

International Advisory Group
Chad-Cameroon Petroleum Development and Pipeline Project

REPORT OF MISSION
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*The IAG pays tribute to its colleague and friend Dr. Dick de Zeeuw
who died February 18, 2009 in Bangkok, Thailand.*

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EXECUTIVE SUMMARY

This report provides an account of the International Advisory Group's (IAG) statutory visit to Chad from January 11-24 and to Cameroon from January 26-31, 2009.

The mission had two main objectives: 1) to take stock of the Pipeline Project (Project) and the situation in both countries since the Group's last visits, and 2) to collect the information needed to prepare an assessment of the Project and its impact before the IAG's mandate ends on June 30, 2009.

CHAD

The Group was unable to travel to Chad in 2008 due to security conditions and the problems in the relationship between Chad and the World Bank (WB).

The main event in 2008 was the rebel attack on N'Djaména on February 2-3, and its consequences at every level: political, social, security, economic and financial.

Also in 2008, Chad posted record oil revenues on the order of US\$1.87 billion, thanks to the meteoric rise of the worldwide price of Brent; the WB withdrew from the Pipeline Project on September 9, 2008; and increasing inflation fueled social tensions that were further exacerbated at year-end by several unpopular government measures, especially in the capital, which was hard hit by a severe energy crisis.

Oil Activities

- Average oil **production** in 2008 was 127,000 barrels per day (bpd), compared to 144,000 bpd in 2007. These results were made possible by Esso's intensive production maintenance program. The company indicates that it now has better knowledge of the reservoir and confirms the initial estimates for the Doba Basin of approximately 1 billion barrels of oil.
- Esso launched a second **well infilling campaign** at the Komé and Bolobo fields and expects to add 300 more production wells between 2009 and 2012. Ultimately, about 800 wells will be drilled at the three fields of Komé, Bolobo and Miandoum. This significantly exceeds the estimated 287 wells of the original Project plans and consequently, will have a greater impact than anticipated on land use and the local population.

The costs associated with the various production maintenance measures planned by the Consortium indicate that the original investment of US\$4.1 billion is expected to double by 2011. These figures will undoubtedly have an impact on Project profitability and should be better explained by the oil company and more closely examined by the government.

- Implementation of the Land Use Mitigation Action Plan (**LUMAP**) is producing encouraging results. The Project's impact on local residents is more fully understood and corrective measures are being adapted to better fit their needs. Esso has started thinking about identifying new ways to minimize or compensate for its footprint in the area.

The additional human, financial and material resources it has allocated to implementing LUMAP are a positive sign of its commitment.

Esso will need to ensure that socioeconomic assistance and land requisition measures are implemented simultaneously during the new well infilling campaign from 2009-2012.

- A minor **oil spill** of 34 barrels occurred in August 2008 at one of the export pipeline's check valves. According to Chadian authorities, Esso managed the spill quickly and efficiently. However, this event serves to remind Chad of the urgency of adopting adequate environmental legislation, particularly the National Oil Spill Intervention Plan.

- Efforts by Esso and its contractors to **promote local employment** are to be commended. Notably, Schlumberger's training program has placed Chadians in specialized positions in Chad and elsewhere in the world.
- Given the ever-growing oil activities, **the government's absence in the field** is particularly worrisome. The environmental and oil monitoring structures have either been reduced to barebones, or disappeared altogether.

It is imperative that the government reestablish a permanent, on-site presence in order to ensure adequate oversight. To this end, it must appropriate the necessary funds to the *Ministère du Pétrole* and the *Ministère de l'Environnement's* budgets, and these ministries must make every effort to meet their responsibilities.

Petroleum and Public Finances

- The **2008 budget** recorded revenues at an all-time high, thanks to the world price of oil and the exceptional income resulting from the Memorandum of Understanding between Chad and the Consortium in September 2008.

However, significant outlays to cover security and reconstruction and the intensive investment program, especially in urban areas, have prevented Chad from reaching the anticipated level of savings.

While they recognize the unusual security context in 2008, Chad's partners find the lack of compliance with the initial and supplementary budgets regrettable, along with the fact that budgeting procedures were suspended with the adoption of emergency measures. Systematic shortcomings in public-finance management persist.

- After five years of collecting oil revenues the *Ministère des Finances* and the *Ministère du Pétrole's* lack of capacity to master **oil-revenue liquidation and the Consortium's costs** is alarming. Chad must equip itself to accurately calculate the oil revenues owed to it and to make projections, as well as to verify the expenditures that directly impact its revenues.
- The **2009 budget** has major risks. The dramatic decline of world oil prices in recent months make the budget assumption of \$US83 per barrel of Brent overly optimistic. Unless a drastic turnaround in the economic situation, which has become all-the-more uncertain with the world economic crisis, the revenue forecasts in the budget now appear to be greatly overestimated.

The International Monetary Fund also fears that expenditures have been under-estimated, especially as concerns security.

There is every sign that in 2009 Chad will see a drop in oil revenues for the first time since 2003. This will be a crucial test of the country's ability to self-adjust, given that the budget depends largely on oil revenues, which by definition, are volatile.

The government is urged to act quickly to pass a revised budget with more conservative revenue estimates than in the initial Budget Act, and meanwhile, to take the necessary steps to limit Ministry expenditures.

- Implementation of the budget from oil royalties allocated to the producing region by the IMC **5%** (Interim Management Committee of the 5% fund) continues to suffer the same shortcomings, with 2008 funds being used almost exclusively to continue government projects begun in prior fiscal years.

The IMC 5% is again urged to adopt clear guidelines for program planning that is based on projects identified by the local communities and complements other government programs. Its

program planning should be based on reasonable revenue forecasts, taking into account the risks weighing on the royalties in 2009.

- **Government auditing agencies** require urgent revitalization and rapid coordination in order to do their jobs efficiently. This is particularly true for the General Inspectorate of Finances, the Chamber of Accounts and the Budget Disciplinary Court.

Except for the Chairman, all the members of the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (CCSRP) were replaced in 2008 and new members were appointed without being proposed by the organizations they represent.

The CCSRPs' 2007 annual activity report notes an overall improvement in the spending ministries' command of budgeting procedures, even though some problems persist. The *Collège* complains that the priority ministries do not ensure systematic follow up on its recommendations but, to be effective, the late publication of its report, in December 2008, is to be avoided in the future.

In the years ahead, the government is urged to ensure that the CCSRPs membership is renewed gradually, with a third of the seats renewed at a time, and that its members are proposed by their peers. It must also decide what role it would like the *Collège* to play in the context of a unified budget.

Oil Resources

Chad is facing the challenge of optimizing its oil resources so as to be a lever of development and economic diversification.

Despite the lack of definitive data on 2008 spending, overall trends in oil-revenue use can be seen.

- Although Chad has continued to invest heavily in **human resources in the Health and Education sectors**, the results have been mixed.

The considerable efforts made by the *Ministère de l'Éducation Nationale* in recent years have resulted in a gross school enrollment rate of 87.5%, placing the country in a good position to achieve universal access to education in 2015, but at the price of costly investments in buildings. Improvements must still be made with respect to the quality of education and reducing regional and gender-based disparities. For the time being, it is unlikely that the Millennium Development Goal (MDG) for completion rate will be achieved.

In the Health sector, many recently-built facilities are not functional due to a lack of adequate equipment and personnel. The *Ministère de la Santé* has adopted a clear policy for attaining the MDGs, but the latest data indicate a worsening of maternal, child and infant mortality indicators since 2004, placing the goal of attaining the health-related MDGs by 2015 out of reach.

- The trend seen in the 2007 budget of increased funding for the **production sectors (Agriculture and Herding)** continued in 2008. However, their budgets are still insufficient to develop these vital sectors.

In the Agricultural sector, research and producer-training efforts are continuing to make strides, but have not yet resulted in a sustainable increase in production. The cotton industry is still plagued by significant problems, exacerbated by the poor condition of the roads, which at present, are not being repaired.

The *Ministère de l'Élevage* received increased funding, but not enough to advance on its priority, the general livestock census, an activity essential to developing that sector.

Given the potential of these sectors, a dynamic policy on agriculture and herding, coupled with adequate funding, would enable Chad to attain food self-sufficiency and even become an exporter.

In general, the spending ministries still have difficulty identifying the development outcomes of their expenditures as a criterion for appropriating the financial resources they are allocated, oil revenues included.

- Diversification of Chad's economy also requires an improved **business climate** if standards attractive to private investment are to be reached. To achieve this, the government must work closely with economic operators and their professional associations, and ensure greater transparency in its management and relations with the operators.

In **conclusion**, 2008 was an eventful year for Chad:

- rebel attacks, followed by rapid rebuilding and an intensive investment program,
- a record budget thanks to higher-than-anticipated oil revenues, but fewer savings than expected to face future decline, due to the need for increased spending on security and reconstruction,
- significant increase in oil prices by mid-year, followed by a sharp decrease at year-end, and the ensuing consequences for the 2009 budget.

Several major risks still have not been controlled and require urgent action on Chad's part:

- lack of acquired skills to fully master oil-revenue liquidation and to verify the validity of oil costs,
- prolonged absence of ongoing government presence and oversight at the oil sites,
- the major drop in oil revenues predicted for 2009 and the rapid budget adjustments that will need to be made as a result.

CAMEROON

In Cameroon, as with the previous visit in June 2008, the Group focused on four critical issues: the Social Assessment, the Foundation for Environment and Development in Cameroon (FEDEC), capacity-building for the Government of Cameroon, and the Lom Pangar dam project.

This mission took place in a calmer social context as compared to last June, and in an economic and financial context that was certainly difficult but still showed improved economic performance, deemed satisfactory by the International Monetary Fund.

Platform for Cooperation and Social Assessment

The COTCO-PSMC-NGO platform for cooperation continues to operate in a satisfactory manner overall, and has made progress on the Social Assessment, with 80% of the claims handled since the beginning of the process.

This real progress is to be commended. Nevertheless, NGOs still feel the processing time is too long, as do claimants who are growing impatient, particularly since they are receiving little information about the status of claims dating back several years.

The platform's members are urged to agree on a reasonable time frame for settling pending claims, and COTCO should allocate the funds needed to adhere to this schedule.

FEDEC, National Parks and IPP

- FEDEC's **financial situation**, already alarming in June 2008, has continued to deteriorate.

Under a donation agreement signed by COTCO and FEDEC on January 23, 2009, COTCO has committed to donate 164.1 million CFAF per year for five years to be used for “supporting the actions constituting the Foundation’s main purpose.” This is the only concrete offer the Foundation has received and it provides a temporary reprieve for FEDEC.

The International Finance Corporation proposed an action plan to support the Foundation, but it will serve no purpose unless the Foundation’s survival is ensured.

As the situation currently stands, the Foundation estimates that its available capital will potentially allow it to continue its activities for three years, perhaps less.

FEDEC's “founding fathers”—the government, Consortium and WB—must still reach an agreement concerning their respective responsibility to ensure implementation of this component of the Environmental Management Plan over the next 22 years.

- Steady progress has been made on implementation of the **Indigenous Peoples Plan (IPP)**. This progress must be sustained, especially with respect to the education and health components, where a growing awareness and interest on the part of the Bakola/Bagyeli can be seen. The agricultural, citizenship and habitat components still require some fine-tuning.

FEDEC's financial problems may make it difficult to sustain the gains made to date. However, the partnerships that RAPID has gradually been establishing with other parties in the area, which will allow it to develop new activities, and the World Bank-supported PRECESSE project intended to supplement FEDEC activities with the Bakola/Bagyeli, will provide additional sources of support.

