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**Development Effectiveness and Lessons Learned:
The Chad-Cameroon Oil Development & Pipeline Project**

Mr. Chairman and Members of the Committee, I thank you for the opportunity to contribute to this important process, which we hope will result in measures to obtain greater oversight and improvements in the development effectiveness of World Bank lending for large-scale infra-structure projects.

Development Effectiveness and Lessons Learned from the Chad-Cameroon Oil Development & Pipeline Project

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I. The Project and its Context

At a cost of \$4.2 billion, the Chad-Cameroon Oil & Pipeline project is the single largest investment in Sub-Saharan Africa today. It includes the development of oil fields in southern Chad and the construction of a 650-mile long pipeline through neighboring Cameroon to the Atlantic coast. World Bank support for the project was a pre-condition required by an international consortium led by Exxon Mobil for building the project.

The World Bank provided \$39.5 million to Chad to finance minority holdings TOTCO and COTCO, the companies established by the Oil Consortium in Chad and in Cameroon, and \$53.4 million to Cameroon for minority holdings in COTCO. In addition, the International Finance Corporation (IFC), the World Bank's private sector lending arm, provided loans of \$100 million each to TOTCO and COTCO and mobilized an additional \$100 million from other sources, known as B-loans.

Originally, the World Bank's financing structure for the project involved IDA loans for Chad and Cameroon since both countries are not considered to be creditworthy enough to qualify for IBRD market lending rates. But some donor countries expressed strong concern about using funds from the World Bank's lending window for the poorest countries, IDA, for the partial assumption of risk for a consortium led by one of the world's largest corporations, Exxon Mobil. In order to avoid further controversy during IDA Replenishment negotiations, the World Bank switched its funding to the IBRD Enclave loan window, which typically includes an off-shore escrow account for debt service.

In addition to these loans, the World Bank provided two IDA credits to Chad for capacity-building projects, the Management of the Petroleum Economy Project (\$17.5 million) and the Petroleum Sector Management Capacity - Building Project (\$23.7 million). In order to build Cameroon's capacity, the World Bank provided an IDA credit for the Cameroon Petroleum Environment Capacity Enhancement project (\$5.77 million).

From the outset, the World Bank viewed this project as a model for using large-scale infrastructure investments in extractive industries for poverty reduction.

To the Consortium, World Bank participation represented an insurance policy against political risk in a volatile region, as well as a seal of approval

of the project, which would draw other financial institutions, such as the U.S. Export-Import Bank, into co-financing the project. The World Bank claimed that its innovative partnership with the Consortium, led by Exxon Mobil, represented a unique opportunity to reduce poverty in one of Africa's poorest regions.¹ This was to be a different kind of project, the World Bank asserted, where success would be measured “...*by poverty reduction rather than by barrels of oil produced or millions of dollars received by Chad for oil exports.*”²

Oil development in Sub-Saharan Africa has a history of ruinous corruption, armed conflict, human rights violations and environmental degradation.³ Although the situation in Chad differs from that in Cameroon, both countries are governed by authoritarian regimes. Both countries have been ranked amongst the most corrupt countries in the world on Transparency International's corruption perception index. Corruption in both countries appears to be at the center of patronage systems that maintain the regimes in power.

Concerning the human rights situation, the State Department's annual report on human rights has for many years documented widespread abuses and the lack of the ability of citizens in both countries to change their government by democratic means.

In view of this situation, there was widespread concern among African and international non-governmental-organizations, some donor governments, and voices in the U.S. Congress regarding the oil project's ability to deliver development benefits. Chadian civil society organizations, supported by a broad international network, did not oppose the oil project per se, but in light of the significant risks, called for a moratorium on financing the project until legal frameworks to protect human rights and the environment had been put in place and the government had shown a commitment to reducing poverty.

In May 1999, a bi-partisan Congressional letter addressed to then World Bank President James Wolfensohn, and signed by 27 members of Congress, requested that the project be postponed until civil and political rights were

¹ The World Bank, "Chad-Cameroon Petroleum Development and Pipeline Project," Project Appraisal Document, April 20,2000, p.12.

