

International Advisory Group
Chad-Cameroon Petroleum Development and Pipeline Project

ASSESSMENT REPORT

International Advisory Group

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June 25, 2009

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INTRODUCTION

1. After many years of study and negotiations, development of the Doba oilfield in southwestern Chad by the ExxonMobil-Chevron-Petronas Oil Consortium became a reality in 2000 when the Executive Directors of the World Bank Group (WBG) approved financing for a group of complementary projects (the “Projects”¹).
2. This group of projects involved substantial investments in a poor country based on an unusual public-private partnership. Its goals were to:
 3. 1) finance the governments of Chad and Cameroon’s equity shares in the companies building and operating the system for transporting Chadian crude to the coast of Cameroon,² through the International Bank for Reconstruction and Development (IBRD) and in conjunction with support from the European Investment Bank (EIB);
 4. 2) through the International Finance Corporation (IFC) and other international investors, cofinance Consortium development of three oilfields in Chad (Komé, Bolobo, Miandoum), a Chad-Cameroon oil pipeline and related facilities;
5. and, through the International Development Association (IDA),
 6. 3) build Chad’s and Cameroon’s capacity to manage the Projects’ potential environmental and social impacts, and Chad’s capacity to manage the oil sector;
 7. 4) improve Chad’s ability to transparently use its oil revenues to reduce poverty.
8. The Chad-Cameroon Petroleum Development and Pipeline Project (the “Project” or CCP), a megaproject of original design, faced the challenge of reconciling the interests of the main stakeholders:
 9. - For the Consortium: establishing the conditions for successfully carrying out a commercial project with a level of private investment never before achieved in sub-Saharan Africa, in a Chadian geographic, security, political and economic context that is considered difficult;
 10. - For the World Bank: ensuring that this petroleum project would contribute above all to reducing poverty in Chad, and to a lesser extent to increasing Cameroon’s income to help its development and growth, while meeting high environmental and social standards;
 11. - For Chad and Cameroon: positioning themselves to more quickly implement a domestic agenda of poverty reduction and economic, social and political development.
12. The contractual agreements and commitments included in the Project’s financial documents and other related World Bank (WB) project documents aim to make the CCP a commercial project with spin-offs that advance development; one that puts an end to the “oil curse” all too often seen in other countries. To achieve this, the CCP was designed around three major components, as follows.

¹ Including the Chad-Cameroon Petroleum Development and Pipeline Project (the “Project” or CCP), consisting of two IBRD loans to Chad and Cameroon approved on June 6, 2000; and three technical assistance and institutional capacity-building projects in Chad and Cameroon, namely: the Management of the Petroleum Economy Project (GEEP) (one IDA loan to Chad approved on January 21, 2000); the Petroleum Sector Management Capacity-Building Project (PSMCBP) (one IDA loan to Chad approved on June 6, 2000); and the Cameroon Petroleum Environment Capacity Enhancement Project (CAPECE) (one IDA loan to Cameroon approved on June 6, 2000).

² Tchad Oil Transportation Company (TOTCO) and Cameroon Oil Transportation Company (COTCO).

13. 1) Mitigation of the Project's impact on the environment and area residents, based on a key instrument, the Environmental Management Plan (EMP). The plan was developed by the Consortium, using high standards that match the WBG's. The Consortium and the host countries agreed to implement it as a condition of obtaining loans from the IFC and the IBRD.
14. 2) A Chad's Oil Revenue Management Program, based largely on Oil Revenue Management Law 001/PR/99 promulgated by the President of Chad on January 11, 1999 and strongly encouraged by the WB, which was anxious to ensure that this income be used in a transparent way to alleviate poverty and improve the standard of living for Chad's people.
15. 3) A capacity-building program supported by the WB to assist the two host countries and enable them to best manage the environmental and social impacts of such a project; and in Chad's case, to manage its oil sector.
16. Seen by some as an innovative endeavor having a design and objectives that could serve as a model for other projects, there was yet a significant amount of controversy surrounding the World Bank's support for a project in the sensitive oil sector. A project which, furthermore, was being undertaken in countries with weak institutional capabilities compared to those of the Consortium and, in Chad's case, a country noted for insecurity and still-fragile political stability. In view of the Consortium's well-understood advantages and the obvious doubts about the population's ability to benefit from these Projects, some even suspected the WB of looking out for the Consortium's interests rather than to its mission of supporting the people.
17. Civil society and some WB Executive Directors expressed many concerns about the Projects, their impact in Chad and Cameroon and the risk that they would not meet their objectives of reducing poverty and protecting people and the environment. This led the WBG, in cooperation with the governments of Chad and Cameroon, to further strengthen the existing mechanism for monitoring the Projects.
18. Thus the International Advisory Group (IAG) was created in February 2001 to provide independent advice to the WBG's President and the two governments concerning implementation of the Projects.
19. As its mandate expires, the Group wishes to provide a final review in two parts:

Part I: A Forward-Looking and Strategic Assessment

20. The IAG does not have access to all the data that would enable it to fully assess whether the Projects have achieved all their initial objectives to date. It also does not wish to duplicate its own detailed reports. Therefore, the Group proposes to provide an assessment of the CCP that focuses on the future.
21. This means identifying, based on the lessons learned from the Projects, the most important points likely to help guarantee the future success of both continued implementation of the CCP and the preparation and completion of similar projects.
22. This is a forward-looking and strategic exercise that foregoes a detailed evaluation of each element of the Projects in favor of an approach that focuses more on what should be retained for the future.

Part II: An Internal Review

23. Despite the inherent difficulties of such an exercise, the IAG is providing an internal review of its experience as an independent advisory mechanism that has operated for over eight years and is still relatively unique, without prejudice to any external reviews that may be done by others.

PART I: ASSESSMENT OF THE CHAD-CAMEROON PROJECT

24. Based on lessons learned in the design, management by the various stakeholders and implementation of the Chad-Cameroon Petroleum Development and Pipeline Project (CCP) and related capacity-building projects supported by the WBG, this forward-looking strategic assessment is intended to identify the key elements of success to be kept, and other elements to be corrected and/or improved, in order for the Chad-Cameroon Project to successfully continue, and also to serve as a guide for other projects with similar issues.
25. These elements are grouped together as recommendations and/or visions for the future focusing on the environmental and social issues, the development and oil-revenue management issues, and the cross-disciplinary issues of capacity-building and good governance. All of these components have been monitored by the IAG since 2001.
26. The assessment is preceded by a synoptic review of the overall context in which the Chad-Cameroon Project was undertaken; the important milestones that have marked the Project's preparation, implementation to date and structure; and the main issues and challenges it has faced.

1. OVERALL CONTEXT AND INITIAL STATUS

1.1 Context

27. • New millennium: countries and multilateral financial institutions focus on fighting poverty, canceling poor countries' debts, and Africa. Effects of globalization, increased importance of private capital.
28. • After decades of development failure, a new U.N. initiative: a determined push toward 2015 and the Millennium Development Goals (MDG).
29. • International Monetary Fund (IMF) and WB programs focus on poverty alleviation.
30. • The United States of America seeks to diversify its oil supply, with Africa in the pole position.
31. • In Africa, and in particular in the CEMAC zone, the "oil curse" syndrome has not yet found a model to counter experiences in, for example, the Niger delta and the Congo.
32. • The period following the sovereign national conferences in Africa produces more formal democracy needing to be strengthened by tangible economic progress.
33. • Efforts to promote peace and democracy under post-conflict conditions.
34. • Chad, a landlocked country forming a transition area between the Sahara and the forest, partly Arabic-speaking and partly other African languages, is at the junction of the east-west trans-Saharan route and the north-south trans-African route.

1.2 The Situation in 2000

Chad

35. • A government without visibility or an effective presence in its country, only just entering a period of calm following a long period of endemic rebellion and a first presidential term drawing to a close (1996-2001).
36. • National cohesion threatened on all sides by various forms of irredentism and separatism, even though they are weakened and marginalized.

37. • A very poor basic economy (ranking 167th of 174 countries assessed in the UNDP's Human Development Report for 2000, based on 1998 data) dominated by traditional herding and a declining cotton-growing industry, and focused on the prospects for developing the oil that had been discovered in the 1970s but then seemingly vanished like a mirage.
38. • A limited economic infrastructure, deficient in nearly all areas: paved roads, electrification, potable water supply, telephony.
39. • Natural resources of which the most abundant is arable land: 39 million hectares, only 2.2 million of which were being farmed in 2006 and even less before then, and 5.6 million hectares of irrigable land for an essentially rural (80%)³ population of 8.1 million.

Cameroon

40. • A country blessed with rich forest and mineral resources (petroleum, natural gas, gold, iron, uranium, and bauxite), fertile agricultural land, a generally favorable climate and high potential for diversification.
41. • Rapid economic growth between 1975 and 1985, but momentum was lost in the mid-1990s following the collapse of world prices for oil, coffee and cacao, the country's main export products.
42. • Despite the country's national wealth, nearly a fifth of the population lived on less than US\$1 per day at the end of the 1990s.

2. GENERAL ECONOMICS OF THE OIL DEVELOPMENT PROJECT AND QUESTIONS

2.1 Preliminary Steps

43. • Chad's oil reserves confirmed beginning in the 1970s⁴;
44. • Rekindled interest in the early 1990s spurred on by Exxon;
45. • Study of alternative scenarios for transporting Chad's crude confirms the route via Cameroon;
46. • Critical steps in decision-making by the private promoters with a first oil consortium in 1998 (Exxon, Shell, Elf);
47. • Replacement of two of the three members of the Consortium (now consisting of ExxonMobil-Chevron-Petronas) in 2000;
48. • Approval of the Project and its components by the WB's Board of Directors in June 2000;
49. • Controversies and concerns of civil society and World Bank Executive Directors;
50. • IAG created in February 2001.

2.2 Institutional Structure

51. • WB involvement:

³ Source: National Food Security Program, Republic of Chad, 2006.

⁴ See Appendix 3

- Two IBRD loans to Chad (US\$53.4 million) and Cameroon (US\$39.5 million) to enable them to have a partnership interest in TOTCO and COTCO, the companies building and operating the oil pipeline;
 - 3 IDA capacity-building loans for Chad through the PSMCBP (US\$23.7 million) and GEEP (US\$17.5 million) projects, and for Cameroon through the CAPECE project (US\$5.77 million);
 - Commercial loans from the IFC, the leading private lender, to the Consortium (US\$200 million to COTCO and TOTCO).
52. • Contractual participants: two governments (Chad and Cameroon), one Consortium of private multinationals (ExxonMobil-Petronas-Chevron), two public financing agencies (WBG and EIB) and private financial backers.
53. • On site:
- Esso Exploration and Production Chad Inc. (EEPCI): the oilfield operator on behalf of the Consortium;
 - TOTCO: owner-operator of the pipeline in Chad;
 - COTCO: owner-operator of the pipeline in Cameroon.

2.3 Main Issues and Challenges

Issues

54. • *Chad's government*: symbolically, to demonstrate the ability to successfully host a megaproject that at US\$3.5 billion was a record for sub-Saharan Africa, and to be visible on the world agenda. Practically, to succeed, after some thirty years, to develop its petroleum reserves and thereby free up an asset to use in financing its development through a significant increase in budgetary resources.
55. • *Cameroon's government*: symbolically, to offer a landlocked neighboring country a way to transport its crude over a route through ecologically sensitive areas. Practically, to locally develop a specialized profession—pipeline transport—and at the same time collect additional tax and non-tax revenues.
56. • *Consortium*: in a context of stepped-up oil exploration in Chad and neighboring countries, to have available a transport infrastructure that would benefit any oilfield development project of its own or by third parties.
57. • *World Bank Group*: to provide assistance for a project that is seminal in terms of environmental and social requirements and conditioned transparent use of the Project-generated revenues for development, capacity-building and poverty-reduction efforts. An experiment to be attempted by a public-private partnership.

Main Challenges

Chad:

58. • Negotiating a fair contract with a more powerful partner having greater resources and capabilities, in which the allocation of the margin between company profits and government revenues would be acceptable to national and world opinion;

- 59. • Obtaining maximum labor and business benefits for citizens during the construction and operating phases;
- 60. • Knowing how to use the financial windfall from the Consortium's commercial project to leverage development and poverty reduction;
- 61. • Ensuring rational, wise management of public monies in a country that instability has accustomed to non-standard and not very formalist procedures.

Cameroon:

- 62. • Successfully managing a megaproject and direct foreign investment without bureaucratic paralysis, in a weak business environment;
- 63. • Managing the social and environmental risks of building and operating a 900-km pipeline affecting several communities and crossing sensitive ecological areas;
- 64. • Obtaining maximum labor and business benefits for citizens during the construction and operating phases.

Consortium:

- 65. • Setting up and effectively operating an expensive state-of-the-art facility in a remote rural environment in a poor landlocked country.

WBG:

- 66. • Succeeding in support of timely development of the players' capabilities, especially those of the governments, through high-level strategic advice on a project intended to serve as a model;
- 67. • Keeping the commitments made to a long-term project as conditions and staff change.

Key factors related to good governance

- 68. • Internal and external security;
- 69. • Stability and civil peace;
- 70. • Government presence and decentralized authorities;
- 71. • Decentralization underway in the Project's host region;
- 72. • Engaging in dialogue with partners and civil society.

2.4 Structure and Development of the Project on Site

Structure

- 73. • The OFDA (Oil Field Development Area): the Doba basin development area in Logone Oriental in southern Chad—location of the oil extraction, processing and shipping facilities;
- 74. • Development of three oilfields (Komé, Bolobo and Miandoum) by drilling 300 initially planned wells;
- 75. • 1070-km buried pipeline (including 16 km underwater), from Komé in Chad to the Kribi offshore facilities on Cameroon's Atlantic coast;
- 76. • Three pumping stations and one pressure-reducing station;

77. • Storage and shipping at sea from the Floating Storage and Offloading (FSO) vessel off the coast of Kribi (Cameroon).

