

International Advisory Group
Chad-Cameroon Petroleum Development and Pipeline Project

REPORT OF VISIT
TO CHAD
DECEMBER 5 TO 21, 2003

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PRELIMINARY NOTE

The IAG made its sixth statutory visit to Cameroon from December 1 to 5, 2003 and Chad from December 5 to 21, 2003. Upon leaving Chad, the IAG did not yet have all the information needed to complete its report on Chad. In the interest of promptness, the IAG therefore published the Mission 6 reports for Chad and Cameroon separately.

EXECUTIVE SUMMARY

This report details the sixth statutory visit to Chad by the International Advisory Group (IAG) from December 5-21, 2003.

With its first oil exports to the international market in October 2003, Chad was inducted into the select group of oil exporters.

The IAG mission focused on the quality of monitoring of the Doba Project construction and production activities and on the oversight of other oil activities in the country. The mission also looked at regional and local development in the Doba Project zone, as well as national development, where the issue of managing the oil revenues is one of the major issues.

OIL PRODUCTION

The **Doba Project** will be monitored throughout the entire production phase. Although much progress has been made in managing the social and environmental impacts caused by the Project since the beginning of construction, there is still work to do.

The Consortium is urged to uphold the standards and practices established during the construction phase throughout the entire Project and to continue to pursue transparent and ongoing collaboration with the on-site supervisors from the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC) and the *Direction du Pétrole* (Petroleum Directorate, or DP). The parties need to agree on how production volume and characteristics are to be measured. In terms of the environment, the Consortium will carry through its responsibilities for waste management, soil reclamation, dust control and water management and will rectify any shortcomings noted by the CTNSC. On the social level, the health data sent to the Government needs to be precise and transparent. Good community relations will be fostered by, among other things, ensuring the safety of the population, providing a sufficient level of information and regular communication on issues such as the remaining business opportunities and managing potential cases of accidental oil spills.

On the Chadian side, training agents from the CTNSC and the DP is critical. The CTNSC needs to continue to maintain the level of rigor and precision required for its task. In exerting its authority, the CTNSC should also strive to further formalize its relations with the Consortium.

Given the **other oil activities** in Chad, both present and future, the Government is urged to equip itself with the proper regulations and instruments needed to oversee these activities. Consequently, updating the Petroleum Code seems to be an urgent need. The experience of the Doba Project should help to define the standards applicable to oil companies operating in the country in the future.

REGIONAL AND LOCAL DEVELOPMENT

Regional Development

- The interim versions of the Regional Development Plan (RDP) and the Regional Environmental Assessment (REA) for the oil zone have been deemed to be weak by the

Chadian government, which has requested an overall revision of the two reports from the consultant. The goal is to have the RDP and the REA finalized within a reasonable timeframe.

- Esso's Improved Agriculture and Community Compensation Programs are producing promising results for local development. Esso now needs to secure funding for the agriculture program so as to sustain the experience, and the Government needs to capitalize on the success of the compensation program in order to adequately implement other infrastructure projects.

The activities of the *Fonds d'Actions Concertées d'Initiatives Locales* (Local Initiatives Development Fund, or FACIL) are continuing in a generally satisfactory manner. Cash flow is the number one problem for the Fund. However, the decision, once implemented, to provide FACIL with a special second generation account should enable it to conduct its activities under better conditions. The institutional future of the Fund is under study, especially the possibility of expanding the Fund to the national level.

The International Finance Corporation (IFC) Initiative to Promote Small and Medium-Sized Businesses in Chad constitutes an innovative approach for this institution. The initial positive results, especially the agri-food company pilot projects in the oil zone, should not, however, overshadow the fragility of these projects, which still require financial and human support if they are to be sustainable.

- Implementation of the emergency measures provided for in the Petroleum Sector Management Capacity-Building Project has been plagued by delays and major overspending as noted in the mid-term review in October 2003, which has caused some of these additional measures to be questioned. The Government and the World Bank will need to take into account the fact that expectations were created among the oil zone populations when the IDA loan will be readjusted. For its part, the CTNSC should take the necessary measures to ensure regular and strict monitoring of the work in progress.

Local Governance

- The timetable for administrative decentralization has been revised and calls for the various elections to be held progressively from now until 2006. A decree has been issued to hold the oil revenues specifically assigned to the oil-producing region in a special account until such time as local governments are elected.
- The decentralized government agencies in the Project zone still suffer from a lack of information and involvement in the Doba Project. The Government has promised to rectify this situation.
- The consensus built around the preparation of the RDP now needs to be broadened so as to establish a permanent national framework for dialogue. The *Coordination Nationale* (National Coordination) and civil society should capitalize on the dynamic that has been set in motion as soon as possible.
- The oil zone is marked by increasing insecurity that seems to be attributable to a combination of factors including the lack of opportunities for the demobilized Project

workers and the legal system's inability to enforce law and order. This situation threatens the harmonious development of the oil region and warrants the Government's full attention.

NATIONAL DEVELOPMENT

Overall Strategy: Poverty Reduction

The National Poverty Reduction Strategy (NPRS) is the basic working instrument that should guide the activities of any party in the country involved in development, starting with the Government. And yet, the 2004 budget, which was the first framework to set out the Strategy, did not correspond to Strategy priorities as well as could be hoped. Moreover, the NPRS steering committee was not even involved in this budget exercise. The Ministry of Economy and Finance should take the necessary steps to enable the committee to play its rightful role in the 2005 budget preparations.

High Stakes: Managing Oil Revenues

Much progress was made in preparing Chad to manage its revenues in a sound and efficient manner. The bodies in charge of managing, monitoring and disbursing the oil revenues are in place and their staffs have been trained. However, all the delays have not been made up yet. Budget cycle procedures have not yet been mastered, the monitoring instruments have not tested their ability to manage all the cases that will come in and in many cases there is still a lack of qualified personnel.

- Concerning the **Central Ministries**, efforts should be focused on implementing management tools, and in particular, priority should be given to the recruitment and training of agents needed to ensure proper management of both the oil revenues and all other revenues, in terms of income, expenditures and cash flow.
- The Ministries in charge of "Priority" Sectors, with the exception of Public Works, were all disappointed by the portion allocated to them from the oil revenues. The ability to spend the money was a decisive factor in the distribution of the budget. Thus, the 2004 budget prioritizes the construction of major roads at the expense of investment in education, health and rural hydraulics. For the 2005 budget, the priority ministries should learn from the 2004 experience, refine their budget requests and demonstrate their ability to properly spend the money.
- With respect to the regulatory and oversight bodies, the Direction Générale des Marchés Publics (Government Procurements Directorate) has a new Procurement Code to work with and has undergone a major staff turnover. The application of new public procurement regulations now requires prompt adoption of the implementing decrees.

The *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP) has all the necessary human and material resources, including a Procedure Manual, to perform its duties. It must now demonstrate its credibility by taking care to focus its efforts in 2004 on its main responsibilities.

The Coordination Nationale, (National Coordination), which is a credible and valid representative of the State on the Doba Project, should continue to take on important responsibilities. These include, among others, finalizing the RDP and the REE, assessing the construction activities, establishing a permanent structure for dialogue on the Project and continuing to strengthen the capacities of the monitoring bodies (CTNSC and DP).

- Among Chad's international partners, the World Bank (WB) and the International Monetary Fund (IMF) play a crucial role in allocating external resources to Chad at this pivotal juncture in its economy. The WB needs to make sure that the assessment of the capacity-building programs results in an extension of the support needed to avoid a break in funding and to ensure the sustainability of the programs. The Government and the IMF need to reach an agreement to finalize the economic and financial package as quickly as possible.

General Context: Sectors in Difficulty

The economic dynamism that the Petroleum project injects into Chad should be used as a lever to reinforce the sectors in difficulty that will ensure the country's long term development, including the cotton industry, agronomic research and electrical power.

