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Chad-Cameroon Petroleum Development and Pipeline Project

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International Advisory Group
Mamadou Lamine Loum, Chair
Jane I. Guyer
Abdou El Mazide Ndiaye
Dick de Zeeuw
Jacques Gérin, Executive Secretary

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IAG Secretariat
5 Place Ville-Marie, Suite 200
Montreal, Quebec
CANADA H3B 2G2
Tel.: +1 514 864 5515
Fax: +1 514 397 1651
secretariat@gic-iag.org
www.gic-iag.org

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EXECUTIVE SUMMARY

This report presents the observations, analyses, conclusions and recommendations suggested to the International Advisory Group (IAG) through its ninth statutory visit to Chad and Cameroon from May 15 to June 6, 2005.

Chad's access to its oil revenues for nearly a year, the gradual resolution of construction-related issues in Cameroon, and the prospect of a project-review workshop in Chad and Cameroon in a few months are all important steps that provided the framework for this ninth mission.

In addition to regular Project monitoring, the mission had two main objectives in **CHAD**: to analyze the progress made in managing and using the oil revenues since October 2004, and to assess future physical and logistical expansion of the oil sector in Chad and its potential lasting impact on the land and people.

Routine Monitoring of the Oil Fields

The **Doba** Project is almost up to speed but unforeseen events, persistent problems and delays are slowing it down.

- Esso's **downward revision of its forecasts** by about 22% with oil production fluctuating between 170 and 180 thousand barrels per day (bpd). More water is being pumped out than expected at nearly 700,000 bpd.
- **Urgent solutions and measures** required for environmental issues relating to waste management and dust control. One sensitive issue: the impact of the Project using larger tracts of land for longer periods of time than anticipated. Esso is urged to apply the provisions in the Environmental Management Plan (EMP) to quickly restore and return the land that is supposed to be turned over to area residents. The compensation program for people who are suffering cumulative losses not covered under the EMP also needs to be redesigned.
- **Pending socio-economic issues**: These issues revolve around compensation disputes, social closure, more active promotion of business opportunities in the zone and the need to steadily catch up on urgent projects.
- The **near standstill of on-site monitoring by the CTNSC and FACIL**, caused when funds for the Petroleum Sector Management Capacity-Building Project (PSMCBP) ran out early. The Government is urged to take adequate budgetary measures to support both government oversight of the Project and the work of FACIL.

Esso needs to finalize the environmental and social documentation for the **Nya Moundouli Project (NMP)** and the Government needs to approve it without undue haste so as to lay the foundation for oil development based on environmental and social criteria that are as strict as those applied to the Doba Project. The IAG reminds the World Bank and its partners of the importance of rapidly finalizing the document concerning the interpretation of the Doba Project loan-agreement clause on "compliance with the EMP principles" and its terms of application.

Finally, Esso should devote the resources needed to adapt its compensation program to the Moundouli area where pressure on the land is considerably greater.

Seismic and exploration activities are gradually spreading to the southeast of the country and around Lake Chad. Notable progress is noted in the interface agreements signed between Esso and its contractors subjecting these activities to the Doba EMP. The IAG urges the authorities to tackle the problems, including abuse of power, extortion by public officials and insecurity, that have been reported in the Krim Krim zone where Esso is conducting explorations.

The IAG saw a resurgence of a problem that it thought had been resolved since 2001, namely the practice by certain local authorities of imposing a 10% **levy** on individual compensation paid by the oil companies to the residents. The Group urges the *Coordination Nationale* to refer this matter to the *Ministère de l'Intérieur* so that this practice can be terminated through enforcement of the 2001 presidential directive banning levies on compensation.

Finally, Esso is urged to define its policy concerning **relations with local authorities**, to inform its local teams and to ensure that it is systematically applied in a spirit of good neighborliness.

On-going **Management of Oil Revenues**

- **Oil revenues** in 2005 exceeded the 2004 year-end forecasts. The dispute between Esso and the Government on calculating royalties has not been resolved, although a consensus was reached on the accuracy of the Kribi meter. The parties need to come together to resolve this dispute, by mutual agreement or through arbitration.
- In order to fully master oil revenue calculation on its own, the *Ministère de l'Économie et des Finances* needs to equip itself with the necessary instruments, tools and human resources.
- **Implementation** of the 2004 budget revealed uneven performance in the priority ministries' use of the oil revenues. This disparity among the ministries is due to varying degrees of preparation and mastery of procurement procedures and those of the *Collège de Contrôle et de Suivi des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP), and to uneven capacity of human resources.
- Implementation of the 2005 budget is off to a slow start, but the ministries are beginning to master expenditure circuits, which should enable them to make up for lost time. The Government needs to think about appropriate institutional and technical reforms to help human resources ministries spend their investment credits and to build the capacities of the ministries that deal with development but are among the weakest in terms of absorption capacity, such as the ministries of *Agriculture* and *Élevage*.
- **The system for regulating and overseeing** oil revenue use is functioning better. The *Direction Générale des Marchés Publics* (Government Procurements Directorate) has set up the new system's internal management units in the ministries. The *Collège* (CCSRP) appears to have mastered deadline management; the quality of spending commitments and expenditures is what should eventually be evaluated.

- Now that the investment committee for the **Fund for Future Generations** and the Interim Management Committee for the **5% Regional Fund** are in place, implementation of the two funds is urgent.

Long-Term Management of the Oil Sector

- Despite some progress, implementation of the **legal and regulatory instruments** for managing the oil sector is slow and the institutional plan is still uncertain. The IAG examined draft versions of the oil sector policy letter, the Petroleum Code and the decree establishing the bylaws of the *Société des Hydrocarbures du Tchad* (Chad Hydrocarbon Company) and found they need to be improved, reconciled and interlinked before they are adopted so as to ensure consistent, transparent management of the oil sector. Moreover, a decision on the institutional future of the bodies established for the Doba Project must be made without delay. Approval of the National Oil Spill Response Plan is urgent, as is finalization of the implementing decrees for Law no. 14.
- Agreements between Chad and the World Bank to set up a **supplementary** loan to meet the primary goals of the **PSMCBP** and a **successor project to the GEEP** (Management of the Petroleum Economy Project) are in sight. During the transition period until the additional loan for the PSMCBP is disbursed, the Government should ensure the continuity of environmental and oil-related monitoring by its own teams, using the oil revenues to do so if necessary.

Managing Future Development

Apart from the commercial nature of the Doba Project, its partners above all wanted this project to be a source of development for the host countries.

- The success of the Project in Chad will largely be measured on the country's ability to manage its oil revenues in an effective and sustainable way.

Law 001, an instrument of transparent oil-revenue management that promotes investments in the country's development sector, plays a crucial role in this. Despite Chad's financial difficulties, it is important that the country resist the temptation to amend the law too soon. Rather, it should keep this model in place while it learns to manage its petroleum economy and the new budgetary processes and until it has acquired the expertise and customs to manage all its public resources in an efficient and transparent manner. During this difficult transition period, the Government will need the full support of its foreign partners as it works to craft a reliable budget.

In order to meet the objectives of increased production, development of the country and improved public well-being, the Government needs to ensure more balance in the overall **allocation** of the oil resources to the priority ministries. The ministries, in turn, must make every effort to **allocate these resources in accordance with the objectives** in the program budgets, more specifically, improving public well-being.

- **The expansion of oil activities** should lead the Government and the oil companies to examine how these activities can be developed without jeopardizing the future of a region

that relies first and foremost on farming and herding. They must look at all the possible and probable scenarios in order to foresee the impact on the land, habitat and infrastructures.

- The **Regional Development Plan**, which is nearly complete, now appears to be a useful tool for the *Ministère du Plan* and the population to help guide the oil region in the short and medium term.
- Esso's **other initiatives** in the fields of energy and water, along with initiatives by the International Finance Corporation to support local entrepreneurship should contribute to development in the oil region and to the diversification of Chad's economy.
- However, it is clear that the country is in increasing need of a long-term planning framework with a time frame comparable to oil developments. This could be the result of a joint, multidisciplinary, consensus-building effort: a "**Chad 2030**" forecast similar to those done in other African countries.

The IAG drew three **conclusions** from this mission in Chad:

- Now that the revenue management and allocation instruments are in place and fully operational, all agencies need to take steps to ensure that expenditures in the field lead to concrete results and measurable improvements to public well-being from year to year.
- Although oil activities are expanding, Chad, even with the aid of its partners, lags behind in implementing a legal framework and the appropriate oversight instruments.
- Finally, the expansion of oil activities requires careful consideration of how farming and herding activities and oil production can co-exist harmoniously in a perspective of development.

At the same time, revenue management must be given careful thought from the perspective of dynamic economic and social development based on a forward-looking and a consensus-building process among the political, economic and social players.

The mission in **CAMEROON** focused on the progress made on issues identified during the IAG's last visit in January 2005 and on how the Group's recommendations have been followed up.

Crude oil is being extracted and transported as planned but efforts are still required to close outstanding issues and to integrate the Project fully into the Cameroonian context. Most of the pending problems the IAG identified in January 2005, which concern all the parties involved in the Project, have seen little or no progress, regardless of whether they are intrinsic and Project-related or internal cross-disciplinary issues (human capital and institutional framework) or external issues (international cooperation).

The Project

- PSMC (Pipeline Steering and Monitoring Committee) and COTCO teams jointly monitor the level of **security at the Project's infrastructures** (pipeline and permanent facilities) on a

regular basis. The system does have some weaknesses that the PSMC and COTCO are trying to resolve through corrective measures, working with the local residents.

- The joint PSMC-COTCO-NGO field mission scheduled to occur in January to look at all the unresolved **compensation and social closure** issues did not take place. The IAG again urges the three parties to work together toward consensus so that the social closure process can be completed as soon as possible. Project-related collateral damage to the artificial reef off the coast of Kribi, the country's archeological heritage, and the flow of the Lom River must also be attended to promptly.
- With respect to **formalizing COTCO's land rights**, the Project's temporary sites and infrastructures still have not been transferred to Cameroon. It is up to the Government to finalize this long process, which, in the end, will allow some of the land and infrastructures to be returned to the communities.
- **Protecting the health** of area residents is a key issue that has already been highlighted. Several studies on HIV/AIDS prevalence, especially along the pipeline route, are now available. However, due to the different methodologies used, the results cannot be compared directly. Although it is impossible to determine the extent to which the Project has affected the prevalence of HIV/AIDS, it is nevertheless clear that this region is particularly hard hit and needs an action plan to limit the spread of this disease. The Ministry of Health should promptly identify the areas with the highest HIV/AIDS rate in this zone and lead the efforts to combat the disease, including efforts by the PSMC, COTCO and the National AIDS Prevention Committee.
- Concerning the **Lom-Pangar dam project**, the IAG saw a need for the Government to coordinate the project and involve all interested parties in the preliminary studies, especially the parties to the Pipeline Project, which will be directly affected by the dam. The Group reiterates its recommendation that the PSMC and COTCO start a much-needed dialogue to discuss the stakes, impact, responsibilities and financial coverage related to any operations that may be necessary to protect or divert the pipeline. The Group recommends involving the Chadian authorities, whose interests will also be affected, where appropriate.

