

Chad Proves Oil and Poverty Alleviation Don't Mix

By Daphne Wysham | May 26, 2006

The African nation of Chad has forced the World Bank to back down in a dispute that illustrates the problems with lending to poor nations for oil and gas production.

The dispute reached full boil in January when the World Bank decided, in a rare move for an organization that's reluctant to admit to anything ever going amiss with its lending, to suspend a controversial and historic loan it made to Chad. Then, in April, Chad's oil minister Hassan Nasser threatened to stop the 160,000 barrels a day flowing through its pipeline unless the Bank reversed its decision. With oil prices topping \$75 a barrel at that time, and the World Bank apparently more accountable to its oil-hungry clients than to the poor in Chad, the Bank was the first to blink.

The World Bank loan catalyzed major operations by a consortium of international oil companies led by Exxon Mobil Corp. and Chevron Corp. in the impoverished nation, with the goal of bringing prosperity to Chad's people.

Instead, this public and private money was used to prop up a brutal Chadian dictator whose henchmen were using revenue from the pipeline on arms, allegedly to fend off Sudanese rebel attacks.

None of this oil money would be flowing to Chad's "president-for-life," Idriss Deby, if it weren't for the World Bank's initial investment. Chad's oil remained untapped for nearly a quarter century after Chevron first discovered the nation's reserves in the 1970s. The country's civil war, human rights abuses, and rampant corruption were serious enough to convince oil companies that investing there wasn't worth the risk. Then in 2000, the World Bank approved \$365 million in loans for the \$3.7 billion Chad-Cameroon pipeline project,

the largest construction project in Sub-Saharan Africa. Hundreds of millions in bank loans from private and other public sources followed in rapid succession.

The project, which involved drilling 300 oil wells in Chad and building a 650-mile-long pipeline through Chad to the Atlantic coast of Cameroon, moved forward over loud protests from international, national and local African organizations for its environmental and human rights implications.

The World Bank built into the loan requirements that much of the money be spent in ways that would benefit the broader population. It claimed that simply by changing the rules surrounding revenue generated from the project, and placing it in a London bank account, it could induce the government of Chad and Deby, its corrupt leader, down the path of democracy.

In October 2003, oil from the pipeline started flowing from the Cameroon terminal. By December 2005, the conflict in neighboring Sudan spilled into eastern Chad. Deby began forced military recruitment of young soldiers to resist this latest perceived threat to his power.

Then, on December 18, 2005, Deby unilaterally rewrote the World Bank agreement claiming national sovereignty trumped the World Bank agreement to invest in a future fund, health, and education for his people. Three weeks later, on January 6, World Bank President Paul Wolfowitz



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suspended \$124 million in loans to the government of Chad.

But Deby has proved that he's got the Bank and the oil companies over a barrel: now that the oil pipeline has been built, he can now divert these revenues to preserve his own tenuous hold on power, and thumb his nose at an oil-hungry world and his people clamoring for democracy.

The question now is: Will the World Bank learn from this boondoggle for which it is directly culpable?

The answer is, unfortunately, no. The international lender has a unique, "sovereign" status: it's above all laws except its own and international agreements it chooses to join. And the U.S. and other G-7 countries that hold the reins at the World Bank are even less likely to place constraints on oil-rich countries as oil prices spike. So, barring pressure from civil society, it's likely this experience will be repeated again and again, with human rights and our global environment suffering the consequences.

Thankfully, outside pressure from hundreds of citizen groups around the world did lead the World Bank to agree in 2000 to commission an external review of its energy lending. The panel, led by a

prestigious former government minister from Indonesia, concluded that the Bank should phase out all oil and coal lending by 2008, and shift to clean energy.

Bowing to oil company pressure, Wolfowitz's predecessor at the Bank dismissed the findings.

Oil companies may have the power of the purse, but civil society groups have the power of the people. Activists must ramp up the pressure on the World Bank to do what they know is right—get out of oil, gas and coal financing.

The U.S. should phase out such subsidies in order to help wean Americans from our addiction to cheap oil, and phase in a carbon tax, with revenues invested in cleaner energy and public transportation options. And the World Bank should recognize, once and for all, that oil and poverty alleviation don't mix.

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p. 2

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