Development⁵

78. • Work begun in October 2000, initial construction finished in July 2003, a year earlier than planned (opening in October 2003);
79. • First oil: first crude pumped from Miandoum field in July 2003;
80. • First export: first cargo of crude loaded from the FSO onto an oil tanker in October 2003 for sale on the international market;
81. • First payment of oil royalties into Chad's London escrow account in November 2003;
82. • Doba crude, heavier and more acidic than Brent benchmark crude, is sold at a lower price;
83. • Development proves more complex than expected, reduced yields require additional investments. Despite the development of new fields (Moundouli, Nya and Maikeri) and well infilling at the three original fields (up to 500 additional producing wells by 2012), the production profile remains markedly below initial projections. However, the financial repercussions were compensated by the rise in oil prices from 2006 to 2008. In 2009, the Consortium confirmed the reservoir's exploitable volume at the initial estimate of 900 million to 1 billion recoverable barrels.
84. • Other minor discoveries elsewhere in Chad but no conclusive indication of new large-scale oilfields.

3. ENVIRONMENTAL AND SOCIAL COMPONENTS

85. Various sensitive components of the CCP determined and/or strategically influenced its environmental and social impact. Evaluating these has provided some lessons applicable to the Project's future, and more generally, to guiding other infrastructure projects that might face the challenge of reconciling implementation of a large-scale commercial investment with application of high environmental and social standards in a country with weak institutional capabilities.

3.1 Assessment of the Project's Impact during the Preparatory Phase

86. These days, such a large-scale infrastructure project could not be even contemplated without an assessment of its potential impact on the environment and the public, a necessary step for developing appropriate strategies in advance for avoiding, correcting or mitigating any negative effects and defining adequate measures for public compensation in order to meet contractual, legal and regulatory requirements.
87. The impacts of any project cannot be measured unless the initial conditions present before its start are accurately understood.
88. - In the CCP's case, Exxon started the environmental assessment process in 1993 when it began various baseline technical and scientific studies. These were most often done by consultants and research agencies, sometimes directly by the operator, and fed into an Environmental Assessment (EA). A preliminary version of the EA went through a public consultation process in 1997, leading to significant modifications of the Project's design. In

⁵ See Appendix 3

particular the oil pipeline route was changed to avoid sensitive areas such as the Deng Deng forest in Cameroon.

89. In 1999, the Consortium published an Environmental Management Plan (EMP) based on the EA published in 1998 and on studies done so far. The EMP described the Project's anticipated environmental and social impacts, and more particularly, the planned social and environmental measures and standards that were to be used to manage, mitigate and/or eliminate these impacts. It was made available for public comment.
90. The EA and EMP were prepared specifically to comply with the WBG's safeguard policies that were applicable at the time. In June 1999, both governments and the Consortium submitted the EMP to the financial institution, which after examining it, approved it concomitantly with its decision to finance the CCP.
91. - Despite the public input collected at some stages, the fact that the Consortium did not publish the baseline studies created concern, especially by the non-governmental organizations (NGOs) which worried about the quality and comprehensiveness of these studies, if they even existed at all.
92. Such fears were at least partially allayed when the IAG reviewed these studies in 2002 in Houston and provided an introduction to them in a report posted on its website,⁶ and when the Consortium agreed to make some of them available to the public, in particular at the Project's reading centers in Chad and Cameroon.
93. - The absence of some baseline studies, or their lack of depth, and the resulting dearth of information and related standards in the EMP, made monitoring, evaluating and mitigating the Project's impact in the field more difficult and also meant that some of the Project's direct and indirect effects will never be fully known.
94. This is particularly the case of the Project's impact on public health in areas near oil facilities, and on fishing along Cameroon's coast, which are difficult to assess due to insufficient data on initial, pre-Project conditions.
95. - Preparatory work for the CCP also neglected to assess the Project's cumulative effects. This important omission was noted in the Inspection Panel's report in 2002, which found the lack of a regional environmental assessment unfortunate given that the Project will affect the lives of everyone in the area. Such a regional study was finally done in 2004, rejected, resumed in 2006 and then finally abandoned by Chad in 2007.
96. To date, the Consortium has continued to undertake new studies to update existing baseline data and meet the monitoring criteria required by the EMP. These new studies take into account the expansion of the oil zone to new fields not covered by the original EA and EMP, and the intensification of oil-related activities at the three fields at Komé, Bolobo, and Miandoum, which are causing unanticipated cumulative impacts.

⁶ International Advisory Group. May 10, 2002. Report of the Visit to Exxon-Mobil—Houston Office. Review of Baseline Studies, February 28–March 1, 2002. Available on the IAG's website at: www.gic-iaq.org

LESSONS/RECOMMENDATIONS FOR THE FUTURE: ASSESSMENT OF THE PROJECT'S IMPACT DURING THE PREPARATORY PHASE

Similar Projects

- 97. - Define the initial social and environmental conditions prior to the project (including public health), taking into account the anticipated impacts of both the construction and operating phases.
- 98. - Before beginning the project, evaluate/anticipate its cumulative impact on the entire affected area, both on local communities and at the regional level, using various realistic scenarios.
- 99. - Consider the significant disruptions caused in residents' everyday lives by a rapid change in their environment, which cannot easily be quantified (for example, the impact of transmission lines on the landscape, lights that shine all night, traffic on the roads, dust, possible security problems and an increased law-enforcement presence).
- 100. - Develop effective methods for public consultation and ensure that everyone fully understands the Project's expected positive and negative impact.
- 101. - To the extent possible, make the baseline studies, impact studies, EMP and other project-related documents available to the public—especially NGOs and the national scientific community—in layman's terms and, at a minimum, provide a summary in the national language, to ensure that they are understood by all and to support informed discussion.

3.2 Social and Environmental Standards and Capacity-Building

- 102. By definition, the social and environmental standards adopted for a large infrastructure project exist to manage and limit the level of potential damage and nuisance. They are dictated by the host countries' laws and regulations and by the project stakeholders' contractual commitments, and play a decisive role in determining the project's impact.
- 103. - WBG involvement in the CCP was contingent on the application of social and environmental standards that met the financial institution's safeguard policies, which are commonly recognized as standards of reference for good international practices in managing the environmental and social risks related to major investments. These high standards—much higher than the national standards then in effect in Chad and Cameroon—were those required of the Consortium to write an EMP that was certified by the WBG before formally committing to the Project.
- 104. Despite the heavy constraints imposed on the Consortium by its agreement to comply with the EMP, and the two host countries' responsibility also to ensure implementation of the Plan, the construction phase for the Project's main infrastructures that began in October 2000 ended in July 2003, a year ahead of schedule, with no additional costs from environmental or social catastrophes. The construction phase was certified by a certificate of completion from the External Compliance Monitoring Group (ECMG) on October 29, 2004.
- 105. - While the Project's application of these standards is commendable, it still seems unfortunate that to date, they have not been fully incorporated into Chad's and Cameroon's domestic regulations, which have lower standards and would benefit from being reviewed and

raised so that any new oil or mining project in either country would comply with standards at least as high as those in the CCP. It has now been demonstrated that high standards do not in and of themselves cause delays or cost overruns.

106. Cameroon is already preparing to undertake several large infrastructure projects in the energy sector, such as the Lom Pangar dam and the gas-fired power plant in Kribi. These projects represent an opportunity to quickly benefit from the experience of the CCP, and they demand responsible management.
107. - The WB-backed PSMCBP (Chad) and CAPECE (Cameroon) capacity-building projects aimed to provide support for passing and enforcing new environmental regulations that would have allowed both countries to equip themselves with more suitable legal and regulatory instruments for protecting their environment and their citizens from oil-industry risks. This objective was not met, as neither Cameroon nor Chad adopted the draft implementing decrees for the environmental laws prepared in the context of the two projects.
108. Another major deficiency was the delay in producing the two national oil spill response plans, which were developed several years after first oil, have not yet been certified by the Prime Minister's Office in Cameroon's case, and to date are not in effect in either Chad or Cameroon. Fortunately, oil spills at the Floating Storage and Offloading Vessel (FSO) in Cameroon in January 2007 and from the pipeline in Chad in August 2008 were small and were handled adequately by the Consortium, which activated its own specific oil spill response plans. This being the case, both countries are still responsible for being better prepared to manage oil risks and for showing constant vigilance. In particular, Cameroon could continue with the steps it has taken to engage its neighbors in a sub-regional approach to the issue.
109. The many delays in implementing both the CAPECE and the PSMCBP, both of which have now ended, prevented the components on strengthening environmental legislation from being successfully carried through. The delays resulted from the Chadian and Cameroonian project teams' unfamiliarity with WB procedures; from their organizational weakness; probably from a lack of support and willingness on the part of the political authorities with jurisdiction; and on the WB's side, from sometimes lax or inappropriate management, without specific quantitative objectives, which led to the use of training funds for many studies and even for the construction of public buildings ("emergency measures"); and from internal procedures often deemed too lengthy by its local partners, especially concerning the issuance of non-objections.
110. - Like the EMP, the Republic of Chad/IBRD loan agreement for the CCP and the related project agreements made with the Consortium include environmental requirements covering the future development of oilfields in Chad. They are in the form of a safeguard clause in the loan agreement that stipulates:

"The Borrower shall ensure that any oil developed outside the Doba Basin Oil Fields⁷ which is proposed to be transported through any part of the Transportation System in Chad is developed in accordance with the principles set forth in the EMP with respect to environmental analysis and protection, consultation, information disclosure, resettlement and compensation and with the equivalent legal and administrative approval processes and information disclosure as applied with respect to the oil developed in the Doba Basin Oil Fields."⁸

⁷ Refers to the three fields: Komé, Bolobo and Miandoum.

⁸ Source: Loan agreement between the Republic of Chad and the International Bank for Reconstruction and Development. Chad-Cameroon Petroleum Development and Pipeline Project. Loan no. 4558-CD. Section 4.10. March 29, 2001.

111. In response to this clause, the “Guidelines for EMP Management Principles” were developed jointly by the WBG and Chad in collaboration with the Consortium in 2005.⁹ They apply to all developers of new oilfields who propose to transport oil through any part of the Chad-Cameroon oil pipeline.
112. These guidelines could constitute an intermediate step toward incorporating the Chad-Cameroon Project EMP’s principles into Chad’s regulations. However, for the moment, the ministries responsible for the environment and oil have shown little movement in this direction and dedicated few resources to ensuring that these guidelines are in fact followed.
113. - The section of the EMP that covers Cameroon contains specific clauses in response to the expected impact on Bakola/Bagyeli pygmy populations and on the environment:
- an Indigenous Peoples Plan (IPP),
 - the management of two national parks, Campo-Ma’an and Mbam and Djerem, as environmental compensation.
114. Implementation of these two components was entrusted to the Foundation for Environment and Development in Cameroon (FEDEC), which was created by the Project specifically to finance them for 28 years, with the initial capital of US\$3.5 million provided by the Consortium.
115. However, the financial difficulties FEDEC has experienced for several years, foreseen by its Board of Directors in 2001, give rise to fears of imminent bankruptcy for the Foundation, which would then be unable to fulfill its mandate. Such an outcome would jeopardize the promising results obtained to date in terms of social and environmental protection.
116. Under such circumstances, FEDEC’s founders—the Consortium as represented by COTCO, the government of Cameroon, and the WBG—risk being unable either to fulfill their contractual obligations with respect to the EMP and other commitments in the loan and project agreements related to the CCP, or to comply with their own national policies (Cameroon) or safeguard policies (World Bank).
117. The agreement for the donation from COTCO to FEDEC, which was signed on January 23, 2009 and provided for a gift from the company of 164.1 million CFA francs (CFAF) per year for five years to “support the actions constituting the Foundation’s main purpose,” offers FEDEC only a temporary reprieve, under conditions that will not allow it to continue its activities at their current level.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: SOCIAL AND ENVIRONMENTAL STANDARDS AND CAPACITY-BUILDING

CCP

118. - *Preserve the Project’s social and environmental standards by ensuring continued implementation of the EMP. This should be reflected at the level of government policies, ministerial organization and resources dedicated to the purpose.*
119. - *Raise these standards to the level of national standards so they will apply to any future oil or mining project, especially by updating environmental legislation and devoting the necessary resources to implementing it (implementing decrees for the Law on the Environment, National Oil Spill Response Plan, and in Chad, implementation of the EMP Principles).*

⁹ Guidelines available on the WB website for the Project (now archived): <http://go.worldbank.org/X6L8DKTHV0>

120. - *Dynamically manage the major social and environmental risks through operational mechanisms and plans at all levels of oil facilities and infrastructures—OFDA, pipeline, station, FSO, coast—including through the use of a sub-regional approach.*
121. - *In Cameroon, it is up to FEDEC's founders (Government of Cameroon, WBG, Consortium) to turn the Foundation around and maintain it by devoting the necessary energy and resources to it, clarifying its mandate and setting priorities. The ultimate objective is that two of the Project's major commitments in terms of environmental and social compensation be met, namely managing Campo-Ma'an and Mbam and Djerem national parks and implementing the Indigenous Peoples Plan.*

Similar Projects

122. - Define and apply contractual social and environmental standards that are at least as high as those in the CCP EMP, and provide the means of verification and of sanction for non-compliance.
123. - Define a capacity-building project for the host country that has specific objectives covering the application of the standards mentioned above and regulation of the sector beyond the project, with a specific implementation timetable and adequate financing for the preparation and execution phases. Ensure that government and civil society teams are continuously updated through tailored training plans.
124. - Given the relative failure in the CCP's case of capacity-building projects and, in Chad, of government monitoring of on-site activities, which was not supported by the State once the WB loans had run out, in the future consider the possibility of incorporating all expenses related to environmental and social monitoring and to preparing the host country and its people to live with and adequately manage the project impacts, into the project costs from the beginning, as deductible expenses.
125. - For the host countries, internalize the project's standards if national legal and regulatory standards are lower.
126. - Where relevant, define specific standards and protective measures for the vulnerable indigenous populations affected by the project, specifically in agreement with the World Bank's relevant Operational Directive.
127. - When compensation for environmental impact includes a protection program outside of the project sites, as with the two national parks in Cameroon in the CCP's case, ensure from the beginning that the financial arrangements are realistic and sustainable.

3.3 Monitoring

128. Whether they come from the host country, the developer, other private and public lenders or civil society, the mechanisms for monitoring a project during the construction and operational phases serve to establish whether or not the project complies with the applicable environmental and social standards, and more generally to identify the effects on people and the environment and to sound the alarm if necessary.
129. - In the CCP's case, the EMP is the major instrument that defines the environmental and social standards to which it must adhere. The EMP is accompanied by strict, legally-binding rules and specifications. Having been the subject of intense negotiations between the signing parties, and also put forward for public comment while under development, it constitutes a

contractual commitment by the Consortium and the governments of Cameroon and Chad, each with its own degrees of responsibility:

- the Consortium is responsible for complying with the standards defined in the EMP for its activities and those of its subcontractors and contractors;
- the governments of Chad and Cameroon have dual responsibilities:
 - making sure the operator has access to the Project sites by cooperating in ensuring compliance with the Compensation and Resettlement Plan in Chad and the Compensation Plan and IPP in Cameroon, all of which are included in the EMP;
 - supervising the operator's activities during the construction and operational phases, and managing the indirect impacts on local communities.

