

International Advisory Group
Chad-Cameroon Petroleum Development and Pipeline Project

REPORT OF MISSION 11
TO CHAD
SEPTEMBER 24 - OCTOBER 14, 2006

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November 28, 2006

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EXECUTIVE SUMMARY

This report presents the observations, analyses, conclusions and recommendations arising from the International Advisory Group's (IAG) eleventh statutory visit to Chad from September 24-October 14, 2006.

This mission, which was initially scheduled for March 2006 but postponed at the request of national authorities, was conducted one year after the IAG's last visit to Chad. It took place in a context marked by the deterioration, then re-establishment of relations between Chad and the World Bank and the repercussions on oil revenue management and development projects. Security was also a key issue as the country is dealing with an increasingly active rebellion.

The objectives of this mission were to evaluate the status of oil revenue-funded projects to date, to measure their impact on citizen well-being, to assess 2007 Budget preparations and to monitor the expansion of oil activities in southern Chad.

- In the oil zone, the Group took stock of production and construction activities, their environmental and social impact and the Government's efforts to monitor them.
- Oil **production**, which had stabilized around 150,000 barrels per day (bpd), continues to decline sooner than predicted despite the efforts to expand and densify the wells. In addition to the production of water, there is now a problem at the Moundouli field with overproduction of gas, which has to be flared. By developing the new Maikeri (Poutouguem) concession southwest of Miandoum, Esso is hoping to bring production levels back up to nearly 200,000 bpd. Notwithstanding its objective to improve oil production and economics, Esso is urged to study the possibility of using technologies that are less land intensive.
- Progress is being made in the **process of restoring and returning land** to local populations. A large portion of the land in question had been restored and partly returned to area residents before the rainy season started. Esso needs to pursue this process, taking care to avoid further delays in returning the land. The Project's impact on the land should also be lessened now that Esso has decided to reduce the size of the wellpads from 9,350 m² to 5,231 m² in the operations phase. While this is a welcome initiative, the wellpad size will still exceed the standards set forth in the Environmental Management Plan.

Esso conducted an **assessment of its Compensation and Resettlement Plan** and the initial results are being analyzed by the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC), Esso and the International Finance Corporation (IFC). This study should provide a better understanding of the sustainability of households affected by the Project and help Esso adjust its compensation to be more commensurate with the true impact on the local residents.

- The ability of government teams to **monitor oil activities** – already severely crippled a year ago – has further eroded. The Doba Petroleum Unit and the CTNSC's on-site monitoring team are ill equipped and almost inactive. For several months, the Government has been unable to ensure compliance with its standards and regulations. The Government should allocate the required funds to cover the operations of the oil-monitoring agencies, without waiting for possible additional funding from the World Bank (WB).

- The people living in the oil zone reported **security concerns** to the IAG. The Group was informed that the gendarmes assigned to Komé are harshly enforcing an unofficial curfew. Residents are also accusing the gendarmes of acts of violence. The security offices of the *Coordination Nationale* were briefed and they have promised to send a team to the zone without delay to assess and remedy the situation.
- In this context of insecurity and the growing impact of oil, the IAG saw signs of eroding **relations between the Project and the neighboring populations**. Given this risk, the Government, the World Bank and Esso are urged to actively reflect on the future of the oil zone, especially the sustainability of its agro-pastoral system and to act quickly to substantially improve the living conditions of the communities most affected by the Project.
- Progress in resolving environmental and social issues has been inconsistent.

With the Komé incinerator still not functioning, no headway has been made in **managing hazardous waste**. Esso needs to find a solution agreeable to the CTNSC as soon as possible to resolve this deadlock.

The study of **dust's impact** on the health of local populations is in progress, but Esso still needs to launch a study on the impact of dust on plant fertility.

The **gas flaring** operations at Moundouli are a source of concern for area residents and NGOs who fear there will be an impact on human health. Esso needs to launch a public information campaign on this topic immediately. It also needs to install as soon as possible the proposed compressor to limit the volume of flared gas.

The Government has taken positive steps to impose sanctions on local authorities who are guilty of **illegally levying 10%** on individual compensation. Despite these efforts, awareness campaigns are still necessary in order to abolish this practice once and for all, especially in the new fields being developed.

The **TCC dispute** is nearly resolved. All that remains is for the Government to organize payment of the amounts Esso owes the workers.

Esso's **relations with local government authorities** have improved. The company needs to continue its efforts in this area.

- Some of the experiments designed to promote **local development** in the oil region are currently facing obstacles or are at a standstill.

FACIL's activities have practically ground to a halt. The Government needs to mobilize the necessary funds to enable FACIL to recover the loans it has granted using public monies.

There are alarming delays with approval and implementation of the **Regional Development Plan**, which the *Ministère des Finances, de l'Économie et du Plan* (MINFIN) needs to remedy.

In implementing its **improved agricultural techniques training program**, Esso needs to clarify the division of roles between the current program contractor and the firm hired to

evaluate it. At this stage, it would be wise to assess the results of this program before deciding to change the current arrangement.

Finally, the **Comité Provisoire de Gestion des 5%** (Temporary Management Committee for the 5% Regional Fund, or CPG 5%) is plagued by both an identity crisis and operational problems. It is torn between the demands of the local populations and pressure from the central authorities. It needs to adopt an intervention philosophy and policy that will enable it to identify projects it wishes to fund that will complement Ministry programs funded out of the national budget. For its part, the Government should allow the CPG to choose how to invest its funds.

- Concerning **OIL REVENUE MANAGEMENT**, the IAG looked at implementation of the 2005 Budget, the 2006 Budget to date and preparations for the 2007 Budget. Since all the information the Group had hoped to obtain was not available, it conducted a non-exhaustive analysis of 2005 and 2006 budget implementation.
- The **2005 Budget** was the first to reflect a full year of oil revenue receipt and use. However, implementation was difficult given the disruptions caused by funding delays and cash flow problems. Overall, 50% of the oil revenue budget was allocated to the infrastructure sector, far surpassing the social and rural development sectors. At the end of 2005, the oil-revenue commitment rate approved by the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP) was 90%, compared to MINFIN's rate of roughly 70% for operations and 78% for payments. These considerable differences need to be reconciled. The priority ministries' performance was inconsistent, but they all agreed that the considerable discrepancy between the budget as passed and the nature of actual expenditures makes it difficult to implement sector-based programs.
- Implementation of the **2006 Budget** did not truly begin until July given its significant disruptions. The dispute between Chad and the WB over amended Law 001 deprived the country of its oil revenues and budgetary assistance from the WB and other partners for several months.

Following a multi-donor fact-finding mission, Chad and the WB signed the **April 26 interim agreement**, which broke the stalemate and opened the door for the gradual repatriation of oil revenues and the resumption of World Bank operations in the country. Chad pledged to allocate 70% of its oil revenues to poverty reduction programs. This commitment was confirmed in July when the Supplementary Budget was passed, incorporating an upward revision of the oil revenues based on the increase in world oil prices and the income tax revenues from the oil companies that were not included in the initial Budget Law. Funds were not made available to the ministries until after the Supplementary Budget was passed.

At the time of the mission, it was difficult to establish trends in the ministries' abilities to spend the oil revenues since the CCSRP had approved only 37% of commitments by the end of August. However, the Group did note that the ministries received a 33% increase in oil revenue funds as compared to the 2005 Supplementary Budget and that although the *Ministère des Infrastructures* still received the lion's share, the *Ministère de l'Éducation Nationale* and the *Ministère de l'Agriculture* received a greater share. The *Ministère de la Santé*, the *Ministère de l'Enseignement Supérieur* and the *Ministère de l'Élevage* lagged well behind.

- The **2007 Budget**, which was still in preparation at the time of the mission, faces the challenge of managing record resources, implementing the July 13, 2006 Memorandum of Understanding between Chad and the WB which calls for 70% of the country's expenditures, regardless of the source, to be allocated to the priority sectors for poverty reduction, and the need to take into account the volatility of oil revenues and to start thinking about multi-year planning.

The *Ministère du Pétrole* is predicting that oil revenues will peak in 2007 as a result of the massive influx of fiscal revenues, followed by a drop in 2008 and further decline in 2009 before stabilizing.

The IAG reiterates the need for the Government to take this forecasted drop into account in its budget planning, to not lose sight of the Millennium Development Goals (MDG) which are based on the social sectors and to promote the production sectors (Agriculture, Livestock and Fishing), including scientific research in these sectors.

- An analysis of the **financial management system** revealed some **overlapping issues** that require a homogenous set of policies. The creation of the *Bureau chargé du Suivi des Liquidations et des Décaissements des Ressources Pétrolières* within the *Ministère des Finances* in October 2005 will make it possible to better understand, calculate and manage the flow of oil revenues.

MINFIN, which in general would benefit from holding more regular and open discussions with the spending ministries so as to prevent bottlenecks on sensitive national issues, should set the end of January as a non-negotiable deadline for having budget funds in place as soon as the Budget Law is passed. This would allow the spending ministries to initiate spending as early as possible in the budget cycle.

Given the ministry complaints of MINFIN delays in signing contracts and paying contractors, MINFIN should also establish specific deadlines for its departments to follow in approving contracts, committing expenditures, authorizing and effecting payments.

Finally, discussions with MINFIN, the CCSRP and the priority ministries revealed that they each have a different understanding of the notion of spending commitments and carry-over funds. This situation is disrupting budget implementation and creating confusion regarding the amount of funds available. These issues must be resolved quickly. Current practices and financial policies must be reconciled so that the parties are all on the same page.

It is hoped that these various difficulties in managing public finances will be resolved through the implementation of the Action Plan for the Modernization of Public Finances (PAMFIP), which the Government must support more fully.

- Despite the fact that many of the ministries have made significant progress in preparing budget proposals, the **budget planning process** often suffers from a lack of indicators for the targeted results. Such indicators would allow the ministries to assess their progress toward true sector-based goals, such as the MDGs and the National Poverty Reduction Strategy.

- The CCSRP published its 2005 annual report on **regulating and monitoring** oil revenues. Despite reports of defective work, the CCSRP did note an overall improvement in practices since 2004.

The CCSRP's procedure for allowing audited ministries to submit observations before it publishes its report still needs improvement. And the Government needs to develop an appropriate procedure to use the report's observations and recommendations.

The reflection on the CCSRP's future further to the July 13 Agreement should confirm the CCSRP's role in tasks where it adds noticeable value to the expenditure circuit both upstream and downstream.

- The third part of the report covers **MANAGEMENT OF THE OIL ECONOMY**.
- The **Government**, which has so far acted only as a regulator in the oil sector, now wants to play an **active role** from exploration to distribution. To this end, it has taken several steps including the establishment of the *Société des Hydrocarbures du Tchad* last July. It has also announced its desire to renegotiate the 1988 and 2004 Oil Agreements and created a National Commission for this purpose.

