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Chad-Cameroon Petroleum Development and Pipeline Project

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EXECUTIVE SUMMARY

This report provides an account of the International Advisory Group's (IAG) thirteenth statutory visit to Chad from November 11-28 and to Cameroon from November 25 to December 1, 2007.

CHAD

The **context** of the mission in Chad was marked by hopes for restoration of peace in the country following the signing of a political agreement with the democratic opposition in August and peace agreements with the main rebel movements in October. These hopes were dashed, however, when some of the rebel groups took up arms again at the end of November.

Nonetheless, even though the priority on restoring peace and security may end up overshadowing all other considerations, efficient and prudent management of the country's resources is still vitally important to ensuring sustainable development.

Preparing the 2008 budget and finalizing the NPRS-2 were top concerns on the economic and financial level since both processes have fallen behind their legal and contractual schedules.

The **main objectives** of this mission were to assess implementation of the 2007 budget and preparation of the 2008 budget, to evaluate the results achieved by the priority sectors—especially the production sectors—after four years of oil-revenue use, and to take stock of the situation in the oil zone.

Institutions and Instruments for Economic Management

- The initial results of the **2007 budget** implementation are mixed. The stabilization margin was greatly reduced from 228.9 to 55.5 billion CFA francs in the October 2nd revised budget. This was a direct result of a significant increase in spending, particularly for security and capital expenditure, and a slight decrease in revenues. Consequently, the priority ministries' appropriations were 20% lower than initial projections.

By the end of fiscal year 2007, **spending levels in the priority sectors** were expected to reach 60-65% of the overall budget, which is below the 70% target in the July 13, 2006 agreement with the World Bank (WB).

Excessive unit costs were reported again for **school and health-related infrastructure projects**, which the *Ministère des Infrastructures* is overseeing. At the current pace, Chad risks failing to achieve some of the Millennium Development Goals (MDG) in these two areas, not for lack of resources, but because they were not allocated in optimal fashion. The reciprocal responsibilities of the sector ministries and the *Ministère des Infrastructures* need to be defined, as does a clear policy to keep costs down to a reasonable quality-price ratio.

- The **2008 budget** was being finalized at the time of the mission. Given the delays in the NPRS-2 preparation process, there is concern that the initial budget law may not meet all the Strategy's targets. If so, the subsequent revised budget will need to incorporate the NPRS's quantitative and qualitative criteria in order that 2008 remain the reference year.

- Public-finance management has made promising strides, particularly with the progressive implementation of the **Action Plan for the Modernization of Public Finances**. However, there are still some deficiencies that need to be overcome quickly. The *Ministère des Finances*

(MINFIN) needs to procure the tools needed to forecast, calculate and analyze oil revenues, in collaboration with the *Ministère du Pétrole*, and must define a fair, rational and broad policy on the carry-over of unspent capital investment credits.

- In order for the process to succeed, authorities at the highest levels need to take ownership of an **NPRS-2** that should reflect the political will to steer the country toward economic and social progress, and adopt it as a formal working tool to guide their decision-making over the next 4 years. MINFIN and the *Ministère de l'Économie et du Plan* (MEP) need to play a complementary role in this respect, which should also help clarify MEP's part in the budget process.
- MEP is urged to take all steps necessary to ensure that the process for Government approval and implementation of the **Regional Development Plan (RDP)** for the oil region is completed in the first quarter of 2008, a process up to now marred by incomprehensible delays and persistent misunderstandings.
- In its 2006 annual report, the **CCSRP** reports deficiencies in oil revenue management and project monitoring by the ministries. The Government must have the reflex to respond to these observations explicitly.

The Government also needs to continue its consideration of the broad or specific role it wishes to give the CCSR in the context of a unified budget and ensure the gradual replacement of its members so as to preserve its institutional memory.

In order to improve its oversight procedures, the CCSR needs to adopt specific criteria and standard procedures and be given appropriate technical support to do so.

- The **5% Regional Fund Interim Management Committee** has new members and a new technical team, but still has not defined a policy that corresponds to the specificity of these revenues. There is hope that the new committee in place since June 28, 2007 will be able to re-direct use of the 5% fund. Project planning must meet the needs expressed by the communities, complement government programs, be in keeping with the RDP and contribute to improving the quality of life and living environment of both village and urban populations. This would be a positive step towards remedying the deep-seated and perceptible feelings of disappointment.

Key Players and Areas of Economic Production

- The **agricultural sector** is starting to be revitalized. The funding increase from the 2006 to the 2007 budget will help to gradually bring research and training services up to standard. A 3-year recovery plan for the cotton industry has also been developed. This will be the first test of Chad's ability to impact farmers' incomes positively, in the hopes of being able cut poverty in half by 2015.

Considerable efforts are still needed to revive the sector, starting with the urgent task of repairing rural roads that was assigned to the *Ministère des Infrastructures*.

- Despite strong economic potential, the **herding sector** is treated like the poor relation—a practice that must end. In particular, the Government must ensure that sufficient funds are allocated in 2008 to conduct the general livestock census and to launch livestock water supply programs and programs to diversify and improve productivity.

- Positive changes can be seen in the **commerce and industry sector** with the gradual establishment of a dialogue with the State, joint Chamber of Commerce-IFC efforts to build the capacities of economic operators, Esso's local business opportunities program which is functioning more smoothly and is likely to continue improving, and finally, the diversification of oil operators and operations in the country. In particular, the Komé topping plant and N'Djaména refinery projects would, if achieved, contribute to lowering the country's energy bill.

Oil Management Institutions and Instruments

- Clarification is needed as to how the roles and responsibilities of the **Coordination Nationale**, which was dissolved on October 10th, will be redistributed. Meanwhile, this one-stop shop that served as the facilitator for the oil sector has disappeared.
- The **Société des Hydrocarbures du Tchad** is gradually taking shape with the recent publication of its bylaws and the appointment of company managers in September 2007. Several more steps must still be completed before it becomes fully operational.
- The **Ministère du Pétrole** has been providing periodic technical monitoring of the oil activities since the disappearance of the Doba Petroleum Unit. However, environmental monitoring, which falls under the purview of the **Ministère de l'Environnement**, has been practically non-existent for the past year due to the lack of funds for the CTNSC. Given the institutional void that is leaving oil operators on their own, the Government must add the task of technical and environmental monitoring of oil activities to the budgets of these two ministries without delay.

The Government must put environmental regulatory instruments in place without further delay by approving and implementing the National Oil Spill Response Plan (NOSRP) and by enacting the implementing decrees for the Environmental Law.

- There are still many deficiencies to overcome in **managing the oil sector**. The Government and the WB have begun discussing a new capacity-building program. They must learn from past experience and agree on the specific goals and measurable results to achieve before investing more in a capacity-building program worthy of the name.

Situation in the Oil Zone

- Oil **production** forecasts for 2007 remain unchanged with a predicted average between 135,000 and 150,000 barrels per day. There may be a slight increase in 2008 as a result of increased production from the Maikeri field, brought online in July 2007, and Esso's measures to stimulate the reservoir.
- **Exploration** activities are continuing, though Esso's 2008 program is deemed to be modest by the *Ministère du Pétrole*, and new operators are investing; without yet any new confirmed prospects of major oil pools.
- Implementation of the Land Use Mitigation Action Plan (**LUMAP**) is making headway. A team was specially recruited by the Project to implement the plan and various projects and analyses were initiated in order to identify a series of solutions to restore a sustainable standard of living for populations affected by the infilling campaign.

Efforts are currently underway to identify the precise impact sustained by residents in the most severely affected villages, which will facilitate the development of specific action plans.

Esso is urged to implement corrective measures in the five hardest-hit villages before the next growing season and to mobilize enough funds to be able to accelerate the pace of restoring and returning land to local residents in 2008 and to pursue implementation of LUMAP beyond 2008.

Esso and the IFC should also better involve the CTNSC in LUMAP implementation. Thus can each party learn lessons from the past and manage new projects effectively by limiting land impact from the beginning.

- After taking stock of the **security** threats to the oil facilities and Project personnel, the Chadian government implemented measures to restrict vehicular traffic in the oil zone.

Without neglecting these security issues, the Government is urged to set up a mechanism to facilitate travel in the oil zone for NGOs and other legitimate workers.

- Progress has been made on **environmental and social issues** for the most part. This is true for dust control as Esso continues to pave roads in the Project zone with asphalt and for waste management with the formation of a new team to head up this issue.

Esso is nevertheless urged to actively resume the study on the impact of Project-generated dust on human health. The project to use part of the produced water on the surface is making headway. Despite the many uncertainties still surrounding the project, Esso should, as of the pilot phase, involve the *Ministère de l'Hydraulique* and the *Ministère de l'Agriculture*.

In **conclusion**, the last few months have been a source of hope and of disappointment for Chad:

- reconciliation followed by renewed fighting;
- progress on public-finance management with considerable efforts still needed;
- first signs of recovery in the productive sectors—agriculture and herding—but the risk of compromising these results for lack of adequate, consistent funding;
- real progress in building the capacities of economic operators, but delays in improving the business climate;
- nearly complete absence of government presence in the oil zone, apart from the security units.

Finally, there are two major challenges that can also provide opportunities to make significant progress:

- Ensuring that the NPRS-2 is a development-focused strategy that is supported and driven by a solid political will and that it becomes a reference working tool for years to come;
- Transforming government investment into measurable results so that each expenditure makes a verifiable contribution to enriching the lives of Chad's citizens, achieving the MDGs and improving and consolidating progress in terms of human security and justice.

CAMEROON

According to the IMF, the **macro-economic context** in Cameroon is satisfactory on the whole. Despite the availability of considerable funds from debt relief, the slow pace of capital spending creates a risk that the country will fail to achieve all the MDGs by 2015.

The pipeline Project has entered an operational phase that, though it requires constant vigilance, does not in itself present any major new problems in Cameroon. The IAG took stock of the current issues, paying particular attention to **four critical issues**: FEDEC, the Social Assessment, CAPECE and the Lom Pangar dam project.

The following observations apply to **FEDEC's** implementation of environmental compensation and the Indigenous People's Plan (IPP):

- The latest audits confirm concerns about the sustainability of **FEDEC's funding**. The gradual erosion of its capital could grind its activities to a halt in the next few years. This would be a serious failure for which all three principal parties, the Government, COTCO and the World Bank, would bear responsibility.

FEDEC's problems require the parties involved in its creation to work together to identify and immediately implement measures needed to recapitalize the Foundation and secure the programs that constitute the reason for its existence.

- The Ministry of Forests and Fauna's (MINFOF) lack of involvement is delaying conservation and management efforts in the Campo-Ma'an and Mbam and Djerem **national parks**.

MINFOF is urged to rapidly sign the tripartite agreement with FEDEC and WWF, to begin paying the salaries of the ecoguards assigned to the two parks and to play its role as manager of the national parks.

The Prime Minister's Office needs to approve and officially launch the Mbam and Djerem National Park management plan without delay.

- Implementation of the **IPP** is progressing well according to the NGO RAPID, whose contract with FEDEC was extended until the end of 2008. However, a long-term, consolidated strategy for intervention needs to be developed. This is crucial to securing additional funding and attracting the interest of the Ministry of Social Affairs.

Social Assessment

The work of the PSMC/COTCO/NGO Platform for Cooperation since 2005 has paved the way for regular and more open dialogue among its members and should help accelerate the processing time for compensation cases and claims for damages suffered by local residents.

However, the Social Assessment process still needs improved policies and procedures so as to establish a productive partnership. Above all, pending claims need to be processed more quickly.

The Pipeline Information Forum held November 29-30 by the Platform was an opportunity to bring together most of the parties involved in, or affected by the Project and to formulate recommendations. The PSMC must ensure that these recommendations are widely published.

CAPECE and the Regulatory Framework for the Environment

The IAG was able to obtain only partial information on the implementation of CAPECE since May 2007.

World Bank funding for this project expired on November 30, 2007 with many of the planned activities still unfinished. The most critical example is undoubtedly the legal framework for environmental management of the oil sector. Here, the Prime Minister's Office needs to approve the NOSRP that has been pending for several months and the implementing decrees for the Law on the Environment.

CAPECE's original goals may be carried over the successor project that the Government is currently discussing with the WB. Both parties will need to learn the lessons of CAPECE's mixed results prior to investing in a second capacity-building program that should clearly state the specific and measurable target objectives and milestones in terms of the project's activities, results and timeline.

Lom Pangar Dam Project

The various thematic studies requested by the Ministry of Environment and Protection of Nature to supplement the first environmental impact study are currently being conducted under the supervision of the Ministry of Water and Energy.

Now that agreement has been reached on the technical issue of submerging the pipeline under the future reservoir, the question as to who is to assume financial responsibility should be clarified in time to perform the pipeline protection work in a timely manner.

In conclusion, Project success is still contingent on several factors:

- FEDEC's financial recovery and subsequent restructuring to ensure long-term sustainability;
- The adoption and implementation of a legal and regulatory framework for the environment that can effectively protect Cameroon's citizens and environment from the risks associated with major infrastructure projects, especially in the oil sector;
- The adoption by the relevant authorities and institutions of the studies conducted under CAPECE as working tools that must produce tangible results with the successor project;
- The pursuit of increased dialogue within the COTCO/PSMC/NGO Tripartite Platform for Cooperation to achieve more extensive and less intermittent cooperation.