130. The WBG is not a signatory of the EMP. However, since it included the Plan's implementation by the Consortium and both countries in the terms of its loan agreements and other project documents related to the CCP, it has transitive responsibility for ensuring that the parties with which it signed contracts comply with this Plan.
131. Each has put in place mechanisms for monitoring the EMP, with varying degrees of success.
132. - For the **Oil Consortium**, EMP teams are responsible for verifying the Plan's implementation by EEPCI, COTCO, TOTCO and their contractors, and for penalizing them for non-compliance.
133. These teams have gradually been augmented (in terms of human resources, organization, tools, budget), which has enabled them to carry out increasingly effective, professional monitoring functions in consultation with the construction and operational teams. This development has paralleled the changing mentality that seems to have come about within the companies, which—as even COTCO and EEPCI managers acknowledge—have come to consider the EMP as a working tool rather than a restrictive mechanism.
134. One result of this was the modification of some procedures in the field to reduce and/or mitigate the impact of oil operations, as with the 2006 reduction of wellpad size during the operational phase – a commendable step, but which still exceeds EMP standards.
135. Although reactions were sometimes too slow in the past, it now seems that the EMP teams and tools are in place to deal with what currently is one of the Project's major challenges in Chad's oil region: managing and mitigating the impact of greater land use than originally planned due to the expansion and infilling of oil activities, which the Consortium says were necessitated by a geology and production profile that differed from initial projections. In order to achieve this, implementation of the Land use Mitigation Action Plan (LUMAP) by the Consortium must be a priority. The Consortium must continue to devote the necessary human, financial and material resources to this end.
136. - To help the **World Bank Group and the group of lenders** verify that the EMP's stipulations are indeed being met, in 2001 the IFC hired an outside entity as the External Compliance Monitoring Group (ECMG) to supervise and evaluate how COTCO, TOTCO, the production system operator (EEPCI) and the two governments are fulfilling their environmental obligations as defined in the EMP and in the Project's financial and other documents.

137. The ECMG's mandate runs until the Consortium has fully repaid the loans, and since 2001 the group has provided regular, in-depth monitoring of the Project's compliance with the EMP.¹⁰
138. The WBG also directly monitors the Project through its teams in Washington and on site.
139. However, the World Bank's withdrawal from the Project in Chad in September 2008 and Chad's early repayment of the balances on the IBRD loan and the two IDA loans related to the development of the oil pipeline, give rise to fears that the teams that monitor compliance with the EMP, to which the Bank had stated it attached great importance, may be dismantled. Cameroon's government and NGOs share this concern, even though Cameroon is not affected by this decision.
140. The question has arisen as to how the WB intends to continue this monitoring throughout the life of the Project until the oilfields are closed as provided in the EMP, especially since the ECMG will have completed its mandate.
141. - The two **host countries**, which are committed to supervising the operator's activities during the construction and operation phases and to managing the indirect impacts on local communities, have set up interdepartmental Project monitoring teams.
142. In **Chad**, the National Technical Committee for Monitoring and Control (*Comité Technique National de Suivi et de Contrôle, CTNSC*) was created in July 1997 to monitor and oversee the Project's social and environmental impact. This committee was also responsible for supervising implementation of the Petroleum Sector Management Capacity-Building Project (PSMCBP), of which the main component was developing the CTNSC's capabilities and providing it financial support.
143. However, the final analysis is rather disappointing. Recruitment of the CTNSC team took a long time. Once the team was finally at full strength at the end of 2002, the lack of training and resources—and early on, certain communication problems with the Consortium—prevented the CTNSC from providing government monitoring for the Project with the expected level of professionalism, diligence and regularity.
144. Training for the CTNSC's technical staff on monitoring functions, as provided by the PSMCBP, was minimal or inadequate.
145. At the end of the PSMCBP, the CTNSC's resources were being depleted rapidly, as the *Ministère de l'Environnement* (the supervising ministry) was not providing it with the funds necessary to operate. The CTNSC died a slow death in 2007, leaving Chad unable to provide government monitoring of the Project's social and environmental impact.
146. During the same period, the Doba Petroleum Unit, supervised by the *Ministère du Pétrole* and responsible for overseeing oil operations, also disappeared when the PSMCBP stopped financing it.
147. Were these events due to a lack of political will or a lack of resources? The disappearance of the two units exercising government oversight over the Project at the same time the WB's capacity-building project ended brings up the question of how much ownership Chad has really taken of these structures and its willingness to exercise its regulatory authority over the Consortium, even when oil revenues provide it with the financial resources to do so.
148. In **Cameroon**, the tasks of government monitoring of EMP implementation and supervision of CAPECE implementation were entrusted to the Pipeline Steering and Monitoring Committee (PSMC). This interdepartmental ad hoc committee is hosted in the Cameroon National Hydrocarbons Corporation. It has a permanent steering committee and technical teams

¹⁰ The ECMG's reports are published online at www.ifc.org/ecmg

consisting of experts from the various relevant ministries to oversee the Project's social and environmental aspects on site.

149. They seem to have been working on a regular basis since the Project began, but the ministries involved have several times expressed a desire to take back all of their project monitoring responsibilities.
150. However, it can be noted that the "one-stop shop" role taken on by the PSMC has facilitated coordination of the ministries for the Project and communication with COTCO. This is an important role for a megaproject involving multiple ministries and run by a foreign investor that is not very familiar with the country's sometimes cumbersome administrative procedures.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: MONITORING

CCP

151. - *In Chad, reestablish and give funding priority to strict governmental monitoring of oil activities until the Project ends (Ministère de l'Environnement and Ministère du Pétrole).*
152. - *Provide initial and refresher training for the government's social and environmental monitoring teams for the Project, assigning them the necessary priority and allocating substantial human, financial and material resources for them. These teams could become the government's permanent monitoring staff.*
153. - *Despite its withdrawal from the Project in Chad, the World Bank has an ongoing responsibility to see that the operator and the host countries comply with the EMP, hence the need to maintain a system for regular monitoring (in both countries) which, in addition, will allow the WB to ensure that its relevant Operational Directives are followed (for example, with regard to resettlement or indigenous populations).*

Similar Projects

154. - Throughout the life of the project (or the contracts connected with it), conduct professional, diligent and regular monitoring of project implementation to verify compliance with contractual and national standards and provide any necessary correction quickly, and also to ensure that the public's interests and well-being are protected:
- by the project operator (internal EMP team);
 - by the host country or countries (government monitoring teams);
 - by the project's lenders (regular outside monitoring of compliance with contractual standards—ECMG-type, monitoring by the WBG's internal teams).
155. This mechanism can be bolstered by an independent advisory mechanism (IAG-type) covering the entire project and not limited to contractual and national standards. (See IAG Internal Review in Part II.)

3.4 Compensation

156. The quality of the reference system for assessing the damage and nuisance sustained by residents, the compensation's degree of adaptation to the local populations' needs and

customs, and its lasting effect on reestablishing the people's standard of living are important elements that determine a project's impact on local residents. The residents' feeling of having been treated with fairness and respect—or not—can influence the success or lack thereof of long-term coexistence with a project that has disrupted their lives.

157. - In the CCP's case, the land compensation system used by the Project, either temporarily or permanently, is based on several underlying criteria, including the following:
- Chad's and Cameroon's land laws: land belongs to the State. Before the Project acquires land, individuals and communities specify the usage rights leading to eligibility for compensation.
 - Compensation is for investment: fallowing of land for a year or less; loss of harvest, fruit trees and installations.
 - There are two levels of compensation: first, individual compensation paid to private individuals who have sustained a direct loss; second, regional compensation in Cameroon and community compensation in Chad, which compensate the villages affected by the Project's permanent facilities.
 - Individual compensation is in cash or in kind.
158. - In spite of the precautions taken by the petroleum operator to assess the losses suffered by residents, and a specific compensation system provided by the EMP, many disputes between Project operators and members of the public (supported by the NGOs) arose upon implementation. The problems encountered most frequently had to do with disagreements as to the assessment of damages and the handling time taken by the Project, which people felt was too long.
159. In both countries, despite repeated public information meetings, people still have difficulty understanding the standards governing individual, community and regional compensation.
160. Many recipients used cash compensation in non-sustainable ways due to a lack of information, awareness or sufficient assistance at the time when they received unaccustomed sums of money while the quality of in-kind compensation was often disputed.
161. COTCO and EEPCCI strengthened their teams responsible for assessing the damage/losses caused by the Project, paying the related compensation and handling the disputes. Faced with the increasing volume and complexity of the information, EEPCCI invested in acquiring satellite data and advanced equipment (Geographic Information Systems, or GIS) and in extensive computerization of the compensation database, thanks to which a more accurate and rapid evaluation of the Project's footprint on the land and the degree of impact on local populations is now possible.
162. - The provision of compensation by the petroleum operators under conditions that meet the terms of the EMP and more importantly, are fair, is probably one of the main areas of Project-related activism by the international and especially the local NGOs even though the latter did not receive the capacity-building support planned for them in the Project Appraisal Document (PAD) for the CAPECE and the PSMCBP.
163. Their claims were considered during the Project's preparatory stages, and the applicable schedules of compensation amounts were revised upward by the Consortium, surpassing the national standards.
164. In Cameroon, a tripartite "platform for dialogue" (NGOs, COTCO, PSMC) was created in 2005 to settle the disputed cases in the context of the Social Assessment and establish an ongoing

dialogue concerning the Project. In spite of everything, some compensation cases still have not been settled more than five years after the end of the construction phase.

165. In Chad there was a problem with the authoritarian *chefs de canton* [district chiefs] taking 10% of the amount of individual compensation paid to individuals affected by the Project. This practice was prohibited by the President of the Republic in 2001, but the problem was again reported to the IAG in 2005 and in 2007.
166. Despite all the problems and thanks to great efforts by all parties, compensation payments are generally satisfactory. Resolution of pending cases is underway in both countries. The Consortium remains permanently obligated to comply with the EMP's standards for compensation, and it is the duty of the WBG and the governments to verify that it does so.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: COMPENSATION

CCP

167. - *In Chad: implement the LUMAP, giving priority to reducing delays in compensation and/or land restitution to the affected populations.*
168. - *In Cameroon: in the context of the Social Assessment, settle the remaining disputed cases as quickly as possible.*

Similar Projects

169. - Set up an accurate, rapid system for assessing damage, making use of appropriate technologies and equipment (of the GIS, GPS type), which then allows the creation of a complete, interactive and scalable database throughout the project's duration.
170. - Establish mutually agreed-upon rules for fair compensation, which may mean compensation that exceeds outdated national standards.
171. - Define compensation that respects local customs, meets the public's needs and can be implemented within a reasonable amount of time to sustainably reestablish the standard of living and well-being of affected residents.
172. - Plan for a system that allows quick detection of populations that are affected by the project and in a highly-vulnerable situation, and implement appropriate corrective measures without undue delay.
173. - Avoid paying compensation in cash, or reduce the practice to a minimum, and when it is done, provide a mechanism for assisting the recipients so as to encourage sustainable, informed investments on their part.

3.5 Communication and Information

174. The excessive fears and overly optimistic expectations to which a large-scale project gives rise can threaten its long-term coexistence with the host country's residents. Under these circumstances, the communication and information plan developed by the operator, the government and the lenders plays an important role in the acceptance process and the project's integration into its environment.

175. - In the CCP's case, there was an enormous gulf right from the start between an ultramodern project and a public in the two host countries that had no reference point whatsoever for grasping the implications of such a project.
176. Despite the many public awareness campaigns organized by the Consortium, in which thousands of villagers participated, communication with the public was hard to establish and continues to be difficult to maintain. The petroleum operator is facing the challenge of continually adapting its message in order to:
- Temper the overly optimistic expectations of those who see the Project as the solution for unemployment, revitalizing the local economy, providing electricity to local villages, etc. Even though the Project contributes to such endeavors in a positive way, it is not in a position to meet all of the public's expectations, and it is not intended to replace the Government.
 - By concrete demonstration, reassure a public that, short of any points of reference, expresses Project-related fears. Whether these fears are justified or not, questionable or not from a technical and scientific standpoint, the developer must take them into account and respond. That is one of the responsibilities of coexistence.
 - Inform the public of the Project's impact on permanent or temporary use of the land which up to this point, in most cases, had been used for agriculture. This step is an integral part of the compensation process.
177. The creation of LCC (Local Community Contact) positions, later replaced by CROs (Community Relations Officers), on the EMP teams made a substantial contribution in both Chad and Cameroon to strengthening close ties between the Project and local residents, and to the passing of information from the public and local authorities to the petroleum operator and vice versa.
178. The Consortium had to learn to communicate regularly and spontaneously with local governments and traditional authorities, a continuing challenge notwithstanding recent progress.
179. Every effort should be made so that the Project does not develop in isolation. Otherwise, the developer risks increasing alienation from the public and the local authorities, with all the resulting consequences for project/host relationships.
180. - Right from the Project's preparatory phase, the international and local NGOs mobilized strongly. Their work, highly critical of and in some cases even radically opposed to the CCP early on, contributed greatly to making progress on establishing the criteria for protecting the public and the environment, from Project design to the current implementation phase.
181. Faced at first with a failure to listen, and sometimes a lack of consideration, on the part of the Project stakeholders, the national NGOs successfully managed to gradually assert their status as true partners, able to help highlight some of the Project's shortcomings and pass along the issues raised by the public, some of which were corrected.
182. Despite the difficulties and disagreements that persist even now, the setup of an ongoing, structured dialogue between NGOs/COTCO/PSMC in Cameroon is one of the Project's key successes. In Chad, small steps in this direction are being taken even though, without the CTNSC, the government is largely absent.
183. - The onsite communication by the governments concerning the Project's social and environmental impact and its management depended almost exclusively on the PSMC in Cameroon and on the *Coordination Nationale* (National Coordination) and the CTNSC in Chad,

both of which have now disappeared. Their absence means that the Consortium often is the only contact for local residents and is subjected to demands that are not its responsibility.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: COMMUNICATION AND INFORMATION

CCP

- 184. - *In Cameroon, continue the tripartite platform for cooperation with COTCO/PSMC/NGOs.*
- 185. - *In Chad, first formalize EEPCI-civil society relationships, then bring in the government.*
- 186. - *There is still time to provide the promised training and capacity-building for the NGOs, in Cameroon through the Environmental and Social Capacity-Building for the Energy Sector Project (PRECESSE) supported by the World Bank, and in Chad in the context of the various lenders' development aid programs.*

Similar Projects

- 187. The partners and developers working with the government to undertake an investment on such a large scale should:
- 188. - "Tell the truth": discourage overly optimistic expectations by showing the profound changes and the difficulties such a project entails, and the limitations on its positive benefits (especially for the economic operators).
- 189. - Encourage the operator, the government and the lenders regularly to communicate with and inform the public about the project.
- 190. - Involve civil society organizations as "partners" starting at the project's preparatory stage and then for the long term, through an ongoing, structured dialogue with the developer, the government and the lenders, and possibly within the context of negotiated agreements between the parties that stipulate the roles and responsibilities of each.

