



The World Bank Group and the Chad-Cameroon Oil & Pipeline Project 'The logic was sound, but reality interfered'*

Arbeitsgruppe Tschad / Groupe Tchad

Menschenrechte – Rohstoffe – Friedensarbeit
Droits de l'homme – Industries extractives – Promotion de la Paix
Human Rights – Extractive Industries – Peace Building



Suggestions and queries of the Chadian and Cameroonian civil society in answer to the IEG performance assessment report

The members of Commission Permanente Pétrole Locale (CPPL), Moundou, Chad demand the public presentation of the findings of the performance assessment report to the population of the producing region.

What is the World Bank about to do on the conclusions and recommendations of the IEG report?

When the project has not achieved its principal objective of poverty reduction what corrective measures does the World Bank envisage for similar projects in the oil and gas sector?

What specific measures the World Bank plans to implement to mitigate the impact of grinding poverty of the thousands of farmers in Maikeri, Ngala, Bendoh, Mouarom, Bolobo, Moundouli, Dildo, Dokaidilti, Mbang, Danda (Chad) who lost their land?

Civil society organizations in Cameroon demand without delay the reparation of all the remaining social and environmental problems caused by the project in both countries. Water problems along the pipeline in particular are worrying.

A portion of the transit revenues earned by the government of Cameroon from the pipeline should be invested in development projects along the pipeline route.

Jointly, civil society organizations from both Chad and Cameroon demand without delay an independent audit of the environmental and social COSTS OF THE PROJECT IMPOSED ON THE COMMUNITIES IN THE OIL PRODUCING REGION AND ALONG THE PIPELINE ROUTE and ask for reparation.

The impact of the project as seen by civil society

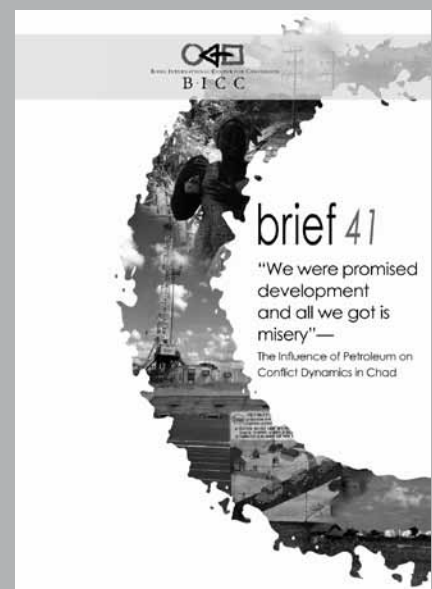
“For us, the World Bank has facilitated a crime in the Doba area. Without the Bank, this project would not have taken place and the peasants would not be in this inhuman situation. We hold the World Bank responsible of human rights violations and other acts of violence committed by security agents of the oil companies in the oil zone.”

*Commission Permante Pétrole Locale (CPPL)
Moundou, Chad, Position paper, March 2010*

“It is unacceptable that, 10 years after the World Bank approved this project, hundreds of affected people in Chad and Cameroon are still waiting for compensations. The Bank “model” of complex institutional arrangements didn’t work, and the Bank created an oil dictatorship by leaving the country. The Bank should stay and urgently resolve all problems created in both countries by the pipeline. By leaving, who is the Bank really punishing?”

RELUFA, Cameroon

“Today, Chad shows all the characteristics of a petro-state with respective effects of a push back of democratization, repression by security forces and lacking economic and social modernization. This is typical of a rentier context, which is also characterized by high dependency on rents from one resource.”



BICC Brief 41, December 2009, p. 64.

* Quotation cover: IEG Evaluation of the Chad-Cameroon Project Oil and Pipeline Project, November 2009, p. viii.

The Independent Evaluation Group's (IEG) Program Performance Assessment Report:

Textbook Logic & Dismal Failure

One of the single largest investments on the African continent, once touted as a model for extractive industries, is now associated with deepening poverty, deteriorating governance and violent conflict¹: What lessons for the World Bank Group and future high risk Projects?

Center for Global Governance & Accountability
Urgewald
Korinna Horta, Ph.D.

1 Independent Evaluation Group, "The World Bank Group Program of Support for the Chad-Cameroon Petroleum Development and Pipeline Construction, Report N° 50315, The World Bank Group, November 20, 2009, p. viii.

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0. Executive Summary

“The logic was textbook perfect – except for the revealed weakness of every link in the chain.” (IEG Report, p.38)

The World Bank approved financing for the controversial Chad-Cameroon Oil and Pipeline project in 2000 with the promise that its success would be measured by poverty reduction and not by barrels of oil exported or the millions of dollars it would generate in government revenue.

Almost 10 years later, the Independent Evaluation Group (IEG) at the World Bank carried out a project evaluation and concluded that the project’s fundamental objective of poverty reduction had not been met. Moreover, it found that the oil revenue windfall was associated with violent civil conflict, worsening governance and corruption. In addition, the IEG reported that oil development led to deterioration in other vital sectors of the economy. This led to worsening conditions in areas, such as agriculture and livestock, on which the vast majority of the population depends.

The IEG blames lack of government ownership as well as flaws in project design on the dismal failure of the project to fulfil its promises. Capacity-building programs to address environmental impacts and manage the oil sector were largely ineffective. Chad continues to have no independent capacity to monitor the oil sector and both the Chadian and Cameroonian government are not monitoring the impacts of the project in the oil-producing region and along the pipeline route.

The World Bank itself did not properly monitor poverty developments. According to the IEG, a serious shortcoming for a program whose main objective was poverty reduction through the use of oil revenue.

In Chad, poor peasant communities bear the brunt of the growing ecological footprint of a large oil project that is demanding more and more agricultural land. Yet little is done to assist farmers with restoring their livelihoods.

