



Coalition Statement

3 February 2006

Chad and World Bank: PWYP urges all stakeholders to resume talks to end current stalemate over oil revenue management law dispute

The **Publish What You Pay** (PWYP) coalition is concerned about the current stalemate between the Chadian government and the World Bank following the government's amendment of Law 001 - the petroleum revenue management law which had until recently directed oil revenues towards projects aimed at poverty reduction in one of Africa's poorest countries - and the decision by the World Bank to suspend its loan program and freeze the escrow account that collected revenues from Chad's oil in protest at the government's decision.¹ Echoing the views of our Chadian coalition and other civil society organisations, PWYP members profoundly regret the unilateral modification of the law by the Chadian government. We encourage the Chadian authorities to reverse this decision in order to prevent irresponsible and wasteful spending of oil money, and call on all parties to resume talks as soon as possible in order to reach an amicable solution for the benefit of the Chadian people.

Law 001 was regarded as an innovative oil revenue management revenue law. In its original form, it required expenditure of oil revenues in priority areas such as education, health and social services under the control of a joint government and civil society revenue-oversight committee. It also established a "Future Generations Fund" (FGF) and a fixed percentage contribution to the development of the Doba oil-producing region. The law was put in place by Chad as a condition of World Bank financing for the high-risk Chad-Cameroon pipeline project involving ExxonMobil, Chevron and Petronas that would open up Chad's oil fields for commercial extraction.

Law 001 had weaknesses, as highlighted in the 2004 report "Miracle or Mirage?" by Catholic Relief Services and Bank Information Center, but at the very least it required full oversight over revenue expenditures and prioritised money for development and poverty reduction projects.² The amended version of Law 001 redefines "priority sector" expenditures to include spending on security. It also increases from 15% to 30% the amount of revenues deposited into general government coffers, thus bypassing the revenue oversight committee. It also eliminates the FGF and redirects the already accumulated funds to immediate expenditures. The changes are a significant blow to global efforts to improve transparency over resource revenues and combat corruption and poverty in developing countries that are rich in oil and mineral resources.

As PWYP coalition members have maintained, the current situation in Chad was all too foreseeable and avoidable. Prior to agreeing to finance the Chad-Cameroon pipeline, civil society organizations called on the World Bank to give priority to improving the capacity of the Chadian Government to manage such a large scale project in a country well known for corruption and institutional weakness. The World Bank ignored civil society concerns and a call for a moratorium on a funding decision in 2000 and gambled that its capacity building projects could rapidly increase the government's ability to manage unprecedented revenues transparently. Regrettably, while the oilfield and pipeline construction proceeded rapidly, World Bank capacity-building projects lagged far behind.

The failure of the Chadian experiment should serve as a reminder to the World Bank that good governance, accountability and human rights are fundamental to achieving the possible poverty reduction benefits of resource extraction projects in addition to ensuring full transparency over revenue flows and

expenditures. Accordingly, we call on the World Bank to revisit the recommendations of the 2004 Extractive Industries Review³, and adopt additional safeguards, including establishing governance, transparency and human rights conditions that must be fulfilled before approving oil, gas and mining projects in institutionally weak countries.

ExxonMobil and other oil companies operating in Chad should also play their part in salvaging the revenue management system in Chad. With the freezing of the escrow account into which ExxonMobil has been paying revenues, the Chadian government demanded that the ExxonMobil-led consortium make revenue payments directly to the government.⁴ We ask the Consortium to resist these demands. Circumventing current arrangements governing oil revenue management will be clearly against the best interests of Chadian people and a blow to the reputation of international oil companies.

We also ask the IMF to clarify its position vis-à-vis the Chadian government. Ms. Anne O. Krueger, First Deputy Managing Director of the IMF stated that the IMF supported the World Bank's suspension. She also added that the Chadian government is failing to comply with the commitments of the Poverty Reduction Growth Facility (PRGF) arrangement, under which the IMF is supporting the Chadian government's economic policies. However, the IMF has so far failed to clarify how it intends to exert pressure on the Chadian government to live up to its poverty reduction commitments.⁵

Chadian authorities should in turn take a step back and repeal the amendments to Law 001. Depriving the joint government-civil society oil revenue-oversight committee of control over larger shares of oil revenues and adding security forces to priority spending sectors are serious blows to good governance, transparency and poverty reduction commitments. They also cast serious concerns over the intentions behind the modification of Law 001.

We encourage all international actors with influence in Chad – including donors, Western governments and oil companies – to persuade the government to uphold its commitments regarding the oil revenue management law. In addition, we uphold the rights of Chadian civil society organizations to express themselves freely without threats of intimidation.

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Notes

¹ Following this decision, other donors aligned themselves with the World Bank's stance. The European Investment Bank (EIB) suspended co-operation on any new projects with the public sector in Chad. The suspension of co-operation affects the EIB's identification, appraisal, negotiation and structuring of projects in the Chad public sector (see: <http://www.eib.org/news/news.asp?news=24>).

² For more information: *Chad's Oil: Miracle or Mirage?* (Bank Information Center and Catholic Relief Services, February 2005) <http://www.bicusa.org/chadreport/index.php>.

³ The Extractive Industries Review was an independent assessment commissioned by the World Bank. The aim of this review was to produce a set of recommendations that would guide involvement of the World Bank Group in the oil, gas and mining sectors. World Bank management ignored many of the recommendations of the EIR and has agreed to implement only a limited set of reforms. For more <http://www.worldbank.org/ogmc/>

⁴ TchadForum : 'Le Tchad menace d'arrêter la production pétrolière', 23 January 2006. http://www.africainfo.com/tchad/nouvelle.asp?no_nouvelle=235659&no_categorie

⁵ Statement by IMF First Deputy Managing Director Anne O. Krueger on Chad, Press Release No. 06/05, January 9, 2006. See: <http://www.imf.org/external/np/sec/pr/2006/pr0605.htm>