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Chad-Cameroon Petroleum Development and Pipeline Project

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Foreword

1. In order to speed up publication of this report, the International Advisory Group (IAG) published the French text of its report on November 18, 2004 and now publishes the English text. The IAG would be pleased to receive your comments on this way of proceeding.

2. Given the presidential elections that took place October 11, and in order to ensure the availability of as many of its interlocutors as possible, the IAG has postponed its eighth statutory visit to Cameroon to January 2-10, 2005.

3. **Erratum:** In the report of the mission to Chad and Cameroon from May 17 to June 5, 2004, published on July 9, 2004, the first sentence of paragraph 143 should read as follows:

“Esso is preparing to commission five new oil fields (Moundouli, Nya, Mbikou, Mangara and Belanga), called satellite fields, in the Doba zone.”

Table of Contents

EXECUTIVE SUMMARY

1	POLITICAL AND ECONOMIC CONTEXT	2
1.1	Political Context: Seeds of Tension to be Closely Monitored.....	2
1.2	Economic Context: Uneven Progress in the First Oil Year	2
1.2.1	General Appreciation: Record Economic Growth – Diminishing Financial Crisis.....	2
1.2.2	Two key sectors: Subsiding Crises – Improvements to be consolidated.....	3
2	INSTITUTIONAL EVOLUTION OF THE PROJECT	4
2.1	The Parties Involved	4
2.1.1	Government Parties	4
2.1.2	Non-Government Parties	5
2.2	Relations Among the Parties	6
2.2.1	The Government and EEPCI	6
2.2.2	The Government and the World Bank.....	7
2.2.3	The Government and the IMF	7
2.3	Regulatory Framework: To Be Completed Urgently.....	8
2.3.1	Petroleum Code	8
2.3.2	Environmental Law.....	8
2.3.3	<i>Plan National d’Intervention en cas de Déversements Accidentels d’Hydrocarbures (National Oil Spill Response Plan)</i>	9
3	MANAGING THE OIL REVENUES	9
3.1	Implementation of the 2004 Budget	9
3.1.1	Mechanisms for Transferring and Mobilizing Revenues: Good Progress.....	9
3.1.2	Chad’s Oil Revenues: Necessary Adjustments	10
3.1.3	Use of the Revenues by the Ministries: Noticeable Inequalities in Allocations and Use	10
3.1.4	Regulation and Oversight: Functional but Still Needs Perfecting	11
3.2	Analysis of the 2005 Budget	12
4	REGIONAL OIL ECONOMY.....	14
4.1	Exploration.....	14
4.2	Development of New Fields	16
4.3	Doba Project	18
4.3.1	Environmental Issues.....	18
4.3.2	Socio-Economic Issues.....	19
4.4	Regional Development Actions	20
	CONCLUSION	21
	APPENDIX 1 Chronology of Meetings	
	APPENDIX 2 List of Abbreviations and Acronyms	

EXECUTIVE SUMMARY

This report presents the observations, analyses, conclusions and recommendations suggested to the International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (Doba Project) through its eighth statutory visit to Chad from October 10 to 26, 2004.

This mission focused on the expansion of the oil sector in Chad and on the management of the initial oil revenues, which have been available to the ministries since July. It also analyzed the changes, planned and underway in the development of the Project's institutional and regulatory framework, and assessed the overall context of the country.

The **political context** was marked by a major reshuffling of the ministries in July. The electoral census slated to take place prior to the constitutional amendment referendum has been included in the proposed 2005 budget but the opposition has refused to participate in the National Independent Electoral Commission (CENI). The social and financial impact of the Darfur conflict in the Chadian border region could be a source of growing instability.

The **economic situation** in this first petroleum year has seen uneven results, despite record growth. Implementation of the 2004 budget got off to a difficult start in the first half of the year but the repatriation of the oil revenues and the re-prioritization of government expenditures during the second half helped to alleviate the financial crisis. Real progress was noted in the cotton and energy sectors but remains to be consolidated.

Significant **institutional change** is underway but still needs to be clarified: the parties are shifting focus from concentration on the Doba Project to a more wide-ranging and sustainable management of the oil sector. This transition affects the oil company, the government and its partners. It is taking place in a relational context marked by difficulties between Chad and its partners Esso and the World Bank (WB), and an opening with the International Monetary Fund (IMF). Government must commit to the institutional and financial sustainability of its social and environmental monitoring institutions for all petroleum projects. The Government thus needs to establish a new policy for the oil sector and complete the regulatory framework without delay.

The IAG assessed the Chadian government's **management of the oil revenues** over the last 3 months. Compared with the level of preparation of the various government agencies in May, which was deemed insufficient at that time, these agencies now seem to have a better mastery of the mechanisms for using the revenues.

Implementation of the 2004 budget:

- The mechanisms for transferring and mobilizing the revenues are being unblocked. The Government must now needs define the main tenets of the Fund for Future Generations investment policy, finalize the formalities for launching the Fund and appoint the members of the interim committee to manage the 5% of revenues allocated to the oil-producing region.
- It is urgent for Chad and Esso to come to an agreement on setting the price of the Doba crude so as to regularise the oil revenues that are currently being paid to the country on a provisional basis.

- There have been noticeable inequalities in the allocations of oil revenues to the spending ministries and their ability to commit. The allocation of oil revenues in 2004 did not follow the guidelines of the National Poverty Reduction Strategy (NPRS) as closely as expected. In the attempt to accelerate spending, most of the revenues went to the *Ministère des Travaux Publics et Transports*. 65% of the oil funds had been earmarked as of October 15; however this figure masks major inequalities since some of main ministries had not yet committed any funds by this date.

- The system for regulating and monitoring use of the petroleum revenues is functional but needs to be perfected. Effective implementation of the Procurement Code still requires concrete measures and the CCSRP, whose procedures have been mastered by the ministries and whose doctrine is more selective and pragmatic, should consider a gradual replacement of the College members and ongoing training for its staff.

Analysis of the draft **2005 budget**, which is based on forecast of oil revenues at 125.3 billion CFA francs, shows that the allocation of oil income to the priority sectors is more in line with the NPRS: a greater share is going to human resource sectors (*Éducation* and *Santé*), a relative decrease in highway construction for *Travaux Publics*, the eligibility of the *Ministère des Mines et de l'Énergie* and a stationary effort for the production sectors (*Agriculture* and *Élevage*) despite their importance for the Chadian economy. Other improvements are desirable in order to ensure that the NPRS, the Millennium Development Goals (MDG) and investment productivity are given the importance they deserve.

From the **regional oil economy** point of view, this mission looked at the expansion of oil activity beyond the Doba field and the ramifications in the short and medium term. In the short term, increased oil activity calls for vigilance and a greater presence of government authorities. In the medium term, this will likely entail managing a bigger and longer-lasting oil economy.

Exploration seems to indicate a larger potential for oil and to justify a permanent approach to management. The Consortium is called upon to continue improving its communication with the populations in order to improve planning with respect to expectations and to clarify its community compensation doctrine. For its part, the Government should provide a regulatory framework that will ensure the regulation and monitoring of these activities.

Esso is planning **to develop new fields**, called satellite fields, beyond the Doba Project. Work on the Moundouli and Nya fields will begin as soon as the environmental and social documentation Esso prepared has been approved by the CTNSC following a public consultation process. Since this will be the first oil development outside the Doba Project, the clause in the loan agreement between Chad, the WB and Esso stipulating that all crude transited through the Komé-Kribi pipeline must be developed in compliance with the principles of the original EMP (Environmental Management Plan) will come into force. The Bank and the Government, in consultation the companies involved, will have to specify how this provision will apply. It will be the Government's responsibility to ensure compliance with this clause. As for Esso, the company is expected to take into account the social and environmental specificities of this new zone and to define and submit for government approval the future architectural plans for the pipeline networks and meters.