- Wildlife Conservation Society (WCS) indicates that its park management activities in **Mbam and Djerem national park** continued uninterrupted in the second half of 2008.

However, at the time of the IAG visit, FEDEC and WCS still needed to clear up a misunderstanding concerning the status and terms of reimbursement of additional funding that FEDEC granted to WCS in the first half of 2008.

- The time has come for FEDEC and the Ministry of Forests and Fauna to reach an agreement on their respective responsibilities in managing Mbam and Djerem national park and Campo-Ma'an national park, and to formalize them in an agreement. On this basis, FEDEC would then be able to negotiate new agreements with the executing agencies working in the parks on its behalf.

Strengthening Government Capacity

- Progress has been made on the preparatory work for implementing the **PRECESSE** project in recent months, although the project still had not been officially launched at the time of the IAG visit.

Procedural manuals for the various components were being drafted. Civil society organizations should take advantage of this opportunity to voice their priorities and concerns regarding training to the government

- Some issues under the **CAPECE** project, which ended in November 2007, are still pending. The PSMC, which coordinated project implementation, continues to monitor it.

The PSMC must ensure that all of the studies produced under CAPECE are sent without further delay to the relevant ministries for appropriate action.

In response to concerns expressed by the Cameroonian side, the PSMC and WB must come to an agreement on the terms of an appropriate Pipeline project monitoring process.

Other Critical Matters for Urgent Government Action

These issues, already mentioned several times in past IAG reports, include:

- Cameroon's establishment of an appropriate legal framework to manage the oil sector, which entails the adoption of the National Oil Spill Response Plan and its implementation manual, and the adoption of the implementing decrees for the Framework Law on the Environment prepared under the aegis of CAPECE;
- closure of the issue of transferring temporary Project sites and infrastructures to Cameroon.

The Prime Minister has been made aware of the urgency of these matters.

Lom Pangar Dam Project

Progress is being made on the Lom Pangar dam preparations, especially the issues related to its interaction with the Chad-Cameroon Pipeline. Cameroon and COTCO were about to finalize the agreement for financing by Cameroon the optimization and preliminary studies phase for the pipeline adaptation work.

In **conclusion**, now that the Pipeline project has been in operation for over five years, activities are close to normal operations in Cameroon. But some important pending issues must be addressed and resolved quickly:

- FEDEC's survival,
- adoption of a legal and regulatory framework for the environment that is suitable for managing the risks related to the oil sector and major infrastructure projects in general,
- making use of the studies conducted under the aegis of CAPECE.

The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (Project) conducted a statutory visit to Chad and Cameroon from January 11-31, 2009.

The IAG's two main objectives for this visit were:

- to take stock of the Pipeline project and the situation in Chad and Cameroon since the Group's last visit to each country in November 2007 and June 2008, respectively; and
- to gather the information needed to prepare an evaluation of the Project and its effects before the Group's mandate ends on June 30, 2009.

CHAD – INTRODUCTION

1. The IAG conducted its fourteenth statutory visit to Chad from January 11-24, 2009, a little over a year after its last visit.
2. The Group was unable to visit the country in 2008 as originally planned due to unsuitable security conditions during the first half of the year, then to persistent problems in the relationship between the World Bank and Chad during the second half.
3. The mission's specific objective was to assess, first, Pipeline project implementation and management of its environmental and social impacts; and second, implementation of the 2008 national budget by identifying the results achieved in the various priority sectors. The Group also focused on evaluating the 2009 budget and the institutions and instruments involved in public finance management.

Mission Context

4. In Chad, the main event of 2008 was the rebel attack on the capital, N'Djamena, on February 2-3, and its consequences at every level: political, social, security, economic and financial.
5. In terms of **domestic politics**, February's attack, which was an attempt to overthrow the current regime, was repelled by Chad's army at the cost of large numbers of victims, arrests that human-rights groups judged to be sometimes arbitrary, the disappearance of a major democratic opposition figure—Mr. Ibni Oumar Mahamat Saleh—and significant material damage.
6. The state of emergency declared by the authorities on February 15, 2008 was lifted on March 16, but the press reports that the order imposing heavy restrictions on it was never rescinded by the government and is still hanging over it like a sword of Damocles.
7. With the April 2008 entry of four opposition members into new Prime Minister Youssouf Saleh Abbas' government, Chad's President began to attempt a certain level of openness as the international community had been encouraging to restore peace. After a hiatus of several months, the national reconciliation process guided by the August 13, 2007 political agreement (between the democratic opposition and the ruling party) got underway with support from the European Union and other international partners. Parliament passed several laws concerning

the electoral process. However, some members of the democratic opposition, for whom these texts did not meet their demands, decided to dissociate themselves from the process, which slowed down again.

8. On a **sub-regional** note, the impact of the Darfur conflict is still being felt in Chad. However, deployment of the EUFOR Chad-Central African Republic transition force is helping improve security in the area of operation. This force will withdraw on March 15, 2009, and be replaced by the joint United Nations-African Union force known as MINURCAT 2.
9. Chad and Sudan signed one peace agreement in Dakar (Senegal) on March 13, 2008 and others in Doha (Qatar) that were supposed to end the latent conflict being waged by the two neighbors through rebels. But some problems cropped up beginning in May and several times thereafter. Restoring the relationship between the countries remains a slow and uncertain process, which threatens both their own stability and that of the entire sub-region.
10. On the **social level**, the living conditions faced by the general public are increasingly difficult, according to civil society representatives. Significant inflation for food products—especially grains—was seen in 2008 as a direct result of rising prices on the international markets.
11. Worries focused heavily on skyrocketing real estate prices in the capital and especially on the energy crisis tied to the government's decision last December to prohibit the sale of charcoal and firewood without alternative measures being put in place first.
12. On the **economic and financial level**, according to International Monetary Fund (IMF) preliminary data, nonoil real growth remained weak in 2008, at 3.25%. Inflation was on the rise, estimated at 7.5%, and the nonoil budget deficit was 28%, compared with only 4% in 2004.
13. Despite decreased oil production, which averaged 127,000 barrels per day (bpd) in 2008, compared to 144,000 bpd in 2007, Chad posted record revenues on the order of US\$1.87 billion in 2008, thanks to the meteoric rise of oil prices on the international market that reached US\$140 per barrel of Brent at mid-year (about US\$100 per barrel of Doba Blend).
14. But a reversal in oil price trends since the last quarter of 2008 suggests caution for the 2009 budget, which is based on oil revenue assumptions that now seem too optimistic. This critical situation could also be exacerbated by the world economic crisis that appeared at the end of 2008.
15. Finally, concerning **cooperation**, the Chad-World Bank partnership begun in 2000 ended with the Bank's September 9, 2008 announcement of its withdrawal from the Chad Pipeline project, and consequently the early repayment by Chad of the balance of the IBRD (International Bank for Reconstruction and Development) loan and the two IDA (International Development Association) loans related to pipeline development. Since then, the two parties have agreed to redefine their areas of cooperation outside of the oil sector. This process was getting underway at the time of the visit, with the reopening of the World Bank's offices in Chad.
16. Chad's cooperation with its other partners has remained along the same course despite a brief slowdown ensuing from the rebel attack in February 2008. The European Investment Bank remains involved in the Project and the European Union has indicated its readiness to cooperate with Chad to define an improved oil-revenue tracking mechanism.

17. The 2005-2008 PRGF (Poverty Reduction and Growth Facility) program supported by the IMF was closed out at the end of May without any review having been completed. Fund management ultimately did not approve the Staff Monitored Program negotiated in July 2008 because of Chad's failure to abide by the supplementary budget and to respect budgeting procedures.
18. Finally, in 2008 ties with China were strengthened on several counts.

Mission Description

19. In N'Djamena, the Group held working meetings with the central ministries (*Finances et Budget, Economie et Plan*), the *Ministère du Pétrole* and most of the priority ministries, the Poverty Observatory, auditing agencies (the General Inspectorate of Finances, Chamber of Accounts, *Collège de Contrôle et de Surveillance des Ressources Pétrolières* [Oil Resources Control and Monitoring Group], and the *Organe de Contrôle des Marchés Publics* [Government Contract Oversight Office] and Esso Exploration and Production Chad Inc. (EEPCL or Esso). It also met with representatives of civil society, the local press, economic operators, large commercial banks, *Société des Hydrocarbures du Tchad* management, and several of the country's international partners: the IMF, United Nations Development Programme, European Union and France. At the end of the mission, the Group met with the *Bureau* of the National Assembly and briefed the Prime Minister on its main findings.
20. The Group also traveled to the Komé 5 base in the oil-producing zone and to two villages, Dokaidilti and Danmadjia. In Doba and Moundou, it met with representatives of the local authorities and regional government agencies, IMC 5% (the Interim Management Committee of the 5% fund allocated to the oil producing region), the presiding judge of the Doba Court, CotonTchad's management and Moundou's economic operators. It also met with the non-governmental organizations (NGOs) that work with Esso to implement the community compensation program, but had no discussion with the Moundou CPPL (Local Standing Committee on Oil).
21. The mission itinerary and meeting schedule are provided in Appendix 1.
22. This report covers the development and management of the oil resource, the system for managing public finances, and the use of the oil revenues and their impact on the country's development.

1 OIL ACTIVITIES MARKED BY INFILLING, CORRECTIVE ACTION AND LACK OF GOVERNMENT PRESENCE ON SITE

1.1 New Infilling to Maintain Production

23. ♦ Average oil production in **2008** was 127,000 bpd, a volume below Esso's forecasts but which still would not have been achieved without the intensive program for well infilling, pressure maintenance and reservoir stimulation.
24. As of December 25, 2008, 545 wells had been drilled in the six active fields, including 486 in the three Doba Project fields (Komé, Miandoum, Bolobo) and 59 in the satellite fields of Moundouli, Nya and Maikeri.

25. Despite the difficulties encountered, Esso says it now has better knowledge of the reservoir and confirms its initial estimate of approximately one billion barrels of oil, of which slightly over 25% has been tapped to date.
26. ♦ Production for **2009** is expected to be on the order of 125,000 bpd. It will be supported by the Timbré field, which is expected to be brought online in mid-2009, and by a second well infilling campaign at the Komé and Bolobo fields. Esso plans to drill 90 to 100 additional production wells there annually in 2009 and 2010, and about 50 in 2011 and 2012, for a total of approximately 300 new production wells.
27. The number of wells, which will reach about 800 for the Komé-Bolobo-Miandoum fields alone, will far exceed the initial plans for 287 wells, which were the basis for the Doba Project's Environmental Management Plan (EMP).
28. The infilling is producing an initially unforeseen impact on land use and on farmers. Esso, in agreement with the International Finance Corporation (IFC), has made a commitment to evaluate and mitigate the impact by expediting a Cumulative Environmental and Social Impact study. The consultant hired to do this study submitted the preliminary results to Esso and the IFC at the end of December 2008. The conclusions and recommendations should allow the company to adapt the compensation measures it has already been applying.
29. Significant costs are associated with these various measures to maintain production. The Consortium notes that the cumulative capital costs for the Chad-Cameroon Project rose from an estimated US\$4.1 billion in the original plan to US\$6.5 billion in 2008, and will probably exceed US\$8 billion in 2011. Since this investment has doubled while the expected production volume has remained the same—about a billion barrels—it will undoubtedly affect the Project's long-term profitability. Hence the importance of the Consortium limiting costs, and Chad verifying them.
30. ♦ The results of the **exploration** conducted in 2004-2008 were not deemed sufficiently conclusive to plan another commercial operation. Consequently, the Consortium returned the remainder of its H exploration permit to Chad on January 2, 2009. This raises questions about potential oil reserves and the possible strategies to develop them.