The Government and the WB, which is supervising the CotonTchad privatization process, need to agree on a definitive plan to rehabilitate and develop the cotton sector, after due consultation with the local producers.

The Government, with support from international donors, needs to remedy the current state of destitution that agronomic research is facing, so as to guarantee long-term agricultural development in Chad.

Finally, the effort by the Government and the World Bank to rehabilitate essential electricity utilities, enabling Chad to adequately supply the capital and other major cities, is a welcome and much needed initiative.

In **conclusion**, the numerous efforts made by Chad and its partners to successfully implement the Doba Project and to prepare the country to manage the oil revenues should be hailed. All the parties should continue to mobilize and focus their efforts on closing the remaining gaps. The years ahead must bear the hallmark of quality, both in words and deeds, and respond better to the legitimate expectations of populations, bringing continuous and genuine improvements to their living conditions.

INTRODUCTION

1. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (the Project or Doba Project) conducted its sixth statutory visit to Chad from December 5-21, 2003.
2. With the start of production at the Doba oilfields in July 2003, the flow of Chadian oil exports to the international market since October 2003 and the appearance of the first oil revenues in the country's sequestered account in November 2003, Chad has been inducted into the select group of oil exporters.
3. The Project has entered the production phase, while the construction of permanent production infrastructures is nearing completion and the drilling of wells continues.
4. The visit focused on the situation in the field, on how well the environmental and social impacts resulting from the ongoing construction activities and the beginning of production are being managed, and on regional and local development in the Project zone. Finally, with respect to national development, the mission assessed in particular the readiness of parties to manage both the oil revenues in 2004 and long term, and the sectors that are having obvious difficulties.
5. The IAG visited N'Djamena and Komé, Doba, Moundou and Bébédjia in the oil region. In the south of Chad, the Group visited some of the villages located near the Doba oil production infrastructures, the Project waste treatment facilities at Komé Base and Komé 5 and the operations center in Miandoum. The IAG met with national and local government officials, members of the Government and representatives of the World Bank (WB), the International Monetary Fund (IMF), the Consortium and civil society. The mission concluded with a review session with the main partners and a debriefing session with all the parties.
6. The mission itinerary and chronology of the meetings can be found in Appendix 1.
7. Chad must now manage the transition to the production phase, which means a substantial decrease in the number of business and employment opportunities, but longer-lasting possibilities. The main opportunities in this country are now expected to come from use of the oil revenues. Chad's management of these revenues is being closely monitored given the high expectations for improving the well being of the population, something which the Government committed to in its National Poverty Reduction Strategy.
8. This report presents the observations, analyses, conclusions and recommendations of the mission in terms first of oil production, second, regional and local development and finally, national development, in particular, the management of oil revenues.

1. OIL PRODUCTION

9. Chad entered the petroleum era when oil production began in Doba in July 2003. Already, other projects are emerging that require adequate government oversight.

1.1 Doba Project

10. The Consortium is successfully completing the construction and activation of the oil production and transportation system in Doba. Overall, the situation is perceived by most to be generally satisfactory. Much progress has been made in the management of the environmental and social impacts since the beginning of construction. The IAG notes below some of the items that were brought to its attention and again urges the Consortium and the Government to take action.

1.1.1 Parties Involved in Monitoring

1.1.1.1 Consortium

11. The environmental and social monitoring team of EEPIC (Esso Exploration and Production Chad Inc. – Esso) is undergoing a transition in terms of its staff and mandate as the oil company moves from the construction to the production phase. However, its role to ensure internal oversight, public relations and collaboration with the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC) is critical and the frequency and quality of staff transitions should not result in a lack of consistency.
12. This team is also responsible for ensuring that new contractors appointed by Esso prepare their own Environmental Management Plan (EMP), including plans for health, safety and socio-economic activities, and fully comply with all Consortium obligations.
13. The EMP will continue to serve as the enforcement document on environmental and social issues for the entire duration of the Project.

The IAG recommends that:

14. *VI.1 Esso ensure that the standards and practices established during the construction period be fully maintained during the Project's transition to the operational phase.*
15. *The company make sure that old and new contractors and sub-contractors adhere strictly to the EMP, that they collaborate with the CTNSC and that they have constructive relations with the community.*

1.1.1.2 The CTNSC and the *Direction du Pétrole*

16. The *Comité Technique National de Suivi et de Contrôle* (CTNSC) and the *Direction du Pétrole* (Petroleum Directorate - DP) are the two government bodies tasked with monitoring the Project.
17. Monitoring through on-site supervision by the CTNSC will continue for the duration of the Project. Government oversight of the work is an essential task that cannot be replaced by internal monitoring by the EEPIC team or by external monitoring by the External Compliance Monitoring Group (ECMG).

18. Communication between the CTNSC and EEPCI continues to experience a marked improvement and according to both parties, relations are respectful and collaborative.
19. However, the start of production at the Doba oilfields and the inauguration ceremonies organized in October 2003 affected the holding of monthly meetings between the two parties and the preparation of a monthly Project activity report by the oil company. According to the CTNSC, this activity report still lacks adequate data concerning health and waste management issues.
20. Monitoring activities by government agents are still erratic depending on the subjects and use procedures that are too informal, without systematically relying on detailed reports. Esso's follow-up on the observations and recommendations of the CTNSC seems to be sporadic and irregular, whereas it should be systematic and rigorous.
21. The absence of minutes of CTNSC-EEPCI meetings means that the problems and recommendations noted by the government team and the commitments made by the Consortium to follow-up are not recorded anywhere.
22. In addition, the training of agents on site, as provided for in the Petroleum Sector Management Capacity-Building Project, has barely begun. The mid-term Project review, conducted in October 2003, calls for a redefinition of the overall training plan so as to better meet the needs of the on-site supervision team.
23. The *Direction du Pétrole*, which is responsible for monitoring production and flow, holds weekly meetings with Esso, complete with an agenda and minutes. This is where the production calculation issues mentioned below are discussed. The main difficulty cited by the DP is verbal communication since some of the participants only speak or understand one of the two working languages (English or French).

The IAG recommends that:

24. *VI.2 Esso and its contractors, especially those used during the production phase, show due diligence at all times and on a regular basis in meeting with the CTNSC and providing it with the information it needs to perform its site supervision duties.*
25. *VI.3 The CTNSC ensure that the monthly meetings with EEPCI are held on a regular basis, with a formal agenda and minutes reflecting the decisions made.*
26. *The oil company's response to the observations and recommendations of the CTNSC also be formalized and recorded.*
27. *VI.4 An overall training plan for CTNSC agents and experts be put into place as quickly as possible in order to improve their skills and work.*
28. *The training needs expressed by the Direction du Pétrole be addressed, including courses to teach all the monitors to speak fluent English.*

1.1.2 Areas Being Monitored

1.1.2.1 Production

29. The challenge of launching production at the Doba oilfields was met in July 2003, almost one year ahead of the schedule that the Consortium had originally planned.
30. Construction activities continue in the zone with the drilling of oil wells in the three fields at Komé, Miandoum and Bolobo, and the finalization of other permanent, surface infrastructures. The Consortium plans to reach full production capacity at about 250,000 barrels per day in the next few months.
31. At the same time, several issues are still pending concerning the reliability of the production data, the calculation of oil revenues and the terms of coverage for the risks incurred by the Project and the population.
32. Although sales of Chadian oil to the international market have begun, the Government of Chad and EEPCI have a different understanding of the agreement between them in terms of the system for calculating the quantity of oil that Chad produces and exports, which will serve as the basis for calculating royalties and other revenues for the country.
33. The model that EEPCI uses to calculate oil revenues is not up-to-date and the oil company has not provided it to the Chadian party. EEPCI, however, has agreed to open up a position in N'Djamena for an expert specialized in this economic model in January 2004 and to organize training courses in the use of this tool, which Chadian representatives may attend.
34. Finally, the insurance policies for the Project facilities, infrastructures and equipment will serve as the base documents for disputes in the event of a disaster. In such cases, the provisions of these policies will seal the fate of the populations with a potentially greater impact than in other parts of the world where States have more resources than Chad. However, it is not clear that the Government masters the contents of said insurance policies well enough to guarantee adequate compensation for the population, should the occasion arise.