On the **Doba Project**, Esso expects to reach a production level of 225,000 barrels per day by November. The environmental and social issues raised by the IAG are on-going issues that

need to be addressed, rather than new problems. They include waste management, dust control, soil reclamation, community compensation, social closure and emergency projects. These issues must be given proper attention.

The IAG enquired of three initiatives whose success will be important for the **development of the region**: the Regional Development Plan (RDP), the *Fonds d'Actions Concertées d'Initiatives Locales* (Local Initiatives Development Fund, or FACIL) and the projects funded by the International Finance Corporation. The first has seen little progress. The second has had disappointing results, which raises serious questions, and the third is the subject of an interesting strategic reorientation.

The IAG draws three **conclusions** from this mission – three key factors for success on which the various parties must place greater focus:

- Completing the legal, regulatory and institutional instruments that are essential for long-term management of this resource, ensuring the sustainability and coherence of the monitoring institutions and developing a relationship of trust and cooperation among the parties involved.
- Ensuring that the annual allocation of oil revenues is increasingly based on the objectives and priorities of the NPRS and the MDG, and doing everything possible to ensure that priority ministries spend the monies efficiently.
- Conducting a full assessment of the Doba Project so as to take advantage of the lessons learned and to develop frequent, ongoing and adapted communication.

INTRODUCTION

1. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (Doba Project) conducted its eighth statutory visit to Chad from October 10-26, 2004.
2. This report presents the observations, analyses, conclusions and recommendations suggested to the Group by its mission and reflects the situation as of the end of October 2004.
3. This eighth mission had two principal objectives: to assess how well the oil revenues that have been available to the ministries since July are being managed, and to gather information on the impact of the exploration and development work outside the three Doba Project oil fields.
4. The mission consisted of two phases. The first phase was devoted to site visits in the oil region. The IAG visited the Doba Project zone, in production since July 2003. It also visited the satellite field zones in Moundouli and Nya, where development is expected to begin next year. Finally, the Group visited the part of Western Mandoul where Esso is conducting exploration activities. During these visits, the IAG was accompanied by the CTNSC, Esso and two local non-governmental organizations (NGOs): the *Réseau de Suivi des Activités liées au Pétrole au Moyen Chari* (RESAP-MC) and the *Commission Permanente Pétrole Locale* (CPPL). The second phase took place in N'Djamena, where the IAG worked in particular with all the priority and central ministries and the agencies that are managing and monitoring the oil revenues. The Group met with the Prime Minister and other ministers and representatives of civil society, the World Bank (WB), the International Monetary Fund (IMF), EEPIC (Esso Explorations and Production Chad, Inc.) and EnCana. The mission ended with a review session with the principal partners to clarify and complete certain points of information gathered during the mission, and finally, a debriefing session with all the parties.
5. The mission itinerary and chronology of meetings can be found in Appendix 1.
6. During the seventh statutory visit in May 2004, the Group observed the financial, political and economic difficulties that Chad was facing and that were hindering execution of the first budget in the petroleum era. At that time, Chad was on the brink of a financial crisis. Financial aid from international institutions had been suspended and the non-petroleum related budget had been poorly implemented, while at the same time oil revenues were accumulating in the sequestered Citibank account in London because the institutional arrangements that would allow Chad to repatriate these revenues to the Bank of Central African States (BEAC) had not yet been finalized. Chadian institutions had not sufficiently mastered the oil revenue management mechanisms. As for the Doba Project, the transition from the construction to the production phase was marked by gaps in Esso's EMP team (Environmental Management Plan), which the IAG recommended correcting quickly.
7. Six months later, the mission focused on the growth of the oil sector in Chad, including exploration, development and production activities, and on the country's effective use of the first oil revenues. It also analyzed the planned changes and those already underway in the development of the Project's institutional and regulatory framework, and assessed the overall context of the country.

1 POLITICAL AND ECONOMIC CONTEXT

1.1 Political Context: Seeds of Tension to be Closely Monitored

8. In May 2004 the political context in Chad was marked by tensions in the army. At the same time, the Parliament adopted a constitutional amendment that removed the limits on the number of presidential terms, thereby paving the way for the current Head of State to run for a third term in 2006. This amendment must now be put to a referendum.
9. The electoral census has been included in the 2005 budget and the referendum should take place the same year. However, the *Commission Électorale Nationale Indépendante* (CENI - National Independent Electoral Commission) was recently created without representation from the opposition, which is contesting the composition of the commission.
10. The political landscape has changed over the past few months with a major reshuffling of the ministries in July 2004. In particular, a new ministry was established – the *Ministère du Contrôle de l'État et de la Moralisation* [Ministry of State Oversight and Moralization]. The Group plans to assess this ministry's action plan and the direction during its next mission.
11. The Darfur conflict continues to take a human, financial, security, and political toll on Chad, where thousands of refugees have settled in camps near the Sudanese border. The 2004 general budget includes the contribution that Chad received from the member countries of CEMAC for the Chadian populations that have become vulnerable due to the influx of refugees. In addition, Chad has sent troops to maintain security in the region and to prevent the conflict from extending across the Chadian border. However, the situation could bring new developments due to the cohabitation of populations living in similarly precarious conditions but with different levels of assistance and facing sharp increases in the prices of essential goods and services, food and housing, not to mention the possibility of population movements, which would only add to the country's insecurity.

1.2 Economic Context: Uneven Progress in the First Oil Year

1.2.1 General Appreciation: Record Economic Growth – Diminishing Financial Crisis

12. Execution of the 2004 budget got off to a difficult start in the first half of the year with respect to revenue collection and expenditure, the delay in concluding a new program with the IMF and consequently, the non-payment of other budgetary assistance and the delayed repatriation of oil revenues, finalized only in July.
13. An amendment to the 2004 Finance Law was promulgated on August 2, 2004. This amendment re-prioritized certain expenditures in order to maintain a budget that could be financed from now to year end, one of the prerequisites for resuming the Poverty Reduction and Growth Facility (PRGF) with the IMF.
14. At the end of September 2004, macroeconomic forecasts were based on a growth rate of over 40%, including 2% for non-petroleum sectors, and an inflation rate contained at under 2%.

15. The financial crisis thus reached great intensity in June but recovery has followed since then. It remains, however, for the country to pay off the internal and external debt that it accumulated during this period.

1.2.2 Two Key Sectors: Subsiding Crises – Improvements to be Consolidated

16. The Government's efforts to support the cotton and energy production sectors have produced encouraging improvements.

Cotton

17. The data available to the *Ministère de l'Agriculture* do not yet allow measurement of the effectiveness of the cotton industry revival campaign conducted in May, but a few trends can be seen. The total surface area of planted fields now seems to be greater than last year, but experts are not expecting production to exceed 200,000 tons of cotton, whereas initial forecasts called for a production level of 250,000 tons.
18. The Government has promised to provide cotton farmers with a subsidy of 40 CFA francs/kilo, for a total of 8 billion CFA francs, if production reaches 200,000 tons. The 2005 budget proposal provides for a 5 billion CFA francs subsidy, which leaves a financial gap of 3 billion CFA francs.
19. The repair of rural roads and support for agricultural research have not seen any improvements since May. The CotonTchad privatization process is still the subject of discussions between Chad and the World Bank.

Electricity

20. The Government's takeover of the energy sector, with the support of its international partners, continues to register progress.
21. As a result of the Project to Rehabilitate the Basic Water and Electricity Services supported by the World Bank, current production in N'Djamena is 13 megawatts (MW) and is expected to reach 27 MW in January 2005 and thereby cover the current needs of the capital city.
22. Potential funding from the World Bank and the Islamic Development Bank should make it possible to tackle the issues of intensification and the expansion of the capital's network in the medium and long term.
23. The strategy of the *Ministère des Mines et de l'Énergie* has led to an increased availability of electricity in the capital and the regions. The ministry's plan calls for rehabilitation of the Moundou plant and the electrification of regional *chefs-lieux* at a rate of 3 or 4 per year. However, a structural problem remains – the prohibitive cost of fuel. Hence the Government's intention to launch a study to develop solutions with proven technical and economic viability using crude oil from Doba.
24. Concerning production of crude oil from Sédigui, the IAG received no new information other than the fact that the Government has put out an international call for tenders, resuming its initiative on this issue.

