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**THE WORLD BANK GROUP PROGRAM OF SUPPORT FOR THE CHAD-
CAMEROON PETROLEUM DEVELOPMENT AND PIPELINE CONSTRUCTION**

PROGRAM PERFORMANCE ASSESSMENT REPORT

CHAD

(WB LOAN 4558-CD; IDA CREDITS 3373-CD and 3316-CD; IFC LOAN 4338)

CAMEROON

(WB LOAN 7020-CM; IDA CREDIT 3372-CM; IFC LOAN 4338)

CHAD

IFC ADVISORY SERVICES (537745, 534603, 533974)

September 16, 2009

Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = CFA Franc

2000	1.00 US\$	713 CFAF	2005	1.00 US\$	533 CFAF
2001	1.00 US\$	742 CFAF	2006	1.00 US\$	540 CFAF
2002	1.00 US\$	725 CFAF	2007	1.00 US\$	492 CFAF
2003	1.00 US\$	591 CFAF	2008	1.00 US\$	457 CFAF
2004	1.00 US\$	549 CFAF			

All dollar amounts in this document are U.S. dollars

Abbreviations and Acronyms

GENERAL:

CAS	Country Assistance Strategy
CSO	Civil society organization
DCA	Development Credit Agreement
EC	Enterprise Center
ECMG	External Compliance Monitoring Group
EEPCI	Esso Exploration and Production Chad, Inc.
EIA	Environmental Impact Assessment
EMIS	Environmental Management Information System
EMP	Environmental Management Plan
GDP	Gross domestic product
IAG	Independent Advisory Group
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IEG-IFC	Independent Evaluation Group (IFC)
IEG-WB	Independent Evaluation Group (World Bank)
IFC	International Finance Corporation
IPP	Indigenous People's Plan
LUMAP	Land Use Management Action Plan
MTR	Midterm review
NGO	Nongovernmental organization
NORSP	National Oil Spill Response Plan
OFDA	Oil Fields Development Area
PAD	Project Appraisal Document
PDPP	(Chad and Cameroon) Petroleum Development and Pipeline Project
PPAR	Program Performance Assessment Report
SME	Small and medium enterprise
TA	Technical assistance
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WBG	World Bank Group

CAMEROON:

CAPECE	Petroleum Environment Capacity Enhancement Project
COTCO	Cameroon Oil Transportation Company
FEDEC	Foundation for Environment and Development in Cameroon
PSMC	Pipeline Steering and Monitoring Committee— <i>Comité de Pilotage et Suivi du Pipeline</i> (CPSP)
SNH	<i>Société Nationale des Hydrocarbures</i> (National Oil Company)

CHAD:

CCSRP *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Revenue Monitoring and Oversight College)

CRCP Chad Resettlement Compensation Plan

DPU Doba Project Unit

FACIL *Fonds d'Actions Concertées d'Initiative Locale*

FGF Future Generations Fund

MMEP Ministry of Mines, Energy, and Petroleum

MEWR Ministry of Environment and Water Resources

PRML Petroleum Revenue Management Law

TOTCO Tchad Oil Transportation Company

Fiscal Year: January 1 – December 31

VINOD THOMAS
Director-General and Senior Vice-President
Independent Evaluation Group

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

Chad-Cameroon Petroleum Development and Pipeline Construction Program

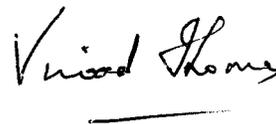
I am pleased to submit to you the performance assessment report of the Chad-Cameroon Petroleum Development and Pipeline Construction Program which IEG undertook in response to interest expressed by members of the Board of Directors.

This evaluation embodies two novel features. First, it assesses the performance of a program of five IBRD and IDA financed projects, two IFC loans and three IFC advisory services in a cluster, thereby combining an evaluation of the development effectiveness of the program as a whole with an assessment of the performance of each individual operation. Second, this is the first project based performance assessment which has been jointly undertaken by IEG-World Bank and IEG-IFC.

The evaluation finds that the program's fundamental development objective of reducing poverty and improving governance in Chad through the best possible use of oil revenues in an environmentally and socially sustainable manner was not achieved. It therefore rates overall program outcome unsatisfactory despite the technical and financial success of the main pipeline project. While the program suffered from some design flaws and supervision shortcomings, the principal reason for its overall disappointing outcome was the lack of government ownership.

The disappointing development outcome notwithstanding, the evaluation also finds that World Bank Group involvement resulted in stronger environmental and social protection and in higher expenditure allocations to priority sectors than would have been the case otherwise. It concludes that the Chad-Cameroon experience should not lead the World Bank Group to avoid appropriate involvement in extractive industries, but in designing such future involvement the World Bank Group should be mindful of the important lessons of this complex experience.

In accordance with IEG's Disclosure Policy Statement Outline (R2003-0223) that was approved by the Executive Directors on January 8, 2004, this evaluation will be made publicly available unless Executive Directors decide not to disclose. IEG plans on disclosing the report on October 8, 2009, unless Executive Directors request a postponement.



IEG Mission: Enhancing development effectiveness through excellence and independence in evaluation.

This is a joint evaluation by IEG-WB and IEG-IFC. The structure and ratings generally follow IEG-WB practice, which is explained below. Nevertheless, the findings, conclusions and ratings were arrived at jointly and by consensus of the two institutions. The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or WBG management have requested assessments; and those that are likely to generate important lessons.

To prepare a Program Performance Assessment Report (PPAR), IEG staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each report is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the report is commented on by the responsible WBG departments, and comments are incorporated as relevant. The completed report then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Board of Executive Directors, after which it is disclosed to the public.

About the Rating System

The IFC rating system for Advisory Service projects is substantively comparable to the IEG-WB system, which is mainly used in this evaluation. Use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG-WB website: <http://worldbank.org/ieg>).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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This report was prepared by a joint IFC/WB IEG team led by Salvatore Schiavo-Campo (consultant, IEG-WB) and comprising Fernando Manibog (consultant, IEG-WB), Gary Costello (consultant, IEG-IFC), and Cherian Samuel (IEG-IFC). The task manager was Peter Freeman. William Hurlbut edited the report and Romayne Pereira provided administrative support. Monika Huppi (IEG-WB) and Stoyan Tenev (IEG-IFC) were the respective unit managers.

Key Staff Responsible

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IBRD Loans 4558 and 7020

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
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CAMEROON: PETROLEUM ENVIRONMENT CAPACITY ENHANCEMENT PROJECT (IDA CREDIT 3372)

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CHAD: PETROLEUM SECTOR MANAGEMENT CAPACITY-BUILDING PROJECT (IDA CREDIT 3373)

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CHAD: PETROLEUM ECONOMY MANAGEMENT PROJECT (IDA CREDIT 3316)

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
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CHAD: IFC ADVISORY SERVICES (AS)¹

1. There were three AS operations: (i) Chad SME (537745); (ii) Finadev, Tchad (534603); and (iii) Chad Capacity Building (533974), with various task team leaders and managers involved.

Preface

This report evaluates the World Bank Group's program of support for oil development and pipeline construction in Chad and Cameroon, comprising the Petroleum Development and Pipeline Development projects for Chad and Cameroon (substantially the same project, supported by separate loans from the IFC and the IBRD), and three capacity-building IDA-supported projects. One, to Cameroon, was for building the capacity to monitor the petroleum sector; a second, for Chad, aimed at strengthening the capacity to manage oil development in an environmentally and socially sound manner; and the third, also for Chad, supported the arrangements for managing the oil revenue and improving public expenditure. All were approved in 2000 and became effective in 2001. Moreover, IFC had a number of advisory activities complementing these efforts. Together, these projects and activities were viewed as an integrated cluster (hereafter "the program").

The report combines an evaluation of the program, in its main text, with an evaluation of each individual project, in the annexes. The lessons identified in the text are those generally applicable to the program, with project-specific lessons included in the corresponding annex.

The evaluation is based on the documentation of the projects, Implementation Completion Reports (ICRs), Inspection Panel Reports, other World Bank and IFC documents and various internal memoranda, reports by the pipeline operators and by Esso Exploration and Production Chad, Inc. (EEPCI), and the relevant external literature. (See the Selected References.) In addition, the evaluation benefited from extensive interviews with some 100 interlocutors in the Bank, IFC, IMF, all major development partners, the two governments, and civil society organizations, and a mission to Cameroon and Chad, including site visits, in February 2009.

The cooperation of all interlocutors, and particularly those of the two governments in welcoming the IEG mission and sharing their views and time, was invaluable. IEG also gratefully acknowledges the cooperation of the Bank's country and sector teams and the assistance of country office staff in Cameroon and Chad. Finally, the team benefited from information and exchange of views with the two external advisory groups for the program, the External Compliance Monitoring Group and the International Advisory Group.

Following standard IEG procedure, the report was sent to the two governments and comments received are attached in Annex H.

Executive Summary

1. The fundamental development objective of WBG support for the Chad-Cameroon oil development and pipeline construction program begun in 2000 was to reduce poverty in Chad and improve governance through the best possible use of the oil revenue, in an environmentally and socially sustainable manner. Despite the technical and financial success of the pipeline project, linked largely to the high price of oil, this fundamental objective has not been achieved. Indeed, the oil revenue windfall was associated with a resurgence of civil conflict and a worsening of governance. The evaluation concludes that the principal reason for this disappointing outcome was the lack of government ownership, with repeated violations of the basic agreements. Actual outcomes might have been better with a more flexible program design, suited to the fluid circumstances and political economy of Chad. However, no alternative program design or closer supervision would have allowed to achieve the program's development objectives in the absence of government commitment.

2. The overall development outcome was disappointing, but the evaluation also finds that WBG involvement resulted in stronger environmental and social protections, and in higher expenditure allocations to priority sectors, than would have been the case otherwise. The report concludes that the WBG was right to support the program in 2000 and did so in full cognizance of the risks involved. Views among various stakeholders differ on the decision and manner of World Bank exit in 2008. The Chad-Cameroon program experience should not lead the WBG to avoid appropriate involvement in extractive industries --however risky it may be--with a view to helping to bring about more sustainable outcomes, but in designing such involvement it should be keenly mindful of the important lessons of this complex and controversial experience.

PROGRAM GENESIS AND STRUCTURE

3. In 2000, after an intense internal debate dating back to 1994, under external pressures, and fully recognizing the risks, the World Bank Group (WBG) embarked on an ambitious program of support for the development of oil in southern Chad and its export via a pipeline through Cameroon and an offshore oil export terminal. Chad would gain royalties and dividends from the oil export revenue (and eventually taxes) and Cameroon a transit fee from the pipeline (as well as income tax and dividends from the pipeline operator). WBG support comprised the main oil development and pipeline construction project, financed in part by IFC and IBRD loans and managed by a Consortium of oil companies led by ExxonMobil. It also included IDA projects in each of the countries to build their capacity to manage the oil sector, and an IDA project to help manage the oil revenue and improve public expenditure and budgeting systems in Chad, where IFC also conducted advisory activities (Table ES-1). Over 90 percent of the financing was provided by the Consortium and a group of commercial banks.

Table ES-1. WBG Support for the Chad-Cameroon Oil Development and Pipeline Construction Program

<i>Country</i>	<i>Project</i>	<i>Financing (US\$ millions)</i>	<i>Abbreviated project development objectives (*)</i>
Chad	Petroleum Development and Pipeline (IBRD/IFC)	37.2 IBRD (to government) 27.8 IFC (to Consortium)	Increase Chad's expenditures on poverty alleviation activities.
Cameroon	Petroleum Development and Pipeline (IBRD/IFC)	53.4 IBRD (to government) 172.2 IFC (to Consortium)	Increase Cameroon's fiscal revenues available for priority expenditures.
Cameroon	Petroleum Environment Capacity Enhancement (IDA)	5.8 IDA	Help Cameroon establish capacity for environment and social management and an oil regulatory framework.
Chad	Petroleum Sector Management Capacity-Building (IDA)	23.7 IDA	Strengthen capacity to manage oil development in environmentally and socially sound manner.
Chad	Management of the Petroleum Economy (IDA)	17.5 IDA	Build capacity to implement oil revenue management strategy and improve expenditure management.
Chad	Advisory Activities	4.8 IFC	Support local private sector linkages to the project, including microfinance and advice to SME.
WBG Finance		IFC: 204.8 IBRD: 90.6 IDA: 47.0 Total: 342.4	
Project cost (**)		3,724 (original est.) 6,500 (2000-08)	

(*) See Annexes A-E for the full statement of PDOs, on which the evaluation of the individual projects is based.

(**) Consortium estimate. Total costs are expected to rise to \$8 billion by 2011, owing in large part to the expansion of oil development beyond the original fields.

OBJECTIVES

4. The objectives of the individual projects were subsidiary to the main development objective of the whole program, which related to Chad. Except for the important environmental and social aspects, the involvement of Cameroon was ancillary, required to get the oil from landlocked Chad to the market.

5. As stated in the Chad Country Assistance Strategies (CASs) and confirmed by internal documentation and stakeholder interviews, the main objective of the program was to achieve progress in governance and poverty reduction by means of the oil revenue. Thus, the oil revenue management arrangements were the core of the entire program. As a senior manager put it at the time, the success of the program would be measured not in dollars but in how many Chadians it would lift out of poverty. In the 2001 CAS this objective was formulated as helping Chad use the petroleum resources to attempt to achieve the Millennium Development Goals. The 2003 CAS defined "the overarching objective" as making "the best possible" developmental use of the new oil revenue.² That CAS went

2. The 1996 CAS for Chad, before serious consideration of WBG involvement in the oil development and pipeline construction, lists the three strategic objectives as restoring public sector capacity, focusing public expenditure on poverty reduction, and creating an enabling environment for the private sector.

further, and identified the two pillars as “strengthening governance, including institutional arrangements for public resource management and service delivery [and] the rule of law...” and “enhancing non-oil economic opportunities while reducing sources of vulnerability.”

6. Accordingly, while the outcomes of the individual projects are assessed in this report against their stated project development objectives (PDOs), the outcomes of the program are assessed against the main objective of improving governance and reducing poverty in Chad, through the use of the oil revenue and in an environmentally and socially sustainable manner. The program encompasses the participation of both the World Bank (IDA and IBRD) and the IFC as integral parts of the World Bank Group, with the evaluative considerations of development impact referring to the IFC as much as to the Bank.

RISKS

7. The WBG was clear that the project should meet the highest standards of environmental and social protection, and—after rounds of review and comments by the WBG on earlier drafts—a thorough Environmental Action Plan and provisions for addressing the social implications of the project were approved and an independent External Compliance Management Group (EMCG) was put in place. This answered some of the concerns expressed by international and local nongovernmental organizations (NGOs).

8. For Chad, however, NGOs and others (including within the WBG) were particularly worried that the oil revenue would not be allocated to pro-poor and pro-development expenditure, owing to the governance weaknesses in the country—indeed, that the oil revenue itself could aggravate these weaknesses and possibly lead to renewed conflict after several years of comparative stability.

9. The Bank recognized these risks and attempted to address them through an unusually detailed and complex set of arrangements. The core of the program was the 1999 Petroleum Revenue Management Law, which set aside 10 percent of future oil royalties and dividends for a Future Generations Fund, 5 percent of royalties for expenditure in the oil-producing region, and about 85 percent of the remainder for expenditure in agreed priority sectors. The arrangement was backed by an escrow account in London into which the Consortium would deposit the oil export revenue—both in order to ensure repayment of the IBRD loan (required in view of Chad’s insufficient creditworthiness) and to underpin the pro-development allocation of the oil revenue and other key features of the agreement. A novel institution with civil society participation—the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (Oil Revenue Monitoring and Oversight Committee)—was set up to review and advise the government on the programs to be financed with the oil revenue. And, covering both countries, an International Advisory Group composed of eminent persons was established to counsel the two governments and the WBG on implementation of the program.

10. Other major risks were also recognized at an early stage, namely, a possible spillover from the crisis in Darfur; waning government commitment as soon as the oil would begin to flow; and social unrest if the oil revenue were not used for pro-poor, pro-development activities. To an extent, both a Darfur spillover and social resentment may in fact be associated with the internal violence experienced in Chad since 2003, and the CAS also proved correct in singling out the risk of waning government commitment.

MAIN EVENTS AFTER BOARD APPROVAL

11. With the oil revenue coming on stream in late 2003—much earlier than anticipated and in the far greater amounts associated with the increase in world oil price—the government of Chad unsuccessfully pressed the Bank during 2005 to agree to modify the 1999 Law, and on December 29 amended it unilaterally in major ways, including by eliminating the Future Generations Fund. The Bank responded one week later by suspending disbursements on all Bank operations and freezing government withdrawals from the escrow account. After resumption of the dialogue, a new agreement was reached in July 2006, by which the government promised to allocate to the priority sectors 70 percent of *all* budgetary resources (a much greater amount than the earlier 85 percent of direct oil revenue only), and the Bank removed the hold on the escrow account and resumed disbursements.

12. The new agreed allocation target was missed by a significant margin. In August 2008 (after initial unsuccessful informal demarches), the Bank persuaded Chad to voluntarily repay not only the outstanding balance on the IBRD loan but also the balances on the two IDA credits (for the first time in Bank history). Chad repaid the total of \$65.7 million in September, and the World Bank's involvement in Chad's oil sector came to a close. However, IFC has continued to monitor the environmental and social aspects of the petroleum and pipeline project and to help Chadian companies secure contracts from EEPCI.

OUTCOMES

13. The main petroleum and pipeline project was a physical, technical, and financial success, with the pipeline completed and oil flowing ahead of time. The distribution of benefits differed greatly between the two countries, as a result of their different situations and roles in the program.

14. **Cameroon.** Cameroon's involvement was mainly as a means to help achieve the key objective of the program, i.e., to help Chad reduce poverty and improve governance through the best possible use of the oil revenue. However, important issues were nevertheless at stake, and significant gains accrued to Cameroon. The major issues related to the handling of the high risks to the environment associated with the construction of an oil pipeline and, to a lesser extent because of the comparatively small number of people, addressing the social impact of pipeline construction. In both respects, the arrangements put in place for compliance with environmental specifications at the project level (especially the Environmental Management Plan) and addressing the social implications, and their monitoring through an independent entity, may be regarded as among the best in extractive industries projects in Africa.

15. The program also aimed at strengthening Cameroon's own capacity to manage and monitor the oil sector, including environmental risks, through an IDA-supported project. In this respect, the outcome was unsatisfactory, owing to modest relevance and efficacy.

16. For Cameroon, the pipeline project objective was to augment the financial resources available for development and pro-poor expenditure. The project achieved this objective, although to a lesser degree than aimed for because of lower production of oil. The gains to the

country included the revenue to the government from the pipeline transit fees as well as the income taxes and dividends from the pipeline operator. Although the pipeline-related revenue added up to about 1.5 percent of total government revenue, it was less than originally estimated owing to the lower amounts of oil passing through the pipeline. Since the pipeline maintenance and repair was ensured by the Consortium, and in light of the small fraction of total revenue accounted for by the pipeline-related resources, no provision was or could be made for the specific use of those resources—which thus accrued to the general government budget.

17. There were other gains as well, in the form of contributions to the local economy and stimulus to private sector activity through provision of jobs, skill-formation, supplier development, and infrastructure improvements in connection with the building of the pipeline, in addition to direct community donations by the Consortium.

18. Nevertheless, both the expectations and the outcomes of the overall program were comparatively minor for Cameroon, and no macro-level development, governance, or poverty impact could be expected from the program, let alone tracked or measured.

19. *Chad.* By contrast, the program led to a remarkable increase in financial resources available to the Chad government, from an annual revenue of about \$112 million in 2000 to over \$2 billion in 2008, almost 90 percent of it from oil. The broad macro-level outcomes, therefore, can only be assessed with reference to Chad.

20. The revenue to Chad was much larger than had been envisaged owing to the much higher oil price. As in Cameroon, the project also generated direct benefits in the form of employment, training, and other contributions to the local economy, and IFC's Linkage programs have supported small and medium enterprises through EEPCI's purchase of goods and services and the development of long-term supplier relationships.

21. The handling of the environmental and social impact at the project level before and during pipeline construction was satisfactory in Chad as well. However, problems have emerged on the social side after completion of the pipeline and with the expansion beyond the original three oil fields, and the outcome of the capacity-building efforts was as unsatisfactory as in Cameroon, again due to modest relevance and efficacy.

22. The macroeconomic, development, poverty reduction, governance, and institutional development outcomes were disappointing and there is as yet no evidence of the hoped-for positive improvements. While major improvements in poverty reduction, human development or governance are unlikely to appear in a few years, it would not be unrealistic to expect some movement in a positive direction. On the contrary, various indicators of governance show a deterioration.

23. The broad outcomes in Chad during the period of the program can be summarized as follows:

- The fiscal position has become weaker over the period, with the non-oil primary deficit worsening from a modest 4 percent of GDP in 2004 to 28 percent in 2008—a level the IMF has termed unsustainable. (The concern is not an increase in non-oil

- primary deficit, per se, but its rapid acceleration, associated with much higher current expenditure and combined with issues of expenditure composition and efficiency.)
- The economic composition of expenditure has worsened, with current expenditure rising from some 10 percent of non-oil GDP in 2001-04 to 21 percent in 2005-08, and a wage bill rising to 9 percent of non-oil GDP.
 - The functional composition of expenditure, the central focus of the program, did improve toward sectors important for development and poverty reduction—even if by less than had been agreed. The largest increase was accounted for by investment in infrastructure, which, however, exhibited substantial inefficiencies.
 - The efficiency of expenditure has been very low, from violations of fundamental procurement and financial management rules, much higher unit construction costs than international or regional norms, and, most damaging, neglect of the balance between investment and recurrent cost, which resulted in new facilities unable to operate for lack of the requisite current inputs. However, although comparatively small, the expenditures in the oil-producing region financed by the 5 percent of oil royalties were comparatively well allocated.)
 - Data on human development are few and the picture is mixed, with an increase in access to clean water and a reduction in incidence of HIV/AIDS, but a rise in infant and child mortality; an increase in primary education enrollment but a deterioration of educational quality. Poverty developments were not adequately monitored, a serious shortcoming for a program whose main objective was poverty reduction through the use of oil revenue.
 - The developments in governance are not mixed. Between 2000 and 2007, while Africa as a whole showed a slight improvement, Chad experienced a marked deterioration against all major governance indicators—with the decline especially sharp in rule of law, control of corruption, and government effectiveness.
 - In government effectiveness, the main problems are in public financial management and procurement. Although budget preparation improved somewhat, budget execution deteriorated, and government effectiveness in public expenditure management is currently worse than in 2000—with financial controls frequently bypassed during budget execution; disregard of procurement regulations and increasing recourse to sole-source contracts; virtually inoperative institutions of financial accountability; and the rise of a culture of rule violation in public sector management.

EVALUATION DIMENSIONS AND CROSSCUTTING ISSUES

24. The main oil development and pipeline construction project was a physical, technical, and financial success. The oil revenue accruing much sooner and in higher amounts than anticipated was a major factor underlying the program's failure to achieve its development objectives in Chad. The management arrangements devised for a comparatively limited amount of oil revenue cracked under the weight of the much larger revenue that materialized. The larger revenue also generated temptations and competing claims that were in part associated with the re-emergence of political instability and violent rebellion. The slow efforts at capacity building were undercut by the more rapid inflow of oil money. And the oil revenue much greater than the total of foreign aid sharply altered the initial leverage calculus of the program. Despite notable isolated achievements, mainly in road construction and access to water, the World Bank Group's broad objective of helping Chad reduce poverty and improve

governance was not met. Measured against this objective, the overall program outcome was unsatisfactory.

25. However, given the complexity of this program and the diversity of outcomes, the standard evaluation approach of assessing outcomes against the stated objectives needs to be qualified by considering the possible counterfactuals. With the rapid increase in oil price after 2000, it is virtually certain that the oil would have been developed and the pipeline constructed even without any WBG involvement, albeit perhaps one or two years later. If so, the environmental and social provisions and the external monitoring arrangements would not have been as thorough as those under the program. Also, it is probable that the revenue allocations to the priority sectors would have been lower than they have actually been, and it is certain that the support institutions such as the *Collège* and the advisory groups would not have been put in place. In this sense, WBG involvement made a positive contribution.

26. **Relevance.** The relevance of the program was adversely affected by weaknesses in the design of the capacity-building interventions as well as the main oil revenue management arrangements. Concerning the former, a major external criticism was that the program was premature, in that it would have been necessary to first build the country's capacity to manage the petroleum sector and the oil revenue, and to improve governance. However, a short delay could not have achieved those long-gestation objectives, and there were clear signs that the oil would be developed and the pipeline built in the very near future with or without WBG involvement. The more pertinent timing issue is instead retrospective. After its first foray in Chad's oil sector in 1994 the Bank did not succeed during the subsequent years in helping Chad to achieve a sustainable improvement in budgeting, financial controls and oil sector management capacity, and the attempt to support capacity-building activities concurrently with the main project proved unsuccessful.

27. Concerning the oil revenue management arrangement subtending the management of the petroleum economy project--which was the core of the program--the design was prescriptive, overly detailed, and rigid. The earmarking of the oil revenue, combined with the complex management arrangements, led to fragmentation of the budget, neglect of the quality of expenditure, and insufficient attention to budget execution. The design was understandably motivated by the goal to assure the best possible use of the oil revenue for pro-poor and pro-development expenditure. In reality, no prescriptive legal provision could compensate for weak government commitment and thus the approach eventually showed the disadvantages of rigidity without its advantages for clarity and enforcement of agreements. The disappointing program outcomes have resulted from a complex of economic and political circumstances, including particularly lack of government ownership, severe security threats on the government from the Darfur crisis, and other factors. Even under these circumstances, alternative designs focused on agreements on expenditure and its quality rather than specifically oil revenue (based, for example, on soft targets within a band triggering progressively stronger review and correction provisions) might have provided a middle ground between a negotiating straightjacket and the excessively discretionary criterion "satisfactory to the Bank." In the end, a more flexible approach might also have facilitated the flow of resources to priority activities and their more efficient use, without short-circuiting capacity building in public financial management. Overall, the relevance of the program was modest.

28. Concerning *efficiency and efficacy*, the pipeline project was very efficient in technical and financial terms, but the efficiency of the overall program was affected by modest efficiency of the capacity building projects and the overall less than efficient use of oil revenues. The program's overall efficacy was modest at best, as seen in the outcomes described earlier.

29. *Risk to development outcome* is high. The external environment remains very challenging, with uncertain prospects for a resolution of the crisis in Darfur and the spillover of problems into Chad. Internal political tensions are high and likely to remain so. Institutional capacity is still very weak at all levels. Fiscal sustainability is already in jeopardy, and with the price of oil lower than had been anticipated for 2009 and 2010, fiduciary risk is likely to increase and development expenditure will be under pressure from the priority given by the government to regime maintenance and security spending. Public management systems and skills remain insufficient for minimal government effectiveness. And motivation and integrity have been weakened by the spreading disregard for the rules without ensuing consequences.

30. *World Bank Group performance* was moderately unsatisfactory for the program as a whole. The WBG got involved for the right reasons and in full recognition of the probable alternatives and the risks, including reputational risks. However, the flaws in the design of the oil revenue and expenditure management arrangements adversely affected the impact of the whole program, and capacity building was unsuccessful owing to the weak design and supervision of the three IDA-supported projects. For the pipeline project itself, WBG performance was moderately satisfactory. For the program, supervision was hampered by the excessive rotation of task managers in the revenue management project and, in the Chad capacity-building project, from the reliance for many years on external petroleum consultants without in-house specialists to supervise them. The tireless efforts, competence and personal commitments of operational managers and staff engaged in program supervision were not able to overcome these shortcomings, nor those associated with design weaknesses.

31. *Questions have been raised* internally and externally by staff, government officials, NGOs, and development partners concerning the decision and manner of Bank exit in 2008. As noted, the WBG embarked on the program in 2000 for the right reasons and with the strong support of the international donor community. It exited in 2008 with weaker consensus than it had enjoyed at entry. Some stakeholders have viewed the decision as unnecessary and untimely, or lacking full consideration of all the implications and adequate external consultation. The decision's justification lay in the repeated government violations of its commitments and was reached after extensive consideration at higher management levels.

32. *Cooperation between IFC and the World Bank* was a strong feature of the program. Cooperation between WB-IFC, rested on a division of labor suitable to the different mandates and comparative advantages. Thus, the Bank focused primarily on implementation of the revenue arrangements and expenditure understandings, and on the three IDA-supported projects to help build capacity to monitor the oil sector and manage the oil revenue, while IFC dealt with the technical and contractual aspects and with the environmental and social dimensions of the oil development and pipeline project, with Bank contributions as warranted. Also, the Bank handled relations with the governments and the IFC handled relations with the Consortium and the lenders. With the Bank exit from Chad's oil sector, IFC continued to monitor the environmental and social aspects of the main project.

33. All that said, it is the *borrower's performance* that was the key factor for the unsuccessful outcomes of the program.³ While some of the implementing entities performed creditably, the strong assertions of ownership and commitment of the Government of Chad at the start of the program proved inoperative when the oil revenue started flowing. Absent a firm commitment by the country's authorities at the highest level, it is unlikely that the outcomes would have been appreciably different under any alternative program design and performance of the Bank during implementation. Conversely, steady government commitment to implementing the agreed program would probably have made it successful despite its design flaws. The Government, however, views the security problems as primarily responsible for the outcomes.

34. Thus, with substantial oil revenue expected to continue in the foreseeable future even if at prices lower than in 2005-08, it is still possible for Chad to escape the resource curse. The Bank can cooperate with the IMF in monitoring fiscal and expenditure outcomes and make a useful contribution by providing advice in public sector management—focused on the basics, recognizing capacity realities, and buttressed by constructive and assertive cooperation of certain major bilateral partners. But the most important factor would be a new and genuine determination by Chad's government to use the oil resources for development and poverty reduction, and do so responsively and efficiently.

RATINGS

35. Based on all the evidence, as well as on the broad outcomes summarized earlier and other data, the relevance, efficiency, and efficacy of the program as a whole, against the stated objectives, are all rated modest, and the program outcome is rated unsatisfactory. The ratings of the program are not an average of the ratings of the component projects, nor are they weighted by loan amounts, but flow from a combined assessment of the developmental importance of each project—with the revenue management arrangements at the core of the program. See Table ES-2.

³ In this case and throughout this report, the term "borrower" is used to refer to the borrowing governments unless specified otherwise.

Table ES-2. Project and Program Ratings

Chad and Cameroon: Petroleum Development and Pipeline Project	
Outcome	Moderately satisfactory
Risks to development outcome	Significant
Bank Group performance	Moderately satisfactory
Borrower performance	Moderately satisfactory
Cameroon: Petroleum Capacity Enhancement Project	
Outcome	Unsatisfactory
Risks to development outcome	Significant
Bank performance	Moderately satisfactory
Borrower performance	Moderately unsatisfactory
Chad: Petroleum Sector Management Capacity-Building Project	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Moderately unsatisfactory
Borrower performance	Unsatisfactory
Chad: Petroleum Economy Management Project	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Unsatisfactory
Borrower performance	Highly unsatisfactory
Chad: IFC Advisory Services (*)	
Development effectiveness	Mostly unsuccessful
IFCs role and contributions	Satisfactory
PROGRAM (**)	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Moderately unsatisfactory
Borrower performance	Unsatisfactory

(*) The IFC rating system for advisory services, broadly similar to the WB, is described in Annex E.

(**) The ratings apply primarily to Chad. While similar conclusions can be drawn for Cameroon, they are mainly associated with the evaluation of the Capacity Enhancement project, since expectations and outcomes from the overall program were comparatively minor for Cameroon and no broad macro-level development, governance or poverty impact could be expected from the small addition to government revenue, let alone rated.

36. The evaluation was done jointly by IEG-IFC and IEG-WB. It highlights the coexistence of a moderately satisfactory rating for the main infrastructure project and an unsatisfactory rating for the program of which the project is a part. Because the World Bank Group has a development mandate, one might argue that if the whole program is unsatisfactory due to a development failure, a component project should not be considered satisfactory because of its technical and financial success. This evaluation has concluded that there is no inconsistency between viewing one set of outcomes favorably even though the weight of other unfavorable outcomes has led to a negative conclusion overall. At the same time, the evaluation illustrates the basic point that a part of a program, however well carried out, cannot be separated from the overall program and the broader setting within which its impact is being assessed: a project or a subproject cannot be ring-fenced in the assessment.

LESSONS

37. The well-known lesson that government commitment is the major influence on the effectiveness of projects and programs is underlined by the experience of the Chad-Cameroon program. Other key lessons from this rich and complex experience include:

- If the WBG decides to risk involvement in ambiguous and fluid situations, it pays not to do so in overly detailed and rigid ways. Clarity is needed on the objectives and principles, but the design and implementation modalities should be as fluid as the situation itself, rather than rely on binary choices and numerical rules.
- The temptation to put in place special mechanisms to protect specific resources and accomplish results is understandable in a weak capacity and governance environment, but institutional enclaves are generally not successful beyond the short term and even when successful in the short term they tend to undermine the already weak local systems and thus long-term development.
- It is imperative to design projects in light of the institutional and administrative capacity realities. In countries with weak capacity, it is important to focus on addressing the basic problems rather than attempting to introduce sophisticated practices. Paradoxically, major components of the program in effect assumed the existence of the very capacity they aimed to build.
- An innovative design, even if unsuccessful in practice, may contain novel elements worth consideration and replication (in this case, the environmental and social safeguard arrangements, the *Collège*, and the two independent advisory bodies).
- Whether the World Bank or the IFC is involved, the concern with development effectiveness goes beyond the gates of individual projects, however well they may be technically done, to the results of the overall program.
- In large, complex WBG projects with multiple stakeholders, good WB-IFC cooperation is important to improve the chances of positive results, and IFC Advisory Activities can complement the projects by their impact on local private sector development.

38. The Chad-Cameroon oil development and pipeline construction program exemplifies the inherent tension between the limits of the World Bank as an international organization and its mandate to foster development and poverty reduction. The WBG did not succeed in protecting Chad's people from the oil curse, but it did try. One should not draw as a lesson from this experience that the WBG should refrain from supporting extractive industries with a view to helping to bring about more sustainable outcomes because doing so carries reputational risks and success is unlikely. Indeed, despite the disappointing overall outcomes on the development and governance side, the WBG involvement contributed to a notable increase in expenditures in social sectors and to the assurance of environmental and social protections within the confines of the project better than they would have been otherwise.

1. From Entry to Exit

1.1 This section describes the key events in the preparation, implementation, and closure of the World Bank Group's support of and involvement in the Chad-Cameroon oil development and pipeline construction program.⁴

THE CONTEXT AT ENTRY

1.2 Cameroon has had political stability since independence in 1960, despite governance weaknesses after the 1970s. Also, fertile land and abundant oil led to good agricultural production and substantial government revenue, bringing the country up to middle-income level by the early 1980s. Subsequently, the country experienced macroeconomic difficulties, which were alleviated from the mid-1990s onward by implementation of economic reforms with Bank and IMF support.

1.3 Chad has also had governance problems and, in addition, has experienced severe political instability and internal conflict at least since 1979. When the World Bank Group embarked on support for oil development in Chad and the building of the pipeline, Chad was one of the poorest countries in the world, with a per capita GDP of about \$1/day and a population of around 8.5 million spread over a large landlocked territory of half a million square miles (most of it semidesertic).

1.4 After the worst years of internal conflict in the late 1980s (aggravated by external intervention), Chad's politics became less volatile with the rise to power of President Idriss Deby in 1991. A period of attempts at national reconciliation ensued, culminating in 1993 in a new constitution that legalized opposition political parties⁵ and set presidential term limits, which President Deby repeatedly asserted would be respected. The understanding lasted for about a decade and produced a modicum of political stability, particularly from 1996, when the President was re-elected and multiparty elections were held. The political situation thus appeared on the mend by the time of the WBG decision to support the oil development and pipeline construction. Moreover, by then the government had established a modestly satisfactory record of economic reforms (supported by a series of structural adjustment credits); although institutional and administrative capacity remained very weak.

1.5 Accordingly, the WBG decided in 2000 to help elaborate the program and support it with IFC, IBRD, and IDA resources, with the objective of improving governance and reducing poverty through the best possible developmental use of the oil revenue. Major cofinancing was also granted by the European Investment Bank. Subsequently, political and security problems re-emerged. In 2003, the start of the Darfur rebellion in Sudan and the

4. This account rests on the Country Strategy Papers for Cameroon and Chad, project documents, internal WBG memoranda, and interviews with about 100 WBG decision makers, government officials, and NGOs.