CHAD - INTRODUCTION

Mission Description

1. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project ("Project" or "Doba Project") conducted its thirteenth statutory visit to Chad from November 11–28, 2007.
2. In the oil zone, the Group visited the Komé 5 base and 3 villages on the Komé field (Dildo, Dokaidilti and Moarom) to take stock of the oil projects and the progress in implementing compensation measures for the Project's land use. In Moundou it met with the *Commission Permanente Pétrole Locale* (Local Standing Committee on Oil, or CPPL), representatives of CotonTchad, the local economic operators and the *Union Nationale des Producteurs de Coton du Tchad* (National Union of Cotton Producers of Chad, or UNPCT). In Doba it met the technical team for the new *Comité Provisoire de Gestion des 5%* (5% Regional Fund Interim Management Committee, or CPG 5%). It also held a working session with the various oil zone security units and the Executive Secretary of the *Comité Technique National de Suivi et de Contrôle* (National Technical Committee for Monitoring and Control, or CTNSC). The Group was accompanied to the sites by representatives of Esso's EMP (Environmental Management Plan) team, the CTNSC and the CPPL.
3. In N'Djaména, in addition to meeting with the central ministries (*Finances et Informatique* and *Économie et Plan*) and the *Ministère du Pétrole*, the Group met with the *Ministère de l'Agriculture* and the *Ministère de l'Élevage* to focus on the production sectors. It held intensive working sessions with the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Resources Control and Monitoring Group, or CCSRP) and the *Directeurs des Affaires Administratives et Financières* (Administrative and Financial Affairs Directors, or DAAF) from most of the priority ministries, the Steering Committee for the National Poverty Reduction Strategy 2 (NPRS-2) and Esso Exploration and Production Chad, Inc. (EPC or Esso). The Group also met with representatives of civil society, economic operators, the management of the *Société des Hydrocarbures du Tchad* and several of the country's international partners: the World Bank (WB), the International Finance Corporation (IFC), the International Monetary Fund (IMF), the European Union and France. At the end of its mission, the IAG met with the Bureau of the National Assembly and with the Prime Minister.
4. The mission itinerary and schedule can be found in Appendix 1.

Mission Context

5. On the **political and security level**, this mission took place shortly after the signing on August 13, 2007 of a political agreement to build consensus among the various players in Chad's democratic process. This agreement, signed by the presidential majority party and nearly all the democratic opposition parties, stipulates the holding of a population census and the preparation of a new voter list before the next legislative elections, which have been postponed to the end of 2009.
6. The signing of the Syrte (Libya) peace agreement on October 25 between the national government and Chad's main rebel movements restored relative calm to the country and revived hopes for national reconciliation. A month later, however, fighting resumed in the east between the Chadian regular army and several opposition movements.

7. Chad has accused neighboring Sudan of supporting the rebels and relations between the two countries have again begun to erode. Moreover, the Darfur conflict continues to threaten Chad's stability.
8. In early 2008, a European force – EUFOR - is slated for deployment to Chad's borders with Sudan and the Central African Republic to secure the refugee and displaced persons camps; and a combined African Union-United Nations force will be deployed to Darfur. However, both are already showing alarming delays in mobilizing the necessary human, material and financial resources.
9. The preparation of the 2008 budget and the completion of the NPRS-2 were top concerns on the **economic and financial level**, since one will serve as the framework for the other. Missed deadlines for the two processes are raising concerns that this budget, the first to be guided in its appropriations by the NPRS-2, may not meet the requirements of the July 13, 2006 agreement with the World Bank.
10. A multi-donor mission in June 2007 assessed Chad's economic and financial situation and established a renewed consensus on the measures needed to improve public-finance management and make poverty reduction a spending priority.
11. A revised budget was passed on October 2, 2007 to account for the unforeseen expenses incurred in recent months for security and salaries and for projected infrastructure expenditures. The budget still has a surplus, but the stabilization account has been tapped much more than anticipated in the original Budget Act.
12. Oil production dipped slightly in the second and third quarters of 2007, but the increase in world oil prices continues to provide Chad with significantly more income than originally projected at the start of the Project. The Government has not totally resisted the temptation to allocate this extra income to recurring budget items, even though projections point to a decrease in revenues starting in 2009.
13. On the **social level**, the public sector strike that began on May 2 was suspended by union leaders on August 27 after the Government agreed to a 15% pay hike based on the index point. The strike may yet resume, however, given that some of the unions' demands are still unmet.
14. In addition to the usual review of current issues, the main objectives of this **thirteenth mission** were: to assess implementation of the 2007 budget, which was prepared in accordance with the July 2006 Chad-World Bank agreement and the 2008 budget preparations; and to identify the results achieved in key priority sectors—especially the production sectors—after four years of oil revenue appropriations. The latter proved difficult due to a lack of available quantitative and qualitative indicators.
15. The priority of restoring peace and security in Chad, especially in the centers of rebellion in the east and northeast, may end up overshadowing all other considerations. However, efficient and prudent management of the country's resources is still vitally important to ensuring sustainable development.
16. This report will discuss the institutions and instruments for economic and public-finance management, the key actors and areas of economic production, the institutions and instruments for managing oil resources, and the situation in the oil zone.

1 INSTITUTIONS AND INSTRUMENTS FOR ECONOMIC AND PUBLIC-FINANCE MANAGEMENT

17. As Chad enters its fourth year of oil income with an unparalleled budget, with budget management moving toward a combined budget for ordinary and oil resources, and with mechanisms being put in place for permanent oil-revenue management, the country stands poised to begin a new phase in public-finance management. The system's success will depend on the institutions' functionality and the operability of the economic and public-finance management instruments. These institutions and instruments must, therefore, be properly prepared.

1.1 The *Ministère des Finances et de l'Informatique* and the PAMFIP

1.1.1 Mixed Initial Results for 2007 Budget Implementation

- **Minimal Savings in the 2007 Revised Budget**

18. Revised Budget no. 13/PR/2007, passed by the National Assembly on October 2, 2007, takes into account exceptional spending on national defense, the cost of reconciliation with certain rebel movements, the pay hike in the public sector and significant overruns in capital spending. It also anticipates a decrease in revenue, especially direct oil revenues. Thus, the level of projected expenditure up to the end of 2007 increased significantly from 689 to 837.7 billion CFA francs (a 148.7 billion francs increase), while revenues dropped slightly from 918 to 893.3 billion CFA francs (a decrease of almost 25 billion francs). In the end, the budget surplus was revised downward from 228.9 billion CFA francs in the initial budget to nearly 55.5 billion in the revised budget. This decrease has a direct 173-billion-franc impact on the stabilization account.
19. The Revised Budget Law shows the following changes from the Initial Budget Law:
- The allocation to Public debt is fairly stable: interest payments are down some 4 billion CFA francs and the principal up by 4.7 billion;
 - Salaries and benefits are up 15% or 18.3 billion;
 - Goods and services are up 23% or 15 billion;
 - Transfers are up some 55% or 73 billion – of which 67.6 billion are for unspecified joint expenses. Yearend figures will be required for a better reading of this item;
 - Investments are up by 50% to 42 billion.
20. In light of the 21.5% spending increase in the revised budget, appropriations for the priority ministries from the direct oil revenues are down 20%, from 102.9 to 81.6 billion francs (and from 111.8 to 88.9 billion if the transfers to the CCSRP, the CPG 5% and the oil-producing region are included).
21. On September 30, the *Ministère des Finances et de l'Informatique* (MINFIN) announced the following results: 77% of total revenues had been received, while only 57% of the funds allocated in the initial Budget Act had been spent. These figures do not take into account the mobilization of external funds and the implementation of related capital spending. The low expenditure rate appears to be due to delayed accounting for some of the projects executed outside of the Treasury's spending circuit (17% of the '07 revised budget expenditures).

22. MINFIN feels that given the estimates from the various government offices, the prospects for achieving target levels for the 2007 revenues are good, and that despite a potential shortfall in customs duties, Chad should meet its annual targets.
23. On the spending side, the government set up a one-stop shop to accelerate the circuit's procurement procedures and to increase spending levels that otherwise would fall short of the adjusted projections in the revised budget.
24. As of November 15, the CCSRP had approved commitments on 65.26% of direct oil revenues and authorized payment for 87.16% of these expenditures.
- **Priority Sectors: for a More Balanced Distribution and a Reduction of Excessive Unit Costs**
25. The Government estimates that by yearend, spending in the priority sectors for poverty reduction will reach 60-65% of the overall budget, which is below the 70% target set forth in the July 13, 2006 agreement with the World Bank. This discrepancy results essentially from security-related expenditures. In addition to meeting the agreement's specified numeric targets, the nature of the expenditures is also a source of concern.
26. In this tighter budget context, the IAG again received reports of considerable cost overruns for the school and health-related infrastructure projects funded from oil revenues and executed by the *Ministère des Infrastructures*.
27. The *Ministère de l'Éducation Nationale* says it has not been involved in the various construction projects overseen by the *Ministère des Infrastructures*. It voiced concern that the projects are not adhering to the bids and to the school allocation map and that it is not being consulted on the projects in a timely fashion and under adequate terms. Some aspects of this issue still need to be verified with the *Ministère des Infrastructures*, with which the IAG was unable to meet during its mission.
28. At the current average cost per classroom, Chad will be incapable of building enough classrooms by the 2015 Millennium Development Goals (MDG) deadline to place students in non-makeshift classrooms.
29. There is concern that health infrastructure projects for which funds have already been appropriated may face the same types of problems.
30. Massive funds will be pumped into these two sectors (education and health) over the next few years and they are certainly a priority. Given the size of these budgets, spending must be optimized if the MDGs are to be reached. Otherwise, future budgets may be mortgaged in advance with no assurance of results.
31. The respective responsibilities of the *Ministère des Infrastructures* and the sector ministries (*Éducation, Santé* and *Hydraulique*) still need to be clarified with respect to project bids and the nature and location of the facilities built using funds from the sector ministries' budgets. The assessment conducted by the multi-donor mission in June is now outdated and a status update is needed before new projects are started.
32. The budget priorities under both the Budget Act and the revised budget (total budget exclusive of external resources) remain unchanged and are, in the following order,

- 1) Infrastructure (69.6 to 96.6 billion)
 - 2) Education (56.4 to 68.7 billion)
 - 3) National Defense (53.4 to 68.1 billion)
 - 4) Agriculture (41.3 to 41.6 billion)
 - 5) Public Health (26.5 to 32.4 billion)
 - 6) Mines and Energy (24.2 to 23.9 billion)
 - 7) Interior (15.9 to 17.9 billion)
 - 8) Higher Education (13 to 13.4 billion)
 - 9) Executive Functions (11.6 to 13.1 billion)
 - 10) Security (9 to 9.9 billion).
33. Herding comes further, in 13th place, with an appropriation of 6.3 billion increased to 6.5 in the revised budget.
34. This budget gives pride of place to sovereign governmental functions compared to production and human resources: an imbalance that may not impossible to comprehend given the current security context, provided it isn't amplified in actual budget implementation. It will be interesting to see whether this order remains the same at the end of the fiscal year, and to assess the concrete outputs delivered by these sectors in comparison to previous years.

1.1.2 FY 2008 a Potential Reference Year

35. The 2008 General Budget was still in preparation at the time of the IAG visit. Chad had reached an agreement with the IMF on the macro-economic framework, but inter-sector appropriations had not yet been finalized.
36. Although the 2008 budget was to be guided by the NPRS-2, the delays in drafting the latter leave doubt that this budget will meet the Strategy target objectives in the first year of implementation.
37. Moreover, as of the time when the 2008 budget was scheduled to be submitted to the Council of Ministers and then to the National Assembly, the CCSRP still had not been asked to submit comments, as stipulated by law.
38. Due to the continued high price of oil on the world market, Chad's 2008 oil revenue forecasts equal or even surpass 2007 levels, despite sluggish production. In this context, the tendency to include increasingly higher amounts of transfers and recurring expenses in the oil-revenue budget warrants a word of caution. Chad should not lose sight of the volatile nature of the oil revenues, which are bound to decline quickly in the absence of a major new discovery opening the door to new financial resources. Hence the importance of a stabilization mechanism and of maintaining a healthy distinction between recurring expenses, which should come out of sustainable funds, and discretionary spending using volatile resources.
39. The expectation is that this budget (or if not, the subsequent revised budget) should reflect the development priorities set forth by the NPRS.
40. Since the IMF was unable to complete the first two reviews of the PRGF (Poverty Reduction and Growth Facility) program during its mission in September 2007, it has stipulated that continuation of its support program for Chad will be contingent on implementation of the 2007

budget in accordance with the October revised budget; on preparation of the 2008 budget in accordance with the macro-economic framework agreed upon with the Government and the spending categories agreed upon with the World Bank; and on the establishment of a permanent revenue-management and stabilization mechanism. If these three conditions are met, the IMF will be able to complete the first two PRGF reviews, paving the way for a 12-month extension of the current program starting in February 2008.

41. If the 2008 budget is properly implemented, the IMF will also be able to conduct the third and fourth PRGF reviews, which would enable Chad to reach completion point under the Heavily Indebted Poor Countries (HIPC) Initiative at the end of 2008 and become eligible for additional aid under the Multilateral Debt Relief (MDR) Initiative. This means that at the end of 2007 and throughout 2008, Chad must negotiate the critical stages of its PRGF program, which will require even more consistency, rigor and budgetary discipline than in the past. Otherwise, the prospects for substantial relief of its existing foreign debt may well be lost.
42. All this argues in favor of decisive improvements in public-finance management through the Action Plan for the Modernization of Public Finances (PAMFIP).

1.1.3 Promising Results, Persistent Problems in Public-Finance Management

43. Public-finance management procedures have improved significantly in recent years. Although there are still numerous deficiencies to overcome, the amount of available information on Chad's management of its oil revenues is exemplary among African countries.
44. The procurement process reforms, the strengthening of MINFIN's capacities and the progressive computerization of the expenditure circuit have enabled Chad to better understand and manage a budget that has been growing rapidly over the last 4 years.
45.
 - The gradual implementation of **PAMFIP** offers hope for improvement of the procedures in place. The project's administrative phase now appears to be operational.
46. The funds contributed by Chad and the various international donors participating in the Plan are being put in place and an agreement for a World Bank grant was on the verge of being signed at the time of the IAG mission. The contribution from the African Development Bank (ADB) remained uncertain, however, given Chad's difficulty in fulfilling certain ADB criteria for funding eligibility.
47. Most of the training and technical and material support activities under the 2007 schedule were carried out and apparently, to the satisfaction of target departments. The 2008 schedule of activities was expected to be approved by the end of November 2007.
48. This administrative progress must now be transformed into technical and performance-related improvements that will increase the system's reliability.
49.
 - **Oil revenue calculation** is still one of MINFIN's weaknesses. Although it was not possible to verify whether 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) is still functioning, it appears that MINFIN is still basing its oil-revenue forecasts on information submitted by the *Ministère du Pétrole*, which receives much of its data from the Consortium.