25. In the oil-producing region, the stark contrast between the well lit oil facilities and the darkened neighboring towns and villages cannot fail to ignite passions. Civil society is campaigning for the Consortium to participate in electrification of the zone.

2 INSTITUTIONAL EVOLUTION OF THE PROJECT

26. A major transition is underway: from concentration of actors on the Doba Project to a broader view of a permanent oil sector, geographically larger and demanding on-going management. This is true of the Consortium, the Administration and its partners. It translates into change of institutions and of the regulatory framework that is still in need of precision.

2.1 The Parties Involved

2.1.1 Government Parties

27. **Coordination Nationale** (National Coordination, or CN): The institutional base of the *Coordination Nationale* was modified when it was placed under the *Ministère du Pétrole* in September 2004. The future of this coordinating agency, which was created specifically for the Doba Project, remains to be determined.
28. **CTNSC**: The *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC) has had a drastic reduction in staff since May 2004, which is affecting the government team's ability to provide quality social and environmental monitoring of the Doba Project and other oil activities in the country.
29. The position of Executive Secretary of the CTNSC has been vacant for several months and the On-Site Supervision team has gone from 14 people to 4 due to resignations and non-renewal of some of the contracts when they expired.
30. The CTNSC On-Site Supervision team is facing logistical difficulties. An agreement that would allow Esso to provide the team with temporary offices at Komé 5 is being held up at the *Ministère du Pétrole* for reasons not yet clear.
31. Funding for the CTNSC, which is currently covered in full by the Petroleum Sector Management Capacity-Building Project (PSMCBP), is uncertain. The PSMCBP will end in December 2005, but an additional loan of \$11.5 million USD is required in order to continue the Project's activities, including the CTNSC, from January to December 2005. However, the World Bank and the Government have not yet reached an agreement on this additional loan and no provisions have been made in the 2005 budget proposal for a corresponding amount.
32. The institutional future of the CTNSC and the long-term pursuit of petroleum-monitoring activities are being examined. One possible solution would be to create an environmental agency whose jurisdiction could either be limited to the oil sector or cover all environmental regulations. This option must first be approved by the *Ministère de l'Environnement et de l'Eau* before more detailed studies, definition of the means of implementation and approval by the Government.
33. **Unité de Pétrole/Société nationale des hydrocarbures** (Petroleum Unit / National oil company): On October 13, the President of the Republic confirmed the government's intention to establish a national oil company in order to ensure Chad's presence in the oil sector. The attributions and operational framework of this company are still to be defined and should correspond to a general

policy statement by the government on the energy sector. This policy statement should replace the current terms of reference that expire at the end of 2004.

34. It does seem that this company will play an operations role and that the regulatory and oversight functions will remain the prerogative of the ministries of petroleum and of environment and water, respectively.
35. Consequently, the future of the *Unité de Pétrole* under the *Ministère du Pétrole* as well as its composition and attributions, still need to be specified.
36. The creation of the oil company and the job descriptions of the management, regulatory and oversight agencies should normally take into account any prior contractual obligations Chad may have with the oil distributors and with its international commitments.
37. **Administration:** The IAG noted that the technical staff in key positions are transferred too frequently. This has an impact on the institutional memory of the administration and its ability to manage efficiently the implementation of plans, programs and projects.

VIII.1 The IAG recommends that:

38. *The Government quickly fill the position of Executive Secretary of the CTNSC and that the Committee, even as it awaits information about its financial future, make as much progress as possible in recruiting staff to complete the On-Site Supervision team and avoid a situation with a total lack of supervision.*
39. *The Government fully support the CTNSC in its environmental and social monitoring duties for the Doba Project and any other oil project, and take the necessary steps to ensure the smooth functioning of the CTNSC in the short term and its institutional and financial sustainability in the long term.*
40. *The Ministère du Pétrole and the Consortium agree as quickly as possible to provide the CTNSC with the offices it needs to do its work, as stipulated in the agreements.*
41. *The Government and the World Bank agree on the terms of reference of a study on the institutional future of the CTNSC and the CN that would take into account the Chadian context, examine the possible options and provide a detailed proposal of the terms of implementation for whichever option is chosen.*
42. *A new policy be issued for the oil sector, including the national oil company based on clear guidelines provided by the Government, and in cooperation with development partners.*
43. *The Government pay close attention to the stability of government teams so as to ensure the continuity of current programs and to maintain the benefit of the training provided to the agents of the various ministerial departments, especially those in charge of calculating and managing oil revenues.*

2.1.2 Non-Government Parties

44. **World Bank:** The IAG's concern that the WB would return to a normal modus operandi for the Doba Project and the related projects has been considerably dispelled. The WB has turned over

management of the projects to sectoral departments with reinforced teams who make frequent field visits.

45. Furthermore, the concern regarding the coherence of oil-related projects has led to the appointment of a senior manager as project coordinator who reports to the Vice-President for Africa.
46. This reorganization is in line with the changes Chad has been contemplating in order to ensure the sustainability of management and regulatory activities while giving due attention to the proper establishment of the oil economy.
47. **International Finance Corporation (IFC):** Over the last few months, the IFC has taken stock of its activities in Chad and decided to reorganize its projects around three main themes so as to increase their long-term effectiveness: capacity-building, access to financing and the establishment of commercial relations between the oil companies and local small and medium sized businesses and industries.
48. Among the planned activities is the creation of a business training center in N'Djamena with satellite centers in Doba and Moundou and the development of projects for improved agriculture and partnerships between local producers and the Project's catering companies.
49. **EEPCI:** Last May, the IAG was concerned about the quality of the environmental and social monitoring by Esso's EMP team, whose reorganization during the transition from the construction to the production phase showed some gaps. The risk was that if the EMP was not given the same authority and the necessary resources to monitor construction and production activities, the achievements of the construction phase would be lost. Since then, the on-site biophysical EMP construction supervisor position has been filled and the socio-economic EMP teams to monitor production and construction activities have been identified. Finally, an EMP coordinator covering Cameroon and Chad and all oil-related activities has recently been added to reinforce the teams already in place.
50. Esso has also announced its intention to open a local business office in Moundou before December 2004 in order to facilitate local companies' access to oil contracts.

VIII.2 The IAG notes the organizational changes that have taken place at the World Bank and Esso in an effort to strengthen management capacities based on each party's responsibilities. The Group recommends that:

51. *EEPCI continue to ensure the presence of a strong, EMP team, recognized by and integrated in the production team, and with sufficient human and material resources to monitor all Esso's activities in the oil zone: exploration, construction and production.*

2.2 Relations Among the Parties

2.2.1 The Government and EEPCI

52. For several months, Chad and EEPCI have been discussing the terms of application of the 1988 Convention that binds them, and its amendments, but have failed to reach an agreement. The main point of disagreement revolves around the method for calculating the royalties owed to

Chad. This dispute has received much media attention in both the Chadian and international press since October, thereby fueling the tensions between the two parties and confirming the fears of a civil society concerned about compliance with the rights of Chad.

53. Esso organized three information days on the calculation of the price of oil. These presentations helped shed light on several points, in particular, the calculation of the discount, which is a function of the international market. However, the Chadian side still has questions, which will require the parties to resume negotiations.
54. EEPIC and Chad were planning to return to the negotiating table on October 26. Final resolution of this disagreement through negotiations, would avoid the recourse to arbitration, as provided for in the Convention and give a better tone to the long-term relationship between these two parties, who will have to work together for at least the next 25-30 years.