In Cameroon, an Indigenous Peoples’ Plan meant to protect the most vulnerable, the indigenous Bagye-li and Bakola people who live in the forests traversed by the southern portion of the pipeline, was never implemented. FEDEC, the foundation established to fund this plan and the management of two national parks created to off-set the loss of biodiversity from pipeline construction, was a troubled institution from the start and is now basically bankrupt.

The World Bank Group’s responsibility extends into the future as one of the key promises of the project, enshrined in the Bank’s loan and project agreements, was that all additional oil development making use of the pipeline would be subject to the same environmental and social standards as in the original project. Spurred on by the existing pipeline, other oil companies have become active in the country. Yet is completely unclear whether the World Bank is using its continued presence in Chad and the IFC’s continued role in the project to ensure that this critical clause in its original loan agreement is being adhered to.

Despite the strength of its own findings, the IEG report concludes that the World Bank was right to support the program in 2000 and that it did so in full cognizance of the risks involved. Sadly, it does not mention that the risk was placed squarely on some of the world’s poorest people in countries with some of the world’s worst social indicators. These people have and will continue to bear severe hardship for years to come.

Unfortunately, the IEG seeks to brush aside the World Bank’s undeniable responsibility with statements such as *“the project would have been built anyway.”* It is impossible to know whether the project would have been built or not, especially since oil companies in the region prefer investment in off-shore oil which does not carry the same political and economic risks. What is known, however, is that the Bank itself had stated that private project sponsors were unwilling to go forward with the project without World Bank participation. The Bank had used its role as a project catalyst as a major argument to convince its shareholders that the project should be approved.

A recommendation more in step with the IEG report's important findings would have been to call on the World Bank to fundamentally rethink its approach to extractive industries and other high risk projects if these types of investments are to be more than a reckless gamble with the lives of the poor.

The World Bank describes itself as the "Knowledge Bank." An examination of why its grand vision for the project was so unrealistic would be critical to deepen our understanding of the institution. The IEG report would have been greatly enriched had it considered possible underlying pressures that led to the Bank's over-optimistic assessment of the project's ability to lift Chad out of poverty.

Despite its shortcomings, the IEG report contains numerous valuable findings that should help shape future World Bank Group support for high-risk projects. Unfortunately, it is far from clear what – if any – lessons the World Bank Group will draw from the IEG evaluation and the stark and undeniable realities created by a project that it used describe as a model for investing in extractive industries.

Program Performance Assessment Report Ratings²

Outcome	Unsatisfactory
Risks to Development Outcome	High
Bank Performance	Moderately unsatisfactory
Borrower Performance	Unsatisfactory

1. Introduction

The Independent Evaluation Group is an independent unit within the World Bank Group which reports directly to the institution's Board of Executive Directors. Its stated goals are to generate lessons from experience and to provide accountability for the

achievement of WBG objectives. The WBG's overall mission is to reduce poverty and to promote sustainable development.

Just as the WBG consists of branches dealing with public sector finance (IBRD and IDA, referred to as World Bank), with support for the private sector (IFC) and with multilateral investment guarantees (MIGA), the IEG has three separate branches: IEG-World Bank, IEG-IFC and IEG-MIGA.

The Chad-Cameroon Oil & Pipeline project was supported by loans for the Chadian and Cameroonian governments from IBRD and IDA, as well as by direct lending to the private sector by the IFC.

The evaluation of the Chad-Cameroon project represents the first project-based joint assessment by the IEG-World Bank and IEG-IFC covering all of the WBG supported investments and capacity-building efforts in the project.

In this context, it is important to note that the World Bank withdrew from the project in 2008 after Chad agreed to repay the outstanding World Bank loans. It cited Chad's violations of loan agreements to allocate adequate resources from the oil income to poverty reduction as the reason for its withdrawal.³ The private sector, however, has not repaid its loans to the IFC to date and the IFC remains engaged in the project. This may help explain why the IEG report describes the IFC's continued engagement in the project as largely positive, while the overall outcome of the project is rated as unsatisfactory. Given the deteriorating governance situation in Chad and the fact that the country's private sector is not immune from political interference, one might have expected a more detailed assessment of how IFC support for the private sector contributes to sustainable development in Chad. The IEG report does not provide this.

Largely in response to intense international controversy surrounding the project, the World Bank Group undertook unprecedented efforts designed to ensure that oil revenues would be used for priority social

² THE WORLD BANK GROUP PROGRAM OF SUPPORT FOR THE CHAD CAMEROON PETROLEUM DEVELOPMENT AND PIPELINE CONSTRUCTION. PROGRAM PERFORMANCE ASSESSMENT REPORT CHAD, Report No.: 50315. November 20, 2009; p. 49.

³ World Bank, Press release 2009/073/AFR of September 9, 2008.

investments in Chad, one of Africa's poorest countries. In addition to requiring Chad to approve a revenue management law and to set up a body to monitor implementation of this law (Collège de Contrôle), the WBG demanded extensive environmental impact studies, the adoption of an Environmental Management Plan (EMP) and established two external bodies, the External Compliance Management Group (ECMG) and the Independent Advisory Group (IAG), to ensure adequate implementation of the project.