The IAG recommends that:

35. *VI.5 The Government and EEPCI quickly come to an agreement on the function, role and calibration accuracy of the Komé and Kribi meters in calculating the quantities of oil that Chad produces and exports. In any case, EEPCI should check the calibration of said meters and fix any possible defects.*
36. *VI.6 The model used by the oil company to calculate oil revenues be updated quickly and sent to the Government, which is responsible for verifying the calculations and the exact amount of oil revenues it receives.*
37. *With the assistance of the World Bank, and in a suitable timeframe, the Government obtain a model of its own that has been tested and adapted by its agencies.*
38. *VI.7 Finally, the Government, working through the relevant agencies, take special care to ensure that the insurance premiums covering accidental oil spills or other accidents at the Project site are adequate, that the pertinent clauses are written in such a way as to be binding,*

that the procedures and mechanisms for obtaining compensation are accessible and operative and that compensation is paid out in a timely manner.

1.1.2.2 Environment

39. Environmental impacts need to be minimized throughout the duration of construction and production activities. To date, the Project has progressed without any crippling failures and the handling of water and waste management has improved. Continuing efforts must still be made to ensure that the requirements of the Environmental Management Plan (EMP) are fully met and that the plan remains in place for the duration of the production phase.

Water Management

40. An independent inspection of the water quality in the Project zone conducted by the *Institut Pasteur* confirmed the results of the analyses given by the Consortium. It seems that the standards for drinking water quality are being met. However, additional analyses were in progress during the IAG visit to determine whether the Project complies with all the standards set forth in the EMP in this area.
41. The confirmation from the *Institut Pasteur* was welcome news. In order to reassure the population, the information needs to be widely disseminated and the test should be repeated since this is an area of concern manifest since the beginning of the Project.
42. Finally, other studies conducted on water taken from the Nya River, which is used to spray sections of the roads, seem to indicate that this procedure has a negligible impact on the flow of the river and the groundwater table, in accordance with EMP standards.

The IAG recommends that:

43. *VI.8 The Coordination Nationale (National Coordination, or CN) disseminate information about the drinking water analyses in order to reassure the population and ensure that independent tests are conducted on a regular basis.*

Waste Management

44. During its fifth statutory visit, the IAG referred to waste management as the “Achilles heel” of the Project due to the fact that the EMP standards were not being met in this regard.
45. Mission six provided the Group with the opportunity to visit the waste treatment facilities at Komé Base and Komé 5, and to note a clear improvement in waste treatment procedures and infrastructures as compared to the previous situation.
46. However, progress still needs to be made. In particular, the new incinerator for the treatment of hazardous waste is not yet operational.
47. The CTNSC notes recurrent cases of non-compliance with the EMP, especially with respect to anarchic dumping of wood and other waste materials in the quarries without proper supervision, the lack of fencing around the contaminated soil treatment center, the re-injection of waste oil and the burying of cinders without prior authorization from the on-site supervision team.

48. The CTNSC does not always automatically receive the waste treatment manifests from the Project and complains that its requests and recommendations are not given prompt attention.

The IAG recommends that:

49. *VI.9 Esso continue to bring waste treatment measures up to EMP standards, that it activate the hazardous waste incinerator as quickly as possible, that it obtain prior authorization from the CTNSC before proceeding to re-inject waste oil or to bury cinders, and that it enclose the contaminated soil treatment center.*
50. *Esso proceed as quickly as possible to rectify cases of non-compliance with the EMP, as noted by the CTNSC, and describe the measures taken to properly manage waste in detailed and precise reports.*
51. *Esso provide all information on waste management requested by and due to the CTNSC in its activity reports.*

Dust

52. Esso drafted a dust-control plan which identifies the priority roads that will be most used during the production phase and the measures to take accordingly in order to control dust caused by vehicular traffic from the Project.
53. In order to overcome this highly-criticized impact, the plan provides for different dust control techniques such as applying a double layer of gravel on certain sections of the roads, applying molasses, which produced very good test results in the majority of the oilfield development zone, and the use of water spreading techniques. Esso is responsible for the physical upkeep of certain roads and is indisputably responsible for keeping the speed of Project vehicles in check.
54. Esso has submitted its plan to the Government and is awaiting a response to its proposal.

The IAG recommends that:

55. *VI.10 The Government provide a prompt reaction to the Dust Control Plan and come to an agreement with the oil company for the implementation of measures to correct this negative impact of the Project as quickly as possible.*

Drilling Mud

56. The Consortium analysis of the drilling mud shows that it is not toxic. This information puts to rest a concern expressed by various parties, including civil society. That information must now be adequately disseminated.

Soil Reclamation

57. Restoration of the borrow pits used by the Project has begun in some of the zones and a study is underway to assess the fertility of the reclaimed soil along the pipeline route.

58. The CTNSC notes that the reclamation work does not appear to have begun in the oilfield development zone and stresses that it is still waiting to receive the reclamation plan from the oil company.

The IAG recommends that:

59. *VI.11 Esso submit its soil reclamation plan and implement it before oilfield preparation is done prior to the onset of winter.*

60. *The CTNSC certify that drilling mud characteristics meet the EMP requirements and make that information public.*

1.1.2.3 Health and Hygiene

61. The exchange of health and hygiene information between Esso and the CTNSC has improved greatly. However, it would appear that Esso does not automatically report certain diseases affecting the Project workers, especially respiratory illnesses, and that its data does not always match that of the health centers in the zone.

62. The CTNSC drew attention to the poor eating conditions for some of the TCC (Chad-Cameroon Constructors) workers who do not receive adequate cutlery for meals served off base. This situation was previously noted by the ECMG during its eighth visit in May 2003. This is a matter of hygiene and a precaution that is especially sensitive, as numerous cases of diarrhea among the workers have been reported.

The IAG recommends that:

63. *VI.12 Esso verify its health data and take adequate measures as needed to ensure the transparency and precision of the data sent to the CTNSC.*

64. *Esso also require its contractors to comply with the best occupational hygiene and catering practices, even off base.*

1.1.2.4 Community Relations

Security

65. In order to have successful cohabitation between the local populations and the major Project infrastructures, the IAG had previously highlighted the need for the Consortium to develop a modus operandi that respects the population's need for security and trust in their daily lives.

66. The oil company held information and consultation sessions to educate the people about the dangers of some of the infrastructures and to explain what actions to take in order to protect themselves. However, the electric pylons still do not have signs that are comprehensible enough to properly inform the local population, whether children or adults, literate or not.

67. Esso is planning to have these signs drawn by children from the villages in question, but implementation of this commendable initiative has been delayed, which means that the uncertainty and danger for the populations persist.

The IAG recommends that:

68. *VI.13 Esso show due diligence in providing adequate warning signs informing the local population of the potential dangers of some of the Project facilities, and advising them what to do and what not to do.*

Accidental Oil Spills

69. The Area Specific Oil Spill Response Plans (ASOSRP) prepared by Esso pursuant to EMP requirements were the subject of a public awareness campaign with the local populations.

The IAG recommends that:

70. *VI.14 Throughout the Project duration, Esso and the CTNSC periodically ensure that the population is continuing to receive information and that they have access to the necessary means of communication in the event they need to report an oil spill.*

Study on the Enclave Zones

71. Esso commissioned a study on the enclave zones to assess the viability of the living space of some of the families residing near the Project's imposing facilities. The study concluded that the system is viable, but civil society has contested the results. Non-governmental organizations (NGOs) are questioning the methodology used by the consultant who conducted the study.