2.2.2 The Government and the World Bank

55. The World Bank portfolio in Chad is rather full, with approximately ten projects that are already active or are in preparation and that focus on various areas: oil, health, transportation, education, agriculture, etc.
56. A thorough review of the portfolio in April 2004 showed that in order to continue the activities of the two capacity-building projects related to the Doba Project – the PSMCBP and the Management of the Petroleum Economy Project, (GEEP, *Projet de Gestion de l'Économie à l'Ère Pétrolière*) – additional funding was needed for the PSMCBP in the form of a supplemental loan of \$11.5 million USD to cover 2005 and a GEEP II was needed to follow-up on the GEEP. The WB and the relevant Chadian agencies have begun working together to define the two projects. In particular, the needs include training and capacity building for the Chadian teams in order to provide social and environmental monitoring of the Doba Project and to manage the economy in the oil era – objectives that were not fully met during the first phase of the projects.
57. Because it deemed the results of these projects to be insufficient, the Government wanted to hold further discussions with the WB before making any decisions on new loans.
58. Whatever Chad decides, the IAG reiterates that it is important to ensure continuity of the environmental and oil monitoring, either through the Bank-financed projects, or by including the cost of such monitoring in the Government's budget, starting in 2005.

2.2.3 The Government and the IMF

59. In January 2004, the program supported by the Poverty Reduction and Growth Facility (PRGF) could not be renewed, as the IMF judged that Chad had not met all the required performance criteria. This withdrawal of IMF support resulted in a suspension in aid from the European Union and other donors in 2004, adding to the difficulties in implementing the national budget.
60. Since then, Chad has maintained a dialogue with the Bretton Woods institutions. Thanks to several meetings since May 2004, the IMF and Chad have been able to identify the prerequisites for a resumption of a new PRGF program. At the time of the IAG mission, Chad had already met several of these conditions and was awaiting the arrival of an IMF delegation in the near future to finalize the negotiations concerning a new PRGF before submitting the application to the IMF's Board of Directors.

61. In addition, during its September 9, 2004 session, the Council of Ministers ratified the Government's declaration concerning the principles governing use of the petroleum revenues from future oil fields, in the spirit of law 001/PR/99 on the management of oil revenues, which was enacted in the context of the Doba Project.

VIII.3 The IAG recommends that:

62. *As partnership cannot be avoided, the Government and the Consortium work to build a climate of confidence, of equity and of solid and well-understood mutual agreement.*
63. *The Government come to a decision as quickly as possible concerning the future of the PSMCBP and the GEEP. In any case, Chad must make sure it provides its teams with the resources required to continue monitoring and managing the sector and the oil revenues.*
64. *The Government carefully prepare for its negotiations with the IMF for a PRGF program, which would make Chad eligible for the HIPC (Highly Indebted Poor Countries) debt relief initiative. And make commitments that it will be able to respect.*

2.3 Regulatory Framework: To Be Completed Urgently

2.3.1 Petroleum Code

65. The revision of the Petroleum Code is making headway and should result in the presentation of a new code to the National Assembly by the end of the year. It appears, although the IAG was unable to verify this, that the new Code will authorize production sharing, unlike the 1962 Code, which only provided for a concession system. In addition, royalties on production will be progressive rather than fixed.
66. This normative text is essential for proper management of Chad's oil future on a general and impersonal basis. It should fill in the existing legal voids and should be deliberated with Chad's partners.

VIII.4 The IAG recommends that:

67. *The new Petroleum Code mark advances for Chad's attractiveness and the interests of its population, and that it refer to pertinent environmental regulations in the Environmental Code, starting from the oil exploration phase.*
68. *The World Bank give Chad well-informed advice based on the best comparative experiences in the world.*

2.3.2 Environmental Law

69. There is still no implementing decree for the Environmental Code. An ad-hoc committee has prepared draft decrees, but the *Ministère de l'Environnement et de l'Eau* has said that a legal assessment is necessary before the final texts can be approved.

VIII.5 The IAG recommends that:

70. *The Ministère de l'Environnement et de l'Eau focus first on drafting, enacting and publishing those implementing decrees for the Environmental Code which are necessary for the oil sector. This would fill a legal void that affects all oil developments, both current and future.*
71. *Chad call upon its partners, as needed, to assist the Ministère de l'Environnement et de l'Eau in this process and to quickly conclude this project.*

2.3.3 Plan National d'Intervention en cas de Déversements Accidentels d'Hydrocarbures (National Oil Spill Response Plan)

72. The final version of the *Plan National d'Intervention en cas de Déversements Accidentels d'Hydrocarbures* (National Oil Spill Response Plan, or PNIDAH) has been submitted to the CTNSC, which now needs to submit the Plan to the government for adoption.

VIII.6 The IAG recommends that:

73. *The CTNSC submit the PNIDAH to the Government as quickly as possible so that it can be adopted by year-end.*
74. *Esso modify its Area Specific Oil Spill Response Plans as necessary in order to bring them into conformity with the provisions of the PNIDAH.*

3 MANAGING THE OIL REVENUES

75. Chad began repatriating the oil revenues in the second half of 2004. The IAG was therefore able to assess the Chadian government's ability over a three-month period to manage the revenues effectively and to apply the procedures put into place to follow up on law 001. Compared with their level of preparation in May – deemed insufficient at that time – the government agencies in question now seem to have a better mastery of the mechanisms for using the revenues.

3.1 Implementation of the 2004 Budget

3.1.1 Mechanisms for Transferring and Mobilizing Revenues: Good Progress

76. The signing of agreements between Chad and the BEAC made it possible to initiate repatriation of the oil revenues to the country starting in July. Three of the four agreements have been signed: the Stabilization Account Agreement, the Repatriation Account Agreement and the Agreement on the Account Dedicated to the 5% Allocated to the Oil-Producing Region.
77. The Government has submitted a draft Agreement on the Fund for Future Generations (FFG) to the BEAC and has been awaiting the BEAC's comments since July. In the meantime, the Government has opened an account at Citibank to hold the 10% of oil royalties that constitutes the Fund. The *Ministère de l'Économie et des Finances* is seeking technical assistance from the World Bank to prepare an investment strategy for the FFG, an outline of which must be completed by the end of the year. The next step will be to choose an international institution to manage the Fund.

78. In order to ensure management of the 5% earmarked for the oil-producing region while waiting for the local, decentralized authorities to be elected, the Government published a decree in March 2004 describing the oil-producing region and outlining the provisional terms for managing the region's revenues. In September, the Government published a second decree on the establishment of an interim committee to manage these revenues. This committee is to be made up of nine members: members of the National Assembly, civil society representatives and representatives of the customary and traditional authorities of the oil region and the Government. The committee will begin working as soon as the Government has appointed the members. It will be responsible for identifying investment priorities for the 5% and for implementing development projects and programs. It should be noted that use of the revenues will be subject to approval by the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP).

VIII.7 The IAG recommends that:

79. *The Government, in consultation with the World Bank, define the main tenets of its investment policy and work with the BEAC to finalize the formalities for initiating the Fund for Future Generations without delay.*
80. *The Government appoint the members of the interim committee to manage the 5%. The committee should conduct its work based on the relevant regional planning documents, refer to local development plans and the local components of national programs, and have ongoing dialogue with the local population.*

3.1.2 Chad's Oil Revenues: Necessary Adjustments

81. As of the end of August, Esso had paid \$95 million USD into Chad's sequestered account at Citibank. This amount is provisional, however, given that Esso and Chad have not reached an agreement on the price of Chad's crude oil.
82. The 1988 Convention stipulates that at the end of each quarter, Chad and the Consortium must reach an agreement on "the average price of crude" for that quarter, which serves as the basis for establishing the royalties owed and the provisional price for the next quarter. If they fail to agree, they must refer to an expert. The last agreement between Chad and the Consortium dates back to the 4th quarter of 2003. All royalties that Esso has paid to Chad since then are provisional because they are based on the price of crude at the end of 2003 and do not take into account any changes to the price of Chadian crude since then.