This amplified and more active presence places greater demands on the Government in managing a complex and volatile sector. The Government must find the necessary resources to ensure sound management practices that will benefit Chadians, while avoiding the errors seen all-too-often elsewhere, such as using public funds as venture capital.

- Given the anticipated rapid drop in oil revenues starting in 2009, Chad has a responsibility to use these resources now as a lever to **revitalize the economy's productive sectors**.

Developing the Agriculture, Livestock, Rural Hydraulics and Fishing sectors will be key to Chad's economic future. There are many possibilities for improving these floundering sectors that support the majority of Chadians, sometimes at little cost. The Government will need to ensure that these sectors receive substantial funds in the 2007 Budget. In particular, more funds should be allocated for research associated with these sectors and counterpart funds commitments should be honored.

- The Government could also promote the **development of local private sector** by supporting the promising initiatives of Esso and the IFC, and by helping Chadian operators access government procurement more easily. Such are the conditions that will allow Chadian businesses to take advantage of the benefits of oil over the long term.

Esso needs to ensure that its program to develop local business opportunities offers Chadian private operators easy and fair access to contracts.

In **CONCLUSION**, the IAG highlights four main conclusions that encapsulate the recommendations of this report:

- The urgent need to clarify and clean up the whole system of government revenues and expenditures. The predicted rapid decline in oil revenues means that Chad needs to manage its current revenues wisely, saving any surpluses to cover future expenditures;

- The need to restore security, especially the security of people and goods, visibly threatened in the oil zone during this mission;
- The need to plan ministry expenditures, especially those from the oil revenues, with the ultimate goal of improving citizen well-being. To do so, indicators of targeted results must be defined;
- The importance of using the oil revenues to support Chad's production and business sectors so that it can diversify its economy and benefit from the windfall of oil revenues for a long time to come.

INTRODUCTION

Mission Description

1. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (the "Project" or the "Doba Project") conducted its eleventh statutory visit to Chad from September 24 - October 14, 2006.
2. This mission was initially scheduled for March 2006 but was postponed at the request of the national authorities. Thus, after a year's absence, the IAG reestablished ties with its contacts in the field.
3. In the oil zone, the Group visited the Komé 5 base, Moundou, Doba and the villages of Moundouli, Ngalaba and Béro to take stock of the Doba Project and the Nya Moundouli Project (NMP). It also visited Poutouguem village south of the Miandoum oilfield, which is included in the new Maikeri (Poutouguem) concession that the Consortium plans to start up in 2007. The Group met with local authorities, regional delegations, economic operators and representatives of the Moundou Chamber of Commerce, senior executives from CotonTchad, the *Commission Permanente Pétrole Locale* (Local Standing Committee on Oil, or CPPL) and the *Comité Provisoire de Gestion des 5%* (Temporary Management Committee for the 5% Regional Fund, or CPG 5%). The Group was accompanied to the sites by representatives of Esso's EMP (Environmental Management Plan) team, the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC) and the CPPL.
4. In N'Djaména, the Group met with the central ministries and most of the priority ministries, the National Assembly, the government agencies in charge of managing and overseeing oil revenues, the *Coordination Nationale* (National Coordination, or CN), Esso Exploration and Production Chad, Inc. (EEPCI), EnCana, representatives of civil society organizations, the World Bank (WB), the International Finance Corporation (IFC), the International Monetary Fund (IMF) and international aid agencies. At the end of the trip, the Group met with the Prime Minister.
5. The mission itinerary and a chronology of the meetings can be found in Appendix 1.

Mission Context

6. During the past year, Chad was affected on a political and diplomatic level by several decisive events. Security deteriorated as a result of army desertions and the strengthening of rebel movements. Fighting between the rebels and the Chadian army continues in the eastern part of the country.
7. In this difficult context, presidential elections were held in May 2006 and incumbent President Idriss Déby Itno won a third term. He took the oath of office in August and a new government was formed. The first elections to set up local communities were initially scheduled for October 2006 but likely will be held in 2007. Legislative elections will also be held in 2007, since the current Parliament's term has been extended by 18 months to the end of 2007.
8. The ongoing unresolved crisis in Darfur continues to have repercussions for Chadians. Following a breakdown in Chad-Sudan relations, the situation was normalized when the President took

office. However, relations are again strained. The two countries are accusing each other of supporting rebel attempts to overthrow their governments.

9. In August, Chad officially recognized the People's Republic of China and broke off ties with Taiwan.
10. 2006 was a difficult year for Chad in terms of its **external financial cooperation**. For several months the country was deprived of oil revenues, of funds for World Bank projects and of budget support from the Bank and other international partners as a consequence of amending Law 001/PR/99 on oil revenue management, causing the World Bank to suspend disbursements for its projects in the country and to freeze the oil escrow account at Citibank London. Consequently, there were delays in adopting the 2006 Budget, which further complicated budget implementation. The country's opportunities and challenges in terms of poverty reduction and capacity building were assessed during a joint, multi-donor mission in April. This led to the signing of a provisional agreement between the World Bank and the Government of Chad on April 26, 2006. The agreement laid the foundation for a gradual resumption of World Bank operations in Chad and the progressive repatriation of the oil funds held in London, starting in June. The parties signed a final agreement on July 13. This agreement sets the terms for preparing the 2007 Budget, the country's fourth oil revenue budget. That budget had not yet been finalized when the IAG left the country.
11. The **social context** has been marked by the consequences of the budget difficulties linked to the dispute with the World Bank and the shift in priorities caused by the rebellion. These consequences included, amongst others, delays in paying salaries, pensions and scholarships, which then triggered strikes by students and government employees. The private sector has also been disrupted by strikes. And the mounting insecurity is seriously worrying to the population.
12. On the **economic level**, high world oil prices continue to provide Chad with greater revenues than originally projected, despite the fact that oil production is falling short of initial estimates, with average production between 150,000 and 160,000 barrels per day (bpd) this year. The Consortium started receiving a return on its investment sooner than expected and became taxable in Chad in 2006. Consequently, in the 2006 Supplementary budget, oil revenues were revised upward to include these new indirect revenues. A tax dispute between Chad and two members of the Consortium - Chevron and Petronas - was resolved in October in a manner apparently satisfactory to all three parties. Finally, in a medium-term perspective, Chad announced in August that it wished to renegotiate the 1998 and 2004 Oil Agreements. It has established a National Commission for this purpose.
13. Taking into account the difficulties described above, the *Ministère des Finances*' revised picture of Chad's macroeconomic situation in 2006 based on first-quarter trends indicates that real GDP growth has dropped from 8.6% in 2005 to 4.6% in 2006¹.
14. The **objectives of this eleventh mission** were to evaluate the status of oil revenue-funded projects to date, to measure their impact on citizen well-being, to assess 2007 Budget preparations and to monitor the expansion of oil activities in southern Chad.
15. This report presents the Group's observations and the analyses, conclusions and recommendations suggested to the Group through its mission.

¹ 2007 Budget circular from the Prime Minister's Office, June 13, 2006.

1 THE OIL ZONE

16. The IAG took stock of production and construction activities at the Doba (Komé, Bolobo, Miandoum), Nya and Moundouli fields. It assessed how well the Government and Esso have been monitoring these activities and what steps have been taken to mitigate the environmental and social impact. The Group focused specifically on land use, which had been identified as a sensitive issue during its last visit. Insecurity in the oil zone also appeared to be a major point of concern for the people in all of the villages the Group visited.

1.1 Early Drop in Production Continues

17. Although the Moundouli field was activated in March 2006, total production for the three Doba fields and the two NMP fields continues to decline compared to 2005 levels. At the time of the Group's visit, oil production had stabilized around 150,000 bpd, whereas initial forecasts in 2000 estimated peak production to hover around 225,000 bpd until the end of 2006.
18. In addition to 350,000 barrels of water per day, the Moundouli field is producing more gas than anticipated, which has to be flared for the time being.
19. Esso is continuing its well densification campaign in order to maintain or even increase production levels. Although the Doba Project EMP called for a total of 287 oil wells to be drilled, at the time of the IAG visit over 400 wells had already been drilled in the Doba Oil Field Development Area (OFDA) and in the NMP fields.
20. Approximately 40 of these 400 wells were designed to serve as reinjection wells for pumped water in order to maintain pressure in the reservoirs. The Consortium is also planning to invest heavily in a water reinjection project in 2007 to sustain production.
21. Production will also increase by the development of a new oil field to the southwest of Miandoum as part of the Maikeri (Poutouguem) concession granted to the Consortium by the Government on May 23, 2006. Esso has prepared environmental documentation for this new project. The final version incorporates comments received from the CTNSC, the World Bank and from Esso's reading rooms. The *Ministère de l'Environnement et de l'Eau* has approved the documentation, which constitutes de facto authorization to begin construction. The Maikeri concession will include twenty production wells for an estimated initial production of 30,000 bpd starting mid-2007. This concession has to be developed in accordance with the principles of the Doba Project EMP.
22. Thus, by expanding and densifying its activities in the zone, Esso hopes to bring production levels back up to nearly 200,000 bpd.

1.2 Land Use

1.2.1 Progress on Land Restoration and Restitution: More Required

23. Some progress has been made on the issue of restoring and returning the land Esso has borrowed from the local populations, which was a particularly sensitive issue during the IAG's last visit. Esso has stepped up its campaign to restore and return the land in question.

24. At the Nya and Moundouli fields, all of the wellpads and borrow pits have been restored and given back to area residents. The export pipeline right-of-way has been returned to local communities with the signing of discharges. In the OFDA, 90% of the wellpads were restored before work was stopped for the rainy season.
25. According to figures from Esso, the land-use situation in the OFDA as of September 22, 2006 was as follows: the Project is using a total area of 1,347 hectares (ha) on a permanent basis and 1,483 ha on a temporary basis. Of these, 1,042 hectares have been restored and 340 ha have been officially returned to the local communities. By way of comparison, the EMP (as corrected) limits permanent use to 754 ha with an additional 354 ha to be returned to area residents with restrictions.
26. Although Esso claims that for the most part farmers have resumed farming on the restored land, there are delays with the restitution process as compared to the restoration process.
27. To address the concern of reducing the total surface area used by the Project, Esso decided in May 2006 to change procedures in order to decrease the size of the restored wellpads. These platforms will be reduced from their current size of 9,350 m² (110 x 85 meters) to 5,231 m² during the operations phase. However this reduced size will still be larger than is standard practice in other parts of the world and exceeds EMP provisions stating that the wellpads should be between 2,726 and 4,418 m² after restoration.