4. MANAGING REVENUES AND DEVELOPMENT

- 191. Chad's ability to manage its oil revenues in a way that reduces its people's poverty and promotes its economic development is one of the CCP's major challenges, and the very reason for the WBG's involvement in the Project.

4.1 Economic Assessment of the Project

- 192. The economic assessment of a project during the preparatory phase should determine the project's economic viability and the expected financial returns for the various stakeholders, based on different scenarios. It helps inform the stakeholders' decision on whether or not to commit to the project.
- 193. - The financial projections in the CCP's Project Appraisal Document (PAD) prepared by the WBG in 2000 anticipated that the Project would generate about US\$1.7 billion in royalties, tax revenues and dividends for Chad, and some US\$505 million for Cameroon in the form of transit fees, taxes and dividends, during the approximately 25-year production period.

194. An economic analysis of the Project by the WBG's departments is included in the PAD. However, it does not clearly identify or justify the share of revenues between Chad, Cameroon and the Consortium, or explain how Chad's net revenue was calculated after discount (from Brent) and transport costs.
195. In its 2002 report,¹¹ the Inspection Panel expressed concerns about the adequacy of the allocation of revenues to Chad.
196. Although changes in the US\$/CFAF exchange rate and the production profile were difficult to predict, it turns out that based on the PAD hypotheses with the cost of a Brent barrel projected at US\$15.25, Chad's financial returns from the project would be almost nonexistent today, taking the discount and transport costs into account – a hypothesis that does not seem to have been considered in the WB analysis.
197. Be that as it may, with total revenues initially projected at US\$1.7 billion over 25 years, and considering the enormous need, the contribution to Chad's development would have been minimal, even with optimal allocation of the oil revenues.
198. Fortunately for Chad, even though the production profile was below expectations and the quality of Doba Blend was inferior to the benchmark Brent crude, the country gained considerably from the rise in oil prices on the international market in recent years, which reached record levels in 2008. The Consortium estimates that it paid Chad more than US\$4.3 billion in oil revenues from 2003 to 2008, greatly exceeding initial projections.
199. This was an early windfall: in five years, Chad has received more than 250% of the revenues expected over 25 years, while the petroleum sector management capacity-building programs have not yet been assimilated. Managed effectively and sustainably, it could provide good prospects for reducing poverty and developing the country. However, unless there are major new oil discoveries, it may not last. Oil revenues are threatening to drop sharply beginning in 2009.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: ECONOMIC ASSESSMENT OF THE PROJECT

Similar Projects

200. - Not only must the financial estimates underlying the commitments try to forecast accurately; they must also be understandable to all stakeholders, especially the host country or countries, based on various production and price scenarios.
201. - Oil prices have been exceptionally volatile since 2007, and therefore could not have been predicted. However, in such a volatile sector, prudent management should be an integral part of all scenarios and budget forecasts.
202. - Avoid verbal understandings and informal agreements which cannot be enforced—such as, with the CCP, the promise to synchronize capacity-building and the rate of construction.
203. - Since Chad gave up some of its sovereignty with Law 001, it was predictable that the country would try to regain it as soon as it had the resources to do so. This was a recognized

¹¹ Source: Inspection Panel. 2002. Investigation Report No. 23999 by the Inspection Panel. Chad: Chad-Cameroon Petroleum Development and Pipeline Project (Loan No. 4558-CD); Petroleum Sector Management Capacity Building Project (Credit No. 3373-CD); and Management of the Petroleum Economy (Credit No. 3316-CD).

risk that did in fact materialize. Lesson for the future: contracts that are perceived as inequitable or too constraining are vulnerable and will not stand the test of time.

4.2 Use of the Projects' Financial Returns by the Host Countries

4.2.1 *Building the Capacity to Manage Public Resources*

204. The World Bank based its decision to support the CCP and grant the loans to both countries on the Project's potential to reduce poverty and increase public investment in health, education and basic infrastructure.
205. In Chad, the CCP looked like the country's first real chance to stimulate its economic growth and substantially increase its public revenues.
206. The prospect of having to take in and effectively manage public resources in an amount never before achieved meant that setting up a program to build Chad's institutional capabilities was critical. The PSMCBP and the GEEP were intended to meet this objective and especially to enable the country to reach a sufficiently high level to begin effectively monitoring the Project before the revenues began to flow in.
207. However, the significant weakness of Chad's institutional capabilities and the many delays in starting and implementing the two capacity-building projects, while Project construction was proceeding faster than expected, created a "two-speed" phenomenon in which capacity-building never caught up. The synchronization of capacity-building and construction announced by the WB when civil society was calling for a moratorium long enough to let the country adequately prepare itself for the challenges it would face, never materialized.
208. As mentioned in section 3.2, the capacity-building programs were managed with objectives that were not always specific; some of the content was at times unsuitable; and some funds were devoted to projects other than training. This resulted in inadequate training that was not always appropriate for the real needs of the government departments responsible for monitoring and managing the project.
209. The Consortium paid Chad its first oil royalties in November 2003. They were deposited in an escrow account in London but could not be repatriated by the country until July 2004 because the mechanism for doing so was not ready at the time.
210. Thus, despite numerous efforts by Chad's government and the World Bank, and improvements in the procedures for managing public finances that enabled the country to better understand and manage a budget that has been increasing for five years, significant inadequacies persist. The failure of *Ministère des Finances* and *Ministère du Pétrole* departments to master liquidation of oil revenues and the Consortium's costs is particularly worrisome.
211. The Consortium's total investment has now surpassed US\$6 billion, nearly double the initial projections. The petroleum operator attributes the extra costs mainly to the various steps taken to maintain or increase the level of oil production. Despite the direct impact of the additional oil costs on its revenues, Chad is not in a position to verify them.

4.2.2 Poverty Reduction

a) Mechanism for Managing the Oil Revenues

212. - The oil revenue management program stemmed from negotiations between the World Bank and Chad, and its cornerstone was Law 001/PR/99 which governed the allocation of oil resources. It was a novel safeguard system designed to guarantee that the oil revenues would be used to alleviate poverty, in accordance with detailed rules for their processing and allocation.
213. This mechanism worked more or less as intended in 2004 and 2005 despite the significant cash-flow problems the country was then experiencing, which continually threatened budget execution. These difficulties were aggravated when the IMF program was suspended at the end of 2003 and budgetary aid planned by the European Union was frozen.
214. The “priority” ministries gradually familiarized themselves with the procedures for managing direct oil revenues, which could be allocated and disbursed for specific projects only after approval by the *Collège de Contrôle et de Suivi des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, CCSRP).
215. - The CCSRP, consisting of representatives from Chad’s government, the National Parliament, the Supreme Court and civil society, was created specifically to supervise the use of the oil revenues. It audits spending commitments and payment records from the priority ministries in advance, and the completion of some transfers and investment projects financed by direct oil revenues after the fact. Each year it publishes a report of its activities, along with recommendations.
216. While the discipline and transparency brought to oil revenue management by this auditing mechanism are welcome, it is unfortunate that Chad’s government does not more systematically take action on the CCSRP’s recommendations and observations.
217. - Faced with a dangerous military situation and the exigencies of the day-to-day budget, Chad sought to gain more flexibility. In December 2005, the Parliament passed Law 002/PR/06 to amend Law 001/PR/99. It eliminated the Fund for Future Generations (which was repatriated into government coffers), expanded the list of priority sectors able to receive oil revenues, increased the unallocated portion of the oil receipts in the Budget and changed the composition of the CCSRP. Promulgation of the law in January 2006 triggered immediate retaliatory measures by the WB, which froze Chad’s external accounts into which oil revenues were deposited.
218. Chad and the WB renewed ties with an interim agreement in April 2006 and a final agreement in July 2006, which served as the basis for the 2007 Budget. But the year that was supposed to be a test year was also marked by the resumption of rebel attacks. In the World Bank’s eyes, the test was unsuccessful. The core of the failure was the extent of security expenditures and the unit costs for infrastructures financed with oil revenues, which were considered exorbitant.
219. Under these circumstances, it is difficult to say whether Chad’s attitude came more from weak capabilities or weak governance; or whether the World Bank was motivated more by a concern for discipline and compliance with the agreements it signed with Chad, or by the desire to pull out of a project now considered to pose a risk to the WBG’s image.
220. The World Bank’s withdrawal from the Project in Chad in September 2008, and Chad’s early repayment of the balance of the IBRD and IDA loans, marked a partial divorce between the two partners and prematurely ended the joint effort to find and use appropriate management mechanisms that could take both Chad’s reality and the Bank’s goals into account. However,

the IFC continues its involvement in the Project through its loans to the Consortium, while the WB and the government agreed in January 2009 to gradually resume cooperation in other sectors.

221. Despite the hiccups experienced since 2003, the mechanism for managing Chad's oil revenues has had some noteworthy successes. Although the degree of transparency in oil revenue management is not perfect, it has few equals elsewhere. And in spite of questionable levels of expenditure for security, though with mitigating circumstances given the repeated rebel attacks suffered by Chad, the overall level of oil revenue expenditures on the priority poverty reduction sectors could serve as an example to many countries.

b) Poverty Reduction and Development

222. - Allocations to the priority sectors identified in Law 001, then in Law 002, have increased overall since 2004 thanks to the oil windfall and their capacity to absorb them also has gradually improved since then, though it still is sometimes inadequate.
223. The infrastructure sector has been the main beneficiary since the 2005 Budget, with substantial outlay for transport infrastructures, primarily the development of a road network to help reduce national and regional isolation, though important needs for repair and maintenance of rural roads have been neglected.
224. In 2006 there was some rebalancing, with more oil revenues allocated to the human resources sectors (Education and Health)—again, with a strong focus on investment expenditures for building and renovating school and health-care infrastructures.
225. Since 2007, the agricultural production sectors (Farming and Herding) have finally begun to benefit from the oil revenues, seeing a substantial increase in their budgets. This will be an encouraging trend if it continues, given the strong potential of these two sectors—which authorities again recently reiterated are “the lifeblood of Chad”—for developing Chad's economy.
226. However, not all monies were invested so effectively. Some pharaonic expenditures (sports stadium), very high unit costs for school and health-care facilities that sometimes lack the human and material resources to operate, a focus on cities (N'Djamena, Doba, Bébédjia, Mbaibokoum) at the expense of rural residents, and a lack of attention to basic public needs—such as access to potable and agricultural water, and repair of rural roads—are items that fall on the liability side of the balance sheet.
227. - In the oil-producing region, appropriate allocation of the 5% of oil royalties that were specifically set aside for this area should have helped to avoid such drift, but this has not been the case to date. The Interim Management Committee for the 5% Fund (CPG 5%) has difficulty standing up to the central authorities and has not yet adopted a clear intervention doctrine that would allow it to finance the projects it wants based on requests from local populations, as a supplement to ministry projects funded by the national budget.
228. The CPG 5% could make use of the Regional Development Plan (RDP) that was developed, not without difficulty, in the context of the PSMCBP. The plan is a high-quality document produced through a highly participatory process. Unfortunately, this document still has not been approved by the government, the responsible ministry is not making use of it, and—on a different but equally critical level—the foreign consultant hired to finalize the document has not been paid by the Chadian authorities.
229. Chad is making progress on the road to development, but because of its weak capabilities and lack of organization, coordination, and perhaps sometimes even political will, the allocation of

public funds is not yet adequately tied to the sectoral priorities announced in National Poverty Reduction Strategy No. 2 (NPRS-2).

230. A coherent economic policy should have a strategic development plan and a poverty reduction plan built around priority objectives that, ideally, are defined after consultation with all sectors of the nation.
231. - After five years of receiving oil revenues, it is still too early to accurately measure the impact of the use of these resources on Chad's economy and the well-being of its people.
232. Progress appears to have been made. However, due to the unavailability of certain data—mainly because of Chad's weak statistical capabilities, and in many government departments to the absence of result indicators for tracking the progress made toward achieving specific sectoral objectives or the MDGs—it is difficult to conduct a complete detailed and quantitative assessment of the impact of oil resources in Chad to date, especially since by nature some investments (in health, education, and infrastructures) cannot be expected to yield measurable results for several years.
233. Though this exercise cannot be undertaken now, it will still be important to go beyond mere monitoring/examination of how the oil revenue management mechanisms put in place by Chad operate, and conduct a real quantitative assessment of the impact of these resources on poverty reduction at the national and regional level. Such an evaluation, which will be conducted by someone other than the IAG, should be done by 2011 or at the mid-point review of the NPRS-2 and could include the following:
- Assess the impact of revenue use on macroeconomic data;
 - Empirically assess the nature of operating, transfer and investment expenses;
 - Provide a summary evaluation of their geographic location and the magnitude of regional imbalances;
 - Measure the socioeconomic and strategic impact (including security) of expenditures for human capital, agricultural production, the environment and urban and rural infrastructure;
 - Assess the national economy's dependence on foreign assistance before petroleum development and in 2010;
 - Analyze changes in the UNDP's Human Development Index in 2000, 2003, 2007 and 2010;
 - Assess the dependence of public finances on oil revenues;
 - Assess the Project's impact on development and local businesses' sales and the gradual rise of a new class of businesspeople;
 - Assess the impact on the supply of farming and herding products and on other sectors of the economy;
 - Assess the impact on the status of women (education, medical and health-care support, financial independence, reduction of household work).