VIII.8 The IAG recommends that:

83. *In Chad's interest, the Government and the Consortium take steps, as stipulated in the Convention, to determine the selling price of crude and to adjust the amounts owed by the oil company for 2004, either through an agreement or with the assistance of an expert.*

3.1.3 Use of the Revenues by the Ministries: Noticeable Inequalities in Allocations and Use

84. **Allocation of the revenues in 2004:** Since priority was given to ministries that were best able to quickly spend the oil revenues allocated in 2004, the *Ministère des Travaux Publics et des Transports* received the lion's share, with more than 50% of the available revenues for this year,

compared to congruent shares for human resource sectors (7.5% for the education sector, 6% for higher education and 5.4% for health), production sectors (8.5% for agriculture and 2.5% for livestock) and other infrastructures. This initial allocation, made in response to specific conditions, did not correspond as closely as hoped to the goals of the National Poverty Reduction Strategy (NPRS).

85. **Financial Commitments:** As of October 15, 2004, the priority ministries had committed approximately 65% of the oil revenues for expenditure, according to figures compiled by the CCSRP.
86. However, this average masks major inequalities since some of the main ministries had not yet committed any funds by this date, such as the ministries of education, health and environment and water.
87. This delay can be explained in part by the lack of human resources and sufficient mastery of the procedures involved. However, the IAG notes in general that the ministries have gained a better mastery of the mechanisms and have certainly benefited from the *Directions des Affaires Administratives et Financières* (Administrative and Financial Affairs Directors) set up under the GEEP. The ministries had to face the lack of confidence in the government by local economic operators, who left many calls for tenders unanswered and sometimes overpriced their bids for services in order to protect themselves against a possible lack of funds and loans. According to the ministries in question, this crisis seems to be abating. Now, the ministries are in a race against the clock to commit as many funds as possible before the November 30th closing date for this year.

VIII.9 The IAG recommends that:

88. *The Government ensure progress in the commitments of the ministries of health, education, livestock and environment and water before November 30, 2004, and help to develop their capacity to commit and spend revenues in the coming years.*
89. *The Government ensure that progress beyond commitment is made on as many priority ministry files as possible.*

3.1.4 Regulation and Oversight: Functional but Still Needs Perfecting

90. ***Direction Générale des Marchés Publics*** (Government Procurements Directorate, or DGMP): 13 of the 20 implementing decrees for the new Procurement Code have been signed and the 7 remaining decrees should be signed soon.
91. It will not be possible to set up all the *Commissions d'Ouverture et de Jugement des Offres* (Bid Launch and Assessment Committees, or COJO), which are necessary to implement the new code within the various ministries, according to the system requirements. Given the available human resources at the various ministries, only 3-5 priority ministries will have operational COJOs in 2005.
92. Moreover, funds have not been included in the 2005 budget proposal for training on the new code.

93. **CCSRP:** The *Collège* and its partners have approved its Procedures Manual and it has been disseminated to the relevant government agencies, starting with the priority ministries.
94. Its doctrine in terms of monitoring the management of the oil revenues has become more pragmatic and selective. The *Collège* sends its comments on the preparation of bids to the *Commission d'appel à la concurrence* (Competitive Bidding Process Commission). Its jurisdiction is over spending commitments by the *Ministère de l'Économie et des Finances* once a file is approved by the DGMP, and over payments made by the Treasury once the work had been completed and certified.
95. The *Collège* notes that overall, the spending ministries have mastered its procedures and that up until now it has managed to avoid a potential bottleneck in the chain of spending. The *Collège* has worked closely with the Administrative and Financial Directors (DAF) of the priority sectors to help them familiarize themselves with its procedures. This process has, however, been hindered by replacement of some of the DAF.
96. The *Collège* is now fully staffed and elected its executive committee shortly after the IAG's visit. However, looming on the horizon is the fact that all of its members will be up for reappointment in two years, which risks the loss of the gains in training and institutional memory. The Secretariat includes a director of procurements and a director of budgetary oversight; but additional technical staff appears to be necessary in order to prevent any discontinuity in the *Collège's* activities and to handle the growing number of files that it will be receiving in the future.
97. The importance of ongoing training for the *Collège* and its staff, and for the DGMP and all the ministries involved in managing oil revenues is self-evident.

VIII.10 The IAG recommends that:

98. *In 2005, the Government put COJOs in place in the main priority ministries whose agents will have undergone the necessary training in this regard.*
99. *The Government define a plan of action based on the deficiencies and shortcomings noted in the CCSRP's report on the use of the oil bonus and the reports from other oversight bodies (Inspection Générale des Finances and the Cour des Comptes). This could be a matter for the new Ministère du Contrôle de l'État et de la Moralisation.*
100. *The Government study the suggestion made by the Collège to replace only a third of its members at a time so as to capitalize on the training received and ensure a continued institutional memory.*
101. *The CCSRP examine the need to hire additional staff or call upon the assistance of other agencies, so as to provide field monitoring to ensure that the projects funded by the oil revenues are properly implemented.*

3.2 Analysis of the 2005 Budget

102. The *Ministre de l'Économie et des Finances* tabled the 2005 Finance Law in the National Assembly on October 4, 2004, as required.

103. **Forecasts behind the Preparation of the Budget:** The Minister of Finance produced the forecasts that underlie his 2005 budget proposal based on an international context deemed to be positive and good growth perspectives for oil and food production in 2005.
104. Thus, the Minister is projecting:
- real GDP growth rate of 11% in 2005, including a 6.8% growth rate for the non-petroleum GDP,
 - an inflation rate of 3.3%,
 - tax ratio of approximately 9% of GDP,
 - average price of Brent at \$38.50 USD per barrel, a discount of \$9.80 USD per barrel on the price of Chadian crude and transportation costs at \$7.80 USD per barrel.
105. Based on an average flow of 220,000 barrels per day, or exports of 80 million barrels in 2005, these forecasts would put revenues at 125.3 billion CFA francs for the petroleum budget and 137.9 billion CFA francs for the non-petroleum budget.
106. The spending plan also takes into account the delays in spending commitments made in the 2004 budget.
107. **Allocations among the Ministries:** Generally speaking, the allocation of the oil revenues to the priority ministries takes into account the criticisms of the 2004 budget and is more in line with the NPRS. Thus, the *Ministère des Travaux Publics et Transports* will receive 37% of the oil resources distributed to the priority sectors, the *Ministère de l'Éducation* and the *Ministère de l'Enseignement Supérieur* together will receive 19.5%, the *Ministère de la Santé et les Affaires Sociales* 15%, the *Ministère de l'Agriculture et l'Élevage* 11% and the *Ministère de l'Énergie* 9.3%.
108. The Group thus noted the following: better distribution to human resource sectors (education and health), a decrease in the highway construction allocation for public works, which dropped in relative value from 50% in 2004 to 37% in 2005, and a stationary effort for the production sectors (agriculture and livestock).
109. It should also be noted that a respectable amount (9.3%) was allocated to the new priority ministry – *Mines et Énergie* – which indicates there is budgetary support for the project to restore and extend electricity services.
110. At the *Ministère de la Santé* and the *Ministère de l'Éducation*, a major innovation has been submitted to the National Assembly for approval: using the oil revenues to finance salaries for four months. This budgetary support shows the importance of ensuring proper functioning of the establishments that were built using oil revenues. Already, this calls for more long-term thinking beyond the oil era with respect to the fate of these allocations and the importance of limiting the government's dependence on these fluctuating revenues to cover its ongoing expenses.
111. Concerning agriculture, only 5 billion CFA francs have been set aside to subsidize the cotton industry, in order to keep the promise to provide a subsidy of 40 CFA francs/kilo. This could result in an estimated deficit of some 3 billion CFA francs. Furthermore, the one billion CFA francs earmarked for the upkeep of rural roads only scratches the surface until an actual

transportation strategy for the rural zones can be implemented. The budget that the *Ministère de l'Agriculture* received does not allow it to implement activities called for under the National Research Plan or to expand agricultural services that are nevertheless indispensable if production is to be increased in this sector.