1.2.2 Evaluation of the Compensation and Resettlement Plan: Awaiting Validation of Criteria for Household Viability

28. In 2005, the ECMG (External Compliance Monitoring Group) and the IAG expressed concerns about the Project using more land for longer periods of time than provided under the EMP. In light of the uncertainty about the effectiveness of the compensation measures for the affected populations, Esso began an assessment of its 1999 Compensation and Resettlement Plan (CRP) based on terms of reference determined in conjunction with the IFC.
29. At the time of the IAG visit, the assessment was in progress. The CTNSC, the IFC and EEPCI were analyzing the initial results to develop an appropriate action plan for following up on the consultants' conclusions and recommendations.
30. This evaluation should help establish whether Esso is using appropriate criteria to determine household viability after compensation and whether the community and individual compensation packages, the resettlement program and alternative measures are equitable and ensure that the affected populations attain a standard of living at least equivalent to, if not higher than, before the Project.
31. The community compensation problems left by GTZ in the OFDA should have been remedied by now under the supervision of a new Esso contractor. For the satellite fields, thought is already being given to reviewing the principle of community compensation in order to take into account more fully the true impact of oil activities on each village.
32. The results of the CRP assessment will help identify changes needed to ensure that the most appropriate steps are taken to mitigate the impact of land use. These changes will then need to be made in accordance with the management of change procedure in the EMPs for the Doba,

NMP and Maikeri (Poutouguem) projects. Esso has agreed to make the necessary changes and update its compensation program.

XI.1 The IAG recommends that:

33. - *As soon as the rainy season ends, Esso give priority to its plan to restore and return land that was used for longer than provided in the EMP, taking special care to mobilize the EMP socioeconomic team to proceed from restoration to restitution. For its further activities, Esso should establish a specific schedule of operations to restore and return land as soon as it is no longer needed for construction and production. For its part, the Government needs to look into establishing a system of fines for land retention beyond the beginning of the next growing season for rain fed crops;*
34. - *Esso announce a time frame for bringing the restored wellpads into compliance with the new size allowance, which is 5,231 m² in the operations phase;*
35. - *Notwithstanding its objective to improve oil production and project economics, Esso study the possibility of significantly reducing the Project's impact by using technologies that are less land-hungry taking as examples practices applied elsewhere in the world, especially in developed countries;*
36. - *Esso use the results of the Compensation and Resettlement Plan assessment as soon as they are available to evaluate its household viability criteria and adjust its compensation measures to bring them more into line with the true impact borne by the population.*

1.3 Oil Monitoring: Government Teams Ill-Equipped and Almost Inactive

37. The monitoring abilities of the government teams – the on-site supervisions of the CTNSC and the Doba Petroleum Unit (DPU) – which were already crippled a year ago, have further eroded.
38. The DPU is providing minimal services, but the CTNSC is practically nonexistent. On site, the CTNSC is now down to one Socioeconomic environment expert who recently has been acting as the interim on-site Supervisor, and a national technical assistant who is usually based in N'Djaména but periodically serves as the Biophysical environmental expert.
39. Payment of CTNSC employee salaries from the State budget is several months behind and the CTNSC has not received any funds to cover operating expenses. Mobility is reduced to a minimum and staff can travel only when Esso provides logistical support through joint field visits.
40. The CTNSC office in N'Djaména is slightly more functional but, practically speaking relies on a single person, the Acting Executive Secretary. The lack of communication between the central and field offices seriously impedes their ability to work efficiently, which was already limited given the difficult working environment.
41. The Logistics Agreement stipulating the facilities that the Consortium will provide for government representatives on-site has not been implemented to the satisfaction of the government teams. After visiting the furnished offices provided for them at the Komé 5 base, the IAG can confirm that there is room for improvement. Given that this is a project expenditure and not a donation, and given that the CTNSC and DPU staffs are the front line government representatives, these teams deserve to be treated accordingly. When the Logistics Agreement comes up for one-year

renewal, the *Ministère du Pétrole*, which is the Consortium's point of contact on this issue, should be vigilant concerning the implementation criteria.

42. Given the difficulties they face, the on-site monitoring teams have high hopes for the possibility of an additional grant to extend the Petroleum Sector Management Capacity-Building Project (PSMCBP). Chad and the World Bank were negotiating the terms of the project at the end of 2005 when relations broke down between the two parties and the project was suspended. However, the WB confirms that it has reserved US \$10 million IDA (International Development Association) funds for this grant: it is waiting for Chad to express its intent to resume negotiations and to fulfill certain conditions that were established in 2005.
43. For several months now the Government has been unable to ensure that its interests and those of the citizens are being respected in the oil zone. Given the rapid expansion of oil activities, it is urgent to restore the ability of the monitoring agencies to operate effectively. This should be a mandatory expenditure from the oil revenues, ahead of all others.

XI.2 The IAG recommends that:

44. - *The Government not wait for possible additional funding from the PSMCBP, but that it allocate funds from the State Budget to support the operations and salaries of the government agencies in charge of monitoring oil activities; and that funding for these monitoring agencies be considered as mandatory expenditures from the oil revenues;*
45. - *If it wishes to secure funding from the PSMCBP grant, the Government immediately take the necessary steps to resume discussions with the World Bank to avoid the risk that the money would no longer be secured in the IDA accounts. The WB should update the authorities on the issue and the steps required to proceed;*
46. - *The CTNSC's central office improve its communications and collaboration with the field in order to achieve more efficient operations;*
47. - *Esso take the necessary steps to ensure that the facilities provided for the government on-site monitoring teams under the Logistics Agreement meet their legitimate requirements.*

1.4 Security: Correcting Abusive Practices

48. During the IAG's visits to the various villages in the oil zone, residents unanimously raised concerns about the lack of security. In particular, the Group was informed that the gendarmes assigned to protect the oil zone are harshly enforcing an unofficial curfew in the zone starting at 6:00 pm.
49. To this are added exactions committed by the gendarmes, which are vigorously condemned by the local population.
50. The authorities with whom the IAG met acknowledge that they have taken steps to combat the growing incidence of theft and vandalism of the oil facilities, but deny that they have declared a curfew and condemn the incidents of misconduct by the gendarmes assigned to Komé, some of whom are not fulfilling their professional duties or complying with the rules of discipline.

51. Esso pointed out that it never requested a curfew or special measures, that it records every complaint it receives and that, while not assuming responsibility for the actions of others, it is working with the authorities to improve discipline.
52. The IAG briefed the National Coordination's head of security on the situation. He pledged to send a team to the zone without delay to assess and remedy the situation.

XI.3 The IAG recommends that:

53. *The CN's security department take immediate steps to deploy the promised mission to the oil zone and work with Territorial Administration in order to:*
- *thoroughly investigate the attacks reported by area residents;*
 - *assuage the local population's concerns regarding the alleged curfew and inform them of their rights,*
 - *take the necessary disciplinary measures against gendarmes guilty of misconduct,*
 - *provide refresher training and human rights training for all gendarmes assigned to the region, and*
 - *find a way for the local population and security guards to work together to protect the facilities from delinquents.*

1.5 Cohabitation: Need to Anticipate Problems

54. Despite Esso's efforts to step up the land restitution program over the past few months, the IAG saw signs of eroding relations between the Project and the neighboring populations.
55. The expansion and densification of the oil facilities and the Project's growing appetite for land previously used for farming is a source of anxiety among the local population, who are worried about the sustainability of their living conditions in a region increasingly dominated by oil. The security issues add to their apprehension.
56. All these factors are changing habits and disrupting lifestyles beyond what was anticipated in the EMP. This requires special attention from both the Government and Esso: well-targeted investments in the region from the former and greater consideration by the latter.
57. The study on land use in the OFDA being discussed by the partners at the time of the IAG's visit should be used to offer solutions.

XI.4 The IAG recommends that:

58. - *Given the tensions caused by the by Project-related disruptions, the Government, the World Bank and Esso come together to reflect on the future of the oil zone, especially the sustainability of its agro-sylvo-pastoral system in the wake of oil expansion; that they urgently examine the technical and financial terms of a specific, targeted effort to substantially improve living conditions in the communities most affected by the Project, by investing in social*

infrastructures and water and electric utilities, among others, according to the guidelines in the Regional Development Plan; and that this concerted effort be funded from both the regular and oil budgets (70% of which is allocated to development), the 5% regional fund and any additional and welcome contributions by Consortium shareholders.

1.6 Environmental and Social Issues

1.6.1 Environmental Issues: Slow Progress on Old Issues - New Issues Arising

59. • For over a year now, a recurring problem has been hampering **hazardous waste management** efforts, namely breakdowns of the hazardous waste incinerator at Komé. Esso has contemplated various solutions, including transporting the waste to Cameroon for processing, but has not yet implemented them. Meanwhile, Esso is still storing the waste at Komé.
60. The IAG is concerned about letting this potential environmental hazard linger too long, and about the choice of a solution involving long-distance road transportation, rather than actually repairing the Komé incinerator, which was a major investment.
61. • Esso's management has agreed to pave 40 km of main roads in the OFDA as part of a **dust control effort**. During the 2005-2006 dry season, DBST (Double Bitumen Surface Treatment) was applied to 10 km. Esso is planning to resume the work after the rainy season. It is also continuing its molasses-spreading and road-spraying programs.
62. Esso launched a scientific study to assess the impact of dust on the health of the local population and the preliminary results are being analyzed. It now needs to conduct a similar study to assess the impact of dust on plant fertility in the zone.
63. • Since the Moundouli field produces more gas than anticipated, Esso is forced to flare the gas at the Miandoum gathering station for the time being. The company is planning to purchase a compressor that would limit the volume of **flared gas** and make it possible to use it for other purposes, but this equipment will not be available before December 2007. Meanwhile, continued flaring adds to the concerns about the human-health impact expressed by the local population and non-governmental organizations (NGOs).
64. The National Coordination denounces Esso exceeding the limits prescribed in the EMP. The company points out that although it exceeds the volume of flared gas specified in the EMP, it remains well under the NO_x emission standards set by the United States Environmental Protection Agency (USEPA).
65. The flare gas issue was particularly sensitive when the Project was in the planning stage back in 2000, and is resurfacing now that a satellite field is being activated. Esso will need to handle this issue very carefully and the Government will need to monitor it closely.
66. • Despite the growing need for water to maintain reservoir pressure, Esso is developing its plan to **use pumped water on the surface** and has begun a feasibility study. Implementation of this program will require the assistance of government authorities in assuming responsibility for the distribution and use of this large quantity of water.