1.2 Implementation of the Land Use Mitigation Action Plan

31. The need to mitigate the impact of oil-facility use of agricultural land on residents' living conditions made implementation of the LUMAP (Land Use Mitigation Action Plan) an urgent matter.
32. Teams and instruments are now in place and execution of the Plan is already producing encouraging results. EEPCI seems to be more proactive in implementing the mitigation and compensation measures defined during the first infilling campaign.

1.2.1 Land Use Impact and Damage Assessment Become Clearer

33. ♦ The stepped-up campaign to **restore and return borrowed lands** to residents that was begun in October 2006 has helped make up delays, especially in reducing the area of operational well pads, restoring the "phantom" well pads that were built but not drilled after one year and restoring the borrow pits and flowlines.

34. EEPCI data indicate that by the end of the third quarter of 2008, soil restoration efforts had reduced the total land area occupied by the Project in the Oil Field Development Area (OFDA)¹ by 200 hectares as compared to the end of 2006, and returned over 830 hectares of farmable land to residents.
35. According to the preliminary results of a study ordered by Esso, these lands are allegedly producing higher agricultural yields than those obtained on control parcels. However, villagers are still expressing concerns about the risk of rapidly diminishing yields, primarily due to erosion. Multi-year monitoring of the restored lands by the company and the government would show whether specific steps are required to avoid such a decline.
36. Moreover, the annexation of new pieces of land in preparation for the next infilling campaign is a reminder that EEPCI needs to return as much land as possible to area residents before the next agricultural season. The company hopes that by working block by block, on the basis of geological formations, rather than conducting simultaneous operations across both the Komé and Bolobo fields, it will be able to complete development of the Doba oil Basin with optimal well distribution while reducing the land area used and restoring the borrowed lands without undue delay.
37. ♦ **Identification and accurate assessment of the damages** sustained by area residents continues. Detailed socioeconomic studies and land surveys have been completed in three of the ten villages identified as most affected: Dokaidilti, Dildo and Ngalaba. EEPCI plans to complete the studies in the other seven villages by July 2009.
38. Thanks to increased staffing for the field teams conducting the studies, the acquisition of additional high-tech GPS (global positioning system) equipment and satellite geographical data, and especially the development and maintenance of an increasingly powerful database, it is now possible to cross-reference multiple pieces of information and more quickly identify vulnerable households eligible for resettlement according to the EMP criteria.
39. The data gathered enabled the LUMAP team to develop a specific action plan for livelihood restoration in Dokaidilti village. Implementation of this action plan led to reclassification of the village from the “severely affected” to a low impact category. The ultimate objective is to implement similar specific plans for the ten most-affected villages.

1.2.2 Adjustments to Training and Compensation

40. ♦ The **Improved agriculture and Off-farm training programs** offered as alternatives to resettlement have been revised to improve their performance.
41. In both cases, a system for closer follow-up with the beneficiaries is now in place and all eligible candidates are receiving a training module teaching basic business techniques (barefoot business school).
42. Esso is now working with a local NGO to help it implement the training program in improved agriculture techniques. Currently, 173 eligible candidates are being trained. At the same time, a team is responsible for assessing the 352 persons trained since 2000 in order to set up a support program for those who are still having difficulty achieving a sustainable standard of living.

¹ The OFDA covers the three Doba Project fields – Komé, Bolobo and Miandoum.

43. Esso decided it would no longer offer the off-farm training program in the OFDA due to saturation of the market by businesses created by the beneficiaries of this option in previous years. However, the program is still an option for people eligible for resettlement in the villages affected by the Nya, Moundouli and Maikeri satellite fields, outside of the OFDA.
44. ♦ Esso continues to examine the feasibility of the “**compensation by a third party**” option, which would allow a person with extra lands to cede them to the Project in return for compensation, to be redistributed to eligible candidates lacking adequate farmable land according to EMP criteria. Various surveys have identified land available for this purpose, but implementation of this option remains a sensitive issue and the 164 eligible persons (out of a total of 173) who have chosen it are receiving agricultural training in the meantime.
45. ♦ With respect to **community compensation** for the twenty villages affected by the development of the Nya and Moundouli satellite fields, Esso has contracted with three local NGOs to help residents identify the selection of projects they would like to see done in their villages. One innovation added since the first phase of community compensation, the beneficiaries can now identify their choice of infrastructure or development projects, rather than pick from a catalogue.
46. At the time of the visit, ten villages had already determined their priorities. In four of them, the project had already been completed; in one, the village assembly had approved a final choice; and five still needed to submit their final proposal to Esso.
47. Among the infrastructure projects suggested by the villagers were wells for potable water, schools, water towers and community buildings; and development projects included rice perimeters, seed production and raising livestock.
48. A **supplemental community compensation** program for the fifteen most heavily affected OFDA villages has also been developed using the same principles. Each village is assigned to a category depending on the level of impact and, as with Nya and Moundouli, Esso has contracted with local NGOs to help the villagers choose a project that corresponds to their category.
49. At the time of the visit, thirteen of the fifteen villages had selected their top three choices. Two villages were refusing to make a suggestion to Esso. The first wanted to know exactly how much money would be allocated to it beforehand, and the second would consider no other option than the construction of a health clinic. The company cannot meet these two conditions because its policy is to not put a dollar amount on the compensation, and to build projects that the villages can maintain themselves subsequently. A compromise is therefore needed so as not to force a project on the residents, since the basic premise is to allow them to choose freely so that they will truly take ownership of the project afterwards.
50. ♦ As the residents’ need for farmable land increases year by year and development of the oil fields continues, Esso is considering **new options** to minimize or compensate for its footprint in the area. The development of additional farmable zones along rivers, which would allow the local villages to grow rice, is under study. The associated environmental studies and engineering works could take place some time in 2009.
51. The company is also studying the possibility of applying new directional drilling techniques that would allow for more wells on a given land area.

52. In the long term, these measures should contribute to provide additional mitigation for future land requirements and deserve to be funded adequately.
53. The LUMAP team's stated objective is to have all the villages' community compensation choices made by April 2009 and to ensure a sustainable livelihood for affected households.
1. The IAG recommends that Esso:
54. - *Conduct multi-year monitoring of the agricultural yield on the restored lands and, if necessary, take specific steps to control erosion;*
55. - *Devote special attention to the simultaneous implementation of socioeconomic accompanying measures and land requisitioning for the new well infilling campaign planned from 2009 to 2012;*
56. - *Continue to make efforts to restore and return borrowed lands to area residents within the EMP deadlines;*
57. - *Continue negotiating with the villages that are unable to find a project that meets Esso's selection criteria for community compensation projects;*

and that the Consortium:

58. - *Allocate sufficient funds to support development of new initiatives for generating additional farmable land by Esso's EMP department and new, less land-demanding drilling techniques by the engineers.*

1.3 Environmental and Social Issues

1.3.1 An Easily Contained Minor Spill, Reassuring Studies and Action

59. ♦ On August 28, 2008, villagers reported an **oil spill** to the NGOs, which then alerted Esso. It occurred at a check valve on the export pipeline, about 37 km from Komé 5. Esso immediately took steps to identify the source, contain the spill and remedy the environmental impact. It
- temporarily shut down the pipeline,
 - excavated the faulty valve to identify the source of the leak, which turned out to be bolts used improperly,
 - repaired the faulty valve and restored pipeline service,
 - removed soil contaminated by the spill and stored it at an appropriate site,
 - tested water in village wells and wetlands to identify any traces of oil, which were not found,
 - held public information sessions in the villages with local authorities present.
60. Subsequently, the company decided to replace parts similar to those that caused the leak in the seventeen check valves located along the pipeline in Chad and Cameroon.

61. The oil spill amounted to an estimated 34 barrels. Oil production did not stop, but was slowed while the incident was handled.
62. According to the *Ministère de l'Environnement, de l'Eau et des Ressources Halieutiques*, EEPIC's handling of the spill was quick and adequate. However, such an event is a reminder of how urgent it is for Chad to equip itself to respond to a major spill. The National Oil Spill Intervention Plan (PNIDAH) has not yet been adopted by the National Assembly, let alone implemented.
63. More generally, the country's environmental regulation system still has not been updated through preparation of the needed implementing decrees for the 1998 Law on the Environment.
64. ♦ In the context of its **dust abatement** program, after several studies and for reasons of long-term economic profitability, Esso has gradually abandoned the spreading of molasses and the spraying of water in favor of asphalt paving for the OFDA's major roads.
65. In 2007 and 2008, the company applied DBST (Double Bitumen Surface Treatment) to a total of 20.8 km of roads and plans to pave an additional 4.6 km in 2009.
66. According to Esso, the preliminary conclusions of the study of dust's impact on plant fertility, which was done by a Chadian consulting firm, seem to indicate that dust would not modify the yields of the plant species studied, in particular grains and mango trees located along roads. The company is encouraged to share these results, which should be confirmed in the study's final report, with its interlocutors and partners.
67. ♦ Some villagers have repeatedly brought up the **impact of the continuous lighting** at some of the oil facilities on the fertility of nearby crops, in particular plant growth that is reportedly not yielding fruit. Esso is encouraged to commission an independent study of this situation.
68. ♦ **Gas flaring** at the Miandoum gathering station has decreased appreciably since two additional compressors were installed in April 2008, dropping from over 4 mcf/d (million cubic feet per day) in January 2008 to about 0.65 mcf/d currently, which is below the 1.1 mcf/d threshold allowed by the EMP.
69. ♦ The **waste management** program is continuing with several alternatives: storage, treatment, recycling and donation to the communities.
70. The Project's plastic and food waste recycling plant has been built in Bébedjia but the Chadian operator is finding few outlets for its products and is handling less waste than anticipated.
71. Faced with this situation, Esso has purchased a new municipal incinerator that will treat hazardous and non-hazardous wastes and will be in operation beginning in May 2009 to supplement the other incinerators already used by the Project. The operator is also studying the possibility of developing a composting project using wood, cardboard, paper and food waste.
72. ♦ The **project for surface re-use of some of the pumped water** is losing steam: the prospect of having to treat the expected volume of water to meet potable water standards has cast doubt on its benefits.

1.3.2 Compelling Success in Promoting Local Employment

73. The training and local job development program created at the beginning of the Project by Schlumberger, one of Esso's contractors, is quite encouraging and exemplary in many ways. It has helped train Chadians for highly specialized jobs and promote their recruitment for positions in Chad and elsewhere in the world. At the time of the visit, Schlumberger employed 51 foreigners in Chad and 48 Chadians in other countries. The company's stated objective is eventually to employ as many Chadians abroad as foreigners in Chad.
74. Generally speaking, in 2008 Esso and its contractors continued their efforts to have as many jobs as possible filled by Chadians.