² Ibid. p. 13.

³ See for example, Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor*, Catholic Relief Services, June 2003.

respected in both countries and the political will and capacity established to implement environmental protection.

Yet despite numerous warnings and expressions of concern, the World Bank decided to proceed with the project and simultaneously build the capacity of both governments in two of the world's most corrupt and poorly governed countries. Sadly, one of the key lessons to be drawn from this project is that one must first ensure that governance and management capacity in countries with weak governance are built up before launching large-scale infrastructure/extractive industry investments.

II. The World Bank's Mission of Poverty Reduction as Reflected in the Project

Largely in response to public pressure, the World Bank took some unprecedented safeguard measures intended to address some of the concerns. At the center of these was the passage of a revenue management law in Chad intended to ensure transparent use of oil revenues for poverty reduction and the establishment of an oversight committee to monitor the law's implementation. The law required direct oil revenues to be used for poverty reduction (80%), to be saved for future generations in the post-oil era (10%), and to be earmarked for the oil-producing region itself (5%). Notably, the law contained some major loopholes. It covered only the three initial oil fields under production by the ExxonMobil-led consortium and did not apply to indirect revenues, such as income taxes on the consortium.

In addition, the World Bank decided to finance three separate capacity-building projects to be carried out in parallel with the oil project. These were meant to assist the Chadian government with managing the oil economy and to provide both Chad and Cameroon with the capacity to manage the environmental and social impacts of the project. When the World Bank approved financing for the project in June 2000, it hailed the project as a groundbreaking initiative to translate oil wealth into direct benefits for the poor, while mitigating any damage to the environment.

Construction of the project was complete one year ahead of schedule in October 2003 and Chad, a country slightly larger than three times the size of the state of California, with a population of about 9 million people, became an oil-exporting nation. Today, Chad exports roughly 200,000 barrels per day to the world.

III. The Adequacy of Safeguards Concerning Revenue Management, Compensation and Environment

(1) Capacity-Building

While the World Bank's role is to ensure compliance with safeguards, it is the task of the recipient country governments to implement them. In view of the lack of capacity of both the Chadian and Cameroonian governments, the World Bank financed three parallel capacity-building projects intended to ensure that Chad's government would be able to manage its new oil economy and that both Chad and Cameroon would be able to address the environmental and social impacts of a project of this magnitude.

The International Advisory Group (IAG), a World Bank commissioned group of project monitors, soon noted that this was a “two-speed project,” in which the construction components advanced rapidly while government capacity building lagged behind or failed to get off the ground. The IAG warned that the delays would compromise the success of the project.⁴ Three years later, as oil was already flowing, the IAG concluded that the capacity-building objectives had not been met, adding: *“The World Bank must share responsibility with the Government for having allowed funds for the capacity-building projects to be used for often unproductive studies and for construction projects, with serious consequences in terms of Chad’s lack of training and preparedness.”*⁵

To date no significant progress has been made. According to the IAG's most recent report on Cameroon, CAPECE, the capacity-building project for the Cameroonian government, continues to be far from reaching its target objectives.⁶

The poor results of capacity-building efforts for oil revenue management have not advanced the World Bank's poverty reduction goals. Since construction on the project began in 2000, Chad has slipped on the United Nations Development Program's Human Development Index from No. 167

⁴ International Advisory Group, Report of December 21, 2001," (IAG reports are available at www.gic-iag.org).

⁵ International Advisory Group, "Report of Visit to Chad and Cameroon, May 17 – June 5, 2004," July 2004.

⁶ International Advisory Group, Report of Mission 11 to Cameroon, March 15-23, 2006, p.18.

to No. 173 (in 2005) and average life expectancy has been further reduced from 44.7 years to 43.6 years. While it may be debatable whether this decline might have occurred with or without the project, the point is that the project was supposed to significantly benefit the poorest people of Chad and so far it has clearly failed.