Project-Related Programs

- The **national parks** are now under the Ministry of Environment and the Protection of Nature (MINEP). The executing agency WWF has been somewhat behind in its management of the Campo-Ma'an National Park (CMNP) since January, but it did continue its support program for area residents. Concerning WCS's management of the Mbam and Djerem National Park (MDNP), relations among the various parties have improved slightly but there are still a few problems, especially between WCS and area residents, who, for the time being, are not being offered any options for alternative activities. At the time of the IAG's visit, the CMNP management plan was nearly complete and the first draft of the plan for the MDNP was expected to be finished by the last quarter of 2005. For both parks, FEDEC's mid-term review of the WCS and WWF contracts should provide an opportunity to clarify the target objectives to be met by February 2006 and the financial resources required to attain them.
- FEDEC has made progress in implementing the **Indigenous Peoples Plan** and needs to take steps to consolidate this progress over the long run.

- **FEDEC** has begun thinking about its future. In particular, the Foundation is contemplating what methods and resources will be needed to ensure the sustainability of its activities. These reflections should continue.

Human and Institutional Resources

In order to optimize and take ownership of the Pipeline Project, and beyond that, to capitalize on the benefits for the oil sector, Cameroon will need to develop and mobilize its national resources. The country will also have to adopt a framework of legal and regulatory reference instruments, which are not yet ready. It is clear that catch up is now required on these measures, which should have been in place prior to, or at the very least, during the project.

- **Capacity-building** activities under the **CAPECE** project are still lagging behind. Six months from the end of the loan period, project performance remains weak. Cameroon is still far from being able to use the long-awaited results of all these studies to help manage the Pipeline Project and the oil sector. The World Bank and the PSMC need to take action to move CAPECE forward.
- Progress in adopting a **legal and regulatory framework** for the oil sector remains modest. The PSMC has just recruited a consultant to draft an implementation manual for the **National Oil Spill Response Plan**. The two documents will be submitted simultaneously to the government for approval of the Plan.
- As for the **environmental management law**, MINEP has signed the first implementing order on environmental impact assessments. In order to support preparation of the other implementing orders, the PSMC should ensure that all draft legal texts prepared in connection with CAPECE are finalized and sent to MINEP as soon as possible for evaluation and statutory recognition.

International Cooperation

Two promising regional cooperation initiatives in terms of Project quality and public well-being warrant the full support of the Government and the World Bank. These are the **Chad-Cameroon Commission** launched in February and the **sub-regional cooperation** among countries bordering the Bight of Benin. This cooperative effort focuses primarily on environmental protection and the safety of people and property for all petroleum operations in and around the Bight.

In **conclusion**, now that project construction is complete in **Cameroon**, the temptation to demobilize too soon must be resisted. Given the upcoming project assessment in October, issues that could be rapidly resolved should not be ignored. Cameroon should take advantage of the Project's resources to improve its own capacities through CAPECE and establish a regulatory framework for the oil sector. The Government needs to consider all the consequences and implications of a dam project on the Lom-Pangar, especially its impact on the Pipeline Project. Finally, Cameroon has an opportunity to promote a form of regional cooperation that can help mitigate oil risks in the Bight of Benin in an efficient and integrated way.

TIME TO TAKE STOCK IN CHAD AND CAMEROON

The Doba Project partners – the Governments, Consortium and the World Bank – have decided to hold workshops in Chad and Cameroon so that the main parties to the Project – partners and civil society alike – can take stock of how well the original project (development of the three Doba fields, construction of the pipeline and related facilities) has been implemented to date.

This assessment comes at a time when the two Governments and the World Bank will be finalizing their project completion report for the Chad Petroleum Development and Export Project. The project was financed by an IBRD (International Bank for Reconstruction and Development) loan that enabled the two countries to invest in TOTCO (Tchad Oil Transportation Company) and COTCO (Cameroon Oil Transportation Company).

Upon invitation by the three partners, the IAG agreed to facilitate these workshops, which will likely be held in October in N'Djamena and Yaoundé. The Group hopes that the workshops will allow for all points of view to be expressed and that they will result in concrete conclusions concerning project accomplishments and lessons learned so that the countries can continue to improve their management of this petroleum resource.

GENERAL INTRODUCTION

1. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project ("Project" or "Doba Project") conducted its ninth statutory visit to Chad and Cameroon from May 15 to June 6, 2005.
2. A number of milestones have been reached recently: Chad's access to its oil revenues for nearly a year, the gradual resolution of construction-related issues in Cameroon, and the preparation of a project-review workshop in Chad and Cameroon in a few months can be seen in the context of the overall Project.
3. The Doba Project is the largest private investment project to date in Sub-Saharan Africa. It is based on a new type of partnership among Chad, Cameroon, the World Bank and the Consortium developing the project. This partnership, whose goal is to ensure that the benefits of oil investment result in real and sustainable improvements in the population's well-being, has played a major role in mobilizing the resources needed to implement the project. Its most visible results include: an agreement on rigorous environmental and social standards required for project implementation, a unique formula for managing oil revenues in Chad, and capacity-building projects in Chad and Cameroon supported financially by the World Bank.
4. The installation of the pipeline and the Komé crude-oil processing facility encourages further exploration in the oil zone stretching from the Logone River to Lake Chad. Extensive oil activity can now be envisaged, which must be reconciled with Chad's farming and herding vocation.
5. The objectives of the IAG's ninth mission to Chad were to assess how well the ministries are managing the oil revenues received since July 2004, and to take stock of the exploration and development work outside the three Doba oil fields in order to better understand the long-term impact of oil production on farming and herding.
6. In Cameroon, the mission followed up on the recommendations made by the IAG during its January 2005 mission, which focused on the resolution of construction-related issues, the safety of the pipeline and neighboring populations and the Project's contribution to development in Cameroon.
7. This report presents the observations, analyses, conclusions and recommendations suggested to the Group through its mission and describes the situation as of the beginning of June 2005.

CHAD - INTRODUCTION

8. The IAG conducted its ninth statutory visit to Chad from May 15 to June 1, 2005.
9. The Group visited Komé, Moundou, Bébédjia and Doba to monitor the Doba Project and also traveled to the Nya Moundouli Project (NMP) zone, where preparations to develop two satellite fields are underway. The IAG visited three villages in this zone that have already received compensation in connection with the project's seismic and exploration activities: Bao 1, Miladi and Moundouli 1. The Group was accompanied to the sites by representatives of Esso's EMP team (Environmental Management Plan), the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC), the *Commission Permanente Pétrole Locale* (Local Standing Committee on Oil, or CPPL), a consortium of local non-governmental organizations (NGOs).
10. In N'Djamena, the Group met with the central and priority ministries (except for the *Ministère de l'Enseignement Supérieur*) and with the agencies in charge of managing and overseeing the oil revenues. The Group also met with the Minister from the *Ministère du Contrôle de l'État et de la Moralisation*, and representatives of civil society, the World Bank (WB), the International Monetary Fund (IMF), the International Finance Corporation (IFC), the *Coordination Nationale* (National Coordination, or CN), EEPCL (Esso Exploration and Production Chad, Inc.), EnCana and international aid agencies.
11. The mission itinerary and a chronology of the meetings can be found in Appendix 1.
12. The **political context** during the mission was marked **on the national level** by the campaign for the June 6 referendum to amend the Chadian constitution with respect to the number of presidential terms and the *Conseil Économique, Social et Culturel*.¹ While the political community was much immersed in this campaign, the IAG was able to meet with its usual technical contacts and with several people on the political side. On the international level, the Darfur crisis is increasingly affecting Chad, where more than 200,000 refugees have settled in camps near the country's border with Sudan. The international aid given to the refugees is stirring expectations among the indigenous populations, whose living conditions are often more precarious and whose local environment and economy are severely impacted by the mounting human pressure.
13. The **social context** has been marked by financial problems since the IAG's last mission in October 2004. Last year's campaign to revive the cotton industry did result in increased production. After a funding crisis, the necessary funds were eventually freed up – mainly from oil revenues – so that CotonTchad could keep its promise to buy cotton at 190 CFA francs per kilo. However, payments to the cotton producers were delayed. As of the end of May, several thousand metric tons of cotton still had not been purchased and picked up in the villages as the rainy season approached, especially in the Doba region. In the urban areas, the salary arrears that had caused government workers to strike were paid off at the beginning of the year but began to accumulate again during the first half of 2005.

¹ On June 21, the *Commission électorale nationale indépendante* (CENI) officially proclaimed the results of the referendum as 77.20% Yes, 22.80% No.

14. The **energy sector** continues to progress. Thanks to a World Bank project to rehabilitate essential water and electric services, and a series of other initiatives by the *Ministère des Mines et de l'Énergie* (MME) involving other partners, electricity production in N'Djamena stood at 25.8 megawatts (MW) and should reach 30 MW by year end. Efforts to restore dilapidated water systems and power grids are also underway. The Farcha power plant is under construction, with funding from the Islamic Development Bank. The possibility of constructing a topping plant in Komé to process Doba crude oil is being studied. The output from this refinery could potentially fuel the power plants and decrease costly fuel imports. The MME has also started to improve the financial management of Chad's water and power company (*Société Tchadienne d'Eau et d'Électricité*, or STEE) so as to restore financial equilibrium. Finally, the *Ministère du Pétrole* has invited an international company to develop the Sédigui field (pipeline and refinery).
15. **The economy** continues to live the paradox of crisis levels in domestic and foreign debt coexisting with strong growth of the GDP driven by the petroleum sector, while the non-petroleum sector lags (2% in 2004). This confirms the importance of using oil revenues to support growth in Chad's productive sectors, especially farming and herding, in order to achieve sustainable development.
16. **The country's financial circumstances** are contradictory. Oil revenues are accumulating for lack of sufficient absorptive capacity, yet a cash-flow crisis is adversely affecting routine budgetary transactions, which often take second place to the urgency of sovereignty expenses. When the IMF's Poverty Reduction and Growth Facility (PRGF) resumed and with it aid from other donors, including the European Union, there was a relatively large increase in foreign aid (expected in 2004 but arrived in early 2005). Meanwhile the Government is still unable to pay off its debts due to a paradoxical liquid-asset crisis that causes arrears in domestic and foreign debt.
17. This ninth mission to Chad was an opportunity for the IAG to monitor activities in both the oil zone and the Lake Chad region, and to analyze routine management of oil revenues. More generally, the mission provided an opportunity to take a closer look at whether the oil sector is being managed in a sustainable way, and how the country is managing its economic and social development. Finally, it was an opportunity to urge the various parties involved to make as much progress as possible on the pending issues before the Project review in October 2005.

1 ONGOING MONITORING OF THE OIL FIELDS

18. The IAG reviewed the remaining issues related to the three Doba oil fields and took stock of the situation with the new fields and exploration work. Preparations for construction work have shifted to the Nya and Moundouli satellite fields, while exploration is being conducted to the southeast and north.

1.1 The Doba Project Gets Up to Speed

1.1.1 Production Figures Revised Downward

19. The Project was launched in 2000 and oil first flowed in July 2003, nearly a year ahead of schedule. Chad has had access to the oil revenues since July 2004. Although the Consortium had anticipated reaching a production plateau of approximately 225,000 barrels per day (bpd) in November 2004, the three Doba Project oil fields – Komé, Miandoum and Bolobo – are currently producing only about 170 to 180 thousand bpd. These figures, which are below Esso's estimates, are probably due to the fact that the reservoir is less permeable than expected. In addition, the amount of water being pumped out is considerably more than anticipated – up to 700,000 bpd.
20. Faced with these production problems, Esso called upon its experts to explain the phenomena and to identify production techniques that would bring the company closer to its original goals. The Government is still awaiting the results of these studies and wants to be sure that EEPCL is managing its oil deposits in an optimal way. In the meantime, the water is being re-injected into deep aquifers through wells dug for this purpose.
21. Given this situation, Esso is studying the possibility of using part of this water for surface needs – agricultural or otherwise – and re-injecting the rest into the subsoil. However, the technical and economic feasibility of this plan and the possible surface uses for such large quantities of water (up to 300,000 bpd) are yet to be determined. This would require an amendment to the EMP, which all the parties would have to ratify, and a study of the positive and negative socio-economic and environmental impacts of the various possible uses of the water on the surface.