With these innovative measures in place, World Bank management marketed the project as a model private-public partnership and as an unprecedented framework to transform oil wealth into direct benefits for the poor.⁴

Given the lack of democratic rights and systematic violation of human rights in Chad, civil society organizations in the country were unconvinced that the measures put in place would ensure benefits to the country. They feared rising levels of violence, environmental degradation and the further marginalization of impoverished populations in the oil producing region.⁵ Their request for a moratorium on financing the project until the government had provided evidence of the political will and capacity to advance social development in the country was rejected by the WBG with the argument that the poor could not afford to wait for the benefits that the project would provide. After extensive efforts by Bank management to market the project as Chad's only opportunity to reduce poverty, the World Bank's Board of Executive Directors, several of whom expressed great concern about project risks, approved the project in 2000.⁶

After the World Bank pulled out of the project in 2008, the Board requested the Independent Evaluation Group (IEG) to undertake an evaluation of the project. The IEG evaluation was made public in November 2009. It concluded that the project had not achieved its fundamental objective of reducing poverty and that indeed Chad's oil revenues windfall "... was associated with a resurgence of civil conflict and a worsening of governance."⁷

The IEG report's key-findings reflect stark and undeniable realities and contain valuable insights. Unfortunately, the IEG report also includes blanket statements that appear to be largely divorced from realities on-the-ground. In addition, it argues for continued World Bank Group involvement in extractive industries – "however risky it may be"⁸ – without providing a well-founded rationale for doing so.

This paper provides an overview of the important findings of the IEG report but also cites some of its fundamental weaknesses. In conclusion the paper argues that the findings of the IEG report provide further validation of the recommendations made by the World Bank commissioned Extractive Industries Review (EIR) of 2003. The EIR emphasized the need for a phased approach to investments in extractive industries to ensure that the capacity to use the revenues in a socially beneficial manner and to address the environmental impacts be in place before major investments are made.⁹ The WBG has so far rejected adoption of this and other critical EIR recommendations.

2. Main Findings: Failure to Reduce Poverty and Worsening of Governance

The core finding of the IEG report is that the project's fundamental objectives of reducing poverty in Chad and improving governance through the best possible use of oil revenues have not been met. Further-

4 World Bank, Press Release of June 6, 2000.

5 A detailed analysis of Chadian NGO positions can be found in Petry, M. and Bambé, N. "Le Pétrole du Tchad – Rêve ou cauchemar pour les populations?" Karthala, Paris, 2005.

6 See, for example, statement by the U.S. Executive Director to the World Bank, which warned that the project "...will unquestionably be a prism through which the world views the institution, and, it is likely, development assistance more broadly. The stakes could not be higher." (US Statement, June 6, 2000).

7 IEG Report, p. viii.

8 IEG Report, p. viii.

9 Extractive Industries Review, Striking a Better Balance, The World Bank Group and Extractive Industries, Final Report, December 2003.

At a glance: the Chad-Cameroon Oil & Pipeline Project

- The single largest on-shore investment in Africa today
- Total estimated cost: US \$6.5 billion

ACTIVITIES OF ORIGINAL PROJECT

- Drilling of 521 oil wells in the Doba fields of southern Chad
- Construction of a 650-mile pipeline from Doba through Cameroon to the Atlantic.
- Building of a marine terminal at Kribi and marine pipeline to a floating storage off-loading (FSO) vessel
- Estimated production of 127,200 barrels per day (in 2008)

EXPANSION OF OIL PRODUCTION

The built-in capacity of the pipeline represented an incentive to explore for oil in other areas of the region. Active exploration is occurring near Sarh, and new oil fields have already been developed outside the original Doba fields. The World Bank promised that all new oil using the pipeline would have to adhere to the same environmental and social principles of the original project. It signed legal covenants with the governments and with the ExxonMobil-led consortium to this effect. But the Bank now doubts that these legal loan conditions can be enforced (ICR).

ROLE OF THE WORLD BANK GROUP

"The Bank Group's support has been a key element in catalyzing the involvement of the Private Sponsors, who have stated that they would be unwilling to proceed with the project without the Bank Group's participation..." (World Bank Project Appraisal Document, 22)

The ExxonMobil-led Consortium made World Bank participation a pre-condition for the project for reasons of political risk insurance and to attract financing from other public and private sources.

more the report concludes that *"Indeed, the oil revenue windfall was associated with a resurgence of civil conflict and a worsening of governance."*¹⁰

In addition, the dominance of oil has led to a deterioration in other vital sectors of the economy. According to the IEG report, the objective of strengthening the non-oil economy was not met, indeed the contribution of the non-oil sector to the GDP growth rate declined after the project became operational.¹¹ This is an alarming finding given that the livelihoods of the vast majority of the population depend on agriculture and livestock. Oil is thus associated with worsening conditions in those areas that are most critical to reducing overall poverty levels.

Furthermore, the dominance of oil is likely to have devastating impacts over the longer term. The IEG cites IMF concerns about the weakening of Chad's fiscal position as a result of the fall in oil prices and the need for difficult adjustments with impacts on the real economy and social development.¹² Given the situation of extreme hardship suffered by a majority of Chadians, it is difficult to conceive of the "belt tightening" which is usually associated with structural adjustment reforms, without full-blown civil unrest and violent conflict.

a) Flaws in Project Design

While the IEG report cites lack of "government ownership" as the main culprit of project failure, it also blames flaws in project design for some of what went wrong. It is sharply critical of the project's focus on inputs (i.e. the generation of oil revenue) as opposed to the results of public spending: *"As it happened, the expenditure targets were not met and the efficiency of expenditure was wanting – partly from waste and abuse and partly from a failure to integrate current and capital spending decisions."*¹³

Among serious design flaws were the lack of a baseline of adequate social human development data and of a monitoring system the project's impacts on

10 IEG Report, p. 35.

11 IEG Report, p. 15.

12 IEG Report, p. 16

13 IEG Report, p. 11.

people's lives. *"Poverty developments were not adequately monitored, a serious shortcoming for a program whose main objective was poverty reduction through the use of oil revenue."*¹⁴