50. This situation, which has persisted for several years, undermines the reliability of Chad's oil-revenue forecasting system and thus, its budget. The announced creation of a joint *Ministère du Pétrole* and *Ministère des Finances* unit should provide the beginning of a solution to this problem. Chad still needs to procure the necessary tools to conduct its own analyses and make its own projections without relying on models from the various oil groups or even from its development partners.
51. • The **carry-over of unused capital investment credits** is still subject to conflicting policies. For 2007 and 2008, MINFIN has reportedly worked with some of the priority ministries to identify appropriated funds that likely will not be spent by the end of 2007 and will be carried over to the 2008 capital expenditure budget. This is an improvement that, once confirmed, should become systematic and be applied to all eligible ministries.

XIII.1 Reiterating previous recommendations, the IAG recommends that:

52. - *MINFIN quickly procure the resources needed to calculate, analyze and forecast oil revenues in collaboration with the Ministère du Pétrole;*
53. - *MINFIN define a rational and fair policy concerning the carry-over of capital investment credits, which can be applied in a predictable and uniform way;*
54. - *The Government formally define the mutual responsibilities of the sector ministries and the Ministère des Infrastructures with respect to delegating oversight of certain investment projects, and clear up any ambiguity in the relationships among the Ministries;*
55. - *The Ministère de l'Éducation Nationale and the Ministère de la Santé reach an agreement with the Ministère des Infrastructures on project models with sustainable and cost-effective prices and reliable quality, and that the Ministère des Infrastructures ensure that projects are executed in a standard way and accepted on a consensus basis.*

1.2 The *Ministère de l'Économie et du Plan* and the NPRS-2

1.2.1 Forging an Identity for the *Ministère de l'Économie et du Plan*

56. The *Ministère de l'Économie et du Plan* (MEP), which was created during the March 2007 ministerial shuffle, adopted its organization chart in July. The primary tasks and objectives it has set include: improving the ability to raise external funds, being involved in the implementation of development policies through improved planning, programming and poverty-reduction activities, and helping to promote the private sector and new sources of growth.
57. The statute on the general structure of the Government must still be published before this plan will be official.
58. Echoing the IAG's recommendations, MEP has announced that it will work on preparing a 25-year, long-term development strategy for Chad. For the time being, however, it is focusing all its attention on drafting the NPRS-2, which will cover the next 4 years.

1.2.2 Taking Political Ownership of the NPRS-2

59. The NPRS-2 was in its final stages at the time of the IAG visit. After completing the main steps, an initial document was produced in June 2007 and Chad's partners and the Poverty

Observatory were asked to submit comments. Regional consultations were also organized in September in five different locations.

60. The revised document will be used for future consultations. Priority action plans for each sector and the 2008-2011 Medium-Term Expenditure Framework will supplement this document.
61. The next stage included organizing a high-level forum, which was initially scheduled for the end of November, but postponed until January 9-10, 2008; and obtaining approval of the final document by the Interministerial High Committee chaired by the Prime Minister.
62. Two challenges remain. First, authorities at the highest levels in Parliament and the Government must take ownership of this strategy. Second, the strategy must be translated into concrete actions in order to attain the stated objectives. The NPRS-2 should reflect the government's desire to use its revenues to develop the country and reduce poverty.
63. The government must ensure that its budgets and spending are consistent with the NPRS-2's qualitative and quantitative goals. MEP and MINFIN can play an essential role in ensuring that this instrument designed to help the country reach its MDGs is, in fact, guiding the country's economic policy.
64. Otherwise, Chad risks not achieving the maximum number of MDGs by 2015, not because of a lack of resources, but because the resources were not put to optimal use.

1.2.3 Misunderstanding Delays Regional Development Plan Approval

65. MEP oversees another important file—the Regional Development Plan (RDP) for the oil region. The Minister stated that the RDP approval and implementation process is still in progress, following approval by the Cabinet Council and comments by the Council of Ministers, which requested that the plan be updated and extended to several regions. Given the process of preparing and drafting this document, there appears to be a persistent misunderstanding indefinitely delaying the approval of a widely-recognized, high-quality instrument.
66. Meanwhile, the *Ministre du Plan* confirms that this instrument can already be used to promote development activities in the entire oil region. Ideally, its provisional status will not last too long and this preliminary use of the instrument will serve as a model for similar initiatives in other regions.

XIII.2 The IAG recommends that:

67. - *The Government promptly adopt the decree establishing the responsibilities of the Ministère de l'Économie et du Plan;*
68. - *Authorities at the highest levels of the Parliament, Government and ministries take ownership of an NPRS-2 that should reflect the political will to steer the country toward economic and social progress, and adopt it as a formal working tool to guide their decision-making and activities over the next 4 years;*
69. - *Should the 2008 Budget Act not fully meet the objectives of the NPRS-2, the Government ensure that the quantitative and qualitative goals of the Strategy are better reflected in the later revised budget, and that this budget is strictly followed in order to reach completion point under the HIPC initiative and gain access to the MDR;*

70. - *The Ministre de l'Économie et du Plan take all steps necessary to ensure completion of the RDP approval process by the Council of Ministers and implementation of the RDP during the first quarter of 2008 and in the meantime, instruct the 5% Fund Interim Management Committee to use the RDP guidelines as a reference point for its programs and projects.*

1.3 CCSRP Update Urgently Needed

71. • The *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (CCSRP) published its **2006 annual report** on October 18, 2007. This report describes the CCSRP's efforts to monitor implementation of the 2006 budget. These activities involved upstream monitoring of spending commitments and payment requests submitted by the priority sector ministries, and downstream monitoring of the execution of certain transfers and investment projects funded with direct oil revenues.
72. The CCSRP has established a consultation process to allow all the ministries it oversees to comment on the report prior to publication, but it has received few or no comments from the priority ministries.
73. In 2006, the amount of funds appropriated to the priority ministries after the revised budget was passed totaled 118,056,776,635 CFA francs. The CCSRP authorized 93,447,846,772 francs in expenditures and 90,157,362,244 francs in payments. These figures include 15 billion francs in transfers to various ministries to cover personnel costs.
74. In order to monitor investments on-site, the CCSRP selected a sampling of projects to visit across the country, but was unable to travel to the unstable rebel zones in the east and the north. The on-site inspections revealed deficiencies with respect to systematic monitoring of project implementation by the ministries, the recurring absence of oversight offices in the case of school infrastructure projects, a lack of involvement by local officials and cases of default by some government contractors.
75. CCSRP members and staff conducted the inspections without having first developed a systematic procedure. Even though the inspections were conducted in earnest, they would be better and more credible if they were formalized with set inspection criteria and accurate, comparable reports for similar types of infrastructure projects.
76. The CCSRP used the services of two independent auditing firms to monitor subsidies and matching funds. In the government agencies and projects that were audited, these firms found significant problems with oil-revenue management, such as unjustified expenditures, the absence of records of fixed assets and incomplete accounting documents.
77. • The Government has not yet made a decision on the **CCSRP's role** and the status it wishes to give this oversight body in the context of a unified budget. The decision needs to be made quickly before the new budget is implemented, so as to identify all additional human, financial and material resources that could be needed by the CCSRP.
78. As in previous reports, the IAG reiterates the importance of maintaining the CCSRP's upstream role of monitoring the consistency of budget allocations and the relevance of priority-ministry expenditures, and its downstream role of monitoring the effectiveness and conformity of the

work, supplies and services, while taking care to avoid acting as a parallel administration to oversee all phases of government expenditure.

79. In practice, the CCSRP could supplement its oversight operations by monitoring performance criteria that measure progress toward achieving the MDGs in the various sectors using the oil revenues.
80. Information received pertaining to the replacement of all the CCSRP members at the same time raises concern about a loss of on-the-job experience. A one-third rotation of members, as provided by Law 02/PR/06, would prevent the loss of this oversight agency's institutional memory.
81. • The CCSRP's main complaint in its **relationship with MINFIN** is the lack of information about the amount of payments made by the Treasury and, more generally, the fact that MINFIN has not designated a liaison to ensure efficient communication between the two institutions.
82. • The CCSRP has not yet launched its planned inquiry into the **use of oil funds** that were received but not spent in past years, but it has announced plans to hold a working session with the *Ministère des Finances* on the issue.
83. • In order to better assess the true impact of the priority ministries' expenditure of oil revenues and their contribution to achieving the MDGs, the IAG proposed to review with the CCSRP these ministries' achievements in the company of their **DAAFs**, based on a non-exhaustive list of well-being indicators, reproduced in Appendix 3.
84. This first-of-its-kind meeting was productive even though it showed that in most cases, the ministries are not systematically working with a culture of results based on these types of performance criteria. This meeting should set the stage for ongoing and systematic assessment of expenditures, based not only on the processes used, but especially on the objectives attained.

XIII.3 The IAG recommends that:

85. - *MINFIN designate a liaison to exchange information with the CCSRP on a regular basis so that both agencies have the information they need to fulfill their mandates;*
86. - *MINFIN inform the CCSRP whenever the Treasury makes payments on the direct oil revenues;*
87. - *MINFIN invite the CCSRP to comment on the draft budget prior to its approval by the Council of Ministers, as required by the law;*
88. - *The Government continue consideration of the role it wishes to give the CCSRP in the context of a unified budget and ensure that CCSRP members are replaced on a staggered basis so as to preserve its institutional memory;*
89. - *The CCSRP adopt specific criteria and standard formalities in the conduct of its monitoring procedures. The Government and the World Bank could provide the appropriate technical assistance for this purpose;*

90. - *In order to foster a “culture of results”, the CCSRP focus more attention on monitoring the performance criteria used to measure the impact of oil-revenue use by the various priority ministries. The CCSRP should also encourage the priority ministries to adopt this approach.*

1.4 5% Fund Interim Management Committee: Instability and Need to Refocus

91. After the first Interim Management Committee for the 5% Fund of Oil Royalties Paid to the Oil-Producing Region (CPG 5%) was dissolved by the Head of State on June 21, 2007, a new committee was established on June 28 by decree from the Council of Ministers.
92. The new committee has 5 members as opposed to 9 on the former committee. The members of the technical unit also changed. The current team was appointed by the Government and not recruited through a competitive bidding process, unlike the previous team, whose individual qualifications could be verified through the selection process.
93. Management of this special fund has been a source of great dissatisfaction and misunderstanding among local residents since 2005. The 34 projects funded from the 2005, 2006 and 2007 budgets focus exclusively on three urban areas (Doba, Bébédjia and Mbaïbokoum), to the detriment of projects awaited in the villages, especially those affected by the oil operations.
94. The budgets for these first three years are already committed. However, starting with the 2008 budget, the new CPG team has an opportunity to re-direct the use of future resources. It could implement a truly participatory program that would meet the needs expressed by the people. This program would not replace the normal State programs. Rather, it would be an extension of these programs and help shift the focus to projects aimed primarily at improving the quality of life, living environment and productivity of the villages. Such improvements would stem from investment in infrastructure, but also through other forms of appropriate support for local residents that the committee should identify. As production levels stagnate and will soon begin to decline, there will be a significant impact on the 5% of royalties. Thus, wise use of these funds from now on is imperative.
95. With this in mind, the list of projects to be funded from the 2008 budget should be reviewed in light of these criteria and the Regional Development Plan.
96. The IAG invites the new CPG 5%, which announced its intent to begin financing micro-loans, to proceed with caution. The experiment with the *Fonds d’Actions Concertées d’Initiatives Locales* (Local Initiatives Development Fund, or FACIL) showed that these types of activities, which normally are done by specialized agencies, are delicate and risky. The CPG needs to be sure that it has learned useful lessons and acquired the necessary skills before undertaking a process that could be more effectively managed by other, better-equipped entities.

XIII.4 The IAG recommends that:

97. - *As recommended to the CPG 5% in the last IAG report, the new committee prepare a schedule of projects that are truly complementary to government programs, taking into account the stated needs of the eligible communities and the guidelines in the RDP; that the new committee implement a range of projects that are not limited to infrastructure investments and that place greater priority on improving the quality of life and the productivity of both the village and urban populations in the oil-producing region;*

98. - *The CPG 5% either ensure that it has all the necessary expertise before it begins financing micro-loans, or seek the support of experts in this field.*

1.5 International Partners: Debt Relief, a Remaining Lever

99. As seen above, the **IMF's** role is one of a privileged partner in the process leading up to debt relief.
100. The **World Bank's** portfolio in Chad has been reduced and the number of Bank-funded projects continues to decline. Three new projects are under consideration for presentation to its Board of Directors between now and June 2008: an extension of the aid package for restructuring Chad's water and electric company (*Société Tchadienne d'Eau et d'Électricité*, STEE), a capacity-building project in the oil sector, and a new AIDS prevention project. The Bank can still be a good advisor to Chad through its support for initiatives such as the NPRS and an active presence in the country. However, it must take into account the paradigm shift that has resulted in Chad working with new partners in recent years and acquiring new financial resources.
101. The **European Union** and bilateral programs with European countries are giving priority to civil reconciliation and democracy-building projects, in addition to their usual support for the water, health, education and infrastructure sectors.
102. Judging by the recent agreements between Chad and **China**, the arrival of this latest partner appears to be a new source of investment and development aid that has fewer conditions but has yet to materialize.
103. On the whole, the possibility of foreign debt relief will continue to serve as an incentive for sound financial governance for some time. However, Chad is developing a margin of relative autonomy that is prompting its partners to promote more in-country ownership of good policies and practices.