Furthermore, a succession of reports by the International Advisory Group have documented that the lack of capacity to address the environment and social consequences of the project has had serious detrimental impacts on the affected populations in the oil-producing region in Chad and on many communities along the pipeline route in Cameroon.⁷

(2) Revenue management

Chad. Things got off to an embarrassing start when it became public in January 2001 that Chad had used part of its \$25 million signature bonus from the Oil Consortium for weapons purchases. The lack of transparency in the use of the funds violated the spirit, if not the letter, of the agreement with the Bank to use oil revenues transparently for poverty reduction. This early transgression foreshadowed the more serious crisis in the revenue management system that has unfolded in recent months.

From the inception of the project, the Chadian government has shown little good faith in implementing the revenue management law and has created considerable hurdles for the functioning of the oversight committee.⁸ It is largely due to constant prodding, including from the U.S. Treasury Department, as well as to the integrity of the oversight committee, that some steps towards greater transparency have been taken. By the end of 2005, \$245 million on oil revenues had been allocated to priority sectors such as health and education, but the government has limited absorptive capacity and little capacity to develop projects. At the same time, the oversight committee's reports have documented problems with government spending of the oil revenues, including irregularities in the transfer of funds, overpricing of goods and services, etc. The situation had become so critical that the World Bank told the *Financial Times* in August 2005 that it had serious

⁷ Reports of the International Advisory Group can be found at www.gic-iag.com.

⁸ For a detailed analysis of oil revenue management issues in Chad, see Ian Gary and Nikki Reisch, *Chad's Oil: Miracle or Mirage? Following the Money in Africa's Newest Petro-State*, Bank Information Center and Catholic Relief Services, February 2005.

concerns about how the Chadian government was using the oil revenues.⁹ But the oversight committee has limited resources, lacks independent financing and has no power to ensure compliance with the revenue management law. Its role is limited to issuing reports without means or authority to monitor the effectiveness of corrective measures taken in response to its findings. Furthermore, committee members have expressed their frustration about lack of access to information from both Exxon-Mobil and the Chadian government.¹⁰

In January 2006, after several months of often public disputes between Chad and the World Bank, Chad's President Déby ratified significant amendments to the revenue management law that gutted the law's original intent. Claiming budgetary constraints and a worsening security situation, the new amendments added military expenditures to the definition of priority sectors for development, increased the share of oil revenues for discretionary government spending and abolished the Future Generations Account.

In light of this flagrant violation of its loan agreements, the World Bank suspended \$124 million in planned loan disbursements to Chad, which in turn triggered the freezing of the London-based escrow account into which oil revenues were being deposited by the Oil Consortium. The freeze did not cover Chad's 'Future Generations Account' and the government took possession of the \$36 million that had accumulated for use in the post-oil economy.

Faced with an armed rebellion by his own ethnic group, including family members upset about his determination not to yield power,¹¹ Chad's president Déby threatened to cut off the oil pipeline at the end of April 2006. Just before this deadline, the World Bank announced an "interim agreement" with Chad and the resumption of some loan disbursements to Chad. In the process, the World Bank provided President Déby with political support just prior to the presidential elections of May 3, 2006. These elections were by then already known to be so fraudulent that they would be boycotted by the opposition and ignored by international election observers.

⁹ Dino Mahtani, "World Bank Concern over Chad Oil Revenues," *Financial Times*, August 20, 2005.

¹⁰ BBC News (on-line), "Chad's Oil Watchdog 'Powerless'," May 24, 2004.

¹¹ President Déby orchestrated a referendum to change Chad's constitution to end presidential term limits in June 2005 frustrating those who had hoped to succeed him after the end of his term in 2006.

Under the interim agreement, Chad passed a supplementary budget for 2006, which directs 70 percent of revenues to the original poverty reduction sectors, while maintaining the amendments that led to the suspension of loan disbursements and freezing of the escrow account in the first place. The World Bank has agreed to gradually release the blocked revenues over the next three months while negotiations are underway to devise a new revenue management law. A new agreement between Chad and the World Bank is expected by September 26, 2006.