LESSONS/RECOMMENDATIONS FOR THE FUTURE: USE OF THE PROJECT'S FINANCIAL RETURNS BY THE HOST COUNTRIES

CCP: Chad

234. *With regard to upgrading economic management capabilities, more specifically, the capacity to manage oil revenues:*
235. - *Bring capacity-building up to speed, at all costs, for budget and finance management and for program planning and management, focusing on achieving the results inspired by the NPRS-2 (Ministère des Finances and all spending ministries). Most training, organization, equipment, and instrument needs have already been identified and need only be revised.*
236. - *Correct shortcomings and strengthen the system for good economic and financial governance, especially through:*
- *A certifiably reliable budget and financial information management system, with known and predictable mechanisms;*
 - *A reliable public procurement system with a minimum of exceptions and a functional method of appeal, with appropriate oversight procedures that do not create undue delays in the implementation of projects and programs;*
 - *Proven mastery by the government financial departments of oil contract analysis and calculation of the revenues due to the State;*
 - *Decentralization of the central administration into local communities, and elected local authorities;*
 - *Strengthening of administrative, parliamentary and judicial oversight institutions and an increase in their credibility through enforcement of the penalties provided by law.*
237. - *Update laws on revenue management, incorporating the most credible experience from the Project and correcting mistakes. Draw inspiration from the world's best practices for using transient and volatile resources: transparent, participatory use of the product, promoting investments over consumption and local production over imports; balance among regions and communities and better social cohesion; improvement of human security for citizens and the safety of institutions; control of unit costs for procurement and public works.*
238. *With regard to the use of the oil revenues:*
239. - *Pass conservative budgets, taking the volatility of oil revenues into account.*
240. - *Allocate oil revenues to priority sectors in a way that is consistent with the NPRS and the MDGs and allows sources of growth for the country, such as the agricultural sector and oil-related industries, to develop and diversify.*
241. - *Develop farming and herding production in a balanced way with yearly progress indicators; broaden the range of quality in education and health; balance and adjust the capacity to maintain transport and energy infrastructures, and give hydraulic infrastructure a place of honor in the context of sustainable development.*

242. - *CCSRP: define its role in the context of a unified budget, giving priority upstream to the use of a certificate of compliance, and downstream to the use of on-site ex post audits to verify the effectiveness of work, supplies and services.*
243. - *5%: respect the fact that these funds are in addition to the national budget; accelerate the creation of local decentralized communities, build their capacity and help them with startup; use the revenues judiciously for the projects most often requested by the public, guided by the RDP.*
244. - *Within the next two years, conduct an in-depth quantitative assessment of the impact of the use of oil revenues on poverty reduction and the country's development.*
245. - *Develop a long-term consensus vision for the period 2030-2035 with broad participation, including policy-makers and civil society and use it as a guide for periodically updating the National Poverty Reduction Strategy document (or its equivalent). Such a document will require full ownership by politicians to ensure its implementation.*

Similar Projects

246. - Host country: develop in advance an acceptable level of ability in managing public resources (system, procedures, oversight, penalties) and capacity-building for the government, civil society, businesspersons and workers to maximize the project's returns for the country. As mentioned above, consider incorporating financing for such programs into project costs from the start.
247. - Lender(s) of public funds:
 - Ascertain ahead of time whether the political will exists to establish an adequate level of good governance in financial management and a demonstrably good-faith, credible budget,
 - As required, help build the host country's ability to rapidly manage growing public finances through capacity-building projects with targeted training programs and at project start-up, to avoid the "two speed" phenomenon of the CCP.
248. - In a round-table-type format, invite other lenders to support capacity-building for civil society, and work cooperatively.
249. - Provide rational, transparent mechanisms for managing the project's financial returns in order to achieve specific, pre-determined goals for advancing development, reducing poverty and improving public well-being at the national and regional levels. For this purpose:
 - Balance investments to improve public well-being in the short term with longer-term objectives for growth and diversification,
 - Encourage diversification of the national economy through investments in various sectors identified as sources of growth,
 - At the start, define indicators for specific results based on the NPRS and/or the MDGs to track:
 - changes in national wealth, both collective and individual;
 - changes in monetary aggregates;
 - changes in absolute and relative poverty;
 - changing human capital;

- changes to infrastructures and the living environment (transportation, water, electricity, etc.);
 - changing business climate;
 - changing development indicators in the project region.
-

4.3 Development of the Private Sector and Local Employment

250. Aside from the revenues the project generates, its economic benefits for the host country are also defined through the employment and business opportunities it creates locally. The country benefits more if it positions itself to take advantage of these opportunities right from the construction phase.
251. - In the CCP's case, pipeline construction work covering more than 1000 km (begun in November 2001), wellpads in the Doba basin and their related oil facilities, and production activities since 2003 have generated several thousands short- and long-term jobs for locals in Chad and Cameroon.
252. This was undeniably a positive impact of the Project on economic activity in the two host countries, where job opportunities are rare compared to the available number of workers. However, the labor force was not always able to meet the needs of the Project, which had to call on foreigners for certain jobs requiring high-level or very specific skills not available on site, such as, for instance, pipeline welding operations.
253. Esso and its co-contractors set up several training programs for their employees, enabling them gradually to improve their professional abilities and move into increasingly skilled positions, with the ultimate goal being to reduce the number of jobs filled by expatriates to a minimum, in favor of the local labor force.
254. - The Project is also a source of business opportunities for local economic operators. They were unprepared when the project arrived, and in the beginning very few were awarded the contracts offered by Esso and its subcontractors, which then dealt with foreign operators better equipped to meet the demands of such a project.
255. In Chad, faced with local operators' protests and the pressures exerted by the authorities and the WBG, EEPCI created a database of local companies and, in collaboration with the IFC and the Chamber of Commerce, developed a local business opportunities program to assist and train the local operators. Despite expectations that exceed opportunities actually provided by the Project, the results of the program are encouraging, with local economic operators being hired for activities previously entrusted to foreign companies.
256. The assistance and training provided to produce farmers in the oil-producing area who were given the opportunity to supply the Project Bases with fruits and vegetables has become a particularly convincing success for the policy of developing the local private sector.
257. In contrast, the commercial law dispute that arose in 2004 when one of Esso's foreign subcontractor hastily left Chad without first paying its debts to local businesses, and the subsequent recourse to the courts, showed the importance of having the Project's developer include precautionary clauses in its business contracts, such as a security deposit, to protect both itself and local entrepreneurs.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: DEVELOPMENT OF THE PRIVATE SECTOR AND LOCAL EMPLOYMENT

CCP

258. - *The ministries responsible for professional training and employment should create a status report of the workforce trained by the CCP, sum up the lessons learned from the training organized by the operators, if possible join in future training, assess on-going needs and adapt the training programs offered by the state education system.*
259. - *The ministries responsible for commerce and business services should sum up the lessons learned from missed business opportunities and their causes, in order to make adjustments to capacity-building activities for businesspersons.*
260. - *In Chad, continue the IFC/Chamber of Commerce/EEPCI partnership in the context of the support program for local economic operators.*

Similar Projects

261. - As soon as it is certain that a large-scale project will be undertaken, even before it starts, set up training programs to prepare local work force likely to be approached by the project, drawing inspiration from training models in the private sector.
262. - Widely disseminate the rules for selecting companies and facilitate access to contract announcements and notices.
263. - Provide a preparation and assistance program for local economic operators so they can best take advantage of the opportunities the project offers right from the construction phase.
264. - Take steps to encourage recruitment of local labor (avoids population shifts) and the use of local economic operators by the project.
265. - Right from the start, adopt business rules with high standards for use among the operator, subcontractors and national businesses.

4.4 Governance

266. It is essential that project implementation respect international standards, civil rights, partnership agreements between the stakeholders, corporate governance and transparency, to ensure a positive impact on the country's people and as an element of the ultimate assessment that might influence decisions for future investments.
267. For the IAG, the elements of governance relevant to its mandate are as follows:
- Respect for the civil rights of persons affected by the Project;
 - Transparency in Chad's management of oil revenues and in overall management of the budget;
 - The petroleum operator as a corporate citizen, well-adapted to its host country;
 - Business-government-civil society relationships;

- Management of the partnerships.

Respecting Rights

268. People living in the oil zone have often been subjected to harassment of all kinds, including the 10% “taxes” levied on compensation by the *chefs de canton* —an abuse to which the Head of State tried to put a stop when raised by the IAG in 2001. Security issues and repeated thefts from the oil facilities served as pretexts for sometimes excessive and arbitrary government action: arrests and arbitrary searches ordered by sub-prefects, travel restrictions, public humiliation of heads of families, death threats against NGO representatives, etc.
269. The light shed on these abuses by the region’s NGOs often made it possible to mitigate or end most of them, though not without a struggle.

Transparency

270. The publication of detailed figures for Chad’s oil revenues on the World Bank’s web site was a source of information of exemplary quality. Since this source is no longer available due to the WB’s withdrawal, it falls to Chad’s government to shoulder responsibility for keeping this information available to everyone.
271. Even more so since in 2007, Chad expressed its interest in participating in the EITI (Extractive Industries Transparency Initiative) and must therefore comply with certain rules on transparency in order to be admitted.
272. This transparency also applies to the government’s internal workings. The mechanisms for managing the oil revenues could have functioned better if the instability of the government teams had not meant that new arrivals regularly had to be trained on and made aware of specific management procedures, and if the directives in this respect had been clear and enforced.

The Petroleum Operator as a Corporate Citizen

273. It is not easy for a commercial company whose business is supremely dominant and foreign to the host region to integrate effectively into its environment.
274. Over the years, the petroleum operator has made great strides in this area. Its progress in both countries is reflected in greater openness to the local authorities’ need to be recognized (governors, prefects and sub-prefects) and especially in concrete, transparent steps taken to give local entrepreneurs easier access to its contracts.
275. The petroleum operator’s program for developing the local labor force is also helping the Project to fit in, in both countries. Viewed as a long-term investment, this program has made it possible to train Chadian and Cameroonian recruits, sometimes abroad, who now hold skilled technical and administrative positions in the Project.

Dialogue

276. Despite civil society’s strong objections to the CCP during its preparatory phase and the resulting communication difficulties between the NGOs and the WBG/governments/Consortium, the relationships among the various parties have evolved during the Project’s implementation. Led to work on the same topics in the context of their Project-monitoring activities, and strongly encouraged by the IAG, the parties gradually learned to work together in spite of the fact that they did not always have common interests.

277. In Cameroon, a formal, permanent framework for dialogue concerning the Project was established in 2005 as the tripartite platform for cooperation, which brought together the government (PSMC), COTCO and some Cameroonian NGOs. This laudable framework is now in place; the challenge for the parties now lies in maintaining it.
278. The situation in Chad is not as advanced, but EEPIC and some local NGOs have begun a promising partnership to achieve the same level of dialogue; the government should find it possible to join this effort in one way or another.

Managing the Partnerships

279. Managing the Chad-Consortium and Chad-World Bank partnerships has not been easy.
280. In the first case, there have been many, often persistent, disputes and renegotiation of the oil agreements. But a *modus vivendi* allowing both parties to operate has been established.
281. In the second, the unilateral amendments that Chad made to Law 001 on Oil Revenue Management triggered a dispute that ended three years later with the Bank's withdrawal.
282. The position of a weak government trying to regain its sovereignty—perceived as having been chipped away by powerful institutions—can be seen as underlying these difficulties. In the relationship between the government and the Consortium, the two parties' mutual interests are clear enough to ensure that the partnership is maintained. In the government's relationship with the Bank, this feeling of mutual interests was missing, leaving instead a situation where the needs of one were perceived by the other as demands of which it did not take ownership, leading to the breach. A dialogue that paid more attention to these basic obstacles and tried to focus on mutual interests might perhaps have been able to avoid this break-off.
283. In Cameroon, the relationship between the government and the Consortium is channeled through the "one-stop shop" of the PSMC. Such a mechanism allows, at a minimum, for the maintenance of ongoing dialogue, but does not always succeed in compensating for the government's delays—as attested by the transfer of the Project's temporary sites and infrastructure to the government, begun several years ago but still not completed; and the one-year delay in approving publication of the book about the results of the Project's archeological program.

LESSONS/RECOMMENDATIONS FOR THE FUTURE: GOVERNANCE

CCP

284. - *In Chad, the Government should regularly publish detailed figures on oil revenues and meet the EITI's conditions for recognition.*
285. - *Create a legal framework based on international standards for economic governance that will be relevant and reassuring to all parties.*
286. - *Encourage greater stability in government and administrative teams.*
287. - *For the World Bank, encourage stability in the teams responsible for the Project, or in any case a high-quality Consultant role with an open mind and the ability to listen.*
288. - *Strengthen civil society capabilities, in consultation with it, as was planned but not carried out in the initial capacity-building projects supported by the Bank; correct this omission through PRECESSE in Cameroon and other future projects in Chad.*

Similar Projects

- 289. - Promote good governance in project implementation by the stakeholders (private developers and operators, lenders, host countries), with each fulfilling its written and moral responsibilities and commitments.
- 290. - Use appropriate mechanisms to guarantee transparency with regard to the project's financial returns.
- 291. - Promote a sincere, lasting and strategic partnership between the host country and the lenders, in particular the WBG, formalized by an agreement on the mutual goals desired by both parties, with a defined schedule and means of verification.

5. GENERAL CONCLUSIONS

- 292. At the end of this analysis, there are some lessons about the essential and strategic aspects of this Project that stand out, and can be useful to it and to other similar projects.
- 293. 1. Did the WB do the right thing when, despite heavy opposition, it became involved in an oil project involving significant environmental and social risks, and hosted by countries with weak institutional capabilities for managing the many impacts of the project? Our answer is "Yes."
- 294. - The Consortium's commitment to comply with WBG directives on managing the Project's social and environmental impacts yielded a high-quality EMP that was followed and an investment that, despite the real disruptions to local residents, was made in record time without causing irreversible damage to the communities or the environment.
- 295. - Project-management institutions were created in both countries, more successfully in Cameroon than in Chad.
- 296. - Novel revenue-management mechanisms provided Chad with a more professional civil service that in spite of the failures represents an enormous step forward from a very weak, almost nonexistent administration.
- 297. - The oil money was used for major public investments that were managed with efficiency and transparency, albeit not at the desired level, even under difficult security conditions.
- 298. For all of these reasons, it is difficult to justify the WB's withdrawal from the Project in Chad when so much remains to be done.
- 299. 2. Has Public Well-Being Improved?
- 300. This is the central issue and the *raison d'être* for all of the extraordinary measures taken in connection with this Project.
- 301. First observation: the huge disruption for local residents implied by such a project. Some NGO analyses are drawing negative conclusions. Yet some gains for these communities can still be noted: the compensation (which is a right and not an "extra") and jobs resulted in a visible improvement in basic living conditions.
- 302. Second observation: public investments are moving forward.
- 303. A necessary quantitative analysis is not yet possible due to a lack of available data and given the time needed for these investments (in infrastructure, education, and health) to yield measurable results. This exercise will need to be undertaken in the years to come.