Some of the data cited by the IEG report do not add up to a consistent picture: Improved access to clean water, but a rise in child and infant mortality; An increase in primary school enrolment but a worsening of educational quality. Why the discrepancies? The IEG report puts it succinctly: *"The issue is how well the money was spent."*¹⁵ Indeed, even where money was spent on much needed infrastructure, its quality was defective and made little difference in people's lives.

b) Capacity-Building: The Achilles Heel

Capacity-building projects for both Chad and Cameroon were approved at the same time as the other WBG loans. According to the IEG, implementation of the capacity-building efforts only began when the pipeline was already built and operating. As a result *"... the projects did not contribute to government monitoring during oil fields development and pipeline construction, as originally intended."*¹⁶

Although they lack the capacity to do so, the governments of Chad and Cameroon are ultimately responsible for the monitoring of the environmental and social impacts of the project. The Bank's capacity-building projects intended to build the necessary capacity for the governments to carry out their obligations. But they did not meet their goals. The IEG report concludes that there has been no governmental monitoring presence in the oil producing area in Chad for several years. The same holds true for the Cameroonian side of the project, where no effective government monitoring of the pipeline is taking place.¹⁷

Furthermore, *"No effective environmental and social mainstreaming into transport, health and other ministries has occurred, as envisaged under the technical assistance project."*¹⁸

An additional technical assistance project for Chad intended to provide the country with the capacity to manage its new oil economy. Here again, the IEG found that the Bank did not succeed in helping Chad *"...achieve a sustainable improvement in budgeting, financial controls and oil sector management capacity, and the attempt to support capacity-building activities concurrently with the main project proved unsuccessful."*¹⁹

The infrastructure built with oil revenue has contributed little to social development. Schools were built without attention to local needs and construction costs were excessive. The IEG cites the cost of US\$ 64 000 for a primary class room block as extremely high in comparison with international norms and double the cost of construction financed through the regular state budget rather than through oil revenue. Concerning health facilities, the IEG did not identify the same kind of excessive costs but nonetheless concludes that the lack of inputs to make these facilities operational has led to a situation where *"... the entirety of the construction cost can be said to be wasted and cost-effectiveness of the investment is zero."*²⁰

According to the IEG, project design must be based on recognizing the existing institutional and administrative capacity. In this project, however, *"...major components of the program in effect assumed the prior existence of the very capacity they aimed to build."*²¹

3. Requiring A More In-depth Approach

According to the IEG report, the WBG's strategic rationale for the project was strong and clear, but that its articulation into specific project development objectives was not. While technically this may have been the case, the fault on part of the Bank is unlikely to lie exclusively with the specific objectives spelled out in the various project components.

The WBG describes itself as the *"Knowledge Bank."* An examination of why its grand vision for the project

14 IEG Report p. xiii and 23.

15 IEG Report, p. 19.

16 IEG Report, p.31.

17 IEG Report, p.31and 33.

18 IEG Report, p. 33.

19 IEG Report, p. xvi.

20 IEG Report, p. 20.

21 IEG Report, p. 46.

was so unrealistic would be critical to deepen our understanding of the institution. The IEG report would have been greatly enriched had it considered possible underlying pressures that led to the Bank's over-optimistic assessment of the project's ability to lift Chad out of poverty.

Previous WBG evaluations have identified *"the pressure to lend"* or *"the approval culture"* as a central cause of the poor outcomes of WBG operations.²² Clearly, large and high quality 'bankable' projects are not easily found, particularly in politically unstable regions, such as Central Africa. One may assume that the *"pressure to lend"* played a significant role in the WBG's decision to serve as the financial catalyst for the project proposal promoted by the Exxon Mobile-led Consortium.

The IEG report carries important lessons. But it did not examine the underlying causes of what went wrong and it contains questionable statements that may weaken its overall message.

a) Misreading the Political Landscape

The reason why African civil society organizations and their broad-based international supporters (environmental, human rights and church-based-groups) had called for a moratorium on financing the project was their lack of faith in government commitment to follow through on the promises made to the WBG. Harsh repression, extra-judicial killings, wide-spread corruption and the lack of evidence of government commitment to addressing the plight of the poor were the hallmarks of Chadian realities, and to a lesser extent, of Cameroon as well.

Despite extensive World Bank management experience in the two countries, these realities were brushed aside. World Bank management seriously misjudged the political situation and in a key-project document went as far as to claim that *"Chad has successfully put in place democratic political institutions."*²³

But reality interfered. The IEG concluded that *"Clearly, the WBG's strong emphasis on improving accountability, the rule of law, transparency, and participation, had no discernible positive effects on governance development in Chad."*²⁴

Despite the strength of its own findings, the IEG report concludes that the WBG was right to support the program in 2000 and that it did so in full cognizance of the risks involved.²⁵

Risks to whom? Unfortunately, the IEG does not look into this question.

Outside of reputational risk, neither the WBG nor its officials were subject to risk.

In view of Chad's insufficient creditworthiness, the WBG arranged to cover its financial risks in the project by establishing an escrow account in London into which the Consortium deposited the oil revenue and from which repayment of the IBRD loan was withdrawn before Chad had access to the funds. According to the IEG, *"The immediate purpose (of the escrow account) was to ensure priority repayment of the IBRD and European Investment Bank debt service..."*²⁶

The risk was placed squarely on some of the world's poorest people in countries with some of the world's worst social indicators. These people have and will continue to bear severe hardship for years to come.

The IEG report refers to a sharp deterioration in the rule of law, corruption and governance effectiveness.²⁷ Overall human suffering in Chad can only have risen further as a result of worsening governance conditions.