Cameroon. Describing Cameroon's challenges in reducing poverty, the World Bank's most recent Country Assistance Strategy for Cameroon reiterates findings from previous reports "*...accountability and transparency in the use of public resources are insufficient, with scarce public resources poorly targeted to priority sectors;...*"¹²

Despite these long-standing problems, a system to manage pipeline transit fees - about \$50 million a year - was not established. Despite Cameroon's top ranking on the list published by Transparency International, the World Bank simply assumed that the Government of Cameroon would use the royalties – which are substantially less than those earned by Chad and represent a much smaller fraction of the national budget – to improve living conditions for its people. Why the World Bank would have made this assumption is unclear, since its own Operations Evaluations Department has documented the government's lack of commitment to poverty reduction.¹³

(3) Compensation, Social Development and Public Health

Interview with the Bishop of Doba

Bishop Michel Busso of Doba, the main town in Chad's oil-producing region, said in a recent interview that oil money is suffocating the region's development and that local communities are profoundly disappointed by the oil project.¹⁴ Prostitution, alcoholism and environmental destruction have become widespread. Plenty of money appeared to have come into the region but local communities have not seen benefits. As an example, Bishop Busso cited the small village of Komé, located near ExxonMobil's 21st century state

¹² The World Bank, Country Assistance Strategy for the Republic of Cameroon, August 14, 2003, p7

¹³ The World Bank, Operations Evaluation Department: Review of Republic of Cameroon 1996 CAS Completion Report, September 3, 2003.

¹⁴ Interview with Monsignore Michel Busso, Bishop of Doba, Chad, conducted by Martin Zint, coordinator of the German Church-based NGO network Erdoel AG, Aix la Chapelle, France, June 27, 2006.

of the art local headquarters, which continues to wait for the construction of a well. Bishop Busso was glad to see that some schools and clinics had been built, but added that he still was waiting for them to be put to use since there are no teachers and doctors.

Unsustainable Loss of Land in the Oil-Producing Region

According to the IAG, local communities in Chad have lost more land and for longer periods of time than had been anticipated in the project's Environmental Management Plan.¹⁵ Furthermore, restoring and returning land to the poor subsistence farming communities is often delayed by several years.

The loss of agricultural land is getting worse with the expansion of the oil project from the less populated area surrounding the Doba oil fields to the much more densely populated area around the new oil fields in Nya-Moundouli. The IAG is now questioning the viability of the region's agricultural systems given the loss of land and has expressed concern about the adequacy of compensation payments for the loss of local livelihoods.¹⁶

Lack of Legal Recourse

In view of the general atmosphere of repression and absence of legal recourse, affected communities have few possibilities to obtain redress for their grievances. In cases where monetary compensation has been paid to individual households, local authorities supported by the military reportedly extort part of the compensation received by poor farmers, who have no justice system to which they can turn. Villagers who offer resistance have been beaten, and human rights workers who defend local villagers have received death threats and have been arrested.¹⁷ For example, Nekarmbaye Gedeon, who heads a local section of the Chadian Association for Non-Violence in Krim Krim in the region of Logone Occidental, and four of his colleagues were arrested in March 2004 on order of the local police chief. After his release, he told an interviewer that his life was only saved because of an international campaign on his behalf.¹⁸

¹⁵ International Advisory Group, Report of Mission 10 to Chad and Cameroon, September 25 to October 18, 2005, published on November 25, 2005, p. 7 (available at www.gic-iag.org).

¹⁶ Ibid. p. 12.

¹⁷ See, for example, the letter of July 24, 2005 from Erdoel AG, the German NGO working group including Germany's major Church-based organizations, to the World Bank, www.erdoel-tschad.de.

¹⁸ Nekarmbaye Gedeon, interview with K. Horta, N'Djamena, Chad, 10 October 2005. Mapideh Kagmbayae, president of the Association of Human Rights (ADH), a human rights organization, has also received death threats.