2 KEY PLAYERS AND AREAS OF ECONOMIC PRODUCTION

104. Everyone, first and foremost the Chadian government, recognizes that long-term economic development in Chad must be based on rural production activity, i.e., farming and herding. Chad faces the challenge of using the resources from oil production to develop these two sectors that are key to growth.
105. Economic diversification must also be based on a business-friendly climate and economic operators who are increasingly well prepared to position themselves on the emerging markets. Among them, oil producers play an important role in the country's domestic economy.

2.1 The Traditional Rural Sector: A Priority in All Respects

2.1.1 Bringing Agricultural Services and Farmers' Income Up To Standard

106. Historically, farming has been Chad's primary source of revenue, along with herding. However, this sector has seen a major decline in recent years, as evidenced by the problems in the cotton sector where production continues to fall. Much-needed funds were finally allocated to this sector under the 2007 budget, in addition to the subsidies for cotton producers and CotonTchad.

107. The *Ministère de l'Agriculture's* revised 2007 budget was 41.377 billion CFA francs, as opposed to 26.652 billion in 2006. By November 10, the ministry had an 84% commitment rate. Subsidies for the *Office National du Développement Rural* (National Office of Rural Development, or ONDR) and the *Institut Tchadien pour la Recherche Agronomique et le Développement* (Chadian Institute for Agricultural Research and Development, or ITRAD) are increased substantially from recent years and spending levels were deemed satisfactory by the government officers whom the IAG met.
108. The ONDR's annual subsidy increased from 320 million CFA francs in 2003 to 1.04 billion in 2007. The producer training and outreach programs that had been put on hold since 2002 are gradually resuming and ONDR is clearly reinvested in its original role. It spent a major portion of its 2007 budget on upgrading equipment at its regional offices and recruiting new agricultural advisors to train village associations in the cotton zone as the first priority, while still maintaining a focus on other crops. In addition, the Government is subsidizing seed and financing 30-50% of the cost of farming equipment.
109. ITRAD is resuming the research activities that had been dwindling in recent years. It invested a good portion of its 2007 budget in upgrading its farms and laboratory equipment. The seeds produced this year have helped create a high-quality stock, which will contribute to sector recovery. However, it will take several more years to meet producers' needs.
110. The results of the 2006-2007 cotton growing season are not encouraging: 98,000 tonnes of cotton produced *versus* an expected production of 154,000 tonnes from the 245,000 hectares that were planted. These results are partly due to the poor quality of the seed used by some producers. The President's initiative for a 3-year sector recovery plan (2007-2009) offers hope for improvement. The plan aims to support CotonTchad, ONDR, ITRAD and cotton producers, who have been united under the national union (UNPCT) since April 2, 2007 and includes a performance agreement, which was expected to be signed by the Government and the aforementioned parties at the end of November 2007. This agreement will set specific goals for the various players and define the resources that need to be put in place in order to attain the overall objective of reviving the sector by the end of 2009. In the end, these various measures should help increase production and productivity and put CotonTchad's financial situation back on track in the event it is privatized.
111. The Government's technical team in charge of implementing the Roadmap for Cotton Sector Reform has made several proposals in recent months about how to shape the sector, how it should function and the status of three critical functions: training, research and maintenance of rural roads. The team recommends that these functions remain under the government's purview, even if government control of the sector is relaxed. The "government withdrawal" scenario will need to be discussed in view of the results of the steps taken to remedy CotonTchad's financial situation and the report of the current technical and financial audit to assess the value of the company's shares, which should be published in February 2008.
112. The considerable progress in the agricultural sector needs to be accompanied by other activities in order to achieve true recovery:
113. • The rehabilitation of rural roads is a much-neglected area where needs are great. Despite the fact that funds from the 2007 budget were allocated to the *Ministère des Infrastructures* specifically for rural road repair, the project to restore 500 km of roads planned for this year still had not begun as of November 2007. CotonTchad was already concerned

about the difficulties it would encounter trying to collect cotton from the villages, a process that should have begun in November.

114.
 - The cost of inputs is also a limiting factor. Since producers often lack the resources to purchase inputs, the Government decided to cover 40% of the acquisition costs. The effectiveness of this option remains to be seen, because even with high quality seed and increased support, producers' results will still fall short of the target objectives if they do not have help gaining access to fertilizers.
115.
 - ONDR, ITRAD and more generally, the *Ministère de l'Agriculture* have launched some major preparatory activities to revive the agricultural sector. All too often, however, they lack clearly-defined objectives and performance indicators that could help clarify priorities and justify the budget increase requested by the *Ministère de l'Agriculture* for 2008 and onwards. This concerns particularly ONDR, which is predicting a significant increase in its funding needs for 2008 to cover personnel, material, equipment and investment costs, without these expenditures being clearly linked to the achievement of productivity goals.
116. Early indications of the 2008 budget point to a substantial decrease in appropriations for the *Ministère de l'Agriculture*. If this holds true in the actual budget, this decision would be counterproductive to sector development, without which the MDG of doubling the income of the poor by 2015 would not be achieved.

2.1.2 Herding: Ending the "Poor Relation" Treatment

117. Despite its great potential, the herding sector in Chad has been underexploited. There is still considerable room for diversification and improved productivity.
118. The ministry has high hopes for the *Plan National de Développement de l'Élevage* (National Plan to Develop Herding, or PNDE), which was scheduled to be finalized by the end of 2007. The plan will cover the period 2008-2015 and should help identify actions for strengthening and developing the sector. The plan's capital expenditure program was being developed at the time of the IAG visit.
119. The ministry needs to ensure that the comprehensive and ambitious plan under the PNDE is accompanied by specific, quantitative and qualitative goals to help measure progress in implementing the plan and its impact in terms of wealth production, increased GDP, a balanced food supply, poverty reduction, the trade balance, etc. The contribution to progress towards the MDGs will be key when soliciting funds from the Government and external donors.
120. A livestock census is still an important step that should have received top priority in the past few years. Knowledge of this resource is vital to planning its development. A general livestock census is planned for 2008 but will take several years to complete. It will be important to earmark enough money in the budget for this operation so as to avoid further delays and establish a system for rapid delivery of interim results that can be used to support the PNDE.
121. The ministry has announced its plan to build modern slaughterhouses in Abéché and N'Djaména to add value to livestock products. The Moundou butchers union, which would like to be a supplier for the Oil Project but fails to meet the oil company's requirement to comply with international slaughtering standards, is also seeking the construction of a modern slaughterhouse in Moundou.

122. The *Ministère de l'Élevage* and the *Ministère de l'Hydraulique Pastorale* will need to reach a consensus on how they will collaborate on the *Programme National de Sécurité Alimentaire* (National Food Security Program), in light of the recent division of powers by the government. The *Ministère de l'Élevage* has been charged with identifying hydraulic infrastructure needs and the *Ministère de l'Hydraulique* has been given the responsibility of building the infrastructure out of its budget and then handing it over to *Élevage* for operation and upkeep. A systematic supply of water for livestock is crucial not only to ensure the mobility of the herds but also, as a consequence, to reduce conflict between farmers and herders and so to enhance citizen safety.
123. The State is not the creator of wealth in the farming and herding sectors and must therefore refrain from excessive interventionism, the limits of which have been demonstrated in the past. However, it does have a unique and essential role to play in providing the support herders and agricultural producers need—and which it alone can provide—in terms of research, infrastructure, training and security.
124. Here again, appropriations should match the stated priorities, yet herding is still the “poor relation” among the priority sectors with a revised 2007 budget of only 6.5 billion FCFA (of which 2.76 billion from petroleum revenues). That is 0.9% of total expenditures allocated to this important and renewable resource.

XIII.5 The IAG recommends that:

125. - *The Ministère des Infrastructures complete the road maintenance projects under the 2007 budget as soon as possible and take the necessary steps to ensure that rural road maintenance projects be implemented without delay in subsequent budget years;*
126. - *The State continue its efforts to revive agricultural training and research programs, and materialize these programs in the 2008 budget allocations to the Ministère de l'Agriculture, and more specifically to ITRAD and ONDR. Special consideration should be given to support for inputs and farming equipment.*
127. - *The Government, with the support of its partners, pursue its plan to revive the cotton industry by prioritizing improved production through substantial yield increase;*
128. - *The Ministère de l'Élevage receive enough funding in the 2008 budget to carry out the general livestock census and compile interim results quickly while awaiting the final count, and to be able to launch livestock hydraulic programs and programs to diversify and improve productivity;*
129. - *The Ministère de l'Élevage oversee the construction of slaughterhouses designed to increase the added value of meat exports;*
130. - *The Ministère de l'Agriculture and the Ministère de l'Élevage adopt quantitative and qualitative performance criteria concerning use of their budgets to help measure progress in reaching the goals in the NPRS-2 and the MDGs.*

2.2 Consolidating Progress by Economic Actors in the Modern Sector

131. The IAG met with economic operators in Moundou and N'Djaména at its meetings with the Chamber of Commerce.

132. • Economic operators and Chamber of Commerce representatives have unanimously hailed the interventions by the **International Finance Corporation**, which has been setting up business development centers in Moundou, N'Djaména, Doba and Sarh since 2005 in partnership with the Chamber. The IFC capacity-building project for local economic operators offers low-cost training as well as advice and technical support on topics such as the administrative formalities associated with successful bids.
133. **Esso's** local business opportunities program is producing results, though some operators complain that to date they have been unable to position themselves to win Project contracts. Others recognize that overall the situation has changed for the better and now enables more local operators to win contracts of various sizes for supplying the Oil Project. The Esso/IFC partnership to gradually improve the capacities of local operators is also producing encouraging results.
134. However, operators have made one request: that in addition to publishing its requests for proposals on the Internet, Esso also post them in hardcopy form in Chamber of Commerce offices. This would help level the playing field between operators who have high-speed Internet access and those who do not. They also expressed the desire for contracts that are too large for local capacities to include incentives for sub-contracting so that large companies can contribute to building the capacity of small businesses by allowing them to fulfill the parts of the contract they are equipped to handle.
135. In Moundou, some operators have remarked that leaving the informal sector inevitably means paying taxes, whereas winning bids is unpredictable. It would perhaps be wise for the main operators' association, *Collectif des Opérateurs Économiques des Logones* (COEL) to verify with the regional tax authority that the taxes being collected are not out of the norm.
136. • The **Chamber of Commerce** is a revitalized institution that has developed a plan with specific goals up to 2010; it deserves to be encouraged.
137. Under its 2007 action plan, the Chamber had an institutional audit conducted, in partnership with the IFC and the government, to identify its strengths and weaknesses and implement a functional organization chart that will enable it better play its role of providing information and support to economic operators. A call for applications was put out in order to reinforce the current team.
138. Another major activity in 2007 that was also backed by the IFC was the establishment of the *Forum de dialogue État-Secteur privé* (Forum for State-Private Sector Dialogue, or FODEP). Its first Presidium meeting, sponsored by the Head of State, is scheduled for January 29, 2008. Expectations for the Forum are high and the Chamber of Commerce, employers and government have already begun working in partnership to identify the difficulties that put private-sector development at a disadvantage and to make suggestions for improving the climate for business and investment in the country.
139. Meanwhile, economic operators are pointing out the difficulties in their relations with the government, especially with regards to taxation.
140. Although EEPIC's relations with the Chamber of Commerce and economic operators has improved noticeably as a result of Esso's local business opportunities program, it is desirable that the oil company participate more fully in the governing bodies of employer organizations and the Chamber of Commerce.

141. • The **oil sector** has become more diversified within the country in terms of oil activity and the participants involved.
142. In addition to the ExxonMobil-Chevron-Petronas consortium, Chad now is also partnering with China National Petroleum Company (CNPC), the Taiwanese company OPIC and the Libyan company Tamoil Africa. Along with the exploration work being carried out by these companies, some projects that will contribute to diversifying the economy are about to see the light of day.
143. Chad and the Consortium have already reached an agreement on the terms of implementation for a topping plant in Komé to supply diesel fuel to the Consortium and the STEE. Once the remaining technical details have been hammered out, the project is scheduled to be implemented in 18 months. The diesel fuel supplied to the STEE will help stabilize energy supplies and substantially reduce fuel costs at the power plants in N'Djaména, Moundou and elsewhere.¹
144. Chad also signed a Memorandum of Understanding with China for the construction of a refinery to the north of N'Djaména, led by a joint venture between CNPC and *Société des Hydrocarbures du Tchad*. The refinery would be supplied with crude oil from Sidigui and the Bongor basin, which is part of the CNPC license. It would produce a range of products, including gasoline, which would help reduce fuel costs on the domestic market. Feasibility studies are underway to determine the best formula for financing and implementing the project.

XIII.6 The IAG recommends that:

145. - *Esso post its requests for proposals in hardcopy in the various Chamber of Commerce satellite offices;*
146. - *In addition to its activities to benefit local economic operators, Esso become more involved as a corporate citizen in the governing bodies of the Chamber of Commerce and employer organizations;*
147. - *The Government support the FODEP initiative and the promising relations it will produce.*

3 OIL MANAGEMENT INSTITUTIONS AND INSTRUMENTS

148. With the goal of developing its oil sector, Chad has been reorganizing the national institutions in charge of oil management. Recent months have seen the establishment of *Société des Hydrocarbures du Tchad* and the dissolution of the *Coordination Nationale du Projet Pétrole* (National Coordination for the Oil Project, or CN).
149. In order to manage its oil in a rigorous, efficient and transparent manner, Chad needs to define the roles and responsibilities of the various national institutions involved in the process and equip them with appropriate resources. This is what it will take for Chad to ensure a sustainable oil sector that will allow it to reach its hoped-for domestic spending levels.