As President Déby and his erstwhile allies embarked on vicious violence as part of a political power struggle over the control of oil revenues, an estimated two hundred thousand internal refugees fled their homes on the country's borders with neighboring Sudan's Darfur province. The oil revenues allow the president

22 See, for example, Wapenhans, W. A.: A Report of the Portfolio Management Taskforce. Washington, D.C, 1992.

23 World Bank, Chad-Cameroon: Petroleum Development and Pipeline Project, Project Appraisal Document, April 20, 2000, p. 121.

24 IEG Report, p.24.

25 IEG Report p. viii.

26 IEG Report, p.4

27 IEG Report p. xiii

to stay in power and to stabilize the regime by the maintenance of a patronage system, an ever growing administration, one of the best equipped armed forces worldwide, and the co-optation of armed groups every now and then.²⁸

In the oil producing region, little was done to improve the conditions of the communities bearing the brunt of the growing ecological footprint of a large oil project. Investment financed out of the 5% of oil revenues destined to the producing region has been lacking transparency and efficiency in managing the funds allocated, and has failed to contribute to poverty reduction therefore.²⁹

In Cameroon, the IEG report states that the objective to increase government resources for expenditure for the poor was achieved. Given that the government of Cameroon figures regularly among the countries on the lowest ranks of Transparency International's Corruption Perception Index, it would have been important to inquire about how the funds were actually used. In reality, degradation of the environment, such as the pollution of water wells, has had highly negative impacts on the livelihoods of local communities. Compensation schemes were largely inadequate. In Cameroon, an Indigenous Peoples Plan meant to protect the most vulnerable, the indigenous Bagyeli/ Bakola people who live in the forests traversed by the southern portion of the pipeline, was never implemented.

b) Social & Environmental Safeguards

According to the IEG, "...the WBG involvement was critical for the satisfactory handling of the direct environmental and social impact of the oil development and pipeline construction."³⁰ Indeed, the WBG insisted on an extensive environmental impact assessment and an environmental management plan. But here again, reality stood in the way of what sounded good on paper. The IEG apparently did not consider the findings of the World Bank's own Inspection Panel.

28 BICC Brief N° 41, p.64

29 Miankéol, Djéralar (BER): Utilisation des revenus pétroliers issues des 5% alloués à la région productrice : Analyses – Enseignement – Perspectives. March 2010.

30 IEG Report, p. 9

The Inspection Panel carried out independent investigations into the possible violations of WB environmental and social safeguard policies and published its reports on Chad (2002) and on Cameroon (2003). Findings of the Inspection Panel in Chad included:

- violation of the Bank's environmental assessment policy because a project of this scope and magnitude would have required a cumulative, regional environmental assessment;
- violation of policy on consultations since early consultations were held in the presence of security forces;
- Insufficient measures to achieve poverty reduction objectives.³¹

In Cameroon, the Inspection Panel was particularly concerned about the lack of baseline public health data and of a wider assessment of health risks posed by the project, particularly the spread of HIV/AIDS along the pipeline route. It considered this, too, to be a violation of WB policy.³²

It was well-known at the time that HIV/AIDS in Africa is often spread along major transport corridors, such as the one created by the pipeline. The movement of migrant labor into remote areas would have been an additional risk factor. According to the Inspection Panel, a risk mitigation plan could have greatly contributed to protecting a vulnerable population.

In addition to the Inspection Panel, the external project monitors (ECMG and IAG) documented numerous cases of environmental and social problems in violation of safeguard policies. The IEG report acknowledges that environmental regulations governing the oil fields, pipeline and petroleum sector operations have not been approved by either national

31 The World Bank Inspection Panel, Inspection Panel Investigation Report (INSP/R2002-0003), July 23, 2002.

32 The World Bank Inspection Panel, Inspection Panel Investigation Report, Cameroon: Petroleum Development and Pipeline Project and Petroleum Environment Capacity Enhancement Project, Report No. 25734, May 2003.

government. Nor have the national oil spills response plans.³³

The only parties which are likely to give the project a clean bill of environmental health are self-regulating entities such as the oil transportation companies, COTCO and TOTCO, as well as the EEPCI, which is Exxon Mobil's (Esso's) local company. Since there is no government monitoring of the social and environmental impacts in neither Chad nor Cameroon, Exxon Mobil and its associated companies are the only ones who have a presence throughout the oil fields and along the pipeline route.

c) Livelihoods in the Oil-Producing Region and Along the Pipeline Route

A regional development plan was meant to ensure that the 5% of oil revenue dedicated to the oil-producing region would be used for the well-being of those who bore the brunt of project impacts. In 2000, the key document on which the Board bases its decision on whether to approve a project, stated, that a participatory regional development plan was already being prepared. A decade later, the regional development plan is not in place.³⁴ In its place is a Provisional Committee for the Management of Petroleum Revenues Allocated the Producing Region. Although it was unable to collect detailed project information, the IEG report considered that implementation had been comparatively satisfactory. It is, however, safe to assume that the IEG's finding that, "*Financial management regulations were regularly flouted and large procurements were increasingly awarded on a sole-source basis*"³⁵ affects the revenues allocated to the oil-producing region as well.

The IEG report mentions that the project had provided community compensation programs with in-kind micro development programs and a number of community donations, such as classrooms and health clinics.³⁶ Is it referring here to the overpriced class-

rooms and non-functioning health clinics it had mentioned previously?

Although bottom-up accountability or voices of those affected by the project are largely absent, the IEG report notes that local people's priorities were not considered in measures meant to benefit them: "*However, investment decisions have been insufficiently responsive to genuine community-driven demands, and improving such responsiveness should be a major objective in the future.*"³⁷

The overall footprint of the project is growing as the number of oil wells has increased far beyond the original estimate in the Environmental Management Plan. The IEG report refers to the findings of another report, the Barclay Koppert report, which had concluded that the project had failed to minimize its impact on land, that reclaiming land after construction and returning it to local farmers continued to be a problem, and that livelihood restoration measures, such as agricultural training, were inadequate to restore local livelihoods.³⁸

These issues continue unresolved until today. For poor families to lose even a small area of their land deeply affects their livelihoods with women and children being most affected.