Another serious problem faced by affected people is the lack of accountability of the mostly foreign companies sub-contracted by the Exxon Mobil-led consortium and their national companies TOTCO and COTCO. Once foreign firms have completed their tasks and leave the country, affected people have nowhere left to turn. One example is the case of about 70 workers who joined the claim submitted to the World Bank's Inspection Panel by the Center for Environment and Development in Cameroon. The workers had suffered occupational injury and as a result simply lost their jobs and received no assistance with medical expenses. In response to the claim, the Inspection Panel stated that it could not address the question of workers' rights since there is no World Bank policy related to the question.¹⁹

Nkoltara, a Cameroonian village along the pipeline route

In October 2005 I visited several villages along the central section of the pipeline route together with colleagues from the Center for Environment and Development in Yaoundé. As an example, I would like to refer to the village of Nkoltara, a mere 15 miles north of the capital of Yaoundé, where pipeline construction has had a devastating impact on the villagers.

The only source of water in the village is a small water hole adjacent to signs indicating the site where the pipeline is buried. The water seemed to be covered by a milky film of grease. Yet this is where ill-nourished children clothed in tattered rags were lining up with buckets of different sizes to fetch their families' water supplies (please see attached pictures). According to the villagers, skin rashes, gastro-intestinal disorders and other previously unknown ailments are now widespread in the community. When the villagers protested and demanded a new water source, the police came into the village, had everyone gather, strip and get beaten.

Families with older children sent them to fetch water at a source a few miles away to have cleaner water. But carrying water over long distances is not compatible with attending school, which is also several miles away. One woman told me, on camera, that before pipeline construction, she was making enough money from raising chicken to afford to rent a room for her school-age children in the nearest town so that they could attend school. She

¹⁹ The World Bank, Inspection Panel Investigation Report, *Cameroon : Petroleum Development and Pipeline Project and Petroleum Environment Capacity Enhancement Project*, May 2003.

was, however, unfortunate, in that some of the most intensive construction noise occurred in front of her house: as a result that the young chicks all died and she received no compensation to replace them. Now there is no money to rent a room for her children and since the distance to walk to school and back every day is just too long, the children are deprived of even a basic education.

Cameroonian NGOs have documented an extensive pattern of inadequate compensation and intimidation along the pipeline route and near its Atlantic Ocean terminal.²⁰ Some of the outstanding cases are now slowly getting resolved as a result of very competent local NGO research and advocacy efforts. Yet to date only a small percentage of claims has been processed and the IAG warns of a large backlog from year to year.²¹

Public Health

It is well-known that transportation corridors in Sub-Saharan Africa are a predominant route for the spread of HIV/AIDS on the continent. As noted by the Environmental Panel of Experts, which was established as a requirement of the World Bank's environmental assessment process, the construction of the Chad-Cameroon oil pipeline represented an ideal pattern for the transmission of HIV/AIDS along the pipeline route and in the oil fields in southern Chad.²² The Panel was especially concerned about the extremely extensive long-distance truck traffic between the port city of Douala and the oil fields in southern Chad. Accordingly, the Panel ranked measures to minimize infection rates and treatment of HIV infections as the top priority for health management and called for extra-ordinary measures to be put in place to prevent a potentially catastrophic situation.

Yet problems of HIV/AIDS and other communicable diseases are not adequately being monitored, let alone addressed. In an article published in the Bulletin of the World Health Organization, a public health expert working on the project, William Jobin, expressed dismay at the failures. Jobin stated, ***“It appeared that in the project decisions were largely based on cost and profit considerations, giving only passing attention to***

²⁰ See for example, Center for Environment and Development/ Relufa, *Rapport sur les cas litigieux de compensation au longue du pipeline*, Yaoundé, 2004.

²¹ International Advisory Group, Report of Mission 11 to Cameroon, March 15-23, 2006, p.2.