1.3.3 Picking up the Pace of Business Opportunities as the IFC Returns

75. Development of local business opportunities continues to move forward. Economic operators who met with the Group in Moundou said they were happy with the work done by the Esso-supported Business Development Center (BDC), despite the IFC's absence for the past several months.
76. Even though some misunderstandings about past awarding of Project contracts persist, the new procedures and tools put in place seem to be working and the rules appear to be better understood and accepted by the local economic operators. Various Chadian operators from the oil-producing area were awarded Esso contracts in 2008, in some cases, replacing foreign contractors.
77. In order better to take advantage of this trend, the main operators' association, *Collectif des Opérateurs Economiques du Logone Occidental* (COELOC), could benefit by more actively promoting the creation of joint ventures among its members that would allow them be in a position to respond to the Project's invitations to tender.
78. The success of the *Union des Groupements Arbo-Maraîchers* of Moundou, which several years ago benefited from a training and support program developed by the Project, is to be applauded and encouraged. The market gardeners with whom the IAG met continue to supply one of the Project's bases and also sell their products in N'Djamena, thanks to the good quality of the Moundou-N'Djamena road. Still, they are asking Esso to encourage purchasing directly from the producers rather than through middlemen.

2. The IAG recommends that:

79. - *The National Assembly adopt the PNIDAH and the government put in place the human, material and financial resources to implement it;*
80. - *Esso publicize the conclusions of the study of dust's impact on plant fertility, when they become available;*
81. - *Esso commission an independent study of the impact of the continuous lighting at oil facilities on the fertility of nearby crops;*
82. - *The IFC renew its cooperation with the Chamber of Commerce and Esso to develop local business opportunities and in particular its support program for the BDCs and access to microcredit for micro-enterprises. Esso is also encouraged to take steps in the same direction;*

83. - *Esso give priority to purchasing fruits and vegetables directly from the producers to supply the Project's various site facilities.*

1.4 Alarming Absence of Government in the Field

84. Given the expansion and increase of oil activities in the Doba Basin; the fact that Esso is taking a series of steps to limit and/or compensate for its impact in the area; and the tremendous expectations and needs of the local residents, the government's absence from the field is visible and disturbing. As a regulatory authority, the government is all but absent from the oil fields, leaving the oil operator and its contractors to their own devices.

85. While the *Ministère du Pétrole* does occasionally send teams to the site, previously the Doba Petroleum Unit was continually monitoring activities there. The *Comité Technique National de Suivi et de Contrôle* [National Technical Committee for Monitoring and Control, or CTNSC], under the supervision of the *Ministère de l'Environnement*, was responsible for environmental monitoring in the field. It was disbanded in December 2007 and all its agents were dismissed.

86. The government is therefore not in a position to provide ongoing environmental and technical monitoring for oil activities in the area, and cannot assure its citizens that these activities are being conducted in accordance with the country and EMP's social and environmental standards.

87. The various compensation measures put in place by Esso, in particular through implementation of the LUMAP, are of direct interest to the *Ministère du Pétrole*, *Ministère de l'Environnement et de l'Eau*, and *Ministère de l'Agriculture*. They would be well advised to closely follow the various experiments and capitalize on the innovative techniques the Consortium is using in order to apply them to other present or future oil projects, or to other areas of endeavor. This is especially true with respect to developing market gardening, restoring soils, and developing new farmable land and sophisticated technical tools providing land use information that is unrivaled elsewhere in the country.

88. It is urgent that the government reestablish a permanent presence at the oil sites and its role as supervisor of the operators.

3. The IAG recommends that:

89. - *The government provide budgets for monitoring the activities of the Consortium and other oil operators to the Ministère du Pétrole and the Ministère de l'Environnement, as the IAG has been recommending since 2005;*

90. - *The Ministère du Pétrole and the Ministère de l'Environnement assume their responsibilities and mobilize human, material and financial resources to provide adequate, continual monitoring of oil-producing activities as required, in particular, under the new Petroleum Code;*

91. - *The Ministère du Pétrole, Ministère de l'Environnement, Ministère de l'Agriculture, Ministère de la Fonction Publique et du Travail take responsibility for following up on what is happening in the oil zone in order to capitalize on the various experiments that are being done by Esso and its contractors;*

92. - *Esso officially inform these ministries of its activities on a regular basis.*

2 OIL AND PUBLIC FINANCES: MANAGING VOLATILITY STILL TO BE LEARNED, GAPS IN OVERSIGHT REMAIN

93. Chad has now been collecting oil revenues for five years and the 2008 budget reached a record high thanks to soaring oil prices on international markets. However, the country still needs to make significant improvements in public-finance management so as to make more effective use of the oil windfall and gain a better understanding of the volatility of these revenues.

2.1 2008 Budget

2.1.1 Overall Trends in the 2008 Budget: Record Revenues and Emergency Measures

94. Following the rebel attack in February, the 2008 budget was adopted by government decree with higher spending levels than the IMF and Chad had agreed upon in the budget proposal at the end of January. As part of the emergency regulations established by the authorities, normal budget implementation procedures were suspended and replaced by systematic sole-sourcing procedures to expedite operating and capital expenditures.
95. A supplementary budget was subsequently drafted in July, in the post-conflict context, to cover security and reconstruction costs arising from the rebel attacks, expected decreases in revenues from economic operators, and new social policies to temporarily support the most underprivileged segments of society and help them deal with the high cost of living.
96. In 2008, the average price of Brent, according to the IMF, was US\$97.5/barrel and of Doba Blend, US\$75.7/barrel.
97. The higher price of oil notwithstanding, the supplementary budget adopted by the National Assembly on July 25, 2008 estimated revenues at over 911 billion CFA francs (CFAF), compared to 921 billion in the initial Budget Act. Planned expenditures were estimated at 905 billion CFAF, compared to 775 billion in the initial Budget Act, leaving a projected surplus of about 6 billion CFAF, compared to 146 billion in the initial Budget Act. Payroll expenses represented 90% of non-oil revenues.
98. Preliminary IMF data concerning budget implementation at the end of 2008 indicate that most resources were channeled to security efforts (military spending) and reconstruction (investments). Despite the particularly challenging security context, which could explain the increased military spending, some of Chad's partners consider the systemic failure to abide by the approved budget and budgeting procedures unfortunate, and felt that the budget surplus at the end of the fiscal year resulted not from careful management, but from unanticipated oil revenues.
99. During the last quarter, oil revenues were pushed higher by the September 16, 2008 memorandum of understanding signed by Chad and the Consortium. Among other measures, this agreement introduced: 1) a change in how the Consortium pays corporate tax, 2) payment of the statistical tax on exports by the Consortium, retroactive to 2003, and 3) payment by the Consortium for the dead stock of three million barrels of oil in the pipeline.
100. In total, Chad banked about 150 billion CFAF in non-anticipated income from oil revenues at the end of the year, but nearly all of it was spent.

101. Focus on the spending side shifted to public works in the capital, where construction and/or renovation of urban infrastructures were prioritized.
102. The buildings damaged in February's attacks were quickly repaired, and urban renewal is underway in N'Djamena, but at the cost of people being forced to vacate their premises, often with a great sense of injustice.

2.1.2 Overcoming Gaps in Understanding Oil-Revenue Liquidation and the Consortium's Oil Costs

103. Despite the improvement in procedures for managing public finances, which has helped the country to better understand and manage a budget that has been growing for 5 years, some significant deficiencies still need to be remedied.
104. ♦ The revenue offices of the *Ministère des Finances et du Budget* (MINFIN)—Tax and Customs still have not fully mastered the process of **oil-revenue liquidation**. They merely receive and record the information sent to the *Ministère du Pétrole* by the Consortium, without being able to verify its accuracy.
105. The tax authorities acknowledge that they also do not have a good grip on the content of the September 2008 Chad-Consortium memorandum of understanding and the resulting basis for tax adjustments established in 2008, or the resulting new procedures for the coming years, beginning with 2009.
106. The training program provided by PAMFIP (Action Plan for the Modernization of Public Finances) helped improve the performance of MINFIN's agencies, which are now requesting specific training in auditing specialized sectors, including oil.
107. The Consortium states that from 2003-2008, it paid Chad a total of over US\$4.3 billion in oil revenues, a figure greatly exceeding original estimates, which forecast the country would receive US\$2.5 billion over 25 years. And this is without the government being able to calculate these revenues accurately or to verify what the Consortium owes it.
108. ♦ The offices of the *Ministère du Pétrole* and MINFIN also lack a thorough understanding of the Consortium's stated **oil costs**.
109. Although by 2012, EEPIC's planned investments in developing the Doba Basin are expected to double the initial estimates, Chad is unable to verify the value and relevance of these investments, which nonetheless directly affect its oil revenues.
110. The *Ministère du Pétrole* has announced its intent to hire a professional auditing firm for the financial audit of the Consortium's accounts. MINFIN's agencies have expressed interest in participating in this practical exercise in order to improve their capabilities.
111. Since the audits can cover only a maximum of five years, beginning in 2009 each additional year of delay risks becoming a lost opportunity for Chad to exercise its right to audit the petroleum company's accounts and guarantee the public that the country's interests are being protected.
112. It is therefore up to Chad to put itself in a position to verify the Consortium's oil-related expenditures.

2.2 The 2009 Budget: A Crucial Test of the Country's Ability to Self-Adjust

113. There are several vulnerabilities in the 2009 general budget that threaten its implementation. By November 2008 the IMF had already expressed concerns about this budget's program planning and urged the Chadian authorities to revise it using more realistic assumptions, but the financial institution's pleas fell on deaf ears.
114. The initial 2009 Budget Act adopted by Parliament on December 30, 2008 forecast approximately 855.7 billion CFAF in revenues and approximately 915.2 billion CFAF in expenditures, resulting in an estimated deficit of nearly 59.5 billion CFAF.
115. The IMF is worried about the risks related to overestimation of revenues and underestimation of expenditures.
116. The risk in terms of revenues, which derives primarily from the economic situation, relates to several points:
117. - Oil revenue assumptions are based on US\$83 per barrel of Brent (i.e., net US\$61 per Doba barrel), whereas in November the price already stood at US\$60/barrel and since then prices have fluctuated between US\$35 and \$45/barrel;
118. - The September 2008 memorandum of understanding between Chad and the Consortium was not reflected in the revenue forecasts, in particular those for the first half of 2009; revenues will probably be lower than expected given the new methods of calculating oil taxes;
119. - By IMF estimates, the budget surplus remaining at the end of 2008 was incorrectly calculated and less than the forecast amount, especially in view of expenditures that remained unpaid as of December 31.
120. In terms of expenditures, the authorities anticipate that security costs in 2009 will be approximately half of those in 2008. A worthwhile attempt but on a budget item which is difficult to control and may increase during the year without a corresponding adjustment of other non-essential expenses.
121. Given the economic situation, a downward adjustment of budgeted revenues—especially oil revenues—is a sound practice and should be done quickly so the appropriations to the various ministries can be adjusted accordingly. Otherwise, there is a risk that only the most diligent ministries would succeed in spending the remaining allocations, at the potential detriment of overall priorities.
122. It also seems urgent to take steps to limit expenditures until a supplementary budget can be adopted. The government is aware of this and is taking steps, according to the Minister of Finances and Budget.
123. All indications are that 2009 will be the first year since 2003 that Chad's oil revenues will decrease. Unless Chad sees major oil discoveries or very high prices, the country should prepare itself to provide the type of fiscal management that is compatible with the volatility of oil resources. It has an opportunity this year to learn the lessons offered by a budget built on such revenues and in the future to use a more conservative approach to forecasting revenues and expenditures.