1.1.2 Urgent Environmental Issues Must Be Addressed

22. **Soil restoration and restitution:** During the Project's construction phase, part of the land in the Oil Field Development Area (OFDA) and along the pipeline route was annexed permanently and part was annexed temporarily. Occupation of the land is governed by the Consortium Agreement and the Petroleum Code, along with the contractual agreement of the EMP. The area of land occupied and the length of occupation were taken into account when the Project's compensation plan for area residents was prepared.
23. The EMP requires the temporarily annexed land to be restored and returned to the communities that have customary rights over it before the beginning of the next agricultural cycle following the construction work (Chad EMP, volume 3). Restrictions on how the land can later be used may apply. This land primarily includes the old landing strip near the Komé base camp, borrow pits, quarries, flowlines and some of the drilling platforms.

24. The IAG again noted serious delays in EEPCCI's program to restore the land and turn it over to area residents, thereby depriving them of arable land. No convincing explanation was forthcoming, other than the possible need for future access. Although the EMP does not require specific compensation for such delays, a spirit of good corporate citizenship should motivate Esso to return this land without delay. The IAG draws the attention of EEPCCI and the Government to this issue, which was raised previously by the External Compliance Monitoring Group (ECMG) but which still has not been adequately addressed to date. Permanent occupation of the land with drilling platforms larger than originally planned, and especially more wells, since Esso is planning to drill up to 100 more wells than stated in the EMP, reduces the amount of land available for farming and consequently, places additional limits on the population's farming activities. Yet, there is no special compensation for such extensive land occupation. In an area where increasing pressure is being exerted on the land for farming and herding needs, the additional Project-related pressure is an extremely sensitive issue that needs to be addressed soon. This issue also arises in the development of Moundouli field where the same platform size is expected to be used.
25. The ECMG had recommended a land occupation study in the Doba oil field zone, but the study could not be conducted for lack of sufficient funding in the Petroleum Sector Management Capacity-Building Project (PSMCBP). However, given the increased well density and the expansion of oil activities, this study is obviously more urgent than ever.
26. **Waste Management:** The hazardous waste incinerator in Komé has not been operational since December 2004. While waiting for it to be repaired, the Project has been storing the untreated waste in accordance with strict environmental standards.
27. Esso's program to donate recyclable waste to the local populations is working well and is being implemented under CTNSC supervision.
28. However, Esso is still having problems donating its duty-free imported equipment. After trying without success to work with customs officials, the *Ministère de l'Économie et des Finances* and the *Ministère du Pétrole*, the company finally had to bury 26 vehicle shells in a secured zone. This could lead to new misunderstandings on the part of area residents who could have used the metal, tires or other parts of these wrecks.
29. **Dust:** This recurring issue is still unresolved since the Government and Esso have not reached an agreement on a definitive dust control plan. Meanwhile, Esso is renewing the molasses paving and spraying the roads until the next rainy season starts. In addition, it is planning to test a new, resin-based natural product that could replace the molasses and spraying in the long run. Tests to determine the impact of dust on plant productivity still have not been conducted.

IX.1 The IAG recommends that:

30. - *EEPCI comply with the EMP requirements to quickly restore any land that is no longer needed for Project construction and production and turn it over to area residents. The CTNSC on-site supervision team should ensure that this program is implemented promptly.*
31. - *EEPCI work with the CTNSC to define and propose additional community compensation measures since Esso will be occupying more land for longer than projected under the EMP and the current community compensation system does not provide for any additional acquisitions.*

32. - *A study on land use in the oil zone be undertaken as recommended by the ECMG, as an essential complement to the Regional Development Plan, which did not include a prospective study of this important issue.*
33. - *EEPCI, the Ministère de l'Économie et des Finances and the Ministère du Pétrole come to an agreement on a process that will allow EEPCI to implement the most generous donation program possible for the local populations and ban the burying of materials and equipment that can be reused by area residents or by charity organizations, in accordance with standardized procedures.*
34. - *EEPCI and the CTNSC reach a final agreement on the dust control program and that EEPCI make every effort to conduct biophysical analyses so as to provide scientific evidence for the claims that the dust affects plant fertility.*

1.1.3 Resolving Socio-Economic Issues

35. With respect to **individual compensation**, a few disputes over recurring claims still linger. Although Esso has made notable progress in managing these cases, the time it takes to handle them is sometimes a source of frustration among the residents, who are not kept informed of the status of their claims.
36. The **community compensation** program has been completed. In total, 88 community infrastructure projects were built. The contract with the implementing agency, GTZ, has ended and EEPCI hired a consultant to conduct a technical evaluation of the infrastructures. This assessment revealed a few defects. Therefore, Esso will need to select a successor to GTZ and its local partners to complete the remaining pending cases.
37. With regard to the **social closure** process, the parties – EEPCI, CTNSC and the NGOs – need to meet in order to agree on the significance and terms of the process, what parties will be involved, and the implementation schedule. The situation is more complicated than in Cameroon insofar as work is still in progress in the OFDA. However, this is no longer the case for some of the roads that were built or rehabilitated under the Project nor along the pipeline route. Thus, the social closure process could be implemented in these areas immediately.
38. Local residents and authorities continue to express disappointment over the fact that some of the planned “**urgent projects**” were canceled without any official explanation, due to a lack of adequate funding in the PSMCBP. Other government projects are gradually taking over, such as the construction begun on a market in Bébédjia, but the fate of many of the proposed projects remains uncertain.
39. With regard to the **business opportunities** the Project offers to local economic operators, Esso still has not opened the business office that it planned to open in Moundou in December 2004. However, the company has hired an expert in this field and has begun a fundamental rethinking of how it can develop a program that would have a significant impact. The IAG supports this process, which could contribute to the local economy and which responds to the Group's repeated calls for successful long-term cohabitation between the Project and its neighbors.
40. The **Taylor's International** affair is currently under arbitration in the United States after Esso sued the catering company. A ruling is expected by the end of the year.

IX.2 The IAG recommends that:

41. - *EEPCI provide regular updates to area residents whose compensation claims are being processed. The company should ensure that it has all the necessary human resources to shorten the processing time as much as possible. A reasoned response should be given for each claim.*
42. - *EEPCI ensure that the community compensation program is finalized in good and due form wherever defects have been noted and consider how to provide much-needed support to the infrastructure management committees.*
43. - *EEPCI finalize the agreements with the CTNSC and the NGOs on the conduct of the social closure process in Chad and give priority to the villages along the pipeline route and in other zones where the infrastructure projects are complete.*

1.1.4 Decreased CTNSC and FACIL Activity

44. The work of the CTNSC on-site supervision team and that of FACIL (Local Initiatives Development Fund) has been nearly at a standstill since the PSMCBP funds ran out at the beginning of the year.
45. The **CTNSC on-site supervision team** has been all but grounded and reduced to 4 people, none of whom has any expertise in biophysics. The team will be further reduced when some of the individual contracts expire. With no means of transportation, the government monitoring agents are immobilized in Bébédjia; they have conducted only a few sporadic on-site inspections in recent months, in most cases with logistical support from EEPCI.
46. However, EEPCI's EMP team and the CTNSC are planning to conduct a joint on-site inspection program for regular, organized environmental monitoring of the production operations from July to December 2005. It can only be hoped that the government team will have the necessary working resources to resume operations by then.
47. **FACIL's** activities have been virtually halted by a lack of funding since October 2004 and are now limited to completing a few socio-economic infrastructure projects. No new agreement has been reached on the revenue-generating activities program and the delays in repayment to the Fund persist alongside difficulties related to the order suspending all new operations. No training sessions have been conducted under the capacity-building and local development program.
48. FACIL's institutional future seems uncertain even though it has acquired skills and experience that should not be lost. Its achievements should be considered in light of the difficult conditions under which it labors, since most of the forces blocking its work come from above (CTNSC, the Government and the World Bank). Challenges have included: delays in putting the team into place, difficulties related to opening a bank account and recurring problems with keeping its accounts funded as well as the fact that PSMCBP credit was exhausted for other reasons.
49. The Government and the World Bank have just finalized an agreement on a new program – the Local Development Program Support Project (PROADEL), which is to replace FACIL on the national level. However, the region covered by FACIL is excluded for two years. Thus it is

important to ensure that FACIL has the resources needed to continue its work until PROADEL takes over in this region.

IX.3 The IAG recommends that:

50. - *Given the exhaustion of PSMCBP funds, the Government take adequate budgetary measures to allow the CTNSC on-site supervision team and the Doba Petroleum Unit to carry out their mandates. Furthermore, the on-site teams should make every effort to conduct whatever monitoring operations they can, including document checks at the very least.*
51. - *The new PROADEL program draw on the lessons learned from the FACIL pilot project experience, including the pitfalls, successes and shortcomings, and that this program not exclude the region covered under FACIL, even though this region has a head start.*
52. - *The FACIL team clean up the loan files.*

1.2 Fine-Tuning the Nya Moundouli Project

53. EEPICI began the preparatory work for developing the Nya and Moundouli fields in January after receiving concessions from the Government for 5 new fields: Moundouli, Nya, Mbikou, Belanga and Mangara. Production is expected to begin at Nya, which is practically adjacent to Miandoum, around mid-2005 and at Moundouli in 2006. EEPICI is currently updating the required environmental and social documentation for the Nya Moundouli Project (NMP). In response to observations by the CTNSC, the World Bank and the public, Esso completed the documentation and submitted a copy to the CTNSC at the end of May. It was agreed that the CTNSC and the World Bank would have one month from that date to comment. Since the documentation has changed considerably compared to what was presented to the public a few months ago, the CTNSC plans to submit the new version for public consultation but for a shorter period of time than the 45-day consultation period in November. Due to the absence of a regulated procedure for obtaining an environmental permit and a concession, this process has been an exercise in improvisation driven by the oil company's needs.
54. As a reminder, this first oil development outside of the Doba Project is subject to the clause in the loan agreement between Chad, the World Bank and the Consortium stipulating that all crude oil passing through the Komé-Kribi pipeline must be produced in compliance with the Doba EMP principles. Since the World Bank has not yet finalized the text clarifying the interpretation of this wording, nor reached an agreement with its partners about it, this element of oversight is also lacking, which contributes to the improvised nature of the NMP preparations. Everyone has to accommodate this lack of a legal and regulatory framework and of standardized procedures, which in the end, does a disservice to the Government, the Consortium and especially the local populations.
55. While waiting for the environmental and social documentation to be finalized and approved by the Government, EEPICI has agreed to limit its construction work on the Moundouli field to the preparatory stage.
56. The Moundouli area differs from the Doba oil field development zone in that the population density is higher and already puts heavy pressure on the land. Even before the NMP development begins, a large percentage of the population in this region would be eligible for resettlement based on the sustainable agriculture criteria defined by Esso under the Doba

Project. Thus, Esso will need to think about what type of compensation it will offer in response to this problem of land occupation.