XI.5 The IAG recommends that:

67. - *Esso find and quickly implement a hazardous waste management solution that is both efficient and accepted by the CTNSC;*
68. - *Esso immediately begin an additional study on the impact of dust on plant fertility, working in association with the Institut Tchadien pour la Recherche Agronomique et le Développement (Chadian Institute for Agricultural Research and Development, or ITRAD) as much as possible;*
69. - *Esso and the CTNSC jointly monitor the gases produced and NOx emissions from the flaring process; Esso immediately begin a campaign to inform the local populations and civil society of the reasons for flaring and its impact, as well as the steps it is taking to minimize the effects; Esso install the compressor required to limit this practice as soon as possible and keep the relevant government agencies informed of the situation; and the Government and Esso consider a joint feasibility study for using the gas outside the Project to provide electricity to the region.*

1.6.2 Social Issues: Notable Progress

70. • Concerning the recurring problem with the **10%** requisition on individual compensation, the Government has imposed sanctions based on the mission report from the Inspector General deployed to the oil zone by the *Ministère de l'Administration du Territoire*. It has issued decrees to dismiss local authorities involved in this practice.
71. Despite these commendable measures, local residents in the new zones who have recently received individual compensation, such as in Poutouguem, are complaining that this tax practice persists, which is corroborated by the village chief.
72. Thus, this practice appears to be ongoing; which the Government must continue to counter with authority, perseverance and a methodical approach.
73. • In the case of the **dispute between TCC** (Tchad-Cameroun Constructors) and its former employees, the Supreme Court upheld the Appeals Court ruling sentencing TCC to pay US \$12.5 million to the plaintiffs. Esso, which had contracted TCC, has already secured this amount in an account. At the end of the IAG visit, the Prime Minister announced that the Government would immediately order that the workers be paid.
74. • The IAG noted some improvements in **Esso's relations with local government authorities**, now that the company has followed up on the authorities' repeated requests and organized a site visit to the oil facilities in February for a delegation from Logone Oriental led by the Governor. Esso still needs to organize a similar visit for Logone Occidental's Governor and regional authorities.
75. Some **central authorities** would like to be better informed of Esso's activities in various areas. This is especially true in the case of the initiatives Esso took to promote community health without involving the *Ministère de la Santé's* central offices. Not only would it be in Esso's interest, but Esso has an obligation to consult with the Ministry to ensure that its health program meets the country's needs and is sustainable for the long term.

76. • Speaking through the CPPL, the NGOs in the oil zone asked the IAG to relay a special request to the Government. They would like to be invited to participate directly in the renegotiation of Oil Agreements. The IAG explored with them possible alternatives such as written submissions or specific contributions to the work of the National Commission.

XI.6 The IAG recommends that:

77. - *Since the 10% practice persists despite Government efforts to eradicate it, the Government should conduct proactive information campaigns in the zones affected by new oil development in order to abolish this illegal requisition on individual compensation levied by some local authorities; and it should ensure full compliance with Government directives during compensation payment sessions;*
78. - *Esso follow up on its initiative to invite the regional government agencies to visit the oil facilities by organizing a new visit for Logone Occidental's Governor and authorities; and that Esso continue to give priority to its working relations with the local and central government authorities;*
79. - *The Government and NGOs reach an agreement on how civil society can contribute to the work of the National Commission in charge of planning the upcoming Oil Agreement negotiations.*

1.7 Experiences in Local Development

80. The IAG reviewed several interventions that were designed to promote local development in the oil region, but are facing obstacles or have reached a standstill.

1.7.1 Improved Agricultural Techniques Training Program

81. The training program in improved agricultural techniques, which Esso set up as an alternative to resettlement under its CRP, targets villagers who have lost part or all of their farmland to the oil facilities. The program's objective is to restore or increase pre-Project income levels.
82. Implementing this program hopefully will improve yields and help diversify the traditional sources of farm income in the region. This would provide development potential for the agro-sylvo-pastoral system in the OFDA and be a test case for the entire zone.
83. In principle ORT, the NGO that Esso contracted for this program, is providing the participants with a one-year training course in the agricultural calendar's various production cycles from April to March. All participants will receive training in agricultural techniques for rainfed crops and will also choose a course in market gardening, livestock, agro-forestry or processing agricultural products.
84. In October 2005, ORT encountered budgetary difficulties in implementing the program because the number of eligible participants exceeded Esso's initial estimates. Esso has since adjusted its funding level accordingly. However, ORT now has a problem scheduling its activities. Because ORT has been working under a three-month renewable contract with Esso since the end of 2005, it has difficulty planning activities for the complete agricultural cycle. ORT is also

struggling with the numerous delays in Esso's payments, which are based on a January-December budget cycle that is different from the agricultural calendar.

85. In addition to these limitations, ORT also has to contend with the arrival of a new Esso contractor, JMN Consultants. This company was hired in April 2005 to oversee ORT's activities until ORT's contract expires and then take over and monitor the agricultural training program. JMN will have to recruit local partners to perform these tasks.
86. The IAG was unable to see a logical division of work between the current program manager (ORT) and the monitoring agency (JMN) during this bridge period. The Group also questioned whether it was wise for Esso to change contractors just when the current one seems to have gotten up to speed, having mastered the training strategy, set up demonstration sites and trained trainers and technical teams. It does not see how this change will improve the quality of services provided to the program beneficiaries.
87. At this stage as the CRP is being reviewed, Esso should assess the agricultural training program results to date so as to redesign its intervention strategy if need be, before deciding to change the system already in place. A good indicator of program success would be to assess the standard of living of the beneficiaries who had completed the training several months prior.

XI.7 The IAG recommends that:

88. - *Esso work with ORT to develop a five-year plan for agricultural development in the region, focusing on capacity-building of farmers through appropriate training programs and the creation of demonstration farms. Meanwhile, Esso should enable ORT to better plan projects by adapting its contract to the agricultural calendar and by providing funds based on a timeline that takes farming constraints into account;*
89. - *Esso conduct an assessment of the improved agricultural techniques training program, if this is not already included in the CRP evaluation, assess the economic viability of beneficiaries who have already completed the training and make any necessary changes to the program;*
90. - *Esso clarify the respective roles of ORT and JMN Consultants in connection with implementing and monitoring the improved agricultural techniques program; and in the meantime, ensure that there is a logical division of work between the two.*

1.7.2 FACIL Grinds to a Halt

91. Although the *Fonds d'Actions Concertées d'Initiatives Locales* (Local Initiatives Development Fund, or FACIL) was a promising initiative for developing micro-financing, it has all but come to a standstill due to a lack of funds from the PSMCBP.
92. FACIL's operational funds have been limited since February 2005 and the situation has further deteriorated in recent months. It is working with a skeleton crew, without any real operating budget.
93. The Fund, which is still having trouble recovering the loans it granted to financial intermediaries, has little success in pursuing legal recourse vis-à-vis debtors who declare bankruptcy one after the other and even close their businesses in some cases.

94. The Government should provide the necessary funds for FACIL to operate, even if only to have enough resources to initiate legal proceedings to recover the loans it has granted using public monies.
95. In the long run, the current discussions between FACIL and the coordinating body for the Local Development Program Support Project (PROADEL) should help provide for the application of the skills and lessons learned from the FACIL experiment – both good and bad – in a new, national program.

1.7.3 Regional Development Plan: Worrying Delays

96. Over a year after it was completed, presented to the relevant ministry offices in May 2005 and finalized in June, the Regional Development Plan (RDP) has still not been given final approval. Approval is blocked at the responsible ministry, the *Ministère du Plan*, and the consultants have not received their final payment. NGOs, area residents and regional delegations are wondering what has become of the Plan.
97. The IAG finds it unfortunate that this document, which was agreed to in the baseline agreement between the Doba Project parties, drafted in an extremely participatory manner, reviewed by the Government and the local populations, and can be used as a basic development tool for the entire oil region, has not yet been utilized. It should be used to inspire or guide the efforts of regional delegations, the CPG 5%, NGOs, local communities and traditional authorities. It could also be used to seek additional donor funding to tackle the specific and as yet unmet needs of this highly diversified region. Approval of the document is imperative.

1.7.4 5% Regional Fund: Effective Devolution of Control Delayed

98. The temporary committee that was established to manage the oil region's 5% of royalties until local communities could be created and their leaders elected continues to fulfill its mandate, but is plagued by identity and operational problems.
99. In 2005, the CPG authorized funding for a first round of investments for education, water and health projects selected by the President's office. These projects are reserved exclusively for the urban centers of Doba and Bébédjia and do not always correspond to the people's stated priorities. They are reaching only a portion of the region's target population, leading to a noticeable complaint in the villages and even in the urban centers in question.
100. The CPG had been advised to use a transparent and participatory process when choosing future projects to be funded out of the 5% fund, and to ensure that the projects meet the stated needs of urban and rural populations and complement Ministry programs on the national level, rather than replace them.
101. The region's population is continually growing and becoming more diverse. In addition to the local populations in the towns and in the country, there are now shopkeepers, students and workers from other regions working in local industries, as well as migratory herders from other ethnic groups, who must all be taken into account in determining how to use the 5%.

102. The Committee laments the fact that it is not sufficiently autonomous to make the final choice for its investments and to issue requests for proposals. Torn between the demands of local communities and pressure from the central authorities, it is unable to fulfill its mandate properly.
103. In addition to the problem of autonomy, the Committee faces operational difficulties. Although the Committee adopted its procedures manual in June 2006, it apparently failed to follow through on observations made by its partners. Moreover, it does not have a genuinely local program. Until recently it did not have sufficient operating funds. This, coupled with the absence of the Vice President for several months and the President's unavailability, prevented the Committee from operating at an optimal level.
104. Even though the CPG had consulted part of the population and the various administrative bodies in the region, the local communities and the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP) are already criticizing the second round of projects, which, they say, will only accentuate the urban-rural imbalance and will not meet the people's most pressing needs. Meanwhile, local private operators are worried that they will not reap the financial impact from the 5% projects that are being allocated primarily to companies in N'Djaména.
105. The 5% oil revenue fund established by the Constitution is destined to contribute to the development of the region that bears the impact of oil production, as an addition and complement to government programs. It is therefore urgent that the Committee assume its identity, define an intervention policy based on its criteria, establish the timing of its investments and implement projects in a transparent manner. It needs to understand what programs are planned by the various ministries in order to find its most useful niches for supplementing government investments and to ensure a good return on these investments for the local populations.
106. This means that the Committee needs to have up-to-date information from the *Ministère des Finances, de l'Économie et du Plan* (MINFIN) on the amount of funding it can expect to receive from the 5% fund over the next several years, and that the Government needs to allow the CPG to select and prioritize the projects it wishes to fund, in consultation with the local communities. The Committee also needs to adopt a work pace that will allow it to select and implement projects quickly without compromising quality, so it will no longer be outpaced by other government programs.

XI.8 The IAG recommends that:

107. - *The Government mobilize the funds necessary for FACIL to operate at least until it recovers the loans it has granted with public funds. The Government could assist FACIL by using the available legal instruments;*
108. - *As recommended in the Mission 10 report, the Ministère des Finances, de l'Économie, et du Plan start the approval process for the RDP without delay, so that measures can finally be taken to translate the proposals of the Plan into action; and Chad ensure that the consultant hired to finalize the Plan is paid without further delay;*
109. - *The CPG adopt an intervention philosophy and policy that will enable it to identify clearly projects it wishes to fund, using a participatory process, and in such a way that its investments will be complementary to Ministry programs funded by the national budget; and that the*

Government give the CPG full authority to choose what investments are to be funded out of the 5% until elected local authorities are in place.