¹ Contrary to what was stated in paragraph 188 of the IAG's twelfth mission report, the Komé facilities currently operate on gas and do not use crude oil. The distillate produced at the topping plant will not contribute to reducing Esso's consumption of Chadian crude, since it currently does not use any, but rather, it will help Esso reduce the amount of diesel fuel it imports for use in its vehicles. The IAG apologizes for this error.

3.1 Loss of a One-Stop Shop with the *Coordination Nationale*

150. The *Coordination Nationale* was dissolved by presidential decree on October 10, 2007. The decree also transfers the CN's movable and real property to the *Société des Hydrocarbures du Tchad*, but does not specify how the CN's roles and responsibilities will be redistributed. This sudden closure of this one-stop shop leaves a legal void and a certain amount of confusion.
151. Now that the CN's facilitator role no longer exists, the Consortium has had to deal directly with the various ministries, although the *Ministère du Pétrole* reminds that it is contractually the designated point of contact for the oil company.
152. EEPFI-MINFIN relations have been negatively affected by numerous tax-related disputes. In September, the *Ministère des Finances* set up a special commission to deal with the issues, which hopefully will accelerate the resolution process.
153. At the time of its dissolution, the CN was holding debts to the World Bank and various contractors. The question of who is responsible for liquidating these debts was not addressed in the dissolution decree and remains unanswered.

3.2 *Société des Hydrocarbures du Tchad* Gradually Established

154. *Société des Hydrocarbures du Tchad* is gradually taking shape with the recent publication of its bylaws and the appointment of company managers through a decree on September 11, 2007.
155. There are still several steps to complete before this State-owned commercial and industrial company becomes operational. First, the management must accurately analyze the company's terms of reference and develop a business plan to identify the financial and human resources needed to operate the company. It will then be up to the State to allocate the appropriate budgets.

3.3 Intermittent On-Site Monitoring by the *Ministère du Pétrole*

156. The *Ministère du Pétrole* remains the regulatory agency for the enforcement of the petroleum legislation and the management and technical monitoring of oil activities. Like all other oil projects, the Doba Project falls under its purview.
157. The disappearance of the Doba Petroleum Unit (DPU) several months ago for lack of funds is cause for concern. The *Ministère du Pétrole* has stated that it now sends agents to the field periodically to provide technical monitoring of operations by the Consortium and other oil operators in Chad. However, it remains to be seen whether this intermittent approach will be sufficient to monitor the growing number of exploration and production activities in this strategic sector.
158. The National Commission in charge of Renegotiating Oil Agreements—particularly the 1988 and 2004 agreements²—was reorganized by decree in August. The work was temporarily on hold for several months, but the new team chaired by the *Ministre du Pétrole* was being put in place at the time of the IAG mission.

² Contrary to what was written in paragraph 89 of the IAG's twelfth mission report, the stated royalty rate in the 2004 Agreement is 14.25% and not 14.5%. The IAG apologizes for this error.

3.4 *Ministère de l'Environnement, de la Qualité de Vie et des Parcs Nationaux: Absence of On-Site Monitoring and Lack of Regulatory Instruments*

159. Along with the *Ministère du Pétrole*, the *Ministère de l'Environnement* has regulatory powers associated with the enforcement of environmental laws applicable to oil activities, and is responsible for environmental monitoring of these activities.
160. The nearly complete absence of the CTNSC over the past year is troubling. The Committee has been reduced to one person (the Executive Secretary) who provides minimal environmental oversight services, made possible only through the logistical support provided by Esso and the other oil companies. The CTNSC has no funds, hence no material or human resources, and the Executive Secretary's salary has not been paid for several months.
161. Yet the *Ministère de l'Environnement's* 2007 appropriations package contains a 476 million CFA franc budget for the CTNSC which the Ministry had not yet spent as of November.
162. The Government has thus all but ceased to play a role in environmental monitoring now that funding for the World Bank-sponsored Petroleum Sector Management Capacity-Building Project (PSMCBP) has dried up. As with the DPU, this situation is indicative of a broader problem of lack of government ownership in the institutions established under World Bank programs.
163. Given the serious institutional void that now prevails and is leaving operators on their own, restoring environmental monitoring of all oil activities in the country is vital. The Petroleum Code stipulates that it is applicable starting at the exploration phase and the *Ministère de l'Environnement* is responsible for enforcing it. All crude exported through the Chad-Cameroon pipeline must comply with the principles in the original EMP, as agreed by all the parties. This obligation cannot be enforced without effective monitoring.
164. The National Oil Spill Response Plan (NOSRP) that was adopted by the Council of Ministers on June 28, 2007, was still awaiting approval by the National Assembly at the time of the IAG mission. The further step will be to issue its implementing decrees.
165. No progress has been made in drafting the implementing decrees for the 1996 Environmental Act.
166. Given the persistent absence of important legal and regulatory instruments for managing the oil sector, the IAG again urges the *Ministère de l'Environnement* to exercise its regulatory powers.

3.5 **Capacity Building: Learning Lessons Before Launching a New Project**

167. Based on the foregoing observations, there is no doubt that Chad's ability to manage its oil sector must be improved and that additional training is needed.
168. The World Bank and the *Ministère du Pétrole* have begun preparing a Petroleum Sector Management and Institutional Development Project that may be ready for submission to the Bank's Board of Directors in June 2008.
169. Preliminary information indicates that this project will focus on building the capacities of the *Ministère du Pétrole*, the *Ministère de l'Environnement* and the *Ministère des Finances*, as well as on improving legal and regulatory instruments for the oil sector.

170. Chad will contribute US\$6 million to the project and the World Bank will provide an \$8 million grant.
171. The IAG questions whether Chad will truly take ownership of this project. It is imperative that lessons from the PSMCBP be learned in order to avoid the disappointments that were seen once World Bank funding ran out. A new project should not be started unless both partners demonstrate their willingness to attain specific goals. Immediate resumption of funding for the CTNSC by Chad would be a sign of this willingness.

XIII.7 The IAG recommends that:

172. - *The Government include in the budgets of the Ministère du Pétrole and Ministère de l'Environnement the funds for the technical and environmental monitoring of the Consortium and other oil companies' operations;*
173. - *Without further delay, the Government adopt the legal instruments for environmental protection by promulgating the decrees relative to the Environmental Law, the ratification of the NOSRP by the National Assembly and its effective implementation;*
174. - *Société des Hydrocarbures du Tchad systematically conduct a rigorous analysis of its responsibilities by preparing a well-defined statement of goals that is consistent with the duties of other ministries, and that it prepare a business plan to guide it as it gradually begins its work;*
175. - *The Government and the World Bank agree on the specific goals and measurable results to be achieved before further investing money in a capacity-building program, albeit a much-needed one.*

4 SITUATION IN THE OIL ZONE

176. The IAG reviewed with EEPCI the production and construction activities at the Doba (Komé, Bolobo, Miandoum), Nya and Moundouli, and Maikeri fields. The Group focused particularly on implementation of the Project's Land Use Mitigation Action Plan (LUMAP). It reviewed the corrective measures for the environmental and social impact caused by the various oil projects in operation, as well as the prevailing security situation in the oil zone.

4.1 Production Relatively Stable

177. Despite a slight decrease in the second and third quarters, oil production in 2007 held steady at between 135,000 and 150,000 barrels per day, as forecast by the oil company at the beginning of the year.
178. As of October 31, 2007, there was a total of 480 drilled wells at the six production fields. Of these, 433 are production wells, including 47 drilled in 2007, and 47 are water re-injection wells, 5 of which were drilled in 2007.
179. EEPCI is projecting a slight increase in production for 2008 as a result of several factors: increase in the Maikeri field production which came online in July 2007, the well infilling campaign, the measures to stimulate the reservoir, particularly the introduction of the high-pressure water re-injection program, and repairs to defective pumps.

4.2 Moderate Exploration Levels and Arrival of New Operators

180. The Chevron-Petronas-ExxonMobil Consortium's operating license covers three zones around Lake Chad, in Doseo Est and to the west of Doba.
181. Esso's 2008 exploration business plan, deemed modest by the *Ministère du Pétrole*, calls for continued regional geological and geophysical studies and an analysis of specific prospects in the three zones in order to determine new exploration programs. Esso has also announced that it will be conducting studies on the Mangara field's prospects for economic profitability.
182. After obtaining promising exploration results, Esso submitted a concession application to the *Ministère du Pétrole* on November 8, 2007 for the Timbré field next to Bolobo. According to the company's initial estimates, production at this field would require only a few wells. The application is being reviewed by the ministry's technical department. Once the review is complete, it will take several months to grant the concession.
183. Therefore, Esso currently is not planning to develop any new fields in the coming year.
184. In addition, the *Ministère du Pétrole* has announced that the Taiwanese company OPIC will soon begin a seismic campaign to the northwest of Doba, whereas the Chinese company CNPC, Encana's successor, is conducting an intensive exploration program including in the Bongor Basin.

4.3 Land Use and Compensation

185. Because land use for oil activities has been greater than originally expected in the EMP, especially in the Oil Field Development Area (OFDA) that covers the three Doba fields, EEPCI and the IFC worked jointly to develop LUMAP, which was finalized in April 2007. Hopes are high that implementation of this program will help rectify a situation in the most heavily affected villages that has become unsustainable for certain households according to the Project criteria.
186. In response to the *Ministère de l'Environnement's* request to conduct impact studies on infilling wells not provided for under the EMP, Esso feels that LUMAP is an effective response to current impacts and agreed to produce the requisite impact studies before beginning any new infilling campaigns in new fields.

4.3.1 Monitoring LUMAP Implementation

187. Several experts were recruited and a team was put in place specifically to implement LUMAP. Different sites were opened and analyses were started to identify a series of solutions for restoring a sustainable standard of living for populations affected by the infilling campaign.
188. • Among the plan's action points, reduction of the surface area used by the Project is part of a stepped-up campaign launched in October 2006 to **restore and return borrowed land** to area residents. After a pause during the rainy season, operations resumed at the beginning of November. Esso continues to focus on gradually restoring wellpads to the new dimensions adopted for the operations (5,231 m²). It was hoping to complete this work before the end of 2007 for the 358 wells that already had been built when this new procedure was implemented in 2006. Wellpads for new wells are downsized right after drilling is complete. At the time of the

IAG mission, the flowline restoration project was on hold pending the delivery of special equipment.

189. Esso needs to study the specific case of the wellpads that were built over a year ago but on which no wells have yet been drilled, so as to include them in the restoration program, even if it has to annex this land and pay compensation again if required for production in the future.
190. In total, 412.8 hectares of restored land were returned to the communities from January to October 2007. Some of the land was deemed to be of poor quality by farmers and a study launched by Esso on the issue is underway. Other lands are subject to special restrictions to limit the risk of fire during the dry season that could threaten the Project facilities.
191. • The **agricultural and non-agricultural training** programs offered as alternatives to resettlement have been evaluated by an expert. The expert report, which includes suggestions for improving the current programs, was scheduled for completion by the end of December 2007.
192. For now, the non-governmental organization ORT is continuing to implement the improved farming techniques training program. However, problems renewing its contract with Esso have led to long payment delays that may threaten the next vegetable growing season since ORT's on-site teams do not have enough funds to buy seed.
193. • LUMAP proposes a new option: "**Land for Land.**" It offers people the possibility of being compensated by the Project if they volunteer to give land to someone who is eligible for resettlement.
194. Only people who own enough land so that their standard of living would still be sustainable are eligible for this new form of compensation.
195. • At the end of November, villages were classified into three categories according to the level of Project-related impact, based on the ratio of Project-occupied land to the total village surface area. Five villages—Dokaidilti, Ngalaba, Dildo, Madjo and Bero—were deemed to have been severely affected, 8 villages moderately affected and 19 only somewhat affected.
196. In order to further refine this **classification** and **identify the specific impact sustained** by area residents at the community (villages), family (households) and individual level, and to assess their standard of living after compensation, more extensive socio-economic and land registry studies were begun.
197. The use of GPS and geographic information systems since May 2007 has allowed more accurate data to be gathered as to whether land in a given village is being farmed or not, and by whom. The information gathered is used to gradually update the compensation database. In the end, the new procedures should allow for rapid identification of the most vulnerable individuals and households. In terms of households, the criterion for a "severe impact" is that less than two-thirds of a corde of farmable land per person remains after the Project has come through.
198. The first land registry study to identify the most vulnerable households, which was conducted in Dokaidilti—one of the severely affected villages—has already provided ideas for solutions to pursue. Above all, it illustrated the diversity and complexity of the situations that will have to be managed and the need to develop approaches on a case-by-case basis.

199. • Concerning **community compensation**, Esso is working with several non-governmental organizations (NGOs) to help it identify development projects. The NGOs it recruits will be assigned to help the communities in question select the projects they wish to implement through a consensus-based decision.
200. • Specific plans for programs to **restore local residents' means of subsistence** will be developed for the different villages. Priority will be given to the hardest-hit villages, using the fast-track process defined in LUMAP.
201. Already it appears that implementing LUMAP will take longer than anticipated and Esso needs to make sure that the necessary funds are earmarked for the program in subsequent budgets.

4.3.2 The Need for More Participatory Communication and Consultation

202. A copy of LUMAP is available in French and English on Esso's web site. Esso has also provided copies to the Government, the World Bank, IFC and local NGOs. The IAG was informed that some groups had not received the Plan. Consequently, Esso should double-check to make sure the copies have been widely distributed.
203. Several information campaigns and consultation meetings have been organized in the OFDA villages to present LUMAP and the various approaches that have been developed. The residents of Dokaidilti did not seem to understand the plan, however, and expressed some concern about the disturbances caused by the land registry activities. Communication about these must be reinforced.
204. Esso has promised to involve the CTNSC more in the various implementation stages of LUMAP and to provide it with regular progress reports. The Government's role in this process seems even more important given that in the context of expanding oil activity, it would be advantageous to use the lessons learned from the Doba Project to limit land impacts of future projects from the very start.
205. Esso has also agreed to ensure greater involvement by NGOs and other partners in LUMAP monitoring.