The IAG recommends that:

72. *VI.15 The NGOs summarize their comments on the enclave zones study and ensure that they are sent to the CTNSC and to Esso, who will take these comments into account in assessing the study and if need be, ask the consultant to make the required corrections.*

Business Opportunities

73. The Project has provided many local business opportunities since construction began. However, as the scope of the work decreases, so will the number of contracts available for local economic operators. The production phase will have fewer, but more regular opportunities.
74. Esso says it ensures that information about the remaining opportunities is systematically posted at the N'Djamena Chamber of Commerce. The company and its contractors have held informational meetings for local economic operators, especially the new contractors, about their activities and the types of contracts available.
75. However, some local operators have reported a lack of follow-up to the informational meetings: certain purchases were announced, but no calls for tenders received and periodic meetings that Esso and its contractors had agreed to hold under the auspices of the CTNSC did not take place.
76. Local authorities complain that they have had no contact with some of the new operators contracted by the Project for the production phase.

The IAG recommends that:

77. *VI.16 Esso and the CTNSC encourage the N'Djamena Chamber of Commerce to rapidly disseminate the information it receives about Project-related business opportunities, especially calls for tenders, to the regional chambers of commerce*
78. *The CTNSC encourage regular dialogue between local economic operators and the Project operators.*
79. *Esso put the new companies contracted by the Project in contact with the local authorities, so as to promote successful long-term cohabitation with the host community.*
80. *Esso also ensure that each contractor appoint a contact person who is qualified to accept applications from Chadian entrepreneurs and to inform them in a positive manner.*

1.2 Other Oil Activities in Chad

81. The Doba Project, which is the first successful oil project in Chad, is probably only the first in a series of similar projects that will surface in this country. Chad will need to equip itself with the appropriate regulatory and legal instruments required to oversee these oil projects.
82. For the time being, EEPCL is pursuing exploration and new developments within the limits of its current H permit. In this case, the company is applying the same compensation system as that stipulated in the EMP for the Doba Project.
83. This permit expires in February 2004 and the Consortium and the Government are currently negotiating its possible renewal.
84. Other oil companies such as Encana International (Chad) Ltd. (EnCana) are also conducting exploration activities in the H permit sectors abandoned by EEPCL. EnCana has resolutely stated that for the time being it is complying with the EMP for the Doba Project and applying the same compensation scheme as EEPCL. However, the Government is not monitoring its activities at this exploration stage.
85. The Petroleum Ministry, the interlocutor for all the oil companies in the country, does not appear to be monitoring or following the activities of these companies during the exploration phase.
86. In the absence of regulations and a government presence, the population and the NGOs do not know how to approach cases of legal troubles, damages or disputes.
87. The CTNSC, under the aegis of the Environmental Ministry, is authorized to monitor the environmental aspects of all petroleum projects in Chad. However, its current budget only allows it to take action in the context of the Doba Project and its activities elsewhere apparently will not officially start until the environmental impact study review stage is reached.

The IAG recommends that:

88. *VI.17 The Oil Code be updated so as to establish a legal system governing all oil-related activities in the country starting with the fiscal and regulatory terms of exploration, in order to prevent a de facto or de jure legal void.*

89. *The Doba Project experience lead to the consolidation or at least the improvement of the procedures, consultations and compensations applicable to oil developers in the future*

2. REGIONAL AND LOCAL DEVELOPMENT

90. There are many interventions that aim to make the oil region better prepared to benefit from the spin-offs of the Doba Project. These programs are progressing with mixed success. All of them are important. More specifically, they include the Regional Development Plan (RDP), development projects, implementation of so-called “emergency measure” projects, decentralization and dialogue structure.

2.1 Regional Development

2.1.1 Regional Development Plan and Regional Environmental Assessment

91. The interim versions of the Regional Development Plan and the Regional Environmental Assessment (RDP/REA) for the oil zone were submitted by the consultant in September 2003. These plans were then subject to technical and public consultations in order to gather as many comments as possible to incorporate into the final versions of the two documents.
92. The group of consultants in charge of drafting the RDP and the REA used a participatory approach, which greatly involved the Ad Hoc RDP Reflection Committee. This approach was unanimously applauded.
93. Overall, the Chadian government feels that the contents of the two reports presented by the group of consultants are weak and do not meet its expectations. The CTNSC asked the consultant to provide an overall revised version of the two reports “particularly with respect to the development philosophy and the proposed actions” (CTNSC, November 2003).
94. Criticism of the RDP seems to focus primarily on the need to complete the analytical chapters and to integrate a strategic vision of the potential areas for development in the region. The proposal to create a new structure to execute or oversee the plan instead of elected or appointed officials was generally not well received. The Plan should be seen as an evolving work tool.

The IAG recommends that:

95. *VI.18 The CTNSC and the consultant communicate and agree on an approach for completing the preparation of the RDP and the REA within a reasonable amount of time.*
96. *The consultant conclude his work on the RDP and the REA taking into account the specific comments from the CTNSC on the interim versions of the two documents and those received during public consultations.*
97. *The REA be revised so as to meet the requirements of the World Bank Inspection Panel.*
98. *The WB and the CTNSC rigorously monitor the work of the consultant in order to guarantee that the documents, which have already been delayed numerous times, are finalized promptly.*

2.1.2 Development Projects

99. Several programs and projects linked in various ways to the Doba Project are contributing to the development of the oil zone. The results are promising. Diligent follow-up and in some cases, special support, are essential if these projects are to survive in the long term.

2.1.2.1 Improved Agriculture Program (Esso-ORT)

100. The Improved Agriculture Program proposed by Esso and implemented by the non-governmental organization ORT (Organisation for Rehabilitation and Training, International), is one option offered to individuals who are eligible for resettlement by the Project due to partial occupation of their land. This program teaches the beneficiaries improved and accessible agricultural production techniques so that they can obtain a higher yield on the unoccupied portion of their land.
101. The results of this program are promising and changes in agricultural techniques can be observed in some of the villages in the oil zone. New, market garden produce is being developed, which is helping to diversify the population's diet and the local economy.
102. However, this initiative is still fragile. The farmers need support and easier access to credit in order to implement the techniques they have learned. Also, the fact that Esso funds this initiative on a yearly basis makes it difficult to plan training and capacity-building programs over a secure period of several years.

The IAG recommends that:

103. *VI.19 Given the fragility of the results obtained thus far and the growing number of participants in the Improved Agriculture Program, Esso ensure that funds for this program are secure in future budgets, in order to prevent interruptions in the program before the beneficiaries are autonomous enough to perpetuate the experience.*

2.1.2.2 Community Compensation Program (Esso-GTZ)

104. Construction of the infrastructures chosen under the Community Compensation Program (CCP) has begun. GTZ (German cooperation agency) has been selected to implement the program and is working with five local NGOs to do so. This team provided the community recipients with information on the work schedule. At the time of the IAG mission, only 2 of the 86 communities that were participating in the CCP had not yet identified a project that was in keeping with the budget they were given.
105. The work that has already been completed is grounds for satisfaction. Local entrepreneurs contracted to perform this work are closely supervised by the CCP team and all the infrastructures chosen by the recipient populations should be completed by September 2004. By their very nature, these projects (schools, elevated water tanks, granaries, wells, etc.) will contribute to local and regional community development.
106. GTZ and its local partners are also establishing committees to manage the infrastructures based on a participatory approach that prepares the local population to make choices and to manage future development projects.

