

**Proposed IFC Investment in Africa Oil Corporation
Kenya**

July 9, 2015

The United States welcomes this opportunity to discuss IFC's proposed equity investment of up to \$50 million in Africa Oil Corporation. The United States also welcomes IFC's continued commitment to expand the scope of its activities in IDA countries, more broadly.

The United States recognizes that recent discoveries of substantial hydrocarbon deposits have the potential to transform Kenya's economy. The United States appreciates that the development of a hydrocarbon sector is a key priority for the Government of Kenya given the sector's expected contributions to economic growth, poverty reduction, and government revenue. The United States notes, for example, that the development of the South Lockichar project alone is expected to generate more than \$1.3 billion in revenue per year during the height of production, or slightly more than two percent of current GDP, using 2013 data. As the United States has seen in other countries, however, windfall revenue from hydrocarbon production, if not appropriately managed, can also cause harm to an economy. In this context, the United States is encouraged by the fact that the IFC is working closely with the World Bank as the latter assists the Government of Kenya build capacity, improve transparency, and put in place new regulatory policies through the Petroleum Technical Assistance Project. In the United States' view, this is a good example of the IFC and the World Bank working as one World Bank Group.

The United States nonetheless has serious concerns with IFC's proposed equity investment in Africa Oil.

First, the United States is troubled by IFC's lack of disclosure to the Board of key documentation that would have allowed a more thorough assessment of the risks associated with this proposed investment, which is all the more troubling given the project's potential – together with that of downstream pipeline and port infrastructure – for significant impacts on critical habitats and marginalized communities. While the United States recognizes that there are extraordinary circumstances in which IFC must delay public disclosure due to market sensitivities, such lack of disclosure to the Board impairs its ability to exercise its fiduciary duties and should not be repeated going forward.

Second, given that this is an equity investment in a publicly listed company, the United States disputes the observation in paragraph 2.5 of the project document that aspects of Africa Oil's other exploration activities, which may similarly be in critical habitats or land claimed by marginalized communities, fall outside the scope of the IFC's proposed investment. The United States therefore expects that the IFC will closely monitor, and that the IFC's policies will apply to all aspects of Africa Oil's operations, and that the IFC will promptly provide the Board notice of any adverse environmental and social impacts stemming from Africa Oil's operations.

Third, the United States is concerned by what it views as a lack of sufficient financial additionality. The United States notes that Africa Oil, a predevelopment stage company with no

cash flow, is publicly listed on two separate stock exchanges, with a market capitalization of nearly \$800 million, signifying ample investor demand given its potentially lucrative holdings. As such, the United States is not persuaded that the IFC's investment is a necessary component of this project's success.

Fourth, in terms of environmental and social (E&S) additionality, the United States is concerned that IFC feels as though an equity investment is necessary to put in place E&S management systems when IFC's performance standards should already apply to Africa Oil through the involvement of Helios Investment Partners LLP, Africa Oil's largest shareholder and current IFC investee.

Again, while the United States recognizes the potential transformational potential of the South Lockichar project, the United States is not comfortable with IFC's equity investment in Africa Oil. Given its concerns regarding how this project has been presented to the Board, the United States opposes this proposed investment and wishes to be recorded as voting NO.