5. Until then, Chad was a one-party state under the ruling Patriotic Salvation Movement (MPS).

ensuing influx of refugees began to affect events in Chad. A second major event was President Deby's endorsement of a constitutional change removing the presidential term limits and the holding of a referendum to that effect in 2005. The referendum was criticized by human rights organizations and boycotted by opposition parties, which also boycotted the subsequent presidential elections in 2006 with which President Deby obtained a third term. Major rebel attacks on the capital Ndjamena took place in 2006 and again in February 2008. The third major contributor to post-2003 instability was the large flow of money from petroleum development – “pouring oil on smoldering fire” in the words of one interlocutor. Government priorities have been heavily affected by the security problems, with increasing attention given to security expenditures and comparatively less to other national needs.⁶

1.6 The existence of petroleum in Chad has been known for almost 40 years, but its exploitation was prevented by political instability and low world oil prices. In 1988, the government granted a 30-year lease to a consortium of oil companies (hereafter “the consortium”) to develop three oil fields in the south. A feasibility study in 1994 demonstrated that the only viable option to export the oil from landlocked Chad was to build a pipeline through Cameroon to an offshore platform in Kribi (south of Douala), and the two countries signed a treaty to that effect in 1996. The pipeline treaty set out the framework for land acquisition, environmental and social safeguards, and the governments' equity shares in the companies that were set up to build and operate the pipeline in the two countries: the Tchad Oil Transportation Company (TOTCO), in which the Chad government would have 15 percent equity, and the Cameroon Oil Transportation Company (COTCO), in which Cameroon and Chad would have respectively 10 and 5 percent. (The consortium did not agree to Chad government equity participation in the exploitation of the oil fields themselves. The two parties agreed instead on a structure of royalties and dividends, discussed later.)⁷

1.7 The legal framework, too, required major modernization. The inadequacy of the oil legislation adopted in 1962 had forced the Chad government into bilateral agreements and ad hoc contracts. For this among other reasons, as the centerpiece of the preparations for oil development and WBG support, a new Petroleum Revenue Management Law was approved in 1999, as described later.

1.8 The consortium and the participating banks stated that their development of the oil fields and construction of the pipeline would be contingent on partnership with a multilateral development agency. The WBG was the obvious candidate and agreed as early as 1994 to begin working with the consortium and the two governments to help develop the project—beginning with preparation of some capacity-building activities. Thus, while the main

6. A new electoral code was promulgated in August 2007 with the aim of organizing free legislative elections by end-2009 (which will likely be delayed). A new “unity” government was appointed by the President in August 2008; some observers are optimistic that this signals a hopeful change; others are not.

7. The consortium consisted originally of Exxon (the operator, with a 40 percent stake), Shell, and Elf. In 1999, Shell and Elf withdrew—Elf reportedly because it had been purchased by Total, and Shell because of emerging issues with share prices—and were replaced by Petronas (Malaysia's state oil company) and Chevron, with a 35 and 25 percent stake, respectively.

pipeline project and the other associated projects and activities were approved by the Board in 2000, some cautious WBG involvement had in actuality begun six years earlier.⁸

PUTTING IT TOGETHER

WBG Financial and Technical Support

1.9 Initially, the WBG had envisaged limiting its involvement to IFC participation but, in light of the policy aspects, and at the urging of the consortium, it decided to include Bank direct involvement as well. IFC participation consisted of loans to the consortium of \$27.8 million in Chad and \$172.2 million in Cameroon (where most of the 1,040 kilometers of pipeline is located). World Bank participation included two IBRD “enclave” loans to finance the governments’ acquisition of their minority equity share in the pipeline, in the amounts of \$37.2 million and \$53.4 to Chad and Cameroon respectively, as well as three IDA credits—one to each country for capacity building to manage the oil sector and monitor the environmental and social impact, and the third to Chad to strengthen the management of the petroleum economy. The total WBG financing of \$337.6 million amounted to around 9 percent of the originally estimated project cost of \$3.7 billion (of which about two-thirds was for the pipeline and oil terminal and one-third for the oil fields development in Chad), and 5 percent of the actual cost of \$6.5 billion through 2008. In addition, European Investment Bank cofinancing amounted to about \$170 million equivalent (of which \$62 million was lent to the two governments and \$108 million to the consortium). The bulk of the cost was financed by a number of commercial banks and the consortium itself.

1.10 In addition, the Bank conducted a series of Public Expenditure Reviews, and the IFC financed some advisory activities. Table 1 summarizes the various WBG interventions in the two countries, and Annexes (A-E) provide details on each project as well as the evaluations and the ratings. (The complex of projects and activities hereafter will be referred to as “the program”; the pipeline project as “the project”; and the other interventions by their specific names.)

Key Policy and Institutional Arrangements

1.11 With the major environmental risks known to attach to oil development and pipeline projects, environmental assessments were conducted, on the basis of which an extensive Environmental Management Plan (EMP) was produced. After review and comments by the WBG, the EMP was extensively revised based on broad public consultations and additional studies. (See Section 2 for a summary of the environmental and social dimensions of the program.)

1.12 Two independent external bodies were created to monitor the environmental and social aspects and the development objectives of the program in both Cameroon and Chad. The IFC set up the External Compliance Monitoring Group (ECMG), to monitor compliance with the EMP and provide ongoing advice for improving environmental and social performance. The ECMG consulted widely with stakeholders including NGOs and communities affected by the project. Also, a five-member International Advisory Group

8. Moreover, WBG involvement in the sector should be viewed alongside other major Bank support, consisting of a series of structural adjustment credits, the last of which was approved in 2003.

(IAG) chaired by a former Prime Minister of Senegal was formed to advise the Bank and the two governments on the achievement of the broader Program objectives during the first six years of oil revenue flows.⁹

1.13 In Cameroon, following the 1996 treaty on construction of the pipeline, a decree in 1997 established an interministerial Pipeline Steering and Monitoring Committee (PSMC), under the chairmanship of the general manager of the state hydrocarbon agency and with its technical and administrative support, as well as a Pipeline Inspection Service in the Ministry of Mines.

1.14 In Chad, a similar body was set up—the National Technical Committee for Monitoring and Control (CTNSC—hereafter, “the Technical Committee”)—to oversee the environmental and social monitoring activities, in cooperation with the Ministry of Environment and Water. In view of the substantial financial resources expected from the program, complex arrangements were designed to ensure revenue transparency and support of expenditure for development and poverty reduction. On the revenue side, the 1999 Petroleum Revenue Management Law set up an escrow account in London into which the consortium would deposit the oil export revenues. The immediate purpose was to ensure priority repayment of the IBRD and European Investment Bank debt service—as required by the country’s insufficient creditworthiness for IBRD borrowing. The broader purpose was to underpin the allocation of the oil revenue for development and poverty reduction. Thus, oil revenues deposited into the escrow account were earmarked as follows: 10 percent of royalties and dividends set aside for a “Future Generations Fund”; of the 90 percent, 5 percent of royalties would go for expenditure in the oil-producing southern region, 80 percent of royalties and 85 percent of dividends for expenditure in identified “priority sectors,” and the remaining royalties and dividends (as well as all non-oil revenue) to the general government budget. “Priority” sectors in effect included the bulk of economic and social activity: transport, housing, civil works, health, social affairs, education, rural development, mining and energy, justice, and post and telecommunications. To ensure additionality, this allocation of the oil revenues would be assessed by reference to a baseline budget—defined as the budget for the year preceding that of the first oil revenue. Figure 1 summarizes the operation of the system.

1.15 On the expenditure side, expenditure from the oil revenue account was to be authorized in accordance with integrated “sector expenditure programs” (presumably flowing from sector strategies consistent with the priorities set out in the government’s Poverty Reduction Strategy, as well as with a medium-term expenditure framework to guide the annual budget), and would require endorsement by a special Committee on the Monitoring and Oversight of Petroleum Resources (*Collège de Contrôle et Surveillance des Ressources Pétrolières*—hereafter “the *Collège*”). The *Collège* was supported by its own technical staff and consisted of five statutory members (a supreme court judge as chair, the Director of the Regional Central Bank, the Director of Treasury, and two members of the National

9. The IAG conducted regular missions for this purpose except when prevented by security difficulties. Its mandate extended for six years after the first year’s oil revenue. With oil revenue coming on stream earlier than expected in 2003, its final visit was in January 2009 and the final report was placed on the IAG’s Web site (www.gic-iag.org) in April 2009.

Assembly) and four civil society representatives. Although the *Collège* has no formal expenditure authority, nor enforcement powers, it has the mandate to approve expenditure proposals in line with the agreed allocations.

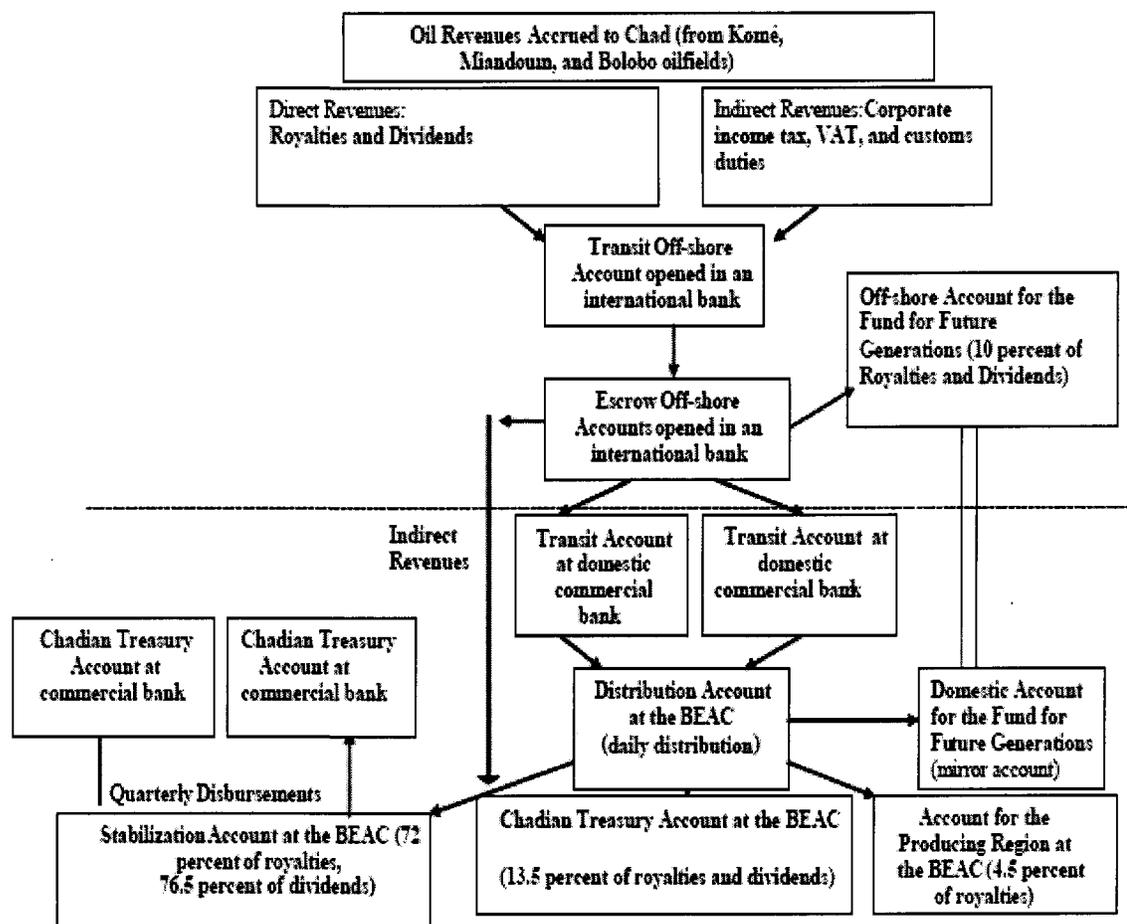
Table 1. WBG Support for the Chad-Cameroon Oil Development and Pipeline Construction Program

<i>Country</i>	<i>Project</i>	<i>Amounts (US\$ millions)</i>	<i>Abbreviated project development objectives (*)</i>
Chad	Petroleum Development and Pipeline (IBRD/IFC)	37.2 IBRD (to Govt) 27.8 IFC (to Consortium)	Increase Chad's expenditures on poverty alleviation activities.
Cameroon	Petroleum Development and Pipeline (IBRD/IFC)	53.4 IBRD (to Govt) 172.2 IFC (to Consortium)	Increase Cameroon's fiscal revenues available for financing priority development expenditures in the context of the government strategy for growth and poverty reduction
Cameroon	Petroleum Environment Capacity Enhancement (IDA)	5.8 IDA	1. Assist Cameroon to develop and establish national capacity for the environmental management and monitoring of the Chad-Cameroon pipeline project 2. On a medium- to long-term basis, help ensure the environmental sustainability of future projects, programs, and policies in Cameroon's petroleum sector, including strengthening Cameroon's capacity to (i) mitigate the negative social and environmental impacts of the pipeline project and (ii) establish an environmental regulatory framework for the oil sector.
Chad	Petroleum Sector Management Capacity-Building (IDA)	23.7 IDA	Strengthen capacity to: 1. better manage the development of petroleum resources in an environmentally and socially sound manner, and 2. increase the use of oil resources from Doba in southern Chad.
Chad	Management of the Petroleum Economy Project (IDA)	17.5 IDA	1. Build capacity to implement Chad's petroleum revenue management strategy 2. Enable Chad to effectively absorb and allocate expected oil revenue, and thus pursue poverty reduction objectives of oil development.
Chad	Advisory activities	4.8 IFC	Support local private sector linkages to the project, including microfinance and advice to small and medium enterprises.
WBG Finance		IFC: 200.0 IBRD: 90.6 IDA: 47.0 Total: 337.6	
Project cost (**)		3,724 (original est.) 6,500 (2000-2008)	

(*) See para. 2.5ff for the full statement of PDOs, on which the evaluation is based.

(**) Consortium estimate. Total costs will probably be over \$8 billion by 2011. The higher costs are related in large part to the expansion of oil development beyond the original fields. The bulk of the financing was provided by the Consortium and a group of commercial banks.

Figure 1: Distribution of Oil Revenue in Chad According to the Petroleum Revenue Management Program



DEVELOPMENTS AFTER BOARD APPROVAL: THE 2005-06 CONFRONTATION AND THE 2006 AGREEMENT

1.16 Events during program implementation and through late 2008 led to a divergence between expectations and actual developments. As discussed in section 2, the technical and physical aspects of the program proceeded better than expected, as did the financial outcomes, owing largely to the sharp rise in oil price. But difficulties emerged.

1.17 A first harbinger of misunderstandings and doubtful government commitment had come in August 2000, soon after Board approval, when a large part of a \$25 million initial bonus from the consortium to the Chad government was used for purchase of military equipment. The government explained that not only was the bonus not included in the 2000 Program agreement but also that the military procurement had been concluded beforehand. This was the case, but the use of the bonus was nevertheless seen by the Bank (and others) as

directly contradicting the spirit of the agreement to devote the bulk of the oil revenues to the priority sectors.¹⁰

1.18 In early 2005, shortly after the beginning of significant oil revenue flows, the government began to push for amending the 1999 Petroleum Revenue Management Law (PRML) in order to expand the fiscal space for expenditure on other than the agreed “priority” sectors and also use the funds for general budget financing. Whether triggered by the unexpectedly early inflow of oil revenue or the re-emerging security problem or both, the request was an unwelcome surprise for the Bank and other development partners (although not to those who had been critical of Bank involvement from the start). The Bank urged the government to give the agreed arrangements some time to work as designed. An increasingly acrimonious exchange of views followed, concluding in December 29 with a unilateral decision by the government to amend the PRML—eliminating the Future Generations Fund, using the \$36 million in the fund to finance the deficit, and adding justice, territorial administration, and security to the priority sectors (leaving almost no “non-priority” sectors).¹¹ Already forewarned by the dialogue of the previous months, the Bank responded one week later by suspending disbursements on all Bank operations and freezing government withdrawals from the revenue escrow account.

1.19 After a two-month hiatus, the dialogue resumed and an interim agreement was reached, whereby the government agreed to revise the 2006 budget to allocate to “priority sectors” (*not* including security) 70 percent of *all* budgetary resources regardless of source (a much greater amount than the earlier 85 percent of oil royalties and dividends only), and the Bank accepted the abolition of the Future Generations Fund (FGF), lifted the suspension of disbursements, and effected a partial release of funds from the escrow account.¹²

1.20 The interim agreement was followed by a Memorandum of Understanding in July 2006, negotiated with the direct involvement of the WBG President’s office and intended to reshape a permanent arrangement. The MOU called for preparing the 2007 budget within a medium-term expenditure framework to be agreed; set at 70 percent the minimum expenditure to be allocated to the priority sectors; and reaffirmed the essential role of the *Collège* and the need for strengthening its capacity. However the 70 percent figure may have

10. Tension with the Bank next started in late 2003, partly in connection with the capacity-building project. As discussed in Annex C the government complained that expatriate consultants were not transferring knowledge, and local counterparts resented them. With the project almost fully disbursed, when a new task team leader was appointed a proposal was made for a follow-up project. Because the government had stated its opposition to borrowing for technical assistance, the follow-up project was proposed as a grant. The government rejected it. Some interlocutors believe that by that time the president was unhappy with the Bank and increasingly resentful of external scrutiny of government dealings with the petroleum sector.

11. The government position is that this action was not “unilateral,” as it was taken at the behest of civil society organizations opposed to the Fund and by the Assembly rather than by the executive branch. This position is not supported by the timing and tone of the letters sent to the Bank (and the IMF) in 2005.

12. The effectiveness of the escrow account mechanism was weakened when the Consortium suspended for a period of time payment into the escrow account at the request of the Government of Chad. The Consortium requested and obtained a waiver from IBRD and EIB. There are unconfirmed reports of a government nationalization threat. From that point on, in the words of one interlocutor, “the revenue lockbox turned out to be made of tissue paper.”

been derived,¹³ it was a much more ambitious expenditure target than the original ones, since it applied to revenue from all sources rather than only direct oil revenue.

1.21 In the meantime, in a critical development not recognized in the MOU, the government had also attached to the Ministry of Infrastructure the General Directorate of Major Works and Presidential Projects (in December 2005), and in May 2006 entrusted to that ministry all responsibility for roads and other surface transport, construction, water works, and energy.¹⁴ The dominant position of the Minister of Infrastructure was further signaled in the January 2007 decree restructuring the government, in which he is listed immediately after the Prime Minister and is given the authority to “*conceive, coordinate, implement and monitor government policy in infrastructure and transport*” [italics added], including, among other things, “centralization of the execution of all public infrastructures financed by the state’s own resources.”¹⁵

CLOSURE IN 2008

1.22 The 2006 MOU also called for Bank-government consultations on the implementation of the agreed measures. For this purpose, a multidonor mission in July 2007 concluded that, although the 2007 budget had initially allocated the agreed 70 percent of revenues to the priority sectors, deviations in budget execution in the first few months indicated that less than 60 percent was likely to be achieved for the year. Moreover, the financial management regulations were regularly flouted, and large procurements were increasingly awarded on a sole-source basis. As foreseen by the July 2007 mission, actual expenditures in 2007 did not meet the allocations agreed in the 2006 MOU and incorporated in the budget, due primarily to sharp increases in military spending, and about 58 percent was spent on the priority sectors instead of the agreed 70 percent. (Recall that the “priority sectors” include the bulk of government economic and social activity.)

1.23 Wishing to bring its involvement to a close, the Bank first inquired indirectly and informally in March 2008 whether Chad would voluntarily repay the outstanding IBRD loan balance for the pipeline project as well as the balances on the two IDA projects, and then more directly asked in August.¹⁶ These loan balances, totaling \$65.7 million, were repaid in full by Chad on September 5, and the event was publicly announced on September 12. World Bank Group involvement did not cease, however, with IFC continuing to monitor the environmental and social aspects of the pipeline project.

1.24 Meanwhile, the Bank had closed the N’djamena office at end-January, as did other donors, owing to an impending rebel attack. After the attack was repulsed, the other donors reopened their offices. The Bank did not and reassigned the resident country manager. In

13. Attempts at finding the reasons and basis for that specific percentage target were fruitless.

14. Decree No.264/PR/PM/MI/2006.

15. Decree no.039/PR/PM/2007

16. The option was among those the AFR vice-presidency listed earlier in 2005 for the president’s consideration as part of the possible response to a decision by the government of Chad to amend the petroleum revenue management law. Then AFRVP considered the action unnecessary and unprecedented and recommended against it. The action was not taken on that occasion.

October-November, after an eight-month hiatus, a multisector mission to review the status of Bank activities outside the petroleum sector visited Chad; on December 12, 2008, the Bank President authorized the reopening of the Bank office in N'djamena; and the office reopened in January 2009.

2. Program Objectives and Broad Outcomes

2.1 Other than the important environmental and social aspects, the focus of the program was on Chad, and the involvement of Cameroon was a corollary, required to get the oil from land-locked Chad to the market. In Cameroon, the program provided a small but significant economic stimulus—both through the temporary employment and income generated by the pipeline construction itself, and permanently through the pipeline revenue—both the transit fees and the tax revenue—which has amounted to around 1.3 percent of the government's total revenue. The capacity-building outcomes were less favorable, as discussed in Annex B. However, the WBG involvement was critical for the satisfactory handling of the direct environmental and social impact of the oil development and pipeline construction.

2.2 The broad impacts of the program were almost entirely on Chad—to which most of this section is dedicated. The influence of oil production, export, and revenue proved dominant on the country's economic performance and public finances during 2003-08. For this reason, it would be quite inadequate to limit the assessment to the direct impact on fiscal revenue and expenditure on the priority sectors, and this section discusses also the broad macroeconomic, fiscal, poverty, governance, and institutional outcomes. Nevertheless, it would not be methodologically justified to associate these broad outcomes directly and solely with the oil development and pipeline program—let alone to claim causation by association. The data presented in this section are guideposts for informed inferences to be made by the reader, based also on a variety of other information (including the severe security difficulties the government encountered after 2005, and the problems of the cotton sector).

WBG STRATEGY AND DEVELOPMENT OBJECTIVES

Escaping the "Resource Curse"? The WBG Strategy

2.3 The Bank was keenly aware of the "paradox of plenty" and the risks of the "resource curse."¹⁷ A major workshop was organized in 1998 to review the experience of the major

17. The "paradox of plenty" refers to the coexistence of mass poverty and valuable mineral resources. The notion that abundant natural resources might be a curse rather than a blessing first emerged in the 1980s. Although such abundance should help development by providing the government and the private sector with capacity to finance productive investments and poverty reduction, most mineral-rich countries seemed to show lower economic growth and weaker governance. This "resource curse" has been attributed to the misappropriation of the revenue by an unaccountable ruling elite and to the exclusion of most citizens from political participation—through the use of the revenue to finance bribery and mechanisms of repression. The second major explanation is "Dutch disease," that is, the discouragement of domestic production of other exportables and import-competing goods by the exchange rate appreciation caused by the abundant proceeds from exports of minerals. Finally, it is also thought that abundant mineral resources are linked to civil conflict through the violent competition for control over the resources. See Karl (1997) for an early statement of the

extractive resource exporters and prepare the ground for recommendations on how to help Chad escape the resource curse. The workshop showed that among developing countries only a handful of the major extractive resource exporters had managed to use the bulk of the export revenue for productive purposes and avoid governance and corruption problems—Botswana in Africa, Chile in Latin America, and to some extent Malaysia and Indonesia in Asia.¹⁸ Although these exceptions were unrelated to external aid, the WBG concluded after intense debate that its direct involvement could help increase the otherwise very low probability that Chad’s people would escape the oil curse, and thus decided to support the program and to do so beyond IFC participation—to include capacity-building activities as well as devising the novel revenue management and institutional arrangements summarized earlier.

2.4 The contrast between Chad’s extreme poverty and the riches lying under its soil was at the core of the WBG motive to help tap those riches and find new ways to channel a large part of them to Chad’s development and to the well-being of poor Chadians. This strategic rationale was strong and clear; its articulation into the specific project development objectives was neither.

Program and Project Development Objectives

2.5 The specific objectives of the individual projects, evaluated in the Annexes, were subsidiary to the main development objective of the program as a whole, which related to Chad. As stated in the Chad Country Assistance Strategies (CASs) and confirmed by the internal documentation and stakeholder interviews, this main objective was to achieve progress in governance and poverty reduction by means of the oil revenue, and in an environmentally and socially sustainable manner. As a senior manager put it at the time, the success of the program would be measured not in dollars but in how many Chadians it would lift out of poverty. In the 2001 CAS this objective was formulated as helping Chad use the petroleum resources to attempt to achieve the Millennium Development Goals, and the 2003 CAS stated “the overarching objective” as making the best possible developmental use of the new oil revenue.¹⁹ That CAS went further, and identified the two “pillars” as “strengthening governance, including institutional arrangements for public resource management and service

“paradox of plenty,” and Sachs and Warner (1999) for the negative correlation between natural resources and economic growth. For more recent treatments of the resource curse, see Ghazvinian 2007, McFerson 2008 and Shaxson 2007. On the hypothesis of resource-driven conflict, see Bannon and Collier 2003. For an opposing view, see Di John (2007), who argues that the premise of the oil-conflict link (rent-seeking and the rentier state model) do not explain why oil economies are more vulnerable to civil war—nor indeed that there is strong empirical evidence that an oil-conflict link exists. The “resource curse” is neither exclusively not inevitably African, as demonstrated by the record of Botswana with both good governance and abundant minerals (in this case, diamonds).

18. While acknowledging that there is no theoretical presumption on whether malgovernance produces mineral resource misappropriation and conflict, or social peace and the quality of governance are damaged by large mineral resource revenues, McFerson (2008) argues that malgovernance comes first and resource revenue misappropriation follows and further weakens governance.

19. The 1996 CAS for Chad, before serious consideration of WBG involvement in the oil development and pipeline construction, lists the three strategic objectives as restoring public sector capacity, focusing public expenditure on poverty reduction, and creating an enabling environment for the private sector.

delivery [and] the rule of law...”; and “enhancing non-oil economic opportunities while reducing sources of vulnerability.”

2.6 Accordingly, while the outcomes of each project are assessed against its stated PDOs, the outcomes of the program as a whole are assessed against the main objective of improving governance and reducing poverty in Chad through the use of the oil revenue—“to turn the oil curse into an oil blessing” (in the motto of Chad’s own *Collège de Contrôle*) in an environmentally and socially sustainable manner.

2.7 The PDOs of the five projects, summarized in Table 1, are examined in the Annexes. However, the PDOs of the main oil development and pipeline construction project should be quoted here, owing to their influence on program design. As per the respective loan agreements:

- For Cameroon, the objective is to “assist in the development and export through the Borrower’s territory of the petroleum reserves of the Doba Basin Oil Fields [in Chad] in an environmentally and socially sound manner, and thereby, inter alia, increase the Borrower’s fiscal revenues available for financing priority development expenditures in the context of the Borrower’s strategy for economic growth and poverty reduction.”
- For Chad, the objective is to “assist in the development and export through Cameroon of the petroleum reserves of the Doba Basin Oil Fields in an environmentally and socially sound manner and thereby, inter alia, increase the Borrower’s resources and expenditures for poverty alleviation.”

2.8 Clearly, production and export of oil are not, *in themselves*, development objectives. Indeed, the term “thereby” implies that the objective was to increase fiscal revenues (for Cameroon) and expenditures for poverty reduction (for Chad). But even that objective was inappropriately phrased for Chad, on two counts. First, the objective is defined in terms of inputs, and it cannot be a *development* objective to spend more on one activity or another. Worse, defining the objective as “increasing expenditures” can be misinterpreted as an open invitation to loosen expenditure controls and/or engage in wasteful expenditure—as demonstrated by the experience with the typical recommendations of the Public Expenditure Reviews of the 1980s. It is surprising to still find that approach at work in 1999, when the need for some orientation toward the *results* of public spending was already well understood at the Bank.

2.9 The emphasis on inputs affected project design in ways that proved ineffective. Also, it risked putting the Bank in a decisional bind—if the aggregate expenditure targets were met but in wasteful or corrupt ways, or they were not met but the quality of expenditure and provision of services actually improved nonetheless. As it happened, the expenditure targets were not met **and** the efficiency of expenditure was wanting—partly from waste and abuse and partly from a failure to integrate current and capital spending decisions. The PDOs should have been defined in a way to foster positive rather than negative incentives to spend the oil money efficiently and effectively.

2.10 In the case of Cameroon, while the objective “increasing fiscal revenue available for financing priority development expenditures...” was also input-defined, it provided latitude

and is less of a simple urging to “spend more”—as it permitted an increase in development expenditure but without mandating amounts and thus not embedding a disincentive to efficiency. (Naturally, this was associated with the relatively minor proportion of government revenue accounted for by the pipeline transit fees and other revenues in Cameroon.)

Program and Project Risks

2.11 The WBG was fully cognizant of the environmental and social impact risks of oil development and pipeline construction, and assured that the project would meet the highest standards of environmental and social protection through a detailed and comprehensive Environmental Management Plan and provisions for addressing the social implications of the project.

2.12 Foremost was the risk that Chad’s oil revenue would not be allocated to pro-poor and pro-development expenditure, owing to the governance weaknesses in the country—indeed, that the oil revenue itself would aggravate these weaknesses and possibly lead to renewed conflict after several years of comparative stability. The mitigation strategy was to set up the unusually detailed and prescriptive set of revenue earmarking and institutional arrangements embodied in the 1999 Petroleum Revenue Management Law.

2.13 Other major risks were also identified at an early stage, even though strong mitigation measures were not possible. These were a spillover from the crisis in Darfur; waning government commitment after the oil would begin to flow; and social unrest if the oil revenue was not used for pro-poor, pro-development activities. To an extent, all three occurred: a Darfur spillover and social resentment may be reflected in the internal violence experienced in Chad since 2003, and government commitment indeed declined.

DIRECT RESULTS

Physical, Technical, and Financial Outcomes

2.14 The total project cost through end-2008 was \$6.5 billion, compared to the original estimate of \$3.7 billion, with the difference funded by the consortium. Also, owing to unexpected geological reasons and poor well productivity, actual oil production was below the expected levels. However, the physical and technical aspects of the program proceeded better than expected, with strong environmental and social impact safeguards; the pipeline constructed ahead of schedule; and the oil flowing earlier than anticipated.²⁰ Financially, too, the outcomes for Chad were much better than expected. The original projections were that oil exports would begin at end-2004; direct revenue would total about \$250 million in 2005-08; and indirect revenues in the form of taxes would start in 2014. In fact, as Table 2 shows, oil exports started in October 2003; direct revenues to Chad totaled \$2.5 billion in the five years

20. Production levels were disappointing leading to an expansion from the initial three to six oil fields, earlier than anticipated. EEPCI has started an infill drilling program, which could lead to the possibility that about 700-800 wells will be drilled in the OFDA, against the 300 planned originally (ECMG, April-May 2009). There is a difference in views between IFC and EEPCI on the timing of the infill drilling program. Based on information from the ECMG reports from 2005, among other sources, IFC considers that the infill drilling began in 2005; EEPCI states that the infill drilling began in mid-2008, and the additional wells drilled between 2003 and 2008 were development wells within the original 40-acre well-spacing pattern.

2003-07 (and \$1.9 billion in 2008 alone); and tax revenues began to accrue eight years earlier than foreseen, in 2006. This large discrepancy was due mainly to the difference between the projected oil price of \$15.25/bl and the actual average price of \$65/bl. in 2004-07.²¹ In total, during 2003-08, Chad's government revenue from oil was almost \$4.4 billion—17 times what had been projected and almost twice as much as non-oil revenue from all sources.²² Cameroon's revenue from the pipeline transit fees as well as dividends and taxes on COTCO was also significant, totaling over \$200 million in 2003-08 (about 1.5 percent of total government revenue), although lower than expected owing to the smaller level of production and thus of direct and indirect pipeline revenue.

2.15 This record of technical and financial success is in stark contrast with the implementation of the poverty reduction, governance, expenditure management, and institutional aspects of the program, as explained next. Indeed, because the oil revenues dwarfed total foreign aid, the basic “leverage calculus” of the program was sharply altered.

2.16 On the other hand, the rapid rise in oil price makes it virtually certain, in hindsight, that the consortium companies (or a competitor) would have proceeded with developing the oil fields and building the pipeline with or without WBG involvement—albeit perhaps a couple of years later—and thus without the value added of this involvement in terms of environmental and social protection as well as probably a greater amount of resources effectively allocated to development and poverty reduction than would otherwise have been the case. If the WBG involvement were to be assessed against this counterfactual scenario, it could be viewed as relatively successful.

Table 2. Cameroon and Chad: Oil Production and Revenue (*)
(In millions of barrels and millions of US\$)

	2003		2004		2005		2006		2007		2008	
	<i>Prod</i>	<i>Rev</i>										
Cameroon	8.6	4	61.4	25	63.3	26	55.9	23	52.7	22	46.5	19
Chad	8.6	45	61	167	63.3	300	55.9	777	52.7	1,220	46.5	1,874

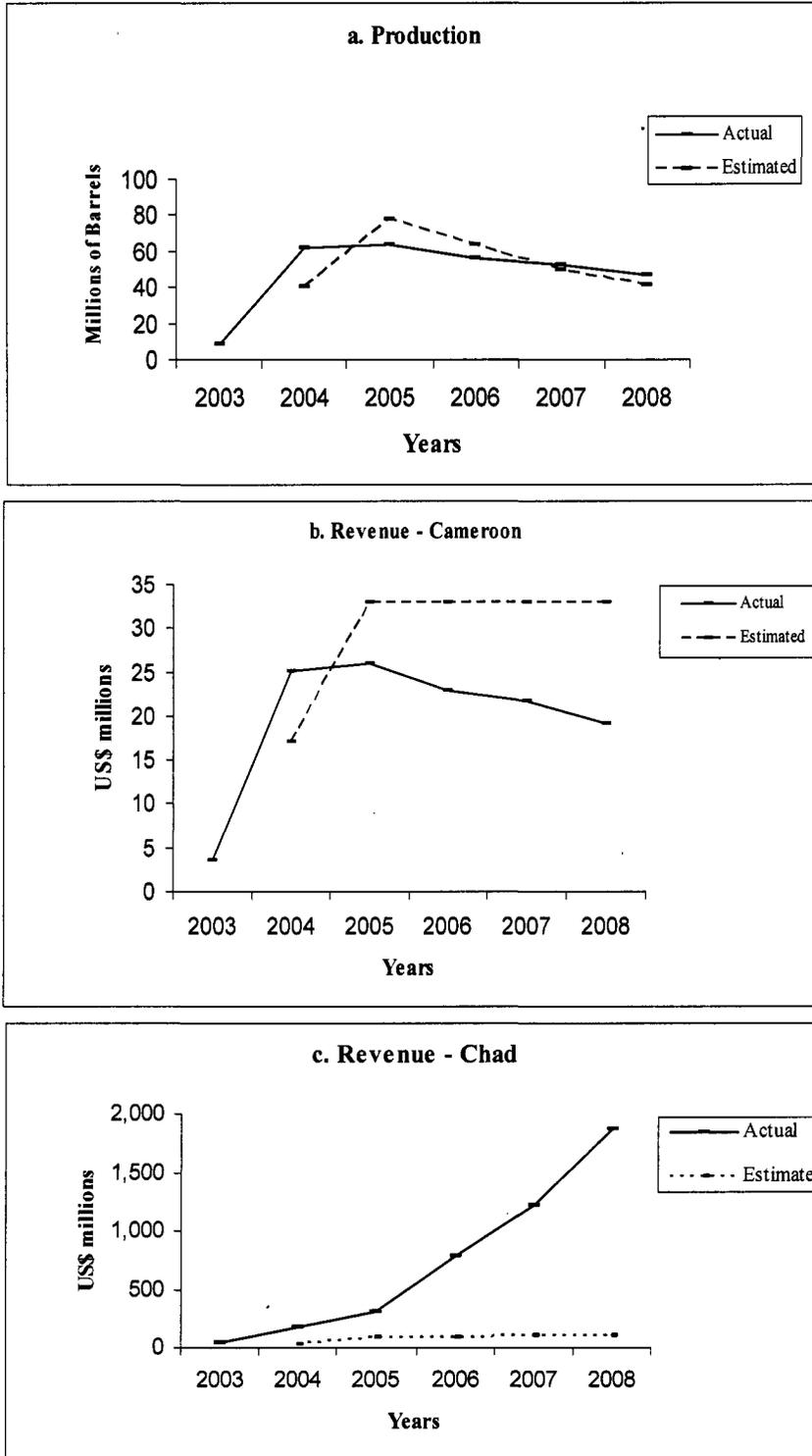
Source: Project Updates, various issues, Esso-Chad (www.esso Chad.com)

(*) Revenue shown for Cameroon is from the pipeline transit fees only. Cameroon also received , an additional \$84 million from taxes on COTCO and dividends, for total revenue in 2003-08 of \$203 million, or about 1.5 percent of total government revenue. In Chad, revenue was limited to royalties and dividends until 2005 but includes also indirect oil revenue from income taxes from 2006.