The IAG recommends that:

107. *VI.20 The Government evaluate the CCP experience and capitalize on the success of this program in order to conduct other infrastructure projects in a satisfactory manner.*

2.1.2.3 *Fonds d'Actions Concertées d'Initiatives Locales - FACIL*

108. FACIL (Local Initiatives Development Fund) activities continue in the following areas: construction of grassroots socio-economic infrastructures, capacity-building and local development, and income-generating activities (loans), and are producing promising results. Loans have been granted by financial intermediaries, various infrastructures have been completed or are in progress and six training courses have already been conducted.
109. There is one problem with two of FACIL's financial intermediaries who granted loans for a grains campaign without first conducting a feasibility study. Due to a sharp decline in grain prices, the beneficiaries are unable to repay the loan as per the planned payment schedule and have expressed their intent to seek a moratorium.
110. Despite improvements to the situation, FACIL stresses that it continues to face cash flow problems due to insufficient working capital and sometimes delayed replenishment of its account. The Fund acknowledges that some payments due its suppliers have been delayed. However, in the context of the mid-term review of the Petroleum Sector Management Capacity-Building Project conducted in October 2003, the World Bank and the Government agreed to set up a second generation special FACIL account, which was to be funded in accordance with the needs assessed when the Fund's activities began.
111. Currently, FACIL is reflecting on its institutional future: many of its interventions point to a national program of local initiatives.

The IAG recommends that:

112. *VI.21 The second generation special FACIL account be set up as quickly as possible and take into consideration the specific needs of the Fund in order to allow FACIL to conduct its activities without interruption or falling behind on its payments.*
113. *VI.22 FACIL proceed to evaluate the first potential bad loans granted by two of its financial intermediaries. It should then learn from this experience and modify its procedures in order to prevent such situations in the future.*
114. *VI.23 The CN and FACIL continue thinking about the institutional future of FACIL and assess the pertinence of expanding it to the national level by integrating it into PROADEL (Local Development Program Support Project).*

2.1.2.4 Initiative to Promote Small and Medium-sized Businesses (IFC/Africare)

115. In conjunction with the Doba Project, the International Finance Corporation (IFC) is sponsoring a project designed to support small and medium-sized businesses so as to equip them to participate in the growing economic activities created by the oil project in the country, particularly in the oil production zone.

116. The financial institution launched pilot projects to create agri-food companies in the oil zone that were then implemented by an NGO known as Africare. The two organizations support the establishment of fish farming, the production of pork, beef, eggs and other products as well as the development of market gardening and arboriculture, and they provide training to local entrepreneurs. The results in the field are very promising. The proposed changes will open up new market opportunities for farmers in the region.
117. The projects that the IFC is supporting, which are innovative for this institution and extremely demanding in terms of time and resources, represent an approach that seems to be suited to the needs of Chad. They have a direct impact on the well being of the population. The positive results, however, should not overshadow the fragility of these projects, which still need financial support and supervision in order to be sustainable. The premature disappearance of these projects for lack of support would only fuel cynicism.
118. Although the petroleum project is the most spectacular, development will come primarily through development of the agricultural industry, supported by the oil revenues and the resources coming in various forms from Chad's international partners.

The IAG recommends that:

119. *VI.24 Regardless of its future plans for developing the small and medium-sized business sector, the IFC continue to provide unwavering financial and human support to the projects that have been put into place, in order to ensure their long-term survival and to serve as an example of local private sector development.*

2.1.3 Emergency Measures

120. Despite the fact that the CTNSC has recruited someone to be in charge of emergency preparedness as well as the continued construction work and infrastructure rehabilitation in the oil zone, implementation of the emergency measures provided for in the Petroleum Sector Management Capacity-Building Project has been delayed and has greatly exceeded the budget, as noted in the mid-term review in October 2003.
121. The financial analysis conducted during the review identified a need for additional funding to the tune of several million US dollars in order to implement fully the initial emergency measures and the other capacity-building activities under the project. The World Bank is only willing to finance part of this additional budget.
122. Some of the additional emergency measures, which were identified subsequent to beginning the project, have not yet been implemented and are now being questioned. Failure to implement them may lead to incomprehension and deception on the part of the people because although the WB and the CTNSC have not yet secured funding, they nevertheless highly publicized these measures in the various villages, which is tantamount to making a moral commitment vis-à-vis the population that cannot be ignored.
123. At the end of December 2003, discussions were in progress between the World Bank and the Chadian government to clarify the readjustments to the IDA (International Development Association) credit agreement supporting the capacity-building project. Thus the new guidelines for the emergency measures program must still be confirmed, as does the required funding extension.

The IAG recommends that:

124. *VI.25 The readjustment of the IDA credit agreement for the Petroleum Sector Management Capacity-Building Project take into account the moral commitment made by the WB and the Government to the populations in the oil zone. The infrastructures that have an impact on public health and safety are still fully justified because they meet urgent needs that must be fulfilled in a region that henceforth will serve as a showcase for the petroleum project and for Chad.*
125. *VI.26 The CTNSC take the necessary steps to monitor the construction and infrastructure rehabilitation work performed by local entrepreneurs on a more regular basis and with authority and determination, so as to decrease or even prevent regular budget overspending.*

2.2 Local Governance

2.2.1 Decentralization

126. The time limit for setting up local governments as a result of administrative decentralization was modified by a Constitutional amendment. Commune elections are now scheduled to be held in the *chef lieux* (administrative centers) of departments during the first quarter of 2004. Departmental and regional elections will then be held progressively until 2006 so as not to over schedule the electoral calendar.
127. During the same period, the newly elected officials will be installed and the Government will have to provide them with the resources required to operate and fulfill their tasks.
128. Given this new electoral calendar, the decentralized local governments that are to manage the oil revenues specifically allocated to the oil-producing region (5%) will not be in place for 2 years. This is especially true as the base level for rural communities has not yet been defined in the redistribution of the electoral map.
129. In the meantime, a decree has been issued on establishing provisional modalities for managing the petroleum royalties allocated to the oil-producing region. This decree calls for the funds in question to be deposited into an account at the *Banque des États de l'Afrique Centrale* (Bank of Central African States, or BEAC) on behalf of the oil-producing region.
130. The Ministry of Decentralization has started to think about creating training modules that would be provided to the local elected officials so as to enable them to take over managing the 5% of oil revenues.

The IAG recommends that:

131. *VI.27 The Government diligently and methodically continue the decentralization process, which will give a voice to the urban and rural communities and the regions in choosing their leaders and in the management of their affairs in the matters that will be transferred by the Government. The election of local governments is particularly urgent so that they can use the 5% of the revenues that are allocated to them.*

2.2.2 Devolution

132. The regional delegates working in the oil region continue to be disconnected from their central offices and the Project. Meetings with Project representatives that the CTNSC was supposed to facilitate have not occurred and they do not receive information from Esso or its contractors.
133. The CTNSC and Esso again promised to rectify this problem by establishing regular communication with the regional delegates so as to include them in the Project. One can only hope that they will actually do it this time.

The IAG recommends that:

134. *VI.28 The Government take care to better inform and involve the decentralized government agencies in the Project zone. The CTNSC should follow through on its plan to organize a site visit for regional delegates and to periodically send them pertinent information on the Project.*

2.2.3 Consultation/Dialogue

135. The RDP was drafted through a largely participatory process that involved the Ad Hoc Committee. This dynamic, which was applauded by all, showed that it is possible to build a consensual framework for dialogue around the Project. It triggered thought on all levels and civil society proposed to continue the experience in the form of a network based on reflection and information for development. The World Bank has agreed to support the process since the Petroleum Sector Management Capacity-Building project also targets civil society in the oil region.
136. Civil society organizations and the *Coordination Nationale* have agreed on the principle of holding a national workshop to brainstorm ideas for establishing a permanent national framework for dialogue.
137. The consensus that was reached with the Ad Hoc Committee in terms of preparing the RDP simply needs to be broadened in order to establish this dialogue that the various stakeholders have long wanted to implement.