IX.4 The IAG recommends that:

57. - *Esso finalize, and the Government approve, the environmental and social documentation for the NMP without undue haste so that a foundation for oil development can be laid in accordance with environmental and social criteria that are as strict as those applied to the Doba Project.*
58. - *The World Bank initially, and its partners, take steps to immediately finalize the document on the interpretation of the Doba Project loan-agreement clause concerning "compliance with the EMP principles" and the terms of its application. This is an essential step, independent of developing the legal and regulatory framework for the oil sector.*
59. - *Esso adapt its compensation program in the Moundouli zone to take into account the considerable pressure on the land and allocate the necessary human and material resources to this area. The Coordination Nationale should keep a close eye on this issue.*

1.3 Seismic and Exploration Activities: Geographic Expansion, Environmental Standards and Safety Concerns

60. Seismic and exploration activities outside the scope of the Doba Project are being conducted in the Lake Chad region and in the southeast of the country.
61. Esso took a major step by signing interface agreements and agreements with the seismic and exploration teams stating that the EMP would apply henceforth to these two pre-development phases. Gradual application of these agreements should allow EEPCI's EMP teams to exert greater control over these contracting parties, especially with respect to the terms for compensating area residents.
62. The IAG was informed that insecurity prevails in the Bessao and Krim Krim region to the east of the Doba Basin, where EEPCI is conducting exploration work. Tense relations between NGOs and local authorities and between area residents and the police were reported. The Group discussed the matter with the appropriate authorities, who agreed to investigate these issues. Otherwise, the situation could end up spiraling out of control.
63. In January, EnCana's exploration permit was renewed for three years. The company presented the IAG with an overview of its activities in 2004 and its 2005 work plan, which includes seismic testing and exploratory drilling.
64. The IAG was particularly interested in EnCana's activities near the Lake Chad basin, an area so sensitive that it was classified as a protected site in the Ramsar Convention on Wetlands. EnCana states that it is still applying the principles of the Doba EMP. The company has taken care to conduct environmental, socio-economic and archeological studies in analyzing the zone and it has developed its work program with active input from government authorities, the CTNSC, the public and the other parties involved in overseeing Lake Chad.

1.4 Relations with Local Authorities Still Problematic

A Return to Extortionist Practices

65. During this mission, the IAG noted the resurgence of a problem that it thought had been solved in 2001, namely the practice of local authorities levying a tax, generally 10%, on the individual compensation paid by Esso and EnCana to area residents.
66. Unlike previous practices, it seems that some populations are now organizing a voluntary 10% collection to fund community projects for their villages. However, in some cases, authorities in the cantons and prefectures are imposing a tax on part of the amount collected and are pocketing the money.
67. This is a good governance issue requiring Government intervention. In 2001, presidential orders called for this practice to be abandoned. However, the IAG observed that in most cases, the local authorities were not even aware of this official order.
68. The Government must bring an end to this practice once and for all by reminding the local authorities of the 2001 presidential orders.

Relations between Esso and the Local Authorities Still Rocky

69. The IAG was again struck by the difficulties that the local authorities (prefects and sub-prefects) are encountering in establishing good relations with Esso. Their requests to visit the Komé base have gone unanswered. Yet this is an opportunity for Esso to foster good relations inexpensively. The lack of concern over maintaining the Consortium's image at the operating sites is surprising and the Group's questions are systematically referred to N'Djaména headquarters.

IX.5 The IAG recommends that:

70. - *The Coordination Nationale urge the Ministère de l'Intérieur to bring an end to these widely criticized practices by calling upon the government authorities in the oil zone to take any necessary steps to apply the presidential order requiring taxes on compensation to be discontinued.*
71. - *The Government pay particular attention to the recurring incidents in the Krim Krim sub-prefecture in order to increase security for the citizens in general and for the Project's partners in particular.*
72. - *Esso develop a protocol for friendly and normalized relations with the government authorities in the region, in the spirit of a good neighbor.*

2 ONGOING MANAGEMENT OF OIL REVENUES

73. The IAG looked at how well the oil budget had been implemented in 2004 and to date in 2005. The Group had hoped to discuss 2006 Budget trends but the *Ministère de l'Économie et des Finances* (MINFIN) was still in the process of approving the budget and the data were not available at the end of May.

2.1 Toward Complete Control of Oil Revenues

Disputes on the Decline

74. Chad has been repatriating the oil revenues on a regular monthly basis since July 2004.
75. Esso pays monthly royalties to the Government, readjusting the amount as needed based on the “approved average quarterly price.” The two parties reached an agreement on the selling price of Chadian crude oil for each quarter of 2004, which provided Chad an additional 18 billion CFA francs. At the time of the IAG visit, the parties had not yet reached an agreement on the price of crude for the first quarter of 2005.
76. No headway has been made in the dispute between Esso and the Government over calculating royalties, even though in the meantime, the parties have verified the reliability of the Kribi meter. They are still divided over the issue of whether to apply royalties to total production or to sales and consequently, where to place the official meter.

Higher Price for Doba Crude Oil

77. Oil revenues are generally higher in 2005 than predicted at the end of 2004 during budget preparation. This is primarily the result of higher crude oil prices on the international market and a downward fluctuation of the discount on Chadian crude oil compared to the 2004 discount rate. However, revenues have been adversely affected by the lower-than-expected production rate and the decline of the US dollar. The Law on Finances for fiscal year 2005 estimates oil revenues at 145 billion CFA francs, with 93.8 billion earmarked for the priority ministries (compared to 36.8 billion in 2004).

Calculation Methods Not Yet Mastered

78. MINFIN still has not fully mastered the method for calculating oil revenues. Instead, it simply takes the figures from the *Ministère du Pétrole*, which obtains its data from Esso, and verifies them. The Chadian government has not yet adopted Esso’s economic model, nor has it developed its own model as it was contemplating at one time. Consequently, the budget office is unable to monitor the oil revenues independently. However, MINFIN has announced the imminent creation of a structure within the ministry to monitor oil revenues, which will hopefully mean better mastery of the calculation mechanisms in the future.

IX.6 The IAG recommends that:

79. - *The Government and the Consortium settle the dispute over the basis for calculating royalties, preferably in an out-of-court settlement, otherwise through arbitration.*
80. - *The Ministère de l’Économie et des Finances obtain the resources its departments need to better understand oil revenue calculation, in terms of both estimates and verification of settlements and payments.*

2.2 Mixed Results in Spending by the Priority Ministries

2.2.1 Uneven Performance Under the 2004 Budget

81. In the end, as of December 31, 75% of the oil revenues had been committed for expenditure, thanks to efforts to mobilize the priority ministries and to the transfer of funds among ministries, as authorized in the amended 2004 Finance Law.
82. However, this average masks inequalities in the priority ministries' ability to spend the oil revenues.
83. The ministries in charge of infrastructures (*Travaux Publics and Aménagement du Territoire*) and the ministries of *Éducation Nationale and Enseignement Supérieur et Recherche* performed the best with a commitment rate varying between 89% and 95% of the initial allocation. The *Ministère de l'Agriculture* committed 47% of its oil credits. In contrast, the Ministries of *Environnement et Eau, Santé Publique, Action Sociale* and *Élevage* had low to virtually non-existent commitment levels at 39%, 20%, 12% and only 2%, respectively.
84. These disparities among the priority ministries are due primarily to a lack of understanding of government procurement mechanisms and the procedures of the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP). They can also be attributed to a lack of adequate human resources in some cases and to varying degrees of preparation. It should be noted that the health, farming and herding sectors, whose 2004 budget allocation was deemed too low given their needs and the objectives of the National Poverty Reduction Strategy, nonetheless managed to use only a small portion of their allotted funds.

2.2.2 Progress in Sight for the 2005 Budget

85. It became easier to monitor government spending in December 2004 when the Treasury was linked to a computerized, integrated expenditure circuit modeled after the system in Burkina Faso. Now all that remains is to link the payroll data that the budget office manages.
86. Implementation of the 2005 budget got off to a late start. As of April 30, the CCSRP had recorded barely 20% of the oil revenues as being committed. A large portion of this was earmarked for salaries in the national education and public health sectors and for crisis assistance to CotonTchad for the 2004-2005 growing season.
87. Nevertheless, the priority ministries were confident that they could catch up, feeling that they had a better understanding of the procedures of the CCSRP, the *Direction Générale des Marchés Publics* (Government Procurements Directorate, or DGMP) and MINFIN.
88. Although the priority ministries could have taken advantage of the fourth quarter of 2004 and the first quarter of 2005 to place calls for tenders and select their contractors, most of them waited until the 2005 appropriations were in place, which would not occur until February. In addition, some of the ministries are pointing fingers at the Treasury, which delayed payments for expenditures that had been authorized for months. The Treasury's leadership has agreed to identify the cause of these delays and to promptly rectify the situation.

89. Overall, a weak ability to manage the construction of infrastructures funded from the oil budget was noted among ministries that do not deal primarily with infrastructure projects, such as the *Ministères de la Santé* and *Éducation Nationale*. With respect to investments, out of the 61.9 billion CFA francs budgeted in 2005, only 4.1 billion had been committed as of April 30. 3.9 billion of this amount was committed by the *Ministère des Travaux Public et des Transports*. By the same date, the *Ministère de la Santé Publique* had not awarded any contracts for investments, even though these are the largest part of its oil credits. Apparently, the absence of prototypes or models for the healthcare establishments that were to be built contribute to the delays in preparing these projects.
90. The *Ministère de l'Agriculture* and the *Ministère de l'Élevage*, which are expected to contribute much to developing and diversifying the Chadian economy, did not have any spending commitments except for CotonTchad.

IX.7 The IAG recommends that:

91. - *The priority ministries anticipate the incoming credits and prepare files so that they are ready to award contracts at the beginning of the budget year.*
92. - *With respect to the oil revenues – where the availability of funds is not a problem – the Treasury ensure that payments are made without delay, which will reassure suppliers and prevent them from bidding up their prices.*
93. - *The Government take the lead in thinking about the best institutional and technical solutions to enable ministries with little experience building infrastructures to more easily spend their investment budgets. More urgently, the Government should ensure that model construction plans are available in order to standardize traditional infrastructures (health and education).*
94. - *The Government take steps to provide specific technical support to the ministries that deal with development but are among the weakest in terms of spending ability, such as the Ministère de l'Agriculture and the Ministère de l'Élevage.*

2.3 Regulation and Oversight: Deadlines Met, But Quality Still a Challenge

95. ***Direction Générale des Marchés Publics (Government Procurements Directorate, or DGMP):*** in the end, the number of implementing decrees for the new Procurements Code was limited to 18. They have all since been signed and enacted.
96. The *Commissions d'Ouverture et de Jugement des Offres* (Bid Opening and Assessment Committees, or COJO) have been set up in nearly all the ministries, thereby allowing them to issue calls for tenders directly. This is a marked improvement given that as of October 2004, only 3 COJO were planned for the last quarter of 2005.
97. Everyone is still in the learning stage, but the DGMP notes that overall, the priority ministries are starting to master its procedures. A training program for the 9 priority ministries plus the ministries of planning, finance and justice has been launched and the DGMP has recruited a consulting firm to assist it with implementation of the new Code.
98. ***Collège de Contrôle et de Surveillance des Ressources Pétrolières (Oil Resources Control and Monitoring Group, or CCSRP):*** The CCSRP continues to monitor oil revenue

management in terms of Treasury payments and spending commitments by the *Ministère de l'Économie et des Finances*.