21. Chad's oil is not of the highest quality and sells at a discount of 10-20 percent.

22. Cameroon revenue, instead, was less than projected, as a consequence of the lower volume of oil going through the pipeline—currently 120,000 bls/day instead of the 250,000 projected in the PAD.

Figure 2: Actual and Estimated Oil Production and Revenue, Cameroon and Chad, 2003-08
 (in millions of barrels and US\$ millions)



Direct Benefits for Employment, the Local Economy, and the Private Sector

2.17 In addition to the revenue to the governments, the project generated direct benefits to both Chad and Cameroon in the form of employment, training, supplier development, infrastructure improvements, and community donations by the consortium.

2.18 Employment of nationals peaked during the pipeline construction phase. Currently, project-related employment in Chad is for the construction of new wells and the production operations and maintenance activities and, in Cameroon, for the maintenance or improvement of facilities. Through end-2008, a total of over \$19.7 million in individual compensation (cash and in-kind) has been provided. The project has also undertaken community compensation programs with in-kind micro-development programs and a number of community donations (such as classrooms and health clinics) in the two countries, totaling \$12.25 million so far.

2.19 The project has strengthened private sector activity in the two countries. As explained in Annex E, IFC launched the Chad Small and Medium Enterprise (SME) Initiative in June 2000 as a linkage project to support the pipeline project. The SME program received traction from EEPCI during the operation phase of the project, when there was a realignment of interests between EEPCI's need for local content and the revamped SME program. The SME program currently focuses on four areas: entrepreneurship capacity building, business linkages, access to finance, and business enabling environment. As part of the linkages component, IFC founded the Enterprise Center (EC) in partnership with the Chamber of Commerce in November 2005, to help Chadian companies access EEPCI's e-procurement system and compete for contracts. The purchase of goods and services in-country and development of long-term supplier relationships have supported the development of the local private sector. The project's local purchases of goods and services totaled almost \$1.9 billion so far, of which about \$1.2 billion in Chad.²³

MACROECONOMIC, FISCAL, AND EXPENDITURE DEVELOPMENTS

Macroeconomic and Fiscal Outturn

2.20 As noted, the expectation at entry was that Chad would make the best possible use of the oil revenue to reduce poverty and improve governance. Moreover, the second pillar of the 2003 CAS for Chad called for enhancing non-oil economic opportunities while reducing sources of vulnerability. So far, the objective of strengthening the non-oil economy has not been met, with a 2.2 percent average GDP growth rate in 2004-08 compared to 3.8 percent in 1994-2000. (The post-oil performance would compare even more unfavorably to the 6.8 percent pre-oil average growth in 2001-03, but that high growth was affected by the

23. Figures for local spending by the consortium include purchases from three types of businesses: purely local, purely foreign, and joint ventures. In 2008, total expenditure by EEPCI in Chad was \$400 million for foreign supplies and \$200 million for local purchases (of which half purely local and half joint ventures). However, available evidence suggests that purchases from local suppliers account for a small portion of EEPCI's annual procurement in Chad. For example, the Enterprise Center which was created in December 2004 as a partnership between IFC, the Chamber of Commerce of Chad, and EEPCI has so far helped 19 local and joint venture companies get contracts worth \$33.2 million. Given that EEPCIXxon's annual procurement in Chad is currently about \$300 million, there is significant untapped potential for Chadian SMEs. See Annex E for more information.

temporary expenditures to develop the oil fields and build the pipeline.) Also, fiscal vulnerability has increased. Table 3 shows the major macroeconomic and fiscal outturns in Chad, from 2000 through 2008. The data show how oil production in Chad has dominated economic developments so far in this century, with ensuing fluctuations in GDP.²⁴ The performance of the non-oil economy has been somewhat less volatile but generally disappointing, and overall GDP has stagnated after 2005.

Table 3. Broad Macroeconomic and Fiscal Aggregates, Chad, 2000-2008 (*)
(CFAF billion)

<i>Indicator</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i> <i>(Prel.)</i>
In percent:									
GDP real growth	0.6	9.5	8.5	14.7	31.3	12.2	0.2	0.2	-0.4
o/w: non-oil	0.6	9.5	6.9	6.0	-0.5	0.4	4.7	3.1	3.2
Inflation (CPI)	3.8	12.4	5.2	-1.8	-5.4	7.8	7.9	-8.8	8.1
In percent of non-oil GDP:									
Govt revenue	8.0	7.6	8.4	9.1	14.4	17.3	31.8	41.6	51.2
o/w oil revenue	—	—	—	—	4.2	7.8	23.0	30.6	41.5
Govt expenditure	20.3	18.3	20.9	25.5	24.5	24.2	30.9	38.6	42.1
Current	10.0	9.1	10.4	11.0	11.3	11.2	19.6	25.2	29.6
o/w wages and salaries	4.4	4.1	4.6	5.4	5.8	6.0	6.7	8.3	9.1
Investment	10.3	9.2	10.5	14.6	13.2	13.0	11.3	13.3	12.5
Non-oil primary balance	-0.9	-0.8	-2.4	-3.2	-3.9	-5.1	-15.0	-22.0	-28.1
Overall fiscal balance	-12.4	-10.7	-12.9	-16.1	-8.8	-8.0	-1.6	2.3	8.1

Sources: Ministry of Finance, IMF Staff Reports for the Art IV Consultations, 2001, 2003, 2006 and 2008. World Bank 2002 and 2006.

(*) Annual average for inflation; the wage bill includes both civilian and military wages; the fiscal balance excludes grants.

2.21 The structural fiscal position has become weaker over the oil period, with the non-oil primary deficit worsening from a modest 4 percent of non-oil GDP in 2004 to about 28 percent in 2008—due to higher spending in all areas, but especially in security. With the wage bill alone absorbing the entirety of non-oil tax revenue, the IMF estimates that Chad's fiscal sustainability is in jeopardy in both the medium and the long term, absent major adjustments by the government.²⁵ The concern is not with an increase in the non-oil primary deficit, per se, but with the rapid increase in current expenditure in the past three years and the composition of expenditure, discussed next.

24. Indeed, it can be argued that in Chad GNP is a better measure of economic activity, as GDP includes the substantial contribution from the Consortium. Focusing on non-oil GDP, of course, obviates this difficulty.

25. See IMF 2009. With the sharp fall in the price of oil and thus much lower-than-expected government revenues, 2009 will require particularly difficult adjustments with an impact on the real economy and social development, the magnitude of which will depend on those choices and on the manner in which they are implemented.

2.22 It is conceivable that the additional government spending of 2005-08 may have served to expand the economic base and thus improve both the fiscal and the macroeconomic picture in the long term. For this to be credible, one would expect to see an improved economic and functional composition of expenditure, as well as evidence of greater efficiency—particularly in investment. The evidence does not support this hypothesis, rather the reverse.

Expenditure Composition and Efficiency

2.23 ***Economic composition of expenditure.*** The economic composition has worsened, with current expenditure averaging 10 percent of non-oil GDP in 2001-04 and 21 percent in 2005-08, compared with a constant investment ratio (around 12 percent of non-oil GDP during the period). And with a wage bill (civilian and military, with 85,000 soldiers on the payroll) rising to 9 percent of non-oil GDP and over 90 percent of the operational budget, operational efficiency too is likely to have diminished.

2.24 Despite the aggregate increase in current spending, the critical balance between investment and recurrent costs was not achieved in many investment projects. The program called for expenditure to be driven by “program budgets” formulated by the “priority” ministries to implement the respective sector objectives, which in turn were expected to be consistent with the thrust of the overall poverty reduction strategy. However, as of mid-2005, several “priority” ministries (including education and social protection, among others) lacked any coherent strategy (World Bank 2006b). Also, progress in implementation of the I-PRSP and the first PRSP was “rather limited,” with “significant delays” and without stakeholder consultation; procedural steps in economic governance had not translated into improvements; and there was no evidence of a fit between the activities in the priority sectors and either the poverty or the sector strategies.²⁶ (With the new PRSP delayed until 2008, such consistency could not have improved after 2005.)

2.25 An especially important obstacle to better current-investment integration was the 2005 decision to centralize authority for physical investments and their execution in the Ministry of Infrastructure, reporting to the President. The stated rationale was to achieve quick and visible results. Without commenting on the rationale, this precluded programming of expenditure by the competent line ministries; confirmed the “program budgets” as a time-consuming irrelevancy; made it difficult to ensure adequate provision of recurrent costs; and diluted both the authority and the accountability of the line ministries for accomplishing results in their sectors.²⁷

2.26 ***Functional composition of expenditure.*** The functional composition of expenditure was the central focus of the program and of the oil revenue management arrangements. As noted earlier, the revenue percentages to be devoted to expenditure in the “priority sectors” originally applied only to the direct oil revenue (royalties and dividends), allowing the government full latitude for the allocation of other domestic revenue. In the initial years, the budgetary allocations were reasonably close to the agreed percentages, and despite the

26. See the PRSP progress assessment in World Bank 2005; see also the 2000 and 2003 PRSPs.

27. In some cases, physical infrastructure was built against the express wishes of the concerned line ministry.

divergence between budgets and outturns, actual expenditure on the priority sectors did increase. Table 4 shows budgeted and actual expenditures from domestic revenue (including oil) on priority and non-priority sectors, for 2004-06 and separately for 2007 (which was the reference year for the 2006 MOU). During 2004-06, actual expenditure from domestic revenue was about 86 percent of the budgeted amount. In itself, this would not indicate unmanageable budget execution problems, except for the substantial intersector variance in execution rates, with total actual expenditure in the “priority sectors” about 77 percent of the budgeted amount, compared to over 96 percent for the “non-priority” sectors. Moreover, the execution rate in 2004-06 was at 92 percent for expenditure on infrastructure and only 71 percent of expenditure on the other priority sectors.

Table 4. Chad: Domestic Budget and Actual Expenditure, various sectors, 2004-06 and 2007 (*)
(in billions of CFAF and percent)

<i>Expenditure Category</i>	<i>2004-2006</i>			<i>2007</i>		
	<i>Budget (CFAF bn)</i>	<i>Outturn (CFAF bn)</i>	<i>Outturn/Budget (percent)</i>	<i>Budget (CFAF bn)</i>	<i>Outturn (CFAF bn)</i>	<i>Outturn/Budget (percent)</i>
TOTAL	951.0	817.9	86	762.5	696.5	91
“Non-priority” sectors	432.8	417.3	96	301.2	294.1	98
“Priority sectors”	518.2	400.6	77	461.3	402.4	87
<i>Of which:</i>						
Infrastructure	138.0	126.9	92	138.6	125.4	90
Health+educ.+rural devt	294.0	227.3	77	240.0	206.6	86
Other “priority” sectors	86.2	46.4	54	82.7	70.4	85
<i>Memorandum:</i>						
Health+educ.+rural devt as % of total expenditure	31	28		31	30	

Source: Based on Ministry of Finance data and Bank staff estimates. At the time of the evaluation, no data were available on the intersectoral execution of the 2008 budget.

(*) Includes expenditure financed from oil revenue but excludes foreign-financed expenditure

2.27 In 2007, some changes for the better took place. The budget allocation to priority sectors rose to 60 percent, and actual expenditure to 58 percent (compared to the 70 percent agreed in the 2006 MOU). The overall budget execution rate increased to 91 percent and, although still significantly lower in priority sectors, the expenditure outturn in priority sectors increased to 87 percent of the budgeted amount. Overall, during 2004-07 the share of actual expenditure going to the priority sectors increased significantly, from 49 to 58 percent, and over one-quarter of government expenditure from own resources (CFAF 434 billion, almost \$1 billion) went to health, education and rural development. While this is a shortfall from the

agreed expectations, it does represent a substantial allocation of public funds.²⁸ The issue is how well the money was spent.

2.28 ***Efficiency of expenditure.*** In the aggregate, the efficiency of public spending has been harmed by lengthy delays in putting in place the budget, and by violations of the basic procurement and financial management rules. In addition to the growing reliance on sole-source contracts (one-third of total contracts in 2005 and almost half in 2008), the signing of contracts without budgetary cover has become widespread. This practice disables financial control on budget execution (and thus accounting and payment controls as well) and generates anomalies such as large advance payments followed by some initial work, but without completion—either because the balance of the contract cost is not budgeted or from simple lack of oversight (or for other reasons).²⁹

2.29 Moreover, although for some government entities the expenditure cycle is extremely short and simple because they are allowed to short-circuit all established procedures, most ministries are subject to the official expenditure cycle—highly centralized even for a francophone system, complex and inefficient, and with multiple redundant controls.³⁰

2.30 These and other problems were already apparent in 2005, and the 2006 PER Update forthrightly concluded that “Chad is at a crossroads.” While budget preparation has improved somewhat since then, budget execution has remained disorderly and unpredictable—with the resulting discrepancy between the efforts to meet the agreed targets in the budget and the actual outturn.

2.31 Aside from the inefficiencies flowing from systemic budgeting weaknesses, there were efficiency issues in specific public services. The investments in roads (paved roads increased from just 300 kilometers in 2001 to 1,200 kilometers in 2008) and in water supply carry the potential to strengthen economic connectivity and improve sanitation in the long run.³¹ The same cannot be said for the investments in health and primary education, where neither of the two fundamental investment criteria—conformity with identified needs and provision of current inputs—has been observed. In primary education, school construction

28. In addition, substantial expenditures for school, clinic, and hospital construction were included in the infrastructure budget—increasing the total expenditure for the social sectors. However, it is questionable whether such expenditure resulted in actual service improvements, as explained later.

29. The fundamental need for budgetary rule compliance was stressed as early as the 2002 PER (World Bank 2002), and the mounting problems of budget execution were candidly and forcefully identified in the 2004 PER and the 2006 PER Update (World Bank 2004b and 2006b).

30. This issue was first identified in the 2004 CFAA (World Bank 2004). The simplification of procedures is an urgent priority of future budget reform through the multidonor PAMFIP program (*Program d'Appui a la Modernisation de la Gestion des Finances Publiques*)—for both efficiency and anti-corruption reasons.

31. However, little attention was paid to rural roads—which are critical for connectivity. In particular, roads in cotton-growing areas remain in poor condition, and Coton Tchad reports that nothing was done to improve them in 2008, even though the funds were included in the Ministry of Infrastructure budget. In 2008, infrastructure spending turned to construction in the capital, with priority given to repairing the buildings damaged in the February rebel attacks. Substantial “urban renewal” is also underway, but by evicting people from their premises (IAG 2009). The inevitable resentment has been compounded by the sudden government prohibition on the use of charcoal and firewood, without providing alternatives.

has been inconsistent with local needs (for example, standard six-classroom schools were built regardless of local school-age population in the district) and with the availability of teachers and supplies. As a result, some communities have empty classrooms while others lack school capacity and have been forced to build straw shelters. The situation has been worse in health, where more than half of the facilities to be constructed did not appear in the list of priorities defined by the Ministry of Health, and most were not provided with the personnel, equipment, and medicines needed for their functioning. As a result, several of the sites had to be replaced with others after contracts were signed or construction completed, and the 14 hospitals and 85 health centers that were built will be unable to render any service for years. (See Dupety 2007. On the issue of “leakages” of resources in Chad’s public health sector, see Gauthier and Wane 2007.)

2.32 To these violations of fundamental investment criteria must be added the excessive cost of construction.³² For example, the average cost of a primary classroom block has been CFAF 30 million (about \$64,000), extremely high by comparison to either international or regional norms and double the cost of construction financed through the state budget rather than through oil revenue. Construction of health facilities has not shown the same degree of excessive cost; however, if the facilities cannot be operational for lack of complementary inputs, the entirety of the construction cost can be said to be wasted and the cost-effectiveness of the investment is zero.

The Provisional Committee for the Management of Petroleum Revenues Allocated to the Producing Region

2.33 By contrast, some positive outcomes can be attributed to the program component that was designed to address the needs of the oil-producing region in the south—both to compensate for adverse impacts of oil exploration and to foster regional participation and development. The allocation in the 1999 Petroleum Revenue Management Law (PRML) of 5 percent of royalties was retained by the government even after the 2005 amendments of the PRML. Pending the formation of the local government entities, a Provisional Committee was formed to receive funding proposals and administer the activities (hereafter the Committee 5%). The resources have been regularly deposited in the Committee’s account at the Regional Central Bank and distributed among the districts of the beneficiary region. It is true that the share of oil revenue devoted to the oil-producing region is not commensurate with the region’s population or its needs, but the targeted effort is nevertheless noteworthy.

2.34 Although detailed data on each project could not be collected, interviews and anecdotal evidence suggest that implementation has been comparatively satisfactory so far—especially after 2007, when the delegation given to the Ministry of Infrastructure in

32. This has been due in part to unnecessary features (for example, a separate “administrative building” for each block of primary classrooms), and in part to the use of unusually expensive materials (for example, for roofing, which in addition to the higher cost created problems of darkness, lack of ventilation and heat buildup); and other elementary design faults (for example, lack of access ramps in district hospitals).

this respect was ended and the Committee itself became responsible for contracting and implementation.³³

2.35 Table 5 shows annual commitments and disbursements under the 5 percent provision during 2005-08. Of the cumulative total of CFAF 56 billion (about \$110 million equivalent), over 90 percent were committed and almost 80 percent disbursed. The number of projects (66, not including microcredit) is significant, with an average allocation of CFAF 828 million (around \$1.6 million) and the majority receiving less than CFAF 500 million. There is no evidence of white elephants. As Table 6 shows, the 10 largest projects received an average of CFAF 1.6 billion (about \$3.1 million) each and, with the possible exception of Doba Stadium, all appear to fill obvious development needs. Moreover, many were focused on provision of potable water, with significant improvements in access to clean water, as shown in the next section.

2.36 Important criticisms have been raised. (See IAG 2009.) In general, the functioning of the Committee suffered from political interference (as did the FACIL project and the College) and genuine consultation with the affected communities was insufficient. The allocation heavily favored urban areas rather than the villages; however, with most of the population in the towns, access to basic services was expanded for a large number of people. Also, a promising microcredit program addressed to the rural areas was begun in 2007, with initial results and currently 12,000 members in the voluntary groups. However, investment decisions have been insufficiently responsive to genuine community-driven demands, and improving such responsiveness should be a major objective in the future.

Table 5. Commitments and Disbursements Under the Committee 5%, 2005-08
(in millions of CFA)

<i>Year</i>	<i>Allocated</i>	<i>Committed</i>	<i>Disbursed</i>	<i>Remaining</i>
2005	3,536	3,535	3,499	37
2006	5,139	5,139	4,406	733
2007	13,520	13,330	11,365	1,965
2008	33,200	29,204	24,402	4,802
Total	55,695	51,208	43,672	7,536
Average of 66 projects (excluding microcredit)	828	725	646	79

Source: Committee 5%, Investments.

33. The organizational structure includes a Management Committee (composed of one central government representative, two representatives of civil society, two representatives of traditional chiefs, and two Parliament members from the region), supported by a Technical Committee to review specific proposals for funding. Note that the activities under this rubric were different from those under the FACIL program designed to address the social impact of the oil development and pipeline construction itself.

Table 6. Ten Largest Projects Financed Under the Committee 5%, 2005-08
(in millions of CFA)

<i>Project name</i>	<i>Enterprise</i>	<i>Amount</i>
1. Doba Public Market	Almana	2,500
2. Doba Stadium	SOGECT	2,200
3. Baibokum Potable Water	STH	1,935
4. Bebedjia Public Market	SACOGEN	1,787
5. Bebedjia Electrification	Tropic-Methel	1,771
6. Baibokum Electrification	MED	1,336
7. Gore Electrification	Tropic-Methel	1,335
8. Bobo Lycee Construction	SETUBA	1,155
9. Baibokum Lycee Constr.	SETUBA	1,147
10. Beboto District Hospital	OCG	873
Average amount		1,594
Percent of total investments		28

Source: Committee 5%, Investments.

POVERTY AND HUMAN DEVELOPMENT

2.37 Data on poverty and human development are few, many out of date and some unreliable. It is nevertheless useful to provide the available data and look at some intermediate outcomes. (Table 7.) The picture is mixed, and there is no clear evidence that, overall, human development in Chad has either improved or worsened since 2000. Key health indicators show stagnation or deterioration since the early 2000s. A bright spot is the large increase in access to clean water between 2000 and 2007, from 34 percent to 48 percent of the population. (This is consistent with the pattern of investments in water supply, including by the Committee 5%.) (Table 7.)

Table 7. Selected Human Development Indicators, Chad, 2000 and 2007

<i>Indicator</i>	<i>2000</i>	<i>2007</i>
Infant mortality, per 1,000 (2000, 2007)	122	124
Child mortality, per 1,000 (2000, 2007)	205	209
Improved water source, percent (2000, 2007)	34	48
Incidence of TB, per 10,000 (2000, 2007)	26	30
Human Development (1997-2006)		
Index	0.393	0.389
World ranking	162/174	170/179
Human Poverty (1997-2006)		
Poverty index (percent)	52	56
World ranking	86/90	133/135
Life expectancy at birth (1997-2006)		
Number of years	47.2	50.4
World ranking	162/174	161/179

Sources: UNDP 1999 and 2008 for the first three indicators. World Bank, World Development Indicators, and USAID 2008 for the last four indicators. Other sources give lower life expectancy—below 50 in 2004 (e.g., IMF 2006, p.113)—and the 2008 PRSP gives a 55% poverty headcount for 2003/2004, consistent with the figures for 1997 and 2006.

2.38 Also noteworthy, according to the 2008 PRSP, is a substantial increase in school enrollment, for both boys and girls, to a gross enrollment rate of 88 percent, among the highest in Africa. However, the PRSP acknowledges that the quality of teaching has deteriorated: 42 percent of classrooms are in poor condition, curricular materials do not meet educational standards, and most importantly, three out of four primary school teachers are non-credentialed, community parateachers. (Although parateachers can have a very valuable role in primary education, they must receive adequate basic training. Also, for a time the government failed to pay them, although salary arrears have recently been reduced to eight months.)

2.39 As noted, data on poverty are insufficient to permit any analysis of developments since 2000. With the emphasis given to poverty reduction in the program objective and in all other WBG interventions, it is regrettable that the actual efforts at collecting reliable data on a timely basis and monitoring poverty and human developments have fallen short. However, by relying on civil society organizations and in other ways, systematic monitoring efforts by the Bank could have provided some reliable evidence in real time, even if partial, on human and poverty developments on the ground. (This failure is in part linked to the program's overemphasis on percentages and amounts of expenditure rather than on its results.)

GOVERNANCE AND INSTITUTIONAL DEVELOPMENT

Governance

2.40 Sudden revenue windfalls from extractive industries have led in most developing countries to a worsening of the overall governance climate.³⁴ It is therefore critical that this evaluation review actual developments in this area. The 1996 CAS for Chad listed the restoration of public sector capacity as the first strategic priority, and the first “pillar” of the 2003 CAS was “strengthening governance, including institutional arrangements for public resource management and service delivery [and] the rule of law.” No progress has been registered either in economic governance in general or in public financial governance. Concerning public financial governance, Annex D shows how public financial management in 2008 in Chad was on balance no better than in 2000 and in many respects worse. Concerning governance in general, whether measured by the Transparency International index, the Mo Ibrahim Index of African Governance, or the World Governance Indicators, there is no evidence of any improvement. The TI surveys show the same index of perception of corruption in 2008 as in 2004—1.7, second highest in Africa next to Nigeria and fourth highest in the world (www.transparency.org). The Mo Ibrahim index of rule of law, transparency, and corruption has a score of 40 for Chad in 2006—lower than any African country except for Angola, Sudan, and the Democratic Republic of Congo (www.moibrahim.org). And the World Governance Indicators show deterioration on every dimension of governance between 2000 and 2007 (Table 8).³⁵

2.41 The adverse governance developments are of particular significance when compared to the Africa-wide picture, which shows progress in voice and accountability and in political stability. (In other governance areas, the continent’s relative position remained about the same between 2000 and 2007 although, given the substantial improvements in governance worldwide in recent years, this indicates a slight degree of absolute improvement in Africa as well.) Although all governance measures are subject to some debate,³⁶ the convergence of all available indicators is dispositive in this case. While it would not be appropriate to associate the sharp deterioration in governance directly with the program, it may not be a coincidence that the large increase in government revenue took place during the same period. Clearly, the WBG’s strong emphasis on improving accountability, the rule of law, transparency, and participation had no discernible positive effects on governance developments in Chad. In hindsight, the oft-stated government commitment to achieve those improvements is highly questionable. It must be underlined that protection of human rights, control of corruption, enforcement of the rule of law, and the management of the economy for the benefit of economic and human development are the fundamental responsibility of a country’s

34. This was also a major criticism by some NGOs of the Bank support for the program. (See, for example, EDF 2006 and Amnesty International 2005.)

35. Although not shown in the table, the decline has been especially pronounced after 2004. In the Chad government’s view, the governance weaknesses have been caused by the adverse security situation and frequent episodes of rebellion. Other observers argue for the reverse causation, with insecurity and rebellion the result of malgovernance, which is in keeping with the literature and empirical evidence on the “resource curse.” (See, among others, Amnesty International 2005 and EDF 2006.)

36. See Devarajan 2008.

government, and not of the international institutions that may support its stated objectives and intentions.

Table 8. Governance Indicators Percentile Rankings, Cameroon, Chad, and Africa, 2000-07 (*)

<i>Country</i>	<i>Voice and accountability</i>		<i>Political stability</i>		<i>Government effectiveness</i>		<i>Regulatory quality</i>		<i>Rule of law</i>		<i>Control of corruption</i>	
	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>
Cameroon	16	21	28	31	24	17	31	24	11	13	9	16
Chad	20	9	11	6	29	4	19	12	20	6	22	5
Rest of Africa (**)	30.4	33.7	32.6	34.9	27.7	27.3	29.9	28.1	29.7	29.4	32.5	31.8

Source: Kaufmann, Kraay and Mastruzzi, 2008.

(*) Country scores range from a worst of -2.5 standard deviations from the worldwide mean of zero, to a best of +2.5 standard deviations. Based on the relative scores, countries are ranked by percentile on a worldwide basis, with higher values indicating better ratings. For example, a percentile of 70 on a given dimension means that 70% of countries score worse, and 30% score better, than the country in question. The indicators for 2008 were not available at the time of writing.

(**) 46 Sub-Saharan African countries.

Institutional Development and Capacity Building

2.42 Because “capacity building” encompasses more than training, this section summarizes the program’s outcomes in capacity building in the broad sense, as including institutional development, that is, sustainable improvement in the basic rules, decision-making processes, and structure of incentives. (As noted earlier, the risk to the program that the capacity-building efforts might not be successful was not recognized.)

2.43 ***Revenue transparency.*** A positive aspect of the oil revenue management arrangements enacted by the government of Chad in 1999 was achieving a level of revenue transparency nearly unique in Africa and nearing best international practice.³⁷ Equally important, during the past several years habits have been built in the direction of openness rather than secrecy. Other resource exporters and the international community should look to the Chad-Cameroon program as an example of how to achieve initial transparency in production and revenue from extractive industries. The issues are two. First, the continuation of oil revenue transparency may be at risk: a state oil company has been established; new external partners and other oil companies are active; a new refinery is being built with external assistance; the country has no independent capacity to monitor the oil sector; and the Bank is no longer involved. None of these factors is of concern in itself, but together they add complexity and thus potential risks to transparency and resource integrity.

2.44 Given the controversial history of the program, it is unlikely that the government would wish to lose international credibility by weakening this success aspect of the program.

37. Key factors include the legal obligation of EEPIC to make public the oil liftings and corresponding f.o.b. export prices; the verification of the amounts getting to the offshore terminal in Cameroon and publication of the pipeline transit fees; consistency checks with the Citibank-managed account in London; and, on non-oil revenue, the improvements in the Ministry of Finance capacity to project tax and non-tax revenues.

It does appear critical, however, to take the steps needed to complete the process of eligibility to the Extractive Industries Transparency Initiative (EITI)³⁸ and implement fully the obligations under the initiative. All such considerations affect the future and are thus beyond the scope of this report. What is within the report's scope is the second issue: even the fullest transparency in revenue has limited meaning without transparency in expenditure. In Chad, the expenditure side has been as opaque as the revenue side has been transparent.

2.45 **Expenditure management.** With the program's earmarking of direct oil revenue for expenditure on "priority sectors," budgeting in Chad—already segmented between domestically financed and aid-financed expenditure—became more fragmented still. In effect, the program caused Chad to operate four different budgets: the oil-financed budget, the aid-financed budget, the HIPC budget, and the domestic revenue-financed budget—with limited fungibility among them.³⁹ This was not a prescription for improving the institutional capacity of the budgeting system in the long run.

2.46 In a context of very weak budgeting and financial management capacity, the temptation to earmark certain revenues for categories of expenditure important for development and poverty reduction is understandable. However, institutional enclaves generally only work in the short term and, over time, tend to lead to systemic institutional damage and diminished capacity. The Bank understood this, but owing to the special risks of this program chose to aim for the short-term achievements. Unfortunately, the ring-fencing did not even succeed in achieving either a reasonable intersectoral balance in the allocation of expenditure (because the agreed target applied to total expenditure on all priority sectors combined), or a balance between investment and recurrent expenditure.

2.47 The original assumptions were that both balances could be achieved by: (i) the formulation of "program budgets" in each priority ministry (in line with the PRSP and consistent with a rolling MTEF), with the corresponding integrated expenditure proposals vetted and cleared by the *Collège*, and (ii) systemic improvements in expenditure management would result from the periodic public expenditure reviews by the Bank. The logic was sound, but reality interfered. Progress in implementing the 2003 PRSP was extremely limited and the formulation of the second PRSP was delayed; no MTEF was in fact produced before 2007; ministries' "program budgets" were disconnected from fiscal realities; the budget was assembled by the Ministry of Finance with little meaningful participation by the line ministries; neither the capacity nor the authority of the *Collège* came up to the original expectations; and the recommendations of the PERs, presented with an increasing sense of urgency, were mostly ignored.

38. The EITI is intended to foster transparency of revenue from extractive industries, and is currently implemented in 25 countries. (See www.eitransparency.org.) For eligibility, a country must meet reporting guidelines and fulfill a number of criteria. Chad's intent was announced in 2007, but the government has failed to take necessary steps and is not yet a formal candidate. (EITI++ refers to a World Bank concept to consider transparency throughout the value chain of the extractive industry, rather than just the final stage.)

39. The 2006 MOU attempted to partly redress this problem by extending the agreement to all revenue regardless of source.

2.48 Some improvements in budget preparation did take place in 2007, with a rudimentary three-year MTEF loosely based on the PRSP that was being drafted, and for the first time there were meaningful discussions involving each line ministry and the ministry of finance on options for expenditure programs. It is not clear whether this initial progress will be built upon.⁴⁰

2.49 Overall, while budget preparation has improved somewhat compared to 1999, budget execution has worsened. Despite positive steps, including the closing of a large number of government accounts, a treasury single account system remains far from being achieved and—more importantly—the improved rules and financial management provisions put in place *de jure* have been violated *de facto*, routinely and with impunity. On balance, available analyses and reports indicate that public financial management was no better in 2008 than in 1999, and the extensive technical assistance complementing the support for the program was largely wasted—in part due to inappropriate design and in part due to lack of implementation by the government. (See Annex D.)

2.50 ***Accountability and participation.*** The External Compliance Monitoring Group (ECMG) and the International Advisory Group (IAG) were the two external bodies set up by the program to monitor, respectively, the environmental and social dimensions and the broader development and governance dimensions, and the *Collège de Contrôle* was established in Chad to provide a measure of social accountability and civil society participation in decision-making on the allocation of oil revenue.

2.51 The *ECMG* worked well, and its operation is described in Annex A. The IAG performed its independent role through intensive missions in every year except 2008 (for security reasons), with the final one in January 2009.⁴¹ The IAG advice has been viewed by WBG senior management as well as both governments as candid, competent, and constructive. This was a positive feature of the program, and one worthy of replication for large and complex Bank interventions in the future.⁴²

2.52 Also a positive feature, albeit much less successful in practice, has been the establishment of the *Collège* to monitor the uses of the oil revenue. The scorecard is mixed. The entity attempted faithfully to fulfill its mandate, and had status and credibility, but was hampered by weak capacity and government support that was lukewarm at best. The technical staff, although both diligent and competent, was insufficient and financial resources were not commensurate with the envisaged role. However, with adequate government

40. A bright spot is a proven anticorruption measure taken in a December 26, 2008 circular to effect all salary payments for government employees by bank check or postal order and requiring all employees who do not have a bank or postal account to open one.

41. The IAG and IEG teams have exchanged views and logistic information during their work since January 2009, to the extent that it was proper given their different mandates. The final IAG report was published in September 2009.

42. The Bank has set up a similar international advisory group for the Nam Theun 2 hydroelectric project in Laos, with the government engaging a panel of experts to monitor the environmental and social aspects of the project; and the Baku-Tbilisi-Ceyhan (BTC) pipeline project financed by the IFC in cooperation with the EBRD featured similar mechanisms.

support or at least facilitation, the capacity constraint could have easily been relieved. For example, the government resisted the appointment of the civil society representatives, a defect that was supposed to be corrected after agreement on the 2006 MOU. However, except for the chairman, all members were replaced in 2008 by direct government appointment without consultation with the organizations they are supposed to represent.

2.53 On the positive side, the concern that the activities of the *Collège* (despite its lack of formal executive authority) might overlap with those of the ministry of finance and planning, did not materialize. On the negative side, despite its good efforts, the *Collège* was not in a position to fulfill the original expectations: its requests to the ministries for information were infrequently responded to and follow-up of its recommendations has been increasingly weak. Yet, although currently in limbo, the *Collège* is the only remaining component of the institutional structure originally put in place by the program, and may still have at least a modest influence for more effective investment and as a channel for voice. The concept was innovative as well as sound, and it, too, is worth considering for future major Bank-supported projects in other countries.

THE ENVIRONMENTAL AND SOCIAL DIMENSIONS

2.54 Whereas environmental and social aspects could have been addressed through the standard safeguard screening procedures pertinent to a “Category A” project, the Bank went significantly beyond the requirements and processed two free-standing capacity-building IDA credits, to strengthen the capacity to manage the oil sector, with special attention to social and environmental management in Chad and Cameroon. In addition to the main project, this section also assesses these two capacity-building projects. (For details, see Annexes A, B, and C.)

Main Findings

2.55 For a full picture, it is important to distinguish three time periods: pre-construction, during construction, and post-construction. The corresponding ratings are shown in Table 9, and developments in each period are summarized subsequently. In the table, the environmental and social aspects ratings relate to the oil development and pipeline project and the ratings under institutional development relate to the two capacity-building projects. Although the last of the projects was completed in November 2007, the ratings give some consideration to the issues that still need to be addressed, as well as the continuing weaknesses of the institutions responsible for environmental management in both countries. On the whole, and certainly during the pre-construction and construction periods, the project was in compliance with the EMP.

2.56 The handling of environmental and social issues was satisfactory in both countries for the first two periods. One major benefit from WBG involvement was the insistence on establishing the multi-tiered monitoring structure. Although the national government agencies ran into difficulties and failed to perform as expected, the monitoring by ECMG and by IFC’s Environment and Social Department was important in dealing with complex issues for which no easy solution was available. Two important examples were: (i) the resettlement and compensation challenges in Chad resulting from the more extensive land acquisition associated with the in-fill drilling program; and (ii) the institutional and financial problems

experienced by the Foundation for Investment and Development (FEDEC), which required actions by both IFC and COTCO. IFC's contribution remains important in ensuring that required mitigation actions are implemented so as to continue to meet the objectives described in the EMP.

2.57 In Chad, however, issues emerged on the social side in the third period. Also, the institutional development dimension has been consistently unsatisfactory. There are still no oil spill response plans in either country, and government monitoring of project activities in both countries is weak to non-existent. EEPICI, COTCO, and TOTCO have performed well in meeting EMP requirements and Bank safeguards, particularly in the areas of health and safety, emissions, water management, solid waste management, oil spill response planning and implementation, and health and safety. (See Annex A.) At the same time, in Chad, there are risks to the livelihoods of communities and individuals from the in-fill drilling program (with total wells eventually reaching about 700, compared to the estimated 287 at appraisal).

