxpayer's money is spent supporting and underwriting oil projects in developing countries – projects which, as this report demonstrates, bring few benefits to poor people and cause massive economic and social problems.

Therefore international institutions, such as the World Bank and IMF and export credit agencies, without whose investment many oil projects would not happen, must in the future use their support as leverage to ensure oil companies and governments adhere to transparency agreements. They must be prepared to withhold assistance if the criteria are not met.

In addition, at least some of the public money paid to fund oil projects should be used to support civil society groups and representatives of poor communities in their scrutiny of government oil revenue rather than for oil extraction itself. It should also be used to help set up, administer and monitor 'oil funds' where appropriate.

4. Oil revenue trust funds to be created for public benefit

Creating oil wealth is a once-only opportunity. At least a proportion of oil revenue must be invested, wisely and with wide scrutiny, to provide income for the future – a solution particularly pertinent for those countries which currently derive much of their income from oil. This will not only militate against Dutch Disease – the negative impact of oil on the rest of a country's economy – but will also provide future safeguards.

Therefore revenue from oil should be held in trust for the citizens of any oil-producing country, who should be considered the 'shareholders' in the business of pumping oil. Each country would need to approach this differently, depending on its own economic, social and political situation.

This is particularly imperative as the window for benefiting from oil may already be closing. Even if oil reserves last for a further 50 years, which in some countries, such as Angola, is unlikely, the world's thirst for oil may not.

Christian Aid has already highlighted in its 2000 report, *Unnatural Disasters*, the increasing frequency and ferocity of climate-related disasters in developing countries, and the need to cut fossilfuel emissions because of their link to climate change. When markets wake up to the escalating cost of dealing with such disasters, it is likely that investment will switch to renewable energy sources.

5. System of certification to be created to identify 'blood oil'

Like all natural resources, oil varies in quality and type, depending on its origin, and is traded on world markets accordingly. It would be possible to institute a system of identifying 'blood oil' from conflict countries, or those that do not meet transparency standards, in order to invoke a trade embargo, or consumer action, if countries failed to change.

Christian Aid believes UK consumers would prefer to buy 'clean' oil, which is not directly contributing to misery and suffering in developing countries. Therefore, similar to the Kimberley process in diamonds trading, a system of certifying the origin of oil should be devised in order to give traders, and consumers, the confidence that they are buying a product that is not 'blood oil'.

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Recommendations

1 Christian Aid is also working as part of the Publish What You Pay (PWYP) coalition. This aims to help citizens hold their governments accountable for how payments to governments are managed and distributed so that ordinary people can more accurately assess the amount of money that goes missing and lobby for full transparency in government spending. PWYP is calling for the publishing of net revenues paid to governments to be a requirement of being listed on major stock exchanges.

AP Photo/Fernando Llano

An opposition protester waves a Venezuelan flag in front of a sculpture of an oil pump that stands outside the offices of Petroleos de Venezuela in Caracas. The protest was part of the general strike that virtually halted oil production in the country in early 2003

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