112. The portion allocated to the livestock sector was barely increased to 1.05 billion CFA francs, which is 0.8% of the total available amount. The few resources allocated to this sector, which does represent a considerable share of Chad's exports and GDP, should be used first and foremost to conduct a crucial census of the country's livestock since the last census dates back to 1976. This ministry's limited budget may prevent it from fulfilling another major priority – vaccinating the country's livestock so that Chad will be declared cattle plague free in 3 years when the European Union funded program costing 600 million CFA francs expires without the possibility of renewal.
113. Overall, the allocation of revenues among the ministries is a step towards a broader distribution of the oil revenues between the sectors and regions, which will hopefully continue. It remains for the NPRS, the Millennium Development Goals (MDG) and investment productivity to receive the importance they deserve.

VIII.11 The IAG recommends that:

114. *The Government actively seek funding for capital expenditures in the primary production ministries (agriculture and livestock) that were not included in the 2005 budget, such as subsidies for cotton producers in the amount promised by the State, the livestock census and follow-up actions in 2007 on the eradication of cattle plague in Chad.*
115. *The Government continue to implement an effective cotton revival program that also focuses on other measures (transportation, rural roads and research) before moving to privatize CotonTchad by modes that will maintain unity in the industry and community solidarity among the cotton producers.*
116. *The Government prepare its agencies to take increasingly explicit account, in its coming budgets, of the sector and regional goals that it adopted in the NPRS and through its support for the MDG.*

4 REGIONAL OIL ECONOMY

117. This mission focused on the growth of the oil sector beyond the Doba oil field and to its ramifications in the short and medium term. In the short term, increased oil activity calls for vigilance and a greater presence of government authorities. In the medium term, this will likely entail managing a bigger and longer-lasting oil economy that could potentially provide substantial support for the country's economy.

4.1 Exploration

118. Esso and EnCana have been pursuing exploration activities for several years under their H permits. This activity seems to indicate an even greater oil potential, (remaining to be confirmed), which justifies sustained government management. The essential stakes remain the

same – that these activities, which are not without their negative impacts on the population, should contribute to improving the lives of all in the medium term.

Esso

119. The IAG was able to visit villages in Eastern Logone and Western Mandoul that are affected by the exploration that Esso and others are currently conducting and where Esso conducted seismic exploration activities 2-3 years ago.
120. In the first instance, the Group noted that despite efforts by Esso agents to communicate with the local populations, there is still a lack of information. The population has difficulty understanding the various stages of the petroleum process (seismic activity, exploratory drilling, development and production), their impact on the population and the environment and the opportunities that exist, especially in terms of employment.
121. Everyone does not clearly understand the compensation doctrine and amount of compensation. For example, the absence of community compensation at the exploration stage, even though there could be damage to community fruit trees, should be explained in a clear and convincing manner.
122. In the second instance, the IAG noted the lingering effects where Esso widened a trail to the town of Bedjondo into a road three years ago. The road was poorly constructed and now needs to be repaired.
123. In both places, a problem was raised of lack of consideration for the local population by personnel from one of Esso's subcontractors who has since been fired. However, this type of situation requires greater oversight by the oil company and closer monitoring to ensure that its subcontractors comply with the compensation rules.

EnCana

124. EnCana continues to operate in the absence of any regulatory framework for environmental or social issues. Its only constraint is the requirement that all oil transited through the Komé-Kribi pipeline must be produced in compliance with the principles of the original Doba Project EMP.
125. EnCana has said that it is complying with this obligation to the letter and that it is doing so voluntarily. While the IAG did not visit the exploration zones, it was able to see the efforts to provide information and the major steps being taken to establish lasting relations with the NGOs in the zones where the company is present.

The Government

126. One constant characteristic of the exploration activities is the Government's absence in terms of providing protection for the environment and the local communities. The oil companies are left with no regulatory framework and the populations without recourse. Hence the importance, already mentioned in this report, of ensuring that the Petroleum Code and the implementing decrees for the Environmental Law are finalized and that the necessary resources are allocated to ensure an effective presence of regulatory authorities in the field.

127. Otherwise, the risk for Chad is that this fast-growing sector will develop at the mercy of the operators' good will, without a minimal regulatory framework.

VIII.12 The IAG recommends that Esso:

128. *Work with the Government to clearly identify the environmental and social obligations and the documentation that corresponds to each step of the process, from oil exploration to oil production.*
129. *Give the village residents an idea of developments to come so as to help manage expectations in terms of seismic, exploratory drilling and other activities, using formal documents that have been duly translated into the local language and are read by an Esso accredited representative.*
130. *Review its policy on community compensation during the exploration phase and be sure that it is well understood by the authorities and the populations, using improved teaching methods.*
131. *Increase supervision of its subcontractors, especially during the exploratory phase when there are fewer regulations, and impose sanctions, if necessary, to ensure strict compliance with the EMP and Esso's rules.*

VIII.13 The IAG recommends that the governmental authorities:

132. *Maintain an ongoing presence in the field during the exploratory phase to reassure populations of their rights and facilitate any necessary recourse.*
133. *Clarify the regulatory framework that will govern exploration activities, based on the Framework Law on the Environment and the relevant implementing decrees. This is especially urgent for exploration activities, which are being conducted every year in an increasingly larger zone.*

4.2 Development of New Fields

134. Esso is preparing to develop two additional fields, referred to as satellite fields, outside the scope of the Doba Project but under the 1988 Convention fiscal regime. These fields are within the zone covered by the 1997 environmental impact study. One is the Nya field, which is almost adjacent to Miandoum, and the other is Moundouli, located some 30 kilometers to the northwest of Miandoum. Next would come the fields in Mbikou, Belanga and Mangara. Mangara is located to the north of the Nya River and is therefore outside the zone of the original study.
135. Esso's schedule calls for development of Nya in 2005 and production in 2006, followed by Moundouli in 2006 and 2007. Esso says that it has updated the baseline and environmental impact studies and prepared a Doba EMP Compliance Plan since this EMP is already applicable to the two fields in question. The plan must take into account the particularities of the region: growing pressure on the land and vegetation that is different from that in the Doba zone. After consulting with the CTNSC and integrating any comments the CTNSC may have, the document was to be made public on November 1. The next step is a 45-day public consultation period after which Esso will update the document based on the concerns expressed by civil society. The CTNSC would then approve the final document and issue a permit to begin work.

136. Since this will be the first oil development outside the Doba Project, the clause in the loan agreement between Chad, the WB and Esso stipulating that all crude transited through the Komé-Kribi pipeline must be developed in compliance with the principles of the original EMP will be binding. The Bank has prepared a draft document stating its interpretation of this clause, which it will discuss with its partners. Definition of, and compliance with, this clause is the fundamental instrument that will ensure that all new development complies with the rules of social and environmental management that governed the first project. The credibility of all the partners depends on this compliance. The Government will be in charge of ensuring conformity with this clause in the exercise of its sovereign responsibilities.
137. Three other fields may possibly be developed next. The Mangara field will require an environmental impact study since it was not covered by the study for the Doba Project. For all new developments, both the neighboring populations and the operators should benefit from the lessons learned from the initial projects.
138. The design of the fields and the pipeline network should allow for production to be identified and calculated since revenues, including royalties, can vary from one field to the next. For example, the tax system for Moundouli and Nya is the same as for Doba, but the oil revenues are not subject to law number 001, even though the Government has indicated that these revenues will be managed in the same spirit.