99. Given the expected increase in the number of appropriation requests submitted by the priority ministries, the *Collège* expressed the need for additional staff in order to avoid any potential bottlenecks in the expenditure chain.
100. Now that the *Collège* has mastered the technical aspects of the expenditure circuit, it can focus on the quality of commitments and expenditures.
101. ***Ministère du Contrôle de l'État et de la Moralisation***: The IAG met with this new actor in the processes for government oversight and good governance. This ministry has a determined and self-motivated team that has already identified numerous steps it can take to fulfill its mandate. Now it simply needs to classify and prioritize these steps in an action plan that will have an impact on political practices, democracy building, transparency and citizen participation.

IX.8 The IAG recommends that:

102. - *The CCSRP conduct on-site inspections, or have them conducted, without waiting for infrastructure completion. Since the Collège does not have the time and resources to verify everything, it should identify a sample of projects for on-site inspection.*
103. - *The CCSRP consider a more diversified outsourcing approach (consulting firms, control offices, NGOs, etc.) for the job of on-site inspections once the Collège has clearly identified and standardized the inspection duties.*

2.4 Managing the Related Funds: Urgent Implementation of the FFG and the 5% Regional Fund

104. The Fund for Future Generations (FFG) agreement between Chad and the BEAC (Bank of Central African States) has now been signed and an investment committee chaired by the Prime Minister has been established. With the assistance of a consultant, the committee prepared and approved a draft investment strategy. The committee still needs to select a portfolio manager and set the investment management mechanisms in motion.
105. The Temporary Management Committee (*Comité Provisoire de Gestion*, or CPG) for the oil revenues paid to the oil region has gradually been taking shape since January following the appointment of its 9 members by presidential decree. The process of recruiting a permanent secretariat for the CPG is underway and a procedures manual and work plan will be prepared soon after. Once its operational budget (which needs to be activated) is available, the committee is considering holding information fairs for area residents to explain the purpose of the 5% and how to prepare requests to use these funds.

IX.9 The IAG recommends that:

106. - *The mechanisms and procedures for managing the FFG and 5% Regional Fund be exemplary in their transparency and that the public be given regular updates on the next steps.*

3 LONG-TERM MANAGEMENT OF THE OIL SECTOR

3.1 Slow Progress on the Legal and Regulatory Framework

107. Several of the legal and regulatory instruments for managing the oil sector, which some feel should have been ready before first oil, are still being developed or revised.
108. A draft **oil sector policy** letter for 2004-2008 is being circulated for comments. The version that the IAG examined would be better if it had a clearer vision of the sector and an optimized sequence of the objectives, challenges and constraints of the planned reforms and their underlying doctrine, along with an action timetable. This should all be preceded by an assessment of the benefits and shortcomings of the previous policy letter (2000-2004).
109. The draft **Petroleum Code** is available and is under discussion with Chad's partners. In order for this substantive law to best serve Chad's interests a few adaptations still need to be made. In particular, the text would be better if it was written in a more affirmative way.
110. The **National Oil Spill Response Plan** (PNIDAH) has been approved by the CTNSC and must now be ratified by the National Assembly, which should happen by October.
111. There are still no implementing decrees for Law 14 on the environment. The CTNSC, with World Bank support, is writing the terms of reference for a consultant to finalize the draft decrees that an ad-hoc committee has already prepared.

3.2 Clarifying, Finalizing and Standardizing the Options for Chad's Institutional Future

112. A decree establishing the bylaws of the *Société des Hydrocarbures du Tchad* was drafted and sent to the National Assembly for consideration during its next session. The text presented to the IAG still contains many contradictions requiring further clarification, such as the choice of legal status.
113. Following a workshop held in April on the institutional future of the Doba Project oversight agencies, the *Ministère de l'Environnement et de l'Eau* decided to create an environmental agency to replace the CTNSC. The Government still needs to specify the scope of this agency's mandate, responsibilities, operations, relationship to other institutions in the oil arena and its funding formula.
114. The institutional base of the *Coordination Nationale* (National Coordination, or CN), which is presently under the *Ministère du Pétrole*, is still a problematic issue given the horizontal nature of this institution's mission. Relationships between the various institutions already in place and those being contemplated in the oil sector should be reviewed and clarified.

IX.10 The IAG recommends that:

115. - *The draft versions of the oil sector policy letter, Petroleum Code and decree establishing the bylaws of the Société des Hydrocarbures du Tchad be reconciled before being adopted, in order to have consistent and transparent management of the oil sector.*
116. - *The PNIDAH be approved and the implementing decrees for Law 14 be finalized before the project completion report on the Chad Petroleum Development and Export Project.*

117. - *A decision be made as soon as possible on the institutional future of agencies created for the Doba Project (CN and CTNSC), for the sake of consistency, efficiency and sustainability.*

3.3 Building Capacity: Agreements and Transitions

118. **Petroleum Sector Management Capacity-Building Project (PSMCBP)**. According to plan, the PSMCBP will conclude on December 31, 2005. However, most disbursements have been suspended since January 2005 for lack of funds. In May, the Council of Ministers approved an additional appropriation request, which should allow the project to continue until its main objectives have been met. The World Bank is planning to submit this request to its Board of Directors in November so that disbursements can likely resume around March 2006.
119. The PSMCBP has been in flux since the beginning of the year, waiting for the additional appropriation to be approved, and will continue to be in this transitional state until March 2006. The Government has been funding part of the salaries for the CTNSC and the Doba Petroleum Unit (DPU) since January and will continue to do so until the individual contracts expire by the end of 2005. However, the lack of resources is seriously impeding the work of these government oversight agencies.
120. The *Ministère de l'Environnement et de l'Eau* (MEE) spent only 39% of its oil revenues in 2004. It could have used the remaining 61% to cover CTNSC operations during this transition period. Instead, part of the unused MEE credit was transferred to other ministries.
121. **Projet de Gestion de l'Économie à l'Ère Pétrolière (Management of the Petroleum Economy Project, or GEEP)** Since October 2004, the GEEP's activities have focused on computerizing the government expenditure circuit. At the time of IAG's visit, there remained very little of this credit to be used before the project end on June 30, 2005. The remaining funds were to be used primarily to pay the salaries of people recruited as part of this project and in particular, to support MINFIN. Since funding ran out early, not all of the project goals were met. Some of these goals, however, will be carried over to a successor project. Preparations for this new project are well underway. A three-year action plan that will involve several donors has already been written. The World Bank and Chad are expected to negotiate this plan in September. It could then be submitted to the World Bank's Board of Directors by the end of the year and disbursements could begin in March 2006.

IX.11 The IAG recommends that:

122. - *During the transition period until the additional funds for the PSMCBP are disbursed, the Government set up a system and the necessary resources to ensure effective continuity of environmental and oil activity monitoring by the government teams – the CTNSC and the DPU – using oil revenues if necessary.*

4 MANAGING FUTURE OIL DEVELOPMENT

4.1 Proper Use of Oil Revenues

123. Beyond the commercial nature of the Doba Project, the partners – Chad, Cameroon, the World Bank and the Consortium – wanted the project to be above all a source of development for the

host countries. The Project was intended as an opportunity to reduce poverty and to improve public well-being while protecting the environment.

4.1.1 Law 001

124. The success of the Project in Chad depends heavily on the country's ability to manage the oil revenues in an efficient and sustainable manner. By passing a law on oil revenue management – Law no. 001/PR/99 – Chad put into place a transparent mechanism for managing the revenues from the Komé, Bolobo and Miandoum fields and thereby promoted investment in the country's development sectors. The novelty and purpose of Law 001 captured the interest of everyone who wants to see a well thought-out system for managing the revenues from natural resources. Law 001 plays a crucial role in maintaining the relationship of trust that is gradually being built around the Doba Project.
125. The Law has not yet proven itself as an instrument for daily management of government finances. By the time the first oil budget ended, Chad had been repatriating oil revenues only since July 2004. Implementation of the second oil budget was off to a slow start and the third budget is at the draft stage. However, over the course of the past months, the Law has been tested by the heavy strains on the Treasury and by the sometimes low absorption capacity of the priority ministries. As mentioned previously in this report, the country faces a financial paradox that is raising questions and leads some to believe that the Law should be amended to make it less rigid.
126. It is important to remain patient at this stage and to support this model for oil revenue management, which is unique in its spirit of transparency and discipline, its principle of additionality and its goal to improve public well-being. The vision with which Chad is pursuing the political will enshrined in Law 001 serves as a guarantee for the respect and international solidarity that will be important and beneficial in the long run. Chad needs to find the time and resources to better manage its oil economy and the new budget processes, and to learn from these first years of managing the oil economy.
127. It is also important that the external partners agree to support the Government during this difficult transition period by freeing up enough foreign aid in a timely manner to maintain this system. At the same time, the Government should take care to prepare and implement a reliable budget. Once the country has acquired the expertise and routine practices required for efficient and transparent management of all public resources – both internal and external, petroleum and non-petroleum related – amending Law 001 will be seen as a responsible step towards a consensus-based return to a single national budget.

4.1.2 Resource Allocation and Spending Results

128. In a few years, the success of the Project will be measured against its impact on the country's development and improvements to public well-being. It is therefore important for the Government to take steps to ensure that in the future, there is better balance among production, human resources and infrastructure in the overall allocation of the oil resources.
129. At the same time, the priority ministries need to allocate these resources in such a way as to attain the sector-based objectives listed in the program budgets. The purpose of these allocations – implementation of the National Poverty Reduction Strategy and attainment of the Millennium Development Goals – should be an omnipresent goal for MINFIN and the priority

ministries as they prepare, fund and implement their budgets. Additional funds should be allocated in relation to measurable progress in each ministry's mission.

130. Oil offers an opportunity for Chad that is limited in time. Therefore, the country needs to capitalize on this substantial influx of oil revenues now to diversify its economy and reinvigorate its agricultural and non-traditional development sectors for the future. The goal is to achieve concrete and measurable results with respect to increasing production, reducing poverty and improving well-being.

4.2 Future Expansion of Oil Activities

131. The expansion of oil activities in Chad, particularly in the southern part of the country, raises questions for the future of the oil-producing region. In a country whose economy depends on farming and herding, the impact of developing oil facilities to the detriment of arable land, the environment and human establishments must be actively managed by the Government, which is responsible for ensuring a sustainable, diversified economy. The IAG took advantage of this visit to bring this issue to the ministries' attention.
132. The problem of land occupation is already more apparent with the Nya Moundouli Project than with the Doba Project. The population density in this region is higher; pressure on the land is greater and agricultural yields are lower. Based on this observation, it seems clear that the Government and the oil companies need to consider how to develop oil activities without jeopardizing the future of this region.
133. Technological innovations that use less land, implementation of an intensive agricultural diversification program to support the local population and a redesigned compensation program that takes into account the cumulative ecological and economic impact of the various oil activities are just a few of the avenues to be explored.

4.3 The Regional Development Plan

134. In January, a major step was taken in the preparation of the long-awaited Regional Development Plan (RDP) and the Regional Environmental Study when a new team took over. Higher quality draft documents were produced and were distributed by the consultants and the CTNSC during workshops held in May in Doba and N'Djamena. Final comments from the Government and the public have been received. At the time of the IAG visit, the documents were expected to be finalized soon and sent to the CTNSC for approval.
135. The consultants' report states, among other points, that implementation of the RDP should be the responsibility of existing government authorities, the *Ministère du Plan* and the regional ministry offices. The IAG applauds this option. The Government should approve the RDP and identify the resources needed to implement the Plan. All of the parties playing a role in the region should study the Regional Plan's analysis of the situation.