Table 9. Ratings of Environmental and Social Dimensions during the Program Period, Cameroon and Chad

	<i>Environmental aspects</i>		<i>Social aspects</i>		<i>Institutional development</i>	
	<i>Cameroon</i>	<i>Chad</i>	<i>Cameroon</i>	<i>Chad</i>	<i>Cameroon</i>	<i>Chad</i>
Oil fields pre-development and pipeline pre-construction period (1990-99)	Sat	Sat	Sat	Sat	Unsat	Unsat
Drilling, pipeline construction, and institution-building period (2000-03)	Sat	Sat	Mod Sat	Mod Sat	Unsat	Mod Unsat
Post-construction: oil production & transport operations (2004-present)	Sat	Mod Sat	Mod Sat	Mod Unsat	Mod Unsat	Unsat

The Pre-construction Phase

2.58 The main project was appropriately screened to Category A, followed by a thorough Environmental Impact Assessment to address alternatives for the pipeline corridor, selection of the right-of-way, land use and habitat modification, socioeconomic impacts, effects of construction on indigenous peoples, as well as emergency response and oil spill contingency plans for the entire pipeline and drilling project, and an Environmental Management Plan to be followed during the implementation. The EMP was the guiding instrument for project compliance during both the construction and operations phases and was subject to repeated international scrutiny and revision until stakeholders found it satisfactory.⁴³ (However, neither the project Environmental Impact Assessment nor the EMP foresaw the need for in-fill drilling to enhance well productivity.)

2.59 The Environmental and Social Clearance Memorandum (ESCM) of September 15, 1999, identified environmental and social safeguard policies and guidelines to be referenced

43. During preparation ExxonMobil indicated that it would not only apply Bank safeguards but would use the EMP to deal with the environmental and social impacts. Thus, the arrangements went beyond the criterion of "doing no harm" to the additional objective three of "doing some good" (Annex A).

in the investment agreement. The WBG exercised a high degree of diligence with respect to the safeguard policies that this project triggered.

2.60 The pipeline project put in place a multilayered environmental and social impact monitoring structure. This structure included both internal and external monitoring bodies along with IFC's own supervision by its environmental and social specialists. EEPIC, COTCO, and TOTCO hired expatriate and national staff from both countries to implement the EMP and its associated environmental and social monitoring. External monitoring was provided by the ECMG through a consulting firm and by the IAG. These arrangements worked in satisfactory manner.⁴⁴

The Construction Phase: 2000-2004

2.61 The EMP served as an effective tool during the construction phase. In addition to providing specific technical limits in such areas as water and air quality, it also detailed principles and processes for implementing compensation programs in both countries. Villages received community compensation, such as water wells and water points, electrification, community centers, schools, etc. Individuals were compensated for lost land, trees, and other types of property. In Cameroon, the COTCO-PSMC-NGO platform for cooperation and grievance resolution began operations to ensure that compensation programs were delivered as intended. During the construction phase, COTCO implemented a compensation program for individuals and villages affected by the pipeline construction, with 650 micro-development projects. At the completion of the construction phase, the project allocated over 1.84 billion CFAF (\$2.8 million) for community and regional compensation in Cameroon.

2.62 In Cameroon, the project properly addressed effects of construction on indigenous peoples, since the Atlantic Littoral Forest corridor for the pipeline was located to avoid Pygmy settlements in Bakola/Bageli. As required under the EMP, the project established the FEDEC with an initial capitalization of \$3.5 million provided by COTCO, which was to be used to support the long-term development and management of two new national parks (Campo Ma'an Park and Mbam-Djerem Park) and the implementation of the Indigenous Peoples Development Plan for Bagyeli/Bakola (Pygmies) communities. Implementation of these programs was delayed due to organizational problems in FEDEC. (See paras. 2.69-2.70.)

2.63 In 2003, the World Bank declared two Level III non-compliances in Cameroon related to the Cultural Property safeguard. These non-compliances were related to project activities at sites that had been previously identified as "high priority" archaeological sites (ECA-68, ECA-15, and ECA-163). A special archeological mission conducted by the ECMG determined that these areas could have been avoided and COTCO was asked to develop and implement a mitigation program. The program consisted of: (i) preparation of a report on opportunities for future archeological research in the affected area; (ii) funding post-graduate studies for two Cameroonian archeology students; (iii) the establishment of two curation

⁴⁴ Although in this case the external compliance monitoring worked well, and IFC has also used it in other complicated and risky projects, such multi-layer arrangements are costly, can overlap and provide inconsistent messages, and do little to foster national capacity."

facilities, one in Ndjamena and one in Yaounde, to house recovered artifacts and support further archeological work; and (iv) preparation in book form of the project's archeology program in Chad and Cameroon. Project supervision and monitoring reports indicate that these mitigation measures were implemented in a satisfactory manner.

2.64 In Chad's Oil Fields Development Area (OFDA), the construction phase presented many environmental and social challenges. Among the most important were establishing systems for solid and hazardous waste management, health and safety for workers and area residents, and managing the spontaneous in-migration of people interested in gaining employment with the project. The EMP provided the guidelines and processes for addressing these challenges while the monitoring by ECMG provided analysis and recommendations on measures necessary to comply with environmental and social objectives of the project.

2.65 Also, in the early years of the project hundreds of unskilled workers from other regions of Chad migrated to the project area. Spontaneous settlements sprung up around the key project locations in Kome and Miandoum. The EMP provided guidance on the potential impact of these migrations and proposed mitigation measures. In addition, surveys were undertaken, and based on the findings the Consortium and CTNSC initiated actions to address living conditions and sanitation concerns. Water wells were constructed and garbage collection initiated. ECMG during its monitoring visits paid close attention to these issues and made recommendations aimed at mitigating the negative environmental, health, and social impacts associated with the spontaneous settlements. Since completion of construction, some of the settlements have disappeared while others have become permanent. As with villages in the area around the OFDA, permanent settlements receive a variety of goodwill support from EEPIC.

2.66 Some assistance was given to government entities, mainly training and provision of equipment. However, the government bodies (PSMC⁴⁵ in Cameroon and CTNSC⁴⁶ in Chad) created for the independent monitoring of the oil fields and the pipeline were located within the national oil ministries of both countries, putting them in situations of potential conflict of interest. Little if any sustainable institutional development was achieved. The situation was aggravated further in Chad when the Ministry of Petroleum was destroyed, along with all of its records, during rebel attacks in February 2008. Moreover, the CTNSC had ceased to function after 2007, thereby leaving no governmental monitoring presence in the oil-producing area.

2.67 Although the two capacity-building projects were approved at the same time as the Bank and IFC loans for the pipeline project, judging from the disbursement profiles implementation only started when the pipeline was already built and operating. Thus, the projects did not contribute to government monitoring during oil fields development and pipeline construction, as originally intended.

45. Pipeline Steering and Monitoring Committee (*Comité de Pilotage et Suivi du Pipeline*)

46. National Technical Committee for Monitoring and Control (*Comité Technique Nationale de Suivi et Contrôle*, CTNSC).

The Post-Construction Phase: 2004-2008

2.68 **Cameroon.** Overall, the pipeline project's environmental and social performance in Cameroon during the post-construction phase has been satisfactory and is in compliance with WBG safeguards. It has performed particularly well in meeting desired standards for most World Bank and IFC General Environmental, Health and Safety Guidelines. The client has been quite diligent in its efforts to implement the processes and mitigation plans detailed in the EMP. A solid EMP management structure is in place that includes both technical specialists and Community Relations Officers who work closely with villages and towns impacted by the pipeline.

2.69 During the operations phase, compensation activities generally relate to the ongoing "Social Statement Process" to resolve a list of concerns and grievances developed in collaboration with local NGOs, representatives of the government of Cameroon, and villagers. There are also periodic requirements to compensate for land use required for maintenance or facilities improvements. COTCO admits that managing expectations related to project benefits at the village level has been very difficult. The Consultative Platform, which includes the PSMC, COTCO, government ministries, and NGOs, meets too infrequently (once or twice a year), and has not proven to be effective in resolving grievances. Local NGOs, while supportive of the EMP and its processes, believe that a project of such scale should have longer-term economic development impacts at the village level. While the "social closure" has not been achieved, the external monitoring concludes that compensation programs are being implemented effectively, and in keeping with EMP guidelines.

2.70 Since its creation, Cameroon's FEDEC has faced a number of financial and management challenges. In 2005, the ECMG described some of the more important problems faced by FEDEC, including the beginnings of financial difficulties associated with the falling value of the U.S. dollar against the CFAF and lack of success in raising funding from donors. ECMG reports, along with observations provided by the IAG and the Project Inspection Panel, have highlighted ongoing financial difficulties, its inability to fund raise, and its need to draw down capital to support its operations.

2.71 Over the past few years, IFC, COTCO, and the government of Cameroon have attempted to address the deteriorating financial situation of FEDEC. Proposals were made to increase the endowment through additional capital from both COTCO and the IFC. As of early 2009, a draft action plan had been prepared. The recent decline in world stock markets has further eroded FEDEC's endowment. COTCO has provided some interim funding, but a long-term solution has not been agreed upon. One must question the commitment of all the parties to finding a solution considering the financial situation has worsened over the last four years. Left unresolved, the financial and management problems faced by FEDEC will likely have a serious negative impact on continued implementation of the Indigenous People's Plan (IPP) activities and could also adversely affect management of the two parks.

2.72 The implementation of the IPP continues to present challenges. Participation of some Pygmy communities in FEDEC-supported programs is considerably lower than expected, and there is tension between Pygmy leaders and the implementing organization RAPID concerning program implementation.

2.73 At present, there is no effective government monitoring of the pipeline. Proxy monitoring is being carried out by the ECMG, but it will end once IFC's involvement is concluded. COTCO is mainly self-regulating. No effective environmental and social mainstreaming into transport, health, and other ministries has occurred, as envisaged under the technical assistance project.

2.74 *Chad.* Overall, the oil development and pipeline construction project's environmental and social performance in Chad has been moderately satisfactory and is in compliance with World Bank safeguards and IFC Performance Standards. The client, EEPCI and TOTCO, have implemented the processes and mitigation plans detailed in the EMP and have been cooperative in providing access to information required by the various monitoring and supervision entities: ECMG, IAG, and IFC. Reporting to third parties and IFC has been comprehensive, descriptive, and transparent, but despite a massive information dissemination program, some local stakeholders still feel that more communication is needed.

2.75 There has been reasonable success in addressing the environmental and social impacts of its activities, considering the size and complexity of the Pipeline Project. The most important examples include: (i) the oil spill response management system, which includes automatic shut off to reduce the quantity of spills and quick response by specialized spill cleanup specialists;⁴⁷ (ii) efforts to reduce well pad size and return land to farmers; (iii) efforts to put in place technology required to reduce flaring volumes after a Level 1 non-compliance for excessive flaring was raised by the EMP team in August 2006; (iv) meeting the ongoing challenges of solid and hazardous waste management; and (v) developing and implementing health and safety programs that affect employees, contractors, and the communities at large. In 2007 and 2008, project workers kept their historically low Recordable Incident Rate well below the average rate of the petroleum industry as a whole.

2.76 Probably the most challenging part has been the work to meet the requirements of the EMP and take the required action based on the conclusions and recommendations of the Barclay-Koppert report.⁴⁸ The report assessed the adequacy of the Chad Resettlement and Compensation Plan (CRCP) for addressing changes in project scope and land requirements arising from more extensive drilling and production well development in the Oil Fields Development Area (OFDA) than was envisaged in the original CRCP.

2.77 EEPCI and the EMP team have introduced a new, revised land compensation process that gives more time to the affected people, and an enhanced land use Geographic Information System (GIS) database that allows more effective management of impacts and of compensation information. The GIS is used to demarcate village land area according to use

47. The one spill that occurred totaled 34 barrels of oil and was contained within a few hours.

48. The main conclusions and recommendations were: (i) the project has failed to achieve its objective of minimizing its impact on land and had only partially achieved its objective of reclaiming land after construction, and making as much land as possible available again to customary users; (ii) The evaluation found that the CRCP's emphasis on agricultural training and off-farm training as the principal livelihood restoration measures was inadequate to restore the livelihood losses of those 900 or so households experiencing loss of access to more than 20 percent of their land.

and who has traditional rights to specific plots. For agricultural land it specifies which plots are under cultivation and which ones are in fallow.

2.78 In November 2008, EEPCI & IFC engaged the services of Environ to undertake an Environmental & Social Impact Assessment (ESIA) of the in-fill drilling program that began in 2005.⁴⁹ This program will increase the number of wells by up to 400, thereby increasing the overall size of the project's footprint, which was not foreseen in the original Environmental Impact Assessment. While the EMP will continue to be used as guidance, the ESIA will be used to determine whether or not the current mitigation measures (implementation and execution procedures) need to be improved. IFC and ECMG consider that the in-fill program does not pay adequate attention to the conclusions of the Barclay-Koppert report. In an effort to resolve their differences, IFC and EEPCI management met in Washington D.C in April 2009 and agreed that: documents related to the LUMAP, the ESIA and the Infill Drilling Program would be disclosed; Environ would complete a re-assessment of the ESIA (first report mid-year and final report YE 2009); and additional resources would be allocated for either a social development specialist (as suggested by IFC) or GIS specialists.

2.79 In terms of land return, satisfactory results are now achieved and the footprint of the temporary facilities is being significantly reduced. Of the 549 well pads 509 have been restored to the dimensions committed to in the EMP. While not all of them are yet effectively returned for community use, this is still a remarkable achievement.

2.80 From the government side the story is very different. With the closing of the IDA capacity-building project in Chad, the promising FACIL (*Fonds d'Actions Concertées d'Initiative Locale*)⁵⁰ program for micro-credit, small infrastructure financing, and small and medium enterprise development collapsed. (Annex C.)

2.81 Although drafted with support from the two IDA credits, environmental regulations governing oil fields, pipeline, and petroleum sector operations have not been approved by either national government. The Oil Spill Response Plans in both countries have also not been approved. The incipient and promising monitoring capacity that was being built up in the NCTMC collapsed when the IDA technical assistance Credit was closed. Currently, there is no government presence in the oil fields for monitoring or reporting purposes, TOTCO is self-regulating and no effective environmental and social mainstreaming across transport, health, and various sector ministries has occurred, as envisaged under the capacity-building projects.

⁴⁹ Based on information from the ECMG reports from 2005, among other sources, IFC considers that the infill drilling began in 2005, whereas EEPCI states that the infill drilling began in mid-2008, and the additional wells drilled between 2003 and 2008 were development wells within the original 40-acre well-spacing pattern.

50. *Fonds d'Actions Concertées d'Initiative Locale*

3. Evaluation Dimensions and Crosscutting Issues

3.1 As explained in chapter 2, despite the technical and financial success of the main project, linked largely to the high price of oil, the fundamental objective of the program has not been achieved. Indeed, the oil revenue windfall was associated with a resurgence of civil conflict and a worsening of governance. The evaluation concludes that the principal reason for this disappointing outcome was lack of government ownership. Actual outcomes might have been better with a more flexible program design, suited to the fluid circumstances and political economy of Chad. However, no alternative program design or closer supervision would have allowed to achieve the program's development objectives in the absence of government commitment. This section groups the major crosscutting issues loosely around the major evaluation dimensions and, owing to the extensive preceding analysis, addresses them briefly.

STRATEGIC RELEVANCE AND TIMING

Did the WBG get involved for the right reasons and at the right time, and did it do so in full recognition of the probable alternatives and the risks, including reputational risks?

3.2 The WBG got involved for the right reasons and in full recognition of previous experiences as well as the risks. The sound strategic rationale of the WBG involvement was noted earlier. At the time, it was reasonable to view the risks as somewhat mitigated by Chad's comparatively good record of reform implementation—staying on track with IMF and Bank programs, liquidating wasteful parastatals, etc.; by the relative political stability of the previous four years; and by the government's public assertions of strong ownership and commitment.

3.3 On timing, a major criticism (especially by the NGOs) was and remains that the WBG should have waited longer, in order to help build the country's capacity to manage the petroleum sector and the oil revenue and to improve governance. It is difficult to imagine, however, how an additional two or three years could have achieved those long-gestation objectives. Moreover, clear signs were already emerging in 1999 that the oil would be developed and the pipeline built in the near future with or without WBG involvement. The easy decision in 2000 would have been to avoid both the involvement and the criticism—and let the responsibility for likely unfavorable impacts rest entirely on the government and the oil companies. Instead, the WBG rightly decided on the more difficult course of reducing the likelihood of unfavorable impacts and improving the chances of success—with hope but without illusion.⁵¹

3.4 The more appropriate criticism is instead retrospective. After its involvement in Chad's oil sector in 1994 the Bank's efforts during the subsequent six years to help the

51. The notion that the WBG got involved because of pressure by the WBG president is not supported by the evidence—on the contrary, there was substantial skepticism, and before Board presentation the Managing Director was dispatched to Chad for almost two weeks to personally ascertain the situation from a variety of stakeholders. The internal debate was certainly intense, but the conclusion was that this was a risk worth taking for Chad's development.

country improve budgeting capacity, budget execution mechanisms and financial management controls were insufficient and unsuccessful, thus making it necessary to support capacity-building activities concurrently with the program. Still, the eventual problems in program implementation were caused much less by limited technical capacity than by governance weaknesses and lack of government ownership. This risk was recognized from the beginning. Indeed, it is possible that the widespread skepticism and the external criticism led the Bank into an excessively rigid program design, as discussed next.

APPROACH AND DESIGN

Did the WBG have the right program design?

3.5 As explained earlier, the environmental and social safeguards were well designed, better than in many projects of a similar nature in developing countries, and so were the mechanisms for transparency in oil revenue. Technically, too, the oil development and pipeline construction were well designed, although the larger-than-projected oil revenue was due to the oil price increase, which few could have predicted. However, the all-important revenue and expenditure management arrangements proved inadequate and, in some respects, counterproductive. The main issues concern the earmarking of the revenue and ensuing fragmentation of the budget; excessive rigidity of the arrangements combined with arbitrary expenditure floors; neglect of the quality of expenditure and insufficient attention to budget execution.⁵² Similarly, the capacity-building projects for petroleum sector management were overly ambitious, resulting in disappointing outcomes.

Oil Revenue Earmarking

3.6 The earmarking of the oil revenue—until 2006—caused an additional fissure in an already fragmented budget process and weakened further public expenditure management without clear benefits for resource allocation or efficiency. The logic was simple and direct. In keeping with the classic definition of conditionality as “a means for the appropriate use of resources,”⁵³ since Bank support was provided to generate the oil revenue, the Bank conditions were limited to the use of that revenue. Even if the logic is accepted, however, it became inoperative when the oil revenue turned out to be several times higher than domestic revenue and the total of foreign aid.

3.7 Moreover, as with other institutional enclaves, budgetary enclaves in a malfunctioning budgeting system may generate a positive short-term impact but at the cost of dilution of accountability and a weakening of institutional capacity in the long term. In this case, the earmarking did not even have its desired short-term impact, as the arrangements were discarded by the government barely one year after the oil revenue began accruing, and the revenue escrow mechanism proved too fragile to survive its first real test.

52. The program did not contain a formal oil stabilization fund. However, while a stabilization fund can be an important tool of fiscal management, like any other “fund” it can only be effective if it is used for the purposes for which it is designed. It appears most unlikely that the government would not have drawn the resources in such a fund to meet its immediate needs—whether or not the fund’s rules or the fiscal stance justified it.

53. Joseph Gold, 1981, *Conditionality*, Washington, DC: International Monetary Fund.

3.8 Since the Bank was well aware of these realities, the question arises of why it chose to design such a complex and rigid mechanism. The answer is a combination of the intent to maximize the protection against the high reputational risks of the program and the need to respond to the severe external pressure and vocal criticism of WBG involvement.

Excessive Rigidity

3.9 Whether the chances of improved allocation and efficiency of resources would have been better with more flexible arrangements rather than with fixed expenditure floors is very difficult to adjudicate, even in hindsight. Certainly, the lack of government commitment make it unlikely that alternative designs would have yielded substantially better outcomes. The issue is not the six layers of supervision (the Consortium, the government, the WBG, civil society, the ECMG, and IAG); although costly, they worked well on the environmental and social side and as advisory mechanisms. Neither is the core issue the arbitrariness of the percentages of revenue to be allocated to the various uses: since it is impossible to define those percentages on an analytical basis, negotiated targets are inevitable. The core issue of excessive rigidity is the enshrinement of quantitative spending targets into formal law, and the ensuing lack of subsidiary arrangements to give the Bank “judgment space” within agreed targets⁵⁴. Alternatives could have included a soft target within a band triggering progressively stronger review and correction provisions—providing a middle ground between the excessively discretionary criterion “satisfactory to the Bank” and a negotiating straightjacket. Also, instead of a floor on the percentage of oil *revenue* allocated to the priority sectors, the agreement could have focused on a ceiling on *expenditure* on non-priority sectors (mainly security and regime maintenance), agreeing on the size of the “black box” but otherwise not discussing its contents or its execution, and thus focusing supervision and dialogue on the functioning of the overall budget process and the allocative and use efficiency of expenditure.⁵⁵

3.10 Because, in the final analysis, the issue is government commitment, more flexible design or a focus on expenditure rather than on oil revenue may well have led to the same disappointing development outcomes. However, such an approach would at least have avoided the budgetary fragmentation caused by earmarking the oil revenue, with fiscal and expenditure management capacity somewhat better than is the case today.

Neglect of the Quality of Expenditure and of Budget Execution

3.11 The unsatisfactory outcomes in expenditure efficiency and budget management were documented earlier. Insistence on a numerical quantum of budgeted expenditure invited

⁵⁴ Key operational staff understood quite well that the quality of expenditure was at least as important as its amount, and thus intended to interpret the implementation of the MOU in a flexible manner and taking into account considerations of efficiency and service provision. In the event, the Bank focus remained where it had been from the start – on minimum percentages of expenditure – and the Bank decision to exit rested primarily on the deviation between the actual 2007 outturn of 58 percent of total expenditure on priority sectors as compared with the 70 percent agreed in the MOU

⁵⁵ The attractive alternative of distributing a part of oil revenues directly to individual citizens and/or households in Chad was briefly considered but rejected, as both impractical and too great an intrusion into national sovereignty. It is possible that such an alternative might be conceivable in other situations—with government consent.

disregard for quality and cost-effectiveness, and led to surprises ex post when budget execution deviates from the approved budget. The Bank was aware of this risk and for this reason set up a process of annual Public Expenditure Reviews to assure a regular dialogue on expenditure management. The program design was coherent: the PRSP would underpin an MTEF framing an annual budget consistent with an agreed sectoral allocation and financing integrated capital-current expenditure programs endorsed by the *Collège*, with the PERs serving to monitor fiscal sustainability and to improve both budget preparation and execution. The logic was textbook perfect—except for the revealed weakness of every link in the chain.

3.12 While capacity-building efforts in budgeting system and practices were largely unsuccessful, new capacity was created in other areas—primarily in the understanding of petroleum marketing and in the management of infrastructural projects and construction. This new capacity was instrumental for the large expansion of the paved road network, but at the same time serious problems emerged in procurement, cost control and observance of basic financial rules. The underlying cause of both developments was the combination of the program’s focus on percentage spending floors with the unexpectedly high revenue. Not only did this combination put pressure on the government to spend more and faster in order to meet the targets agreed with the Bank, regardless of cost-effectiveness or integrity considerations, but it also gave a convenient excuse to those elements who wished to exploit the situation for personal or political advantage.

3.13 The counterfactual is whether better results would have been achieved by focusing agreements and supervision on good preparation of major investment projects (including appropriate provision of recurrent costs) and supervision of their implementation (including attention to procurement and financial management)—plus much more attention to the execution of the overall budget (including targeted expenditure tracking surveys). No definitive answer can be given, but good practice in public expenditure management points in the direction of focusing on the basics and it is likely that explicit attention to project preparation and implementation would have led to higher efficiency of investment expenditure than has been the case.

WBG IMPLEMENTATION PERFORMANCE

Has the WBG succeeded in effectively supervising the program, adapting to changes, and managing decisions internally and vis-à-vis the government, international partners, and NGOs?

3.14 The high risks to the WBG and the worldwide interest generated by the project led to unusual attention to implementation and supervision—with enormous efforts and personal commitment of almost every operational manager and staff member involved in the program. In hindsight, however, these efforts could not be effective—due partly to the flawed program design but mainly to lack of government commitment and follow-through. But there were other problems.

Supervision Effectiveness

3.15 Owing to the importance of the program, the Bank assigned in the early years two highly respected former senior staff, with a great deal of experience in difficult African challenges, as consultants to supervise it in cooperation with country management—one resident in N'djamena and the other in Washington. The expensive arrangement absorbed most of the otherwise generous supervision budget and ended before the critical period when oil revenue began to flow in large amounts. After the end of the consultant arrangement from mid-2004 until November 2007, a regular senior staff was assigned to N'djamena with central operational responsibility for the program.

3.16 There were also problems with the supervision of the capacity building projects. The Chad revenue management project suffered from the excessive rotation of task managers (six in seven years), with ensuing lack of attention and continuity; the Cameroon capacity-building project was afflicted by the conflict of interest inherent in placing the monitoring mechanism inside the national oil company; and the Chad capacity-building project suffered for several years from the lack of in-house technical expertise needed to supervise the experienced consultants.

3.17 IFC's supervision responsibilities in the main project related to environmental and social issues were performed satisfactorily, in consultation with ECMG and with the Bank.

Senior Management Role

3.18 When full involvement in the program was decided in principle in 1998, the WBG president was determined to use the opportunity to try and create a new model of petroleum use for development and the best possible environmental and social safeguards, as well as international cooperation between the WBG and large multinationals.

3.19 After the intense internal debate prior to the decision, those staff who were initially skeptical fully accepted the decision and proceeded to do all they could to maximize the chances of its success. For the first few years of the program, too, senior management created an enabling environment for operational managers and staff, and its decisions were informed by and integrated with the efforts of operational staff, who implemented the higher-level guidance effectively.

3.20 The 2005 debate on how to handle the increasingly likely government decision to break the agreement was thoughtful and deliberate, and the Bank's sharp and immediate response in January 2006 to the government's unilateral action was understood and widely agreed. However, the direct intervention of the president's office in the subsequent negotiations to engineer a new agreement was questionable. Although country and regional management were fully involved and correctly sought to address the allocation of all expenditure regardless of source of financing rather than just the earlier blinkered focus on direct oil revenue, the weakened enforcement mechanism made the agreement in effect paper conditionality with little chance of actual success.

3.21 Based on staff interviews, some operational staff and managers eventually came to feel that their views, information, and arguments were not receiving consideration in senior

management decisions. This sentiment became especially strong in 2008. The contrary view has also been expressed, however, that staff disappointment was due to their disagreement with the decision to exit and the manner of doing so, and not to the failure of consultation or consideration of the arguments and the facts.

External Partnerships and Relations⁵⁶

Relations with the consortium were very good until the events of early 2006. Subsequently, although relations with IFC continued, the Bank's degree of trust was no longer the same.⁵⁷

3.22 *Relations with donors* were excellent at the beginning and remained good through the July 2007 multidonor mission. Until then, consultation of all development partners was close and all major donors were in agreement with the program and with the Bank decisions reached after such consultation.⁵⁸ After mid-2007, the interaction with donors became dominated by broader political and security considerations—underlined by the major rebel attack on N'djamena in February 2008.

3.23 Several representatives of external partners in Ndjamenena felt that not only had they not been consulted on the Bank decision to exit in 2008, but they had not even been informed before the decision was made public. However, some Executive Directors had been aware of the Bank intentions since the 2008 Spring Meetings, and it is possible that some local heads of missions had not been informed by their headquarters on a timely basis. However, at least one major program partner reported finding out only from the September press communiqué of the Bank's final decision to exit the program and of its request that Chad voluntarily repay in advance the balance on the IBRD loan and the IDA credits.

3.24 *Relations with NGOs* have been complex, and a distinction is clear between the position (and roles) of the major international NGOs and those of local NGOs in Cameroon and Chad. As a broad simplification, while the international NGOs were against the project, the local NGOs were pressuring to make it as environmentally and socially responsible as possible, and, in Chad, to delay the project in order to build better governance and accountability. Documentary evidence and interviews suggest that the criticism of the Bank's involvement advanced by some NGOs was not well grounded in factual evidence and thus speculative and exaggerated. Conversely, the NGO pressure did contribute to strengthening further an already strong set of environmental and social protection safeguards. However, the same outcome could have been achieved without the excessive criticism and undocumented claims.

56. WBG relations with the governments are discussed throughout this report and are not mentioned here.

57. Recall that EEPCI chose to withhold the royalty and dividend payments instead of depositing them in the London escrow account, as per the agreement.

58. At least one major donor, after adhering to a joint donor consensus, privately took different positions vis-à-vis the government. The IMF was consistently supportive, and even extended the Poverty Reduction and Growth Facility although not even one review had been completed. However, the Fund's long-standing views on revenue management and unity of the budget are a matter of record, and contrasted sharply with the program's oil revenue earmarking—a contrast that the government attempted to underline in its efforts in 2005 to obtain Bank agreement to amend the revenue management law.

Exit

3.25 In the view of the government of Chad, the Bank's actions in 2008 were gratuitous and unwarranted. In that view, good faith attempts had been made to meet the agreed MOU targets for the 2007 budget, even though the expenditure outturn fell somewhat short, and the rebel attacks of early 2008 then upset all the fiscal plans for that year. Also, the Bank took its decision unilaterally rather than after the joint review implied by the "consultations" provision of section IV.d of the MOU.⁵⁹ Finally, the government points out that the Bank effectively took its decision to exit before the final figures on the expenditure outturn for 2007, as the reference year, became available.

3.26 In the Bank's view, there had been staff meetings and exchanges on the execution of the 2007 budget, which constituted consultations and also provided evidence that the agreed targets would not be met. (This outcome was already clear at the time of the July 2007 multidonor mission and in fact the targets were not met, by a significant margin. The Bank concluded that, after going the extra mile in 2006 to come to an agreement on a reformulated program following the government's unilateral changes, the government's failure to implement the new agreement made clear the futility of further Bank involvement in Chad's oil sector and Bank inaction in the face of repeated violations of agreements would create a reputational risk and send the wrong message. As for the advance repayment of the balance on the IDA credits by Chad (the first in Bank history) the reason stated was that, in its absence, Bank involvement in Chad's oil sector would not come to full closure. In reality, relations had been tense since at least July 2007, and little development work was being accomplished. In this perspective, the decision by the Bank's senior management to withdraw might be seen simply as the final recognition of a longstanding state of affairs. Moreover, the decision's justification lay in the repeated government violations of the agreements and the reputation risk of continued involvement compared with the low probability of constructive influence.

3.27 Some internal and external observers have expressed concerns about the Bank's decision-making process and the implications of its withdrawal. Some stakeholders have considered that the Bank gave away its "seat at the table" just when the government was reaping an unprecedented oil revenue windfall. Some have viewed the timing of the decision as especially unfavorable as it may have undercut the new unity government⁶⁰, weakened the "reformers" and strengthened the "hawks" in Chad. At least one major partner resented what was perceived as insufficient consultation; and some local NGOs felt that without the Bank

59. The complaint of unilateralism is curious in light of the government's own unilateral decision in late December 2005 to amend the 1999 PRML. The government argues, however, that the decision on amending the law was taken by the Parliament in the exercise of its sovereign functions and was thus outside the control of the executive branch.

60. In August 2008, a new government was formed, headed by a new Prime Minister. Views vary on whether this action signals meaningful and durable change. One significant event, however, was the Cabinet decision to assert the authority of the line ministries to initiate physical investment proposals in their sector—consistent with national development priorities and sector strategies—and limit the responsibility of the Ministry of Infrastructure to implementing those investments. This decision could remedy the disconnect between development needs and investment spending caused by the 2005 assignment to the Minister of Infrastructure of all authority concerning investment in physical infrastructure and construction.

they had lost their only voice channel. To what extent these views are due to insufficient knowledge of the totality of facts and of the bases of the Bank's decision making process is not clear.

IFC/Bank Cooperation

Was the joint Bank-IFC modality more cost-effective than parallel operations, and did it yield better development outcomes?

3.28 The program featured significant WB-IFC collaboration at all stages, with a division of labor suited to their different mandates and comparative advantage. Thus, the Bank focused on implementation of the revenue arrangements and expenditure understandings, and on the three IDA-supported projects to help build capacity to monitor the oil sector and manage the oil revenue, while IFC dealt with the environmental and social aspects of the pipeline project. Also, the Bank handled relations with the governments and IFC relations with the Consortium and the lenders. With the Bank exit from Chad's oil sector, IFC continued to monitor the environmental and social aspects of the main project.

GOVERNMENT OWNERSHIP AND PERFORMANCE

Was the government performance satisfactory? Was government ownership genuine?

3.29 The performance of the implementing entities, given their constraints, was moderately satisfactory in both Chad and Cameroon. Cameroon government performance, limited to the capacity-development project was moderately unsatisfactory. Chad's government performance, as shown by the broad macroeconomic, fiscal, governance and institutional outcomes, was described earlier. Whatever the variety of influences on the outcomes, this performance cannot be considered satisfactory. On the specific issue of ownership, two contrary views have been expressed: (i) Chad was on board with the agreement, until security and regime maintenance urgencies forced the government to abandon it; (ii) there was never genuine ownership from the top, despite protestations to the contrary. It is not possible to judge intentions, but there is little doubt that whatever ownership was present at the beginning, if any, decreased through the years of program implementation.⁶¹

3.30 The question arises whether the WBG could have demanded at the beginning a sufficiently robust test of government's ownership to use the oil resources as agreed. It is true that the Bank could perhaps have been more insistent on greater government participation in the formulation of the 1999 revenue management law and associated institutional structures. (These were in effect designed largely by Bank staff and consultants—albeit in consultation with Chadian officials, with serious review by them, and with approval by the legislature.) But several high government officials were genuinely supportive of the program; Chad had a comparatively good record of implementation of Bank- and Fund- supported reform programs, as noted; and Chad's president took all possible occasions to affirm publicly that

61. In the words of a non-Bank, nongovernment interlocutor "ownership was a ventriloquist act." Still, it is interesting to note that the provision to allocate 5 percent of the revenue to the producing region was fully implemented—as explained earlier—in contrast with the abandonment of the Future Generations Fund, which the government reportedly opposed from the beginning.

the 1999 law was fully owned by Chad and to proclaim his support for the program and all its features, including during a personal meeting with the WBG president. It is hard to see what else the Bank could have done to increase its degree of ex ante comfort with government ownership. The only real test would come, as it did, when the oil revenue began to flow.

A SUMMARY SCORECARD: PRINCIPAL PROJECTS AND PROGRAM RATINGS

3.31 The ratings for the individual projects and the program as a whole are shown in Table 10. The program-level ratings are related to the project ratings, but also stand on their own as a judgment of the overall cluster of projects and activities against the program objective. The ratings of the program are not an average of the ratings of the component projects, nor are they weighted by loan amounts, but flow from a combined assessment of the developmental importance of each project—with the revenue management arrangements at the core of the program. As explained in the above analysis, the program relevance was modest, from a combination of appropriate strategic objective and weak design; the high efficiency of the pipeline investments in narrow financial and technical terms was tempered by the modest efficiency of the capacity development investments and the overall less than efficient use of oil revenues, efficacy in terms of overall program objectives was modest at best. Hence, the overall program outcome must be considered unsatisfactory, when assessed against the stated core objective of reducing poverty and improving governance by the best possible use of the oil revenue in an environmentally and socially sustainable manner

3.32 However, in light of the complexity of this program and the diversity of outcomes, the standard evaluation approach of assessing outcomes against stated objectives needs to be qualified by consideration of the possible counterfactual. With the rapid increase in oil price after 2000, it is almost certain that the oil would have been developed and the pipeline constructed even without WBG involvement, albeit one or two years later. If so, the environmental and social provisions and the external monitoring arrangements would not have been as thorough as those under the program. Also, it is probable that the revenue allocations to the “priority sectors” would have been lower, and virtually certain that the support institutions such as the *Collège* and the advisory group would not have been put in place. In this sense, it could be concluded that the WBG involvement had a positive effect—although it’s not possible to speculate on whether these results would have been commensurate with the scale of the WBG effort. That said, the evaluation has rested on the standard approach.