The IAG recommends that:

138. *VI.29 The Coordination Nationale and the civil society organizations organize themselves so as to capitalize on the process set in motion by the RDP and to establish a permanent framework for national dialogue on the Project that would also involve the Consortium, the economic operators, labor unions and various government representatives.*
139. *That a national workshop on the establishment of this permanent framework for dialogue on the Doba Project, as agreed to by the CN and the NGOs, be prepared and organized as quickly as possible in order to take advantage of the growing trust among the parties.*
140. *The Government, with backing from the World Bank, support civil society capacity-building in the oil-producing zone.*

2.2.4 Security

141. The IAG's partners in the region reported a fresh outbreak of violence, and especially a growing presence of "Roadside Bandits." A noticeable percentage of these incidents have ended in murder. This seems to be attributable to at least two factors. The first is the lack of opportunities for demobilized workers. An increasing number of people who are skilled in a trade and who are used to a certain level of earnings, now find themselves out of work with very little hope of finding another job that pays a comparable wage, or of even being retrained in another field.
142. A study on the demobilization and reintegration of workers from the petroleum project conducted under the aegis of the CTNSC did not shed any useful light on the issue for lack of quality.
143. The other factor is the regional legal system's inability to take the necessary measures (arrests, trials, convictions) and the situation in the Doba prison, where it is so easy to escape that the prisoners are thought of as voluntary residents. Indeed, a few days before the IAG visit, 66 prisoners, several of whom had been convicted for murder, had escaped.
144. This growing feeling of insecurity is undermining the foundations of regional development and warrants the Government's full attention.

The IAG recommends that:

145. *VI.30 The Coordination Nationale and the CTNSC seek a host of measures that will better facilitate the re-entry of workers from the construction phase into the labor market.*
146. *VI.31 For their part, the CTNSC and the Government of Chad give greater priority to normalizing the situation of the Doba court and prison, in the wake of the Estates-General on Justice, either with or without World Bank assistance.*

3. NATIONAL DEVELOPMENT

3.1 Overall Strategy: Poverty Reduction

147. The National Poverty Reduction Strategy (NPRS) is a basic working instrument for Chad that combines a series of objectives and means for reducing poverty and ultimately, improving the well-being of the population. This document is at the heart of all government strategies. It should guide the activities of any party in the country involved in development, especially the Government in its essential tasks of preparing the budget and allocating resources.
148. In addition to a national steering committee under the Ministry of Planning, regional committees chaired by the Governors from the 17 regions of the country are already in place. Next to come are local committees in charge of implementing the NPRS.
149. At the same time, the technical services of the sectorial ministries will provide systematic oversight of this implementation. They will have a recently finalized list of poverty reduction indicators on which to base themselves.

150. The Government's 2004 budget was the first framework to set out the Strategy, but the distribution of funds to the various ministries did not correspond to the priorities of the NPRS as well as could be hoped and the coordinating body for the NPRS was not even included in the budget preparations for fiscal year 2004.
151. *VI.32 The NPRS steering committee, the agent of this fundamental instrument of government policy, can play a prominent role in preparing the budget and allocating resources. The IAG recommends that the Minister of Economy and Finance take the necessary measures to enable the steering committee to play this role in preparing the 2005 budget.*

3.2 High Stakes: Managing Oil Revenues

152. Implementing measures for managing the revenues and expenditures is the number one priority because oil is already flowing, some sales have already been made and when the Group visited in December 2003, the first oil revenues were just starting to trickle in.
153. Much work was done in 2003 to prepare the government agencies in charge of managing and overseeing the revenues for this deadline. However, not all the delays have been caught up and this must be done. The use of oil revenues for national development implies proper management of the revenues and efficient expenditure of the funds, according to the country's priorities as adopted in the National Poverty Reduction Strategy.
154. This involves the central coordination ministries, the ministries in charge of the priority sectors designated in law no. 001/PR/99, regulatory and oversight agencies and international partners. All must focus as a top priority on the actions required to ensure that essential actions are taken no later than 2004.

3.2.1 Central Ministries

155. The absence of the Minister of Economy and Finance and the impossibility of meeting with senior Ministry officials prevented the IAG from gaining an overall perspective on the 2004 national budget and the readiness of Treasury mechanisms to manage the oil revenues. Consequently, the IAG is expressing its observations and recommendations subject to this lack of information and on the basis of meetings with other actors.
156. Clearly, there is awareness among the Government of the strategic nature of expenditure cycles. More of the information requested from the Consortium is being obtained, thanks in part to the Inter-Ministerial Committee, which was established to ensure proper transmission of oil data to the concerned government agencies. Moreover, Chad has developed macro-economic positioning abilities that its partners applaud.
157. The training and recruitment of economists and specialists in the context of the GEEP Project (Management of the Petroleum Economy Project) is underway. However, not only did these activities begin late in the game (as emphasized from the IAG's very first missions), but civil servants have still not been recruited and trained in sufficient numbers to ensure proper handling of the cases.

158. The budget cycle, forecasts, income, liabilities and expenditures are not well understood in terms of the individual components, the relationship between these various components, planning and computerized procedures.
159. The Survey of Household Budgets, which was slated for completion in December 2003, has been delayed. This survey will provide important information for updating the National Poverty Reduction Strategy and serve as the statistical basis supporting the NPRS and the sector development programs.
160. The organizational and institutional audit of the nine pilot departments, conducted under the Public Service and the Planning Ministries with support from Project GEEP, has identified some of the weaknesses of public administration: institutional conflicts, inadequate communications between central and sectorial departments and deficiencies internal to individual audited departments.
161. The role played by the *Inspection Générale des Finances* (Inspectorate General for Finances) in overseeing implementation of the 2002 budget highlighted the shortcomings in transparent and rational management of public money. These weaknesses are also seen in the expenditure circuit at the Ministry of Economy and Finance and in the management of funds and equipment in the various ministerial departments that were monitored.

The IAG recommends that:

162. *VI.33 Given the urgency of the situation, the Government step up efforts to implement management tools, and in particular, give priority to the recruitment and training of agents needed to ensure proper management of both oil revenues and all other revenues in terms of income, expenditures and cash flow.*
163. *The Government use an operational plan of action to learn from the organizational and institutional audit of the pilot ministries and from the audit of the 2002 budget conducted by the Inspection Générale des Finances.*
164. *The Government activate the current Survey of Household Budgets so as to update the NPRS and to support the priority sector programs.*

3.2.2 Priority Ministries

165. Nearly all the ministries in charge of the priority sectors prepared a three-year program budget (2003-2006) to set medium-term goals for their programs. In addition, each ministry had ambitious spending projects for the year 2004. With the exception of Public Works, nearly all the ministries were disappointed by the portion allocated to them from the oil revenues. Indeed, in some cases it is not even certain that the 2004 budget will represent a net increase over previous budgets in terms of the percentage of overall budget.
166. The allocation of oil revenues in the 2004 budget prioritizes the building of major highways at the expense of investment in education, health and rural hydraulics. The ability to spend the money was a legitimate, even necessary factor that weighed heavily in favor of Public Works. The latter, which only recently inherited responsibility for rural roads, intends to draw up a strategic plan before investing. Yet the need to provide access for farmers, especially cotton farmers, is blatant and should, at the very least, have warranted emergency measures.

167. It is therefore uncertain whether this first budget in the petroleum era will produce the local economic spin-offs and the social benefits that it might have. This should be a signal for all the priority ministries to refine their budget requests and ensure that they are capable of properly spending the money from now until the preparation of the 2005 budget. It also indicates that the NPRS Steering Committee has a role to play in these preparations in testing whether or not the annual budget is consistent with the strategy outlined in the NPRS's objectives.