Given the severe imbalance of power between local subsistence farmers and the Exxon Mobil-led consortium, it should not be surprising that the IEG found that "*...but despite a massive information dissemination program, some local stakeholders still feel that more communication is needed.*"³⁹

In Cameroon, along the pipeline route and on the Kribi coast, inadequate compensation is a major complaint from local farming and fishing communities. The WBG's Country Assistance Strategy for Cameroon noted in 2003: "*...accountability and transparency in the use of public resources are insufficient, with scarce resources poorly targeted to priority sectors.*"⁴⁰ Camer-

33 IEG Report, p. 34.

34 World Bank, Chad-Cameroon: Petroleum Development and Pipeline Project, Project Appraisal Document, April 20, 2000.

35 IEG Report, p. 8.

36 IEG Report, p.15.

37 IEG Report, p. 21.

38 IEG Report, p. 33.

39 IEG Report, p. 33.

40 The World Bank, Country Assistance Strategy for the Republic of Cameroon. August 14, 2003. P. 7.

oon's transit income and taxes earned from the project went into the general state budget with the expectation that the government would use the revenues for poverty reduction.

Again, women and children suffer the most when the subsistence economy on which they depend is disrupted. Widely documented problems such as polluted water wells, poor quality goods given as compensation for the loss of land and the smaller fish catch, contribute to further impoverishment.

d) Indigenous Peoples

The World Bank's Operational Directive on Indigenous Peoples (OD 4.20) is designed to promote development that respects the rights of indigenous peoples. It requires their informed participation in the development of an indigenous peoples plan.

In 2001, COTCO, which is one of Exxon Mobil's local companies, provided US\$ 3.5 million to be managed by FEDEC, a Cameroonian foundation. These funds were supposed to finance projects meant to ensure compliance with the World Bank's Indigenous Peoples and Natural Habitats Safeguard Policies.

In addition to financing the implementation of an Indigenous Peoples Plan, FEDEC was charged with funding the establishment of two natural parks (Campo Ma'an and Mbam-Djerem) to compensate for the loss of biodiversity caused by pipeline construction.

An indigenous peoples plan with the participation of the affected Bagyeli and Bakola Pymgy communities was never developed. Pygmy populations in Cameroon suffer discrimination and are considered to have the lowest social status. Their ability to gather and hunt in the forests traversed by the pipeline has been severely affected. FEDEC has done very little for them and the foundation is now basically bankrupt. The IEG report refers to the proposal of new capital from COTCO and the IFC, but it appears that no decisions have been taken.

The IEG report acknowledges that the financial and management problems at FEDEC are likely to have serious negative impacts on indigenous peoples and on the two parks.

In view of the critically important and unresolved problems, it is difficult to understand why the IEG report would rate the pipeline project's environmental and social performance in Cameroon during the post construction phase as satisfactory and in compliance with WBG safeguards.⁴¹

4. Unprecedented External Monitoring but to what Effect?

The World Bank Group (WBG) established two external bodies to monitor the environmental and social impacts of the project as well as its broader development and governance dimensions. The *External Compliance Monitoring Group (ECMG)* worked on behalf of the International Finance Corporation (IFC), the private sector arm of the WBG, while the *Independent Advisory Group (IAG)* worked on behalf of the institution's public sector lending branches, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). D'Appolonia S.p.A., a private consulting group based in Italy, carried out the *ECMG* work while a group of independent experts led by former Senegalese prime-minister Mamadou Lamine Djoum was in charge of the *IAG*.

The IEG Report considers that the establishment of these bodies was a positive feature of the project and recommends that it be replicated for large and complex Bank interventions in the future.⁴²

Indeed, the establishment of the external monitoring system was a highly innovative and positive feature of the project. The expertise of the monitors helped fill critical gaps in the knowledge of project impacts ranging from toxic waste and dust control management to additional land expropriation, public health and compensation for the loss of livelihoods. The question to ask is why these valuable monitoring reports were only able to have a marginal impact on the project outcome and how monitoring systems in the future need to be strengthened so that they can fulfil their promise.

⁴¹ IEG Report, p. 32

⁴² IEG Report, p. 27.

The *IAG*, for example, made repeated recommendations in report after report about serious problems without achieving commensurate results.

In one of its earliest reports the *IAG* warned of the serious danger of a “two speed project” in which the hard components of the project, such as pipeline construction, moved ahead speedily while its soft components, such as capacity-building, were woefully lagging behind.⁴³ The *IAG* called for a halt to construction activities until the project components designed to ensure the environmental and social sustainability of the project had time to catch up. Unfortunately, this as many other recommendations submitted by the *IAG* received little or no follow-up.

An example from the *ECMG* is its early warning about the continued ineffectiveness of *FEDEC*, the foundation set up to meet the requirements of World Bank Operational Policies on Natural Habitats (OP 4.04) and Indigenous Peoples (O.P.4.20). The *ECMG* stated that the failure to meet the Bank’s policies could be considered a major non-compliance with the EMP commitments while it also noted that there were insufficient staff and resources dedicated to the EMP in the oil field region.⁴⁴

The effectiveness of an external monitoring system depends on timely responses to its findings. In the future, the WBG should systematically and publicly acknowledge the findings and recommendations of the monitors, work with its clients on addressing the problems identified and report back on how these problems have been solved.