2 MANAGING OIL REVENUES

110. The IAG looked at implementation of the 2005 oil Budget, the 2006 Budget to date and preparations for the 2007 Budget proposal.
111. The main objective was to assess the impact of oil-revenue use on any improvement in the living conditions of the local populations. To this end, the Group met with most of the priority and central ministries and reviewed documentation provided by the CCSRP, the World Bank, the MINFIN and Esso. However, the figures collected by the Group varied depending on the source. Since the IAG was unable to reconcile the various documents, it simply characterized the general trends in implementing the 2005 and 2006 budgets, without conducting an exhaustive analysis. The 2007 Budget proposal was not yet available when the IAG left Chad. Consequently, the Group focused solely on the context and challenges associated with drafting the proposal.

2.1 2005 Budget: First Oil Budget Complete but Difficult

112. Since Chad did not start repatriating the oil revenues until July 2004, fiscal year 2005 is the first full year that reflects their receipt and use.
113. Implementation of the 2005 Budget was hindered by late allocation of credits, a spending freeze of several weeks' duration while the Supplementary budget was being drafted and cash flow problems made worse by the nonpayment of part of the budgetary aid from donors.
114. Oil revenues were revised downward in the Supplementary budget, reducing the priority ministries' share of the oil revenues from 97.1 to 87.9 billion CFA francs. By the end of 2005, the CCSRP had recorded a commitment rate of over 90% for the oil revenues allocated to the priority sectors, compared to MINFIN's rate of roughly 70% for operations and 78% for investments. These considerable differences need to be reconciled.
115. Overall in 2005, over 50% of the oil revenue budget was allocated to the infrastructure sector, well ahead of the education and health sectors and far surpassing what was spent on rural development, not counting the CotonTchad subsidy.
116. The ministries' performance was inconsistent, confirming the trend that the IAG had observed in October 2005. The top-performing ministry in terms of CCSRP-approved expenditures was the *Ministère de l'Élevage*. The *Ministère des Mines et de l'Énergie* and the *Ministère de l'Agriculture* also had high rates, but these were relative, given the massive subsidies paid to the *Société Tchadienne d'Eau et d'Électricité* (STEE) and to the CotonTchad. The *Ministère de l'Action Sociale et de la Famille* and the *Ministère du Pétrole* had the lowest rates of CCSRP-approved expenditures.
117. Due to the cash flow crunch in early 2005, a significant portion of the oil revenues that had been preassigned to the priority sectors was used to fund the regular budget. In addition, trends in payments were not at all similar to the trends in spending commitments, which shows that MINFIN had different priorities when it came to disbursing funds. According to the ministries, the

significant discrepancy between the budget as passed and the nature of actual expenditures makes it difficult to implement sector-based programs.

2.2 2006 Budget: Disturbed

2.2.1 April 26, 2006 Agreement with the World Bank and 2006 Supplementary Budget

118. The 2006 Budget got off to a rocky start even in the drafting phase and as of mid-October implementation had been difficult.
119. The beginning of the fiscal year was marked by the National Assembly's late approval of the Budget in February 2006, and by the fallout from the dispute between Chad and the World Bank over the amended law on oil-revenue management (Law 002/PR/006). The dispute resulted in a suspension of World Bank disbursements to its active projects in Chad (US \$124 million) starting in January, a freeze of oil revenues in the escrow account at Citibank London, and the absence of foreign budgetary support.
120. A multi-donor mission organized in April worked with Chadian authorities to conduct a joint assessment of the constraints and priorities in the areas of public finance, poverty reduction and security. On April 26, 2006, as a result of post-mission negotiations, Chad and the World Bank signed an interim agreement on the use of oil revenues in 2006 and the resumption of WB funding. The Government agreed to submit to the National Assembly a 2006 Supplementary Budget specifying that 70% of the oil revenues must be used to fund priority poverty-reduction programs. Security-related expenditures were not included in this envelope. The Bank partially lifted its funding freeze on May 12 and repatriation of oil revenues resumed in June 2006.
121. Based on the April interim agreement, Chad passed a 2006 Supplementary Budget in July, which includes a downward revision of non-oil revenues to reflect performance in the first six months. Conversely, oil revenue estimates were revised upward thanks to the increase in world oil prices and the corporate income taxes that Chad began levying on the oil companies in March 2006 and which were not included in the initial Budget Law.
122. In 2006 Chad should receive about US \$400 million in fiscal revenues from oil companies' corporate income tax for 2005 and provisions for 2006, including US \$281 million from the October settlement of a tax dispute with two of the Consortium's shareholders, Chevron and Petronas².

² On November 2, the *Conseil des Ministres* approved the draft of the second 2006 Supplementary Budget. The purpose of this new revised budget was primarily to integrate the 2005 corporate income taxes and the 2006 payment from Chevron and Petronas pursuant to the agreement reached with the Government last October.

These tax revenues, which were not included in the initial 2006 Budget Law and the first Supplementary Budget totaled 146,584,399,198 CFA francs. Estimated total revenues in this second Supplementary Budget were revised upward to 748,353,000,000 CFA francs and expenditures were increased to 726,894,286,160 CFA francs.

The Supplementary Budget includes a savings fund of 21,458,713,840 CFA francs that could possibly be used to reduce the cash deficit or serve as a cushion in the event of a financial crisis. This is the first time in Chad's history that it has had a balanced budget, with the added bonus of a budget surplus for later use.

(Source: Office of the Prime Minister of Chad)

123. Implementation of the 2006 Budget did not truly begin until July 2006, after the Supplementary Budget was passed. This does not bode well for using the unspent funds by the end of the year.

2.2.2 Priority Ministry Expenditures

124. According to CCSRP figures, the revised oil-fund allocation to the priority ministries under the July 2006 Supplementary Budget increased from 108.4 to 116.9 billion CFA francs. Thus, the priority ministries received a 33% increase in oil revenue funds as compared to the 2005 Supplementary Budget.
125. The *Ministère des Infrastructures* still receives the lion's share (31%), but to a lesser extent than in 2005, while the *Ministère de l'Éducation Nationale*, which was the second biggest spender of oil revenues, received an increased share (23%). The *Ministère de l'Agriculture* (15%) came in third, thanks primarily to the large subsidy for CotonTchad. Next were the *Ministère de la Santé* (10%) and the *Ministère de l'Enseignement Supérieur* (5%), which stagnated or even regressed in their oil-revenue allocations. The *Ministère de l'Élevage* lagged far behind with less than 2% of the oil funds³.
126. As of August 31, 2006, the CCSRP had approved 37% of oil revenue expenditures on which it had authorized 81% of payments. However, the IAG was unable to obtain figures from MINFIN to compare against the *Collège* figures to see how much money had been disbursed by the Treasury to date. The Group was also unable to obtain data concerning implementation of the regular budget as of the end of September.
127. With the exception of the *Ministère de l'Agriculture*, the *Ministère des Mines et de l'Énergie*, the *Ministère des Infrastructures* and the *Ministère du Pétrole*, CCSRP-approved expenditures for priority ministries did not exceed 10% per ministry at the end of August. Therefore, at this stage, it is difficult to see any trends in the ministries' ability to spend the oil revenues.
128. Use of the oil revenues has led to encouraging improvements in the operation of decentralized government agencies in the oil zone. The regional authorities with whom the IAG met in Doba and Moundou reported that their salaries are being paid on a regular basis and that for the first time since 2001, they have been given an operational budget that allows for more activities than in the past.
129. Ministries spending plans are ambitious but some are up against specific problems that are delaying processing of certain sensitive cases.
130. The *Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle* again reported to the IAG that there are still problems with disruption of the cash flow to training institutes and universities. This situation stems from the discrepancy between the academic year and the fiscal year, as well as the CCSRP's requirement that justification for expenditures be submitted on a quarterly basis before it will authorize future expenditures. Adapting both the CCSRP's expenditure reporting period and the payment schedule would alleviate this problem.

³ Source: Data extrapolated from information provided by the CCSRP

131. Likewise, the *Ministère de la Santé Publique* is worried because it has been out of vaccines since 2005 while its supplier awaits payment of a 168-million-CFA-franc balance which has been held up at the *Ministère des Finances*. It also faced a chlorine shortage for the same reasons. The lack of dialogue between the two ministries is preventing rapid resolution of critical health problems on a national scale.
132. Finally, in August, the Prime Minister issued a circular calling upon the ministries to limit sole sourcing procedures to the cases stipulated in the Procurement Code. This should lead to the 2006 Budget being implemented in a more transparent manner than the 2005 Budget since there was full compliance with the Prime Minister's directive as of the IAG's visit.

2.3 2007 Budget: Record Resources - Restructuring Required

133. At the time of the IAG mission, MINFIN had not yet finalized its 2007 Budget proposal and submitted it to the *Conseil des Ministres*.
134. The budget planning delays are linked to several factors, including the implementation of the Memorandum of Understanding (MOU) signed by the World Bank and the Government of Chad on July 13 2006 and the need for multi-year advance planning of oil revenues⁴.

2.3.1 July 13, 2006 Memorandum of Understanding with the World Bank

135. The July 13 MOU involves 4 key commitments:
136. • Whereas the April interim agreement called for 70% of the oil revenues to be allocated to the priority sectors, the MOU increases Chad's commitment substantially, calling for 70% of total revenues (oil and non-oil) to be allocated to poverty reduction programs. The priority sectors identified in the MOU are the same as those in Law 001 (health, education, infrastructure and rural development), with the addition of good governance through anti-corruption measures in public finance management, justice, decentralization and de-mining.
137. • The Government, in partnership with the WB and the IMF, agrees to develop a 2007-2009 Medium Term Expenditure Framework (MTEF) as a guide for the annual budget process, and to establish a stabilization fund into which it will pay any surplus revenues over and above MTEF estimates.
138. • The Government, in cooperation with civil society, the World Bank and its other partners, will prepare a new Poverty Reduction Strategy Paper by June 2007. The new strategy will be inscribed in a legislative framework.
139. • The Government and the WB agree to strengthen the CCSRP to give it the means to more effectively accomplish its mission of monitoring oil-revenue use.

⁴ On November 16 2006, the *Conseil des Ministres* adopted the proposed 2007 Budget, which takes into account the determinations of Law 002/PR/2006 and the terms of the July 13 2006 Agreement with the World Bank. Total revenues from all sources are budgeted at 918.009 billion CFA francs, total expenditures at 688.934 billion CFA francs. There is thus an expected surplus of 229.075 billion CFA francs. The draft Budget will be tabled in the National Assembly for review before the end of 2006.

140. In actual practice, allocating 70% of government expenditures, regardless of income source, to the priority sectors identified in the agreement has proven to be a major challenge for MINFIN in preparing the 2007 Budget.
141. An overall MTEF for 2007-2009 was ready at the time of the IAG's mission, but the Group was unable to obtain a copy. The stabilization mechanism still needed to be defined in detail.
142. The National Poverty Reduction Strategy (NPRS) review process is several months behind schedule. The initial work of the technical secretariat has been delayed by procedural problems and a lack of startup funds from the *Ministère des Finances*. There are already concerns that the NPRS 2 will not be ready for use in preparing the 2008 Budget⁵. Meanwhile, the original NPRS is still pertinent and valid and should serve as a reference in the budget planning and appropriations process.
143. Finally, the Memorandum of Understanding still required ratification by Parliament.