²² Jobin, William, Health and Equity Impacts of a Large Oil Project in Africa, in: Bulletin of the World Health Organization 2003, 81 (G)

*environmental and social aspects, and little or no decision-making power to the affected populations.*²³

(4) Environment

Lack of adequate environmental assessment

The World Bank's Inspection Panel carried out two separate investigations into possible violations of World Bank safeguard policies, one in Chad and a second one in Cameroon. In both cases, the Inspection Panel concluded that the World Bank had violated its operational policy on environmental assessment because the scope and magnitude of the project would have required undertaking cumulative, regional environmental assessments which were not done. In both countries, the Panel also concluded that there was a lack of adequate baseline studies and a missing link between the existing environmental studies and subsequent mitigation plans.²⁴

In Chad, among the problems affecting the oil-producing region are severe dust pollution with impacts on human health and crop fertility. The International Advisory Group also calls for the need to pay special attention to water and waste treatment as well as air pollution.²⁵

In Cameroon, the pollution of local water sources along the pipeline route and the loss of local fisheries at the pipeline's marine terminal are amongst the problems cutting into the already precarious livelihoods of local communities.

Indigenous Peoples

Neither Chad nor Cameroon recognizes the rights of indigenous peoples and neither has recognized the existence of indigenous peoples in their national territories.²⁶ This is of special concern given the serious and possibly irreversible problems faced by the indigenous and semi-nomadic Bagyeli pygmy people in Cameroon's coastal rainforest which the pipeline traverses.

²³ Ibid. p. 6.

²⁴ The World Bank Inspection Panel, Inspection Panel Investigation Report (INSP/R2002-2003, July 23, 2003 and Inspection Panel Investigations Report, Report No. 25734, May 2003.

²⁵ International Advisory Group, Work Plan, Up-Date, June 26, 2006.

²⁶ The Chadian and Cameroonian governments have not signed international conventions concerning indigenous and tribal peoples such as the Convention No. 169 of the International Labor Organization, which entered into force in 1991.

The World Bank's policy on Indigenous Peoples (Operational Directive 4.20), which was in effect at the time of loan preparation and until 2005, included provisions for World Bank assistance to borrowing governments whose laws were structurally weak concerning the recognition of the legal rights of local communities. But the World Bank did not assess the weaknesses of Cameroon's legal system in protecting the rights of indigenous peoples and no strengthening of the system took place.

The Indigenous Peoples' Plan prepared as a mandatory requirement of OD 4.20 was built on the assumption that there would be a long-term commitment by the Government of Cameroon to protect the indigenous communities affected by the project.

There has been no evidence of any such commitment to date. Furthermore, the Bagyeli were largely excluded from the preparation of the Indigenous Peoples Plan. As a result the Plan has a fundamental flaw: It does not address the need of land security for the Bagyeli although land is critical to their survival as a group.

A Cameroonian foundation, FEDEC, was established with a trust fund of \$3 million from the oil consortium to finance both implementation of the Indigenous Peoples' Plan and the management of two national parks over the life of the project estimated at 28 years. The national parks of Campo Ma'an and Mbem-Djerem were created to offset biodiversity losses as a result of the pipeline. FEDEC's work, however, has been marred by internal conflict and continues to be largely ineffectual. According to the IAG's most recent report on Cameroon, FEDEC continues to lack strategic objectives and proper financial planning.²⁷

Expansion of oil exploration in Chad

According to the loan agreements between the World Bank and Chad and Cameroon, all future oil exports using the pipeline will have to comply with the principles of the Environmental Management Plan developed for the initial three oil fields co-financed by World Bank loans. So far there is no evidence that this requirement is being met. Exxon-Mobil began pumping oil from new satellite fields in 2005. In addition the consortium is conducting seismic testing beyond the Doba area in the East Doeso basin of the Sahr area of southern Chad. It also has requested a concession in the

²⁷ International Advisory Group, Report of Mission 11 to Cameroon, March 15-23, 2006, p.4.

Maikeri area of the Logone region, while the Canadian Encana/Cliveden joint venture is continuing to explore and drill test wells in the Bongor area the Lake Chad basin.