4. The IAG recommends that:

124. - *The government immediately take the necessary steps to enable MINFIN to set up a consistent training plan for the tax and customs agencies and provide them with the necessary resources to calculate, analyze and forecast oil revenues without further delay and in cooperation with the Ministère du Pétrole;*
125. - *In addition to giving these agencies the resources to master oil-revenue liquidation, MINFIN clearly explain them the content of the September 2008 memorandum of understanding signed with the Consortium and the ensuing tax adjustment measures;*
126. - *The 2009 annual program planning for PAMFIP activities make provisions for covering training needs in terms of auditing specialized sectors (banks and insurance, oil, mobile telephony, etc), as expressed by MINFIN's agencies;*
127. - *MINFIN be quickly provided with appropriate human, material and financial resources to verify the oil sector costs as announced or forecast by the various operators active in the country, starting with those involved in the Doba Project;*
128. - *The Ministère du Pétrole take the necessary steps to ensure that representatives from the relevant MINFIN offices be involved in the planned audit of the Consortium's accounts;*
129. - *The government immediately adopt a supplementary budget that deals more conservatively with revenues than the initial 2009 Budget Act, and that in the meantime, it take the necessary actions to limit expenditures by the ministries.*

2.3 Allocation of the 5% Fund Less than Optimal

130. Aside from the observation that the adoption of a new law has restored the IMC 5% to nine members, the Group notes that implementation of the budget derived from the oil royalties and allocated specifically to the producing region continues to have the same shortcomings as in the past.
131. Allocations for 2008 were used almost exclusively to continue government projects begun in prior fiscal years. The launch of a microcredit program did reach out to villagers, but the IMC 5%'s ability to manage such an activity directly, rather than entrusting it to a specialized agency, will be a condition of success. For the moment, most projects financed from the 5% fund are focusing on urban centers in the oil region, to the detriment of the interventions awaited in the villages.
132. At the time of the visit, the Committee was preparing its 2009 program plan, with the stated objective of abiding by the needs expressed by residents. However, the continuing absence of clear guidelines for choosing projects led to fears that past mistakes will be repeated.
133. The IMC 5%'s planned annual expenditures exceed the 6.8 billion CFAF set aside for the oil-producing region in the 2009 Budget, without taking into account remaining expenses for unfinished 2008 contracts.
134. The extraordinary increase in oil's price per barrel during 2008 translated into a consistent increase in the royalties earmarked for the producing region, bringing the area almost 12 billion CFAF compared to the 5 billion forecast in the initial Budget Act, then 10.2 billion in the supplementary budget.

135. However, reasonable royalty forecasts for 2009 should be revised downward, and the IMC 5%'s program planning should take this reality into account. It is highly likely that the revenues received by the producing region in 2009 will leave little room for new investment once the 2008 investments still in progress have been completed.

5. The IAG recommends that the IMC 5%:

136. - *Quickly adopt clear guidelines for program planning that is based on projects identified by the eligible local communities, complements government actions, and reaches both village and urban populations in the oil-producing region;*

137. - *Complete its annual program planning early enough in the budget process to demonstrate its responsibility for use of the oil money allocated specifically to the producing region;*

138. - *Undertake reasonable annual program planning based on conservative budget assumptions, allowing for possible upward adjustment during the year.*

2.4 Reinvigoration and Coordination are Imperative for Government Auditing Agencies

139. ♦ The **General Inspectorate of Finances** (*Inspection Générale des Finances*, or GIF), a part of MINFIN created by decree on December 11, 1995, is facing significant challenges in terms of identity and lack of motivation among its agents.

140. Since the creation of the *Ministère du Contrôle Général de l'Etat et de la Moralisation* in 2003, the GIF's activities have been refocused exclusively on auditing government financial agencies. This has considerably reduced its sphere of activity. Additionally, the lack of disciplinary measures when the GIF identifies problems further reinforces this auditing agency's isolation.

141. ♦ The Supreme Court's **Chamber of Accounts** (*Chambre des Comptes*) has seen its activity increase in recent years. Since 2006 its activities have included an annual audit of the five largest labor, supply, and goods and services contracts financed by oil revenues.

142. However, it reports that several challenges hinder its ability to audit government accounts pursuant to its mandate: recurring delays in producing Draft Budget Review Laws (*Lois de Règlement*), reports that do not result in sanctions despite the recurring errors noted, and difficulties in accessing its operating funds from MINFIN and the *Ministère de la Justice*.

143. ♦ The **Budget Disciplinary Court** (*Cour de Discipline Budgétaire*), which is responsible for trying cases of improper management by government budget officers and officials with the authority to authorize expenditures, is practically inoperative. Because it is not institutionally part of the Supreme Court, it does not have the advantage of synergy with the Chamber of Accounts.

144. ♦ The **Organe de Contrôle des Marchés Publics** (OCMP) is considering the creation of a regulatory authority for public procurement contracts consisting of representatives of the government, economic operators and civil society. The purpose of this new authority would be to clearly separate the regulatory role from that of contract administration, which falls under the OCMP. A project to this effect is expected to be submitted soon to the government.

145. ♦ Except for the Chairman, all members of the **Collège de Contrôle et de Surveillance des Ressources Pétrolières** (CCSRP), were replaced in 2008. Unlike in the past, new members were appointed without being proposed by the organizations they represent.
146. The CCSRP's 2007 annual activity report notes an overall improvement in the spending ministries' command of budgeting procedures, even though some problems with contract tendering procedures, unit costs and the quality of goods and services persist. However, the CCSRP finds it unfortunate that the priority ministries do not always respond to its requests and do not ensure systematic follow up on its recommendations.
147. Just as with its monitoring of the 2006 budget implementation, the quality and credibility of the CCSRP's work and its 2007 report could have been improved by using consistent audit criteria and comparable inspection reports for infrastructures of the same type. Furthermore, the report's late publishing in December 2008 rendered some elements obsolete and did not encourage action by the audited departments.
148. The CCSRP is beginning 2009 in a state of uncertainty. While it is currently working on a minor fraction of the oil revenues, since the indirect fiscal revenues greatly exceed the direct revenues (royalties and dividends) that it audits, the government has not yet stated what role it will play in the future context of a unified budget.
149. In the coming months, the CCSRP would like to focus on audits in the field and raising public awareness. It has also prepared an ambitious training program for its members and technical staff. However, the IAG has reservations about the relevance and efficiency of the training, which is almost systematically planned to be held abroad, when the possibility of bringing trainers to Chad to cover certain topics would likely be less expensive and extend the reach more people.
6. The IAG recommends that:
150. - *The government take the necessary steps to reinvigorate government auditing agencies by:*
- a) *improving the division of labor between the GIF and the Ministère Chargé du Contrôle Général de l'Etat,*
 - b) *enhancing the Chamber of Accounts' institutional position by elevating it to the status of Court of Accounts,*
 - c) *attaching the Budget Disciplinary Court to the Court of Accounts or whatever body takes its place;*
 - d) *providing these agencies with adequate human and material resources so they can perform their functions;*
 - e) *setting up appropriate mechanisms to ensure that their recommendations are followed and sanctions are applied;*
151. - *As recommended in IAG report #13, the government continue to consider the role it would like the CCSRP to play in the context of a unified budget;*
152. - *The government ensure that the CCSRP membership is renewed gradually, with a third of the seats renewed at a time, in accordance with the decrees governing its operation and organization, and that members are appointed by their peers so as not to compromise their*

representative character, their credibility, or the quality of their work, and so as to preserve the institutional memory;

153. - *The CCSRP consider bringing trainers to Chad in order to reach the greatest possible number of its members and technical staff and reduce costs;*
154. - *Annual program planning for PAMFIP activities include the CCSRP's needs for training in auditing techniques.*

3 OIL RESOURCES AS A POTENTIAL LEVER OF DEVELOPMENT AND ECONOMIC DIVERSIFICATION

155. Chad faces the challenge of making optimal use of its oil resources to develop the permanent driving forces of its economy—human resources, crop and livestock farming, infrastructure, etc.—so that the temporary wealth brought by oil will create permanent wealth.
156. Though final data on overall revenues and expenditures for 2008 were unavailable in January, the information received from the priority ministries and market participants did make it possible to detect trends in how oil-revenue use was impacting the country's economic diversification and development.

3.1 Developing the Human Resources and Production Sectors

157. Despite a budget year that was greatly disrupted by security issues, the priority ministries indicated that more widespread use of sole sourcing (for some) and better command of commitment procedures (for others) allowed them to achieve commitment levels in 2008 that were significantly greater than before.
158. Chad held the course on investments, especially in the human resources sectors, education and health, and in transportation infrastructure.
159. The trend seen in the 2007 Budget of improved support for the production sectors (agriculture and herding) also continued in 2008, though significant needs in these two sectors are still far from being met.

3.1.1 Mixed Results for Human Resources

160. ♦ Having learned its lessons from the 2007 Budget, the *Ministère de l'Éducation Nationale* focused on equipping all infrastructure projects already delivered. It even has additional equipment available for projects under construction which, managed by the *Ministère des Infrastructures*, are underway in all regions and continuing at a steady pace but at a high unit cost.
161. The efforts invested in recent years have resulted in a gross enrollment rate of 87.5% to date, placing the country in a good position to achieve universal access to education in 2015. This quantitative objective could be achieved with an annual growth rate of 3%.
162. However, the need to improve the quality of basic education still remains great. According to the *Ministère de l'Éducation*, 42% of classrooms are in poor condition, including 36% made of secco

wood; 72% of teachers are *maîtres communautaires* [non-credentialed, community-hired]; and teaching facilities and materials do not meet educational standards.

163. At the current rate of progress, it is unlikely that the Millennium Development Goal for completion rate will be achieved with the requisite quality in terms of knowledge acquired. Regional disparities and a lack of parity between girls and boys are major obstacles.
164. ♦ The *Ministère de la Santé* does not have the necessary personnel or equipment to operate many of the recently-built health facilities. It has reached an agreement with the *Ministère des Infrastructures* to better space new health-related construction over time beginning in 2009, until it can rectify the situation.
165. The *Plan National de Développement de la Santé* [National Health Development Plan] states three priorities: 1) developing the quality and quantity of human resources, 2) equipping existing infrastructure to make it operational, 3) renovating existing infrastructure.
166. Furthermore, in 2007 the *Ministère de la Santé* adopted a multi-year framework for urgent action, coupled with indicators, to help it achieve the Millennium Development Goals for the sector by 2015, but the goal does not seem to be within reach.
167. Although vital statistics are difficult to obtain, preliminary data from the Poverty Observatory indicate a worsening of maternal, child and infant mortality indicators since 2004, despite the annual increase in the Ministry's budget.
168. Efforts must be made to regain control of these factors to stop the decline and reduce the gap by 2015.

3.1.2 Vital Production Sectors Lack Resources

169. ♦ At the *Ministère de l'Agriculture*, revitalization of the agricultural training and research agencies—*Office National du Développement Rural* [National Office of Rural Development, or ONDR] and the *Institut Tchadien pour la Recherche Agronomique et le Développement* [Chadian Institute for Agronomical Research and Development, or ITRAD]—continues with an increase in their budgets and staff and a revival of their activities. Some intermediate objectives have now been achieved. It is still too early to tell whether production has improved durably, but that goal must be achieved soon.
170. The institutional mechanism for implementing the *Programme National de Sécurité Alimentaire* [National Food Security Program] is now in place, bringing new hope of finalizing an overall vision for developing agriculture. With 39 million hectares of arable land, an adequate agricultural policy and sufficient financing would easily allow Chad to achieve food self-sufficiency, and even to export.
171. Cotton, which has been the main source of agricultural revenues for decades, continues to face challenges. Production for the 2008-2009 season is expected to remain at the same level as the previous year, about 120,000 metric tons, with yields on the order of 800 kg/hectare. The lack of improvement in yields raises concern and the need for providing technological support.
172. Adding to these difficulties is the poor condition of the roads in cotton-growing areas. CotonTchad finds it unfortunate that nothing was done to improve them in 2008, even though funds were appropriated for this in the *Ministère des Infrastructures*' budget. Though it did not

discuss the status of the rural road repair program with the Ministry, the IAG is concerned about the persistence of this problematic situation, which has already been referenced in previous reports.