304. Meanwhile, a brief qualitative assessment has revealed that despite some not very productive pharaonic investments and a lack of sufficient attention to rural areas in favor of the major cities, expenditures drawn from the oil revenues for the infrastructure, education, health, farming and herding sectors are increasing and carry the hope that they will positively affect poverty and development indicators.
305. 3. A fundamental truism: a country will always develop its natural resources as soon as it is able. Doing nothing was not and is not an option, so it is better to surround oneself with partners and acquire the tools and mechanisms that will help optimize the benefits for the country's development.
306. 4. WB-Chad relations: misunderstandings and a lack of trust led to a limited divorce of the two parties, and they did not succeed in making their partnership sustainable.
307. A true partnership involves an agreement on mutual objectives shared by the two parties, which takes the concerns of each into consideration. Circumstances were such that, in order to have its project, Chad had to bow to the WB's "advice" and subsequently found every means possible of doing exactly as it pleased. Under pressure from opponents of the Project, the WB believed that it had to take a hard line with Chad starting from the earliest negotiations, rather than trying to identify and promote mutual interests.
308. What are the conditions that will lead a country to internalize actions/institutions that come from outside but are in its own interest, or correspond to real obligations, and make them its own?
309. 5. Civil Society's Important Role
310. Heavy involvement by international and especially local civil society in monitoring the Project from the preparatory stage forward allowed them to influence its design and implementation to assert the rights of the host populations and expose abuses.
311. Despite the difficulties it faced, civil society in Chad and Cameroon, sometimes mistreated by irritated authorities, advanced the right of objection and made progress itself by moving from "pure criticism" toward "constructive criticism" of the Project.
312. 6. The Importance of a Complete Social and Environmental Assessment
313. "Psychological impact," though not measured or quantified, is nevertheless a very real effect of the disruption and profound changes imposed on people's lives by ultra-modern facilities in an extremely poor environment.
314. These enormous projects disrupt people's lives and environment in ways that go well beyond what is measured, calculated, and compensated. How can this be taken into account?
315. 7. Is Chad an Oil Country?
316. At this point, nothing indicates that Chad's future will be that of a rich petroleum producer. There are indeed traces of oil here and there in and around Chad, but no information provided to the IAG gave any indication of the existence of any other deposits within the country large enough to maintain Chad's revenues at their average level from 2005-2009. (The IMF reached the same conclusion.¹²)
317. So it is of paramount importance for this country to manage its current revenues not as an inexhaustible source of wealth, but as a temporary windfall that must be invested prudently and with the greatest care so it can benefit more than one generation.

¹² See report no. 09/67 (Chad: Selected Issues) and no. 09/68 (Chad: 2008 Article IV Consultation), published by the IMF in February 2009. Available on the IMF website at www.imf.org

PART II: IAG INTERNAL REVIEW

Lessons Learned From Our Experience

318. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (the “Project”) has been at work for over eight years. Now that its mandate is expiring after six years of oil production by Chad, the IAG wishes to internally review its experience as an Independent Advisor appointed by the World Bank Group (WBG).
319. The members of the IAG want to draw the lessons learned from this experience with respect to the Group’s design, the challenges and constraints it faced, and its strengths, weaknesses, and accomplishments, which might be useful and lead to a broader consideration of the relevance of using or adapting this Independent Advisory mechanism for other projects.

6. THE CREATION OF THE IAG

6.1 Context

320. The many concerns raised about the Chad-Cameroon Petroleum Development and Pipeline Project and other related capacity-building projects (the “Projects”¹³), and the significant risks and challenges associated with them, led the World Bank Group, in cooperation with the governments of Chad and Cameroon, to consider the creation of an independent advisory mechanism to supplement the existing internal and external supervisory and monitoring structures for these Projects.
321. Accordingly, the International Advisory Group was formed in February 2001. Its function is to observe implementation of the Projects and advise the President of the WBG and the governments of Chad and Cameroon.
322. A number of specific conditions led to the creation of the IAG, and might recur in the context of other projects. They were:
- the sensitivity of a megaproject in a highly visible sector, namely the extractive industries and more specifically oil;
 - significant and varied potential environmental and social impacts on the surrounding communities, especially vulnerable indigenous populations;
 - a complex design involving a public-private partnership with a consortium of private businesses (“the Consortium”), two countries and several multilateral financing agencies;
 - revenue management, good governance and safety issues, including a commitment by one of the parties—Chad’s government—to allocate a large portion of its oil revenues to priority sectors of poverty alleviation;
 - considerable controversy and challenges from civil society, especially considering the lack of preparedness of the host countries;

¹³ Chad-Cameroon Petroleum Development and Pipeline Project (the “Project”), Management of the Petroleum Economy Project (GEEP, Chad), Petroleum Sector Management Capacity-Building Project (PSMCBP, Chad), and Cameroon Petroleum Environment Capacity Enhancement Project (CAPECE, Cameroon).

- the host countries' weak institutional capacity in contradistinction to the Consortium's financial and technological resources.

6.2 Function

323. The purpose of the IAG is to “[...] *advise the WBG and the Governments of Chad and Cameroon with respect to its observations about overall progress in implementation of the Projects and in achievement of their social, environmental and poverty alleviation objectives as well as with the broader goals of poverty alleviation and sustainable development in Chad and Cameroon.*”¹⁴
324. The Group was created for a ten-year period covering oilfield development and pipeline construction and the first six years of oil production and availability of the corresponding oil revenues.
325. The principals expect the IAG to provide a broad-based, regular, independent and forward-looking perspective on a complex project.
326. The Group is an observer, not a participant. It acts completely independently and provides public recommendations in its reports posted on its own web site www.gic-iag.org and that of the World Bank (WB) www.worldbank.org/afr/ccproj (archived since the World Bank's unilateral withdrawal from the Project in Chad, in September 2008).
327. The Group's mission is structured around five components as defined in its Terms of Reference: environment, social impact and community development, capacity-building, resource and revenue management (in Chad) and governance. As an advisory body, the IAG has purview over all activities related to the Projects.
328. The IAG had full discretion in developing its work plan and was able to make changes as the Projects advanced.
329. The Group works in consultation with many different parties, including villagers, non-governmental organizations (NGOs), unions, businesspersons, members of both governments up to the Prime Minister, the Oil Consortium, the WBG, civil servants and Chambers of Commerce.

6.3 Composition

330. The IAG's members are internationally-recognized experts in their fields who were recruited individually.
331. Its Terms of Reference state that “*The IAG will consist of six persons, including one who will serve as Executive Secretary. Their collective professional experience and knowledge should allow them to address the main areas of importance to the Projects.*”
332. Since its inception, the Group has consisted of:
- Mr. Mamadou Lamine Loum, Senegal, Chairman
 - Mr. Jacques Gérin, Canada, Executive Secretary
 - Ms. Jane Isabel Guyer, United States of America
 - Mr. Abdou El Mazide Ndiaye, Senegal
 - Mr. Dick de Zeeuw, Netherlands (deceased on February 18, 2009)

¹⁴ IAG Terms of Reference, paragraph 5. See Appendix 2 or www.gic-iag.org.

333. The Group is supported by a Secretariat staff consisting of a Project Manager, Céline Houdin and a Secretary, Christiane LeBlanc.
334. A sixth person, Ms. Hilde Frafjord Johnson, was appointed but had to resign in September 2001 when she was called to other duties that prevented her continued participation in the IAG.
335. Each of the members has expertise in one or more of the Group's five working areas. Added to this specific expertise are generalist abilities and a development culture that allow the Group to work together as a body.

7. THE IAG'S OPERATIONS AND WORK

7.1 Fulfilling the Mandate

7.1.1 *Financial and Logistical Support*

336. • Initially, the IAG was **financed** by a trust fund supported by the WBG and other lenders. Later, the cost was assumed by the World Bank's Africa Department.
337. The financial support has allowed the Group to fulfill its function and meet its obligations since 2001. Each year, it has made an average of two three-week statutory visits to Chad and Cameroon, and held at least one other meeting, about a week long, to communicate its recommendations to the WBG's main authorities and to set its annual planning. The financing also covers days worked outside of the country visits and the operating costs for the Group's Secretariat.
338. From 2001 to 2009, the IAG's average annual operating budget, including fees, travel and technical and logistical support by the Secretariat, was US\$600,000, in addition to other costs related to logistical support provided by the Consortium for the Group's site visits, and other local expenses absorbed directly by the WBG.
339. • In the field, the Group received **logistical support** from the World Bank's resident missions and from the Consortium who greatly facilitated travel in Chad and Cameroon, especially in the areas where the oil facilities are located.
340. For several years, the National Coordination for the Oil Project facilitated the preparation of missions in Chad. But this entity, set up by Chad to coordinate implementation of the Projects and especially to facilitate contacts between the oil Consortium and the government, was dissolved in October 2007.
341. → *Despite the IAG's intent to demonstrate its independence, the fact that it regularly turned to the resident World Bank missions in N'Djamena and Yaoundé for support in preparing and carrying out its missions and communicating with certain contacts, especially the ministerial departments, contributed to an erroneous perception by some that the IAG was an entity of the World Bank.*
342. *The issue of complete autonomy for the IAG in terms of human resources and operation in the field was raised. But experience has shown that this would have been difficult, especially in terms of cost. Some local NGOs volunteered to act as the IAG's permanent "representatives" on site. The Group felt that its members, appointed on a personal basis, could not be represented by other people. However, the Group could have probably called upon on local consultants more often to provide periodic support, as it did in January 2009.*

7.1.2 *Availability and Quality of Information*

343. The IAG's ability to analyze and advise is based largely on the quality and consistency of the information collected from its many and varied contacts concerning the implementation of the

Projects, prevailing conditions, and their fears, concerns, hopes, disappointments and satisfaction. Information was gathered in person and through regular perusal of many documents issued by the various Project stakeholders.

344. • At the institutional level, it was sometimes difficult to collect the desired information from the ministries. Despite the departments' obvious willingness to cooperate, frequent staff turnover and limited capacity meant that they could not always provide the IAG with the information it requested.
345. With regard to Chad's use of the oil revenues, the Group was faced with limited statistical capability and a lack of available data, as well as the fact that by nature, the results of this type of investment are not always immediately measurable. Thus, at this stage, it is not possible for the IAG to give a complete picture of the impact of these revenues on development and poverty reduction within the country.
346. • The Oil Consortium, represented by EEPIC in Chad and by COTCO, the pipeline operator, in Cameroon, made itself very available both on site and between missions to supply the IAG with exhaustive information about the Project's implementation. The Consortium generally provided specific responses to the Group's particular requests as expressed during the field visits, at meetings and/or through written reports.
347. • The NGOs alerted the Group each time the rights of the communities (individuals, families, villages) were violated or threatened. Their presence in the field with the Group facilitated checks and cross-checks through their observations or questions to the parties involved.
348. • The villagers spoke up despite the risk they sometimes ran of a reoccurrence of serious harassment and public humiliation by local or military authorities.
349. • The IAG generally received the information it requested from the World Bank, but noted some unfortunate delays and a failure to willingly, systematically and regularly communicate all information relative to the Projects without the IAG having to ask for it.
350. The Group would also have benefited from a more informative and extensive orientation when it began its work.
351. → *Generally speaking, the trust that was gradually built between the IAG and its contacts made regular, open and constructive exchanges possible. The stakeholders nearly always responded favorably to the Group's requests for information, even on highly confidential subjects. This allowed the Group to have an overall view of the projects and the intrinsic and extrinsic factors that could affect them.*

7.2 Working Methods

352. • **A community-oriented approach:** From the Group's first meeting in March 2001, its members moved beyond the literal wording of their advisory mission to agree on the *leitmotiv* that would guide their work and was never to change: giving priority to protecting the communities' interests and improving their well-being. In other words, "Ensuring that the Oil Project [would] be an opportunity to create an equitable economic and social development process for the communities."
353. • **Regular fieldwork:** The IAG's Terms of Reference called for two statutory visits per year to Chad and Cameroon and the possibility of arranging additional specific visits as required for supervision of the Projects.

354. These statutory visits, of which there were 14 to Chad and 15 to Cameroon, proved barely adequate to cover the scope of work and collect the information needed to analyze the projects and identify new problems as they emerged. Specific agendas were announced in advance. The visits consisted of working sessions and interviews with the various stakeholders participating in or affected by the Projects, review of written data, direct monitoring in the field, and debriefing sessions at which the Group presented its findings, gave its contacts an initial overview of its observations and advice suggested by the visits, and offered them an opportunity to correct any factual errors.
355. Teleconferences among members of the Group and regular reading of the documentation between missions allowed for ongoing follow-up on the Projects, preparation for the missions and drafting of the reports. The Group kept abreast of news from the press, the websites of the governments, the NGOs, the oil Consortium, the WB and the IMF, to ensure that it remained informed about progress, disruptions and disputes.
356. • **An integrated multidisciplinary approach and a stable team:** The team's multidisciplinary nature turned out to be essential, by definition, for covering a complex project's social and environmental dimensions and the other components included in the Group's mandate. The members' varied professional and personal experiences (ranging from US academia to civil society and African institutions) led to a rich and constructive dialogue within the team.
357. In contrast to the many changes observed elsewhere (governments, WB), the team's stability provided some continuity that was beneficial for Project monitoring, a task made all the more difficult since the panel meets only a few weeks each year. The stability of the membership also helped strengthen the trust established with the Group's contacts.
358. The Group's multidisciplinary structure and its working methods, with a flexible division of tasks that could change as needed, minimized the impact when one IAG member withdrew a few months after the group was created. Some people were surprised at the absence of an oil industry expert in the group (a role that Hilde Frafjord Johnson would have filled, in part). However the members of the Group did not find this to be a major obstacle in fulfilling their mandate. When required, they retained expert services as, for example, when revising the Consortium's Area Specific Oil Spill Response Plans.
359. → *Given the importance the Group's mandate places on oil-revenue management and use, it would have been constructive to recruit—in addition to the Group's Chairman who was responsible for this sector, a financial specialist who could have conducted more research and analysis of the information on the use and impact of these revenues.*
360. • **An independent advisor:** The IAG's independence is what guarantees its credibility. Though the WB provided part of the Group's financing early on, and later all of it, the Group has always been in charge of organizing its own work, and is fully independent.
361. The Group developed its own work plan (which it has revised several times since 2001), decided on the schedule and agenda for its missions, dealt with its contacts directly, and created its own website so it could post its various reports and documents online.
362. The Group considers that it has always been able to carry out its activities as it intended, except in 2008 when it found itself a "hostage" to the ongoing dispute between Chad and the World Bank and did not receive World Bank authorization to conduct its planned missions in that country.
363. • **Office support for the work:** The IAG is supported by an office staff consisting of the Project Manager and the Secretary, who report to the Executive Secretary. The Secretariat

oversees the Group's internal and external communication, documentation, writing, translating and mission logistics tasks.