Cameroon's Planned Lom Pangar Dam

Incredibly, the Government of Cameroon is now seeking to build a dam whose reservoir would submerge part of the World Bank-financed pipeline and flood a biodiversity-rich forest that was put under protection to offset biodiversity losses as a result of pipeline construction. The Government plans to construct the Lom Pangar dam on the Sanaga river in eastern Cameroon in order to increase energy supply to the country's existing electricity grid and the largest energy consumer, the Alucam Aluminum smelter. The World Bank has expressed concern over plans to build this dam especially because the reservoir created by the dam would submerge a section of the pipeline, which was not built to withstand such pressure, and it would flood a portion of the Deng Deng forest, a biodiversity hotspot which has been put under protection to compensate for losses of biodiversity as a result of the oil pipeline construction. The pipeline was rerouted to avoid going through the central Deng Deng forest area. The World Bank and the Government of Cameroon have an obligation to ensure not only pipeline safety but also to uphold the protection of the Deng Deng.

IV. The Need for Improved Revenue Design to Maximize Benefits for the People of Chad and Cameroon and Mitigation Measures for the Affected People and Environment

Revenue Management

Cameroon. Unlike in Chad, the World Bank did not insist on special provisions to ensure that royalties from pipeline operation are earmarked for poverty reduction. However, the World Bank should require the establishment of a transparent revenue system to ensure that royalties are used for the mitigation of negative impacts on affected communities and the environment before remaining royalties enter the stream of overall government revenues.

Chad. The World Bank currently is negotiating a new framework revenue management law with Chad and an agreement is scheduled to be completed by the end of September 2006. The opportunity should be seized to improve upon the original law imposed on Chad by ensuring that earnings from all oil

operations in Chad (including new oil developments which are already underway, as well as the substantial indirect revenues, such as customs duties and taxes) from the oil sector are covered by the transparency and revenue management requirements aimed at promoting poverty reduction. It is vital that systems are put in place to ensure proper use for indirect revenues, since they will soon outweigh income from royalties on oil production. In 2007, it is estimated that Chad will earn \$1.5 billion in indirect revenues from the Oil Consortium, amounting to a near tripling of the country's national budget. In addition, the new framework should strengthen the role of the Oversight Committee and ensure that it has the necessary resources and information to carry out its tasks. Finally, the government should disclose the contractual agreements with oil companies investing in the country.

Public health. As a matter of urgency, the World Bank should carry out a long-overdue assessment of HIV/AIDS and other communicable diseases along the pipeline route and in the oil fields. This is critical to ensure that urgent remedial actions are undertaken to impede the further spread of the disease throughout both Chad and Cameroon and to provide effective treatment to those already infected. The now largely demobilized workforce and the movement of work camp followers call for additional measures to track and address the spread of the disease to regions where these people may have returned or migrated after conclusion of the major public works components of the project.

Unresolved Social and Environmental Problems. The World Bank needs to appoint core staff responsible for solving the numerous unresolved environmental and social issues, including the plight of the indigenous Bagyeli people. Frequent staff turnover at the Bank has contributed to the difficulties in getting things done on the ground.

New oil exploration. There is no evidence to date that there is compliance with the requirement that all new oil development respect the social and environmental standards of the Environmental Management Plan despite increased exploration and the development of new oil fields. The World Bank has to hold the government and oil companies accountable for commitments made.

National Dialogue in Chad. Authoritarian regimes and oil wells are a combustible mix. Violent conflict continues to threaten Chad as armed

uprisings occur in several regions, including near the country's borders with Sudan and with the Central African Republic. It is urgent to reduce any further potential for conflict which otherwise might yet engulf the entire region.

A broad coalition of Chadian civil society organizations, including the Churches, has launched an initiative for a peace and reconciliation dialogue as an alternative to the specter of increasing violence. Such a national dialogue has to bring the government, rebel groups and other interested parties to the same table in order to prepare genuine democratic reforms. According to long-term observers of Chad, it is fair to say that the initiative has wide support among the Chadian population, which does not wish to see a dictator replaced by another war lord.