XIII.8 The IAG recommends that Esso:

206. - *Mobilize enough funds to implement LUMAP beyond 2008, and more specifically, ensure that sufficient funds are earmarked for the effort to restore borrowed land so that a more sustained pace can be adopted. The goal is to restore the maximum amount of land to area residents before the next growing season, to allow cultivation of the land;*
207. - *Restore the wellpads that were built over a year ago, but on which drilling has not yet occurred;*
208. - *Clearly explain the applicable restrictions on use of the restored lands to local residents before planting begins;*
209. - *Before the next growing season, identify and implement projects to restore the standard of living of the people who were the most severely affected by the Project;*

210. - *With the IFC, to increase CTNSC involvement in LUMAP implementation and provide regular progress updates;*
211. - *Publish regular status reports on LUMAP implementation;*
212. - *Clarify the situation regarding its contract with ORT and immediately pay any outstanding amounts owed to ORT, where applicable.*

And to the Government,

213. - *That it contribute to this exercise by allocating the necessary human resources and by involving local NGOs.*

4.4 Security Measures Cause Oil Zone Mobility Constraints

214. • After taking stock of the security threats to the oil facilities and Project personnel, the Chadian government implemented measures to restrict vehicular traffic in the oil zone.
215. The Governor of Doba for the Logone Oriental region issued a communiqué on May 25, 2007 applicable to all users of the road (merchants, NGOs and others) and banning all vehicular traffic on certain roads near the oil facilities, subject to severe penalties. Drivers of non-Project vehicles wishing to travel in the restricted zone must obtain prior administrative authorization from the Governor of Doba or the Prefect of Bébédjia.
216. Gendarme troops from the *Coordination Nationale's* security unit were deployed to the zone and various checkpoints were set up for non-Project vehicles.
217. These measures, which are a response to a direct threat, are nevertheless problematic for the NGOs that work in the oil zone, some of which are based far from Doba or Bébédjia. They are having difficulty obtaining the necessary travel permits. The IAG urges the authorities to devise a procedure for issuing permits to drive in the oil zone to the NGOs involved in Project monitoring that are valid for the duration of their work there.
218. • There was a rash of theft and acts of vandalism at the oil facilities from January to May, but the situation has since improved.
219. The aforementioned checkpoints and more regular patrols by CN security units, which were facilitated when the Government granted 4 vehicles and Esso began supplying diesel fuel, have had a positive impact.
220. However, the gendarme units in the zone report that they have difficulty carrying out their mandate. The lack of material resources and delayed salary payments are affecting the troops' work. They also report that after transferring offenders to the Doba prosecutor's office, they sometimes see these same people back in the villages a few days later, which raises the issue of a lack of judicial resources, but also of possible corruption.
221. • Finally, the IAG heard reports of acts of violence committed by gendarmes against villagers in the oil zone. The information was passed on to the CN security unit, which promised to investigate and, if need be, take the necessary steps to punish the perpetrators and stop the acts of blatant insubordination.

XIII.9 The IAG recommends that:

222. - *Without neglecting the security aspects, the Governor of Doba set up a mechanism to facilitate travel in the zone for NGOs and other legitimate workers.*

4.5 Progress on Key Environmental and Social Issues

223. • Esso is continuing its **dust** abatement program. At the time of the IAG mission, Esso had plans to pave 12 km of road with asphalt by the end of 2007 and 10 more kilometers in 2008. It is also continuing its molasses-paving and water-spraying programs on certain sections of roads, but given the high cost and the short-lived impact, Esso is gradually starting to favor asphalt for all the roads in the zone.
224. Studies to assess the impact of dust on local residents' health are still pending. Esso seems to have temporarily neglected the issue, but the time has come to take a more proactive approach so as to finalize studies that already have been conducted and analyze the results.
225. The study on the impact of dust on plant fertility in the zone, which was contracted out to a Chadian research firm, is in progress. In response to concerns from farmers, this same firm is also studying the fertility of plants growing on restored Project land.
226. • For the first time, villagers have begun to worry about the how the permanent lights shining around some of the oil facilities are affecting the fertility of nearby crops. This is a new problem that Esso is urged to study.
227. • Esso's EMP team mounted information campaigns in Ngalaba and Maikeri concerning **gas flaring** at the Miandoum gathering station. The results of one study measuring the impact of flaring were presented to area residents. These results indicate that the concentration of nitrogen oxides (NO_x) in the surrounding air is below World Bank standards and therefore does not constitute a new air pollution problem.
228. The NGOs that did not attend these information sessions asked to be able to consult the study report prepared on this topic.
229. Installation of a compressor that will enable Esso to use, rather than flare the gas is still scheduled for the first quarter of 2008.
230. • **Waste management** continues to be disrupted by repeated breakdowns of the hazardous waste incinerator in Komé.
231. Esso has formed a team to propose solutions for reducing the volume of waste produced by the Project at the source and new procedures for processing and handling certain types of waste. A contaminated sludge treatment project called bioremediation was launched as part of this effort.
232. The project to construct a plastic and food-waste recycling plant in Bébédjia was delayed when the company from Cameroon that had partnered with a Chadian company for the work withdrew from the project. However, the project is forging ahead with IFC support and should be completed in 2008.
233. • The project for **surface use of produced water** is making headway. Esso has identified a site for the pilot project.

234. Eager to avoid creating unnecessary expectations, Esso stressed that the project is still in the very early stages and that the budget for the pilot project had not yet been approved by the company. A full scale project would not be developed before 2011.
235. With the same regard for caution, Esso had chosen not to involve the *Ministère de l'Agriculture*, the *Ministère de l'Hydraulique* and the NGOs at this time. However, given that the project is already known, it would be wise for Esso to communicate with these various entities as early as possible, while taking the necessary precautions.
236. • **Esso's relations with the NGOs** have improved thanks to Esso's initiative of holding quarterly meetings. This progress is commendable. Efforts are needed on both sides to make these meetings a forum for dialogue, discussion and open and productive collaboration for the benefit of people in the Project zone and above all, to remedy the damage sustained by local residents as quickly as possible.

XIII.10 The IAG recommends that:

237. - *Esso actively resume the study to assess the impact of Project-generated dust on human health in order to bring closure to an issue that has been pending for too long;*
238. - *Esso provide the NGOs with the results of the studies on gas flaring at the Miandoum gathering station;*
239. - *In general, Esso provide the NGOs with a copy of the terms of reference for the studies it is conducting in order to ensure that these studies are in line with the concerns of local residents;*
240. - *As recommended in the previous report, Esso involve the Ministère de l'Hydraulique and the Ministère de l'Agriculture in the pilot phase of the project for the surface use of water pumped from the oilfields, and ensure that a large scale project would be part of a development process that is in keeping with the people's wishes.*

5 CHAD - CONCLUSION

241. The last few months have been a source of hope and of disappointment for Chad:
242. • There has been progress toward reconciliation with the legitimate civilian opposition parties and the Syrte agreements with the four main rebel groups, but renewed fighting in November.
243. • Similarly, Chad has made progress in public-finance management, but considerable efforts are still needed, with the support of its partners, to fully restore fiscal health and to reach the level of transparency required by its inclusion in the Extractive Industries Transparency Initiative.
244. • Oil sector management is starting to take shape despite decreased monitoring by the Ministère du Pétrole and the Ministère de l'Environnement. The establishment of the *Société des Hydrocarbures du Tchad* is a step, though it still needs to define its operating procedures to ensure solid, sustainable management as the number of Chad's partners grows.

245. • The oil sector is growing and the investor base becoming more diverse even though a significant increase in oil production is not in sight, thus requiring rigorous and prudent management of both ordinary income and oil revenues.
246. • Agriculture—the traditional production sector—is starting to be revitalized, which requires greater consistency in development projects (rural roads, for example, must be an integral part of the solution). The same holds true for the herding industry, in spite of a recent decline in export values. These sectors are Chad's main resource and efforts must be made to achieve concrete and credible results for its citizens.
247. • Real headway has been made in providing greater access to Consortium contracts for economic operators and preliminary steps have been taken toward a more constructive relationship with government departments, which need to learn to work with economic operators in the early stages of key decision-making.
248. • Project-related negative impacts on residents in the oil zone have gradually been reduced, however, the State has all but withdrawn from its monitoring duties. The 5% fund for the oil region has been used exclusively in cities. The RDP is still a draft and there is a lack of visibility for some of the sector programs that are important for the citizens. The only permanent presence at the facilities are the gendarmes, of whom there are scattered reports of insubordination and arbitrariness, and Esso, to which the people address all their grievances and complaints.
249. Finally, there are two major challenges that can also be a source of noteworthy progress:
250. • Ensuring that the NPRS-2 is a development-focused strategy that is supported and driven by a solid political will and that it becomes a reference working tool for years to come;
251. • Transforming government investment into measurable results so that each expenditure makes a verifiable contribution to achieving the MDGs, reducing poverty and bringing lasting improvements to the lives of Chad's citizens.

CAMEROON - INTRODUCTION

252. The International Advisory Group (IAG) for the Chad-Cameroon Petroleum Development and Pipeline Project (“Project”) conducted its thirteenth statutory visit to Cameroon from November 25 to December 1, 2007.
253. The Group spent part of the mission meeting with its usual contacts to discuss developments with regard to the Pipeline Project and related projects since its last mission in May 2007. It thus held working sessions with Cameroon Oil Transportation Company (COTCO) in Douala and sessions in Yaoundé with Cameroonian non-governmental organizations (NGOs), the World Bank (WB), the International Monetary Fund (IMF), the Foundation for Environment and Development in Cameroon (FEDEC) and its three contracted implementing agencies, the National AIDS Prevention Committee (CNLS) and the Minister of Environment and Protection of Nature (MINEP).
254. The mission also provided an opportunity for the IAG to attend the Information Forum on the Chad-Cameroon Pipeline held by the tripartite COTCO/NGO/PSMC Platform for Cooperation in Yaoundé on November 29-30.
255. Although the Group was able to have some side meetings with members of the PSMC (Pipeline Steering and Monitoring Committee) during the Forum, it was unable to hold a separate working session with the Committee. It was also unable to brief the Prime Minister on its mission, as he was traveling at the time.
256. The mission itinerary and schedule can be found in Appendix 1.
257. The Chad-Cameroon pipeline Project has entered an operational phase that, though it requires constant vigilance, does not in itself present any major new problems in Cameroon. The IAG took stock of the current issues, paying particular attention to pending questions and areas of concern, including: FEDEC’s operations, progress on the Social Assessment, the Cameroon Petroleum Environment Capacity Enhancement Project (CAPECE), the legal framework for environmental regulations and the interaction between the Lom Pangar dam project and the pipeline.
258. This mission occurred in a **macro-economic context** that the IFM deems satisfactory on the whole. Having reached completion point in April 2006, Cameroon now has considerable debt relief funds in its HIPC (Heavily Indebted Poor Countries), MDRI (Multilateral Debt Relief Initiative) and C2D (bilateral debt relief from France) accounts at the Central Bank. However, the pace of capital spending is still very slow. This, in addition to a series of delays in reforming the public sector, a less favorable business climate and major corruption despite the Government’s efforts to eradicate it, leads to fears that Cameroon will not achieve its Millennium Development Goals (MDG) in 2015, in spite of its comfortable financial position.
259. On the **political level**, the ruling party won more than two-thirds of the seats in the National Assembly during the July 2007 legislative elections. A ministry reshuffle followed the elections on September 7, 2007.

6 IMPLEMENTING ECOLOGICAL COMPENSATION MEASURES AND THE IPP

260. Concerned about FEDEC's financial situation and the repercussions on the environmental and social issues under its purview, the IAG held an intensive working session with the Foundation, its three implementing agencies and the World Bank. The PSMC and the Ministry of Forests and Fauna (MINFOF) were also invited, but regrettably were unable to attend.

6.1 FEDEC's Lack of Financial Viability Confirmed

261. The results of the last audits of FEDEC's financial statements and the results of the assessment of FEDEC's activities conducted from September 9 to October 2, 2007 led to the same troubling conclusion. At its current pace, FEDEC will exhaust its initial capital in the next few years and therefore will be unable to continue its activities for 22 more years, as stipulated in the agreements that led to its creation. According to the most drastic projections, the capital will be completely dried up as early as 2009.

262. The gradual erosion of FEDEC's capital from 2002 to 2007 is a result of several factors: higher-than-anticipated spending levels to fund the implementing agencies' activities in the parks, the Government's failure to cover the ecoguards' salaries, which has forced FEDEC to assume costs that should have been paid by MINFOF for several years, the depreciation of the US dollar against the CFA franc, and the failure of various fund-raising efforts up till now.

263. Given this alarming situation, FEDEC's Board of Directors decided to obtain a status update by expediting the September assessment. Since May, it has also taken steps to reduce operating costs, held discussions with the fund manager to change some investments, and taken steps to pay for the development and implementation of a fund-raising plan in the first quarter of 2008. At the same time, FEDEC's Articles of Association are being revised in order to facilitate contributions by potential new donors.

264. FEDEC's problems require all the parties involved in its creation—the Government, the World Bank and COTCO—to work together to identify measures needed to recapitalize the Foundation and enable it to carry out its mandate effectively.

265. For now, several urgent measures are required. The Government must meet its financial obligations under the pipeline project's Environmental Management Plan (EMP). FEDEC must cut costs to the bare minimum, determine how much funding it needs to pursue its activities and optimize its statutes so as to be able to solicit new donors. The World Bank needs to facilitate relations between FEDEC and the Government so that solutions can be found and make its own contribution as a guarantor of the sustainability of FEDEC's statutory operations. COTCO, the only partner to have reacted to this situation to date, needs to explore all options for obtaining additional financial support from each of the Consortium members.