364. It would have been difficult for the Group to operate without this structure. The support was all the more essential considering that the members devoted more time to the Project than originally anticipated. Initially announced as 20 days per year for the members and 30 days for the Executive Secretary, the actual amount of time spent was perhaps three times that. Reconciling this initial underestimation with everyone's already busy schedules was not always easy.
365. → *Regular field visits turned out to be essential for effective monitoring by the IAG.*
366. *The composition of the team, its stability and independence, and its office staff were also assets as the Group carried out its mission.*

7.3 Action Taken on Recommendations

367. Since the IAG has no enforcement authority, public dissemination of its mission reports in French and English on its website, the same day they are sent to the WBG President and the Prime Ministers of Chad and Cameroon is, in a way, its only persuasive tool.
368. Each report includes conclusions and recommendations intended, first, for the principals (WBG and the governments), but also for all of its various contacts, including the Oil Consortium, NGOs, civil servants, businesspersons, unions and other parties involved.
369. Though regularly asked to do so, the IAG does not provide a formal evaluation of the action taken on each of its recommendations. Since there were several hundred recommendations, some of which dealt with medium- to long-term issues requiring a long-term response, such a quantitative evaluation would not be as relevant as it might seem.
370. However, it should be noted that during each mission, the IAG systematically reviewed the action taken on the previous missions' recommendations with the various parties, and reported any progress or backward movement in subsequent reports.
371. The Group has noted the following trends with regard to action on its recommendations by its main contacts.
372. • **World Bank:** The IAG's annual meetings with the WB President and with the Managing Director, and its interactions with the project teams in the field and in Washington enabled it to present its observations and advice to this institution. They were generally well received and were sometimes followed by important decisions concerning the Projects, as when the decision was made at the end of 2001 to strengthen the on-site team assisting with the Bank's Projects in Chad.
373. The Bank's responses to the recommendations varied, but notwithstanding the Group's Terms of Reference, there was no official, systematic, public response except for comments sporadically inserted in appendices to the WB's internal reports that were submitted semi-annually, then annually to the Executive Directors.
374. The NGOs in the North indicated to the IAG that meeting with the WB's Executive Directors to make them directly aware of its observations and recommendations would be useful. The Group did so annually, meeting with the African Executive Director responsible for both countries.
375. → *If consistently followed through, the WB's commitment to make public its action plans responding to the problems identified by the IAG would have made monitoring of the Projects much easier for the IAG and the other parties, especially the NGOs.*

376. • **Government of Chad:** Although the IAG was never turned down and it felt it had been listened to and that its recommendations and information-gathering efforts often were well received, willingness on the part of the ministers and their departments was not always sufficient to overcome obstacles arising from a lack of funds, resources and sometimes expertise.
377. The instability of the ministerial teams, a lack of coordination among ministries, and the difficulties decentralized authorities have in acting on their responsibilities are also an obstacle to solving some of the problems identified. Finally, given this inaction, the possibility of a lack of political will to apply certain recommendations could not be discounted in some cases.
378. Thus Chad still has not responded to some important topics that were repeatedly raised by the Group, for example, the adoption and implementation of the Regional Development Plan, reinstatement of government monitoring of oil activities, appropriate management of oil revenues allocated specifically to the oil-producing region (5%), and repair of rural roads.
379. In contrast, some issues were handled quickly, such as the problem of the 10% levy by local authorities on the compensation paid to individuals affected by the Project. This practice was prohibited by Presidential decree after it was reported to the President of the Republic in 2001. Also, Chad's decision, after several years, to increase financing for agricultural research and training institutes is a welcome initiative.
380. • **Government of Cameroon:** The way in which Cameroon's government operates sometimes makes decision-making a long process and action slow to come. In this context, the IAG's influence on government action and receptiveness were not always obvious. Consequently, the IAG measures the direct follow-up to its recommendations by small successes such as, for example, the participation of the Pipeline Steering and Monitoring Committee (PSMC), on the government's behalf, in the tripartite platform for dialogue with the NGOs and the Oil Consortium.
381. However, in 2007 the government of Cameroon asked the IAG to reinstate two statutory visits per year, after the Group had decided in 2006 that one visit each year thereafter would be sufficient to handle the issues in that country.
382. → *Generally speaking, the IAG felt that both governments listened to it, though not always following its recommendations. Aside from the obstacles faced by governments with limited capacity, which can explain the slowness of their reactions, one rule of the game is obvious: the IAG remains merely an advisor of sovereign States. Its ability to influence their decisions is an ongoing challenge.*
383. • **Oil Consortium:** Although the Consortium is not one of the IAG's principals, it was in fact advised by the Group and was certainly the contact that gave the most systematic and even the quickest responses to IAG recommendations, which were regularly inspired by the productive exchanges with civil society organizations, produce farmers, chambers of commerce and village communities.
384. EEPIC and COTCO used the Group's reports as a working tool to change or improve their procedures and interventions in the field and their relationships with the local and national authorities, the NGOs and the public.

7.4 Benefits for Principals, Communities and Consortium?

385. The IAG's contacts will be the best judges of any benefits. Over the years some have mentioned the benefits they felt they were receiving from its work. The Group's assessment of

the benefits it feels it has brought to the Projects and stakeholders follows, as well as revisiting some setbacks.

Benefits:

386. • **Information carrier:** The IAG's mandate and the diversity of its contacts allowed it to gather and publicly disseminate broad-based, comprehensive and regular information about the Project, providing an independent perspective that anyone can use as appropriate for his or her role and functions. Since the IAG has been privileged to meet with a wide range of contacts and provide a certain amount of institutional memory, its reports provide a snapshot of the situation that cannot be found elsewhere.
387. This level of information seemed all the more appreciated (by the ministries, National Assembly, economic operators, civil society, etc.) that communication from host governments about the Projects was rare and, in Chad's case, there was a persistent lack of transparency concerning oil revenues management.
388. • **Identification of unanticipated problems and help with solving them:** The IAG provided high-level independent advice to the governments and the WBG on a priority basis, but also to others. Aside from strict monitoring of the Project's compliance with its framework standards, rules and contracts, the Group sought to observe and identify unanticipated problems and to raise the awareness of the parties involved in order to implement solutions for reducing environmental, social, economic and other risks.
389. This role allowed for an emphasis on the concerns of the communities and civil society that would not otherwise have been taken into account (or would have been considered to a lesser extent).
390. • **Dialogue facilitator:** The IAG worked very hard (both publicly and behind the scenes) to facilitate and initiate a dialogue among the Project stakeholders, sometimes in order to contribute to resolving conflicts and clarifying a lack of understanding, and sometimes in order to help lay the foundations for the long-term coexistence of an impressive ultra-modern project with poor communities.
391. Despite the strong reservations encountered initially, a structured and ongoing dialogue among the Consortium, the government and civil society was established in Cameroon through the tripartite platform for cooperation.
392. In Chad, small steps forward are being taken along this path, with some local NGOs and EEPCI having recently developed partnership relationships. The petroleum operator has also gradually set up mechanisms to encourage working with local economic operators.

Setbacks:

393. • **Unheeded recommendations:** Some recommendations that the Group considered to be essential have come to nothing, for example, those concerning the working methods of Chad's ministries and the updating of environmental legislation in both countries.
394. The failure of the founding parties of FEDEC (Consortium, Government of Cameroon, World Bank) to provide the Foundation with adequate financing, despite repeated warnings from FEDEC's own board since 2001, and later by the IAG, is a setback for all parties involved.
395. The IAG finds it unfortunate that despite repeated warnings, the dispute between Chad and the WBG could not be resolved and ended with the Bank's withdrawal from the Project in Chad. It is difficult to view this decision as one that helps advance the Project's objectives.

396. • **Unmet goals:** Due to a lack of sufficient data and time, the IAG is not in a position to provide a formal evaluation of how Chad's use of its oil-revenues has impacted communities and helped achieve progress toward the Millennium Development Goals. This task, which is essential to evaluating the Project's development potential, may have to be undertaken by others.

8. CONCLUSIONS - LESSONS FOR THE FUTURE

397. Increased environmental, social, legal, contractual and moral requirements, lobbying by an increasingly well-informed and organized civil society, market pressures and many other factors are causing private-sector entities, governments and lenders—foremost with the World Bank—to try to reduce the environmental and social risks of the projects they undertake.
398. In the case of the Chad-Cameroon Project, the risks and challenges identified were such that they led the WBG, in cooperation with the two host governments, to set up an independent advisory mechanism supplementing the monitoring tools already in place. The IAG was this mechanism.
399. From this internal review of the Group's experiences since its creation in 2001, some lessons have emerged along with elements that might be useful if anyone were considering using this type of mechanism for other major infrastructure projects or in sensitive sectors.
400. Specifically, it is essential to ensure:
- the complete independence of the individuals, which guarantees credibility;
 - a generalist vision and a development culture, apart from each member's sector expertise;
 - an interdisciplinary and multicultural team, as well as continuity to the extent possible; all of which permit an integrated approach to the problems and increase the effectiveness of the advice;
 - the Group's budgetary autonomy and control of its own program, based on adequate financial resources;
 - regular site visits;
 - a permanent support structure, the Secretariat;
 - essential logistical support from the principals (travel, distribution of information) that the Group cannot itself provide;
 - a public and systematic mechanism for responding to the recommendations made to the principals;
 - a mandate of several years consonant with the long term nature of the interventions, the evolving nature of the challenges, and the continued importance of the issues.
401. The Chad-Cameroon IAG succeeded in providing continuity and permanence that were essential factors in whatever influence it may have had. We benefited right up to the end from the wisdom of our late colleague Dick de Zeeuw. His influence is still present in this review. His strong commitment and understanding of the role of an advisory group inspired us all from 2001 to 2009.

ACKNOWLEDGEMENTS

The IAG would like to thank the following.

- The WBG, the Government of Chad and the Government of Cameroon, which placed their trust in the Group and were open to sharing information and receiving its advice.
- The NGOs in both countries. Their availability and cooperation were essential and despite their very limited resources, they provided the Group with information each time community interests were at stake. They also helped the Group to experience the reality of the villages in Chad and Cameroon.
- All of the contacts that assisted the Group with its field visits; welcomed it to Chad, Cameroon and Washington; gave it logistical support; shared with it their concerns, aspirations and satisfaction arising from the implementation of these Projects; and helped it fulfill its mandate.

Appendix 1 Acronyms and Abbreviations

CAPECE	Cameroon Petroleum Environment Capacity Enhancement Project
CCP	Chad-Cameroon Project
CCSRP	<i>Collège de Contrôle et de Surveillance des Ressources Pétrolières /</i> Oil Resources Control and Monitoring Group
CEMAC	Central African Economic and Monetary Community
CFAF	CFA Franc
COTCO	Cameroon Oil Transportation Company
CPG 5%	Interim Management Committee for the 5% Fund
CRO	Community relations officer
CTNSC	<i>Comité Technique National de Suivi et de Contrôle /</i> National Technical Committee for Monitoring and Control
EA	Environmental Assessment
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad Inc.
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EMP	Environmental Management Plan
EU	European Union
FEDEC	Foundation for Environment and Development in Cameroon
FSO	Floating storage and offloading vessel
GEEP	Management of the Petroleum Economy Project
GIS	Geographic Information System
GPS	Global Positioning System
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPP	Indigenous Peoples Plan
LCC	Local community contact
LUMAP	Land Use Mitigation Action Plan
MDG	Millennium Development Goals
NGO	Non-Governmental Organization
NPRS	National Poverty Reduction Strategy

NOSRP	National Oil Spill Response Plan
PAD	Project Appraisal Document
PRECESSE	Environmental and Social Capacity Building for the Energy Sector Project
PRGF	Poverty Reduction and Growth Facility
PSMC	Pipeline Steering and Monitoring Committee
PSMCBP	Petroleum Sector Management Capacity-Building Project
RDP	Regional Development Plan
TOTCO	Tchad Oil Transportation Company
UNDP	United Nations Development Program
WB	World Bank
WB	World Bank Group

Appendix 2
Terms of Reference of the IAG

CHAD-CAMEROON PIPELINE AND RELATED PROJECTS

INTERNATIONAL ADVISORY GROUP

TERMS OF REFERENCE

(12/01/2001)

Background

1. The Executive Directors of the World Bank Group (WBG)¹⁵ have approved financing for a group of complementary projects (the Projects)¹⁶ designed to promote poverty alleviation in Chad, one of the poorest countries in the world by: (a) enabling, together with the European Investment Bank, the Governments of Chad and Cameroon to finance their equity shares in two companies transporting petroleum by pipeline from southwestern Chad to a marine terminal offshore from Cameroon; (b) co-financing, through the International Finance Corporation (IFC) and other international investors, the development of the oilfield in Chad and the construction of the pipeline and associated facilities by three private sector sponsors—ExxonMobil, Petronas and Chevron; (c) building capacity in Chad and Cameroon for managing the potential environmental and social impacts of the Projects and, in Chad, for promoting development in the project area and for managing the petroleum sector more generally; and (d) building capacity in Chad to manage future petroleum revenues and to direct them, efficiently and transparently, towards poverty alleviation.

