

TO: Mr Philippe Maystadt
President
European Investment Bank
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Luxembourg

CC:
Mr. Vítor Manuel SILVA CALDEIRA
President
European Court of Auditors
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Mr Louis Michel
European Commissioner for Development and Humanitarian Aid
Berlaymont 10 /165
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10th October 2008

Re: EIB involvement in the ill-fated Chad Cameroon oil development and pipeline project – Request for an independent investigation into the EIB's flawed due diligence

Dear President Maystadt,

We are writing to express our dismay concerning the implementation of the Chad Cameroon oil pipeline project. The project has clearly failed to meet the expected development outcomes in a country that is tremendously poor even by African standards and the oil revenues generated by it are fueling violent conflict in Chad and in the Darfur province of neighbouring Sudan.

The EIB approved financing for the project in 2000 at the same time as other multilateral and bilateral financiers. Among these was the World Bank, which on September 16, 2008, announced its final withdrawal from the project after the Government of Chad anticipated the whole repayment of outstanding loans thanks to the significant oil revenues generated by the project. The World Bank admitted that the host government had clearly violated conditions under the loan agreement concerning the use of public revenues associated with oil extraction, and in particular, since 2006, had changed the provisions included in the Oil Revenue Management Law, passed before project approval, which determined the allocation of oil revenues for social purposes.

International civil society, before and after the approval of project financing, made public its deep criticisms about the project. We called for a moratorium on project financing and warned about the social impacts on local communities and the environment in the context of growing conflict and lack of security and the serious risks of mismanagement of the oil revenues generated by the project due to the evident bad governance of the Government of Chad.

While some innovative measures were adopted in response to public criticism, they were clearly insufficient given the political conditions in Chad. Yet project financiers depicted the project as a new model for reducing poverty by financing oil development in high risk areas. The project has turned out to be a complete failure and has put the credibility of public financial institutions,

including the EIB, at risk.

We believe that the EIB should follow the position of the World Bank and make a public statement about Chad's violations of the loan agreement. Then efforts must be undertaken to bring justice to all those negatively affected by the project. The EIB should carry out an in-depth analysis of the reasons for the resounding failure of this project and publish the lessons that it draws from the experience. In addition, it must support an investigation to identify the damage that the project has caused to local populations and the environment. Finally, a fund must be set up to pay compensation for the identified damage and to finance activities directly aimed at reducing poverty in Chad.

However, we want to express our deep frustration at how flawed the due diligence performed by the EIB management and staff has been in this specific case, in spite of all the reiterated warnings by European civil society before the loan's approval and disbursal.

We recall that, in a letter addressed to you on 19 December, 2000, we raised all our concerns and called upon the EIB not to finance the project. The EIB formally answered on 25 January, 2001, justifying its support for the project *"as it will constitute a real breakthrough for the country by providing a unique opportunity for economic development and create conditions for long-term political stability."* Yet has this materialised, or hasn't the project even led to a deterioration in Chad's stability and economic development given its inadequate and well known domestic political conditions?

Furthermore, in response to the European Parliament resolution of January 2000 recommending *"that the EIB not contribute to financing the project under the Lomé Convention unless it considers that the social and environmental concerns have been met"*, the EIB in the same letter assured NGOs that: *"the EIB's financing of the project is conditional on the relevant environmental and social precautions being implemented."*

Furthermore, by referring to the approval of the Law on Revenue Management by the Parliament of Chad and the related national management committee, the EIB made it clear to us that: *"To support this, a comprehensive wide-ranging monitoring and reporting structure is being put into place to supervise the different social and environmental aspects of the project's implementation and governance issues. This overview includes an International Advisory Group being set up to report and advise the World Bank. At the same time considerable resources are being made available by international development institutions for institutional-building in Chad to introduce sound public expenditure management and implementation of social and environmental protection measures."*

The outcome foreseen by the EIB and others has not materialised at all. Civil society concerns, and sadly, have been realised. Even the external monitors, the International Advisory Group, warned early on that this was a two-speed project where the construction components were advancing quickly while the government capacity-building and social and environmental components were badly delayed or did not get off the ground at all. Yet no action was taken in response to these repeated warnings.