Table 10. Projects and Program Ratings

Chad and Cameroon: Petroleum Development and Pipeline Project	
Outcome	Moderately satisfactory
Risks to development outcome	Significant
Bank Group performance	Moderately satisfactory
Borrower performance	Moderately satisfactory
Cameroon: Petroleum Capacity Enhancement (CAPECE) Project	
Outcome	Unsatisfactory
Risks to development outcome	Significant
Bank performance	Moderately satisfactory
Borrower performance	Moderately unsatisfactory
Chad: Petroleum Sector Management Capacity-Building Project	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Moderately unsatisfactory
Borrower performance	Unsatisfactory
Chad: Petroleum Economy Management Project	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Unsatisfactory
Borrower performance	Highly unsatisfactory
Chad: IFC Advisory Services (*)	
Development effectiveness	Mostly unsuccessful
IFCs role and contributions	Satisfactory
CHAD-CAMEROON: PROGRAM (**)	
Outcome	Unsatisfactory
Risks to development outcome	High
Bank performance	Moderately unsatisfactory
Borrower performance (*)	Unsatisfactory

(*) These are the summary ratings. The detailed ratings and the IFC rating system, broadly similar to the WB, are described in Annex E.

(**) The program ratings apply primarily to Chad. While similar conclusions can be drawn for Cameroon, they are mainly associated with the evaluation of the capacity-building project, since, as noted, both the expectations and the outcomes from the overall program were comparatively minor for Cameroon and no macro-level development, governance, or poverty impact could be expected, let alone measured, from an additional small amount of government revenue.

4. Lessons and Future Implications

4.1 The well-known lesson that government ownership and commitment are the major influence on the effectiveness of projects and programs is underlined by the experience of the

Chad-Cameroon program. Other lessons learned from the program are identified below—many of them also well known but brought in sharp relief by this experience. Because the findings and conclusions are discussed in the earlier sections, the lessons and implications are listed below with a minimum of elaboration. (Project-specific lessons are included in the corresponding annex.)

RELEVANCE, RISKS, AND TIMING

4.2 International experience has shown that adequate expenditure management mechanisms should be in place, and tested, before a large revenue increase is likely to accrue. In this case, the time available for capacity-building after Board approval and before the flow of oil revenue was much shorter than expected and the revenue much larger—adding to the difficulty of building capacity contemporaneously with program implementation. A secondary lesson is therefore to build expenditure management capacity as robust as necessary to fit a high scenario of revenue increase. (The capacity created will be useful to the country even if the high scenario does not materialize.)

4.3 Setting up institutional enclaves and special mechanisms to protect resources and accomplish quick results can damage local capacity in the long term. Such enclaves are generally not successful beyond the short term and, even when successful in the short term, they tend to undermine the already weak local systems and thus long-term development. In this case, although the rationale for the establishment of the revenue escrow account and the earmarking arrangements was strong in the specific country context in 2000, when tested by reality these mechanisms failed to achieve their objectives and meanwhile stood in the way of sustainable improvements in fiscal and expenditure management capacity.

4.4 While protecting inputs must remain a paramount consideration, development objectives should be formulated in terms of outcomes (if possible), meaningful outputs, or concrete process improvements—rather than in terms of inputs—and performance indicators should be limited to the *few key indicators* that are critical to achieving the PDOs and are monitorable. Even when the immediate aim of the project is to increase resource availability, reduce the cost of input acquisition, or channel resources toward priority uses, a failure to define clearly the expected results in terms of key outputs, outcomes, or major process improvements risks distorting the actual design of the project away from those results. In this case, defining the main project objective for Chad in terms of budgeted expenditure to be achieved diverted attention away from the efficiency of expenditure and budget execution. And to list dozens of “key” performance indicators of diverse importance and questionable monitorability makes monitoring impossible.

APPROACH AND DESIGN

4.5 If the WBG decides to risk involvement in ambiguous and fluid situations, it pays not to do so in overly detailed and rigid ways. Utmost clarity is needed on the objectives, principles, and parameters, but the design and implementation modalities should be as fluid as the situation itself, rather than rely on binary choices and numerical rules. This approach, however, may in practice foster a propensity to make successive small compromises, cumulating in the risk that continued Bank engagement may result in acquiescence to inefficient use of resources. Thus, in addition to clarity of purpose, an adaptable engagement

grounded on flexible but robust dialogue requires a strong fabric of reciprocal trust between staff and management and continuity of both.

4.6 Revenue transparency is necessary—especially for revenues from extractive industries—but is not sufficient. Transparency on the expenditure side is critical as well. In this case, setting as the main target a *global* minimum percentage spending on several sectors implied that the global target could be met even if the intersectoral allocation of the resources was very different from what had been agreed, and without regard to the efficiency of their use.

4.7 Project design must be based on recognition of institutional and administrative capacity. It is important in countries with weak capacity to focus on addressing the basic problems rather than attempting to introduce sophisticated practices. In this case, paradoxically, major components of the program in effect assumed the prior existence of the very capacity they aimed to build.

4.8 An innovative design, even if it proves unsuccessful, may contain novel elements worthy of consideration and possible replication. In this case, there are three such elements:

- The formation of the *Collège de Contrôle* was an excellent and exciting idea, even if it did not enjoy the necessary government support—and such joint public/private/NGO entities have the potential to foster expenditure efficiency as well as social accountability in countries with a government reasonably interested in a pro-development, pro-poor expenditure policy.
- The Provisional Committee to allocate the 5 percent of the direct oil revenue to the oil-producing region can be an illustration for similar arrangements in other countries with valuable mineral resources, despite flaws in its operation in this case.
- Finally, the cover and voice given to local NGOs through the dialogue on the preparation of the program and during its implementation should be a regular feature of all such WBG interventions.

WBG PERFORMANCE

4.9 Although in complex and high-profile cases strategic guidance and major decisions must come from the top leadership of the WBG, it is not clear in this case that the top-down direct intervention by the Bank President's Office in 2006 was helpful to formulate a new agreement with a better chance of enforcement.

4.10 In large, complex WBG projects with multiple stakeholders, good WB-IFC cooperation is important to improve the chances for positive results. In this case there was good WB-IFC cooperation on the main pipeline project, but it also extended to Advisory Services operations. In late-2004, when the IDA-funded capacity-building projects were found to be progressing slower than expected, IFC was able to provide new funding for sustaining the capacity-building initiatives.

4.11 *IFC's Advisory Services have a significant potential role to help the local private sector.* They can enable local companies to participate in the economic activity created by the project; help the sponsors—typically large multinational corporations—meet national content

requirements; and promote local economic development. In this case, the Enterprise Center—the focal point of IFC’s Chad SME program—became the cornerstone of Exxon’s procurement platform that was the sole source for all of its purchases in Chad, starting in 2005.

4.12 Whether the World Bank or the IFC is involved, the concern with development effectiveness goes beyond the gates of individual projects—however well they may be technically done—to the results of the overall program. There is no contradiction between viewing favorably the technical and financial success of the pipeline project even though the weight of other unfavorable outcomes leads to a negative conclusion on the development outcome of the program of which it was a component, as in this evaluation. However, the evaluation illustrates the basic point that a part of a program, however well carried out, cannot be separated from the overall program and the broader setting within which its impact is being assessed: a project or a subproject cannot be ring-fenced in the assessment.

4.13 Continuity is critical to manage a project that is central to a program, and a minimum of in-house technical competence is necessary to supervise consultants. In this case, the revenue management project had six task team leaders in its seven years, and the Chad capacity-building project relied almost entirely on consultants for the first years, without any in-house expertise in the technical dimensions of oil exploration and production.

4.14 Good communications and transparency are particularly important in the context of a difficult decision. Senior management would want to appropriately consider the views of key operational managers and staff and ensure the fullest possible measure of advance consultation with key development partners.

MAJOR IMPLICATIONS FOR THE FUTURE

4.15 With substantial oil revenue expected to continue for many years, it is still possible for Chad to escape the resource curse. The difficulties are known. Institutional and organizational capacity remain weak. Macroeconomic sustainability is in jeopardy. Fiduciary risk is likely to increase in the short term with the unexpected fall in oil price and revenue in 2009 and 2010—producing pressures to preserve security and regime maintenance expenditures, and hence a downward pressure on pro-development, pro-poor expenditure. Budgeting systems and skills remain quite insufficient for efficient resource allocation, and motivation and integrity have been weakened by the lack of consequences for the spreading non-compliance with fundamental rules. However, there are scenarios under which a good development outcome in the long run is still conceivable. The Bank could cooperate with the IMF in monitoring overall fiscal and expenditure outcomes and make a useful contribution by providing good and flexible advice in public sector management—focused on the basics, recognizing capacity realities, and supported by assertive cooperation of certain major bilateral partners. But the most important factor would be a new and genuine determination by Chad’s government to use the oil resources for development and poverty reduction, and do so responsively and efficiently.

4.16 The Chad-Cameroon oil development and pipeline construction program exemplifies the inherent tension between the limits of the WBG as an international organization and its mandate to foster development and poverty reduction. The WBG went very far in 1999

toward the development side, by setting up complicated and prescriptive arrangements to maximize the probability that the Chad government would use the oil revenue windfall mainly for development and poverty reduction. For various reasons, the revenue windfall turned out to be used in large part for military expenditure and other regime maintenance and for wasteful construction. The governance climate in Chad did not improve—rather the reverse.

4.17 However, it should not be concluded from this experience that the WBG should not intervene in supporting extractive industries because doing so carries reputational risks and success is unlikely. Indeed, despite the disappointing overall outcomes on the development and governance side, WBG involvement contributed to a notable increase in expenditures in social sectors and environmental and social protection within the confines of the project better than they would have been otherwise. The analysis of this report suggests that realistic and constructive WBG involvement in extractive industries could rest on combining an insistence on high standards of environmental and social protection with flexible conditionality on the composition of all expenditure and its efficiency—complemented by assistance to strengthen a unified budget system, ensure transparency in both revenue and expenditure, and build capacity in accountability institutions. To be effective, WBG involvement must be buttressed by an agreement with all other major donors that violation of the environmental and social standards or backsliding on fiscal transparency or accountability would trigger consequences for the overall flow of aid to the government concerned.

Principal Ratings

	<i>ICR</i>	<i>ICR Review</i>	<i>PPAR</i>
Chad and Cameroon: Petroleum Pipeline and Development Project			
Outcome	Satisfactory	Satisfactory	Moderately satisfactory
Institutional development	Modest	Modest	
Sustainability	Unlikely	Unlikely	
Risks to development outcome	—	—	Significant
Bank performance	Satisfactory	Satisfactory	Moderately satisfactory
Borrower performance	Satisfactory	Satisfactory	Moderately satisfactory
Cameroon: Petroleum Capacity Enhancement Project			
Outcome	Satisfactory	Moderately unsatisfactory	Unsatisfactory
Risks to development outcome	Moderate	Significant	Significant
Bank performance	Satisfactory	Moderately satisfactory	Moderately satisfactory
Borrower performance	Satisfactory	Moderately unsatisfactory	Moderately unsatisfactory
Chad: Petroleum Sector Management Capacity-Building Project			
Outcome	Moderately Satisfactory	Moderately unsatisfactory	Unsatisfactory
Risks to development outcome	Significant	High	High
Bank performance	Moderately Unsatisfactory	Unsatisfactory	Moderately unsatisfactory
Borrower performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Chad: Petroleum Economy Management Project			
Outcome	Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional development	Modest	Modest	
Sustainability	Unlikely	Unlikely	
Risks to development outcome	—	—	High
Bank performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Borrower performance	Unsatisfactory	Highly unsatisfactory	Highly unsatisfactory
PROGRAM			
Outcome			Unsatisfactory
Risk to development outcome			High
Bank performance			Moderately unsatisfactory
Borrower performance			Unsatisfactory

Annex A. Chad and Cameroon: Petroleum Development and Pipeline Project (WB Loan 4558-CD; WB Loan 7020-CM; IFC Project 4338)

Summary: Project Outcome and Lessons

MAIN FINDINGS

1. The Chad-Cameroon Petroleum Development and Pipeline Project (PDPP) is the main lending operation in the program of World Bank Group (WBG) support for developing the petroleum sector in the two countries, accounting for about 86 percent of the total financing. The program included two IBRD loans to Chad and Cameroon, two IFC loans to both countries, and three IDA credits, one for revenue management in Chad, and one for environmental and social capacity building in each of Cameroon and Chad. These IDA Credits have been evaluated separately (Annexes B, C, D).
2. The outcome of the PDPP is rated *moderately satisfactory*. (See the main text for a discussion of the poverty and other broader outcomes of the project.) The project was executed efficiently by the private sector Consortium and completed ahead of schedule. Given the shortfall in oil production due to unexpected reservoir and well-productivity problems, revenues to the government of Cameroon were below expectations. On the other hand, with the high level of oil prices, Chad government revenues exceeded expectations. Though the investment climate in both Chad and Cameroon continue to be challenging (more so in Chad than Cameroon), the project has supported private sector development in the two countries and provided procurement opportunities to local suppliers of goods and services—especially SMEs—from Esso-Chad (EEPCI, ExxonMobil’s Chadian subsidiary).
3. As implementing agency, EEPCI effectively addressed issues encountered during and after construction and performed satisfactorily overall. Private sector ownership and control of Doba oilfields and pipeline companies were fully achieved, while still giving minority shares of the latter to governments. Implementation of the Environmental Management Plan (EMP) was undertaken broadly in accord with what was reviewed and approved at appraisal. When problems have arisen, the client companies—EEPCI, Cameroon Oil Transport Company (COTCO), and Tchad Oil Transport Company (TOTCO)—have taken the necessary mitigation actions consistent with both the EMP and Bank Group safeguard policies. Some EMP issues remain a challenge, notably the increased project “footprint” in the Oil Fields Development Area (OFDA), which is associated with the in-fill drilling program and the financial and organizational issues in the Foundation for Environment and Development in Cameroon (FEDEC) that affect the long-term implementation of the agreed offsets.

LESSONS

4. *In large multicountry programs or projects where local capacity for environmental and social safeguard monitoring is limited, supervision of environmental and social issues can usefully include high-level independent bodies capable of ensuring compliance with safeguards*

and environmental management plans. The model used for supervision of the environmental and social aspects of the project included a multilayered monitoring system consisting of both national and international actors. The international inputs, which included the work of ECMG, IAG, and IFC's environmental and social specialists, provided solid technical support to the client in its efforts to comply with the EMP. ECMG monitoring visits also provided guidance and recommendations on mitigation measures as well as training for local monitoring entities such as CTNSC. These supervision processes also inspired trust and respect in a diverse group of stakeholders. Both IAG and ECMG have disseminated monitoring reports on their Web sites, ensuring public access. At the same time, national-level capacity building and commitment to mitigating environmental and social impacts is necessary over the longer term.

5. *In large, complex projects that require the restoration of livelihoods, international financial institutions may need to proactively work with the private sector sponsors to go beyond the usual compensation measures and corporate social responsibility initiatives and move toward regional economic development plans⁶², in partnership with all stakeholders.* The Chad-Cameroon pipeline project affected 375 villages (241 in Cameroon, 134 in Chad) along the pipeline in the two countries. Individual and community compensation paid to those affected along the pipeline was expected to restore livelihoods and sustain them for the long term. The project also earmarked 5 percent of project revenues for the oil-producing Doba region in Southern Chad. While the villagers were compensated well above the national norms, full restoration of livelihoods has not been achieved. It would have served the project well to have put in place longer-term development objectives and supplemental activities that addressed rural development and poverty alleviation. This also would have been useful for managing expectations, since projects like PDPP that provide short-term benefits, such as employment and compensation, also raise individual and community expectations for longer-term benefits.

6. *In a capacity-constrained environment, IFC may need to look beyond the project to ensure development impacts in the local economy.* In projects with significant linkage prospects, such as the Chad-Cameroon Pipeline, IFC may need to undertake early identification of SME opportunities that the project would generate and develop appropriate programs. When the project was approved in June 2000, IFC identified expansion and diversification of the non-oil sectors of the two economies as a key challenge, especially in Chad. IFC expected that local spending by the project would create demand for secondary services and supplies that would boost the local economy. However, the local private sector did not have the capacity to take advantage of this demand, which limited the extent of the project's linkage effects. IFC responded by offering a range of Advisory Services projects under the Chad SME program, though it took time to get traction with EEPCI. The focal point of the program currently is the Enterprise Center that IFC set up in February 2005 in partnership with the Chadian Chamber of Commerce, which has helped local Chadian firms gain procurement contracts from EEPCI.

7. *In projects with wide-ranging impacts and a diverse mix of stakeholders, it is critical to have a communications strategy aimed at achieving wide participation and building*

⁶² The FACIL program for the OFDA was supposed to be an intermediate step to the Regional Development Plan (RDP) funded by the World Bank. RDP was never implemented.

stakeholder confidence. IFC expected the extensive disclosure and consultation measures developed by the Chad-Cameroon Pipeline Project to provide the platform for smooth interactions with stakeholders. Despite the measures taken, groups of stakeholders, particularly local ones, still felt that communication was lacking. Although massive amounts of information about the project's activities were produced and various channels were employed to disseminate this information, the lack of direct and frequent contact alienated some stakeholders.

8. *Given the inherent methodological limitations, standard project financial and economic analysis needs to be supplemented by qualitative information.* The standard methodology for project financial and economic analysis is inadequate for measuring all the economic costs and benefits and its distribution among stakeholders. IFC uses the Financial Rate of Return (FRR) as the indicator for returns to all financiers and the Economic Rate of Return (ERR) as a measure of the returns to the overall economy. Given the difficulties in quantifying other benefits, such as long-term productivity improvements from training, accounting for positive and negative externalities, and taking into account the distribution of costs and benefits among stakeholders, these measures cannot in themselves provide a full picture of the relevant (development) outcomes of projects. It is imperative to supplement this quantitative assessment with qualitative assessments of the direct effects on beneficiaries that contribute significantly to local economic development.

The Project

OBJECTIVES, COMPONENTS, AND COSTS

9. *Objectives.* The PDPP consisted of two Bank loans. The loan for Chad was to finance the government's equity share in the Tchad Oil Transportation Company. TOTCO is a special-purpose company incorporated in Chad as a joint venture between the private sponsors and the government to own the Chad portion of the Export System (about 170 kilometers of the pipeline) and the first pumping station. The loan for Cameroon was to finance the government's equity share in the Cameroon Oil Transportation Company. COTCO is a special-purpose company incorporated in Cameroon as a joint-venture between the private sponsors and the two governments to own the Cameroon portion of the Export System (about 880 kilometers of onshore pipeline, 11 kilometers of offshore pipeline, two pumping stations, a pressure reduction station, and the floating storage and offloading vessel). IFC also provided loan financing to COTCO and TOTCO. The project development objectives (PDOs) from the Loan Agreements are as follows:

Cameroon: "The objective of the Project is to assist in the development and export through the Borrower's territory of the petroleum reserves of the Doba Basin Oil Fields in an environmentally and socially sound manner, and thereby, inter alia, increase the Borrower's fiscal revenues available for financing priority development expenditures in the context of the Borrower's strategy for economic growth and poverty reduction."

Chad: "The objective of the Project is to assist in the development and export through Cameroon of the petroleum reserves of the Doba Basin Oil Fields in an environmentally and socially sound manner and thereby, inter alia, increase the Borrower's resources and expenditures for poverty alleviation." The Loan Agreement

for Chad also incorporated provisions to earmark 76.5 percent of petroleum royalties and 72 percent of dividends to poverty reduction plus 4.5 percent of royalties for priority projects in the production zone.

10. According to the joint WB-IFC Project Appraisal Document (PAD, #19343, April 13, 2000), the development objectives of the project were, through environmentally and socially sound private investment in the petroleum sector: (i) to increase Chad government expenditures on poverty alleviation activities; and (ii) to increase Cameroonian fiscal revenues available for financing priority development expenditures in the context of the government's strategy for economic growth and poverty reduction. The PAD also listed two key performance indicators (KPIs) for the PDOs: (i) an increase in Chad of at least \$40 million⁶³ per year (2005-09) in petroleum-financed budgetary expenditures on priority sectors;⁶⁴ and (ii) an increase in Cameroon of at least \$40 million⁶⁵ per year (2005-07) in petroleum-generated revenues available to finance priority development expenditures.⁶⁶

11. The discussion in the PAD focuses on the project's potential to reduce poverty in the two countries. In Chad, the Petroleum Revenue Management program was expected to transform petroleum revenues into poverty alleviation and sustainable economic growth. The project was expected to benefit Cameroon by generating additional fiscal revenues for priority public expenditures and create an atmosphere conducive to foreign direct investment.

63. In the case of Chad, the pipeline project was expected to generate total government revenues of about \$1.677 billion over the life of the project (28 years). The average annual revenue was estimated to be about \$60 million (\$1.677 billion/28) and based on the allocation framework under Chad's revenue management program, this was expected to result in at least \$40 million in additional annual expenditures in the priority poverty sectors over the first 10 years of production. See PAD, p.25 for details.

64. For Chad, the PAD listed the following outputs and associated KPIs:

Output: substantial fiscal revenues from export of Doba petroleum

KPIs: export of first oil flow through the pipeline by end-2004 and 81 million barrels per year in 2005-2007; government petroleum revenues of at least \$70 million per annum 2005-2008

Output: Petroleum Revenue Management Program (PRMP) in operation

KPI: petroleum revenues allocated and disbursed in accordance with PRMP

Output: private sector owned and operated oil field and export systems

KPI: private sector ownership and control of Doba oilfield and pipeline companies (excluding minority government share)

Output: development of oilfields and construction and operation of pipeline in environmentally and socially sound manner

KPI: achievement of targets and norms prescribed in the EMP, including under the Resettlement and Compensation Plan.

65. In the case of Cameroon, the pipeline project was expected to generate total government revenues of about \$505 million over the life of the project, representing an annual average of about \$18 million, with average annual levels over the first five years of production of about \$45 million. See PAD, p. 26 for details.

66. For Cameroon, the PAD listed the following outputs and associated KPIs:

Output: substantial revenues from export of Doba oil

KPI: increase in government by at least \$40 million per year in 2005-07

Output: private sector owned and operated export system

KPI: physical completion and commissioning of Export system before end-2004

Output: construction and operation of the oil export system in an environmentally and socially sound manner

KPI: Achievement of targets and norms prescribed in the EMP, including under the Compensation Plan, and the Indigenous Peoples Plan.

12. This evaluation is based on the two core objectives, that is, the common themes evident in the above objectives: to develop the Doba oil fields in order to increase the fiscal revenues of Cameroon and Chad available for priority poverty reduction expenditures; and to carry out this development in an environmentally and socially sound manner.

13. **Components.** The PDPP supplied the following infrastructure and equipment needed to enable the export of Chadian oil:

- a field system, including the drilling and operation of about 300 wells in Chad; and
- an export system, including a 1,070 kilometer buried pipeline to Kribi in Cameroon's southwestern coast, an 11 kilometer submarine pipeline from the coast to offshore floating storage and loading facilities, and pumping stations.

14. Environmental and social impact mitigation, although not a component in the PDPP, was an imperative demanded by the international community for COTCO, TOTCO, and both governments. The governments received IDA credits for strengthening their environmental and social management capabilities. The PDPP components were not revised.

15. **Costs.** The private Consortium that capitalized, constructed, and is operating the PDPP consists of ExxonMobil, Chevron, and Petronas of Malaysia. The actual project cost amounted to \$4.8 billion, compared to appraisal estimates of \$3.7 billion, with the cost overrun of \$1.1 billion funded by the Consortium. Table A.1 shows the actual and estimated costs (including contingencies and excluding \$15 million for preparation) and financing sources. A \$400 million bond issue was cancelled for lack of market interest and Consortium equity covered the gap.

16. The Field System was funded by equity from the Consortium. The Export System was financed by equity and loans to TOTCO and COTCO. IFC provided an A Loan of \$13.9 million and a B Loan of equal amount to TOTCO for the construction of the Chad portion of the Export System. IFC also provided an A Loan of \$86.1 million and a B Loan of equal amount to COTCO for the construction of the Cameroon portion of the Export System. Other commercial loans totaling \$400 million were provided through U.S. Eximbank and Coface. In addition to the IFC loans, IBRD provided loans of \$39.5 million and \$53.4 million, respectively, to Chad and Cameroon to finance their equity participation in the Export System.

Table A.1. Project Cost and Financing By Component (US\$ million equivalent)

	<i>Appraisal</i>		<i>Actual</i>	
	<i>Field System</i>	<i>Export System</i>	<i>Field System</i>	<i>Export System</i>
Government equity	0	117.5	0	119
<i>Of which IBRD</i>	<i>0</i>	<i>92.9</i>	<i>0</i>	<i>90.6</i>
Co-financing by Consortium	1,521	2,084.5	2,648.3	2,050
<i>Of which IFC</i>	<i>0</i>	<i>400</i>	<i>0</i>	<i>200</i>
Commercial banks	0	100	0	400
Consortium equity	1,521	684.5	2648.3	1,450
Total	1,521	2,202	2,648.3	2,169

Implementation Experience

17. **Key Dates.** The pipeline construction was completed in July 2003, 18 months ahead of schedule, with oil deliveries starting in October 2003. Considering the size and complexity of the project and its challenging location, the early completion was a major achievement. As of February 2009, the project was producing about 120,000 barrels per day (bbl/d), less than half of the original target production rate of 225,000 bbl/d. Actual oil production has been hindered by early water breakthrough, water disposal limitations, damage in some of the producing wells, and pressure depletion in one zone. The project has been addressing the production shortfalls through the use of three satellite fields (since 2005) as well as an in-fill drilling program⁶⁷ (since 2005) that has expanded the footprint of the project and increased land requirements.

18. **Monitoring and Evaluation.** The quality of the project's M&E is rated *modest*. The PDPP was designed to set relevant date-bound targets, and its logical framework was consistent throughout. It specified the right data required on expenditures, output (for example, drilling progress, pipeline construction, and EMP activities), and outcome (for example, petroleum exports, generated revenues, amounts transferred to Treasuries, and expenditures on priority sectors). Decision-making in the project has been informed by M&E data. For example, the shortfall in the quantity and quality of crude production led to new investments by the Consortium. Also, data on the allocation of revenues to priority sectors prompted a dialogue between the WB and government of Chad that led to a new MOU in 2006.

19. However, there were shortcomings in the monitoring of the actual use of petroleum revenues. At project close in June 2005, the welfare and poverty impact of the poverty-reduction activities financed by these revenues were unknown and there were no provisions (for example, through surveys) to evaluate it. There were also lags in the monitoring of construction funding and compliance with covenants. Internal evaluation of the PDPP (ICR,

⁶⁷ Based on information from the ECMG reports from 2005, among other sources, IFC considers that the infill drilling began in 2005, whereas EEPIC states that the infill drilling began in mid-2008, and the additional wells drilled between 2003 and 2008 were development wells within the original 40-acre well-spacing pattern.

#36560, December 2006, and IEG-WB review; XPSR, November 2005, and IEG-IFC review), made no effort to measure the project's results for poverty reduction.

20. Given the scope and complexity of the project, specialized consultants were engaged to provide independent opinion and expert knowledge on issues relating to oil reserves, construction, insurance, and ongoing environmental and social impacts. On behalf of the WBG, IFC appointed a consultant, D'Appollonia (Genoa, Italy), as the External Compliance Monitoring Group (ECMG) to monitor the implementation of the EMP by the Consortium and to assess the work of the governments' implementing agencies in Chad and Cameroon. The ECMG visited the project 3 times a year during the construction phase of the project and has continued to do so once a year during the current operational phase. The average cost of the ECMG's services is about \$400,000 per annum and its reports are available on the project and IFC Web sites. Supervision visits by IFC environmental and social specialists are carried out regularly in coordination with their counterpart consultants from ECMG.

21. In addition, five distinguished individuals—the International Advisory Group (IAG)—were appointed in February 2001 to provide an independent overview of the project, and to advise the WB president and the two governments on the progress in achieving the broad objectives of the pipeline project and the related capacity-building projects. The work of the IAG was expected to continue for up to 10 years and involved visits twice a year to the two countries. The average annual cost of IAG's services is about \$600,000 and its reports are also available on the project Web site. IAG is about to end its monitoring role in the project, with the final report expected in June 2009.

22. **Financial Management.** The evaluation team found financial management aspects of the project to be satisfactory.

23. **Procurement.** The evaluation team found no procurement issues in the project.

24. **Environmental and Social Safeguards.** The Environmental and Social Clearance Memorandum (ESCM) dated September 15, 1999, identified the following environmental and social safeguard policies and guidelines⁶⁸ that should be referenced in the investment agreement. The project EIA led to the preparation of an EMP that would govern the processes and actions required to comply with environmental and social safeguard policies and guidelines in both countries. The IFC was tasked with supervising the implementation of the EMP.

Main Findings

25. The handling of environmental and social project issues was satisfactory in both countries. EEPICI, COTCO, and TOTCO have performed well in meeting EMP requirements and Bank safeguards, particularly in the areas of health and safety, emissions, water

68. The applicable safeguard policies and guidelines are: OP 4.01 Policy on Environmental Assessment, dated October 1998; OD 4.20 Indigenous People, dated June 1999; World Bank Operational Policy Note 11.03, Management of Cultural Property, dated September 1986; OD 4.30 Involuntary Resettlement, dated June 1, 1990; World Bank General Environmental Guidelines dated July 1, 1998; IFC General Health and Safety Guidelines, July 1, 1998; and Onshore Oil & Gas Guidelines, dated July 1, 1995; OD 4.15, Poverty Reduction; and OP7.50, International Waterways.

management, solid waste management, and oil spill response planning and implementation. At the same time, in Chad, there are risks to the livelihoods of communities and individuals from the in-fill drilling program (with total wells eventually reaching about 700, compared to the estimated 287 at appraisal).

26. One major benefit of IFC involvement was its insistence on establishing the multitiered monitoring structure. Although the national government agencies ran into difficulties and failed to perform as expected, the monitoring by ECMG and by IFC's Environment and Social Department was important in dealing with complex issues to which there was no easy solution. Two important examples were: (i) the resettlement and compensation challenges in Chad resulting from the more extensive land acquisition associated with the in-fill drilling program; and (ii) the institutional and financial problems experienced by FEDEC, which required actions by both IFC and COTCO. IFC's contribution remains important in ensuring that required mitigation actions are implemented so as to continue to meet the objectives described in the EMP.

27. In the IFC Environment and Social Review (April 14, 2006), applicable safeguard policies, guidelines, and procedures were evaluated and rated. Comments were provided and compliance or non-compliance determinations were made. The review concluded that the project materially complied with all relevant policies, guidelines, and procedures. It received a satisfactory rating. The following section presents information to determine compliance with safeguard policies and guidelines from 2006 to the present.

OD 4.20, Indigenous Peoples

28. The EMP identified the Bakola Pygmy and Bantu settlements in Southern Cameroon as vulnerable to the impacts of the pipeline construction. The decision about where to locate the pipeline took these settlements into account. However, to mitigate potential long-term indirect adverse impacts associated with constructing and operating the pipeline in Pygmy and Bantu-inhabited areas between Lolodorf and Kribi, an Indigenous Peoples Plan was developed.

29. The IPP contained background information on Bakola Pygmies and the interdependent Bantu communities in the immediate vicinity of COTCO's easement between Lolodorf and Kribi, along with results from community consultations. The objective of the IPP was to provide long-term benefits to the project-affected Pygmy population via assistance to programs and projects that address health, education, and agriculture in the region. In addition, due to the Bantu's historical association with the Bakola Pygmies in the Atlantic Littoral Forest, the IPP addresses some health issues of Bantu groups. Hence, the IPP included an organizational framework for developing and implementing IPP programs in basic literacy, education, hygiene assistance, improved water supplies, and agriculture. Six hundred thousand dollars (360 million FCFA) of COTCO's \$3.5 million (2,100 million FCFA) capital contribution to the Foundation for Environment and Development in Cameroon (FEDEC) was earmarked and managed to fund IPP-related programs.

30. Project monitoring reports from ECMG and IFC and the FEDEC Evaluation Report (October 2007) point to ongoing implementation successes along with challenges for continuing implementation of the IPP. Despite financial difficulties in FEDEC, programs in

citizenship, housing, education, health, and agriculture are continuing, though at a reduced level. The level of participation of some Pygmy communities in FEDEC-supported programs is considerably lower than expected, and there appears to be some tension between Pygmy leadership and the implementing organization, RAPID. As of May 2009, agreement has been reached by IFC, COTCO and FEDEC to fund the long-term IPP.

31. Finally, the ongoing financial and management problems faced by FEDEC, if left unresolved, will likely have a serious negative impact on continued implementation of IPP activities as well as the environmental offsets detailed in the EMP.

OPN 11.03, Management of Cultural Property

32. In 2003, The World Bank declared two Level III non-compliances in Cameroon. Both were related to project activities at sites that previously had been identified as high-priority archaeological sites (ECA-68 and ECA-163). A special archeological mission by the ECMG determined that these areas could have been avoided, hence the Level III non-compliance. COTCO was asked to develop and implement an acceptable mitigation program. The program consisted of: preparation of a scientific report that summarized findings and opportunities for future archeological research in the areas traversed by the pipeline; funding to support post-graduate studies for two Cameroonian archeology students; and the establishment of a curation facility to house recovered artifacts and support further archeological work in Cameroon and Chad. Monitoring by ECMG and IFC confirm that COTCO is meeting its obligations to mitigate the non-compliances. No other non-compliances have been reported.

OD 4.30, Involuntary Resettlement

33. . ***Chad.*** In November 2005, ECMG recommended implementing the provision in the EMP for an evaluation of the Consortium's resettlement and compensation activities "at the end of the first agricultural cycle after the construction of the fixed facilities has been completed." The Chad Resettlement and Compensation Plan Evaluation Study was carried out between April 2006 and August 2006. The evaluation assessed the adequacy of the Chad Resettlement and Compensation Plan (CRCP) for addressing changes in project scope and land requirements arising from more extensive drilling and production well development in the Oil Fields Development Area (OFDA) than was envisaged in the original CRCP.

34. The evaluation had three major findings. First, the original CRCP was not performing as intended primarily due to the more extensive land use associated with the need to drill more wells to reach production targets. Second, CRCP-prescribed mitigations are assessed as no longer adequate to address the magnitude of project impacts on the agricultural livelihood of households and on community resources (bush and fallow), particularly in a small number of villages where land to support populations is already scarce. Third, as of June 2006, the project had permanently compensated 1,243 hectares of land in the OFDA, exceeding CRCP estimates by about 65 percent. A further 1,698 hectares of land had been temporarily compensated, nearly twice the area estimated by the CRCP.⁶⁹

69. The report recommended that compensation be reviewed for all villages and where necessary adjusted to reflect their differing levels of communal land loss and that livelihood strategies place emphasis on providing project-affected people with replacement land.

35. Since issuing the report, both ECMG and IAG have observed that EEPIC has started to implement some of the reports' recommendations, particularly those related to land use process and to effective management of impacts and of compensation information. The Land Use Management Action Plan (LUMAP) uses a geographic information system (GIS) to demarcate village land area according to use and who has traditional rights to specific plots. For agricultural land it specifies which plots are under cultivation and which are in fallow. The LUMAP program has helped the EMP team to ensure that temporarily occupied land is restored and returned to previous users; there is a high degree of accuracy in data collection and information management pertaining to compensation (both individual and community) and household socioeconomic information; most seriously affected villages and households are prioritized based on the principles recommended in the Chad Resettlement and Compensation Plan Evaluation Study; and based on this prioritization, Site-Specific Plans are devised for the most severely affected settlements.

36. The IEG evaluation mission observed in February 2009 that LUMAP has been undertaken in 4 of the 10 most affected villages in the OFDA (Danmadjia, Dildo, Dokaidilti, and Ngalaba)⁷⁰. The data have not been fully analyzed, but preliminary analysis suggests that current compensation and resettlement programs are likely to be adequate in mitigating the impacts associated with the increased permanent land acquisition of the in-fill drilling program at least for those 4 villages. The remaining 6 villages should be completed in 4-6 months.

37. In November 2008, IFC engaged Environ to undertake a Cumulative Environmental and Social Impact Assessment focused on the in-fill drilling program. The report is currently a "confidential draft," and its findings are not available for use in the current IEG report. However, IFC and ECMG believe that the in-fill program does not pay adequate attention to the conclusions of the Chad Resettlement and Compensation Plan report and that this could be considered non-compliance.

38. In terms of land return, satisfactory results are now achieved and the footprint of temporary facilities is being significantly reduced. Five hundred nine of 549 well pads have been restored to the dimensions committed to in the EMP. While not all of them are yet effectively returned for community use, this is still a remarkable achievement (ECMG 2008). A new procedure has been devised for the quitus (clearance) of land return. While before only the village chief was expected to sign the quitus document, previous landowners are now identified and invited to sign as well; in this manner they are informed that their land is ready for cultivation, and are much better placed to claim to use it (ECMG 2008).