4.4 A Prospective Study on Long-Term National Development?

136. Two essential conditions must still be met in order for oil production to contribute to economic development and poverty alleviation in Chad. First, safeguards against the problems that typically affect oil-producing countries need to be firmly in place. Second, opportunities to expand the economy need to be used productively.

137. Law 001 is currently the main financial safeguard. However, Chad must move beyond this law and adopt a broader perspective of the economy that covers all sectors of activity and produces the conditions required to activate sources of growth and development. This requires diversification and a more integrated economy.
138. There are some current initiatives along those lines related to the Petroleum Development Project which are promising. Esso is looking at how best to enable local entrepreneurs to take full advantage of the Project's **business opportunities** with an early implementation in sight. The International Finance Corporation (IFC) is continuing to fund development projects to promote entrepreneurship. Its programs are based on three main objectives: capacity-building, facilitating access to micro-loans, and improving the business environment. The IFC recently formed a partnership with Esso to promote and develop the potential of local entrepreneurs in the field.
139. The Project could also contribute to the national energy sector through a plan on the drawing board to build a **topping plant** in Komé. This plant would produce fuel that Chad's power plants could use directly, thereby helping to reduce both dependence on fuel imports and the cost of powering these plants. With respect to the **water sector**, if Esso's technical and economic feasibility study on treating part of the water currently being re-injected and using it for surface activities turns out to be conclusive, this could be a new way to contribute to the local economy.
140. These are all possibilities that could help broaden the structure of the economy and that need to be explored. However, there are other possible avenues outside of the oil sector that could be better identified by systematically working to unify policies, political options and common goals based on the shared aspirations of Chadian citizens.
141. The framework for this effort could be a **25-year prospective study** involving all members of society and using experts representing all the various fields of science in a multidisciplinary approach. If the Government and the public were to generally embrace this type of project, it would no doubt receive support from Chad's development partners.
142. The October assessment, which will reveal both the positive and negative lessons of the Project, could be the impetus for all parties involved to conduct a future "Chad 2030" study.

5 CONCLUSION

143. Three main conclusions emerge from this mission to Chad:
144. • The oil revenue management and allocation mechanisms are in place and fully operational. Improvements over 2004 can be seen already. All the authorities involved, ministries and agencies alike, must continue striving to improve the management and use of these funds so as to achieve this project's only true measure of success – concrete accomplishments in the field and improved public well-being.
145. • Although the expansion of oil, research, exploration and development activities outside the Doba fields is predictable, the institutional, legal and regulatory framework is still sorely lacking. Chad needs to take the necessary steps to ensure that all the activities in this sector are regulated by a legal framework and the proper oversight instruments. The World Bank should work with the other Doba Project parties to complete the agreement on application of the “principles of the original EMP” since new activities are progressing rapidly.
146. • Finally, a vision of the future: expansion of oil activity calls for consideration of how farming and herding can coexist with petroleum-related activities. Steps to be taken now, while there is still time, include developing a vision for the future of land occupation, for which the RDP now appears to be a useful tool, crafting policies that are planned in consultation so as to ensure the development and prosperity of the farming and herding industries, and reviewing oil production techniques so as to minimize the traces left by the oil company. All of these actions could benefit from a 25-year prospective study, which would serve as a dynamic frame of reference to maximize use of the powerful lever that oil provides.

CAMEROON - INTRODUCTION

147. The IAG conducted its ninth statutory visit to Cameroon from June 1-6, 2005.
148. This mission focused on the progress made on issues identified during the IAG's last visit in January 2005 and on how the Group's recommendations have been followed up.
149. The Group traveled to Douala, where it met with COTCO (Cameroon Oil Transportation Company), and to Yaoundé, where it met with the permanent secretariat of the Pipeline Steering and Monitoring Committee (PSMC), the Prime Minister, the Ministry of Environment and Protection of Nature (MINEP), the Ministry of Forests and Fauna (MINFOF), the Ministry of Health (MINSANTÉ), the World Bank (WB), the Foundation for Environment and Development in Cameroon (FEDEC) and non-governmental organizations (NGO). The Group held a joint working session with COTCO, the PSMC, FEDEC and NGOs to exchange views on the Project and to do a quick, efficient crosscheck of the information it had received during the mission.
150. The mission itinerary and chronology of the meetings can be found in Appendix 1.
151. In April 2005, the one hundredth crude-oil lifting took place on the Floating Storage and Offloading Facility (FSO), Komé-Kribi 1, twenty-one months after the first load of Chadian oil was pumped through the pipeline in July 2003. Thus, the transportation system is functioning properly and Cameroon is collecting duties on the Chadian oil passing through its territory as planned.
152. However, more efforts are still needed to bring the Project up to standard and fully integrate it into the Cameroonian context. Most of the pending problems the IAG identified in January 2005, which affect all the parties involved in the Project, have seen little or no progress.

6 THE PROJECT

6.1 Securing the Infrastructures: Vulnerabilities Detected

153. PSMC and COTCO teams continue their regular joint monitoring of the security of the pipeline and the Project's permanent facilities. Monthly aerial and on-site inspections allow the teams to identify both unauthorized use of the pipeline right of way and erosion zones. The Government and the oil company must then take measures to correct the problems.
154. An act of vandalism in January 2005 involving the severing of a fiber optics cable revealed weaknesses in the maintenance and surveillance system. In cooperation with the Government, the PSMC and COTCO have implemented measures to secure the Project facilities that involve the local populations. Informational meetings were held, and in the area where the incident occurred, a team of local guards was set up and COTCO recruited patrol teams from the villages to monitor the pipeline facilities. If this pilot initiative produces good results, the program may possibly be extended to the entire pipeline route.
155. Having made this recommendation on several occasions, the IAG applauds and encourages COTCO's effort to provide ways for area residents to help secure the system. This approach will certainly improve response time to incidents and contribute to peaceful cohabitation between local residents and the Project.

6.2 Compensation and Social Closure

156. After its last visit to Cameroon, the IAG had high hopes for a joint PSMC-COTCO-NGO field mission scheduled for January. This mission would have been an opportunity to cross-check information from the field and to reconcile the parties' files on compensation claims related to the social closure process. In the end, however, the mission did not take place, to the Group's great disappointment.
157. With respect to **individual and collective compensation**, the NGO FOCARFE submitted a report to COTCO noting irregularities identified in the villages that received compensation. After studying the report, COTCO decided that some of the cases were either inadmissible or not its responsibility. For the other cases, it acknowledged having jurisdiction and took steps to correct the problems.
158. The **regional compensation** program is nearly complete. However, disputes remain between COTCO and some of its local contractors. In its previous report the IAG had described gaps that had opened up for some small contractors between their bid price and their final costs on some projects and had asked COTCO to review. Problems were also identified in the allocation of compensation for both completed and pending cases. Some of the communities chose projects – usually linking the village to a power grid – that cost far more than their allotment and have not yet found the additional funding needed to implement the project.
159. A new law now requires a 100-meter security zone around the pumping and pressure reduction stations. In compliance with this law, COTCO must compensate local residents proportionally to the amount of additional surface area the Project uses. Consequently, new **community compensation** will be added to the ones initially funded by the Project.
160. NGOs, COTCO and the PSMC finally reached an agreement on the definition and goal of the **social closure** process. It is not intended to solve all the problems, but rather to provide an assessment of the situation – what has been done and what remains to be done – at this point in the Project. Although COTCO had already organized meetings in all the villages to sign off on the minutes, the parties agreed during the IAG's visit that the NGOs would submit a joint report on all the identified cases of unresolved compensation claims by the end of June. In addition, COTCO and the PSMC would study each of these cases and provide an adequate, reasoned response. Joint COTCO-NGO site visits would also be organized, if necessary, to enable the parties to form a definitive opinion on certain cases.
161. Some headway has been made on the project to lay an **artificial reef** as compensation for the destruction of a large rock off the coast of Kribi during pipeline construction. COTCO held a consultation meeting with the Kribi fishermen and took their grievances into account when finalizing the technical proposal submitted to the PSMC. The PSMC's reaction and the Government's approval must still be obtained before the work can begin.
162. COTCO experts have examined the issue of **obstruction of the Lom River** by rocks moved for the Project, as mentioned in the IAG's mission 8 report. COTCO is planning to consult with area fishermen and begin work, but will have to wait until the next dry season to start. One can only hope that this work will be complete before the 2006 rainy season so as to avoid another year of disrupted fishing activity.

163. The IAG again urges the Government, which is responsible for public safety, and COTCO, as a good corporate citizen, to take action on a dangerous situation that the Group observed and pointed out during its January mission, and which is still unresolved: school children from Lom II have to **cross the railway bridge over the Lom River in an unsafe manner** in order to reach their school in Lom I. The bridge has no handrail on the track side, which is necessary for safety. This situation needs to be rectified before a tragedy occurs.
164. Finally, with respect to **archeological compensation** for the situation of level 3 non-compliance with the EMP, the Cameroonian government has accepted the building COTCO renovated to house the artifacts found along the pipeline route. The Government will accept the artifacts once it has approved the related documentation prepared by COTCO. Once these processes are completed, a record of the archeological findings along the pipeline will be published and presented at a symposium. The problem of selecting recipients for the COTCO scholarships persists. The University of Louvain in Brussels chose two candidates, but the Ministry of Culture was not consulted in the process and is not recognizing the students.

IX.12 The IAG recommends that:

165. - *In order to complete the social closure process as quickly as possible, COTCO, the PSMC and the NGOs work together in a transparent manner and that COTCO provide a reasoned response to each claim. Insofar as possible, the parties should reach an agreement on the findings, with the common objective being to determine, at the end of the process, where they agree and where they disagree. Where there is disagreement, the irreconcilable differences should be noted and the social closure process completed.*
166. - *COTCO ensure the human resources to provide quick, systematic and definitive processing of all the pending compensation claims. In particular, COTCO should complete the project to clear the obstacles from the Lom River before the 2006 rainy season.*
167. - *Given the persistent claims disputes, and pursuant to the IAG's recommendation in its eighth report, COTCO should reexamine the complaints filed by the local contractors as necessary, in order to find a fair solution for all sides without serious prejudice to the small and micro businesses that are acting in good faith.*
168. - *The Cameroonian government assert its right vis-à-vis COTCO to choose the two Cameroonian students who will receive the scholarships funded as part of the compensation for Project impact on the country's archaeological heritage. The Government should also adopt and publicize a clear, transparent and fair selection process.*
169. - *COTCO, whose technical resources can be quickly deployed, should submit a proposal to the PSMC to improve the safety of pedestrians crossing the railway bridge. The PSMC should then seek approval from the appropriate authorities without delay, before a tragedy occurs.*

6.3 Formalizing Land Rights

170. The process for transferring ownership of the Project's temporary sites and infrastructures to Cameroon was initiated several months ago, but is not yet complete.

171. The Ministry of Lands and Titles, under PSMC coordination, is amending COTCO's land rights, a long and meticulous process. A "one-stop shop" was set up to prepare the decrees authorizing COTCO to return certain plots of land to the Government.
172. The PSMC has finally recruited a consultant as part of the CAPECE project (Cameroon Petroleum Environment Capacity Enhancement Project) to conduct an environmental assessment of the pipeline infrastructures and equipment that COTCO is planning to transfer to Cameroon. This study was launched on June 5 and covers 12 sites.