VIII.14 Concerning Esso's development of new fields adjacent to the Doba Project, the IAG recommends that:

139. *The Government, with assistance from the WB and Esso, conduct a prospective study to include various scenarios for land use between production facilities, human institutions and agricultural development.*
140. *With regard to the Moundouli and Nya fields, Esso clearly explain to the CTNSC the environmental assessment and EMP preparation process that precede the documents being made available for public consultation.*
141. *Government authorities specify the nature and legal basis of the permits that are issued following the assessment and public consultation process.*
142. *Given the production timeframe for these fields, the World Bank, along with the Government and in consultation with the companies involved, specify how the provisions in the loan agreement on development and production of all products that are transited through the Komé-Kribi pipeline will apply.*
143. *Esso and the Government derive the lessons from the Doba Project to improve their communication, monitoring and compensation strategies in these new production zones.*
144. *The Government and its partners, including Esso, take particular care in dealing with the people in these zones who have become vulnerable due to conflicts between breeders and farmers and the growing pressure on the land and vital resources.*
145. *The eventual development of Mangara, which is north of Nya and outside the Doba Project study zone, be the subject of a properly-completed environmental impact study before any construction activities begin.*

146. *Esso specify the future architecture of the pipeline networks and meters and submit them to the Government for approval so that the products coming from the different fields can be properly identified and subjected to the various tax regimes.*
147. *This design make it possible to clearly identify, if need arises, the revenues owed to the various administrative regions, pursuant to the constitutional obligation to pay 5% of the revenues to the oil-producing regions.*

4.3 Doba Project

148. Activation of the third Doba Project field, the Bolobo field, began in August. At the beginning of October oil production had reached 200,000 barrels per day and drilling of the last wells was expected to be complete by the end of the month. Esso expected to reach an average rate of 225,000 barrels per day in November.
149. The transition at Esso from construction team to production team appears to be complete. As noted above, in the end, this transition resulted in a strengthened EMP team.
150. The issues noted by the IAG during its stay in Komé and its meetings with Esso, the CTNSC On-Site Supervision team, NGOs and the local population are outstanding issues that still need to be addressed, rather than new problems.

4.3.1 Environmental Issues

151. **Waste management**, especially the donation of recyclable materials, has led to a few critical situations in the absence of a clear policy in this area. Some of Esso's contractors, in rapid demobilization, did not receive authorization from the Government in time to give certain equipment to the local populations, and had to bury them. In addition, since Esso stopped its donation program for several weeks in order to adapt it to the ECMG group's recommendations and governmental requirements, it had to bury the waste that accumulated during this time. The local populations watched in disbelief as useful equipment was buried and in some cases, they dug it back up later.
152. The problem of clearing through customs equipment imported duty-free before it is used by a third party is at the heart of the matter. Esso, the *Ministère du Pétrole* and the *Ministère des Finances* are planning to work together to find a solution that will promote recycling, but have not yet done so.
153. Another waste-related problem is the hazardous waste incinerator. Startup of the incinerator was long delayed and now it is experiencing operational difficulties that cause repeated stoppages. This then leads to a delay in processing the hazardous waste that has accumulated since the beginning of construction. Nevertheless, the waste management plan, which is overdue, calls for the waste to be eliminated by the beginning of 2005.
154. The **dust** issue has still not been resolved. Esso and the CTNSC had agreed that the issue should be reviewed by a group of experts from both sides, including two doctors. Since the doctor representing Esso is still not available, this study has been delayed. In the meantime, a total of 9 kilometers of roads in the villages have been paved. Now that the rainy season is over,

Esso is preparing to apply a new coat of molasses and is pursuing its plan to spray other sections of the roads in the production zone of the three Doba fields.

155. **Soil reclamation and restitution** is still an issue, especially with the borrow pits and drilling platforms that were used temporarily and that are supposed to be returned to the population. A major delay has hindered the effort to restore the agricultural soil to the local populations before the rainy season. Only two quarries have been restored and returned. At the other quarries, the process is underway. As for the drilling platforms, the production teams have not yet identified the final shape and surface area required for future inspections.

4.3.2 Socio-Economic Issues

156. The implementation of the **Community Compensation Plan** is making progress with 60% of the infrastructures already complete by October 13. However, there are still issues regarding the compensation. The principles used in allocating resources are still not well understood and lead to disputes. The construction of marketplaces has raised questions among the beneficiaries, due mostly to vague wording in the description of these projects. The implementing agency, GTZ, its local partners and Esso should clarify this issue for the beneficiaries.
157. The **social closure** process has begun. It is important to clearly define the scope, terms and timeframe of the program for all the parties involved. Everyone must understand that this closure is a formal review of a process, not unconditional acceptance of the result. The process will be more successful if local authorities participate and third parties (NGOs) observe, as was done successfully in Cameroon. The CTNSC and Esso's EMP team have already started working together to that end.
158. The problem with **Taylor's International** persists. Esso has sued Taylor's in the United States to recover the money owed. Steps have also been taken to prevent these types of situations in the future since Esso has promised to systematically exert its right to audit its contractors' accounts. However, none of this has resulted in reimbursement for the Chadian contractors who were the victims.
159. The **Komé Atan** district will be given permanent status as a village at the end of the year, which will make it possible to provide better administrative management (land register, schools and other services).
160. The Government and the World Bank are still responsible for the so-called "**urgent projects**", which are mainly in Doba and Bébédjia and were promised and announced, but cancelled due to a lack of adequate funding in the PSMCBP. Here, there is a duty to produce results and a need to respond to the expectations of the populations closest to the Project to receive material benefits for their communities. The urban project being prepared in the context of an International Development Agency (IDA) loan could possibly include these urgent projects in its agenda.

VIII.15 The IAG recommends that:

161. *The Ministère du Pétrole, the Ministère des Finances and Esso agree on a fiscal regime that would allow for the broadest possible donation program and prevent the burying of materials and equipment that the local populations could use.*

162. *The CTNSC and Esso quickly complete the expert appraisal required to define a permanent dust control plan that meets the priority criteria that they have already outlined.*
163. *Esso proceed as quickly as possible to restore the unoccupied land so that it may be used by the local population before the next rainy season.*
164. *Esso again explain the function, terms and timeline of the social closure process to all the parties.*
165. *The government ensure that the Ministère de l'Aménagement du Territoire take charge of the most pressing "urgent projects" within the framework of the new urban project being prepared with the World Bank.*

4.4 Regional Development Actions

166. During its site visit, the IAG enquired about three projects whose success will be important for the development of the region: the Regional Development Plan (RDP), the *Fonds d'Actions Concertées d'Initiatives Locales* (Local Initiatives Development Fund, or FACIL) and the projects funded by the International Finance Corporation.
167. The **Regional Development Plan (RDP)** has made little or no headway since the parties agreed on an approach last June that would make it possible to successfully conclude this exercise. This approach involved recruiting an international expert who would work on site with Chadian experts to prepare a plan in close consultation with the authorities, NGOs and the local populations that could serve as a framework for development in the region. The terms of reference of this new contract seem to point in this direction. An international expert has already been identified, but the contract still needs to be signed. On October 26, the WB issued its non-objection, which should lead to the signing and launching of this last phase as quickly as possible.
168. As the IAG mentioned in its last report, the prospect of continued oil development over several years gives the RDP added importance as a planning instrument that will help define a spatial and sector-based vision of the region, its population and its economy.
169. The IAG met with **FACIL's** technical unit, which provided a rather disappointing report of FACIL's activities over the last 6 months. The income-generating activities program, which entails providing loans to intermediary agencies to fund micro-credit projects, shows that reimbursements were far below what could be expected. The investment programs have an achievement rate that ranges from 0% (water outlets, health stations) to 50% (classrooms). Because the FACIL does not have legal status, the WB was not able to open a second-generation account as planned, which hindered resolution of the cash flow problems.
170. Another issue is the perpetuation of this promising pilot program that was to be extended to the national level. WB funding through the PSMCBP will end in December if an additional one-year loan is not approved.
171. FACIL is therefore facing a serious situation in terms of being reimbursed the money advanced under the micro-credit program, its own funding and its future.

172. The **development projects funded by the IFC** are the subject of a review and strategic reorientation in order to make sure that real needs are being met and to avoid disillusionment caused when production is increased but there is no market. A dialogue between the institutions that support the various development projects (IFC, Esso-GTZ, FACIL), along with the NGOs (Africare, ORT and others) could create synergies and avoid duplication.