39. **Cameroon.** During the construction phase, COTCO implemented a compensation program for individuals and villages affected by the pipeline construction. The program followed the guidelines in the EMP. Villages received community compensation such as water wells and water points, electrification, community centers, schools etc. The program encompassed a total of 650 distinct micro-development projects for the benefit of 266 villages in the vicinity of the pipeline and other permanent facilities such as the pump stations and the

⁷⁰ According to ECMG (April-May 2009), the Village Land Use Survey had been completed in 8 villages (Dokaidilti, Dildo, Ngalaba, Mouarom, Danmadjia, Begada, Mbanga and Bela) and was on-going in Bero, covering a total of 2061 households.

marine terminal. At the completion of the construction phase, the project allocated over 1.84 billion FCFA (\$2.8 million) for community and regional compensation in Cameroon.

40. During the operations phase, compensation activities generally relate to the ongoing Social Statement Process to resolve a list of concerns and grievances developed in collaboration with local NGOs, representatives of the government of Cameroon, and villagers. There are also periodic requirements to compensate for land use required for maintenance or facilities improvements. The COTCO-PSMC-NGO platform for cooperation meets regularly and functions as intended. Since 2005, 357 out of 456 grievances (80 percent) have been resolved. From project inception until end-2008 there remain 142 unresolved grievance cases. Some communities and individuals are dissatisfied with the outcomes and continue to press the platform for mitigation of impacts, particularly since they are receiving little information about the status of claims dating back several years. NGOs believe that the processing time for grievance resolution is too long. COTCO admits that managing expectations has been very difficult.

41. Total individual compensation (cash and in-kind) for both phases in Cameroon has reached about \$11.5 million. NGOs, while supportive of the EMP and its processes, believe that a project of such scale should have longer-term economic development impacts at the village level. External monitoring suggests that compensation programs are being implemented according to the guidelines specified in the EMP.

Onshore Oil and Gas Guidelines

42. The key production and control practices were monitored closely by EEPCI and the ECMG.⁷¹ With the exception of gas flaring, the project consistently complied with the requirements detailed in the EMP⁷². Gas flaring is discussed below in the section on Air Emissions and Air Quality.

World Bank General Environmental Guideline and IFC General Health and Safety Guidelines

43. ***Air Emissions and Air Quality:*** Stack emissions and ambient air quality at facilities in both Cameroon and Chad are within established guidelines. A Level 1 non-compliance for excessive flaring was raised by the EMP team in August 2006. Flaring volumes of natural gas associated with the produced crude were higher than the project target level of 1.1 million cubic feet per day during most of 2007. Two additional compressors were installed in April 2008, which helped drop flaring to about 0.65 million cubic feet per day. When compressors are under repair or maintenance, flaring increases. Energy needs for the project continue to rise and EEPCI is now beginning to use most associated gas for power generation.

71. Maximize the use of freshwater gel-based mud systems, dispose of drilling muds in a manner that minimizes the impact on the environment, reuse invert (diesel-based) muds, reuse drilling-mud pond decant water, the reuse of produced water for steam generation when steam is used to stimulate reservoir production, minimize gas flaring, and scrub sour gases.

72 In 2007 and until April 2008, flaring was above the target level of 1.1 MSCFD defined in the Consortium's License To Operate. ECMG (April-May 2009) has noted that since the Miandoum compression station has become operative the Project the project has met the target level of 1.1 MCFD/day

44. In 2005 ECMG reported a significant non-compliance with commitments made by the project at the time of the completion certificate issuance. In response to this observation, EEPCI has revitalized and strengthened its dust control and mitigation program. This program includes: (i) an increase in paved road surface in the OFDA (a total of 20.8 kilometers were paved in 2007 and 2008); and (ii) the application of molasses during the dry season. Dust control along the spine road and in the OFDA appears now to be adequate and compliant with project commitments.

45. **Liquid Effluents:** Functioning systems for data collection and monitoring are in place. Systems to treat and process waste are functioning according to guidelines detailed in the EMP.

46. **Hazardous Materials and Wastes:** Functioning systems for data collection and monitoring are in place. Systems to treat and process waste are functioning according to EMP guidelines.

47. **Solid Wastes:** Waste management continues to be a challenge for the project, especially at Kome. Volumes of waste are considerably higher than estimated due to the lack of infrastructure and markets for scrap metal etc. in Chad. Hazardous waste incinerators frequently break down and waste is being stored in drums. Waste recycling and donation programs appear to be effective. A Chadian company has been contracted to handle plastics and food waste composting. The EMP team is actively looking for new approaches to ensure waste is efficiently and cost-effectively processed.

48. **Health:** From the human health perspective, malaria and HIV/AIDS are the big concerns in both Chad and Cameroon. All employees and visitors are required to take malaria medication unless they are determined to have immune status. In addition, there is an ongoing education program, which serves as a constant reminder of the serious health effects of contracting malaria and HIV/AIDS. Employees are randomly checked to ensure that they are taking the malaria medication.

49. **Safety:** The Recordable Incident Rate captures even minor injury accidents, a broad measure of safety performance. In 2007 and 2008, project workers kept their historically low recordable incident rate well below the average rate of the petroleum industry as a whole. The Year End 2008 rate of 0.23 incidents per 200,000 working hours is three times better than U.S. petroleum industry average (based on reports from participating companies to the American Petroleum Institute).

50. **Drinking Water:** The project maintains a thorough water quality and quantity monitoring system in both countries. This system includes: surface and groundwater withdrawals in the OFDA, monitoring of water for human consumption from project-installed wells, regional groundwater monitoring in and around project facilities in both countries, and groundwater monitoring at project solid waste landfill sites. A laboratory in the Netherlands verifies water quality. No problem areas have been identified.

51. **Monitoring, records and reporting:** At all levels of record keeping and reporting, efforts by the project have improved over time. ECMG has provided regular guidance and suggestions on how to improve the system.

EMP-Defined Offsets: The Foundation for Environment and Development in Cameroon

52. The creation of FEDEC was proposed by the World Bank as an offset for OP 4.04 and OP 4.20. FEDEC would provide long-term financing to support the ongoing management cost of two new national parks, Campo Ma'an and Mbam and Djerem and the implementation of the IPP for Bagyeli/Bakola (Pygmies) communities.

53. COTCO provided initial seed money of \$3.5 million that would be managed as an expendable endowment by a third-party fund investment manager. At design two important assumptions were made: first, that this level of investment would be sufficient to support the two parks and the IPP for 28 years; and second, that FEDEC was expected to raise additional funds from international donors. The design of the investment portion of FEDEC's institutional structure was based on previous experiences undertaken with World Bank/GEF resources. FEDEC has had no success in raising additional money, which may be due to the foundation's perceived close association with ExxonMobil.

54. Despite ongoing implementation challenges FEDEC's support has been extremely important for both national parks and for the IPP. Prior to FEDEC's support, neither park had a management plan or the resources to implement one. Mbam and Djerem National Park is managed by the World Conservation Society (WCS) and receives about \$160,000 per year, substantially more than what was estimated in the EMP. The additional costs are due to the dollar devaluation, the provision of budget for costs that were supposed to be met by the government (park guard salaries), and to increased costs over time. WCS has devoted considerable resources to working with local communities, pastoralists, and fishermen to obtain their help in implementing the management plan. WCS is also implementing alternative livelihood programs, has partnerships with research institutes, and has established agreements with logging companies and safari operators. Both these enterprises now provide annual financial contributions to the park. The park employs 34 ecoguards that are paid by WCS and the government of Cameroon. Unfortunately, in 2008 WCS lost some of its non-FEDEC support, which is affecting its ability to continue its operations at the park. There is also a disagreement over the use of funds that were advanced by FEDEC.

55. Campo Ma'an National Park is managed by the World Wide Fund for Nature (WWF) and receives about \$130,000 per year, which is also more than originally estimated in the EMP. Their current contract runs from January 2007 to December 2010. WWF works in four main program areas: park protection, partnerships, bioecological monitoring, and transboundary issues. WWF believes that the FEDEC support has been instrumental in its ability to raise additional funds for the program. This may be another reason why donors have not supported FEDEC directly because it's easier for them to directly support the actual implementing organization.

56. Since its creation, FEDEC has faced a number of financial and management challenges. In its January 2005 report, the ECMG described some of the more important problems faced by FEDEC, including the beginnings of financial difficulties associated with

the falling value of the U.S. dollar against the CFA and the lack of success in raising additional funding from donors. Each succeeding ECMG report, along with observations provided by the IAG and the project Inspection Panel, have highlighted ongoing financial difficulties, its inability to raise funds, and its need to draw down capital to support its operations. ECMG notes in its June 2008 report that the amount drawn from the funds exceeds what was foreseen by over \$1.0 million. The Inspection Panel noted that its budget projections for the IPP program appeared to be inadequate to support the programmatic elements of the IPP. Finally, the FEDEC Evaluation Report of October 2007, which looked at the three programs in depth, including the preparation of cost simulations, recommended that FEDEC would require an additional \$3.3 million to meet its long-term objectives.

57. Over the past few years, IFC, COTCO, and the government of Cameroon have attempted to address the deteriorating financial situation. Discussions have been held and proposals made to increase the endowment through additional capital inputs from both COTCO and the IFC. At the time of report preparation these discussions are continuing and a draft action plan has been prepared. At the same time, FEDEC's situation continues to worsen. The recent decline in world stock markets has further eroded its capital endowment. COTCO has provided some interim funding to help operations, but a long-term solution has not been agreed. One must question the commitment of all the parties to finding a solution considering the financial situation has worsened since 2005.

58. The design of FEDEC could have been better. Initial capitalization was inadequate and that, coupled with FEDEC's inability to raise additional money, has contributed to its ongoing financial difficulties. Limits on the drawdown should have been put in place. It also appears that rate of return estimates may have been too optimistic and there was no provision on how to meet budget requirements during times when investments do not perform. If additional resources are provided to the endowment, stricter controls should be placed on the drawdown.

RELEVANCE

59. **Objectives.** At approval, the pipeline project's objectives were consistent with the priorities of the Country Assistance Strategies of Chad and Cameroon. The project represented a significant opportunity for Chad to develop its oil resources and use the revenues to finance expenditures in sectors with the potential to reduce poverty. This was consistent with the Bank Group's country strategy of increasing domestic revenues by stimulating private sector-led growth through significant foreign direct investment. For Cameroon, the project was expected to provide an additional source of income for financing priority development expenditures in the social sectors and rehabilitation of basic infrastructure, two key elements in the WBG's strategy for long-term growth and poverty reduction in the country.

60. The objectives were relevant in at least two ways. First, the project directly addressed the issues of private sector development and poverty reduction in both countries. Second, it matched the Consortium's interest in exploiting and exporting oil with governments' interest in increasing fiscal revenues for priority sector expenditures with the potential for poverty alleviation. However, as noted in the main text, the objectives did not include aspects of efficiency of expenditures. Therefore, the relevance of the PDOs is rated modest.

61. **Design.** The project's design ensured that the facilities would be successfully built and operated with adequate safeguards and private sector involvement. Also, at appraisal, special measures were taken to maximize the likelihood that most of the additional government revenues to Chad would be spent on poverty reduction initiatives, namely, a 1999 law and the IDA-supported Petroleum Revenue Management Program that allocated the revenues to expenditures on public health and social services, education, infrastructure, rural development (agriculture and livestock), environmental protection, and water resources. The PAD also listed two KPIs that set annual targets for oil-revenue-financed priority sector expenditures in the two countries. However, as noted in the in main text, the emphasis on inputs rather than results made the project design ineffective. The quality of project design is rated modest.

62. The project featured five layers of external/internal monitoring, including the IAG and ECMG. The multiple layers of oversight have been useful for tracking the progress in a transparent fashion.

63. Overall, the project relevance is rated **modest**, based on modest ratings of relevance of objectives and of design.

EFFICIENCY

64. **Economic Internal Rate of Return (EIRR).** The NPV projected at completion (June 2005, based on the Bank's Implementation Completion Report) was \$3,721 million versus \$1,417 million estimated at appraisal, that is, 162 percent higher. Chad's share (\$1,884 million) is 300 percent higher due to higher-than-expected oil prices, but Cameroon's share (\$112 million) is 22 percent lower due to lower-than-expected oil output. These estimates were based on conservative assumptions about production and prices.

65. **Financial Rate of Return (FRR).** For the purposes of this evaluation, FRR was estimated using a financial model. The FRR exceeded the WACC (weighted average cost of capital) benchmark significantly, implying excellent investment returns for project financiers.

66. **Economic Rate of Return (ERR).** In addition to the FRR, the ERR for the project was computed using the financial model. Like the FRR, the high value of ERR suggests that the project has provided significant net economic benefits. As noted elsewhere, the FRR and ERR measures do not take into account the distribution of costs and benefits among stakeholders.

67. With the unraveling of the PRMP and the Bank's exit from the Chad portion of the project in August 2008, there is even greater uncertainty now about the judicious use of oil revenues for poverty reduction purposes. Even when the Petroleum Revenue Management Program was in force, the government of Chad had expanded the scope of the priority sectors to include security and territorial administration and eliminated the Future Generations Fund. The government of Chad undertook these actions unilaterally, without inputs from the development partners.

68. Overall, efficiency of the project is rated **high**.

EFFICACY

69. **Project Development Objectives.** The project's efficacy in achieving the core PDOs is rated *modest*.

Objective 1: To develop the Doba oil fields in order to increase the fiscal revenues of Cameroon and Chad available for priority poverty reduction expenditures

70. **Chad.** The achievement of this objective was *modest* in Chad. Though oil production started earlier than planned, the 81 million barrels per year target was not (and will not be) achieved⁷³ due to production setbacks on account of unfavorable geological conditions. Price discounts for Chad oil with respect to the Brent marker crude was about \$10-15 per barrel. However, these adverse factors were more than offset by higher-than-projected crude prices, on average \$39.2 (2003-08) versus \$16.4 per barrel.

71. By end-2008, Chad's share of project revenues had reached \$4,383 million,⁷⁴ implying an average annual revenue of \$835 million for the operational phase (Q4-2003 to Q4-2008), a much higher level than expected at appraisal, thanks to high oil prices. Cumulative oil revenues in Chad are close to three times the levels anticipated at appraisal for the entire life of the project.⁷⁵ As noted in the main text (Table 3), however, during the 2004-07 period, the share of expenditures going to priority sectors amounted to 53 percent of the total, well short of the expected 70 percent at approval. (See the annex on the PRMP for a fuller discussion of the public expenditure aspects of the program.)

72. **Cameroon.** The achievement of this objective was *modest* in Cameroon. According to EEPICI's production figures, 288.3 million barrels of oil has been exported so far (Q4-2003 to Q4-2008), implying estimated transit fees of \$118.2 million and total revenues of \$177 million⁷⁶ for the operational phase. This leads to an annual average of \$22.5 million, well short of the \$40 million per year expected at appraisal. As noted earlier, the oil revenue shortfall in Cameroon has been due to the lower-than-expected production levels stemming from well productivity problems.

Objective 2: To carry out the oil development and transport program in an environmentally and socially sound manner

73. The achievement of this objective was *substantial* in both countries. The pipeline project has been challenging from an environmental and social perspective, comprising sensitive and complex aspects related to selection of the pipeline corridor, land use and

73. Oil production peaked in 2005 at 63 million barrels for the year.

74. These figures are based on the latest Esso-Chad project update ("Project Update #25, Annual report 2008) from its Web site.

75. The pipeline project was expected to generate total government revenues of about \$1.677 billion over the life of the project (28 years).

76. As per the project agreement, Cameroon receives 41c per barrel, which leads to estimates of total transit fees (transit fees make up about 66 percent of Cameroon's project revenues. Income tax and dividends from COTCO are additional sources of revenues) of \$118.2 million (288.3 x 0.41 x 1000000) and total revenues of \$177.4 million (118.2/0.66) for the operational phase (Q4-2003 to Q4-2008).

impacts to both terrestrial and marine habitats as a result of pipeline construction, oil spill prevention, control of air emissions and liquid effluents, and a multitude of socioeconomic impacts including involvement of indigenous communities and cultural resources in two African countries. Extensive GIS work was undertaken to select the optimal pipeline route to follow main road and railroad routes for minimum disturbance of protected and environmentally sensitive areas like Deng Deng forest in Cameroon. The project properly addressed the effects of construction on indigenous peoples, optimizing the pipeline corridor through Cameroon's Atlantic Littoral Forest to avoid Pygmy settlements in Bakola/Bageli.

74. During the operations phase, EEPICI, COTCO, and the TOTCO have performed well in meeting EMP requirements and Bank safeguards, particularly for health and safety, emissions, water management, solid waste management, and oil spill response planning and implementation. Oil spill response plans (EEPICI's) and equipment at drilling sites, pump stations, and the unloading bay in the Kribi tanker terminal are adequate. The malaria prevention program has cut the malaria infection rate among employees over the past six years (2002-08) by a factor of 40—reducing the rate recorded in 2008 to only 2.5 percent of the 2002 rate. Compensation and resettlement programs in both countries have achieved mixed results, but overall have functioned as intended. The same can be said of the EMP defined offsets (FEDEC), which have had difficulties meeting EMP defined goals. Project monitoring organizations (ECMG, IAG, and the IFC Environment and Social Department) have reported on these implementation difficulties in a comprehensive way, which has led to technical changes in program implementation.

75. Evidence from ECMG, IAG, and the IEG mission (February 2009) suggests that the project complies with relevant national ESHS laws and regulations and applicable WBG environmental and health and safety policies and guidelines. Environmental management, communication with stakeholders including WBG, and supervision of compliance with EMP during the project was successfully delegated to D'Appolonia, an Italian consulting firm that took the responsibilities of the ECMG.

DEVELOPMENT OUTCOME

76. *Performance Ratings per Development Objective.* Based on its *modest* relevance, *high* efficiency, and *modest* efficacy ratings, the project's overall outcome is rated *moderately satisfactory*. The sub-ratings for each of the core PDOs are shown in Table A.2.

Table A.2. Sub-ratings and Outcome Rating Based on the Achievement of the Project Development Objectives

<i>Objectives</i>	<i>Relevance</i>	<i>Efficiency</i>	<i>Efficacy</i>	<i>OUTCOME</i>
1. to develop the Doba oil fields in order to increase the fiscal revenues of Cameroon and Chad available for priority poverty reduction expenditures	Modest		Modest	
2. to carry out this development in an environmentally and socially sound manner	Substantial		Substantial	
Overall Outcome Rating	Modest	High	Modest	Moderately satisfactory

77. **Direct effects on beneficiaries:** Over and above the government spending of oil revenues, the pipeline project generated significant direct benefits to the two economies, such as employment, training, supplier development, compensation (individual and community), infrastructure improvements, and community investments by the Consortium. Given the overall paucity of state capacity in the two countries—more so in Chad than Cameroon—for program execution and service delivery, the project played (and continues to play) a critical role in the lives of communities around the project.

78. **Employment and training:** Employment of nationals peaked at just under 10,000 (4,166, or 42 percent, in Chad and 5,796, or 58 percent in Cameroon) during the construction phase in 2002. At end-2008, the project employed 6,409 people, with 5,246 (82 percent) in Chad and 1,163 (18 percent) in Cameroon. These figures reflect the fact that during the construction phase of the project, most of the employment came from building the pipeline in Cameroon, whereas during the operational phase, most of the employment relates to oil production-related work in the OFDA in Chad. Of this workforce, nationals (Chadians and Cameroonians) held over 88 percent (Chad, 87 percent; Cameroon, 92 percent) of the project's direct employment of 6,409 jobs. (For comparison, 87 percent of the ExxonMobil workforce in Nigeria at year-end 2008 is national.) The high participation rate of nationals in the workforce is also consistent with ExxonMobil's goal of workforce nationalization in host countries. Almost 70 percent of the Chadians and Cameroonians working for the project held skilled or semi-skilled positions at end-2008. The project has provided significant opportunities for transfer of knowledge to Chadians and Cameroonians through formal training and on-the-job experience.

79. **Compensation:** Since the project began (to end-2008), a total of over 12 billion FCFA (nearly 19.7 million; 53 percent in Chad and 47 percent in Cameroon) in individual compensation (cash and in-kind payments) has been paid. The project has also undertaken community compensation programs with in-kind micro-development programs that benefit entire communities affected by the project. In Cameroon, for example, the project has supported about 350 community projects (to end-2008) such as school classrooms, community houses, market shelters, latrines, water wells, and soccer fields. Since most of the project facilities have been completed in both countries, compensation—like employment—has stabilized below the 2000-03 period when the central oil facilities, initial oil development, and the Export System were constructed. In Chad, ongoing compensation relates to land needed for new wells for increasing oil production. In Cameroon, where construction ended in 2002, current compensation activities relate to the resolution of outstanding grievances and maintenance or facilities improvements.

80. **Community investments:** The project has made a number of community donations in Chad and Cameroon. Since the beginning of the project (to end-2008), the project's total contributions to community investment—health clinics, school classrooms, etc.—have totaled about \$12.25 million. Esso-Chad, the project operator, also provides logistical support for the national polio vaccination days and distributes mosquito bed nets in Chad.

81. **Infrastructure improvements:** In connection with the project, improvement or construction of 900 kilometers of roads has been undertaken in the two countries. The project also built a major bridge connecting the two countries across the Mbere River. The project

also refurbished over 200 Cameroonian national railway cars and six locomotives. The project funded and installed fiber optic cable with the pipeline during project construction. Cameroon has used the cable to allow phone and Internet connectivity to many parts of Northern Cameroon.

82. ***Private sector development:*** Given the enclave nature of the petroleum sector in Chad, its impact on the domestic economy has been limited (more detailed analysis is being done on the project's impacts on the non-oil sector). The project has strengthened private sector activity in the two countries, despite the challenging investment. (In the 2009 Doing Business report, Chad ranked near the bottom, at 175 out of 181 economies. Cameroon fared slightly better, with a rank of 164.) During construction, the project maintained a database of Chadian businesses ranging in size from one-person outfits to the state-owned water and electric utility company. Of the close to 3,000 businesses covered in the database, approximately 2,000 have done business with the project at least once during the construction phase and about 450 work for the project on a regular basis. Overall, enterprises working for the project tend to improve their business practices, ranging from a firmer grasp of tendering and bidding processes, a better understanding of expectations about quality control and timeliness of deliveries, and a greater appreciation of general business management. The building of the pipeline has also increased the economic value of other oil reserves in Chad and has made exploration more attractive.

83. ***Chad SME program:*** IFC launched the Chad Small and Medium Enterprise (SME) Initiative in June 2000 as a linkage project to support the pipeline project. The initiative aimed to expand the participation of local businesses in the economic activity generated by the project, in particular, to help the expansion of the private sector in Chad through the development and support of SMEs. While the project had less traction with EEPCI during the construction phase (2000-03), there was a realignment of interests between EEPCI's need for local content during the operational phase and the revamped activities of the Chad SME program. The program currently consists of four components: entrepreneurship capacity building, business linkages, access to finance, and business enabling environment. The focal point of the IFC Advisory Services operations in Chad is the Enterprise Center that IFC founded in November 2005—as a Business Linkage component—in partnership with the Chamber of Commerce of Chad. In 2005, EEPCI decided to carry out all its procurement needs (about \$300 million annually) in Chad electronically through its e-procurement system. The Enterprise Center has become the key tool for EEPCI to build a diverse local supplier network to meet some of its procurement needs locally, as part of the effort to build national content. By purchasing goods and services in-country and developing long-term supplier relationships, EEPCI has supported the development of the local private sector. The project's purchases of goods and services from local suppliers have totaled over \$1.9 billion since the project began (to end-2008). In Chad, the estimated spending to date is more than \$1.2 billion and in Cameroon, about \$691 million.⁷⁷

77. These local spending figures include three types of business: purely local (owned and operated by Chadians/Cameroonians), purely foreign (owned and operated by foreigners such as Schlumberger, KBR, others), and joint ventures between local and foreign firms.

RISKS TO DEVELOPMENT OUTCOME

84. With the unraveling of the PRMP and the withdrawal of the WB from the Chad portion of the project, risks to development outcome are substantial. The government of Chad is now under no compulsion to channel resources to priority sectors as before, which had the potential to reduce poverty and improve the lives of the Chadian people. With regard to the environmental and social aspects of the project, risks to development outcome are moderate. ECMG will continue to monitor the project for IFC and other lenders over the life of the loan (until 2013). However, with the winding up of CTSCN and the withdrawal of the Bank from the Chad portion of the project, there is no institutional capacity in the government of Chad to track the environmental and social aspects of the project.

85. The biggest risk to development outcome is the failure to allocate enough revenues to priority sector expenditures for poverty reduction. In Chad especially, the capacity for economic management is (and is expected to remain) weak, after the failure of the IDA Petroleum Economy Management Project. Government commitment has proven highly fickle on budget priorities and the allocation of petroleum proceeds. Unrest and wars in the region are putting both under a lot of stress. From the environmental perspective, both countries failed to live up to their commitments regarding the necessary strengthening of capacity for environmental policy and monitoring. Environmental management through compliance with the EMP has been met by the private companies, EEPICI, COTCO, and TOTCO. Currently, these three companies, along with ECMG and IAG, are doing the environmental monitoring of activities associated with oil production and transportation.

86. With the private sector in control, especially the current high-caliber operators, technical and production risks appear modest and can be managed. Energy infrastructure is seldom left to deteriorate and, unlike in many other infrastructure sectors, in the petroleum sector prices are set on a strictly commercial basis. Geological risks will continue to exist, but despite the production shortfall in Doba, other fields have been (and perhaps will be) developed as their commercial potential is boosted by the proximity of the pipeline and the prospect of high crude prices.

87. In the case of Cameroon, risks to development outcome are moderate, given that the project had a relatively minor impact in Cameroon to begin with, due to the shortfalls in oil production on account of unexpected reservoir and well productivity problems. As in the case of Chad, ECMG will continue to monitor the environmental and social aspects of the project in Cameroon. Also, given the unsatisfactory performance of the environmental management capacity building project (CAPACE) in Cameroon, institutional capacity to monitor environmental and social effects is limited. With the closing of the CAPACE project, the WB and government of Cameroon are no longer interacting on project-level environmental and social issues.

World Bank Group Performance

QUALITY AT ENTRY

88. The project's quality at entry is rated *moderately satisfactory*, due to shortfalls in project design and definition of objectives. The project featured significant collaboration between World Bank and IFC. The WBG chose to undertake a high-risk (and potentially high-reward) operation in a sector where its financing and safeguards policies have been (and are) very restrictive. WBG was also able to help maximize project relevance and design while financing only about 3 percent of the cost. At entry, it was considered highly innovative to tie a petroleum project's revenues to poverty reduction objectives, as a brave new economic experiment to deal with the "resource curse" phenomenon, despite the shortfalls in project design noted elsewhere. Preparation was thorough, including due diligence on project costs and production potential, upfront agreements in key areas such as the EMP, innovative supervision arrangements, and an earmarking of benefits in Chad that became law in 1999.

89. A critical risk to the project, relating directly to its sustainability and its potential to maximize development impact, was the weak capacity of Chadian and, to a lesser extent, Cameroonian institutions. The three IDA-funded capacity-building projects (two in Chad, one in Cameroon) were formulated to address these weaknesses.

90. The project was appropriately screened to Category A. An extensive Environmental Impact Assessment was prepared by the client to address alternatives for the pipeline corridor, selection of the preferred right-of-way, land use and habitat modification, socioeconomic impacts, effects of construction on indigenous peoples, and emergency response and oil spill contingency plans for the entire pipeline and drilling project. The EIA became the basis for the 19-volume Environmental Management Plan to be followed during implementation. During preparation the client indicated that it would not apply Bank safeguards but would be obligated to use the EMP to deal with the environmental and social impacts that would result from its activities.

91. Prior to appraisal, the EMP was reviewed by the IFC and WB and revisions were undertaken resulting in changes such as the rerouting of the pipeline to avoid environmentally sensitive areas and the creation of nature reserves to offset the unavoidable impairment to the environment that the project would cause. Specifically, the pipeline route was modified to avoid crossing the Mbere Rift Valley and the Deng Deng forest in Cameroon. Crossing the Atlantic Littoral Forest could not be avoided, but the pipeline route, which roughly paralleled an existing road, was optimized to minimize damage to areas with high biodiversity. In addition, the Consortium agreed to provide funds to support the development and implementation of management plans for two protected areas in Cameroon to offset any residual biodiversity impacts as well as the IPP.

92. The EMP provided the relevant guidelines that would govern the construction and operation phases and incorporates IFC/WB environmental and social safeguards relating to natural habitats, indigenous peoples, cultural properties, and involuntary resettlement. The EMP covers crucial aspects including induced access to sensitive areas, solid waste

management, compensation and resettlement, in-migration, oil spill response plans, and health and safety.

93. The EMP has served as the key guiding document for the ECMG and the IFC's environmental and social specialists assigned to the project as well as the Consortium. The EMP was an excellent tool during the construction phase but has faced a number of challenging circumstances during the operational phase. In 2005, Exxon began an in-fill drilling program to enhance well productivity⁷⁸. This program will increase the number of wells in the OFDA by up to 400, thereby increasing the overall size of the project's footprint. This activity was not foreseen in the EIA, and it is unclear how the EMP can be used as guidance for this drilling program. The IFC is now evaluating its options, including requesting that the EMP be amended. IFC also helped introduce improvements to the concession agreements to reduce possibilities of disputes and ensure fairness.

QUALITY OF SUPERVISION

94. The quality of supervision is rated *satisfactory*. There was an implicit division of labor between the WB and IFC, with the WB particularly focused on the implementation of Chad's PRMP and the three capacity-building projects, while IFC dealt with the technical, financial and aspects of the pipeline project. IFC handled the relationship with the project and the other commercial lenders while the World Bank managed the relationship with the government.

95. The project featured three innovations to strengthen project supervision: the Committee on the Monitoring and Oversight of Petroleum Resources to monitor the management and expenditures of oil revenues; ECMG to report to IFC on the operational work by the Consortium and both governments; and IAG to advise the World Bank president and the two governments. This additional oversight made supervision more effective and transparent but was costly at about \$1.0 million per year.

96. IFC's supervision of the project's environmental and social aspects has been consistent and extensive. Supervision is carried out in close coordination with the World Bank and the ECMG, which focuses its efforts on reviewing the projects compliance with the EMP. As part of the project completion requirements, the ECMG certified that the project's construction phase complied with the EMP. Given the extent and importance of environmental and social issues, specialized consultants were engaged to provide independent opinion and expert knowledge on ongoing environmental and social impacts. IFC worked closely with these consultants to ensure that emerging issues were addressed in a timely and decisive manner. Supervision visits by environmental and social specialists were carried out regularly in coordination with their counterpart consultants resulting in a close and trusting dialogue with the experts. The frequency of these site visits was much higher than normal (at least twice a year during project construction). The Independent Advisory Group (IAG) that advises the WBG on project issues, including those that impede achievement of the project's broader development objectives, has also supported supervision

⁷⁸ Based on information from the ECMG reports from 2005, among other sources, IFC considers that the infill drilling began in 2005, whereas EEPIC states that the infill drilling began in mid-2008, and the additional wells drilled between 2003 and 2008 were development wells within the original 40-acre well-spacing pattern.

efforts through independent verification of problematic issues including those characterized as environmental and social.

97. During the operational phase, the IFC's Environment and Social Department has: (i) ensured mitigation of archeology-related Level III non-compliance in Cameroon; (ii) ensured the recommendations from the Barkley-Koppert report on EEPCI Resettlement and Compensation Activities are acted upon including the implementation of the Land Use Management Action Plan (LUMAP); (iii) assessed and developed an action plan to meet the ongoing financial and operational challenges being faced by the Foundation for Environment and Development in Cameroon (FEDEC); and (iv) worked closely with the ECMG in evaluating all environmental and social issues and following up with the Consortium when actions are required. The Environmental and Social Department has also closely monitored the project's activities in areas in and around indigenous Pygmy communities in Southern Cameroon and has provided ongoing inputs and guidance to FEDEC's program with the local NGO, RAPID. IFC's environmental and social specialists have also followed up with EEPCI, TOTCO, and COTCO on health and safety issues during both the construction and operational phases.

98. Regarding FEDEC, the ECMG first identified administrative and financial issues during its December 2004 monitoring visit. During the November 2005 monitoring visit, a number of critical observations were made, among them:

- No additional funds had been raised and no new donor support had been achieved in the preceding 12 months.
- Cooperation between FEDEC and the government of Cameroon was lacking and had not improved.
- FEDEC's financial constraints had been further exacerbated by the fall of the U.S. dollar against the CFA Franc.

99. These issues and others have continued to be problems for FEDEC. An extensive evaluation undertaken in October 2007 analyzed the institutional challenges faced by FEDEC and recommended a plan of action. Nevertheless, by the end of 2008, the problems appear to have worsened and are still unresolved despite efforts by IFC and the Consortium to find solutions.

100. Overall, World Bank Group performance is rated *moderately satisfactory*.

WORLD BANK GROUP ROLE

101. WBG role and contribution were in three main areas: mobilize long-term financing from commercial sources; instill confidence in the project's arrangements and operation; and raise the standard and quality of the project's environmental and social due diligence. It helped raise the standard and quality of the environmental assessments, mitigation plans, and public consultations and disclosure undertaken by the project. When needed, the WBG helped support Chad's regulatory and supervisory functions on the project while trying to build the country's capacity to perform these functions. The WBG was also involved in mediating the ongoing dialogue between Chad and the Consortium, particularly on contentious issues such as the quality discount to Doba oil price and measurement of sales

volumes. However, the main thrust of the World Bank Group's role and contribution to the project relate mainly to political risk mitigation, particularly in terms of trying to improve governance and building institutional capacity. Following the WB's withdrawal from the Chad portion of the project, IFC's role has been enhanced and become more critical, especially regarding environmental and social issues.

Borrower and Client Performance

102. Overall, borrower performance is rated *moderately satisfactory*, with some shortcomings (discussed below). The governments' performance was *moderately satisfactory*. Both countries showed project ownership in many ways at the outset; for example, they secured the pipeline right-of-way and Chad passed the Petroleum Management Revenue Law in 1999. They were also very cooperative in the design and implementation of the physical project arrangements. However, neither government fulfilled agreements for establishing and continuously providing support for competent environmental and social monitoring structures. Cameroon's performance is rated *satisfactory*, Chad's is *moderately unsatisfactory* because of its breach of the Loan Agreement on revenue allocation in 2006 and the ultimate unraveling of the Petroleum Revenue Management Program in 2008.

103. The implementing agency (EEPCI) performance is rated *satisfactory* during both the construction and operations phases. EEPCI was very efficient in project execution, monitoring, and problem-solving, in particular, replacing the Consortium partners who dropped out, filling the financing gap after the bond issue fell through, and getting rid of the excess water in the pipeline. It cooperated with the governments and the Bank, applying Bank guidelines on procurement for jointly financed components and for the EMP.

104. The client has adhered to the requirements of the EMP and has been cooperative in providing access to information required by the various monitoring and supervision entities: ECMG, IAG, and IFC. Reporting to third parties and IFC has been comprehensive, descriptive, and transparent, but despite a massive information dissemination program, some local stakeholders still felt that more communication was needed. The client has also facilitated work by consultants such as R. Barkley and G. Koppert who prepared the report on EEPCI Resettlement and Compensation Activities. Apart from the mitigation activities required by the EMP, the client has an ongoing donations program funded from its own resources for communities living near the facilities in both Cameroon and Chad. This program includes construction projects such as water wells, schools, and community centers along with donations of wood and other construction materials.

105. Although some issues continue to be problematic, the client has had reasonable success in mitigating most of the environmental and social impacts of its activities, considering the size and complexity of the project. Some of the most important examples are: (i) its oil spill response management system, which includes automatic shutoff to reduce the quantity of spills and quick response by specialized spill clean-up specialists; (ii) its efforts to reduce well pad size and return land to farmers; (iii) its active participation in the pipeline steering committee in Cameroon; (iv) its efforts to assist in finding a solution to FEDEC's financial problems; and (v) its efforts to revise the resettlement and compensation program in Chad based on the recommendations of the Barkley/Koppert report.

106. The client has been responsive to close supervision by and continued dialogue with IFC and the ECMG, leading to early identification of emerging issues and satisfactory mitigation of impacts according to best practice, the EMP and World Bank Group policies and guidelines. At the same time, the client has been steadfast in its opposition to suggested changes in the EMP—proposed by IFC and supported by the ECMG—related to the in-fill drilling program and the dramatic increase in the project’s footprint in Chad. The client believes that it is legally bound to the required actions detailed in the EMP and new issues that have emerged can be addressed by changes in the implementation procedures (internal execution procedures) without the need to change the EMP principles which have been defined at the beginning of the project. While the client has provided the necessary resources to implement the Land Use Management Action Plan (LUMAP), ECMG, IAG, and IFC have serious concerns about the livelihood impacts on villages of the in-fill drilling program and the dramatic increase in land use by the project for wells, flow lines, roads, etc. It is unclear how the potential need for in-fill drilling was not identified in the EIA considering that this is a fairly common practice.