IX.13 The IAG recommends that:

173. - *Now that the procedural matters have finally been resolved, the Government promptly begin formalizing land rights, and returning the eligible parcels and infrastructures to the communities.*

6.4 Measures Needed to Protect Health

174. Several studies on HIV/AIDS prevalence, especially along the pipeline route, are now available and others are pending approval.
175. However, the results cannot be compared directly since different methodologies were used. Moreover, in an area that is already particularly exposed to the risk of sexually-transmitted diseases due to traffic from logging trucks and the railway, and given the absence of baseline studies prior to the Pipeline Project, it is impossible to identify the extent and significance of the Project's impact on HIV/AIDS prevalence. Nevertheless, it has been widely established that the HIV/AIDS prevalence rate along the pipeline route warrants an action plan to limit the spread of the disease and provide treatment for those with HIV/AIDS. Since COTCO is the latest major player in the area, expectations that this company will support the Government in the fight against AIDS are, understandably, high.
176. COTCO submitted its overall health plan for the production phase to MINSANTÉ. At the time of the IAG visit, the parties were planning to meet to discuss the plan and its implementation as well as other opportunities to work together.
177. For their part, the PSMC, MINSANTÉ and the *Comité National de Lutte contre le SIDA* (National AIDS Prevention Committee, or CNLS) were scheduled to meet in June to discuss future action in the pipeline zone.

IX.14 The IAG recommends that:

178. - *MINSANTÉ analyze the data in existing studies in order to quickly identify the pockets of greatest HIV/AIDS prevalence along the pipeline route and take the lead in coordinating efforts to fight HIV/AIDS.*
179. - *MINSANTÉ, the CNLS, the PSMC and COTCO quickly reach an agreement on a common strategy to fight HIV/AIDS in these hot spots and provide information about the roles and responsibilities of each party so that the public knows where to go depending on what the issue is.*

6.5 Coordination with the Lom-Pangar Dam Project

180. With respect to the Lom-Pangar dam project, the IAG noted major discrepancies in information about the project and a lack of communication among the parties.
181. The World Bank, which is concerned about the dam's impact on the pipeline, sent a team to discuss the project with the Cameroonian authorities in January. During this meeting, it was decided that the environmental impact assessments already underway would be supplemented by a series of additional studies focusing on some of the economic, social and environmental concerns that need to be resolved before a decision is made on the project.
182. The Group noted a lack of communication between the PSMC and COTCO on the one hand, and between MINEP and the Ministry of Energy on the other. COTCO has apparently not been officially approached to begin technical discussions about the dam's impact on the pipeline.

IX.15 The Group recommends that:

183. - *The Government coordinate the preliminary studies on the Lom-Pangar dam project with all parties concerned, especially the parties to the Pipeline Project, which will be directly affected.*
184. - *The PSMC and COTCO start the requisite dialogue to discuss the stakes, impact, responsibilities and financial coverage related to any operations that may be necessary to protect or divert the pipeline. The Group also recommends involving the Chadian authorities, whose interests will also be affected, where appropriate.*
185. - *The project, if undertaken, comply with socio-economic and environmental standards equivalent to those applied to the Pipeline Project.*

7 PROJECT-RELATED PROGRAMS

186. In addition to monitoring the actual Pipeline Project, the Group took stock of the project-related programs such as management of the Campo-Ma'an (CMNP) and Mbam and Djerem (MDNP) national parks, which constitute ecological compensation for the pipeline right of way, and implementation of the Indigenous Peoples Plan (IPP) for populations affected by the Project. The Group also looked at the activities of FEDEC, a foundation created with money from the compensation fund to support and invest in these projects.

7.1 National Park Management: Mid-Term Review

187. The MINEP and MINFOF organizational charts, which went into effect following the April 2005 presidential decrees, place protected areas, including the national parks, under MINEP. The Government is currently resolving jurisdictional disputes between the two ministries that some of the parties apprehended. The question now arises of financing these protected areas, which benefited from the returns from the logging industry when protected areas and forests were grouped under a single ministry.
188. It should be noted that arrears in the salaries of the park ecoguards are accumulating during this transition period. Moreover, these park rangers work in a precarious environment, which gives

cause for concern. Faced with armed and sometimes dangerous poachers, they have no protection and no insurance.

189. With respect to **management of the CMNP**, which FEDEC has contracted to World Wildlife Fund (WWF), delays in FEDEC-funded activities since January have been noted as the executing agency used the first portion of FEDEC's annual disbursement to cover deficits incurred at the end of 2004. Research, bio-monitoring, and protecting the park's integrity are all activities that should resume once new funds are received. WWF has continued, nonetheless, to implement support programs for area residents and develop pilot projects for revenue-generating activities (community forests and marketing of non-timber forest products).
190. World Bank comments on the Campo-Ma'an park management plan have emphasized the need for greater focus on the interests of the Bagyeli and other populations living near the park. At the time of the IAG visit, MINEP and FEDEC were planning an extended workshop to amend the plan based on the latest comments received and to complete a document for final approval. CAPECE and PSMC funds will be used to finance this workshop. The goal is to implement the plan starting in January 2006.
191. With respect to **management of the MDNP**, the World Conservation Society (WCS) has pursued its program to combat commercial poaching, which it distinguishes from subsistence hunting by the local residents. In addition, WCS is increasingly establishing contacts with the various government agencies in charge of the park and with economic interest groups (herders, fishermen and loggers) working in and around the park. The goal is to provide more information about the applicable regulations and its work program and to identify disagreements among the parties and involve them in the park protection and management plan. Despite improved relations among the parties, there are still a few problems, especially between WCS and area residents, who, for the time being, are not being offered any options for alternative activities.
192. Work on the park management plan is progressing and WCS is planning to produce a first draft during the last quarter of 2005.
193. Once the park management plans are approved, funding sources will need to be identified for both parks.

7.2 Progress in Protecting Indigenous Peoples

194. FEDEC's community development facilitator, whose salary has been paid directly by the Foundation since the end of April, is working to implement the IPP in the field through micro-projects in the areas of agriculture, habitat, education, health and citizenship. Making progress in these fields will require overcoming hurdles ranging from logistics to the issue of the Bagyeli people's land rights, and the necessary but time-consuming maturation of concepts in the action plans.
195. Given the IPP's successes and difficulties, FEDEC has seen an increasingly clear need to develop a strategy that goes beyond intermittent actions and strives for lasting integration of indigenous peoples into Cameroonian society. The Foundation's effort will be supported by the International Finance Corporation (IFC), which will fund a project to develop a logical framework for the IPP once FEDEC's board of directors approves the required documentation.

7.3 Sustaining FEDEC's Activities

196. Now that the ministry responsible for national parks has been designated, it is important to clearly spell out the respective responsibilities of MINEP, the Foundation and the executing agencies without delay, so as to enable each party to fulfill its mandate in a climate of cooperation. The existing draft memorandum of understanding between the former Ministry of Environment and Forests (MINEF) and FEDEC should be revised, updated, signed and implemented as soon as possible.
197. Some of the elements that FEDEC is considering in reflecting upon its future include: its recent appointment of a new administrator, questions about the role and composition of its Board of Directors, which is currently in the process of renewing its membership, the mid-term review of the WWF and WCS contracts scheduled for the third quarter in 2005, and the need to secure additional funds to continue developing its activities over the long run.

IX. 16 The IAG recommends that:

198. - *The Government settle all jurisdictional disputes between MINEP and MINFOF and identify sources of funding for MINEP to take over the protected areas.*
199. - *MINEP focus on protecting the ecoguards by providing adequate insurance coverage.*
200. - *MINEP promptly update and finalize the draft memorandum of understanding that FEDEC submitted to the former MINEF two years ago.*
201. - *FEDEC continue reflecting on its future: both the role and composition of its Board and the search for additional funds. In the short term, the Foundation, with support from MINEP, will need to identify sources of funds to facilitate implementation of the CMNP and MDNP management plans as soon as they are approved.*
202. - *The mid-term review of the WCS and WWF contracts provide an opportunity for FEDEC to specify the goals it wishes to achieve by February 2006 and what financial resources will be needed.*
203. - *Given the limited funding available between now and the end of their contracts (February 2006), WWF and WCS establish a hierarchy of priority tasks so as to finalize their respective park management plans and submit them for approval. They should also keep area residents informed about the management goals for the two parks.*

8 HUMAN AND INSTITUTIONAL RESOURCES

204. In order to optimize and take ownership of the Pipeline Project, and beyond that, to capitalize on the benefits for the oil sector, Cameroon must develop and mobilize its national resources and adopt the framework of legal and regulatory reference instruments that are still not ready. It is clear that catch up is now required on these measures, which should have been in place prior to, or at the very least, during the project.

8.1 CAPECE Still Lagging Behind

205. Implementation of CAPECE continues to suffer numerous delays. Project performance is weak with a disbursement rate below 50% less than six months away from the scheduled loan closing date in December 2005.
206. Since January 2005, five contracts have been signed with consultants and seven are in the process of being awarded.
207. Recently signed contracts include:
208. • A project to establish a health map of the pipeline zone,
209. • An environmental assessment of the pipeline infrastructures and equipment that COTCO will hand over to the Republic of Cameroon, which the consultant was scheduled to begin on June 5,
210. • An assessment and impact study of the overall communication plan. The consultant recently submitted his report to the PSMC, which is studying it for future use.
211. Among the pending contracts are: a study on the long-term vision of environmental management in the hydrocarbon sector, a project to monitor protection of the coastal region and the marine environment, and environmental analyses of the soil, underground water, surface water and ambient air.
212. The outcome of this project to build Cameroonian capacities, which was intended first and foremost to contribute to the management of the Pipeline and other future projects, is disappointing.
213. In fact, numerous studies have still not begun less than one year from the project completion date. Approval for other reports submitted to the PSMC is still pending and the Committee lags even further behind in actually putting these reports to use along with concrete action plans.
214. In any case, Cameroon is still far from being able to use the long-awaited results of all these studies to help manage the Pipeline Project and the oil sector.

8.2 Minimal Progress on the Legal and Regulatory Framework

215. No headway has been made since January on the government approval process for the **National Oil Spill Response Plan** (NOSRP). The PSMC would like to attach an Implementation Manual to the Plan when it is submitted to the Government. It has just recruited an expert to write the manual. In addition, a decision must be made in terms of what legal process will be used to enact the Plan.
216. With respect to the **implementing decrees for the 1996 law on environmental management**, a preliminary decree establishing the terms of implementation for environmental impact assessments (EIA) was signed on February 23, 2005, followed by an order on March 8 listing the various categories of operations that must be preceded by an environmental impact study. MINEP is preparing a series of sector orders to follow, which will make the EIA completely operational.

217. At the same time, draft statutes on implementing the law were prepared as part of a CAPECE project a few months ago. However, this proposed legislation has not been officially submitted to the Government since the PSMC wants to hire a consulting firm to finalize it first. These texts will help MINEP write the 17 decrees that need to be added to the EIA in order to enforce the 1996 law.