5. The Counterfactual versus a Unique Responsibility

The IEG uses a counterfactual scenario to argue that the increase in the oil price after 2000 made it virtually certain that the project would have been built even without World Bank support, albeit one or two

years later. The IEG states that if this would have happened, neither the environmental and social safeguards, nor the revenue allocations to priority sectors would have been as thorough as with WBG involvement. According to the IEG, “*In this sense, WBG involvement made a positive contribution.*”⁴⁵

Taking this argument to its logical conclusion would mean that no project is ever bad enough for the WBG not to be involved because its role will lead to marginal improvements. It is highly debatable if this is the best use of scarce resources to fund development.

Whether the project would have been built later without the WBG playing a catalytic role in arranging the financing cannot be known. Oil companies tend to prefer off-shore oil development such as that in the Gulf of Guinea which does not raise the spectre of political risks the same way that on-land oil fields and pipelines do. The fact is that Bank management had made it a selling point to its own Board – several members of which were sceptical about the Bank’s involvement in the project – that its relatively small investment would catalyze a multi-billion dollar venture.⁴⁶

As the IEG report explains, total WBG financing of US\$ 337.6 million contributed only 9% of the originally estimated cost of US\$ 3.7 billion and 5% of the actual cost of US\$ 6.5 billion.⁴⁷ Indeed, but the Oil Consortium had made it clear that it would not advance without the risk guarantees provided by WBG participation. The European Investment Bank, the U.S. Export-Import Bank and a host of other lending institutions also only contributed financing to the project because of the “comfort” provided by WBG leadership.

There is an undeniable WBG responsibility here which should not be brushed aside with statements such as “the project would have been built anyway.” Furthermore, this responsibility extends into the future. One of the key promises of the project, enshrined in the Bank’s loan and project agreements, is that all addi-

43 International Advisory Group, First Mission Report (Sept. 2001) and Second Mission Report (December 2001). All IAG reports are at www.gic-iag.org.

44 D’Appolonia, Report of the External Compliance Monitoring Group, Second Site Visit – Post Project Completion, November 2005.

45 IEG Report, p. xiv.

46 World Bank, Chad-Cameroon: Petroleum Development and Pipeline Project, Project Appraisal Document, April 20, 2000, p. 22.

47 IEG Report, p. 3

tional oil making use of the pipeline would be subject to the same environmental and social standards as in the original project.

Chad has now established a state oil company and, spurred on by the existing pipeline, other oil companies have become active in the country. The IEG states *"The country has no independent capacity to monitor the oil sector."*⁴⁸ It is completely unclear whether the WBG is using its continued presence in Chad and the IFC's continued role in the project to ensure that this critical clause in its original loan agreement is being adhered to. Condoning the violation of legal agreements would set a damaging precedent.

6. Lessons for the Future: Revisiting the Extractive Industries Review

The IEG's findings can best be summarized in its own words *"The logic was textbook perfect - except for the revealed weakness of every link in the chain."*⁴⁹

The IEG rightly concludes that the lack of commitment by the government of Chad was the ultimate cause of why the project failed so badly. Bank management displayed a wilful naiveté in its belief that the influx of large oil revenues would help strengthen governance in Chad.

The experience of the Chad-Cameroon project illustrates the need for a thorough political economy analysis of a country before embarking on investments that carry high risks for its population. The distribution of power within a country and access of citizens, especially the poor, to justice must be key considerations if poverty reduction is the goal. Furthermore, it is only under governance conditions that respect basic human rights that effective implementation of the WBG's safeguard policies can take place. These safeguard policies require meaningful consultation and participation which can hardly take place in a context where fear and intimidation dominate because of routine human rights abuses.

The IEG report provides important lessons for the future. Some of them mirror recommendations made by the World Bank-commissioned Extractive Industries Review (EIR) – a three-year, independent evaluation of the impact of World Bank Group support for oil, gas and mineral development – which published its report in December 2003. The EIR represents a more holistic effort. Its recommendations were far-reaching and unafraid to ask for in-depth reforms at the WBG itself.

Its central recommendations revolve around governance, transparency, capacity to manage environmental impact and human rights. They include:

- The need for a sequenced approach to extractive industries: Ensure that the capacity to address environmental and social impacts and manage revenues transparently and in an equitable fashion is in place before investments are made;
- The need to establish clear baselines and to put in place participatory monitoring systems to verify project impacts on reducing poverty, paying particular attention to women;
- Projects affecting indigenous lands, territories and resources should not go forward without the participation and the free prior and informed consent of indigenous peoples;
- Establishment of grievance mechanisms to resolve disagreements in a fair, just and timely manner,

Concerning the WBG's internal culture, the EIR concludes that the institution does not appear to be set up to effectively facilitate poverty reduction through sustainable development.⁵⁰ It recommends the establishment of staff incentives that reward staff on the basis of real impacts in reducing poverty and protecting the environment.

The former Operations Evaluation Department (OED) – now IEG – issued a study in 2004 which captures the risks of extractive industry projects:

⁵⁰ Extractive Industries Review, *Striking a Better Balance*. The World Bank Group and Extractive Industries, Final Report, December 2003, p. 46.

⁴⁸ IEG Report, p.25.

⁴⁹ IEG Report, p. 38.

*"Should progress in attracting investment outstrip progress in establishing the governance prerequisites for good development outcomes, the Bank risks facilitating the wastage of the country's new renewable resources, as well as contributing to environmental damage, violence, and weakening of the quality of governance itself."*⁵¹

These risks have become reality in the Chad-Cameroon project. The WBG needs to fundamentally rethink its approach to extractive industries and other high risk projects if these types of investments are to be more than a reckless gamble with the lives of the poor.