6.2 Lack of Government Involvement in Managing National Parks

266. • With respect to **Campo-Ma'an National Park (CMNP)**, World Wildlife Fund (WWF) has cooperative agreements with FEDEC. It also has agreements with MINFOF that govern the overall framework of its activities in Cameroon. However, MINFOF's delay in signing the tripartite MINFOF/FEDEC/WWF agreement is preventing WWF from fully implementing its conservation and sustainable management activities in the Campo-Ma'an region. This persistent delay is surprising, considering that signature of such an agreement is a routine

formality. Consequently, MINFOF's real obligations in the field to help implement the park management plan are not yet formalized and thus are not being fulfilled.

267. WWF is continuing the activities planned under the three-year agreement it signed with FEDEC in January 2007. However, both parties are concerned about the future of 19 of the 37 ecoguards responsible for park conservation. Their salaries were being covered by FEDEC until December 31, 2007, but may not be guaranteed after that time. MINFOF was supposed to assume this obligation, but despite their professional qualifications, they have not yet been given civil servant status.
268. • The **Mbam and Djerem National Park (MDNP)** management plan was submitted to the Prime Minister's office in March 2007 but was still pending approval and official implementation as of the end of November. This step is a prerequisite to the launch of the second phase of the FEDEC project and the signing of a new agreement with the implementing agency Wildlife Conservation Society (WCS).
269. Meanwhile, FEDEC has signed a contract amendment granting an additional 75 million CFA francs to extend the initial contract it had with WCS from January 1 to December 31, 2007.
270. Moreover, given that WCS's financial crisis would have prevented it from continuing its participation in the project, FEDEC's board of directors granted it an additional 72 million CFA francs to cover the period from July 1, 2007 to June 30, 2008. These funds are considered an advance on the pending new agreement that should theoretically take effect in January 2008. WCS has received an initial installment of 18 million CFA francs to continue its anti-poaching efforts. Payment of the second installment is contingent on WCS presenting a report to FEDEC describing the measures it has taken to seek additional funding.
271. WCS's unresolved financial crisis raises questions as to its ability to implement the second phase of the project once the park management plan is approved. Given its dwindling resources, FEDEC should cautiously assess the situation before further committing itself to WCS.
272. With respect to the park management and conservation activities it conducted from May to November 2007, WCS underscores the significant progress it has made in terms of securing the park and effectively involving local residents, government authorities and traditional leaders in the management of this protected area. However, it also notes an increase in the number of bush fires set by transhumant herders.
273. As with Campo-Ma'an Park, the situation with the ecoguards is troubling. The lack of material resources and delayed salary payments by MINFOF is causing a lack of motivation among the guards assigned to MDNP. Those whose salaries have been paid by FEDEC to date but who still have not been given civil servant status also may no longer be paid as of January 2008.
274. The lack of Government involvement, especially by MINFOF, is hindering the conservation and management efforts in both parks.

6.3 Coordinating Bakola/Bagyeli Programs with the IPP

275. FEDEC contracted with the NGO RAPID (*Réseau d'Actions Participatives aux Initiatives de Développement*) to implement the Indigenous Peoples Plan (IPP) for the 25 eligible Bakola/Bagyeli settlements in the Kribi-Lolodorf zone from August 1, 2006 to

December 31, 2007. However, after deciding that the term was too short, FEDEC's Board of Directors extended RAPID's contract for an additional year, from January 1 to December 31, 2008.

276. RAPID reports that the activities it has been conducting in the field over the past few months in the areas of education, health, agriculture and citizenship have been going well.
277. The participatory process established with the Bakola/Bagyeli people continues to function satisfactorily. The people selected by RAPID from among the residents in the various settlements to serve as liaisons are gradually being given more responsibilities in the field and some have even been recruited to work for RAPID.
278. Education has been given priority since May in order to provide support for the examination period at the end of the 2006-2007 school year and prepare for the start of the 2007-2008 school year. The results of this effort indicate a reduction in the dropout rate, improved academic achievement and an increase in the number of children enrolled in school.
279. For the implementation of COTCO's habitat program, RAPID was projecting that the three huts funded by a COTCO grant would be completed and handed over by the end of 2007. A Bagyeli technician that it had trained during the program's initial phase was placed in charge of construction.
280. RAPID was planning to hold a two-day forum at the end of December 2007 with support from FEDEC to present the activities it has been conducting since August 2006. FEDEC's board of directors planned to base its decision about funding levels for the 2008 IPP budget on this information. However, the question of long-term funding for IPP activities remains.
281. No progress has been made on the discussions that were initiated quite some time ago between FEDEC and International Finance Corporation (IFC) concerning the possibility of IFC funding for a master plan to help the Foundation define a long-term intervention strategy for indigenous peoples. Yet this is an important step in the search for additional funding.
282. The World Bank stressed the importance of the Ministry of Social Affairs (MINAS) playing its role in supporting and coordinating the various parties conducting programs for the Bakola/Bagyeli in the Kribi-Lolodorf region. This is essential to ensure the sustainability of the current programs and possibly extend them to other vulnerable populations.

XIII.11 The IAG recommends that:

283. - *FEDEC's three partners—the Government, World Bank and COTCO—urgently take the necessary measures to rebuild and stabilize FEDEC's capital and to ensure that the programs that constitute the reason for its existence are secure;*
284. - *FEDEC quickly adopt an ongoing fund-raising strategy to ensure the continuity of its mission;*
285. - *FEDEC ensure that the funds earmarked for the IPP out of its initial capital (US \$600,000) are protected from the gradual erosion of the rest of its capital;*

286. - *The World Bank pay particular attention and take any measure that may be required to honor, through the IPP, its long-term commitment to indigenous populations under Operational Directive 4.20;*
287. - *The Government consider the possibility of appointing a representative of the Ministry of Forests and Fauna to sit on FEDEC's Board of Directors so as to foster the necessary cooperation between the Foundation and this Ministry;*
288. - *The Prime Minister's Office approve and officially launch the MDNP management plan without further delay;*
289. - *MINFOF confirm its commitment to the Campo-Ma'an and Mbam and Djerem national parks by signing a tripartite partnership agreement with WWF and FEDEC immediately, and with WCS and FEDEC as soon as the MDNP management plan is approved and ready for implementation in this park;*
290. - *MINFOF fully assume its responsibilities by freeing up the necessary funds to manage CMNP and MDNP, more specifically by taking responsibility for paying—starting in January 2008—the salaries of the parks' ecoguards, which FEDEC has been covering up to now;*
291. - *MINFOF study the possibility of contracting with the CMNP and MDNP ecoguards who have been unable to obtain civil servant status;*
292. - *The IFC finally solidify the offer it made to FEDEC several years ago to provide funding for the development of a master plan for the IPP;*
293. - *FEDEC seek to develop a cooperative relationship with MINAS to ensure the sustainability of the IPP and its possible extension to other vulnerable populations in Cameroon.*

7 PLATFORM FOR COOPERATION AND THE SOCIAL ASSESSMENT

294. The work done by the PSMC/COTCO/NGO Platform for Cooperation since 2005 has paved the way for regular and increasingly open dialogue among its members and the type of cooperation needed to tackle the damage claims that many beneficiaries feel have not been handled in an equitable manner to date. Through the Social Assessment it has also enabled the parties to reach agreements on compensation paid to the people by the Project.
295. However, the policies and procedures of this mechanism, which appeared to be running out of steam six months ago, still need to be improved in order to foster a productive partnership.
296. • Despite clear progress on the **Social Assessment**, the NGOs are still concerned about COTCO's processing time for claims. As of the end of November 2007, COTCO data on the 2005-2006 and 2006-2007 social assessments were as follows:
- 9 claims pending out of the 42 original Category 1 claims that fall under COTCO's responsibility and which the company planned to settle by the end of 2007;
 - 56 claims out of the 141 original Category 2 claims for which COTCO feels it has fulfilled its obligations, but says it is willing to provide solutions as a "contribution." According to COTCO's schedule, it will process 31 claims in 2008 and 17 in 2009;

- 171 Category 3a claims on which the parties have not yet reached a consensus.

297. Despite the technical and budgetary constraints COTCO says it faces, the NGOs have justifiable difficulty accepting such a long time frame for settling Category 2 claims when the pipeline was built in less than three years.
298. Concerning Category 3a, the PSMC is now asking the NGOs to submit formal requests for each claim. This new measure is surprising given that since the start, claims have been accepted on the basis of the available information, both oral and written. Some NGOs say they are willing to go back into the field to obtain more documentation for the disputed claims. Others feel it is incumbent upon COTCO and the PSMC to verify the claims in the field and are recommending that the tripartite platform focus on finding overall solutions rather than working case by case.
299. Beyond the claims they submitted to COTCO at the beginning of the Social Assessment, the NGOs would like to be kept informed of other disputes reported directly to COTCO that are not on the tripartite platform's agenda for the time being. Consequently, the NGOs are requesting access to COTCO's database on compensation and damages.
300.
 - Eager to ensure that the **Platform for Cooperation** not be limited to the Social Assessment as was the case in 2006 and 2007, COTCO and the NGOs initiated discussions with the PSMC with a view to making the platform a privileged forum for information exchange and dialogue on each party's activities and concerns beyond actual pipeline monitoring. The platform has already decided to add new items submitted by the NGOs to its agenda and is planning to meet on a quarterly basis starting in 2008 to facilitate the establishment of this enhanced dialogue.
301.
 - The **Information Forum on the Chad-Cameroon Pipeline** held November 29-30, 2007, the second such event since 2006, was organized by the PSMC, COTCO and two of the four NGOs represented in the tripartite Platform for Cooperation. The other two NGOs did not agree with how the Forum was organized and chose not to participate.
302. This example illustrates the operational difficulties that the tripartite platform sometimes faces.
303. The Forum was an opportunity to bring together parties interested in or affected by the pipeline project, including representatives of the communities living near the pipeline, fishermen from the Kribi coastal region, the various ministries, academics and local NGOs. FEDEC and a Chadian delegation also attended the event.
304. The two days were organized around presentations by the PSMC, NGOs and COTCO on the activities they had conducted during the past year, a World Bank presentation on CAPECE and presentations by FEDEC and the IAG. A question-and-answer session followed each speech.
305. The forum proceedings, which summarize the consensus reached by the main participants, were presented to the assembly during the closing ceremony. They include recommendations that the relevant parties will now need to implement.

XIII.12 The IAG recommends that:

306. - *The NGOs, PSMC and COTCO give priority to defining a doctrine that will enable them to process the 171 Category 3a claims under the Social Assessment in a consistent manner;*

307. - *COTCO allocate the human and financial resources needed to substantially reduce the claims processing time, particularly for the Category 2 claims;*
308. - *COTCO add the claims that local residents submitted to it directly to the Social Assessment's agenda;*
309. - *The PSMC publish the proceedings of the November 29-30, 2007 Information Forum on the Chad-Cameroon Pipeline on its web site;*
310. - *The tripartite Platform for Cooperation continue efforts that have begun to extend its activities beyond the Social Assessment and thus pave the way for the establishment of a permanent, transparent, high-quality dialogue on the Project.*

8 CAPECE AND ENVIRONMENTAL REGULATIONS

311. Since it was not possible to hold a separate working session with the PSMC, the IAG was unable to fully assess the progress made since May 2007 on implementing CAPECE activities. Most of the information the Group gathered came from the World Bank, the PSMC's presentations at the November forum and information the PSMC sent after the mission.
312. • Now that World Bank funding for the **CAPECE Project** has reached its expiration date of November 30, 2007, a preliminary observation must be made: despite efforts made by Cameroon to make up for the delays and complete the various CAPECE activities, some were not finished and others have been completed but have not resulted in follow-up actions or in the expected results on the part of the relevant authorities. The Project's initial objectives may end up being carried over to the successor project.
313. - The most critical example is undoubtedly the legal framework for environmental management of the oil sector.
314. The implementing decree for the National Oil Spill Response Plan (NOSRP) as well as the twelve proposed decrees and one bill on environmental management in the oil sector, which were drafted as part of CAPECE, approved by the PSMC and sent to the Prime Minister's Office several months ago, are still awaiting signature. Some of these decrees would give force of law to the 1996 Framework Law on the Environment.
315. Even though the Project has entered an operational phase that currently does not pose any major problems, the greatest risk is still an accidental oil spill, requiring ongoing vigilance by the Cameroonian authorities. It is still essential for Cameroon to adopt the legal instruments that are indispensable for protecting its citizens and its environment, especially given that major new infrastructure projects such as the Lom Pangar dam and the Kribi gas-fired thermal power plant are in the works and require responsible management.
316. - The final report of the follow-up study on protecting Cameroon's coastal zone and marine environment was submitted to the PSMC and approved in July 2007 after consideration of the comments put forward following a consultation and training workshop held in Kribi from June 25-27, 2007 with representatives of the Government, the oil companies, NGOs and local government authorities. However, the PSMC still needs to provide copies of the final study to the various ministries and institutions and

publish the recommendations and final report of the Kribi workshop on its web site. More generally, the relevant authorities need to implement the study's conclusions and recommendations.