The IAG recommends that:

168. *VI.34 The ministries responsible for priority sectors learn from the experience in 2004 – the importance of submitting plans that provide concrete details of their impact on the well-being of the populations, and demonstrate their capacity to achieve them for the 2005 budget.*
169. *Recruitment and training continue with special emphasis on capacity building in fund management, contract performance and program design and implementation. The Civil Service Ministry should recruit and train supervisory staff and assign them to the priority ministries, since the Government has already held negotiations with the IMF for special quotas to facilitate this recruitment.*
170. *The Ministry of Public Works speed up its needs assessment for rural roads and be ready to invest without delay where the needs are the most obvious.*

3.2.3 Regulatory and Oversight Bodies

171. The ***Direction Générale des Marchés Publics*** (Government Procurements Directorate, or DGMP) was given a virtually new start after a large number of its officers were replaced and a new Procurement Code was promulgated in December 2003. The Code must now be put into effect through an implementing decree. One of the important changes brought by the new Code is to disperse the functions of the DGMP in each ministry whilst geographically de-centralizing it by setting up regional procurement review committees. The main role of the DGMP will henceforth be to regulate, oversee and verify contracts signed by the disbursing ministries.

The IAG recommends that:

172. *VI.35 The Government adopt the implementing decrees as quickly as possible to allow the new legislation on public procurement to be up and running by 2004.*
173. The ***Collège de Contrôle et de Surveillance des Ressources Pétrolières*** (Oil Resources Control and Monitoring Group, or CCSRP) now has the staff, equipment and offices required to do its work. It has recruited, among others, procurement officers and two macro-economists to help it develop an overall perspective on the consequences of budget choices and its interventions. After several drafts, the Procedure Manual is finally ready and should be adopted and implemented without delay.
174. Now that the oil revenues have started flowing in, the CCSRP says it is ready to do its work and process the numerous cases relating to resource allocation and projects that will be streaming in early in 2004. It has everything to gain from focusing its efforts on achieving greater transparency in selecting government contractors and providing trustworthy and reasonable advice on the level of quality and efficiency of work required.

The IAG recommends that:

175. *VI.36 The CCSRP see the year 2004 as a crucial test of its credibility. To guarantee its success, it has everything to gain from focusing its work on its key responsibility: to ensure that resources go to eligible projects, for which the supplies, services and work have been awarded in a transparent manner and carried out efficiently, with appropriate controls either before or after project completion.*
176. The **Coordination Nationale** (National Coordination, or CN) carried out its role commendably during the construction phase and established itself as a credible and valid State representative on the Doba Project. The end of the construction phase does not lessen its responsibilities, at least for the moment. It still has a number of important tasks to achieve:
- Conduct phase two of the mid-term review for the Petroleum Sector Management Capacity-Building project in January 2004. This phase will complete the budget review and decide on outstanding projects, in particular construction projects related to the “emergency measures”;
 - Ensure that preparations for the RDP and REA move forward and reach a productive conclusion;
 - See that an assessment is made of the socio-economic and environmental impacts of the construction phase to serve as a reference point to prepare for the future;
 - Take advantage of headway made recently in the dialogue between various partners, which was particularly evident during the preparation for the RDP, in order to set up a permanent structure for dialogue for all the actors involved in the project;
 - Ensure that activities designed to build oil sector management capacities continue by focusing on training the CTNSC and DP teams.
177. The CN can also play the role of facilitator in speeding up the preparation and implementation of legislative tools that are essential to the sound future management of the petroleum sector. These include the legislative measures required to give driving force to the PNIDAH (National Oil Spill Intervention Plan), the modernization and adoption of a new Oil Code and the adoption of the implementing decrees for the Environment Law (Law 14).
178. At the same time, the CN is also reflecting on the future of this institution in a country where oil activities are likely to continue.

The IAG recommends that:

179. *VI.37 The CN use its influence in a number of key projects to improve the conditions and atmosphere at the start of the production phase. In particular, it is encouraged to set up mechanisms that lead to a useful assessment of the construction phase and a permanent dialogue during the production phase.*

3.2.4 International Partners

180. The World Bank and the IMF play a crucial role in allocating external resources to Chad during this pivotal phase in its economy. The resolution of a number of pending cases will have a long-term influence on the development of the country.
181. At this stage, the World Bank is focusing on the mid-term review of the Petroleum Sector Management Capacity-Building Project and the decisions to be made on the so-called “emergency measure” projects, whose visibility has made the consequences of oil production into a local symbol. The WB is also paying close attention to the decisions required in terms of prolonging the training programs under this same project and the GEEP, support for a definitive strategy to supply electricity to the capital and a medium-term strategy for energy development in a country that will otherwise be condemned to see its energy exported while it is not able to light its own streets. Finally, it is interested in contributing to decisions that will resolve CotonTchad situation once and for all. [See below for details on the last two issues].
182. For the IMF, its task is to finally reach positive conclusions on the review of the economic and financial program, so as to avoid jeopardizing the numerous efforts made by Chad and its partners to reform its economy and reduce the poverty of its population.

The IAG recommends that:

183. *VI.38 The World Bank ensure that its examination of the training programs results in the continued support needed to avoid any rupture in funding and to perpetuate the programs.*
184. *VI.39 The Government and the IMF reach agreement to complete the review of the economic and financial program as soon as possible, given that its final decision conditions other external funding that is crucial for Chad at this juncture.*

3.3 General Context: Sectors in Difficulty

185. The Petroleum Project should not overshadow the crucial challenges that Chad faces for national development. On the contrary, the economic dynamism that it injects into the country should be used as a lever to reinforce those sectors that will ensure the country’s long-term development, sectors which are currently in an unfortunate state of acute and prolonged crisis.

3.3.1 Privatization of the Cotton Industry

186. Chad’s economy is above all agricultural. Yet the cotton industry, for many years one of the country’s main sources of revenue that provided a living for some 2.5 million Chadians, is facing hard times. The situation has led to the implementation of a process to privatize CotonTchad. The first stage was the privatization of the oil mill and soap factory. Stage two will concern the gear assembly plants. At the same time, several scenarios for State withdrawal have been envisioned and an inter-ministerial committee is currently examining these. State withdrawal is planned for the end of 2005.
187. The cotton industry faces a wealth of problems, including poor production yields, reduction in the amount of land farmed by small farmers who are losing faith, the ill-maintenance of rural roads, the inability of research to produce new, more profitable seeds and difficulty in financing the next growing season.

188. However, there is one encouraging sign. The 2004 Finance Act, which was being finalized at the end of 2003, will provide tax exemptions for farm inputs and machinery. This would allow farmers better access to higher-performance production tools. Yet lasting solutions are still far off.

The IAG recommends that:

189. *VI.40 The Government and the World Bank, which is managing the privatization process of the State industry, agree on a definitive program to rehabilitate and develop the cotton sector, after due consultation with the cotton producers, notwithstanding the external problems linked to non-competitive practices of Europe and the United States.*

3.3.2 Agronomic Research

190. Research carried out in any country should enable it to identify the specific tools it needs to contribute to its own development. In an agricultural-based country such as Chad, agronomic research is a basic instrument with which to guarantee and increase production.

191. The *Institut Tchadien de Recherche Agricole pour le Développement* (Chadian Institute of Agricultural Research for Development, or ITRAD), in particular its office in the Bébédjia oil region, is experiencing a funding shortage that is preventing it from fulfilling its mandate. Money provided by the State and international donors barely covers the wages of the Institute's employees or its basic operating costs. The meager amount from national budgets only adds to the precariousness of externally funded programs.

192. The extension of agronomic services is one of ITRAD's functions and is indispensable to the development of this sector, which remains key to the country's future.

The IAG recommends that:

193. VI.41 For the long-term development of Chadian agriculture, the Government should:
- *Encourage and promote the potential of ITRAD through funding, allowing for free and productive scientific research;*
 - *Remedy the current destitute state of research and turn it into an instrument of the RDP for the development of local agriculture.*

194. *The IAG invites international donors to support this initiative that will breathe new life into agricultural development in the country. Considerable backing is needed to compensate for the progressive exhaustion of the country's fossil resources.*

3.3.3 Energy Crisis

195. Chad faces the doubly paradoxical situation of being an oil producer with an energy crisis and of being one of the poorest countries in the world where electricity costs are among the highest. This state of affairs is undermining the survival and development of the country, starting with the capital.