It should be added that in the context of projects co-financed by other multilateral banks, the EIB has usually relied on the due diligence carried out by other project financiers. But today it bears the same responsibility in promoting a social disaster and more insecurity and violent conflict in both Chad and in neighbouring Sudan's Darfur province. Ironically, by refusing to carry out additional due diligence, as requested by European civil society and the European Parliament in January 2000, the EIB trusted a wrong judgment by other financiers and the inadequate desk reviews carried out by its own few environmental and social experts.

We would also cite a letter sent to you by CEE Bankwatch Network on 7 June 2001, clearly stating that: *“Following the presidential elections in Chad, the situation in Ndjamenana has become extremely tense during the past days. Numerous arbitrary arrests took place. The regime is using arms against the civilian population, and terror prevails in certain regions of the country ... For several years, during the preparation of the oil and pipeline project, the World Bank and EIB have stated that this project is not viable without respect of human rights and a minimum of transparency in the government. These requirements are certainly not being met. Unfortunately, the political will to respect these conditions in the name of the Chadian people is completely absent today, be it concerning the elections, good governance, or the respect of Human Rights....The commitments made in the framework of the oil project are to date far from being met. This concerns the establishment of an independent control committee, as well as the security for the people in the oil region, where intimidation by the Chadian army continues unabated. Management of oil revenues is far from satisfactory, since the Chadian Government has already used 4 million dollars that it has received from the oil companies, to buy arms.*

Under current conditions, there is no guarantee for the security of people who participated in the elections, and for the security of the population as a whole. We do not believe that the oil project can go ahead under these circumstances and we therefore ask you to suspend your co-operation with the Chadian regime.”

We believe that these words were clear enough, but unfortunately not heard by you and the board of the Bank.

Again in early 2006, in the context of the suspension of the World Bank's co-operation with Chad, we requested you to intervene to address the deteriorating political situation in the country and the lack of compliance with conditions enshrined in the loan agreements. The EIB stated on 9 February 2006 that co-operation with the Chadian government concerning the financing of new public projects had been suspended. As in the case of the World Bank, we regarded it as irresponsible to restart this co-operation just a few months after the suspension because the situation in practice had not changed at all. We question why the EIB did not maintain its position and announce its withdrawal from the Chad-Cameroon oil development and pipeline project?

Ultimately, we believe that the time has come for the EIB to draw some fundamental lessons about its financing of high risk operations in developing countries, in particular in the extractive sector. Therefore, we call on your leadership to establish an independent commission to investigate why the EIB's due diligence in the case of the Chad oil development and pipeline project has been so poor. What went wrong despite all the conditions included in the loan agreements and which measures the EIB and European governments should take to avoid similar disasters in the future.

It is a matter of justice and coherence with all European development policies and commitments that the EIB has recently endorsed. The credibility of the EIB and of all European aid is at stake in this evident failure in Chad.

Clearly there is a need for stronger scrutiny of the use of taxpayers' money – including that leveraged on private markets through sovereign guarantees by EU member states – when this is used in EIB lending outside of the EU. This issue was indeed raised by the European Court of Auditors in the context of the EIB's public consultation on its new anti-fraud and anti-corruption policy last year.

We are open to discuss these issues and our precise proposal in a public meeting with you in the near future, if necessary with the participation of all competent European institutions and authorities. Your leadership and the bank's transparency in this specific case will be a clear sign of the EIB's

intent to seriously engage with all stakeholders in the run-up to the mid-term review of its external mandate.

Yours sincerely,



Desislava Stoyanova
Counter Balance coordinator

Counter Balance coalition of European environmental and development organisations with the following members:

Central and Eastern Europe: CEE Bankwatch Network
France: les Amis de la Terre
Germany: urgewald and WEED
Italy: Campagna per la Riforma della Banca Mondiale
Netherlands: BothEnds
United Kingdom: Bretton Woods Project

Korinna Horta, **Environmental Defense Fund**

Janneke Bruil, **Friends of the Earth International**

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