VIII. 16 The IAG recommends that:

173. *Now that the obstacles to its implementation have been overcome, the preparation of the RDP receive support from government and local authorities in order to ensure constructive follow-up to the implementation process in the field by the team of national and international experts. This should be carried out according to approved Terms of Reference and by soliciting the cooperation of all the institutions and parties involved in this area.*
174. *Given the disappointing results of the FACIL and the uncertainty as to its future funding raise questions about the sustainability of this promising project, the administrators must take prompt corrective measures to achieve concrete results.*
175. *While these corrective measures are being taken and in the absence of support from international partners, the Government consider the possibility of ongoing funding for the FACIL in order that the populations benefit from the experience gained in the pilot projects.*
176. *FACIL seek ways to operate more effectively to reach a degree of self-financing in the medium term, based in particular, on repayment of its loans.*
177. *The IFC share its experience and its new strategic orientation with the other development partners in the region.*

CONCLUSION

178. The IAG has drawn three main conclusions from this mission – three key factors for success on which the various parties must place greater focus:
179. – With regard to the legal, regulatory and institutional framework, the instruments essential to sustainable management of the petroleum resource must be completed, especially the Petroleum Code and the implementing decrees for the Environmental Law. The monitoring institutions must become sustainable and coherent in order to ensure compliance not only with the EMPs of oil projects, but with all environmental laws. And the parties, who have no choice but to be partners, must develop a relationship of trust based on transparency, cooperation and equity, which will enable them to resolve the inevitable problems in a constructive manner.
180. – In order to ensure that the oil revenues will enable Chad to meet this major challenge that it has taken on, namely to improve the well-being of its population, the country must make sure that resources are allocated annually on the basis of the objectives and priorities of the NPRS and the MDG. Chad must also do everything to ensure that it spends the revenues efficiently. These practices will serve as a guide to managing not only the oil revenues, but all the government's revenues.

181. – The future of the oil region requires, among other things, a complete assessment of the Doba Project experience. This must be carried out by each of the partners and be widely discussed, so as to take advantage of the lessons learned – both in terms of the progress made and the shortcomings – and to ensure frequent, ongoing and adapted communication. A far-reaching and participatory Regional Development Plan will also be a crucial tool in guiding the future of this region.

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The IAG thanks all of the interlocutors who accompanied us on our field visits, welcomed us and shared their concerns, aspirations and satisfaction in response to the implementation of this Project. Each of them made a significant contribution to the Group's information and understanding of the evolution of the stakes that affect the fate of the people.

The IAG also thanks the Government of Chad, the Consortium members and the World Bank whose welcome, availability and logistical support all contributed to a smooth visit.

The IAG welcomes written reactions and comments pursuant to this report and will be pleased, upon request, to post these on its web site (at www.giq-iaq.org), in accordance with the terms of use of the site.

The IAG in particular encourages its principal partners to provide it with information on actions taken in response to its recommendations, on a regular basis and before the Group's next visit.

All reports of the IAG's working visits are available on its web site, at www.gic-iaq.org, and on the World Bank site, at www.worldbank.org/afr/ccproj.

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Appendix 1

Chronology of Meetings

Sunday, October 10, 2004 – N'Djamena

- IAG internal working session
- International NGOs: Catholic Relief Services, Bank Information Center

Monday, October 11, 2004 – N'Djamena

- World Bank, IFC
- IMF
- *Coordination Nationale*
- EEPCI

Tuesday, October 12, 2004 – Komé 5

- CTNSC On-Site Supervision Team
- Esso Chad EMP team

Wednesday, October 13, 2004 – Komé – Moundouli satellite field zone¹

- Komé village: visit of the quarry
- Béro village
- Bao 1 village
- Moundouli village

Thursday, October 14, 2004 – Moundou – Nya satellite field zone

- CotonTchad
- CPPL
- GTZ and local partners
- Travel from Moundou to Komé 5 via the future development zone of the Nya field¹

Friday, October 15, 2004 – Western Mandoul²

- Damalla: location of an Esso contractor base, now closed (exploratory activities)
- Bédogo 3 village
- Bedjondo village
- IAG internal working session

Saturday, October 16, 2004 – Komé 5

- FACIL
- EEPCI and CTNSC: close-out meeting

Sunday, October 17, 2004 – N'Djamena

- Encana, NGOs and CTNSC
- IAG internal working session

Monday, October 18, 2004 – N'Djamena

- Working session with *Ministère de l'Économie et des Finances* technical services: *Directions du Budget, des Impôts et des Taxes, du Trésor, des Études et de la Prévision, Institut National de la Statistique, des Études Économiques et Démographiques, Cellule Économique*

¹ IAG accompanied by the CTNSC, the CPPL and Esso

² IAG accompanied by the RESAP-MC and Esso

Tuesday, October 19, 2004 – N'Djamena

- *Ministère du Pétrole*
- *Ministère des Travaux Publics et des Transports*
- *Ministère de la Santé Publique*
- *Ministre des Mines et de l'Énergie*
- EEPCI-TOTCO

Wednesday, October 20, 2004 – N'Djamena

- *Ministère de l'Environnement et de l'Eau*
- *Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle*
- *Ministère de l'Action Sociale et de la Famille*
- *Ministère de l'Élevage*
- *Ministère de l'Aménagement du Territoire, de l'Urbanisme et de l'Habitat*
- DGMP
- IAG internal working session

Thursday, October 21, 2004 – N'Djamena

- WB Country Manager
- CCSRP
- *Cellule Économique* and WB : GEEP
- Civil society: NGOs, labor unions, Human Rights Associations

Friday, October 22, 2004 – N'Djamena

- *Ministère de l'Éducation Nationale*
- *Ministère de l'Agriculture*
- Donors
- *Ministre Délégué auprès du Ministre de l'Économie et des Finances, chargé du Budget*
- IAG internal working session

Saturday, October 23, 2004 – N'Djamena

- Working session with WB, CN and EEPCI
- Press
- IAG internal working session

Sunday, October 24, 2004 – N'Djamena

- IAG internal working session

Monday, October 25, 2004 – N'Djamena

- Debriefing
- IAG internal working session

Tuesday, October 26, 2004 – N'Djamena

- The Prime Minister
- IAG internal working session

Appendix 2

List of Abbreviations and Acronyms

BEAC	<i>Banque des États de l'Afrique Centrale</i> / Bank of Central African States
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
CENI	<i>Commission Électorale Nationale Indépendante</i> / National Independent Electoral Commission
CN	<i>Coordination Nationale</i> / National Coordination
COJO	<i>Commission d'Ouverture et de Jugement des Offres</i> / Bid Launch and Assessment Committee
CPPL	<i>Commission Permanente Pétrole Locale</i> / Local Standing Committee on Oil
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> / National Technical Committee for Monitoring and Control
DAF	<i>Directeur Administratif et Financier</i> / Administrative and Financial Director
DGMP	<i>Direction Générale des Marchés Publics</i> / Government Procurements Directorate
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad Inc.
EMP	Environmental Management Plan
FACIL	<i>Fonds d'Actions Concertées d'Initiatives Locales</i> / Local Initiatives Development Fund
FFG	Fund for Future Generations
GDP	Gross Domestic Product
GEEP	<i>Projet de Gestion de l'Économie à l'Ère Pétrolière</i> / Management of the Petroleum Economy Project
GTZ	Gesellschaft für Technische Zusammenarbeit (German cooperation)
HIPC	Highly Indebted Poor Countries
IAG	International Advisory Group
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MDG	Millennium Development Goals
NGO	Non-Governmental Organization
NPRS	National Poverty Reduction Strategy
ORT	Organisation for Rehabilitation and Training - International
PNIDAH	<i>Plan National d'Intervention en cas de Déversements Accidentels d'Hydrocarbures</i> / National Oil Spill Response Plan
PRGF	Poverty Reduction and Growth Facility

PSMCBP	Petroleum Sector Management Capacity-Building Project
RDP	Regional Development Plan
RESAP-MC	<i>Réseau de Suivi des Activités liées au Pétrole au Moyen Chari</i>
WB	World Bank