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8. Abbreviations

COTCO	Cameroon Oil Transportation Committee
CTNSC	National Technical Committee for Monitoring and Control (Chad)
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad, Inc.
EIR	Extractive Industries Review
EMP	Environmental Management Plan
FEDEC	Foundation for Environment and Development in Cameroon
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
OFDA	Oil Fields Development Area
PSMC	Pipeline Steering and Monitoring Committee (Cameroon)
TOTCO	Tchad Oil Transportation Company
WBG	World Bank Group

9. Annex

Annex A: Position Paper CPPL 'Réaction de la CPPL sur les rapports d'évaluation de l'IEG



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REACTIONS DE LA CPPL SUR LES RAP- PORTS D'ÉVALUATION DE L'IEG

Remarques d'ordre général :

Le document est un commentaire de Korinna Horta sur le rapport d'évaluation rétrospective de la performance du programme du Groupe Indépendant d'Évaluation (IEG). C'est son point de vue qui est exprimé par rapport à ce document. Nous lui faisons confiance. Mais si c'était encore la synthèse du rapport s'allait être mieux et permettra à chacun de se prononcer sur le document. Les commentaires faites par Korinna sont largement partagés par les membres du réseau. Le document est un travail d'analyse à partir du rapport de l'IEG. C'est plus ou moins les situations que nous dénonçons dans nos actions de tous les jours au niveau local.

Les remarques sur le document de Korinna

D'emblée, nous nous réjouissons de la publication de cette évaluation rétrospective faite par la Banque Mondiale à travers l'étude de l'IEG et du commentaire faite par Korinna. D'une manière générale, plusieurs conclusions auxquelles l'évaluation est arrivée sont des points de vue exprimés par la société civile tchadienne à son temps sur ce projet. Il s'agit surtout de:

- les moyens de subsistance dans la région d'extraction du pétrole

La Banque mondiale et le Gouvernement Tchadien ne sont pas capables de donner à l'heure actuelle des indicateurs de réduction de pauvreté par rapport au projet dans la zone pétrolière. Les communautés à la base sont celles qui vivent de plus près les conséquences de l'économie pétrolière. En effet installées au cœur des infrastructures ou du moins cernées par ces installations, elles ont vu leurs modes et conditions de vie évoluer au gré du temps. Toutes actions de développement à leur intentions, devrait pouvoir se fonder sur ces changements à l'œuvre sur le terrain et donc se fonder sur des informations actualisées sur la réalité et les manifestations de la pauvreté, telle que les populations la vivent et la conçoivent. Cependant, l'existence de telles sources d'information ou leur accès ne semble pas évident dans le contexte tchadien. En effet, la collecte et la publication régulière d'informations et d'indicateurs pouvant permettre d'apprécier et de mesurer la pauvreté des populations manquent. Ce déficit d'informations n'est point de nature à favoriser une prise de décision et une planification efficaces.

La Question du Plan de développement Local (PDR) qui a été financé par la Banque Mondiale et a vu la participation maximum de la population de la zone pétrolière et des organisations de la société civile reste sans suite dans les tiroirs du ministère du Plan. La Banque mondiale en complicité avec le Gouvernement n'a pas réagi et à laisser le Gouvernement utiliser les 5% des ressources destinés à la région productrice sans chercher à connaître les besoins prioritaires des populations locales.

Nous ne voyons pas d'éléments concrets sur le soutien au secteur privé pour un développement durable dans ce projet.

- sauvegardes environnementales

Nous sommes d'accord avec les conclusions du Panel d'Inspection sur la situation environnementale. Depuis 2003, que la Banque Mondiale a été avertie par le Panel, sur les violations de la politique environnemental mais aucune mesure n'a été prise à l'encontre de l'opérateur Esso. Aucune structure indépendante

de contrôle et surveillance sur le terrain avec les compagnies pétrolières à l'heure actuelle. A moins de 10 ans de production plusieurs cas de déversements accidentels d'hydrocarbures avérés ont été signalés.

La politique d'évaluation environnementale de la Banque Mondiale a été mise à mal, mais elle n'a pas réagi face à cette violation.

La zone pétrolière est devenue aujourd'hui le cimetière des déchets de tous genres.

Suggestions/interrogations:

Qu'est ce que la Banque Mondiale propose concrètement pour redresser les tirs? Autrement dit qu'est ce qu'elle fera de ces différentes recommandations et conclusions de cette évaluation? Si le projet n'a pas atteint son objectif principal consistant en la réduction de la pauvreté, quelles sont les mesures correctives que la Banque Mondiale preconisent pour ne pas que d'autres projets de ce genre ratent les cibles comme au Tchad?

Que fera -t-elle (la Banque Mondiale) des milliers des paysans sans terres qui vivent dans une situation de pauvreté sans égale à Maikouri, Ngala, Bendo, Mouarom, Bolobo, Moundouli, Dildo, Dokaidil-

ti, MBANGA, NDABA et autres? Car C'est d'elle que cette situation est arrivée.

Pour nous, La Banque Mondiale a connu un crime dans la zone pétrolière de Doba au Tchad. Sans elle, ce projet n'a pas lieu et les paysans ne seront pas dans cette situation inhumaine. Nous tenons la Banque Mondiale de responsable des situations des violations des droits humains et autres dérapages qui sont commises par les agents de sécurités des compagnies pétrolières dans la zone.

La Banque Mondiale n'a pas pour mission selon nous de lutter contre la pauvreté mais plutôt de distribuer des prêts.

N'y a t- il pas de possibilités judiciaires/juridiques d'intenter une action en justice contre la banque Mondiale pour ce projet?

Pour nous, une campagne d'information dans tous les 34 cantons de la zone du projet est nécessaire pour informer les chefs des cantons, les chefs des villages, les leaders d'opinions locaux, et toute la population de la zone que, la banque Mondiale a échoué dans ce projet et qu'elle a reconnu que l'objet du projet n'est pas atteint.

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