Such a national dialogue needs to be mediated and supported by the international community, including the World Bank.

V. Lessons to Be Drawn for World Bank Support for Extractive Industries

The World Bank had claimed that the Chad-Cameroon Project represents a new approach for investments in extractive industries, not only because of its initiatives with regards to revenue management, but also because its involvement helps ensure that the project is implemented in an environmentally and socially responsible manner.²⁸

The World Bank can claim good intentions. But the long record of extractive industries in countries with weak governance where local communities have been impoverished, the environment destroyed and the revenues disappeared, should have led to a better analysis of the risks involved. In addition to continued efforts to correct what has gone wrong, it is also critical to draw lessons from the Chad-Cameroon project for investments in extractive industries more broadly.

Unfortunately, the lessons are not new. They were clearly articulated 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 was completed in 2003.

²⁸ World Bank Press Release, Oct. 10, 2003

The final EIR report concluded that where basic conditions of good governance are absent, extractive industries have neither a record nor hope of contributing to poverty reduction.²⁹

One of the report's central recommendations to the World Bank Group is the adoption of a phased approach: basic human rights protections and some level of demonstrated institutional capacity to manage revenues as well as the environmental and social impacts must be in place before launching large-scale extractive industry investments.

Similarly, the World Bank's own Operations Evaluations Department (OED) identified in 2003 that the quality of governance as the key factor in determining project success “...*good governance is the prerequisite for enhancing the positive linkage between increased fiscal revenue flows and sustainable development*”³⁰ (Emphasis added).

In its evaluation of the role of governance in activities related to extractive industries, OED concluded that: “*Without the rule of law, the government is unable to implement legal, regulatory, and policy solutions that would allow it to control the costs and risks. There does not seem to be much of an argument in favor of developing or expanding the EI sectors in such environments.*”³¹ The OED adds: “...*no current Bank analytic product allows an evaluation of the rule of law...*”³²

In response to the EIR and OED recommendations, the World Bank Group must begin by engaging in a transparent, public process to define minimum good governance criteria and to clearly link decision-making around project and policy support to those criteria. In the absence of basic governance

²⁹ Public reaction against the negative social, environmental, and economic impacts associated with many EI projects prompted the Bank to reexamine its role in these sectors. In 2001, pressure from civil society finally led the Bank's Management to initiate the EIR, a multi-stakeholder process that sought to assess the Bank's involvement in EI to date and determine the appropriate level of involvement in the future. The central question posed by the review was whether Bank-supported EI investments can produce dividends that benefit the poor while managing, minimizing and justifying their social and environmental risks. The EIR final report and World Bank Group's response can be found at: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112~menuPK:336936~pagePK:148956~piPK:216618~theSitePK:336930,00.html>

³⁰ Operations Evaluation Department, “Extractive Industries and Sustainable Development – An Evaluation of World Bank Group Experience,” Washington, D.C. 2003, 7.

³¹ Operations Evaluation Department, “Evaluation of the World Bank Group's Activities in the Extractive Industries – Factoring in Governance,” Washington, D.C. September 1, 2004, 7.

³² Ibid.23.

conditions, respect for human rights and functioning mechanisms for citizens to hold their government accountable, projects which aim to increase revenues to the state while creating environmental, social and political risks have little hope of contributing to poverty reduction.

Linking Monitoring with Accountability

The experience of the Chad-Cameroon project also highlights the need to ensure that independent monitoring mechanisms, such as the International Advisory Group (IAG), have the authority and means to ensure adequate follow-up to their recommendations. While the IAG has served as an important critical observer of the project's implementation, the fact that it has repeated many of the same recommendations in its reports over the years indicates that they have resulted in little concrete action. The design of future monitoring mechanisms should be informed by lessons from this project and establish a link between monitoring and mechanisms for accountability to ensure that findings are adequately addressed.