2.3.2 Oil Revenue Profile

144. The other major challenges Chad faces with the 2007 Budget are the need to account for the volatility of oil revenues and the need to start thinking now about multi-year planning.
145. The *Ministère du Pétrole*, in partnership with the WB, prepared a report forecasting the State's oil revenues for the period 2006-2033. It predicts a peak in 2007, then a decline starting in 2008 with further decreases in 2009 before stabilizing.
146. The 2007 peak will be due in part to the massive influx of fiscal revenues based on the 2006 profits of the oil companies. They will pay Chad income tax based on their significant profits in 2006 and estimated earnings for 2007.
147. The price of oil and the tax revenues from the Consortium companies provide an optimistic foundation for the 2007 Budget. However, despite this favorable context and the magnitude of needs on every level, Chad will need to plan the use of its oil revenues, specially surpluses, over several years to sustain its long-term development efforts. This is the basic principle underlying the savings and stabilization mechanisms that need to be created. These will allow the country to spread expenditures over several years to counter the forecasted drop in oil revenues, will help adjust to its true absorption capacities and possibly avoid the need to sacrifice fixed mandatory expenditures in the event of a major drop in revenues.

2.3.3 Spending Trends

148. At this stage the IAG was unable to obtain information about overall budget allocations for 2007. However, in light of MINFIN's framework budgets, several ministries were concerned about losing their relative share of oil revenues.
149. The IAG reiterates the need to allocate the necessary resources to the Social, Education and Health sectors in order to continue working toward the Millennium Development Goals (MDG). In addition, the production sectors need to have sufficient funds to enable them to help create

⁵ A workshop to begin the process of updating the NPRS was held in N'Djaména, beginning October 25, 2006.

wealth and diversify the economy. Chad will have to rely in large part on this increased wealth and economic diversification when the oil resources dry up. Steps need to be taken now.

150. The need to have every award in excess of 50 million CFA francs validated by the Office of the President adds to process delays which hold up the implementation of priority ministries programs. Since Chad's spending levels have increased substantially, it would be useful to contemplate increasing the maximum contract amount that can be approved by MINFIN and the Prime Minister's office. This would ensure a more fluid procurement process and would require presidential approval only for the most important contracts.

XI.9 The IAG recommends that:

151. - *Pursuant to the July 13 Memorandum of Understanding between Chad and the WB, the NPRS secretariat be given the resources it needs to complete the review process in spite of the delays that have already built up;*
152. - *Until the second NPRS is approved, the objectives of the first, duly adopted NPRS be used in preparing the 2007 Budget and allocating funds;*
153. - *In the 2007 Budget, priority be given to attaining the MDGs in the social sectors and to developing the Agriculture, Livestock and Fishing sectors, including scientific research in these areas, which is essential to improving production;*
154. - *In planning a budget based on the existing MTEF, the Government carefully consider the drop in oil revenues forecast for 2008, share these constraints with the Parliament and begin preparing public opinion for this possibility.*

2.4 Managing the Financial System

2.4.1 Transverse Issues: Uniformity of Doctrine Still to Be Achieved

155. An analysis of budget implementation for 2005 and 2006, and the discussions with MINFIN, the priority ministers and the CCSRP revealed several overlapping issues related to managing the financial system.
156. • In October 2005, MINFIN set up the *Bureau chargé du Suivi des Liquidations et des Décaissements des Ressources Pétrolières* (Office in charge of Monitoring Payment and Disbursement of the Oil Funds, or BSLDRP) to **calculate the oil revenues**. However, nearly a year after it was established this office is still not fully operational and is not even able to account for the revenues from the various oilfields. It has established an ambitious work program, which is still awaiting Ministry approval. Moreover, it is requesting human and material resources to be able to access and more fully master the various aspects of calculating oil revenues and to become more familiar with issues such as production sharing and the Government's contractual obligations to the Consortium and to its creditors for oil project debt. The Director of BSLDRP is also requesting that his team be allowed to conduct an overseas study visit to learn how similar agencies operate abroad.
157. • Responsibility for **managing investment expenditures**, which was causing problems in the social ministries, especially the *Ministère de la Santé* and the *Ministère de l'Éducation*, has

been turned over to the *Ministère des Infrastructures*. This new responsibility was also recently extended to cover the investments of the *Ministère de l'Eau* and the *Ministère de l'Énergie* at the risk of potential jurisdictional disputes given that these ministries have engineers who are qualified to design and monitor their projects. This new management role of the *Ministère des Infrastructures* still lacks a formal framework and protocols to define the mutual responsibilities of the *Ministère des Infrastructures* and its client ministries.

158. • **Expenditures** of the priority ministries with which the IAG met were all affected by the late approval of credits at the beginning of the fiscal year. These delays were particularly long in 2006 because oil-revenue spending was frozen until the Supplementary Budget was adopted in July, a consequence of the earlier freeze of oil revenues in the London escrow account.
159. MINFIN, the spending ministries and the CCSRP all have a different understanding of the **notion of spending commitments** and **carry-over funds**. In addition to hindering budget implementation, this situation is resulting in budget figures that vary depending on the source, thus creating confusion about what funds are available. These issues must be resolved quickly so that the ministries, the CCSRP and MINFIN are all on the same page. Consequently, current practices need to be reconciled with the financial policy outlined in the Appropriations Act and the regulations on government accounting.
160. Finally, important delays in MINFIN approval of **contracts and payment of contractors** from oil funds have been reported. Several ministries are concerned about the mounting backlog of late payments to their suppliers for projects that were started with funds from the 2005 oil revenues. The risk here is that projects that are already underway will be delayed or stopped, whereas it should normally be possible to spread investment capital over the next year at least.
161. • Given the various difficulties in managing government funds, the Action Plan for the Modernization of Public Finance (**PAMFIP**) must be implemented over the coming months and years in order to create a reliable financial system.
162. Implementation of this project is still in the preparatory stages. Decrees have been issued to set up the structures that will coordinate the program – the *Comité de Pilotage* (Steering Committee) and the *Secrétariat Permanent* (Permanent Secretariat), and the secretariat staff is being recruited. However the process is hindered by procedural problems and a lack of operating funds from MINFIN. Consequently, very few activities have been conducted to date.
163. PAMFIP is a major initiative in the effort to manage the government funds, particularly oil revenues. The Government should fully support this initiative, especially since foreign donors are willing to finance a large part of this multi-partner program at an estimated implementation cost of US \$40 million over 5 years.

2.4.2 Programming: Towards a Culture of Results

164. An analysis of Chad's budget planning, particularly for the oil funds, produced mixed results.
165. Many ministries made significant improvements in preparing budget proposals. This enabled them to plan their activities and quantify their expenses over a three-year period. However, not all ministries showed the same level of progress. While the *Ministère de l'Eau* and the *Ministère*

de Éducation Nationale planned their budgets with clear objectives, the *Ministère de l'Action Sociale et de la Famille* still does not have a sector-based strategy.

166. Even the ministries that do have budget plans often lack indicators for the targeted results. Such indicators would allow them to assess their progress toward sector-based goals *in fine*. These goals should be in line with the National Poverty Reduction Strategy and the Millennium Development Goals (MDGs). More specifically, it should be possible to measure the added value of the additional funds from oil revenues against the recent past.
167. In the Livestock, Water and National Education sectors, targeted indicators are being developed to measure improvements to citizen well-being. However, although the *Ministère de la Santé* has set medium-term objectives, the indicators it is using do not provide a means of measuring how budget expenditures, especially those from the oil revenues, are contributing to improving the health of Chadians and more specifically, to achieving the MDGs.
168. The ministries should avoid being overly focused on intermediate indicators, and should not lose sight of their programs' end goals; they should adopt a results-oriented spending approach. This is the criterion upon which their performance, and the country's, will be assessed.
169. In this respect, the upcoming revision of the NPRS and its correlation with the sector-based MTEFs and the overall MTEF, which themselves are linked to the national budget, will be important exercises in achieving the MDGs, provided the budgets are implemented as adopted.

XI.10 The IAG recommends that:

170. - *The Ministère des Finances, de l'Économie et du Plan set the end of January as a non-negotiable deadline for having the funds in place and distributing the budgetary booklet as soon as the Budget Law is passed, thereby enabling the spending ministries to initiate expenditures as early as possible in the budget cycle;*
171. - *Once the BSLDRP's work plan receives final approval, MINFIN and the Ministère du Pétrole provide it with the human, material and financial resources it needs, especially ongoing access to technical, commercial and financial information and training courses abroad for its staff;*
172. - *MINFIN, the spending ministries and the CCSRP reach an agreement on the notions of spending commitments and carry-over funds, and focus their efforts on reconciling current practices and financial policies;*
173. - *MINFIN issue a circular to its departments (Financial Oversight – Budget – Treasury) setting clear deadlines for approving contracts, committing expenditures and for authorizing and effecting payments, similar to the deadlines assigned to the CCSRP and the Organe de Contrôle des Marchés Publics (Government Procurements Oversight Agency);*
174. - *The CCSRP and MINFIN work together to make the payment schedule for subsidies to universities and institutions of higher education more flexible, as the Group recommended in its tenth report;*

175. - *In general, MINFIN hold more regular and open discussions with the spending ministries at the secretary-general level, so as to prevent bureaucratic problems from needlessly blocking important national projects, such as the case of the vaccines;*
176. - *MINFIN take the necessary steps to implement PAMFIP rapidly, specifically by allocating the funds needed to set up and operate the project's coordinating structures;*
177. - *The spending ministries develop budget plans that include indicators of targeted results that will enable them to assess how well they are using their budget allocations, especially the oil funds, to meet economic and social progress goals; and that the MINFIN take the plans into account when allocating funds;*
178. - *The Government, through standard framework agreements, clarify the mutual responsibilities of the sector ministries and the Ministère des Infrastructures in delegating management of the investment projects.*

2.5 Regulation and Oversight

179. • The CCSRP published its 2005 annual report in September 2006. This report highlights the CCSRP's activities throughout the year, the observations, conclusions and recommendations resulting from its on-site inspection missions and its audits and inspections of the priority ministries' projects funded with oil revenues budgeted in 2005.
180. This report provides a precise, detailed picture of how the spending ministries are using the oil revenues, and serves as a reference document to assess how practices are changing. As with the 2004 annual report, it highlights a certain number of defects in the design, implementation and follow-up of projects funded from oil revenues. In general, however, the CCSRP notes an improvement in practices since 2004. It also notes better mastery of its procedures by the ministries' administrative and financial departments.
181. The CCSRP's procedure for allowing the MINFIN departments and priority ministries it monitors to submit observations before it publishes the report still needs improvement.
182. The Government must learn from this report, especially the *Ministère chargé du Contrôle Général de l'État*, which has jurisdiction to petition the Supreme Court to enforce application of the report's recommendations and to impose sanctions for improper procedures and poor governance.
183. • Law 002/PR/2006, which amends Law 001, extended the CCSRP members' terms to nine years, with a third of the members coming up for election every three years. This will provide more stability for the CCSRP and enable it to benefit more fully from the various members' experience.
184. The Government and the WB have begun thinking about the measures to strengthen the CCSRP so it can continue to carry out its duties at a time when oil resources and the number of projects to monitor are on the rise and now that 70% of the country's total budget will henceforth have to be allocated to the priority sectors. This new situation will require definition. An initial meeting to identify the CCSRP's needs was scheduled for October.

