

February 12, 2009

Board of Directors
World Bank Group
1818 H Street, NW
Washington, D.C. 20433

Respected Directors,

We are writing to express our strong concern about the IFC's potential financing of the Kosmos Energy/Tullow Oil offshore oil and gas project in Ghana. We urge you to delay the Board's consideration of this project until the IFC and project sponsors can demonstrate that they are fulfilling IFC's commitment to apply best international standards regarding environmental and social protection. In addition, we are concerned that the IFC is moving forward with the project in the context of a weak legal and regulatory framework in the oil sector and amid significant transparency and governance concerns. This letter briefly touches on both sets of issues.

Transparency and Governance Concerns

While Ghana has a good track record of increasing democratic governance, the oil and gas sector is in its infancy. The new government has not yet confirmed its appointees for Minister of Energy and head of the Environmental Protection Agency, nor has it reviewed the draft oil law introduced by the previous government. At present, there is an underdeveloped legal framework for the oil and gas sector and limited disclosure of important public interest information. It is widely understood that in Africa and elsewhere, the onset of oil wealth in the absence of adequate legal structures and safeguards tends to erode democratic accountability and institutions (see new report by Oxfam America, *Ghana's Big Test: Oil's Challenge to Democratic Development*, enclosed).

Already, there are worrying developments in Ghana. Local civil society groups are concerned that key information – such as petroleum agreements – is not being disclosed and that important policy decisions will be made behind closed doors. The Ghana Catholic Bishop's Conference Dialogue and Advocacy Office for Good Governance said in December 2008 that “the public has the right to know the details of oil contracts, [but] such agreements are not placed in the public domain.” The promised broad and inclusive process for the development of a fundamental policy and master plan for the oil and gas sector has been largely closed to the Ghanaian public.

Should the IFC finance Kosmos Energy and Tullow Oil for their participation in the Jubilee field, IFC standards require the companies to disclose payments to the government of Ghana on an annual basis. For “significant” extractive industries projects, the IFC requires the disclosure of “relevant terms of key agreements that are of public concern.” The IFC deems an extractive industries project to be “significant” when a project is “expected to account for ten percent or more of government revenues.” According to *Energy Compass*, the Jubilee field is expected to contribute 10 percent or more of government revenues during peak production.

The needed institutions, regulations, and transparency measures should be in place early on to avoid the corrosive and corrupting effects of oil booms seen elsewhere in Africa. At a minimum,

the IFC should require full revenue and contract disclosure – per its own Performance Standards – if it decides to finance the Jubilee field. In addition, it should delay approval of the project until a process for developing the master plan for the sector is concluded that incorporates robust public participation and reflects civil society input.

The IFC's substandard treatment of the proposed project is particularly disquieting given IFC's desire to position itself as a "thought leader" to promote "globally recognized good practice" for the world's private banks and export credit agencies. The approach on this project is also concerning given IFC's commitments after the Extractive Industries Review and its new EITI++ approach. The IFC cannot simultaneously lead and undermine the improvement of good international industry and government practice.

Undermining International Good Practice on Environmental/Social Safeguards

We are concerned that the environmental review of the project fails to adequately assess the potential impacts of the project, which it labeled environmental Category "B." This categorization was made despite the fact that the project meets all of the criteria for a Category "A" classification (see the enclosed analysis) and standard practice across public finance institutions of assigning offshore oil and gas projects environmental Category "A." The correct categorization of the project as Category "A" would have several ramifications on the project, including mandating 60 days prior disclosure, and more rigorous assessment and supervision requirements and public consultation.

Meanwhile, we are shocked that IFC seeks board approval for a project in the absence of a completed and approved environmental and social impact assessment (ESIA). This defeats one of the central purposes of an ESIA, which is to assess a project's potential impacts to feed into the decision about whether it should be approved.

We also have a range of concerns about the quality of the environmental review. Some of the issues we have identified include:

- Environmental and social impact conclusions that precede analysis and baseline data
- Inadequate assessment of impacts on endangered species, critical habitats
- Inadequate assessment of noise impacts on marine mammals
- Dumping of drilling wastes into the sea
- Lack of demonstration of compliance with international standards
- No adequate assessment of potential impacts of oil spills

The potential for an oil spill is aggravated by the project sponsors' proposal to convert a second-hand, single-hulled oil tanker for use as a floating production, storage and offloading vessel (FPSO), despite the fact that an international convention on the prevention of oil spills (MARPOL) calls for phasing out these single-hulled tankers, that the International Maritime Organization recommends that FPSOs be double-hulled, and that industry experts (Bureau Veritas) warn against conversions of tankers to FPSOs due to inevitable problems with metal fatigue. This and other poor practices threaten Ghana's delicate marine environment and the coastal communities that depend upon them, and argue for a more rigorous assessment of the

potential impacts prior to project approval. The enclosed analysis provides additional details about these concerns.

Past history with other extractive industries projects has shown that the World Bank Group's leverage with both companies and governments is greatly reduced after financing is approved. We urge you to take these concerns into account and to delay your vote until such time that the project ceases to undercut evolving international good practice and violate the spirit, if not the letter, of IFC policies through environmental miscategorization, failure to disclose terms of the contracts, and failure to demonstrate compliance with international standards.

Sincerely,

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