2. A comprehensive mechanism has been established for the supervision and monitoring of the Projects. This includes supervision of the Projects by the WBG, and monitoring of project activities by the Governments of Chad and Cameroon in their respective territories, with inputs from civil society. The Governments of Chad and Cameroon will be assisted by an Environmental and Social Experts Panel (ESEP), whose mandate is to help the Governments in assuring that the Projects' Environmental Management Plans (EMP) are satisfactorily implemented. An External Compliance Monitoring Group (ECMG) will also be established to monitor the implementation of EMP on behalf of the lender group.

3. Broader concerns have been raised, however, about the Projects and their potential impacts in Chad and Cameroon. There is a risk that the Projects will not achieve their poverty alleviation objectives, could have negative impacts on affected populations and result in adverse environmental impacts. Weak institutional capacity in Chad and Cameroon and the potential for conflict between involved parties also present risks for the implementation of the Projects. In order to address these risks, a number of measures have been built into the design of the Projects and in the respective WBG Country Assistance Strategies (CASs). However, the WBG, in

¹⁵ The World Bank Group in this context includes the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC), the private sector affiliate of the World Bank.

¹⁶ Petroleum Development and Pipeline Project (Chad-Cameroon), Management of the Petroleum Economy Project (Chad), Petroleum Sector Management Capacity-Building Project (Chad), and Petroleum Environment Capacity Enhancement Project (Cameroon).

cooperation with the Governments of Chad and Cameroon, seeks to further strengthen the monitoring instruments available to support these Projects.

Purpose of the IAG

4. The WBG, in consultation with the Governments of Chad and Cameroon, will appoint an International Advisory Group (IAG) to further strengthen the mechanism for monitoring progress in the implementation of the Projects. To ensure transparency and accountability, the IAG will comprise highly respected impartial individuals, with relevant expertise. These individuals will be independent of all parties to the Projects and will have freedom to obtain information from all relevant sources.

5. The purpose of the IAG is to advise the WBG and the Governments of Chad and Cameroon with respect to its observations about overall progress in implementation of the Projects and in achievement of their social, environmental, and poverty alleviation objectives, as well as with the broader goals of poverty alleviation and sustainable development in Chad and Cameroon. The IAG's specific responsibilities are to: (a) identify potential problems as they arise, concerning issues such as the misallocation or misuse of public revenues, adequacy of civil society participation in the implementation of the Projects, progress in building institutional capacity, and more generally, issues of governance, environmental management and social impacts; and (b) recommend actions to the WBG, Government of Chad and Government of Cameroon to address the problems identified.

Scope of Work

6. The IAG will visit Chad and Cameroon at least twice a year, or more often depending on the IAG's assessment. As an advisory body, the IAG will have purview over all activities related to the Projects and will directly observe progress in their implementation, although it is not expected to duplicate the field work on monitoring to be carried out by the governments, WBG, and the project sponsors. However, all reports prepared by these parties or on their behalf, including any other documents having a bearing on the implementation of the Projects, will be made available to the IAG for the purpose of undertaking its responsibilities.

7. The IAG will carry out its work in consultation with the full range of stakeholders: government staff responsible for monitoring project progress and planning and managing revenues for poverty-focused development, affected populations, and civil society organizations. The IAG is expected to serve as another vehicle for the affected populations and citizens to channel their concerns about the social, environmental and poverty related impact of the Projects in Chad and Cameroon. The IAG will advise the WBG and the Governments of Chad and Cameroon of these concerns and suggest actions that need to be taken to ensure that these concerns are appropriately addressed.

8. The IAG will independently develop its work program, which is likely to evolve as project implementation progresses. Among other issues, the initial work of the IAG could include social investment activities in the project area¹⁷, direct and indirect social and environmental

¹⁷ These could include construction of public markets, an abattoir complex, water and sewerage infrastructure, and health facilities.

impacts associated with the construction process, and progress with regard to capacity-building activities, whereas increased attention to activities related to sound revenue management is envisaged once oil revenues come on stream.

9. One member of the IAG will be named by the President of the WBG as the Convenor. The Convenor will be provided with support services necessary for coordination of the work of the IAG and preparation of its reports. After distributing information about the Projects to the other members of the IAG, the Convenor will arrange for the IAG to meet prior to undertaking its initial field visit. The IAG will have a start-up meeting to review the scope and objectives of the Projects and to review and discuss the Terms of Reference. It will then undertake a familiarization visit to the project area in Chad and Cameroon. On the basis of this process, the IAG will develop its initial work plan, which will be presented to the WBG and the Governments of Chad and Cameroon. After review by these parties, the work plan will be made available to the public and the IAG will begin a series of regular field visits.

10. Following preparation of the work plan, the IAG may, at its discretion, meet with the WBG President, the Corporate Oversight Committee (COC) appointed by the President¹⁸ to coordinate and oversee the implementation of the Projects, WBG senior management, and the project team. It will also have regular meetings with senior representatives of the Governments of Chad and Cameroon and the oil consortium to collect information and exchange views. The IAG will meet with nongovernmental organizations (NGOs) and local communities affected by the Project, without interference from any government, the oil consortium¹⁹ and/or WBG officials. The views and opinions of all stakeholders will be actively solicited from the beginning of the IAG process, and the IAG will prepare and make available to the public its plan and agenda for future meetings.

11. The work of the IAG is expected to continue for a period of up to ten years, covering the period of oilfield development and pipeline construction and the first six years of the flow of oil and accompanying inflows of significant oil revenues. At the end of the second, fifth, and seventh years, the WBG and the IAG will conduct a joint stocktaking, with inputs from civil society to evaluate whether the IAG's work has been useful and should be continued, and to make any necessary adjustments in the IAG's scope of work. Other partners funding the work of the IAG are anticipated to participate in this evaluation.

Composition of the IAG

12. The task of translating oil revenues into poverty-alleviation programs is challenging and will require not only political, economic, environmental, social, financial, and technical skills, but also the ability to listen and understand the concerns of people in the project area, representing all levels of society and diverse cultural backgrounds. The IAG's independence is crucial to its

¹⁸ The Corporate Oversight Committee is chaired by Shengman Zhang, World Bank Managing Director, and includes Kemal Dervis, Vice President, Poverty Reduction and Economic Management Network; Ian Johnson, Vice President, Environmentally and Socially Sustainable Development; Mats Karlsson, Vice President, External Affairs and UN Affairs; Andreas Raczynski, Director, IFC Technical and Environment Department; Katherine Sierra, Vice President, Human Resources Services; Meg Taylor, IFC Compliance Advisor/Ombudsman; and Ko-Yung Tung, Vice President and General Counsel.

¹⁹ The oil consortium comprises the three private sector sponsors: ExxonMobil, Petronas, and Chevron.

effectiveness. IAG members must, therefore, be of international stature and unimpeachable personal integrity, able to resist any pressure that might be brought to bear on their conclusions.

13. The IAG will consist of six persons, including one who will serve as Executive Secretary. Their collective professional experience and knowledge should allow them to address the following areas of importance to the Project:

- (a) *Governance Issues*. Knowledge of all aspects of governance issues in the African context;
- (b) *Management of Public Finance*. Knowledge of national planning and programming of public resources and the use of these resources for effective poverty alleviation;
- (c) *Environmental Aspects of Development*. Knowledge of environmental management and monitoring issues associated with major infrastructure projects and the linkages between environment and poverty;
- (d) *Social Aspects of Development*. Knowledge of social aspects of major infrastructure projects and the ways in which addressing these impacts and risks is linked to poverty alleviation; and
- (e) *Community Development*. Knowledge of community development issues including experience working with the types of communities that may be affected by the Projects.

It is desirable that IAG members have knowledge of African conditions and experience with infrastructure investments. Fluency in English and French is desirable, but not required.

14. The IAG will be able to call upon the services of specialists to examine specific issues as needed within the budget provided for this specialized support. It will also be able to hire translators/interpreters to assist the IAG in undertaking its work and to ensure that its findings and recommendations are widely disseminated in local languages.

Selection Criteria and Process

15. To ensure the complete independence of the IAG, its members should:
- (a) Not be nationals of Chad or Cameroon;
 - (b) Not be current or former staff members of WBG;
 - (c) Not currently be engaged in positions or consultancies with the project sponsors, or the Governments of Chad and Cameroon; and
 - (d) Not accept any position to consult with or work for any of the parties in (c) during tenure on the IAG.

16. The selection process will be coordinated by the COC, which has been appointed by the WBG President. The final decision on the membership of the IAG will be made by the President of the WBG.

Reporting

17. The IAG will report periodically to the WBG President and WBG Board of Directors as well as to the Governments of Chad and Cameroon on its findings and recommendations. The WBG, in turn, will report to the IAG and the WBG Board on the actions taken to address the issues identified. All reports of the IAG, without modifications and/or amendments, will be distributed simultaneously to the WBG Board and other stakeholders on the same day they are submitted to the President of the WBG. The WBG's action plan for addressing the issues identified by the IAG will also be made public, immediately after these have been discussed with the WBG Board.

18. The IAG, as a group of experts, may, at its discretion, hold discussions with civil society about its findings and recommendations, prior to submitting its reports to the President of the WBG and the Governments of Chad and Cameroon. The IAG will also advise on the status of dissemination of its reports and the implementation of its recommendations.

Budget

19. The WBG has agreed to make available the resources needed for the effective functioning of the IAG. It has also confirmed the interest of other donors in supporting the IAG. Funds provided to support the work of the IAG will be placed in a Trust Fund dedicated to this task.

Appendix 3

Synoptic timeline of major events of the Chad-Cameroon Petroleum Development and Pipeline Project

1970s	Significant oil reserves confirmed in Chad
1988	The Republic of Chad and a consortium of oil companies (including Exxon) sign an agreement for a ten-year oil exploration permit (since extended) and a thirty-year lease to develop three oilfields in the Doba basin
1993	<ul style="list-style-type: none"> - Significant oil reserves confirmed in the Doba basin - Start of Environmental Studies - First contacts between Exxon and World Bank
1996	<ul style="list-style-type: none"> - Multiparty presidential elections in Chad - Chad and Cameroon sign an agreement for the construction and operation of an oil pipeline and related facilities across Cameroon's territory
November 1997	Terms of WB loans to Chad and Cameroon drawn up (IDA concessionary loans, later changed to IBRD loans)
September 1998	Exxon publishes the Project's Environmental Assessment
December 1998	Chad's National Assembly passes Law 001/PR/99 on Oil Revenue Management
January 11, 1999	Promulgation of Law 001/PR/99 by the President of Chad
November 1999	Shell and Elf leave the Oil Consortium
May/June 1999	EMP published and submitted to the WBG
April 2000	Chevron and Petronas join ExxonMobil in the Consortium
June 6, 2000	WBG's Board of Directors approves the Chad-Cameroon Petroleum Development and Pipeline Project
August 2000	Contested use of signing bonus by Chad
October 2000	Official ceremony launching the work at Komé (Chad) and Kribi (Cameroon)
February 2001	Creation of the IAG
May 2001	Presidential elections in Chad
Beginning of 2002	World Bank reinforces supervision and coordination of capacity-building projects in Chad, allocating additional human resources in N'Djamena and Washington
July 2002	Inspection Panel report on the Project in Chad
May 2003	Inspection Panel report on the Project in Cameroon
July 2003	First Oil
October 2003	First Export
November 2003	First royalties paid to the government of Chad on the escrow account at the

	Citibank in London
January 2004	<ul style="list-style-type: none"> - Extractive Industries Review, launched by WB in 2002, issues report - IMF support to Chad suspended (after sixth PRGF review not completed); consequently support from the EU and other partners also suspended
May 10, 2004	Chad and the Consortium sign new exploration agreement raising royalties from 12.5% to 14.25% – Consortium pays 1 st installment of bonus
June 2004	Consortium pays 2 nd installment of bonus to Chad
July 6, 2004	First repatriation of oil revenues to Chad
September 2004	Decree creating an Interim Committee to Manage the 5% of oil royalties allocated to the producing region
October 2004	President Paul Biya reelected in Cameroon
March 31, 2005	Paul Wolfowitz becomes WBG's tenth President
May 2005	New PRGF program signed by IMF/Chad
June 2005	Referendum on changing Chad's constitution → removal of term limits for president
October 2005	<ul style="list-style-type: none"> - Workshops on the Implementation Completion Report for the World Bank project held in Chad and Cameroon with the IAG as moderator - New triennial PRGF program signed by Cameroon/IMF
December 2005	Chad's National Assembly passes Law 002/PR/2006 amending Law 001/PR/99
January 11, 2006	<ul style="list-style-type: none"> - Promulgation of Law 002/PR/2006 by the President of Chad → Applicable to all of Chad's oilfields: repatriation of the Future Generations Fund to Chad for immediate use, increase in the number of priority sectors, increase in the proportion of direct oil resources allocated to government operating and investment costs, change in the composition of the CCSRP and the way its members turn over - WB suspends disbursements on its Chad portfolio, Chad's escrow account in London is frozen, absence of external budget support for Chad
April 2006	<ul style="list-style-type: none"> - Interim agreement by Chad/WB - Cameroon achieves completion point
May 2006	President Idriss Déby Itno reelected in Chad
June 2006	Chad resumes repatriation of oil revenues
July 13, 2006	Chad/WB memorandum of understanding: 70% of Chad's total expenditures allocated to poverty reduction programs
July 2006	Creation of the <i>Société des Hydrocarbures du Tchad</i>
November 2006	State of emergency declared in Chad for six months (rebellion)
January 2007	Oil spill in Cameroon at the FSO
April 2007	Finalization of the LUMAP

May 2007	In Chad, law on hydrocarbons (new Petroleum Code)
During 2007	PRGF Program suspended in Chad
July 1, 2007	Robert B. Zoellick becomes the WBG's eleventh president
August 2007	In Chad, political agreement is reached between the majority and the opposition parties
February 2008	<ul style="list-style-type: none">- February 2 and 3: rebels attack N'Djamena- State of emergency in Chad from February 15 to March 16, 2008
April 2008	Cameroon's constitution amended: removal of term limits for president
August 2008	Oil spill in Chad
September 9, 2008	WB withdraws from oil project in Chad, Chad repays remaining loan balances early
January 2009	Gradual reopening of WB offices in N'Djamena