317. It would be desirable for implementation of this plan to support sub-regional cooperation among oil-producing countries in the Gulf of Guinea. This is central to these countries being adequately equipped to face the constant threat of a possible oil spill.
318. - Concerning the study of the pipeline's socio-economic impact, the PSMC approved the consultants' final report at the end of October. It plans to prepare a summary of the report to post on its web site.
319. - The final report of the study on the long-term vision for environmental and social management of the oil sector was submitted to the PSMC on November 28 and is under review.
320. In all instances, these reports must be used to prepare action plans, which in turn must then be implemented.
321. In the area of health, the CNLS is disappointed that the mobile units purchased with CAPECE funds to travel along the pipeline route conducting AIDS awareness campaigns have never been deployed because they are deemed to be unsuited to the terrain. Thus, there would have been no specific AIDS programs in the pipeline corridor other than those in connection with the National AIDS Prevention Program. The Committee's leadership deplores the various difficulties it has encountered since the beginning of the project, including the World Bank's delays in issuing non-objection letters for procurement procedures. It would like to see AIDS prevention be an integral part of all large-scale projects, including oil, and is suggesting that in the future, all AIDS-related activities and funding for them be included in the initial contracts for these projects.
322. The various partners do not seem to have all the data needed to properly assess the health component of CAPECE, which is so essential to citizen well-being. This issue should be included in the project assessment that the Cameroonian government and the World Bank are preparing to conduct.
323. • Discussions between the World Bank and Cameroonian authorities on a **new capacity-building project** have made headway. These talks are part of the assistance that the Government requested from the World Bank in January 2007 to help consolidate and perpetuate the gains made by CAPECE, at a time when major new projects are being developed. One of the new project's goals, among others, would be to help Cameroon acquire the capacities needed for more effective monitoring and management of the environmental and social factors linked to energy sector projects that could affect the Chad-Cameroon pipeline, such as the Lom Pangar dam and the gas-fired thermal plant in Kribi. Two ministries would be directly affected by this component: the Ministry of Environment and Protection of Nature (MINEP) and the Ministry of Water and Energy (MINEE).
324. However, MINEP is concerned about having to cede some of its regulatory powers to special project monitoring units such as the PSMC and has been reluctant to embrace this new project. Thus, MINEP and the PSMC's respective responsibilities need to be clarified.

325. The institutional set-up of this new operation will be critical to its success. It will be important to learn the lessons of CAPECE first.
326. While awaiting the launch of the new project, the Cameroonians asked the World Bank to mobilize a Project Preparation Fund urgently so as to avoid an interruption in the activities conducted under CAPECE up till now.

XIII.13 The IAG recommends that:

327. - *The Prime Minister's Office adopt and publish the NOSRP without further delay; take steps to implement the plan and make it widely accessible; and sign the implementing decrees for the Framework Law on the Environment and the proposed legislation prepared as part of CAPECE;*
328. - *The World Bank make these measures a prerequisite to commencing a new CAPECE successor project;*
329. - *The relevant authorities adopt and use the results of the various studies under CAPECE and implement the action plans and recommendations in these studies;*
330. - *Cameroon and the World Bank learn the lessons of CAPECE's mixed results prior to investing in a second capacity-building program that, in order to be useful, must contain a timetable proposal clearly stating specific and measurable target objectives and milestones for the activities, actions and projected impact.*

9 ISSUES REQUIRING PROMPT ATTENTION

9.1 Finalizing the Transfer of Temporary Sites and Infrastructure to the Government

331. Progress has been made on this issue since May, with a memorandum of understanding for the transfer of three temporary bridges signed on October 25, 2007 by the PSMC, the Ministry of Public Works and COTCO. However, no progress has been made on the two decommissioning decrees for the facilities located on private government property or the decrees to incorporate infrastructure on public property into private government property.

XIII.14 The IAG recommends that:

332. - *The Prime Minister's Office sign the final decrees—which have been pending for several months—in the process of transferring temporary Project sites and infrastructure from COTCO to the Cameroonian government.*

9.2 Update on the Lom Pangar Dam: A Related Issue to Monitor

333. Now that engineering studies on the interference between the pipeline project and the Lom Pangar dam have been conducted, the area of the dam reservoir where the pipeline will have to be immersed has been identified. The pipeline adaptation option that COTCO outlined in February 2007 and presented to the Chad-Cameroon project lenders is as follows: the installation of two new sections of pipeline adapted for immersion that would each be approximately 12.5 km in length and connected to the existing line. Barring any incidents, this operation can be performed without interrupting production.

334. From this standpoint, and pursuant to the EMP requirements, COTCO has initiated with its Lenders a Management of Change (MOC) process that will need to be supplemented with studies on the risks inherent in accidental oil spills and the impact caused by fishing activities in the reservoir. MINEE has agreed to conduct these studies.
335. Now that agreement has been reached on the technical issue of submerging the pipeline under the future reservoir, the question remains as to who is to assume financial responsibility. That should be clarified in time to perform the pipeline protection work in a timely manner.
336. Several thematic studies requested by MINEP and conducted under MINEE supervision are still in progress. Once these studies are complete, MINEE needs to incorporate them into the overall study on the environmental and social impact of the dam project. This overall study will serve as MINEP's basis for issuing the certificate of environmental compliance needed to begin the work.

10 CAMEROON - CONCLUSION

337. The Pipeline Project has not had any major problems in Cameroon since May, which is good news. However, this does not mean there are no risks, especially in terms of the environment. Cameroon therefore needs to avoid falling into routine management of the Project.
338. At this stage, Project success is still contingent on several factors:
339. - FEDEC's financial recovery through recapitalization and greater involvement by MINFOF to ensure that the Foundation is able to fulfill its 28-year mandate in terms of the Project's environmental compensation and the compensation for vulnerable indigenous peoples;
340. - The adoption and implementation of a legal and regulatory framework for the environment that can effectively protect Cameroon's citizens and environment from the risks associated with major infrastructure projects, especially in the oil sector;
341. - The relevant authorities and institutions adopting the studies under CAPECE as working tools;
342. - The pursuit of open dialogue within the COTCO/PSMC/NGO Tripartite Platform for Cooperation in a spirit of cooperation and transparency.
343. The IAG will continue to follow these issues and monitor their progress.

ACKNOWLEDGEMENTS

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

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

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

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

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

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Appendix 1 Chronology of Meetings

CHAD

Sunday, November 11, 2007 – N'Djaména

- IAG internal working session

Monday, November 12, 2007 – N'Djaména

- *Société des Hydrocarbures du Tchad*
- Steering Committee for the NPRS
- WB, IFC
- IMF

Tuesday, November 13, 2007 – N'Djaména

- EEPCI

Wednesday, November 14, 2007 – Komé 5

- Esso Chad : EMP, construction and production teams

Thursday, November 15, 2007

Team 1: Doba³

- Interim Management Committee for the 5%
- Governor of Eastern Logone
- ORT

Team 2: Moundou

- CPPL
- Private operators of Moundou / Chamber of Commerce

Friday, November 16, 2007

Team 1: Komé field⁴

- Dokaidilti village
- Dildo village
- CTNSC

Team 2: Moundou, Komé field

- CotonTchad
- UNPCT
- Moarom village (formerly Bemou)⁵

Saturday, November 17, 2007 – Komé 5

- Oil zone security services (CN security unit, Komé Base and Komé 5 *gendarmerie* units)
- IAG internal working session : preparation for the close-out meeting
- EEPCI, CTNSC : close-out meeting

Sunday, November 18, 2007 – N'Djaména

- IAG internal working session

³ IAG accompanied by the CTNSC Executive Secretary

⁴ IAG accompanied by the CPPL, the CTNSC and Esso Chad EMP team

⁵ IAG accompanied by the CPPL and Esso Chad EMP team

Monday, November 19, 2007 – N'Djaména

- MINFIN technical services
- CCSRP
- CCSRP and DAAF of priority ministries

Tuesday, November 20, 2007 – N'Djaména

- *Société des Hydrocarbures du Tchad*
- *Ministère de l'Agriculture*
- *Ministre de l'Économie et du Plan*

Wednesday, November 21, 2007 – N'Djaména

- *Ministère du Pétrole*
- Permanent Secretariat for the PAMFIP
- NGOs, Human rights associations, Trade Unions
- Private operators of N'Djaména / Chamber of Commerce / EEPCI
- *Ministre de l'Élevage*
- IAG internal working session : preparation for the cross-checking sessions on November 22

Thursday, November 22, 2007 – N'Djaména

- French embassy
- European Union
- National Assembly
- Technical team responsible for the implementation of the cotton sector reform
- World Bank : cross-checking session
- EEPCI, CTNSC : cross-checking session
- IAG internal working session : preparation for the debriefing

Friday, November 23, 2007 – N'Djaména

- IAG internal working session : preparation for the debriefing
- The Prime Minister
- Debriefing

Saturday, November 24, 2007 – N'Djaména

- *Ministre des Finances et de l'Informatique*
- IAG internal working session : preparation for the mission report

Sunday, November 25, 2007 – N'Djaména

- Team 1: N'Djaména-Douala flight
- Team 2: Internal working session in N'Djaména

Monday, November 26, 2007 – N'Djaména

- MINFIN (*Direction Générale du Budget*)
- Steering Committee for the NPRS

Tuesday, November 27, 2007 – N'Djaména

- *Ministère de l'Éducation Nationale (Direction de la Programmation)*
- Steering Committee for the NPRS

CAMEROON

Monday, November 26, 2007 – Douala

- COTCO

Tuesday, November 27, 2007 – Yaoundé

- NGOs
- NGOs and COTCO
- IMF

Wednesday, November 28, 2007 – Yaoundé

- WB
- FEDEC
- Working session with FEDEC, RAPID, WWF, WCS, WB

Thursday, November 29, 2007 – Yaoundé

- Information Forum on the Chad-Cameroon Pipeline
- CNLS
- MINEP

Friday, November 30, 2007 – Yaoundé

- Information Forum on the Chad-Cameroon Pipeline
- IAG internal working session : preparation for the mission report

Saturday, December 1, 2007 – Yaoundé

- IAG internal working session : preparation for the mission report

Appendix 2 Acronyms and Abbreviations

ADB	African Development Bank
CAPECE	Cameroon Petroleum Environment Capacity Enhancement Project
CCSRP	<i>Collège de Contrôle et de Surveillance des Ressources Pétrolières</i> / Oil Resources Control and Monitoring Group
CMNP	Campo-Ma'an National Park
CN	<i>Coordination Nationale</i> / National Coordination
CNLS	National AIDS Prevention Committee
CNPC	China National Petroleum Company
COEL	<i>Collectif des Opérateurs Économiques des Logones</i>
COTCO	Cameroon Oil Transportation Company
CPG 5%	5% Regional Fund Interim Management Committee
CPPL	<i>Commission Permanente Pétrole Locale</i> / Local Standing Committee on Oil
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> / National Technical Committee for Monitoring and Control
DAAF	<i>Directeur des Affaires Administratives et Financières</i> / Administrative and Financial Affairs Director
DPU	Doba Petroleum Unit
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
FEDEC	Foundation for Environment and Development in Cameroon
FODEP	Forum for State-Private Sector Dialogue
GDP	Gross domestic product
GPS	Global Positioning System
HIPC	Heavily Indebted Poor Countries
IAG	International Advisory Group

IFC	International Finance Corporation
IMF	International Monetary Fund
IPP	Indigenous Peoples Plan
ITRAD	<i>Institut Tchadien pour la Recherche Agronomique et le Développement</i> / Chadian Institute for Agricultural Research and Development
LUMAP	Land Use Mitigation Action Plan
MDG	Millenium Development Goals
MDNP	Mbam and Djerem National Park
MDRI	Multilateral Debt Relief Initiative
MEP	<i>Ministère de l'Économie et du Plan</i> / Ministry of Economy and Plan (Chad)
MINAS	Ministry of Social Affairs (Cameroon)
MINEE	Ministry of Water and Energy (Cameroon)
MINEP	Ministry of Environment and Protection of Nature (Cameroon)
MINFIN	<i>Ministère des Finances et de l'Informatique</i> / Ministry of Finances and Information Technology (Chad)
MINFOF	Ministry of Forests and Fauna (Cameroon)
NGO	Non-Governmental Organization
NOSRP	National Oil Spill Response Plan
NPRS	National Poverty Reduction Strategy
OFDA	Oil Field Development Area
ONDR	<i>Office National du Développement Rural</i> / National Office of Rural Development
ORT	Organisation for Rehabilitation and Training - International
PAMFIP	Action Plan to Modernize Management of Public Finance
PNDE	<i>Plan National de Développement de l'Élevage</i> / National Plan to Develop Herding (Chad)
PRGF	Poverty Reduction and Growth Facility
PSMC	Pipeline Steering and Monitoring Committee
PSMCBP	Petroleum Sector Management Capacity-Building Project

RAPID	<i>Réseau d'Actions Participatives aux Initiatives de Développement</i>
RDP	Regional Development Plan
STEE	<i>Société Tchadienne d'Eau et d'Électricité</i> / Chad's water and electric company
UNPCT	<i>Union Nationale des Producteurs de Coton du Tchad</i> / National Union of Cotton Producers of Chad
WB	World Bank
WCS	Wildlife Conservation Society
WWF	World Wildlife Fund

Appendix 3

Indicators of Well-Being Proposed by the IAG

1 – National Education:

- gross enrollment rate: total, girls, boys (primary, secondary)
- net enrollment rate (primary, secondary)
- total number of classrooms, including makeshift classrooms, for primary school
- number of teachers
- number of high schools and *collèges*
- number of teachers
- number of students earning the baccalaureate

2 – Higher Education:

- number of students enrolled in university and specialized schools
- number of specialized schools

3 – Health:

- maternal mortality rate
- infant mortality rate
- child-infant mortality rate
- HIV/AIDS prevalence
- mortality/morbidity rate due to malaria
- Expanded Program on Immunization for children
- number of hospitals, health centers, health clinics and maternity clinics

4 – Agriculture:

- total subsidies to producers
- ITRAD budget
- ONDR budget

5 – Herding:

- number of watering points for livestock
- vaccinations
- monetary value of livestock exports

6 –Hydraulics for Herders and Villages:

- number of water supply points: wells, Drinking Water Supply
- coverage rate for the country for access to potable water

7 - Infrastructure

- paved roads (km)
- roads paved with laterite (km)
- rural roads (km)
- number of automobiles in the country
- airfields and developed runways

8 – Environment:

- surface area affected by bush fires (hectares)
- reforestation effort

9 – Mines and Energy:

- potable water coverage
- electricity coverage

10 – Telecommunications: number of telephone subscribers