185. No matter what direction the CCSRP takes in the future, two essential functions must be maintained. Upstream, it must continue to verify whether planned expenditures are relevant as compared to the priority ministries' procurement plans; and downstream, it must continue to verify proper implementation of projects.

186. • Moreover, the prolonged lack of visible activities in the top government finance oversight units is cause for concern. The *Cour des Comptes* and the *Inspection Générale des Finances* both have an important role to play and to revitalize in overseeing government financial management.

XI.11 The IAG recommends that:

187. - *Consideration of the CCSRP's future further to the July 13 MOU with the World Bank confirm the CCSRP's role in those monitoring tasks, both upstream and downstream, where it adds noticeable value to the expenditure circuit;*

188. - *When required, the Collège call upon external expertise to assess the quality or caliber of projects it is auditing;*

189. - *Prior to publishing its annual report, the CCSRP implement the appropriate procedure for hearing all parties by sending the excerpts of its report to the relevant spending ministry and agency for comment before adding its own conclusions;*

190. - *The Government adopt an appropriate procedure for utilizing the observations drawn from the CCSRP reports, particularly in cases of faulty work, substitution and overpricing; and that the Ministre chargé du Contrôle Général de l'État et de la Moralisation refer cases to the appropriate legal authorities;*

191. - *The CCSRP's very effective activities not be a substitute for monitoring programs by the higher institutions of legal and administrative oversight (Cour des Comptes and the Inspection Générale des Finances, respectively), but rather complement and enrich them.*

3 MANAGING THE OIL ECONOMY

192. In addition to gradually organizing the oil sector, the Government also has a role to play in supporting the production sectors so that the economy can fully and sustainably benefit from the windfall of oil revenues and expenditures.

3.1 The State, New Actor in the Oil Sector: New Management Exigencies

193. Although the Government has so far acted only as a regulator in the oil sector, it now has decided to play an active role from exploration to distribution. To this end, it has taken several steps:

194. • The 2005-2008 oil sector policy letter was officially approved at the end of 2005 by the *Ministre de l'Économie, du Plan et de la Coopération* and the *Ministre du Pétrole*;

195. • The *Société des Hydrocarbures du Tchad* (SHT) was established by decree on July 27, 2006. The SHT will be an industrial and commercial instrument, not a regulator and will be

placed under the *Ministère du Pétrole*. Its bylaws are currently being drafted. They should encompass activities both upstream (exploration – production) and downstream (distribution of oil products).

196. • The Petroleum Code was expected to be ready by the end of October 2006, but may be delayed.
197. Chad is expressing a strong desire to be more involved in the oil sector and to be better able to take advantage of the economic benefits of oil development. The uptrend of world crude oil prices, the influx of taxes from the oil companies sooner than anticipated, and the experience of the first years of oil management have created a whole new environment compared to the prevailing conditions back when the Government of Chad and the Consortium signed the 1988 Oil Agreement. Taking this new situation into account, the President of the Republic signed a decree on August 28, 2006 establishing the *Commission Nationale Chargée de la Renégociation des Conventions Pétrolières* (National Commission in charge of Renegotiating Oil Agreements). Placed under the Prime Minister, this 20-member Commission is responsible for renegotiating the 1988 and 2004 Oil Agreements for the Miandoum, Komé and Bolobo fields and for setting the terms for developing any of Chad's oil fields.
198. This amplified and more active presence places greater demands on the Government in managing a complex and volatile sector. In particular, it should avoid as much as possible using public funds as venture capital. The Government must find the necessary means to ensure sound management practices that will benefit Chadians while avoiding the errors seen all too often elsewhere.
199. However, in terms of the Government's basic tools for oil sector management, final approval for the National Oil Spill Response Plan (NOSRP) and the finalization of the implementing decrees for Law 14/PR/98, which establishes the general principles for environmental protection, become every day more urgent. These legal and regulatory framework instruments are critical to managing the risks associated with the oil industry.

XI.12 The IAG recommends that:

200. - *Being determined to assert control over the oil sector, the Government ensure that it is fulfilling its regulatory duties (financial, technical, environmental and social oversight) as well as its new commercial role. The Government must find the necessary means to fulfill both responsibilities with professionalism, rigor and transparency, while minimizing costs and maximizing yields for the country as a whole;*
201. - *The Commission Nationale Chargée de la Renégociation des Conventions Pétrolières not hesitate to gather a broad range of opinions and perceptions from Chadian society, as well as national and international experts, with the goal of developing a system that will preserve Chad's interests over the long run;*
202. - *The Government assume its regulatory responsibilities without further delay by approving the NOSRP and finalizing and adopting the implementing decrees for Law 14 as soon as possible.*

3.2 A Role for the State that Needs to Be Strengthened: Giving Momentum to the Productive Sectors

203. The Petroleum Project's success will be measured by its ability to launch a sustainable, productive effort that will lead to reduced poverty and improved well-being of Chadians. A rapid decline in oil revenues is already predicted starting in 2009. Chad would therefore not derive long-term benefits from oil production unless it uses its revenues to boost the productive sectors of its economy – those that will provide a sustainable revenue base for the country. Of course, this does not mean a return to the costly policies of direct State intervention in the country's commercial operations, but rather support for the rural producers.

3.2.1 Farming, Livestock, Rural Hydraulics and Fishing

204. Developing the Agriculture, Livestock, Hydraulics and Fishing sectors will be key to Chad's economic future. Until recently, farming and herding were the country's main source of wealth. Now that Chad has newfound resources, reinvigorating these sectors should be the central focus of its development policy. At the same time, it must strive towards the goals for education and the health indicators for 2015.

205. • **Agriculture** is a floundering sector, but supports the majority of Chadians. There are many possibilities for improving yields and production conditions, sometimes at little cost. The most obvious choices are agricultural education, training for producers, assistance for inputs and production equipment, support for agricultural research, restoration of the country's seed capital and rural road improvements to help promote trade and the flow of goods. Agricultural research is particularly deficient, as one can judge from ITRAD whose means seem quite inadequate to the task. The *Ministère de l'Agriculture*, aware of the country's shortcomings in these various areas, hopes to obtain the resources to tackle these issues.

206. The addition of several rural road improvement projects to the *Ministère des Infrastructures*'s 2006 budget provided hope for improvements to the national network, especially in the cotton-growing zone. Unfortunately, the Ministry had to reallocate these funds to cover other road projects during the fiscal year and the ministry's 2007 budget plan indicates still a low level of resources allocated to rural roads.

207. The increased cotton production of the last two growing seasons should not minimize the sector's difficulties. A committee was established to work on the industry's critical functions (rural roads, training, research, etc.). Meanwhile, the plans for privatizing CotonTchad in 2008 may well be delayed. At any rate, it would be difficult to successfully privatize CotonTchad unless yields were up and rural roads were repaired.

208. • The **Livestock** sector is Chad's leading source of revenue after oil and still has great development potential. This needs to be acknowledged in the National Livestock Development Plan that was being finalized during the IAG mission.

209. Chad currently has the largest number of livestock heads in the sub-region. It contents itself with simply selling livestock on the hoof to its neighbors. However, if it were to improve the quality of the meat and the extent of processing within the country, it could bring in jobs and money and stimulate growth in related fields in the postproduction and service sectors.

210. Thus, there is clearly great deal of potential for developing the livestock industry and extending and increasing sources of added value in the country. Providing funds tailored to the livestock sector, as was done for agriculture, would enable livestock farmers to make the necessary investments to modernize their operations.
211. Finally, the livestock inventory project that the *Ministère de l'Élevage* has just launched under a pilot program will be an important step towards ensuring proper management of the sector.
212. • The development of the **Rural hydraulics** sector is clearly an essential condition for developing agriculture and livestock. The recent establishment of a Ministry of Water provides hope for progress in this area.
213. The IAG met with a dynamic and ambitious team at this ministry. All the elements are in place: a long-term vision, a master plan for water, planning for and an understanding of all the water supply points to be created between now and 2015. It seems that given that level of competence, all that is required to reach the MDG targets is adequate financing. The Government needs to show strong political initiative in this respect.
214. • **Fishing** is a sector that is reeling from Lake Chad's chronic reduction in size and mounting pollution in the major rivers, especially the Logone River. While there is little that can be done to prevent the first problem, the second merits closer attention and intervention by the new *Ministère de l'Environnement et de la Pêche* in order to boost the sector.
215. • In support of these initiatives, the *Ministère de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle* could contribute to an overall strategy for developing the research component that is so critical to progress in these sectors, working with the various teaching institutions that each add their regional perspective.

3.2.2 Development of Local Business Opportunities

216. Oil-sector investments, as well as those resulting from the Government's use of oil revenues, provide a unique opportunity to develop Chad's business sector. Esso and the IFC should be encouraged in their initiatives to develop the local private sector.
217. • Esso is working to implement a more rational business opportunities program that will help Chadian operators take advantage of the local business opportunities linked to the oil operations, and help the company reduce its costs in the long run.
218. The program involves setting up a system to evaluate candidate companies with special emphasis on financial management and transparency. Once the companies have been evaluated, they will be categorized based on whether they can provide basic, routine or top of the line services. They will then be eligible to bid on a certain category of contracts offered by Esso and its main partners.
219. One of the program's goals is to help local businesses progressively migrate toward higher value-added activities, which at present are mostly outsourced to foreign companies.
220. The IFC and the *Chambre de Commerce, d'Industrie, d'Agriculture, des Mines et de l'Artisanat* (Chamber of Commerce, Industry, Agriculture, Mines and Handcrafts, or CCIAMA) are working

closely with Esso to develop the program and will assist Esso in organizing training workshops for local businesses to help them advance through Esso's classification system.

221. Esso is also planning to request and accept bid proposals via the Internet, working with the computer-equipped Business Development Centers (BDC) that the IFC set up in Moundou and Sarh. However, the IAG was told of a potential problem with limited Internet access for certain operators: some cities, such as Doba, are not connected and those that are have frequent power outages.
222. • The IFC, whose programs were also suspended for several months following the dispute between Chad and the WB, has resumed its activities in the country. It is working closely with the Chamber of Commerce on the BDC and the business forum. There are also plans to integrate the BDC into the Chamber of Commerce.
223. The IFC also has a project to support the development of aviculture in the oil zone. This involves subsidizing people who have participated in a training course by ORT to help them set up farming cooperatives or start their own business. Farmers who have not undergone ORT training can also join the cooperative but they must cover their own initial expenses.
224. • Another sector for local business development is government investments funded out of the oil revenues: the majority of these contracts would likely be awarded to Chadian companies. These contracts will, over time, easily surpass the value of those awarded directly by the Consortium. Therefore, the Government has a duty to its economic sector to take steps to help Chadian operators access these contracts. The information modules jointly developed by Esso, the IFC and the CCIAMA could serve as a model and even be expanded to cover government procurement.
225. If successful, these initiatives should promote sustainable development of Chad's business sector. They deserve full support from the Government.