196. The problem lies in the outdated and dilapidated state of what little equipment is available and in the inflated price of fuel used to operate the electrification infrastructures in place.

197. The Government and the World Bank are working to resolve the problem of the lack of availability and access to energy sources through the Essential Water and Electricity Services Rehabilitation Project, funded by an IDA credit. After this, they will be looking at ways of bringing down the cost of electricity.
198. One option being considered is to use oil from Doba and Sédigui to supply an electrical power station in Farcha (near N'Djamena). However, this would not happen before 2005 given the amount of work needed to get this station up and running.
199. The short-term urgency is to renovate the existing infrastructures and buy generators. For the longer term, building and activating the Farcha power station would offer a permanent solution.
200. However, these measures only concern the capital. The Government will also have to consider the electrification of other cities in the country, followed by the rural areas. This is a prerequisite for the long-term development of Chad and is one of the targets of the National Poverty Reduction Strategy.

The IAG recommends that:

201. *VI.42 The Government, with the support of the World Bank, continue to prioritize the renovation of essential electricity services to ensure an adequate supply to the capital and the country's main cities. It should persist in developing medium-term strategies to increase the availability of, and access to electricity, and reduce the costs.*

CONCLUSION

202. Many activities have been undertaken in Chad since the start of the Doba Project.
203. The physical facilities were constructed quickly, allowing the Project to begin operating one year ahead of schedule. In the meantime, Chad began developing the institutions, mechanisms and human resources required to manage its new economy. It also had to invest in tackling poverty and improving the well being of its population, and honor the commitments it made at the launch of the Project.
204. Much has already been achieved in these areas, which by their very nature cannot be rushed at the same pace as a pipeline. The coordinating and supervisory bodies have managed to function in spite of their weaknesses, and have contributed to ensuring the installation of the petroleum facilities.
205. The institutions in charge of the management, oversight and expenditure of oil revenues are in place and the personnel have been trained. However, things are far from ready. The budget cycle procedures have not yet been mastered, and the capacity of the monitoring agents to process all incoming cases has not been tested. In many instances, there is still a shortage of qualified staff.
206. That said, after this three-and-a-half year sprint, there is still the risk – and the feeling – that people may be running out of steam. Requests continue to pour in, and it is therefore important that all the actors continue to focus on their key tasks.
207. Chad hailed this project as a “development project”. In this spirit, the arrival of the first revenues constitutes a test to ensure that the money is managed in a transparent fashion for the lasting benefit of populations across the country, and with respect for justice and individual safety.
208. Understandably, the first years of the Project were a race against time owing to the imperatives of construction. The years ahead must bear the hallmark of quality, both in words and deeds, and respond better to the legitimate expectations of populations, bringing continuous and genuine improvements to their living conditions.
209. In the light of this, the fertile vision of the country’s leaders must be combined with an efficient, much-improved administration, a dynamic citizenry and the continued support of the international partners, all as harmoniously as possible and in consultation and partnership, in order to achieve measurable progress across the whole of Chad.

ACKNOWLEDGMENTS

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

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

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

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

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

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Appendix 1

Chronology of Meetings

Saturday, December 6, 2003 – N’Djamena

- IAG internal working session (Cameroon report)

Sunday, December 7, 2003 – N’Djamena

- IAG internal working session (Cameroon report)

Monday, December 8, 2003 – N’Djamena

- The Prime Minister
- Working session on oil revenues with representatives of the following administrations: *Direction du Pétrole, Direction Générale du Budget, Direction des Impôts et des Taxes, Trésor, Institut National de la Statistique, Cellule Économique*
- World Bank, IMF and IFC

Tuesday, December 9, 2003 – Komé

- Team 1:
 - o Esso Chad EMP socio-economic team
 - o Komé Atan¹
- Team 2:
 - o Gathering station of Miandoum
 - o Komé Base: Waste management facilities
 - o Komé 5: Waste management facilities
- EEPCI: construction and operations teams

Wednesday, December 10, 2003 – Moundou¹

- CotonTchad
- General Secretary of Moundou
- GTZ and local partners
- Regional delegates of Western Logone
- Chamber of Commerce of Moundou and local economic operators
- CPPL

Thursday, December 11, 2003 – Bébédjia – Doba – Komé

- Team 1: Bébédjia¹
 - o ITRAD
 - o Sub-Prefect of Bébédjia
 - o Damndja village (on the way from Bébédjia to Komé)
- Team 2: Doba
 - o General Secretary of Doba
 - o Tribunal and prison
 - o Projects supported by the IFC: henhouse, fish breeding²
- Komé 5: IAG internal working session

¹ IAG accompanied by the Site Supervision of the CTNSC

² IAG accompanied by Africare

Friday, December 12, 2003 – Komé – N'Djamena

Komé:

- FACIL: Technical Management Group
- CTNSC: Site Supervision
- DP: Site Supervision

N'Djaména:

- Ministre de la Santé Publique

Saturday, December 13, 2003 – N'Djamena

- EEPCI-TOTCO
- Encana International (Chad) Ltd.

Sunday, December 14, 2003 – N'Djamena

- IAG internal working session

Monday, December 15, 2003 – N'Djamena

- Ministre du Plan, du Développement et de la Coopération
- Ministre de la Décentralisation

Tuesday, December 16, 2003 – N'Djamena

- Coordination Nationale
- Ministère de la Santé Publique
- Ministre des Travaux Publics et des Transports
- WB

Wednesday, December 17, 2003 – N'Djamena

- Ministre de l'Énergie et des Mines
- Ministre de l'Enseignement Supérieur, de la Recherche Scientifique et de la Formation Professionnelle + Secrétaire Général du Ministère de l'Éducation Nationale
- Ministère de l'Environnement et de l'Eau
- Direction Générale des Marchés Publics
- Ministre du Pétrole
- Ministre de l'Agriculture
- Steering Committee of the NPRS

Thursday, December 18, 2003 – N'Djamena

- CCSRP
- Diplomatic Corps and Donors
- Ministère de la Justice
- Working session: WB, EEPCI-TOTCO, CN

Friday, December 19, 2003 – N'Djamena

- IAG internal working session
- Debriefing session (CN, CTNSC, DP, WB, IMF, IFC, EEPCI-TOTCO, Cellule Économique, NGOs, Civil society, CCSRP)

Saturday, December 20, 2003 – N'Djamena

- IAG internal working session

Appendix 2 Abbreviations and Acronyms

ASOSRP	Area Specific Oil Spill Response Plan
BEAC	<i>Banque des États de l'Afrique Centrale</i> / Bank of Central African States
CCP	Community Compensation Program
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
CPPL	<i>Commission Permanente Pétrole Locale</i> / Local Standing Committee on Oil
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> National Technical Committee for Monitoring and Control
DGMP	<i>Direction Générale des Marchés Publics</i> / Government Procurements Directorate
DP	<i>Direction du Pétrole</i> / Petroleum Directorate
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Inc.
EMP	Environmental Management Plan
FACIL	<i>Fonds d'Actions Concertées d'Initiatives Locales</i> / Local Initiatives Development Fund
GEEP	Management of the Petroleum Economy Project
GTZ	Gesellschaft für Technische Zusammenarbeit (german cooperation)
IAG	International Advisory Group
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ITRAD	<i>Institut Tchadien de Recherche Agricole pour le Développement</i>
NGO	Non Governmental Organisation
NPRS	National Poverty Reduction Strategy
ORT	Organisation for Rehabilitation and Training - International
PNIDAH	National Oil Spill Intervention Plan
PROADEL	Local Development Program Support Project
RDP	Regional Development Plan
REA	Regional Environmental Assessment
TCC	Tchad-Cameroun Constructors
TOTCO	Tchad Oil Transportation Company
WB	World Bank