173. ♦ At the *Ministère de l'Élevage*, 2008 was marked by finalization of the *Plan National de Développement de l'Élevage* [National Livestock Farming Development Plan] and its approval at the regional and national levels. It is now awaiting approval by the Council of Ministers before it can be implemented.
174. The general livestock census was delayed due to lack of sufficient funding. No donors have yet expressed an interest in funding its estimated cost of 2.7 billion CFAF over 4 years and the Ministry will likely have to fund the project internally.
175. The modern slaughterhouse projects in N'Djamena and Abéché are moving forward, but overall the livestock processing industries are still largely underdeveloped despite the potentially significant revenues they could generate for the country.
176. In the end, even based on incomplete data, an analysis of 2008 budget implementation shows that the spending ministries cited above are still struggling to formulate operational objectives as results to be achieved, so that the revenues—especially oil revenues—can be used to advance development indicators. This finding applies to the *Ministère de l'Aménagement du Territoire, de l'Urbanisme et de l'Habitat* and the *Ministère des Mines et de l'Énergie*, with which the Group also met.

7. The IAG recommends that:

177. - *Having gained a better mastery of their budget management procedures, the priority ministries devote the necessary human resources to identifying the outcomes of their expenditures, including achievement of the Millennium Development Goals, as a criterion for appropriating their financial resources;*
178. - *The Ministère des Infrastructures proceed with the budgeted maintenance of rural roads as soon as possible and take the necessary steps to make up the delays in implementation of the rural road repair program that have accumulated during previous fiscal years;*
179. - *Assistance be given to the Ministère de l'Élevage in raising funds for the livestock census, which is essential for livestock policy and without which, the ministry's further actions are being delayed.*

3.2 Economic Operators Need Help to Improve the Business Climate

180. Long-term diversification of Chad's economy also depends on economic operators that are adequately equipped to position themselves on both the national market and emerging markets. These objectives demand a substantially improved business climate if standards attractive to private investment are to be reached. To achieve this, the government needs to work closely with the operators and their professional organizations.
181. Economic operators and the Chambers of Commerce in N'Djamena and Moundou have indicated overall satisfaction with the progress made in relations with the Consortium and its contracting procedures, but they bemoan the lack of government attention.

182. During the IAG's previous visit in November 2007, the Chamber of Commerce, employers and the government had begun working together through the establishment of a permanent platform for dialogue known as FODEP (Government/Private Sector Dialogue Forum). There were high hopes for this initiative, which was supported by the IFC and was intended to help identify the difficulties that inhibit development of the private sector and to suggest ways to improve the country's business and investment climate. However, the inaugural meeting of this forum, which was planned for early 2008, was never held.
183. This dialogue is necessary to clear up misunderstandings, improve procedures, allow Chad to aspire to a better ranking than it currently holds in the World Bank Group's annual Doing Business report², and so attract foreign investors and reassure its own nationals.
184. The directors of private corporate banks criticize the inequity in decisions by the judicial system, which are almost always unfavorable to them even when they are clearly within their rights. They are reporting spotty enforcement of the OHADA (Organization for the Harmonisation of Business Law in Africa) Code. This was reflected in a memorandum recently delivered to the *Ministère de la Justice*, which noted a lack of due attention to timeliness in handling routine cases and, in contrast, suspiciously close scrutiny of questionable cases against the banks.
185. Furthermore, it seems that Chad's candidacy for the EITI (Extractive Industries Transparency Initiative), announced in 2007, is at a standstill because Chad has failed to take essential steps. Since the World Bank's Chad-Cameroon Project website has been taken offline, and the government is not yet in the habit of publishing its oil revenues, at this time only Esso and the CCSRP are publishing this type of information—Esso in its bi-annual activity progress reports and the CCSRP in its annual activity reports. So Chad still needs to make some progress in being transparent about its oil revenues.

8. The IAG recommends that:

186. - *The government reopen the dialogue with the business community as soon as possible, especially by reviving FODEP;*
187. - *All parties involved agree on a common goal, namely improving Chad's ranking in the World Bank's next Doing Business report by working on the ranking criteria that apply to Chad;*
188. - *The government refocus on Chad's EITI candidacy, which is another important element of a strategy for improving the business environment and encouraging foreign capital;*
189. - *The government publish detailed information about its oil revenues on its website.*

CHAD – CONCLUSION

190. The year 2008 was an eventful one for Chad. The rebel attacks in February destabilized plans and budgets but led to quick rebuilding and an intensive investment program—though not without many violations of civil and institutional rights.

² The Doing Business 2009 report published by the World Bank Group ranks Chad as 175th out of 181 countries evaluated in terms of the ease of doing business.

191. Financially speaking, Chad banked record oil revenues in 2008, on the order of US\$1.87 billion, but the windfall was followed by a steep drop in world Brent prices that points to a huge income shortfall in 2009. Adjustment to this extreme volatility in revenues may be painful unless crude prices turn around quickly.
192. In spite of everything, most of the priority ministries made progress in gaining better mastery of their spending procedures. After several years of study and trial-and-error, the procedures are better understood now. The most important thing still remains to be done, which is to act in such a way that the work of each ministry does in fact improve the country's performance and the citizens' daily lives.
193. To achieve this, the new National Poverty Reduction Strategy adopted in April 2008 needs to be better integrated into the budget preparation and implementation process as a baseline frame of reference.
194. Several major risks still have not been controlled. Structurally speaking, the ability to master the liquidation of oil revenues and analyze the validity of the oil producers' costs is limited, and real government monitoring of oil activities in the field is nonexistent. On the economic level, a significant decline in oil revenues is to be expected in 2009, tied to the collapse of world oil prices since the fourth quarter of 2008 and to the provisions of the memorandum of understanding signed by the government and the Consortium in September 2008—not to mention the risk posed by a worsening of the world economic crisis.
195. The fact that its economy is still based predominantly on oil revenues, which by nature are volatile, means that Chad must manage its budget prudently and, more than ever, must prioritize the use of income from this resource mainly for development purposes and to improve its citizens' individual and collective standard of living.

CAMEROON – INTRODUCTION

196. The IAG conducted its fifteenth statutory visit to Cameroon from January 26-31, 2009.
197. The Group's specific objective, in addition to collecting information for the Assessment scheduled under its work plan, was to review developments on the Pipeline and related projects since its last visit in June 2008, paying particular attention to several sensitive issues:
- dealing with the Social Assessment,
 - the financial situation of the Foundation for Environment and Development in Cameroon (FEDEC) and the programs it is implementing,
 - capacity-building projects to help Cameroon's government manage the environmental and social impacts of petroleum and energy projects,
 - interaction between the Lom Pangar dam project and the Chad-Cameroon pipeline.

Mission Description

198. The IAG met with its usual contacts. In Douala, these were the Cameroon Oil Transportation Company (COTCO) and RAPID (*Réseau d'Actions Participatives aux Initiatives de Développement*), the executing agency FEDEC has contracted to implement the Indigenous Peoples Plan (IPP). In Yaoundé, the Group met with the Pipeline Steering and Monitoring Committee (PSMC), the Ministry of Environment and Protection of Nature (MINEP), the Ministry of Forests and Fauna, FEDEC, Wildlife Conservation Society (WCS)—the executing agency responsible for managing Mbam and Djerem National Park—, several Cameroonian non-governmental organizations (NGOs), the World Bank (WB) and the International Monetary Fund (IMF).
199. Scheduling conflicts prevented the Group from meeting with representatives of World Wildlife Fund (WWF), FEDEC's executing agency in charge of managing Campo-Ma'an National Park.
200. Accompanied by COTCO, NGO and PSMC representatives, the IAG visited two villages affected by the Pipeline project—Nkolnkoumou and Nkometou I—to follow up on implementation of the Social Assessment.
201. At the end of the mission, the Group met with the Prime Minister and briefed him on its main findings.
202. The mission itinerary and meeting schedule are provided in Appendix 1.

Mission Context

203. The increasingly difficult financial and economic context, directly affected by the worldwide crisis, dominated the second half of 2008.
204. On a **social level**, tensions have been appeased since the adoption of fiscal measures by the authorities in March 2008 to lower the price of certain necessities, freeze the fuel price and increase the salaries of civil servants. These measures remain in effect.
205. On an **economic and financial level**, non-oil annual growth for 2008 is expected to be less than 4.5% according to preliminary data from the IMF. This figure is low, given the country's

potential, its poverty-reduction needs and its objective of meeting the Millennium Development Goals.

206. The significant reduction in mining and forest revenues seen in recent months, combined with lower-than-programmed expenditures on the national budget—especially on investments—and a business climate unfavorable to private-sector development, are weakening the country's economy.
207. Still, there was an encouraging sign of improvement in Cameroon's economic performance when the IMF Executive Board announced on January 9 the completion of the sixth Country Performance Review as of June 2008 under the 3 year PRGF (Poverty Reduction and Growth Facility) arrangement which had been approved in 2005 and extended to 31 January 2009.
208. The World Bank conducted a mini-review of its portfolio in November 2008 with more or less satisfactory results. It is preparing its Country Assistance Strategy for the next five years.
209. The 2009 budget was based on an assumption, which today appears optimistic, of US\$58/barrel for Cameroon oil: the IMF is urging the Government to implement this budget with caution given the further decline in oil prices and the deteriorating global economic environment, and to carry on the reforms to strengthen the mobilization of non-oil revenues.
210. Despite a challenging overall context, authorities are announcing a number of ambitious port and energy projects. If carefully targeted, such projects could be a source of development. However, government financing could lead to increased deficits and a return of domestic debt. Cameroon must maintain a prudent management of its debt in this post-debt relief period.
211. Aside from the oil spill in Chad in August 2008, which caused a shutdown of the Chad-Cameroon pipeline for several hours to repair a defective valve, the **crude transport** system is functioning well. In 2008, fifty-two liftings of crude cleared the Komé-Kribi I Terminal. This represented 46.41 million barrels exported and generated US\$19.029 million in transit fees for Cameroon.
212. This report presents the Group's observations and the analyses, conclusions and recommendations suggested to it through this visit

4 PLATFORM FOR COOPERATION AND THE SOCIAL ASSESSMENT

4.1 Genuine and Sustained Progress

213. The COTCO-PSMC-NGO platform for cooperation continues to operate with regular exchanges on increasingly varied topics that go beyond the Social Assessment. The three parties judge the quality of these exchanges to be high even though there is still disagreement on some points.
214. The initial impetus continues to carry the Social Assessment forward. The platform's quarterly meetings give the parties a forum where they can reach agreement on how pending claims should be classified and settled.
215. At the end of 2008, COTCO indicated that 99 claims were still pending, including:

- 21 category 2 claims, i.e., those for which COTCO believes it has met its obligations but which it is willing to help resolve as a “contribution”;
- 78 category 3a claims, i.e., those on which platform members have not yet reached a consensus. Eventually, these cases should be reclassified into the other categories depending on their relevance, whether or not COTCO’s responsibility has been established, and COTCO’s inclination to settle them as a contribution.

216. With 80% of the claims handled since the beginning of the Social Assessment process, the platform’s work marks real progress and should be encouraged.