XI.13 The IAG recommends that:

226. - *The Government ensure that the 2007 Budget contain a sizeable allowance for the primary production sectors (agriculture, livestock and fishing) and the vital water sector. In particular, more funds should be allocated for the research associated with these sectors and counterpart funds commitments need to be honored. Rural roads, especially those in the cotton-growing regions, should receive a large share of the roads budget;*
227. - *Successful privatisation of CotonTchad requires firstly revitalisation of production and assistance to cotton growers to increase yields substantially;*
228. - *Esso ensure that its program to develop local business opportunities offers private businesses in N'Djamena and the other regions easy and fair access to procurement;*
229. - *The Government take steps to expand access to its procurement to an ever greater number of Chadian entrepreneurs.*

CONCLUSION

230. This mission was intended to focus on the concrete results of the oil revenue investments – results in the field and progress towards the Millennium Development Goals and improving the well-being of Chadians.
231. Instead of being able to assess a third consecutive year of budget implementation, the Group found that events had been such that the process of receiving and using the oil revenues was significantly disrupted for a good portion of 2006.
232. Despite this situation, the IAG was able to report on the areas of progress and sources of impasse. At the end of this mission, the Group highlights four main conclusions that encapsulate the recommendations of this report.
233. 1. Clarification and reorganization of the entire chain of government income and expenditure are imperative. Chad's budget (regular and oil) is too significant not to place absolute priority on the efficiency and transparency of all financial operations. The lack of rigor in budgetary discipline was the main criticism heard by the IAG.
234. Due to the cyclical nature of the oil revenues and the predictions of a rapid decrease in revenues (which may be further accentuated by the current decline in world prices) following a peak in 2006 and 2007, it is even more vital to manage current revenues efficiently and to adopt a prudent savings policy so as to weather the ups and downs in revenues from a resource whose price is cyclical.
235. 2. There can be no development without security. This does not mean border security alone, but security for people and property within the country, especially in the oil zone. Detailed accounts of arbitrary acts are too numerous. They add to the concerns of people whose physical environment and way of life are being disrupted. The accounts must be verified, but in the meantime, training and discipline must be imposed urgently upon the "keepers of the public peace" who all too often act as they please.
236. If the Government does not ensure the safety of its citizens, who will?
237. 3. Since the Government has pledged to use 70% of its resources for development and poverty reduction, massive investments and numerous projects are to be expected. Several ministries have made real progress in their planning and use of oil revenues. In general, however, they have not yet grasped the ultimate and true goal of spending: to improve the lot of citizens as measured by the MDGs and other indicators. All expenditures should contribute to improving the indicators of well-being. This is the only justification for spending. The prospect of a significant reduction in oil revenues in the short term makes it even more vital to focus immediately on the concrete and measurable results of all investments.
238. 4. There can be no poverty reduction without the creation of wealth. The ministries whose primary task is to support Chad's traditional sources of wealth - farming and herding - appear to be the poor relations in the allocation of oil revenues.
239. Greater priority must be given to supporting rural producers in order to increase profitability in agriculture (research, training and education, input assistance and rural roads) and livestock (in-country processing rather than exporting live animals). Priority must also be given to rural

hydraulics, which is crucial to developing the other sectors, and fishing, which is a major source of protein for Chadians.

240. This should not in any way hinder efforts to diversify the economy using the skills that have been developed and the assets that have been acquired (i.e., fiber optics) in the context of the Project.

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 Consortium and the World Bank whose welcome, availability and logistical support all contributed to a smooth visit.

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

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

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

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Appendix 1 Chronology of Meetings

Sunday, September 24, 2006 – N'Djaména

- IAG internal working session: preparation for meetings the following week

Monday, September 25, 2006 – N'Djaména

- *Coordination Nationale/CTNSC/DPU*
- EEPCI

Tuesday, September 26, 2006 – N'Djaména

- *Ministre du Pétrole*
- CCSRP
- WB

Wednesday, September 27, 2006 – N'Djaména

- WB
- IFC
- *Ministère du Pétrole*

Thursday, September 28, 2006 – Komé

- Esso Chad: EMP, construction and production teams
- CTNSC and DPU on-site supervisions
- JMN Consultants

Friday, September 29, 2006 – Moundou

- Governor of Western Logone
- Regional delegates
- Construction site of the *Institut Universitaire de Technique et d'Entreprise de Moundou* (funded out of the oil revenues)
- Moundou Chamber of Commerce and Private Operators
- CPPL

Saturday, September 30, 2006

- CotonTchad

*Moudouli and Miandoum fields zone*⁶

- Moudouli village (Moudouli field)
- Ngalaba village (Miandoum field)
- Production and restored sites (well-pads, borrow-pits)

Sunday, October 1st, 2006

*Komé and Maikeri (Poutouguem) fields zone*⁶

- Béro village (Komé field) + ORT
- Poutouguem village (Maikeri field)
- Restored sites

⁶ IAG accompanied by the CTNSC, Esso Chad EMP team and the CPPL

Monday, October 2, 2006 – Doba

- Governor of Eastern Logone, Prefect, Mayor of Doba, Regional delegates, Republic Prosecutor
- Interim Management Committee for the 5%
- Visit of projects under construction and funded out of the 5%
- ORT

Tuesday, October 3, 2006 – Komé

- IAG internal working session: preparation for the close-out meeting
- EEPCI, CTNSC, DPU: close-out meeting

Wednesday, October 4, 2006 – N'Djaména

- *Ministre délégué auprès du Ministre des Finances, de l'Économie et du Plan, chargé du Budget*
- *Bureau chargé du Suivi des Liquidations et des Décaissements des Ressources Pétrolières*
- Working session with MINFIN Technical Services : *Directions des Impôts et des Taxes, des Douanes, du Budget, des Études et de la Prévision, des Finances Extérieures, du Trésor, Contrôle Financier, INSEED, Cellule Économique*
- Administrative and Financial Affairs Directors of priority ministries

Thursday, October 5, 2006 – N'Djaména

- ITRAD
- Civil society: NGOs, human rights associations, labor unions
- *Ministre de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle*

Friday, October 6, 2006 – N'Djaména

- *Ministère de l'Éducation Nationale*
- National Assembly
- *Ministère de l'Agriculture*
- EEPCI

Saturday, October 7, 2006 – N'Djaména

- IMF
- Donors
- EnCana

Sunday, October 8, 2006 – N'Djaména

- IAG internal working session

Monday, October 9, 2006 – N'Djaména

- *Ministère de l'Environnement et de la Pêche*
- *Ministère de l'Eau*
- Coordinator of the Permanent Secretariat for the PAMFIP
- OCMP
- *Ministre délégué auprès du MINFIN chargé de l'Économie et du Plan*
- Permanent Secretariat for the Poverty Reduction National Strategy

Tuesday, October 10, 2006 – N'Djaména

- *Ministère de la Santé Publique*
- *Ministère des Infrastructures*
- *Ministère des Finances, de l'Économie et du Plan*

Wednesday, October 11, 2006 – N'Djaména

- *Ministère de l'Élevage*
- *Ministre chargé du Contrôle Général de l'État et de la Moralisation*
- President of the CCIAMA of N'Djaména
- IAG internal working session: preparation for the cross-checking sessions on October 12

Thursday, October 12, 2006 – N'Djaména

- Working session with the CN, MINFIN, DAAF of priority ministries, CCSRP, WB
- Working session with the WB, EEPCI, CN, CTNSC, DPU and FACIL
- The Prime Minister
- IAG internal working session

Friday, October 13, 2006 – N'Djaména

- IAG internal working session: preparation for the debriefing and the mission report

Saturday, October 14, 2006 – N'Djaména

- Debriefing

Appendix 2 Acronyms and Abbreviations

BDC	Business Development Centers
Bpd	Barrel per day
BSLDRP	<i>Bureau chargé du Suivi des Liquidations et des Décaissements des Ressources Pétrolières</i> / Office in charge of Monitoring Payment and Disbursement of the Oil Funds
CCIAMA	Chamber of Commerce, Industry, Agriculture, Mines and Handcrafts
CCSRP	<i>Collège de Contrôle et de Surveillance des Ressources Pétrolières</i> / Oil Resources Control and Monitoring Group
CN	<i>Coordination Nationale</i> / National Coordination
CPG 5%	Temporary Management Committee for the 5% Regional Fund
CPPL	<i>Commission Permanente Pétrole Locale</i> / Local Standing Committee on Oil
CRP	Compensation and Resettlement Plan
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> / National Technical Committee for Monitoring and Control
DAAF	<i>Directeurs des Affaires Administratives et Financières</i> / Administrative and Financial Affairs Directors
DBST	Double Bitumen Surface Treatment
DPU	Doba Petroleum Unit
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad Inc.
EMP	Environmental Management Plan
FACIL	<i>Fonds d'Actions Concertées d'Initiatives Locales</i> / Local Initiatives Development Fund
GDP	Growth Domestic Product
GTZ	<i>Gesellschaft für Technische Zusammenarbeit</i> (German cooperation)
Ha	Hectare
IAG	International Advisory Group
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ITRAD	<i>Institut Tchadien pour la Recherche Agronomique et le Développement</i> / Chadian Institute for Agricultural Research and Development
MDG	Millennium Development Goals
MINFIN	<i>Ministère des Finances, de l'Économie et du Plan</i> / Ministry of Finances, Economy and Plan
MOU	Memorandum of Understanding
MTEF	MediumTerm Expenditure Framework

NGO	Non-Governmental Organization
NMP	Nya Moundouli Project
NPRS	National Poverty Reduction Strategy
OCMP	<i>Organe de Contrôle des Marchés Publics</i> / Procurements Oversight Agency
OFDA	Oil Field Development Area
ORT	Organisation for Rehabilitation and Training - International
PAMFIP	Action Plan to Modernize Management of Public Finance
PNIDAH	<i>Plan National d'Intervention en cas de Déversements Accidentels d'Hydrocarbures</i> / National Oil Spill Response Plan
PROADEL	Local Development Program Support Project
PSMCBP	Petroleum Sector Management Capacity-Building Project
RDP	Regional Development Plan
SHT	<i>Société des Hydrocarbures du Tchad</i>
STEE	<i>Société Tchadienne d'Eau et d'Électricité</i>
TCC	Tchad-Cameroun Constructors
USEPA	United States Environmental Protection Agency
WB	World Bank