107. The number of non-compliances over the past few years has fallen from 49 in 2005 to 17 in 2008. For the second half of 2008, project environmental monitors recorded 7 Environmental Management Plan non-compliance situations, 3 in the third quarter and 4 in the fourth quarter. Two of the non-compliances were categorized as Level II situations. There were no Level III situations. Two spills occurred during this reporting period (EEPCI 2008).

108. The client has also maintained fairly good relations with local NGOs. Representatives of COTCO (Cameroon) participate in the work of the Pipeline Steering and Monitoring Committee (PSMC), which consists of project stakeholders, including NGOs. Most of the committee’s work involves grievances from individuals and communities that date back to the construction period. While mechanisms such as the Platform for Cooperation and Social Assessment (COTCO-PSMC-NGO) are in place to fairly and transparently resolve grievances, some cases remain unresolved. COTCO has indicated that they will continue to work to resolve pending cases but recognizes that in some cases other parties (contractors and subcontractors) bear the responsibility. In Chad, grievance issues are generally taken up directly with EEPCI through the EMP office. The government’s participation through the *Comite Technique National de Suivi et de Contrôle* (CTNSC) ended in 2006. EEPCI reports that complaints are at their lowest level since the operations phase began in 2003.

Annex B. Cameroon: Petroleum Environment Capacity Enhancement Project (Credit 3372-CM)

Summary: Project Outcome and Lessons

1. The CAPECE Project is part of a cluster of technical assistance (TA) and advisory projects financed by the WB and IFC that supported capacity building related to the Chad-Cameroon Petroleum Development and Pipeline Project (PDPP). The objectives of the CAPECE Project were to establish national capacity for the environmental management and monitoring of the PDPP and to ensure the environmental sustainability of future projects, programs, and policies in Cameroon's petroleum sector, including the establishment of the necessary regulatory framework. The project was consistent with the Cameroon Country Assistance Strategy (CAS), which highlighted the accelerated development of oil, gas, and mineral resources as a key strategic goal for the country, to be carried out in an environmentally and socially sustainable manner.

MAIN FINDINGS

2. Based on modest ratings for relevance, efficacy, and efficiency, overall project outcome is rated *unsatisfactory*. Serious project delays meant that the government's Pipeline Steering and Monitoring Committee (PSMC) was not able to independently monitor construction of the Chad-Cameroon pipeline between 2000 and 2003. Instead, during that period, Exxon self-regulated while the External Compliance Monitoring Group (ECMG) conducted monitoring on behalf of IFC. The PSMC and its three field units have been strengthened through equipment and training, as well as the initial operations of the Environmental Management Information System (EMIS), but effective national capacity for regulation and monitoring has not yet been mainstreamed across the concerned sector ministries (notably the Ministry of Environment), as intended.

3. The PSMC continues to operate within the management and reporting structure of the *Société Nationale des Hydrocarbures* (SNH), the national oil company, potentially risking conflicts of interest and compromising its independence. Thus, although the recently established Consultative Platform—including PSMC, COTCO, other government ministries, and NGOs—has proven useful in sharing information and airing grievances at its annual or semi-annual meetings, the close affiliation with SNH could weaken PSMC's ability to resolve social the grievances that continued long after the completion of pipeline construction in 2003.

4. Government support at entry and its commitment during implementation have been weak. Twelve decrees have been prepared under the project to enforce the 1996 Cameroon Environment Code. However, only the Decree on Environmental Impact Assessments (EIA) has been approved, while the rest have been awaiting the Prime Minister's approval for several years. The critically important National Oil Spill Response Plan (NORSP) has also not been approved. Although PSMC has developed a stronger coordinating and facilitating role among the PDPP stakeholders, COTCO is still self-regulating to a significant extent. This arrangement was tested and proved unsatisfactory during the 2008 oil spill, when

external communication was seriously delayed and the extent and potential impacts of the spill were not known for several days, at possible peril to the residents at Kribi.

LESSONS

5. Significant lessons from the project are as follows:
- *Setting PDOs:* When seeking to improve capacity from a low base, project expectations need to be realistic and may prove to be counterproductive if they are too ambitious in their scope. In this project, the focus should have been on the immediate and already highly complex needs of the Chad-Cameroon Pipeline, rather than seeking to improve the vastly more challenging environmental and social safeguards capacity of the country as a whole.
 - *Packaging of TA components:* A TA project with a relatively small outlay needs to avoid the temptation to package together too many interventions at multiple levels, which can result in expending a disproportionate amount of attention and energy on procurement and logistics. In this project, the large number of sub-components was all the more difficult to handle due to lack of familiarity and experience with Bank procedures.
 - *Leveraging of investments and timing:* Capacity-building operations can work in a complementary manner with investment projects. While such operations are necessary to strengthen the overall policy and institutional framework, the investment projects associated with them could transform these policies into actions on the ground while providing hands-on experience to the concerned institutions and staff. However, those TA projects should start several years ahead of the investment projects, given the long lead times associated with capacity building.

The Project

OBJECTIVES, COMPONENTS, AND COSTS

6. According to the Development Credit Agreement (DCA), the CAPECE Project's objectives were:
- to help develop and establish a national capacity for the environmental management and monitoring of the Chad-Cameroon Petroleum Development and Pipeline Project (PDPP); and
 - to help ensure the environmental sustainability of future projects, programs, and policies in the petroleum sector, including strengthening the capacity to mitigate the negative social and environmental impacts of the PDPP and the establishment of an environmental regulatory framework for the petroleum sector.
7. The project objectives and associated outcome targets (discussed in the Efficacy section) were not revised during implementation. There were two amendments to the DCA, the first dated March 24, 2004, and the second dated December 13, 2005. The amendments dealt with changes in the project schedule, procurement arrangements, budget reallocation, as

well as the schedule for meeting the performance indicators. According to the DCA,⁷⁹ the key indicators included:

- publication of environmental decrees in the borrower's Official Journal by December 31, 2001, and training of officials in this new regulatory framework;
 - completion of a Long-term Vision Study for an effective and sustainable regulatory framework for the petroleum sector by July 1, 2004, and an assessment of the application of this framework;
 - publication and adoption of a government Oil Spill Response Plan by July 1, 2002; and
 - an Environmental Management Information System (EMIS), as well as a project management and M&E system, in place and fully operational by July 1, 2001.
8. The project's components were as follows:
- Component 1: Strengthening the institutional, regulatory, and legal framework (estimated cost at appraisal, \$1.25 million; actual cost, \$0.65 million):
 - Drafting, dissemination, and enforcement of implementing regulations for environmental legislation; strengthening the enforcement capacity of all agencies involved in the Environmental Management Plan (EMP) for the PDPP, through technical advisory services, training, and public information campaigns.
 - A Long-Term Vision Study to assess the present institutions and their performance, as well as to identify and evaluate the options for an effective and sustainable environmental regulatory framework for the petroleum sector.
 - Component 2: Strengthening coordinating capacities for environmental management (estimated cost at appraisal, \$1.04 million; actual cost, \$0.87 million):
 - Strengthening PDPP central coordination at the Permanent Secretariat of the Pipeline Steering and Monitoring Committee (PSMC) by conducting training on environmental management, environmental assessment and review, environmental monitoring, design and implementation of environmental mitigating measures, environmental health and administrative matters, through the provision of technical advisory services, training for staff specialized in biophysics, socioeconomics, and human health, and conducting a program of public information, education, and communication.
 - Strengthening the capacity of the three field units reporting directly to the Permanent Secretariat of the PSMC by providing technical advisory services, conducting training on natural resources and pollution prevention and management related to the pipeline, as well as on conflict management and public health management, and the acquisition of equipment.
 - Component 3: Strengthening public intervention capacity for environmental management (estimated cost at appraisal, \$2.71million; actual cost, \$3.44 million):

79. Schedule 6, Implementation Indicators.

- Strengthening the capacity of health centers and districts in the vicinity of the pipeline constructed under the CCPP, through the acquisition of equipment and medical supplies, the carrying out of building maintenance and laboratory analyses, as well as the sub-contracting of public awareness and social marketing campaigns to private voluntary organizations.
 - Carrying out a study to design a national emergency oil spill response plan against accidental pollution by hydrocarbons, and initial implementation of the plan, through the provision of technical advisory services and the acquisition of equipment.
 - Strengthening the capacity of the ministries responsible for environment, mining, land use planning, housing, and transport, and decentralized administrative units of said ministries in the vicinity of the CCPP pipeline through the provision of technical advisory services, training, and equipment.
- **Component 4.** Project management, monitoring, and evaluation (estimated cost at appraisal, \$0.77 million; actual cost, \$0.36 million):
 - Preparation and dissemination of reports related to the biophysical environment, marine biology, socioeconomy, and environmental health through the provision of technical advisory services rendered by an International Advisory Panel.
 - Establishment and maintenance of a project management, monitoring, and evaluation system and an Environmental Management Information System to respond to the information needs of the PSMC regarding: (i) the management, monitoring, and evaluation of the project activities; and (ii) the supervision, implementation, and monitoring of the EMP.

9. The final project cost (\$15.1 million) was 37 percent higher than the appraisal cost estimates, for which IDA disbursed \$5.32 million equivalent. The costs per project component and the government's contribution are shown in Table B.1.

Table B.1. Appraisal versus Actual Costs (US\$ million)

<i>Project Component</i>	<i>Appraisal Estimate</i>	<i>Actual Amount Disbursed</i>	<i>Actual as % of Appraised Estimate</i>
IDA Credit:			
Development of an Enabling Regulatory Framework	1.25	0.65	52%
Strengthening Coordinating Capacity	1.04	0.87	84%
Strengthening Intervention Capacity	2.71	3.44	127%
Project Management, Monitoring and Evaluation	0.77	0.36	47%
SUBTOTAL	5.77	5.32	92%
Government Contribution:	5.23	9.79	187%
TOTAL PROJECT COST	11.00	15.11	137%

Implementation Experience

10. **Key Dates.** The project's effectiveness was delayed by nine months after Board approval due to the government's delays in meeting the conditions of effectiveness. A 15 percent disbursement rate was reached only at the start of 2004, when the pipeline investments were already completed and operational. The project's closing date was also delayed to November 30, 2007, nearly two years after the original closing date, mainly due to the delays in staffing the three field units and PSMC's lack of knowledge regarding Bank procurement, financial reporting, and other procedures, which slowed down the completion of project activities, notably the Long-Term Vision Study (the project's second development objective).

11. **Monitoring and Evaluation (M&E).** The indicators for the objective were in the form of outputs rather than outcomes. These indicators include progress in the implementation of decrees and regulations; the identification and monitoring of environmental standards and norms; and the training of staff. The EMP did not have adequate targets that could be reflected in the M&E design. The project commissioned a socioeconomic study in 2003 and gathered baseline data, which were used later in a similar study for 2005-07, but no significant follow-up actions on these studies have been reported.

12. **Environmental and Social Safeguards.** The project was classified as Category "C" under the Bank's safeguard policies, since it was a TA project that would have no adverse impacts on the physical and social environment. No safeguard issues arose during project implementation. While this TA support project focused on strengthening the government's capacity, the actual environmental and social outcomes by Exxon and its affiliates,⁸⁰ who implemented the pipeline project, and the performance ratings and findings of IFC, who supervised the project, are discussed in Annex A. That assessment covers the results of Environmental Management Plan, the Indigenous Peoples' Plan, the compensation outcomes, the continuing risks presented by the weaknesses of FEDEC⁸¹ and its lack of funding, the new risks presented by EEPIC's plans for a significantly expanded in-fill drilling program, and the findings and recommendations of the high-level agencies⁸² that monitored the environmental and social aspects of the PDPP over the past eight years.

13. **Fiduciary Aspects.** The project's use of funds was low during the three first years. Internal budget controls were weak and the accounting system was not fully operational while the commitment and availability of staff was inadequate. However, PSMC regularly provided financial and audit reports with some improvements over time in their content and format.

80. COTCO (Cameroon Oil Transport Company) and TOTCO (Tchad Oil Transport Company)

81. The Foundation for Environment and Development, which was established with initial COTCO funding to implement the Indigenous Peoples' Plan for the Bagyeli/Bakola (pygmy) communities, as well develop and manage two new national parks (Campo Ma'an Park and Mbam-Djerem Park) over the long term.

82. Specifically the External Compliance Monitoring Group (ECMG), financed by IFC, and the International Advisory Group, financed by the World Bank.

14. **Procurement.** Procurement was very complex for a project of this size, involving 33 transactions for consulting services and 22 for purchasing of equipment. Procurement fell behind schedule because of unrealistic plans, lack of experienced staff, inadequate monitoring of the delivery time, the absence of submission of performance security by the contractors and insufficient response time granted to prepare bids for NCB contracts.

RELEVANCE

15. **Objectives.** While strengthening the national capacity for independent monitoring of the Chad-Cameroon pipeline is critically important, the formulation of the first objective left open the option of concentrating this capacity building on the PSMC. The PSMC was created by decree in 1997 and remains within the *Société Nationale d'Hydrocarbures* (SNH), the national oil company, in an apparent conflict of interest. While SNH (and PSMC by affiliation) is mandated to look after the country's oil interests, the CAPECE Project was supposed to build the government's capacity to supervise and monitor objectively the implementation of the EMP for the Chad-Cameroon pipeline project. From the start of the appraisal this has been a highly contentious issue between the Bank and the government because the direct and subsidiary relationship of PSMC with SNH has repeatedly cast doubt over PSMC's independence. Moreover, the first objective was also formulated to assume that the national monitoring capacity could be in place in time for the construction of the pipeline, a goal that was clearly impossible to implement given the very low level of capacity that existed when the project was appraised. The second objective was formulated too broadly to cover the government's capacity to manage the overall environmental and social impacts of the petroleum sector in Cameroon, extending significantly beyond the urgent focus on the monitoring needs for the pipeline. This led to an overly ambitious project design, which proved difficult to implement in a country with little interest or capacity in environmental management. The relevance of the first objective is substantial, while that of the second objective is modest, leading to an overall *modest* rating for the relevance of the PDOs.

16. **Design.** The project design recognized the low level of expertise for environmental management and limited capacity to absorb new training for this purpose. However, the project design was ambitious in assuming that a quantum improvement could be achieved through programming a large number of activities that would be carried out with the help of international consultants. The government's commitment was overestimated, even though it was not initially persuaded of the usefulness of the project and needed to be convinced by the international community and the international operators. The project design underestimated the risk that PSMC would not always ensure adequate budgetary resources as well as their transparent and efficient allocation. The likelihood of an Advisory Panel being employed was also overestimated (it was canceled), given that the government previously had been reluctant to create a similar advisory panel for the Chad-Cameroon pipeline. The quality of project design is rated *modest*.

17. The project's overall relevance is *modest*, based on modest ratings for relevance of objectives and design.

EFFICIENCY

18. Under the Bank's operational guidelines, an ERR is not required for technical assistance projects. However, given the long time delays and cost overrun, the efficiency of the project is considered *modest*.

EFFICACY

19. The project's overall efficacy is rated *modest*, based on the assessment below for each of the development objectives.

Objective One: to assist the Borrower to develop and establish a national capacity for the environmental management and monitoring of the Chad-Cameroon Petroleum Development and Pipeline Project.

20. The project's first objective was achieved only to a *modest* extent. Given the project delays, it was not possible for the PSMC to have a fully independent monitoring capability to assess environmental and social compliance of the EMP during construction phase. This affected the government's performance during the entire construction period. The pipeline project's compliance with the World Bank Group's safeguard policies, as well as its adherence to standards and norms required under the EMP are assessed in Annex A.

21. In 2007/08, which represents a significant delay since the pipeline was already constructed in 2003, a Consultative Platform comprising PSMC, several ministries (Environment, Infrastructure, Health), and local NGOs⁸³ started to meet periodically to discuss pipeline monitoring reports and hear continuing grievances from individuals and communities along the pipeline. However, some sector ministries and non-official informants have indicated that, although the Consultative Platform is very useful for sharing information and airing divergent views, it has not yet proven to be an effective instrument to influence operational decisions related to the pipeline and arbitrate social grievances from affected communities. This may be related to the fact that the Consultative Platform meets only once or twice a year, and that the PSMC, which chairs the meetings, remains within the national oil company in a potential conflict of interest (see Objective 2, below).

22. The PSMC and the three field units that were established received equipment and training, including instrumentation required for the Environmental Management Information System (EMIS), which has just recently become operational. Other ministries and civil society organizations (CSOs) also participated in workshops and public consultations, but intersectoral monitoring capacity has not been mainstreamed as intended (for example, the Land Ministry remains very weak with respect to land cadastres, and the Ministry of Environment, while consulted, has no active role in environmental matters related to the pipeline). On social aspects, the PSMC monitored the implementation of the Indigenous People Plan (IPP) and reported an increase in agricultural activities, an increase in school attendance and hospital visits, promotion of citizenship through the granting of national identity cards, and provision of housing benefits. A survey conducted by PSMC shows that

83. The Implementation Completion Report for the pipeline project (dated December 2006) recommended the formation of this platform.

almost all of the 238 villages affected by the pipeline were compensated. However, community grievances and NGO complaints have continued and remained unresolved for several years, as reported by affected community leaders and individuals whom the IEG mission visited. (The negative findings of the more recent 2007 Barclay-Koppert report are discussed in the main text.) Moreover, FEDEC remains weak and lacks the financing to continue its mandate of managing and implementing the IPP for the Pygmy communities and two new national parks (see para. 12, above, and the detailed discussion in Annex A). After initial delay, the PSMC worked through nongovernmental organizations (NGOs) and CSOs to raise awareness of the public on health and social impacts of the CCPP, primarily on HIV/AIDS in the villages along the pipeline route and among indigenous peoples' groups. However, there is no evidence on the effectiveness of these awareness-raising activities due to lack of monitoring. PSMC monitored the compensation plan due to archeological impact in a satisfactory manner.

Objective Two: on a medium to long-term basis, to help ensure the environmental sustainability of future projects, programs and policies in the Borrower's petroleum sector, including strengthening the Borrower's capacity to mitigate the negative social and environmental impacts of the PDP Project and the establishment of an environmental regulatory framework for the petroleum sector.

23. Achievement of the second objective was *negligible*. Key indicators (see para. 7, above) were not achieved. Environmental decrees (with the exception of the EIA Decree) were not published, and the new regulatory framework was not put in place. The Long-Term Vision Study was still incomplete as of the IEG mission in February 2009. Compared to the 2002 target, the government has not yet approved a National Oil Spill Response Plan. Finally, the Environmental Management Information System (EMIS) has only recently become operational, too late for the construction of the pipeline. These outcomes pale in comparison to the project's intention, which according to the DCA⁸⁴ was to strengthen the enforcement capacity of all agencies involved in the EMP implementation and monitoring, including disseminating, implementing, and enforcing environmental legislation and related administrative procedures.

24. In terms of preparation of regulations for environmental management of the oil sector, 12 decrees have been prepared for enforcement of the 1996 Cameroon Environmental Code. Of these, only the decree on EIA has been approved and is currently in force. The rest are yet to be approved at the level of the Prime Minister, where the draft decrees have been waiting for approval for several years.

25. NGOs have raised issues about possible weakening of the EIA Decree. The PSMC indicated that the draft texts of decrees prepared under the project can be modified by the sponsoring ministries before they are submitted to the Prime Minister's office for approval. With respect to the EIA decree, some informants interviewed by the IEG mission raised the issue that the text of the (approved) EIA Decree may have departed in important and unwelcome ways from the original draft text prepared by the project's consultants. As

84. Schedule 2, Description of the Project.

evidence, those informants indicated that the approval date of the EIA Decree preceded the completion date of the EIA draft text that was prepared under the project.

26. The project developed a National Oil Spill Response Plan (NOSRP), but this has not yet been formally approved or adopted as a law. In the consultative processes related to drafting the NOSRP, some progress was made in clarifying the rules, norms, and guidelines of hydrocarbon exploitation, and defining the roles of all entities that are involved. ECMG reported that COTCO handled an oil spill in early 2008 in a professional manner, although there were shortcomings in external communication with respect to the incident, as it took four days before information on the spill reached PSMC and the government. Information on environmental and social safeguards was disseminated as part of the Environmental Management Information System (EMIS), periodic newsletters, and annual meetings. However, the PSMC has showed some weaknesses in the timely dissemination of information, which was often indicated by NGO and individual informants to the IEG mission.

27. Around 200 staff from 13 ministries and the PSMC Secretariat who were involved in supervising the environmental and social aspects of the Chad-Cameroon pipeline and other infrastructure projects were trained in the monitoring and mitigation of environmental impacts. There were no specific indicators to assess the effect of this training.

28. The project had unintended impacts. On the positive side, it helped to involve women from affected communities, including indigenous peoples groups, in activities funded by FEDEC⁸⁵ and as laborers for COTCO. Women also participated in training sessions and awareness campaigns for controlling the spread of HIV/AIDS. The project also helped build the country's capacity to monitor social aspects connected to labor in a large infrastructure project. There was a positive change in the administrative culture toward collaboration between government agencies and NGOs.

29. Two studies conducted during the project highlighted the long-term economic and social impacts of the pipeline, particularly in the Kribi area, showing that the improvement of the road infrastructure during the project facilitated access and movement of sections of the population, and strengthened health service delivery to communities in the corridor of the pipeline. The establishment of the two biological diversity offsets (Campo Ma'an and M'bam and Djerem National Park) included a management plan and a legal status that will bring them under the highest level of protection under the 1994 Forest Law.

30. On the negative side, large migration occurred toward localities along the pipeline to take advantage of the improved infrastructure and availability of jobs. NGO documents indicate that this may have increased exposure to HIV/AIDS, although no quantitative evidence has been provided, and there has been no consistent government follow-up or regular monitoring. Pollution of river water in certain localities along the pipeline has limited the access to potable water for the inhabitants. Fishermen blame the destruction of the natural reef offshore of Kribi for reducing their fish catch. The Deng Deng forest, a biodiversity

85. The *Fondation pour l'environnement et le développement au Cameroun*, which was established with COTCO/ExxonMobil funding to assist in the implementation of the Indigenous Peoples Plan for the project.

hotspot, continues to be prone to poaching and illegal logging despite protection provided under the EMP.

OUTCOME

31. Based on its modest relevance, modest efficiency, and modest efficacy, the project's overall outcome is rated *unsatisfactory*. The sub-ratings for each of the two development objectives are shown in Table B.2.

Table B.2. Sub-ratings and Outcome Rating Based on the Achievement of the Project Development Objectives

<i>Objectives</i>	<i>Relevance of PDOs</i>	<i>Efficiency</i>	<i>Efficacy</i>	<i>OUTCOME</i>
1. to develop and establish a national capacity for the environmental management and monitoring of the Chad-Cameroon Petroleum Development and Pipeline Project	Substantial	Modest	Modest	
2. on a medium to long-term basis, to help ensure the environmental sustainability of future projects, programs and policies in the Borrower's petroleum sector, including strengthening the Borrower's capacity to mitigate the negative social and environmental impacts of the Petroleum Development and Pipeline Project and the establishment of an environmental regulatory framework for the petroleum sector	Modest	Modest	Negligible	
Overall Outcome Rating	Modest	Modest	Modest	Unsatisfactory

RISKS TO DEVELOPMENT OUTCOME

32. Owing to its legal mandate and the experience and training gained during the project, the PSMC expects to continue to act as a "one-stop shop" for managing the environmental and social impacts of pipelines, and any infrastructure projects falling within the area of influence of the CCPP. After project completion, PSMC continues to function with the same level of staff as during the project. Presently, the PSMC is financed by SNH, which raises a conflict of interest in that SNH is the petroleum arm of the government and a representative on the Board of Cameroon Oil Transport Corporation (COTCO). The government intends to follow upon the recommendations of the Long-Term Vision Study in a follow-on environment and social capacity-building project. However, Cameroon has a long way to go in formalizing its environmental regulations for environmental management, improving capacity, and meeting standards and norms. When considered together with the low to varying commitment shown by the government, the overall risk to development outcomes is *significant*.

BANK PERFORMANCE

33. *Quality at Entry*. As already discussed, the relevance of project design is modest. In retrospect, the Bank should have requested a Quality at Entry Review, which may have yielded recommendations and guidance on how to simplify the project design and tailor it to

the country's existing human and financial resources. On the positive side, the Bank consulted local NGOs and government stakeholders throughout the design, preparation, and implementation period. Quality at entry was *moderately satisfactory*.

34. **Quality of Supervision.** The Bank allocated sufficient budget and staff resources for supervision. The supervision teams included staff that had a good knowledge of Cameroon's government structure and environmental issues, and brought relevant environmental experience from other countries. Following decentralization of the Bank's functions to the Country Office, local staff in operational, financial, and procurement management provided continuity. Supervision missions were proactive in prevailing upon the PSMC to share budget information and training plans with all relevant ministries and upon the government to implement its commitments, including the appointment of an International Advisory Panel. This ultimately resulted in the government agreeing to hire individual international experts to provide advice on the NOSRP and implement the training plan on coastal zone management and marine environment protection. However, the supervision reports could have provided better information on the Key Performance Indicators and related them clearly to the development outcome and institutional progress ratings.

35. A midterm review (MTR) in July 2003 made several recommendations relating to speeding up implementation and training, improving collaboration among the Cameroon Oil Transport Corporation (COTCO), the PMSC, and other entities, and to launch the Long-Term Vision Study. But the MTR missed the opportunity to propose simplifying the project components to renew focus on monitoring the EMP of the pipeline. This was particularly important in the light of the Inspection Panel concern relating to the project's delay in monitoring the EMP, which the Bank acknowledged was constrained by inadequate institutional and human resources. Bank supervision was *moderately satisfactory*.

36. Overall Bank performance is *moderately satisfactory*.

BORROWER PERFORMANCE

37. **Government Performance.** The government was not initially convinced about the usefulness of the project, and though commitment improved as project design progressed, it was not consistent during implementation. The government showed limited interest in supporting the decision-making process, speeding up project effectiveness and implementation, enacting environmental decrees, and approving the National Oil Spill Response Plan. However, the government provided additional counterpart funds of \$4.56 million to increase the original amount of \$5.23 million to \$9.79 million. Government performance was *moderately unsatisfactory*.

38. **Implementing Agency Performance.** The PSMC, which is competently staffed at the level of its management and the three field units, implemented its overall mandate with some delays because of initial weaknesses in project fiduciary management. After the MTR, it agreed to recruit and use outside consultants to help speed up the procurement and disbursement processes and build its own capacity for project management. Consultation with stakeholders and affected people took long to become effective. The Consultation Platform—following a recommendation from the pipeline project's December 2006 Implementation Completion Report—was organized and started consultations with other

ministries, NGOs, and various stakeholders in 2007-08 period. Based on reports by external monitoring groups, supervision has improved over time with staff trained and equipped by the project and better monitoring processes implemented by field-based PSMC teams and experts. PSMC's affiliation with SNH, however, continues to raise issues of conflict of interest. Implementing agency performance is rated *moderately satisfactory*.

39. Given the strong weight of the government's lack of interest and progress in finalizing key actions, overall borrower performance is rated *moderately unsatisfactory*.

Annex C. Chad: Petroleum Sector Management Capacity-Building Project (Credit 3373-CD)

Summary: Project Outcome and Lessons

1. The Petroleum Sector Management Capacity-Building Project is part of a cluster of technical assistance (TA) and advisory projects financed by the WB and IFC that supported capacity building related to the Chad-Cameroon Petroleum Development and Pipeline Project (PDPP). The main objective of this particular TA project was to strengthen the capacity of Chad to manage the development of its petroleum resources in an environmentally and socially sound manner, consistent with the Chad Country Assistance Strategy.

MAIN FINDINGS

2. Based on its modest relevance, efficacy, and efficiency, overall project outcome is rated *unsatisfactory*. The performance of this Chad project has many similarities with the parallel project in Cameroon (Annex B). The delays in effectiveness and procurement meant that the government's monitoring agency, CTNSC⁸⁶ was not able to conduct independent monitoring during the development of the Doba oil field and the construction of Chad's section of the Chad-Cameroon pipeline from 2000-03. Instead, during that time, EEPCI self-regulated while the External Compliance Monitoring Group (ECMG) conducted monitoring on behalf of IFC.

3. As an indirect result of suspension of Bank operations in Chad in 2006, whatever nascent capacity was being built within NTCMC and its field staff collapsed for lack of IDA funding. An Environmental Management Information System (EMIS) was initiated but not fully developed. Effective national capacity for regulation and monitoring was far from being mainstreamed across the concerned sector ministries, notably the Ministry of Environment and Water Resources (MEWR), as intended.

4. Unlike Cameroon, there is no Consultative Platform in Chad to share information and air grievances at regular meetings⁸⁷, despite mounting local and WBG concerns related to the expansion of in-fill drilling by EEPCI, which would reach triple the level appraised under the original Environmental Management Plan (EMP). With the Bank's departure from the petroleum sector, the NGOs have lost the protective mantle that the Bank's leadership and convening role has provided over the past decade, thus exposing them to greater risks when publicly raising environmental and social issues related to Chad's petroleum development program. Despite a slow start but promising initial results, the FACIL (*Fonds d'Actions Concertées d'Initiative Locale*) microfinancing and small community development program intended to mitigate social impacts also collapsed when the Bank pulled out of the petroleum

86. *Comité Technique Nationale de Suivi et Contrôle* (CTNSC).

87 According to ECMG (April-May 2009), meetings with communities and with eligible persons are now held regularly for passing messages and explaining procedures. Meetings have also been held with local authorities and NOGs.

sector, which meant that the pending Supplemental Grant (intended to continue community development-type programs) could not be approved before the credit's closing date.

5. Government support at entry and its commitment during implementation have been very weak. None of the intended environmental regulations have been approved, much less publicly debated or disclosed. The country does not have implementing regulations for a critically important National Oil Spill Response Plan. EEPIC is almost entirely self-regulating, since there is no independent government presence on the ground. To date, an environmental decree or implementing regulations have not yet been adopted, and the MEWR does not have any monitorable performance indicators related to geophysical, forestry, health, and other relevant areas within its responsibility. Although the MMEP has developed some economic and technical indicators related to producing oil concessions, these remain weak, and regular updating and monitoring still needs to be strengthened significantly.

LESSONS

6. The main lessons learned from the project's experience are:

- *Borrower commitment:* Effective implementation of capacity-building projects requires solid commitment from the borrower at the highest levels, and must take place in the context of clear policy support for environmental and social management objectives, coupled with the political determination to reach them.
- *A pre-existing legal framework:* In nearly all cases, but especially in extractive industries, an appropriate legal, institutional, and regulatory framework should be in place before production starts, in order to facilitate the building of capacity.
- *Adequate assessment of institutional and absorptive capacities at entry:* Human, financial, and institutional constraints must be carefully assessed. Only on the basis of such an assessment can realistic expectations be built as to what can be achieved through this type of TA project. There should be maximum clarity about what types of capacity need to be created and which personnel are to be targeted. Moreover, capacity building should be properly sequenced.
- *Sharp focus on objectives that can be implemented:* Temptations to simultaneously cover multiple sectors and many activities should be avoided. Inclusion of, for example, infrastructure-building components are likely to prove a serious distraction for both financial and human resources in a relatively small TA project.
- *Capacity building needs to focus on existing permanent national institutions:* Training and other capacity-building efforts should not be focused on temporary entities that have no political or operational authority and are thus unable to mainstream reforms.
- *Full assessment of the impact of the Bank's actions:* When the Bank decides to invoke remedies for borrower non-compliance, it is important to assess not only the Bank's desired effect on the top government authorities, but the impact of the Bank's actions on ultimate project beneficiaries as well. In this project, the Bank's seven-month suspension of operations in Chad and disbursements of IDA funds in 2006 (in addition to the failure to meet conditions for the Supplemental Grant) led to the disintegration and eventual collapse of the capacity-building and environmental and

social mitigation programs that the project sought to support—to the detriment of the poor, local populations in the oil field and pipeline development area that the project sought to serve. Every effort should be made to ensure that the Bank, in taking such major actions, does not subvert its own poverty reduction goals.

The Project

OBJECTIVES, COMPONENTS, AND COSTS

7. According to the Development Credit Agreement (DCA), the project objectives were:
 - to better manage the development of petroleum resources in an environmentally and socially sound manner; and
 - to increase the use of petroleum resources generated from the Chad Export Project.
8. The second objective is inappropriate, since revenue management and public expenditure aspects were pursued in other projects in the cluster. Consequently, in this case the formulation of the development objectives in the Project Appraisal Document (PAD) guided the implementation of the project and therefore was used as the basis for this evaluation.
9. The PAD states that the project would:
 - strengthen the capacity of Chad to manage the development of its petroleum resources in an environmentally and socially sound manner, beginning with the Doba Petroleum Project (DPP)⁸⁸ in southern Chad;
 - strengthen the capacity of Chad to minimize and mitigate the potential negative environmental and social impacts of the DPP on the producing region;
 - strengthen local capacity in the Doba region, and provide opportunities for the region's residents to improve their living conditions; and
 - establish an effective framework for further sound private sector investment in the petroleum sector, and engage effectively with such investors.
10. The PDOs and Key Performance Indicators were not revised during project implementation.
11. The project consisted of two components:
 - Component 1: DPP management (estimated cost at appraisal, \$18.9 million; actual cost, \$18.2 million). This component accounted for 71 percent of total project costs, and consisted of:
 - strengthening the government's capacity by developing technical, social, and environmental competence in the Ministry of Environment and Water Resources (MEWR), Comité Technique National de Suivi et de Contrôle, or CTNSC), the

88. This is the same as the Chad Export Project cited in the DCA's statement of objectives.

Doba Project Unit (DPU) set up to monitor the operations of the DPP, and the Ministry of Mines, Energy, and Petroleum (MMEP);

- mitigating negative impacts of the DPP on the producing region by limiting migration through a communications campaign, financing social infrastructure facilities, and supporting local development activities; and
- conducting information and communication activities, including the development of a monitoring and information system, and generating accurate public information on the DPP and the project with a view to encouraging dialogue among stakeholders.

This part of the project included the FACIL program (*Fonds d'Actions Concertées d'Initiative Locale*), which provided grants or loans to finance microprojects and small-scale community activities in the Doba area related to infrastructure for health, education, sanitation, water supply, and market access. FACIL also included income- and labor-generating projects, as well as specialized training for NGOs, CSOs, municipalities, and communities.

- Component 2: The second component was aimed at building petroleum sector management capacity (estimated cost at appraisal, \$5.3 million; actual cost, \$5.5 million). This component consisted of:
 - strengthening the environmental and social regulatory framework applicable to petroleum development projects in Chad, drawing on the lessons of the DPP; and
 - strengthening Chad's capacity to manage the technical aspects of the sector and its ability to attract, negotiate, and engage with potential investors, *inter alia*, through developing an effective management information system, training, and promotion activities.

12. At closing, total project costs were \$25.7 million—including a refinanced Project Preparation Facility advance of \$2.2 million—or \$0.5 million less than the \$26.2 million estimated at appraisal. However, there were substantial cost overruns during the first years of implementation, and the Credit proceeds were almost entirely committed by mid-2003. In October 2005, the borrower requested a reallocation among expenditure categories in the DCA to cover the higher than anticipated costs of consulting services due mainly to the weakness of the U.S. dollar against the Euro. The consulting services category was increased by \$3.1 million (or 46 percent), financed by reductions mainly in unallocated expenditures, operating costs, and microprojects.

13. By 2005, the Credit was fully utilized. In July 2004, the borrower requested a Supplemental Grant (SG) of \$10 million. However, there were delays in fulfilling Board presentation requirements, specifically a Letter of Sector Strategy, assurance of counterpart funding availability, and a procurement plan. Moreover, as noted, the Bank suspension of operations in Chad in 2006 meant that the Supplemental Grant could not be approved before project closure.

14. The estimated and actual costs are presented in Table C.1.

Table C.1. Appraisal versus Actual Project Costs

<i>Components</i>	<i>Appraisal estimate (US\$ million)</i>	<i>Actual/latest estimate (US\$ million)</i>	<i>Percentage of appraisal</i>
A. Doba project management			
<i>(i) Government capacity</i>			
Environment (technical and institutional support)	6.7	9.4	140%
Technical experts and training	2.1	2.1	100%
Project coordination and support	0.3	0.3	100%
<i>(ii) Producing region</i>			
Induced impacts in oil-producing region	9.0	5.6	62%
<i>(iii) Additional information activities</i>			
Monitoring, information-gathering, dissemination, and communication	0.8	0.8	100%
B. Petroleum sector management			
Petroleum sector environmental and regulatory framework	0.7	0.9	129%
Petroleum sector information management system	4.6	4.6	100%
C. Refinancing of PPF advances			
PPF advances	2.0	2.0	100%
Total project costs	26.2	25.7	98%

15. The IDA Credit of \$23.7 million equivalent financed 92 percent of project costs. The contribution of the government was \$2 million, \$0.5 million less than foreseen at appraisal.