IX.17 The IAG recommends that:

218. - *The PSMC, with World Bank support, take more active steps to award the remaining consulting contracts under CAPECE and that the Committee also focus on using the studies and reports that are already complete. A timetable for implementing all these tasks should be prepared.*
219. - *The PSMC seek the advice of the expert in charge of preparing the NOSRP implementation manual to determine the appropriate legal process for enacting the Plan. Once the implementation manual is finished, the PSMC should immediately submit it to the Government for approval.*
220. - *The PSMC ensure that all the draft legislation on implementing the law on environmental management is finalized and submitted to MINEP for evaluation and statutory recognition.*

9 INTERNATIONAL COOPERATION

221. In the context of implementing the Bilateral Agreement between the Republic of Cameroon and the Republic of Chad, the Chad/Cameroon commission was inaugurated on February 24, 2005. At this first meeting, the commission adopted its bylaws and its 2005 action plan.
222. This new forum for discussion and dialogue should allow the two countries to move towards integrated management of the Chad-Cameroon Project and to share their experiences in a mutually beneficial way.
223. Cameroon is also engaged in a sub-regional effort to cooperate with the countries bordering the Bight of Benin on issues related to environmental protection and the safety of people and property for all oil operations in and around the Bight. The World Bank has shown an interest in supporting and facilitating this effort.

IX.18 The IAG recommends that:

224. - *These two regional cooperation initiatives, which are promising in terms of public well-being and the quality of the Project, be given the full backing of the Cameroonian authorities and the World Bank.*

10 CONCLUSION

225. Now that the physical construction phase of the Project is complete and the production phase has become routine, the temptation to demobilize too soon is great.
226. This attitude is likely to leave pending issues – compensation, protection and corrective measures – in suspense. It would also deprive the parties involved from seeing satisfactory resolution of the remaining construction-related problems, increased public involvement in protecting the pipeline, and finally, the creation of a climate of dialogue among the parties. Such a climate is the best measure of successful cohabitation among the Project, the area residents and the parties involved.
227. Given the upcoming assessment of the Project's accomplishments and lessons to be learned, it would be a shame to allow problems that could be resolved quickly to drag on and thereby tarnish the assessment.
228. Cameroon must also take advantage of the Project's resources and experience to build its capacities through CAPECE and complete its legal and regulatory framework.
229. An issue that is marginally related to the Project, but which will certainly affect the pipeline, is the surprising ongoing confusion and lack of dialogue around the Lom-Pangar dam project. Given the Government's emphasis on this project, it needs to be sure that it has carefully weighed all the consequences and negotiated the implications before it finds itself facing hard-to-resolve problems.
230. Finally, Cameroon can take advantage of the interest generated by the Project to promote effective, integrated cooperative efforts to combat the risks arising from oil operations in the Bight of Benin.

OVERALL CONCLUSION: TIME TO TAKE STOCK

231. The Doba Project partners – the Governments, the Consortium and the World Bank – have decided to hold workshops in Chad and Cameroon so that the main stakeholders in the Project – partners and civil society alike – can take stock of how well the original project has been implemented to date, including development of the three Doba fields and construction of the pipeline and related facilities.
232. This assessment comes at a time when the two Governments and the World Bank will be finalizing their project completion report for the Chad Petroleum Development and Export Project. The project was financed by an International Bank for Reconstruction and Development (IBRD) loan that enabled the two countries to invest in TOTCO (Tchad Oil Transportation Company) and COTCO (Cameroon Oil Transportation Company).
233. The three partners asked the IAG to facilitate these workshops, which will likely be held in October in N'Djamena and Yaoundé.
234. Having stressed the importance of this type of assessment on several occasions and mindful of the limits of its mandate and its role as an observer and not a player, the IAG agreed that one of its members would facilitate these workshops.
235. The IAG is pleased to see this initiative by the partners. It expects these workshops to be organized in advance in a professional manner. Moreover, they should be structured so as to allow for all points of view to be expressed and they should result in concrete conclusions concerning accomplishments and lessons learned.
236. This will be one assessment but not the final one. It is important to learn as much as possible from what has been done to date so that the players in the “oil era,” which is just beginning in Chad and can be expected to expand considerably, can learn from past experience and constantly improve management of this resource.
237. The final judgment will be made by the people of the two countries when the ripple effect of the Project is seen in development actions. This is especially true in Chad where the ultimate goal of this petroleum project must be improved public well-being.

ACKNOWLEDGEMENTS

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 Governments of Chad and Cameroon, 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.giq-iaq.org, and on the World Bank site, at www.worldbank.org/afr/ccproj.

International Advisory Group

Mamadou Lamine Loum, Chair

Jane I. Guyer

Abdou El Mazide Ndiaye

Dick de Zeeuw

Jacques Gérin, Executive Secretary

IAG Secretariat

5 Place Ville-Marie, Suite 200

Montreal, Quebec

Canada, H3B 2G2

Tel: + 1 514 864 5515; Fax: +1 514 397 1651

E-mail: secretariat@giq-iaq.org

Web site: www.giq-iaq.org

Appendix 1

Chronology of Meetings

CHAD

Sunday, May 15, 2005 – N'Djamena

- IAG internal working session
- EEPCI

Monday, May 16, 2005 – N'Djamena

- World Bank
- RDP Team
- *Coordination Nationale/CTNSC/Direction du Pétrole*
- EEPCI

Tuesday, May 17, 2005 – Komé

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

Wednesday, May 18, 2005 – Moundouli field zone²

- Bao 1 village
- Miladi village
- Moundouli 1 village
- Moundouli field: construction site and drilling camp

Thursday, May 19, 2005 – Moundou – Komé

- CPPL
- Komé Atan

Friday, May 20, 2005 – Doba – Bébédjia³

- Governor of Eastern Logone
- Interim Management Committee for the 5%
- Prefect of Bébédjia
- ITRAD
- FACIL

Saturday, May 21, 2005 – Komé

- IAG internal working session
- EEPCI and CTNSC: close-out meeting

Sunday, May 22, 2005 – N'Djamena

- IMF
- IAG internal working session
- CTNSC On-Site Supervisor

Monday, May 23, 2005 – N'Djamena

- *Secrétaire d'État à l'Économie et aux Finances*

² IAG accompanied by the CTNSC, the CPPL and Esso

³ IAG accompanied by the CTNSC

- Working session with *Ministère de l'Économie et des Finances* technical services: *Directions du Budget, des Études et de la Prévision*

Tuesday, May 24, 2005 – N'Djamena

- *Ministère du Pétrole*
- *Ministère du Contrôle de l'État et de la Moralisation*
- *Ministère du Plan, du Développement et de la Coopération*
- *Ministère de la Santé*
- *Ministère des Travaux Publics et des Transports*
- *Ministère de l'Aménagement du Territoire, de l'Urbanisme et de l'Habitat*

Wednesday, May 25, 2005 – N'Djamena

- IAG internal working session
- Working session with *Ministère de l'Économie et des Finances* technical services: *Directions des Douanes, des Impôts et des Taxes, du Trésor, du Budget, Contrôle Financier, Institut National de la Statistique, des Études Économiques et Démographiques, Cellule Économique*
- Workshop on the RDP and the Regional Environment Study (RES)

Thursday, May 26, 2005 – N'Djamena

- CCSRP
- DGMP
- Coordination Unit of the GEEP Project
- *Ministère de l'Élevage*
- *Ministère de l'Agriculture*
- Workshop on the RDP and the RES

Friday, May 27, 2005 – N'Djamena

- *Ministère de l'Environnement et de l'Eau*
- *Ministère de l'Action Sociale et de la Famille*
- IFC
- *Secrétariat National de Renforcement des Capacités (SENAREC)*
- IAG internal working session

Saturday, May 28, 2005 – N'Djamena

- *Ministère de l'Éducation Nationale*
- EnCana
- Donors
- EEPCI

Sunday, May 29, 2005 – N'Djamena

- IAG internal working session

Monday, May 30, 2005 – N'Djamena

- Civil society: labor unions, Human Rights Associations
- IMF, WB
- Working session with the WB, the CN and EEPCI
- IAG internal working session

Tuesday, May 31, 2005 – N'Djamena

- *Ministère des Mines et de l'Énergie*
- Debriefing

CAMEROON

Wednesday, June 1, 2005 – Douala

- N'Djamena-Douala route
- COTCO

Thursday, June 2, 2005 – Yaoundé

- FEDEC, WWF, WCS
- Ministry of Environment and Protection of Nature
- Ministry of Forests and Fauna
- Ministry of Health
- PSMC

Friday, June 3, 2005 – Yaoundé

- NGOs
- Working session with COTCO, NGOs, PSMC and FEDEC
- IAG internal working session

Saturday, June 4, 2005 – Yaoundé

- WB
- IAG internal working session

Sunday, June 5, 2005 – Yaoundé

- IAG internal working session

Monday, June 6, 2005 – Yaoundé

- WB
- The Prime Minister

Appendix 2

Abbreviations and Acronyms

BEAC	<i>Banque des États de l'Afrique Centrale</i> / Bank of Central African States
Bpd	Barrel per day
CAPECE	Cameroon Petroleum Environment Capacity Enhancement Project
CCSRP	<i>Collège de Contrôle et de Surveillance des Ressources Pétrolières</i> / Oil Resources Control and Monitoring Group
CFAF	CFA Francs
CMNP	Campo-Ma'an National Park
CN	<i>Coordination Nationale</i> / National Coordination
CNLS	<i>Comité National de Lutte contre le SIDA</i> / National AIDS Prevention Committee
COJO	<i>Commission d'Ouverture et de Jugement des Offres</i> / Bid Opening and Assessment Committee
COTCO	Cameroon Oil Transportation Company
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
DGMP	<i>Direction Générale des Marchés Publics</i> / Government Procurements Directorate
DPU	Doba Petroleum Unit
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad Inc.
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
FACIL	<i>Fonds d'Actions Concertées d'Initiatives Locales</i> / Local Initiatives Development Fund
FEDEC	Foundation for Environment and Development in Cameroon
FFG	Fund for Future Generations
FSO	Floating Storage and Offloading Facility
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)
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
ICM 5%	Interim committee to manage the 5%
IFC	International Finance Corporation

IMF	International Monetary Fund
IPP	Indigenous Peoples Plan
MDNP	Mbam and Djerem National Park
MEE	<i>Ministère de l'Environnement et de l'Eau</i> / Ministry of Environment and Water (Chad)
MINEF	Ministry of Environment and Forests (Cameroon) – obsolete -
MINEP	Ministry of Environment and Protection of Nature (Cameroon)
MINFIN	<i>Ministère de l'Économie et des Finances</i> / Ministry of Economy and Finance (Chad)
MINFOF	Ministry of Forests and Fauna (Cameroon)
MINSANTÉ	Ministry of Health (Cameroon)
MME	<i>Ministère des Mines et de l'Énergie</i> / Ministry of Mines and Energy (Chad)
NGO	Non-Governmental Organization
NMP	Nya Moundouli Project
NOSRP	National Oil Spill Response Plan (Cameroon)
OFDA	Oil Field Development Area
PNIDAH	<i>Plan National d'Intervention en cas de Déversements Accidentels d'Hydrocarbures</i> / National Oil Spill Response Plan (Chad)
PRGF	Poverty Reduction and Growth Facility
PROADEL	Local Development Program Support Project
PSMC	Pipeline Steering and Monitoring Committee
PSMCBP	Petroleum Sector Management Capacity-Building Project
RDP	Regional Development Plan
RES	Regional Environmental Study
STEE	<i>Société Tchadienne d'Eau et d'Électricité</i>
TOTCO	Tchad Oil Transportation Company
WB	World Bank
WCS	Wildlife Conservation Society
WWF	World Wildlife Fund