4.2 Pending Files to be Cleared Swiftly

217. Delays in implementation continue to weigh down the smooth operation of the Social Assessment process. While acknowledging that progress has been made, the NGOs are critical of its excessively slow pace when they are dealing with local populations that are increasingly impatient as time passes. The delays in investigating and processing claims must, therefore, be corrected with greater alacrity.

218. The meetings held during the mission in two villages of the Yaoundé area revealed that in addition to delays in complaint resolution, residents are suffering from a lack of information about the status of their claims. This situation could be improved if COTCO would set a specific schedule for settling the claims and systematically and regularly inform the claimants—or if not them, the NGOs—of the steps still to be taken.

219. The field visits also showed that some claims added to the Social Assessment several years ago can be resolved quickly at little cost. The platform should arrange to identify these cases more systematically and agree on a schedule for settling them based on the available budget.

9 The IAG recommends that:

- 220. - *The COTCO-PSMC-NGO platform for cooperation quickly handle the category 3a claims that have not yet been investigated and decide their fate;*
- 221. - *The members of the platform for cooperation agree on a reasonable schedule for carrying out the work involved in settling 3a claims reclassified into category 2;*
- 222. - *COTCO allocate the necessary funds to settle claims according to this schedule;*
- 223. - *Once this schedule is established, COTCO immediately communicate it to the claimants; and that it subsequently inform them at regular intervals of the status of their claims. COTCO’s Community Relations Officers (CROs) should be brought up to speed and periodically updated so as to provide that information;*
- 224. - *Between the quarterly meetings, COTCO inform the NGOs at mutually-agreed upon intervals of the status of claims submitted under the Social Assessment.*

5 FEDEC, PARKS AND IPP

5.1 Moving Beyond FEDEC's Temporary Reprieve

225. FEDEC's financial situation, already alarming in June 2008, has continued to deteriorate with the world financial crisis and a 25% decrease in its assets over the year.
226. ♦ After the July 25, 2008 meeting, FEDEC's "founding fathers"—the Consortium represented by COTCO, the World Bank Group, and the Cameroonian government—were expected to suggest concrete steps for rectifying the financial situation and ensuring that the Foundation would be fully capable of fulfilling its responsibilities. **COTCO** was the only partner to make a concrete financial suggestion of immediate relevance.
227. Despite the fact that COTCO's proposal was considered inadequate for maintaining the Foundation's activities at the current level, FEDEC's Board of Directors accepted COTCO's donation of 164.1 million CFA francs (CFAF) per year for five years to be used for "supporting the actions constituting the Foundation's main purpose." A donation agreement was signed by both parties on January 23, 2009.
228. However, this money is intended exclusively to finance Foundation's activities in Mbam and Djerem National Park and Campo-Ma'an National Park, and for IPP implementation. It does not cover any administrative costs. After the first three years, COTCO will review the Foundation's activities with regard to the quality of the executing agencies' services.
229. On January 23, 2009 COTCO also donated a vehicle to FEDEC for its activities.
230. ♦ The **Government of Cameroon and the World Bank** have agreed to use US\$750,000 of the PRECESSE (Environmental and Social Capacity Building for the Energy Sector Project) funds allocated under the Ministry of Social Affairs (MINAS) to supplement FEDEC's actions to support vulnerable indigenous populations in the Kribi-Bipindi-Lolodorf area.
231. ♦ In November 2008, the **International Finance Corporation** (IFC) submitted an action plan to support the Foundation to the Government of Cameroon, FEDEC and COTCO. The plan is intended to evaluate and improve the programs the Foundation manages (parks and IPP) and to strengthen its capacities. This proposal was still under review at the time of the visit.
232. As useful and worthwhile as it may be, an action plan whose results will not be seen for nine months or longer will serve no purpose unless the Foundation's immediate survival is ensured.
233. ♦ The **Ministry of Forests and Fauna** (MINFOF) has indicated its willingness to sign an agreement with FEDEC once the latter's financial situation is clarified.
234. MINFOF would like to apportion responsibilities so that it would assume the State's responsibility for protection and FEDEC would be responsible for development activities, namely ecodevelopment for the parks and income-producing activities for area residents.
235. As the situation currently stands, the Foundation estimates that its available capital, supplemented by COTCO's donation, might possibly allow it to continue its activities for three years, perhaps less if its investments continued to depreciate due to the economic crisis or an unfavorable exchange rate. At the time of the visit, FEDEC's Board of Directors still needed to decide on an investment strategy that would best safeguard the Foundation's interests.

236. The Foundation's financial reprieve is only temporary. It is urgent that the "founding fathers" agree on a shared vision of what FEDEC should be and do, and on the responsibility of each to guarantee implementation of this component of the Pipeline project's Environmental Management Plan (EMP) over the next 22 years, without any discontinuity.

5.2 IPP Implementation: Steady Progress to be Sustained; Adjustments Still Required

237. In FEDEC's and RAPID's opinion, implementation of the IPP during the second half of 2008 continued satisfactorily in the 25 Bakola/Bagyeli settlements identified in the EMP.
238. The executing agency works in close cooperation with the regional government agencies and in 2008, it received an award of excellence for its activities.
239. Since July, the education component has been given priority to meet needs associated with the beginning of the 2008-2009 school year. RAPID notes that the number of Bakola/Bagyeli pupils registered has remained relatively constant since 2007 and the school attendance rate is increasing. These data indicate a growing interest in school on the part of Bakola/Bagyeli parents and children.
240. The agriculture component was organized around the August growing season. Participation was lower than during the previous season as the Bakola/Bagyeli preferred to devote themselves to their traditional hunting and gathering activities at this time of year.
241. RAPID renewed its cooperative agreements with various health agencies in the area and continued disease-prevention activities and training of the Bakola/Bagyeli in nursing care and traditional midwifery.
242. The citizenship component focused on making the Bakola/Bagyeli aware of the usefulness of the national identity card.
243. There were some difficulties in implementing the habitat component financed by an annual contribution from COTCO after RAPID tried to meet specific requests made by the recipients of the huts planned for this year, without possessing sufficient resources to do so.
244. The year 2008 was marked by greater involvement of the community liaisons in RAPID's activities to further the process of gradually transferring responsibility to the Bakola/Bagyeli.
245. At the time of the visit, the executing agency had submitted a 55-million CFAF projected activity budget to FEDEC for 2009 and was awaiting signature of a new agreement with the Foundation. However, the latter's financial troubles could weaken the dynamic created and the results achieved over the past few years.
246. The outlook for the future is reassuring, however. RAPID has established partnerships with other parties in the area who work with the Bakola/Bagyeli. These connections will allow it to develop support activities in the settlements not covered by the IPP. Additionally, PRECESSE plans to supplement FEDEC's interventions in the IPP area.

5.3 MDNP: Clarifying a Misunderstanding

247. WCS' financial difficulties have prevented it from signing a new agreement with FEDEC since the end of 2007. However, because the Foundation's top priority is to ensure that anti-poaching

activities in Mbam and Djerem National Park (MDNP) continue uninterrupted, it had agreed to pay WCS two advances of US\$75,000 through June 30, 2008, to be deducted upon signature of a new agreement between the two parties.

248. Still lacking a contract with FEDEC, and therefore FEDEC funding, WCS indicates that it completed its program of activities in MDNP during the second half of 2008, with results it considers to be encouraging and in accordance with the work plan drawn up at the beginning of the year.
249. However, WCS and FEDEC have had some misunderstandings in recent weeks with regard to the status of the additional funds that the Foundation had granted WCS and the terms of reimbursement. Discussions were underway at the time of the visit.
250. WCS' payment of the salaries of 23 ecoguards assigned to MDNP until December 2008 also seemed to be problematic for the Foundation, which had decided that it would no longer cover this type of expense after January 2008.
251. This situation could have been avoided if FEDEC and WCS had clarified in writing the basis of their cooperation since January 2008 despite the financial uncertainties affecting both parties were preventing them from renewing their agreement.

10 The IAG recommends that:

252. - *FEDEC's "founding fathers"—the Government, Consortium and WB—having not yet reached a consensus, work diligently to achieve an agreement on their respective responsibility to ensure implementation of this component of the EMP over the next 22 years;*
253. - *MINFOF and FEDEC finally reach a consensus concerning their respective responsibilities in managing Mbam and Djerem National Park and Campo-Ma'an National Park and that they formalize it in an agreement, since the current state of affairs has lasted far too long;*
254. - *On the basis of such agreement, and taking into account its reduced finances, FEDEC negotiate new agreements with the two executing agencies including a maximum level of funding;*
255. - *FEDEC ensure that its disagreement with WCS is settled before considering any new partnership. If this is not possible, the Foundation should seek a new agency to execute its action plan for MDNP;*
256. - *RAPID keep to the prototype as initially designed for the huts built under the habitat program, even if this means that the recipients must make improvements themselves afterwards; and that it revitalize its efforts to promote citizenship and restart the agricultural projects.*

6 STRENGTHENING GOVERNMENT CAPACITY

6.1 Rapid Implementation of PRECESSE

257. Preparatory work for implementing the PRECESSE project, approved by the World Bank's Board in June 2008, is moving forward. The ministry overseeing the project (MINEP) and the other ministries involved have been mobilized.
258. At the time of the visit, most of the conditions for implementation had been met. The World Bank was awaiting presidential approval before authorizing start-up.
259. The procedure manual required for drawing on the funds allocated to MINAS, including those intended to support FEDEC's implementation of the IPP, was under development.
260. One component of this project is reserved specifically for capacity-building for Civil Society Organizations. These organizations helped define this component, but are now wondering how it will be implemented. A workshop on civil society involvement in PRECESSE, held January 13-15, 2009 at their request and using the project preparation funds, seems to have raised more questions than it answered. Preparation of the implementation manual for this component is an opportunity for the civil society organizations to voice their expectations.

6.2 Completing CAPECE Studies and Applying the Results

261. ♦ Despite the end of the Cameroon Petroleum Environment Capacity Enhancement Project (CAPECE) in November 2007, certain matters pertaining to it remain open.
262. The PSMC, which coordinated project implementation, continues to grant final acceptance of studies ordered several months or years ago and, in the case of the Study on the long-term vision for environmental management of the oil sector, it is waiting for the consultant to incorporate its comments into the final version of the study.
263. In the interest of following up on some of the studies done under the aegis of CAPECE, in particular the Study on monitoring the protection of coastal areas and the marine environment, the PSMC has launched three additional studies using National Hydrocarbon Company funds. They are: 1) Monitoring mangrove vitality in the littoral zone, 2) Monitoring the socioeconomic situation of fishermen in Cameroon's littoral zone and the Lom Pangar area, and 3) Monitoring seawater quality along the coast. This is an interesting initiative to build on what was learned through CAPECE, but it should not overshadow the main purpose of these studies, which is to provide the relevant government agencies with information on specific topics so they can then develop appropriate action plans to be implemented as soon as possible in order to correct and/or improve certain situations.
264. It is therefore up to the PSMC to ensure that all of the studies produced under CAPECE are sent without further delay to the relevant ministries for appropriate action.
265. ♦ The PSMC was worried that the end of CAPECE would leave its relationship with the World Bank unclear while both remain formally committed to monitoring the Pipeline project until its completion.
266. In the first half of 2008, Cameroon submitted an application to the WB for additional funding for a new project to be coordinated by the PSMC that would perpetuate the knowledge gained

through CAPECE. The financial institution offered a reminder that it will consider this request in the context of its next Country Assistance Strategy for Cameroon. In any event, the PSMC still has responsibilities as coordinator of the ministries involved in the Pipeline project that it must continue to meet. It is up to Cameroon to determine the methods and financing for this, with or without WB financial support.

11 The IAG recommends that:

267. - *To ensure active participation by all parties involved, as well as transparent management, a Committee be created for activities planned under PRECESSE. The Committee would include members from the government and civil society organizations. The latter would express their priorities and training concerns through this Committee;*
268. - *The PSMC send all studies done under CAPECE to the relevant government agencies without further delay, and that these agencies develop and implement appropriate action plans;*
269. - *The PSMC and the WB come to an agreement on the terms of their continued cooperation for Pipeline project monitoring, or else each must specifically define how it will carry out its responsibilities.*

7 OTHER CRITICAL ISSUES FOR URGENT GOVERNMENT ACTION

7.1 Persistent Deficiencies in the Legal and Juridical Framework

270. Cameroon is still today without an appropriate legal framework for environmental management of the oil sector. For several years, the IAG has been calling on the government to take urgent steps to fill this void.
271. Once the draft of the decree adopting the National Oil Spill Response Plan (NOSRP) and its implementation manual had been updated to conform to the current government configuration, the PSMC submitted them to the Prime Minister's Office on October 31, 2008, where they are still awaiting adoption.
272. The implementing decrees for the Framework Law on the Environment (Law 96/12) are still going back and forth between the PSMC, MINEP and Prime Minister's Office. The latest drafts had to be revised due to technicalities. Still, MINEP was confident that they would be submitted for government approval in February. Now that a new law on the environment, updating the 1996 law, is already on the table, it is important to enact the current decrees so as not to prolong the legal void. The Prime Minister has been made aware of the urgency of this matter.

7.2 Transferring the Project's Temporary Sites and Infrastructures to Cameroon: a File that Must be Closed

273. This matter, which has appeared in the IAG's reports for several years, has dragged on far too long. At the time of the visit, documents awaiting signature by the Prime Minister's Office included decommissioning decrees for twelve buildings located on private government property, and decrees to transform three camps, one road and two airfields built by the Project into alienable public property.

- 12 The IAG recommends that the Prime Minister's Office:
274. - *Immediately adopt and publish the NOSRP, then take the necessary steps to ensure its implementation;*
275. - *Adopt those implementing decrees for the Framework Law on the Environment that are ready now;*
276. - *Sign the latest decrees in connection with the process of transferring the Project's temporary sites and infrastructures from COTCO to the Government of Cameroon. Some of these decrees have been awaiting signature for several years.*

8 LOM PANGAR DAM PROJECT

277. Progress is being made on the Lom Pangar dam preparations, especially the issues related to its interaction with the Chad-Cameroon Pipeline project.
278. The World Bank, which is now convinced of the need for this water control dam if Cameroon's energy development policy is to be carried through successfully, insists that implementation of this project must conform to its social and environmental Safeguards policies. Though the Bank has made no commitments, it has specified that respect of these Safeguards would be a condition for any financial support it might offer for construction.
279. Cameroon seems receptive to this request. By deciding to reclassify the former Deng Deng reserve as a national park as a compensatory measure, it has taken a first step toward environmental protection.
280. The Ministry of Energy and Water made the study concerning the impact of oil spills in the dam's reservoir available to the Consortium in November 2008. As a result, discussions between COTCO and Cameroon concerning the financing of the pipeline adaptation work by Cameroon have resumed.
281. At the time of the visit, the financing agreement for the optimization and preliminary studies phase was about to be finalized. Both parties were hoping to sign soon and to continue discussions throughout the quarter on the draft final agreement for funding the pipeline adaptations.
282. At the same time, COTCO has continued preparing the Management of Change (MOC) package, which ultimately must be approved by the Pipeline project lenders before any changes are made to the pipeline route.
283. Though Cameroon had not yet completed arrangements for financing the dam project, MINFOF was preparing to authorize the clearance of wood in the future watershed. This decision is not without risk given the relative uncertainty that still hangs over the actual implementation of the project.
284. According to the schedule announced by the government in March 2008, the gradual filling of the reservoir is slated for mid-2012. This may be postponed given the delays that have already affected this schedule.

13 The IAG recommends that:

285. - *The government delay wood clearance in the future watershed of the Lom Pangar dam until construction of the dam is assured from a financial and technical standpoint.*

CAMEROON – CONCLUSION

286. Now that the Pipeline project has been in operation for over five years, activities are close to normal operations. One could hope, in particular, that the examination of matters that have been pending since construction will finally come to an end, which will allow the tripartite platform for cooperation (COTCO-NGOs-PSMC) to move on to other issues and focus on the future.
287. FEDEC's situation continues to be worrisome despite COTCO's donation, which will ensure its short-term survival. The three parties to FEDEC's creation should continue to look for a longer-term solution that would allow not only survival but effective operations. The studies sponsored by the IFC with financial support from COTCO could contribute to this.
288. Although consideration of the Lom Pangar project is progressing and the project seems to be moving toward becoming a reality, and several other energy-sector projects are appearing on the horizon, Cameroon has not yet adopted the necessary legislative framework to ensure human and environmental protection. The new PRECESSE project may help strengthen government and NGO capacities, which would be a step forward but would still not be a substitute for the required legislation.
289. Cameroon has all the human and financial resources it needs to take advantage of the lessons learned from the Pipeline project and successfully undertake the next phase of large energy projects. Can it afford not to try?

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 Government of Chad – the *Cellule Economique* particularly, the Government of 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.gic-iag.org), in accordance with the terms of use of the site.

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

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

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Appendix 1 Chronology of Meetings

CHAD

Sunday, January 11, 2009 – N'Djaména

- IAG internal working session

Monday, January 12, 2009 – N'Djaména

- EEPCI
- Poverty Observatory
- European Union

Tuesday, January 13, 2009 – N'Djaména

- *Ministère des Finances et du Budget*
- Minister of Agriculture
- Minister of Economy and Plan

Wednesday, January 14, 2009 – N'Djaména

- *Ministère du Pétrole*
- *Société des Hydrocarbures du Tchad*
- *Ministère de l'Agriculture*
- *Ministère de la Santé Publique*

Thursday, January 15, 2009 – N'Djaména

- IMF
- NGOs, Human Rights Associations
- *Ministère de l'Education Nationale*
- *Ministère de l'Elevage et des Ressources Animales*

Friday, January 16, 2009 – N'Djaména

- General Inspectorate of Finances
- MINFIN's technical services
- *Cellule Economique*
- *Institut National de la Statistique et des Etudes Economiques*
- Permanent Secretariat for PAMFIP
- *Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle*
- *Ministère des Mines et de l'Energie*
- Chamber of Commerce and Private operators
- Minister of Justice, *Garde des Sceaux*

Saturday, January 17, 2009 – Oil field area³

- Dokaidilti village
- Schlumberger
- Danmadjia village
- Borrow pit #9

³ IAG accompanied by Esso EMP team

Sunday, January 18, 2009 – Komé 5

- EEPCI: EMP, construction, production and security teams

Monday, January 19, 2009 – Doba

- Governor of Eastern Logone
- IMC 5% and visit of projects financed by oil revenues
- Presiding judge of the Doba Court
- Doba prison

Tuesday, January 20, 2009 – Moundou

- Governor of Western Logone
- CotonTchad
- CPPL
- Chamber of Commerce, BDC and Private operators

Wednesday, January 21, 2009 – Komé 5

- IAG internal working session
- EEPCI: Close out meeting

Thursday, January 22, 2009 – N'Djaména

- *Chambre des Comptes*
- Private corporate banks
- *Ministère de l'Aménagement du Territoire, de l'Urbanisme et de l'Habitat*
- OCOMP
- *Bureau of the National Assembly*
- Minister of Infrastructure
- *Ministère de l'Environnement, de l'Eau et des Ressources Halieutiques*
- European Union

Friday, January 23, 2009 – N'Djaména

- *Ministre chargé des Droits de l'Homme et des Promotions des Libertés*
- Local Press representatives
- French ambassador and *Agence Française de Développement*
- EEPCI
- UNDP
- Minister of Finances and Budget
- IAG internal working session

Saturday, January 24, 2009 – N'Djaména

- Debriefing session
- CCSRP
- Prime Minister

CAMEROON

Monday, January 26, 2009 – Douala

- COTCO
- RAPID

Tuesday, January 27, 2009 – Yaoundé

- WB
- NGOs
- PSMC
- Nkolnkoumou village⁴

Wednesday, January 28, 2009 – Yaoundé

- MINEP
- MINFOF
- IMF
- FEDEC, WCS
- Nkometou I village⁴

Thursday, January 29, 2009 – Yaoundé

- IAG internal working session
- Working session with COTCO, PSMC, NGOs, WB, FEDEC
- WB
- Prime Minister

Friday, January 30, 2009 – Yaoundé

- IAG internal working session

Saturday, January 31, 2009 – Yaoundé

- IAG internal working session

⁴ IAG accompanied by COTCO, Cameroonian NGOs and PSMC

Appendix 2

Acronyms and Abbreviations

BDC	Business Development Center
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
COELOC	<i>Collectif des Opérateurs Économiques du Logone Occidental</i>
COTCO	Cameroon Oil Transportation Company
CPPL	<i>Commission Permanente Pétrole Locale</i> / Local Standing Committee on Oil
CRO	Community Relations Officer
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> / National Technical Committee for Monitoring and Control
DBST	Double Bitumen Surface Treatment
EEPCI	Esso Exploration and Production Chad Inc.
EITI	Extractive Industries Transparency Initiative
EMP	Environmental Management Plan
FEDEC	Foundation for Environment and Development in Cameroon
FODEP	Forum for State-Private Sector Dialogue
GIF	General Inspectorate of Finances / <i>Inspection Générale des Finances</i>
GPS	Global Positioning System
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMC 5%	Interim Management Committee of the 5% fund allocated to the oil producing region
IMF	International Monetary Fund
IPP	Indigenous Peoples Plan
ITRAD	<i>Institut Tchadien pour la Recherche Agronomique et le Développement</i> / Chadian Institute for Agronomical Research and Development
LUMAP	Land Use Mitigation Action Plan
mcf/d	Million cubic feet/day
MDG	Millennium Development Goal
MDNP	Mbam and Djerem National Park
MINAS	Ministry of Social Affairs (Cameroon)
MINEP	Ministry of Environment and Protection of Nature (Cameroon)

MINFIN	<i>Ministère des Finances et du Budget / Ministry of Finances and Budget (Chad)</i>
MINFOF	Ministry of Forests and Fauna (Cameroon)
NGO	Non-Governmental Organization
NOSRP	National Oil Spill Response Plan (Cameroon)
OCMP	<i>Organe de Contrôle des Marchés Publics / Government contract oversight office</i>
OFDA	Oil Field Development Area
OHADA	Organization for the Harmonisation of Business Law in Africa
ONDR	<i>Office National du Développement Rural / National Office of Rural Development</i>
PAMFIP	Action Plan to Modernize Management of Public Finance
PNIDAH	National Oil Spill Intervention Plan (Chad)
PRECESSE	Environmental and Social Capacity Building for the Energy Sector Project
PRGF	Poverty Reduction and Growth Facility
PSMC	Pipeline Steering and Monitoring Committee
RAPID	<i>Réseau d'Actions Participatives aux Initiatives de Développement</i>
WB	World Bank
WCS	Wildlife Conservation Society
WWF	World Wildlife Fund