Implementation Experience

16. **Key Dates.** The Credit's effectiveness on March 2001 represented a delay of 9 months after Board approval. The delay was the result of disagreements between the government and the Bank concerning the institutional arrangements for implementation and difficulties in staffing the project implementation unit (PIU). The closing date was extended twice. The first extension, for four months from December 31, 2005, to April 30, 2006, was to allow what was thought to be sufficient time for preparation of the Supplemental Grant. The second extension, until December 31, 2006, was to allow completion of ongoing activities, which had been delayed during the Bank's suspension of the country's lending portfolio.

17. **Monitoring and Evaluation.** The quality of the project's M&E is *negligible*. The PAD indicators are mostly based on outputs rather than outcomes, and for the most part are neither quantified nor time-bound. The approach for measuring the four basic output indicators shown in the Results Framework of the Implementation Completion Report (ICR) was not clear: (i) effective government monitoring of the DPP, including financial and technical aspects; (ii) effective implementation of the DPP Environmental Management Plan; (iii) social infrastructure improvements in the producing region; and (iv) substantially increased government dealings with new investors. The four intermediate outcome indicators

were actually also output indicators: (i) oil price comparators reflect pertinent international price; (ii) environmental regulations for the petroleum sector are developed and a new Hydrocarbons Code is prepared; (iii) capacity in the Environment Ministry and CTNSC to monitor environmental and social aspects of petroleum activities is strengthened; and (iv) the pressure of migrating population on the region is mitigated.

18. In sum, there were no objective, time-bound outcome benchmarks for the project's capacity-building objective, which should have been made available to project stakeholders. Although the PAD's Annex 2 contains a summary data sheet for a fuller and more sophisticated management information system (MIS), this was not properly developed, implemented, or maintained, and necessary data were not collected. The sustainability of M&E capabilities developed in /CTNSC and DPU is in serious doubt (some informants say "decimated"). These two agencies do not have the capacity or the organizational structure to mainstream M&E practices.

19. ***Environmental and Social Safeguards.*** The project was classified Category C under the Bank's safeguard policies, as a TA project that would have no adverse impacts on the physical and social environment. No safeguard issues arose during project implementation. The Chad-Cameroon Petroleum Development and Pipeline Project, however, had important environmental and social impacts, which are discussed in Annex A of this report.

20. ***Financial Management Aspects.*** The project's financial management system—including accounting, controls, auditing, and reporting—was adequate and satisfied Bank requirements. However, major fiduciary issues arose during project implementation. The Special Account was drawn down to finance ineligible expenditures. Several unpaid invoices are outstanding because the government made commitments beyond Credit resources. While the Bank's portfolio in Chad was suspended in 2006, the PIU lacked access to government counterpart funding but used the Special Account to finance expenditures. Six months after the project's closing date, the outstanding balances in the Special Accounts of DPU (\$213,000) and CTNSC (\$700,000) had not yet been refunded by the government. The FACIL program reimbursed \$40,000 to CTNSC, but this has not yet been repaid to the project. Some of these problems resulted from the pressure to keep up with the accelerated pipeline construction schedule. In other cases, however, the issues arose from the government's delays in providing counterpart funds. Although the government is responsible for reimbursing unused funds in the Special Accounts, amounts are still outstanding and invoices remained unpaid for a period after the Credit closed.

21. ***Procurement.*** The DCA's procurement provisions were violated on numerous occasions: contracts were awarded without the Bank's non-objection; single-source contracting was excessively used; bidding was fragmented; ceiling amounts were exceeded; and either there was no procurement plan or it was not observed.

RELEVANCE

22. ***Objectives.*** The project is consistent with the goals of the 1996 Country Assistance Strategy (CAS) of restoring public sector capacity, focusing public expenditures on poverty reduction, and creating an environment favorable to private sector development. It is also consistent with the principal objective of the 2001 and 2003 CASs, to assist Chad in making

the best use of its petroleum revenues as it attempts to attain the Millennium Development Goals. The project is relevant to one of the two pillars of the 2003 CAS, which is to strengthen governance and the institutional arrangements for public resource management and service delivery, the rule of law, and the establishment of robust social and environmental safeguards, as Chad exploits its oil reserves. However, as in Cameroon, the objective of strengthening the entire petroleum sector significantly exceeded the immediate needs of monitoring oil field development and pipeline construction. Consequently, the relevance of objectives was *modest*.

23. **Design.** The objective of strengthening the entire petroleum sector resulted in a design that was too complex and ambitious for the existing country capacity. (This finding is similar to that of the parallel project in Cameroon and the revenue management project in Chad.) The project's design did not adequately address the low absorptive capacity of the civil servants who were targeted for capacity building, although this was well known during project appraisal. The emphasis and funding for training was insufficient. Given the low capacity to start with, the project (as in Cameroon) attempted to tackle too many activities and sectorwide issues instead of focusing on the immediate needs of the already-highly complex oil field development and pipeline project. During project preparation, there was inadequate attention on ensuring coherence between the PDOs and the burgeoning responsibilities yet weak capacities of the Chadian institutions involved. The relevance of design was *modest*.

24. Although the project's objectives are relevant, the flaws of its design weighed very heavily as a factor underlying the serious problems encountered during implementation. Overall project relevance is *modest*.

EFFICIENCY

25. Under the Bank's operational guidelines, an ERR is not required for technical assistance projects. However, given the long implementation delays and issues related to financial management and procurement, the efficiency of the project is considered *modest*.

EFFICACY

Objective 1: to strengthen the capacity of Chad to manage the development of its petroleum resources in an environmentally and socially sound manner, beginning with the Doba Petroleum Project (DPP)

26. Achievement of this objective was *negligible*. Capacity building was *ad hoc* and although some competencies were initially developed, the nascent institutions—most importantly the pipeline coordinating committee (CTNSC)—all collapsed soon after the IDA funding was interrupted when the Bank suspended its operations in 2006. IEG's document review and interviews show that there was no clear training plan under the project, and the training that was carried out did not fit established patterns of career development in Chad's public service. The funding allocated for training was insufficient. Most training was provided to project implementation units (PIUs) or other temporary structures with no long-

term operating responsibilities or political authority. There was no coherent capacity-building strategy and no sustainable improvement in institutional capacity.

27. Nearly all the trained staff left government service because of the poor to non-existent career perspectives and the uncertain future of the government institutions themselves. Any modest impact that the project may have had was undermined by adverse institutional changes made by the government. In 2005, the decision to create a National Oil Company and vest it with national coordination responsibilities undermined the capacity of other bodies, notably the MMEP, and spread scarce skills even more thinly.⁸⁹

28. Severe weaknesses still characterize the government institutions responsible for the petroleum sector, and there is no independent monitoring on behalf of Chad of the environmental and social aspects of the petroleum investments and Exxon's operations.

Objective 2: to strengthen the capacity of Chad to minimize and mitigate the potential negative environmental and social impacts of the DPP on the producing region

29. Achievement of this objective was *negligible*. The DPU's petroleum inspectors initially helped to apply appropriate quality and quantity control procedures to the export of crude oil. The DPU also carried out regular analysis of royalties and initiated the launch and supervision of external audits. Improved coordination with the operating Consortium enabled improved management of land, water supply, and sanitation for the benefit of local communities and new arrivals. Reportedly, prevention campaigns financed by the project have heightened awareness of the dangers of sexually transmitted diseases among truckers and other high-risk groups, although systematic evidence is not available. Sustainable forest management practices were introduced in six pilot villages. At least toward the end of the construction period, CTNSC monitored the Oil Field Development Area and gained credibility with the Consortium through its technical reviews of the Consortium's environmental proposals.⁹⁰

30. However, these improvements were not sustained. The MIS was not properly developed, implemented, or maintained, leading to the ongoing difficulties in collecting, analyzing, and using social and environmental data. A robust institutional framework necessary to support continued environmental protection and mitigation activities has not been developed. Although there was some tentative provision in the 2007 national budget for CTNSC, it did not materialize and the committee was eventually dissolved. Guidelines for implementing the Environmental Management Plan were prepared in 2005, but no Environmental Decree or regulations have been adopted. Although an Oil Spill Response Plan was approved by the Cabinet, implementing regulations have not yet been developed.

Objective 3: to strengthen local capacity in the Doba region, and provide opportunities for the region's residents to improve their living conditions

89. The destruction of the ministry and its records during the rebel attack severely compounded the problem.

90. External Compliance Monitoring Group Report, June 2003.

31. Achievement of this objective was *modest*. Although the FACIL program (Fonds d'Actions Concertées d'Initiative Locale) got off to a slow start due to delays in recruiting qualified personnel and poor cash management by CTNCS, its micro-credit loans were given to 8,000 people for economic and commercial activities in 10 cantons, though the outcomes for employment creation and increased living standards have not been evaluated. In terms of social infrastructure, 29 school buildings and 58 new classrooms were built, seven bridges were constructed or rehabilitated, and drinking water supply systems were improved. Training courses on a variety of topics (such as masonry and poultry breeding) were delivered to some 500 people, though again it is not known how useful they were in actually raising incomes due to lack of M&E. Women played an active role on FACIL committees and were directly assisted in the promotion of income-generating activities.

32. These improvements, however, were not sustained. No institutional or other measures were taken to ensure the regular maintenance of the new infrastructure. When IDA suspended disbursements, the FACIL program disintegrated and eventually ceased. At present, an unspecified number of invoices to small and medium enterprises and other community investors who participated in the program remain unpaid.

Objective 4: to establish an effective framework for further sound private sector investment in the petroleum sector and engage effectively with such investors

33. Achievement of this objective was *modest*. Considerable efforts were made in technical and financial training for staff of the DPU, MMEP, and Ministry of Finance. However, as noted earlier, many of the people concerned have left government, leaving little capacity to negotiate with foreign private investors. A model was successfully developed to help the government determine the price differential between Doba Blend crude oil and Brent (commonly used as international price benchmark). However, MMEP has not kept current its subscription to Platts Oilgram, which supplies the monthly input of freight rates and oil prices required by the model. Hence, the model cannot be regularly used.

34. Accelerated negotiations (unforeseen at the time of project preparation) were successfully conducted for the renewal of the Consortium's concession after the pipeline's construction phase was completed much faster than anticipated. The negotiations were carried out principally by specialized technical and legal consultants, and it is unclear how much capacity has been transferred to Chadian officials. The government has been actively promoting the petroleum sector, and three new concessions were signed in 2004.

35. The quality of the promotion effort has been undermined by lack of funding under the project to develop an information system for geological, geophysical, and petrophysical data. This data is currently stored by the Consortium. The greatest shortcoming with regard to this objective is the failure to improve sector governance through the strengthening of institutions and the establishment of a legal framework favoring a clear separation between policy, implementation and monitoring responsibilities. Although the project supported the preparation of a new hydrocarbon law, there is a lack of political support for key governance measures in Chad in general, and in the petroleum sector specifically.

36. The project's overall efficacy is *modest*.

OUTCOME

37. The project's outcome is *unsatisfactory*. Its principal development objective—to build Chadian capacity to manage the country's petroleum sector—has not been achieved, partly due to poor design and partly from lack of government commitment and ownership. Moreover, the seven-month suspension of Bank operations in 2006 led to the rapid erosion and eventual loss of whatever capacity had been built under the project, and the termination of the promising FACIL program. The sub-ratings comprising the overall outcome rating are shown in Table C.2.

Table C.2. Sub-ratings and Outcome Rating Based on the Achievement of the Project Development Objectives

<i>Objectives</i>	<i>Relevance of PDOs</i>	<i>Efficiency</i>	<i>Efficacy</i>	<i>OUTCOME</i>
(a) to strengthen the capacity of Chad to manage the development of its petroleum resources in an environmentally and socially sound manner, beginning with the Doba Petroleum Project (DPP) in southern Chad	Modest	Modest	Negligible	
(b) to strengthen the capacity of Chad to minimize and mitigate the potential negative environmental and social impacts of the DPP on the producing region	Substantial	Modest	Negligible	
(c) to strengthen local capacity in the Doba region, and provide opportunities for the region's residents to improve their living conditions	Substantial	Modest	Modest	
(d) to establish an effective framework for further sound private sector investment in the petroleum sector, and engage effectively with such investors	Modest	Modest	Modest	
Overall Outcome Rating	Modest	Modest	Modest	Unsatisfactory

RISK TO DEVELOPMENT OUTCOME

38. The risk to development outcome is *high*. First, the project has failed to develop an institutional and legal framework capable of supporting environmental protection and mitigation activities. Second, capacity constraints in the sector ministries have only been partially addressed. Third, the CTNSC has lost nearly all of its trained staff. As for DPU, some of its personnel have been absorbed into MMEP, but no further budgetary provision is to be made for the institution itself. Fourth, it is not certain whether MMEP will have the financial resources to conduct the regular training programs necessary to keep its staff abreast of changing developments in the oil industry. Similarly, the ministry may be unable to secure sufficient funding to acquire essential equipment or to create and maintain a petroleum database. The capacity constraints of the MMEP may have been further exacerbated by the creation of a National Oil Company. Fifth, there is currently no financing for continuing the project activities, which have collapsed. Finally, with respect to Chad's participation in the Chad-Cameroon Petroleum Development and Pipeline Project, there is no longer a budgetary provision for national coordination, which has practically ceased to exist.

BANK PERFORMANCE

39. Quality at entry was *unsatisfactory*. In addition to the major design shortcomings described previously, risks were inadequately assessed, notably institutional and fiduciary capacities, and mitigating measures were weak. For example, two important risks were considered modest, namely, the low and weakening government commitment and capacity to strengthen the sector, and the inadequate use made of trained Chadians. These were to be mitigated by Bank support, linkage to the implementation of the PDPP, and improved working conditions. With hindsight, it is clear that linking the project to the implementation of a large and highly visible engineering activity like the pipeline project led to unrealistic demands in a country with severely limited human resources and capacity. More attention should have been given to proactively targeting and sequencing the functions and skill types that were likely to be critical in the short to medium term. The design was hasty, and the PAD's M&E indicators are not quantifiable, time-bound, or outcome-oriented.

40. Supervision was *moderately unsatisfactory*. It was hampered by inappropriate design and staffing problems. During the first three years of implementation, the task team had no petroleum specialist. Inadequate supervision contributed to the project's considerable financial and fiduciary difficulties. Despite manifest problems, supervision missions classified the project as satisfactory until mid-2005; only after that date was it rated moderately unsatisfactory and then unsatisfactory.

41. Perhaps the most regrettable aspect of the Bank's performance is the apparently inadequate assessment of the full impact of the Bank's actions related to the suspension of relations with Chad as a result of its unilateral amendments of the petroleum revenue management agreements. The need for additional funding for capacity-building project activities was recognized, but given the Bank's seven-month suspension of operations in Chad, the Supplemental Grant could not be approved before the 2006 closing date. This led to the disintegration and eventual collapse of the slow but promising capacity-building and environmental/social mitigation programs that the project sought to support—to the detriment of the people in the oil field and pipeline development area that the project sought to serve. Every effort should be made to ensure that the Bank, in taking such major actions, does not subvert its own poverty reduction goals.

42. The Bank's performance is rated *moderately unsatisfactory*.

BORROWER PERFORMANCE

43. During project preparation, the government appeared committed to the project, but it opposed many of its features during implementation. Intense dialogue and the intervention of senior Bank management was needed to convince the authorities of the need to improve their petroleum sector management capabilities. By late 2004, commitment was wavering once again.

44. Serious fiduciary and financial management issues contributed to an exhaustion of project funds by 2005. In December 2005, Parliament approved the government's decision to amend unilaterally the Petroleum Revenue Management Law, in contravention of both the DCA for this project and the Loan Agreement for the pipeline project. As part of the Bank

response, all disbursements were suspended, including under this project, and did not resume until July 2006—by which time the National Oil Company had been created, the PIUs had lost almost their entire staffs, the already weak interagency coordination was debilitated, and project-trained government personnel left. The government could have filled the funding gap with some of the substantial resources already accruing from oil revenue, but did not. The government's performance was *unsatisfactory*.

45. Most of the shortcomings of the implementing entities were the fault of the government rather than of the entities themselves. National coordination, even before its absorption into the MMEP, proved unable to carry out its appointed tasks or to contribute effectively to the building of the institutional and legal framework for the sector. NCTMC/CTNSC steadily improved its capacity during implementation and gained credibility with the Consortium. However, its valuable work was undermined by lack of coordination with the DPU, and later by inadequate funding, and the entity was eventually dissolved. Overall implementing agency performance was *unsatisfactory*.

46. The borrower's overall performance is rated *unsatisfactory*.

Annex D. Chad: Management of the Petroleum Economy Project (Credit 3316-CD)

Summary: Project Outcome and Lessons

1. The Management of the Petroleum Economy Project, of about \$19.5 million, including an IDA Credit of about \$17.5 million, is part of the cluster of technical assistance (TA) and advisory projects financed by the WB and IFC that supported the Chad-Cameroon Petroleum Development and Pipeline Project (PDPP). This project focused on the management of the oil revenue from the PDPP.

MAIN FINDINGS

2. Based mainly on the ratings for efficacy and efficiency, the overall project outcome is rated *unsatisfactory*. While the project objective itself was relevant, the design was overloaded, too ambitious, lacking selectivity and focus, and oriented toward fiscal management best practice rather than addressing the basic weaknesses of the country's public financial management system. The underlying issue was that the project design, in effect, assumed that the capacity the project was supposed to help develop was already largely in place. The flaws in project design were compounded by loose implementation arrangements, lack of continuity of supervision, and most importantly, weak government commitment and growing non-compliance with budgetary rules. As a consequence, the project objective was not met.

LESSONS

3. The main lessons learned from the project's experience are:

- *The critical need to design a project of this type around the institutional and capacity realities of the country.*
- *Related to the above is the need to focus on improving the basic plumbing of public expenditure management, not on introducing sophisticated practices, recognizing that capacity is inherently relative to the complexity of the tasks the system is expected to perform.* In this case, the failure to focus on concrete improvements in the preparation of good investment projects (including recurrent cost provision) and on the nuts and bolts of budget execution led to wasteful investments and divergence between budgeted and actual expenditure.
- *Performance indicators need to be limited to the few key ones that are critical to achieving the objectives and are monitorable.* The plethora of performance indicators in the project was related to the overloaded design but contributed to diverting attention away from the efficiency of expenditure. Also, listing dozens of Key Performance Indicators of diverse importance and questionable clarity made robust monitoring impossible.
- *PERs can be very useful but cannot by themselves remedy major weaknesses in budget preparation and execution.* In this case, the logical sequence went from PRSP formulation through sector expenditure programs that would underpin an MTEF that

would frame an annual budget containing integrated programs approved by the *Collège*—with the necessary practical improvements in the system addressed by the annual PERs. Unfortunately, aside from the weakness or absence of the various links in this chain, the excellent diagnoses and recommendations of the various PERs were mostly ignored.

- *Continuity of supervision is always critical for good project implementation, and higher-level guidance and monitoring should not be allowed to supersede or diminish the role and responsibility of the designated TTL.* In this case, the project had six TTLs in its seven years—a syndrome not unrelated to the assignment of high-powered consultants with de facto supervisory and direct implementation responsibilities during the first three years.

The Project

OBJECTIVES

4. The Project Appraisal Document (PAD) stated the objective as to “help Chad to build capacity to implement its petroleum revenue management strategy to enable it to effectively absorb and allocate expected oil revenue, and thus pursue the poverty-reduction objective of petroleum resources development.” This general objective was articulated into the following (more generic and ambitious than the primary objective):

- to help improve the quality and effectiveness of Chad’s public resource management, with a view to ensuring the priority use of oil revenue to alleviate key infrastructure and human resource bottlenecks that constrain growth and poverty reduction, and mitigating the potential negative macroeconomic, governance, and social impact of oil exports;
- to help build Chad’s capacity to increase public expenditure in priority poverty reduction activities (basic health and education, social affairs, essential infrastructure, and rural development), while maintaining a sound macroeconomic environment conducive to economic growth, increasing the efficiency, transparency, and accountability of the government’s finances, and promoting a participatory approach
- to foster better governance.

COMPONENTS AND COSTS

5. The project had five components:

- Component 1: Strengthening public financial management (\$8.2 million, or 42 percent of total). Increasing efficiency, transparency, and accountability of public financial management; upgrading and rationalization of budget cycle, including the macroeconomic and public expenditure framework, budget programming, revenue mobilization, expenditure circuits, debt and cash flow management, and internal control and audit system.
- Component 2: Poverty database and strategy (\$3.0 million, 16 percent). Analytical and policy underpinning for allocating public resources and assessing the impact of public expenditure on poverty reduction. Support to producing and maintaining

poverty database and reporting system, and participatory articulation of a strategy for poverty reduction.

- Component 3: Human resource development (\$1.3 million, 7 percent). Implementation of administrative reform, giving priority to institutional and staff reform (organization, job profiles, training, recruitment, incentive system, accountability) in pilot economic administrations.
- Component 4: Oversight and control (\$1.3 million, 7 percent). Implementation of oversight capacities in the Auditor General's Office and the civil society as well as the information and consultation of the civil society on the implementation of the petroleum revenue management strategy.
- Component 5: Monitoring economic reform and coordinating capacity building (\$3.7 million, 19 percent). Support to existing institutions in charge of monitoring structural adjustment and coordinating capacity building—primarily in the *Cellule Economique* of the Ministry of Finance.

6. Neither the primary objective, nor the other PDOs, nor the key performance indicators, were formally revised during project implementation. However, the Midterm Review of July 2003 led to a major financial restructuring—mainly the reallocation of over \$5 million from the public finance management component to supporting the implementation of the 2002 Procurement Code, financing construction of the offices of a number of government agencies, and increasing the amount for monitoring economic reform.

Implementation Experience

MONITORING AND EVALUATION

7. The quality of design of the project's M&E result framework is **negligible**, for the following reasons:

- Listing 28 performance indicators, of widely differing importance, is incompatible with the concept of *key* performance indicators.
- Although it is normal for institutional development assistance that important indicators are process-oriented rather than result-oriented, most of the performance indicators in this project are entirely process-oriented or limited to the completion of studies and submission of reports.
- Several indicators are too vague to be monitorable (such as “budget control and oversight mechanisms”).
- Most of the indicators that are both meaningful and monitorable would be too ambitious in any country given the time allowed (such as “implementation of a financial management information system”).
- Some indicators are inconsistent with the reality of extremely limited capacity in Chad, candidly acknowledged in the PAD (such as “implementation of a streamlined and simplified budget expenditure system and of improved procedures for the internal control of expenditures”).
- A few are either contrary to good public expenditure management practice in developing countries (such as “introducing program budgeting in a budget system with basic weaknesses”) or to the logic of the program design (such as “execution of

the *consolidated* budget on the basis of a new nomenclature, whereas the special arrangements for oil revenue management preclude a genuinely consolidated budget”).

8. With such deeply flawed design, it is evident that monitoring and evaluation could not be implemented, and thus no information could be collected to help inform decisions.

9. ***Environmental and Social Safeguards.*** The project was classified as Category C under the Bank’s safeguard policies, as a technical assistance project that would have no adverse impacts on the physical and social environment. No safeguard issues arose during project implementation.

10. ***Fiduciary Aspects.*** Serious public procurement problems emerged both in Chad generally and affecting this project, especially after 2004. Arrangements for financial management were satisfactory, but the government and implementing agencies significantly delayed the measures required for compliance.

RELEVANCE

11. Overall project relevance is rated *modest at best*. Despite the relevance of the project’s objective, and the coherence with the program, major flaws in design and loose implementation arrangements led to serious problems in implementation and proved responsible for the lack of achievement of the objectives.

12. ***Objectives.*** The project objective is fully consistent with the goals of the Country Assistance Strategies of 2001 and 2003, and with the overall program objective of helping Chad escape the “resource curse,” for which the capacity to manage the oil revenue and use it efficiently in pro-development pro-poor activities is critical. However, the articulation of the objective was deeply flawed and excessively framed in terms of inputs.

13. ***Design.*** As is evident from their descriptions, the five project components were extremely broad and ambitious (except the monitoring of reform component). Although the generality of the components was alleviated by the specificity of the expected outputs listed in the Project Design Summary, most of those outputs would require, in themselves, years of preparatory activities and sustained support. The project did follow on the earlier Economic and Financial Management Project (Cr. 1872, closed in June 1996) and the Capacity Building for Economic Management Project (Cr. 2818, closed in June 2000), and was intended as a continuation of those activities. Its design reportedly factored in the lessons learned from those projects—the need for clear project objectives, government commitment, availability of qualified counterparts, giving priority to local capacities, adequate accounting and procurement in place, continuity and depth of supervision, adequate budgeting of components, and donor coordination “to avoid overtaxing Chad’s limited institutional capacity.”

14. The question arises why some of these most basic requirements had not been put in place by the two previous projects. (Indeed, the ICRs of both the older projects rated their outcome and achievement of most objectives satisfactory, which in hindsight raises grave doubts on the soundness of those evaluations.) However the previous projects had been rated,

it remained incumbent upon the Bank to assess the capacity situation as it was at the time of project appraisal. And, in fact, a strong sense of realism concerning the very limited capacity is inherent in the PAD's listing of lessons learned. Against this background, it is difficult to understand how project design could incorporate such a vast agenda of comprehensive budgeting and administrative reform to be implemented in just four years—an agenda that would require at least a decade for proper implementation in a country with greater capacity than Chad, and a far greater investment than \$17.5 million.

15. Compounding the design overload, the PAD accent on bringing best practices into Chad's fiscal management was sharply at odds with its clear recognition of the fundamental problems of basic budget preparation and execution systems and severe capacity limitations in Chad. This is particularly relevant to the need to ensure investment efficiency—given the project's role within the broader program that called for a large proportion of the oil revenue to be invested in priority sectors. Chad's "public investment programs" of the 1990s were lists of insufficiently researched project ideas assembled to attract donor funding. The priority was clearly to focus on improving that process—particularly the nuts and bolts of project preparation (including recurrent cost estimation), and investment programming of the basic sort. Instead, the design entailed a "transition from PIP to Sector Expenditure Programs," that is, from a flawed mechanism that could be improved at acceptable transaction costs to a more advanced system for which neither basic understanding nor capacity were in place. This factor alone was in large measure responsible for the inefficiencies of the large investment expenditures eventually financed with the massive oil revenue. (See the main text.) The underlying paradox is that the project design in effect assumed that the institutional capacity which the project was aimed to build was already largely in place.

16. Finally, the implementation arrangements were insufficiently clear. While the MoF was responsible for the PFM component and the Ministry of Planning for the PRSP component—as is normal—responsibility for the other components was not clearly assigned. Some ambiguity was created by the split responsibilities of the two implementing offices—the National Capacity-Building Secretariat (SENAREC) and the Economic Cell (*Cellule Economique*). And, after project effectiveness, the government created a Technical Cell (*Cellule Technique*) in the MoF, which simply added an unnecessary administrative layer.⁹¹

EFFICIENCY

17. Under the Bank's operational guidelines, an ERR is not required for technical assistance projects. However, given the long implementation delays and issues related to financial management and procurement, the efficiency of the project cannot be considered more than *modest*.

EFFICACY

18. The project's overall efficacy is rated as *negligible*. As noted, the objective of "helping Chad to build capacity to implement its petroleum revenue management strategy to enable it to effectively absorb and allocate expected oil revenue, and thus pursue the poverty-

91. See the ICR for details (Report No.32710-TD of October 2006).

reduction objective of petroleum resources development” was articulated in the following three goals:

- help improve public resource management;
- help build capacity to increase public expenditure in priority poverty reduction activities;
- foster better governance.

Improving public resource management

19. This first goal was achieved as concerns revenue transparency but not achieved as concerns expenditure transparency or budget management. The oil revenue management arrangements of the program produced a level of revenue transparency in Chad nearly unique in Africa. Key factors include the obligation of Exxon, under the legally binding agreement, to regularly make public the estimates of oil liftings and the corresponding f.o.b. export prices; the verification of the amounts getting to the Kribi offshore terminal in Cameroon and associated publication of the pipeline transit fees; consistency checks with the Citibank-managed account in London; and, on non-oil domestic revenue, the significant improvements in the Ministry of Finance capacity to project tax and non-tax domestic revenues.

20. Although the continuation of such transparency in the future is not assured, it represents a signal improvement in the management of public resources—flowing from the overall program design but also partly attributable to the technical assistance provided under the project.

21. Little improvement was achieved in public expenditure management. The 2006 PER Update, the last comprehensive one in the series, flagged the same serious problems identified by the previous PERs in expenditure programming, budget preparation, and budget execution without significant action to implement the recommended improvements.⁹² Most serious was the segmentation of Chad’s budget resulting from the program’s earmarking of the direct oil revenue for expenditure in priority sectors. In effect, through the entire project period, the program caused Chad to operate four different budgets: the oil-financed budget, the aid-financed budget, the HIPC budget, and the residual domestic revenue-financed budget—with limited fungibility among them. (See the main text for an explanation.) Thus constrained, the assistance provided under the project could not be effective in improving the institutional capacity of the budgeting system in the long run.

22. The motive for the earmarking was to ensure an acceptable intersectoral balance in the allocation of expenditure and economic balance between investment and recurrent expenditure. The project itself was expected to fill the capacity gap and achieve both

92. The annual PERs envisaged in the project proved too heavy for government capacity, and were agreed to be replaced with more targeted annual updates and a full PER only every three or four years. In the event, the 2006 update was the first and last, in view of the rupture of 2006 and subsequent lack of implementation of the new measures agreed in the 2006 MOU. (See the main text for a description of these developments.) The continued involvement of the IMF (in consultation with country and sector Bank staff at headquarters) allowed monitoring the macroeconomic and fiscal situation and led to certain improvements in the budgeting system—mainly the closure of a number of government bank accounts as a move toward eventual achievement of a treasury single account system.

balances by helping formulate “program budgets” in each priority ministry (in line with the PRSP and consistent with a rolling MTEF), and fostering systematic improvements in expenditure management through the periodic PERs. However:

- progress in implementing the 2003 PRSP was extremely limited and the formulation of the second PRSP was delayed;
- no MTEF was in fact produced before 2007, two years after project closing;
- ministries’ “program budgets” were disconnected from fiscal realities and in any case were made inoperative by the several months’ delay in putting the budget in place;
- the budget was assembled by the Ministry of Finance with little meaningful participation by the line ministries;
- the sound recommendations of the PERs, presented with an increasing sense of urgency, were mostly ignored, and the efficiency of expenditure was badly damaged by the failure to plan for recurrent inputs along with the large investments—producing inoperable physical facilities—and grave weaknesses in procurement, financial controls, and audit, as explained in the text.

23. The only significant improvement during the project life was the installation and validation of the debt management database. However, one may attribute to the project certain improvements in budget preparation even though they took place after the closing date. For example, in 2007, for the first time, a rudimentary three-year MTEF was put in place (loosely based on the PRSP that was then being drafted), and meaningful discussions began between the line ministries and the ministry of finance on options for expenditure programs. Unfortunately, while budget preparation has improved somewhat compared to the situation at the time of project approval in 2000, budget execution has worsened. Despite positive steps, including the closing of a large number of government accounts, a treasury single account system remains far from being achieved and—more importantly—the improved rules and financial management provisions put in place *de jure* have been *de facto* violated routinely and with impunity.⁹³ The extensive technical assistance provided through the project to improve PFM was largely wasted—in part from the inappropriate design and in part from lack of implementation by the government.

Building capacity to increase expenditure in priority activities

24. This second goal was largely achieved—judging from the actual expenditure outcomes rather than from any measure of “capacity to spend.” As Table D.2 shows, although heavily weighted by infrastructure, actual expenditure on the priority sectors increased substantially, from an annual average of CFAF 173 billion (including CFAF 98 billion for health/education/rural development) to CFAF 402 billion in 2007 (including

93. The introduction of a computerized financial management information system, attempting to transplant the one developed in Burkina Faso, resulted only in producing sets of tables with unreliable and inconsistent data. Once again, this outcome is related to insufficient consideration of the institutional and capacity pre-requisites for successful introduction of complex systems. It also confirms the findings of a later study showing that FMIS introduction in developing countries has invariably been more fraught, expensive and complex, and has taken much more time than envisaged. (Diamond and Khemani 2006.) The few countries that successfully computerized financial management information have done so from a strong foundation of budgeting, based on a clear and agreed information technology strategy, gradually, and over a long period.

CFAF 207 billion for health/education/rural development). Although significantly lower than the percentage targets agreed in the program (see the text), these are substantial achievements. It is difficult, however, to assume that the increased expenditure improved access to or quality of actual services important for poverty reduction, in view of the investment inefficiency and the other weaknesses in expenditure management mentioned earlier. (See the text for data on human development indicators showing a lack of positive changes during the period.)

Table D.1. Chad: Domestic Budget and Actual Expenditure, various sectors, 2004-06 and 2007 (*) (in billions of CFAF and percent)

<i>Expenditure Category</i>	<i>2004-2006</i>			<i>2007</i>		
	<i>Budget (CFAF bn)</i>	<i>Outturn (CFAF bn)</i>	<i>Outturn/Budget (percent)</i>	<i>Budget (CFAF bn)</i>	<i>Outturn (CFAF bn)</i>	<i>Outturn/Budget (percent)</i>
Total	951.0	817.9	86	762.5	696.5	91
“Non-priority” sectors	432.8	417.3	96	301.2	294.1	98
“Priority sectors”	518.2	400.6	77	461.3	402.4	87
<i>Of which:</i>						
Infrastructure	138.0	126.9	92	138.6	125.4	90
Health+educ.+rural devt	294.0	227.3	77	240.0	206.6	86
Other “priority” sectors	86.2	46.4	54	82.7	70.4	85
<i>Memorandum:</i>						
Health+educ.+rural devt as % of total expenditure	31	28		31	30	

Source: Based on Ministry of Finance data and Bank staff estimates. At the time of the evaluation, no data were available on the intersectoral execution of the 2008 budget.

(*) Includes expenditure financed from oil revenue but excludes foreign-financed expenditure

Fostering governance

25. The third goal must be interpreted as limited to public financial governance, as a small TA project cannot be expected to improve the overall governance climate in a country. Even when so limited, the three major aspects of this goal were largely not met. If anything, the current state of public financial governance is worse than at the time of Board approval in early 2000:

- Fiduciary risk has not lessened—financial and accounting controls are frequently bypassed during budget execution, and the Budget Discipline Court is practically inoperative;⁹⁴
- Economy and integrity have suffered from the increasingly frequent violations of procurement regulations and routine recourse to sole-source contracts;⁹⁵

94. This *Cour de Discipline Budgétaire* (CDP) has the mandate of adjudicating violations of budgetary rules by budget managers and others with the responsibility to authorize expenditure.

- Financial accountability is very weak. The General Inspectorate of Finance is uncertain of its role in practice, in view of the creation in 2003 of the Ministry of General State Control and Moralization, and the staff lacks motivation—understandably in view of the inaction after problems are uncovered. And, despite an increase in audit activity, the external audit entity (the *Chambre des Comptes*) is hampered by the long delays in producing the budget accounts, lack of government follow-up to audit findings and even difficulties in obtaining from the MoF and the Ministry of Justice its authorized operational funding.

OUTCOME

26. The project's outcome is *unsatisfactory*. Its objective was not achieved, and little if any progress was registered in the subsidiary objectives. This was due to the interplay of overloaded project design—conflicting with the very limited capacity—and weak government ownership, compounded by the negative impact on institutional capacity from the revenue earmarking under the overall program, and the frequent changes in team leadership. Table D.2 summarizes the subratings.

Table D.2. Sub-ratings and Outcome Rating Based on the Achievement of the Project Development Objectives

<i>Objectives (abbreviated)</i>	<i>Relevance</i>	<i>Efficiency</i>	<i>Efficacy</i>	<i>OUTCOME</i>
Improve public resource mgmt	Negligible	Modest	Negligible	
Build capacity to increase expend.	Significant	Modest	Significant	
Fostering governance (*)	Modest	Modest	Negligible	
Overall Outcome Rating	Modest	Modest	Negligible	Unsatisfactory

(*) Interpreted as limited to public financial governance.

RISK TO DEVELOPMENT OUTCOME

27. The risk to development outcome is *high*. Both institutional and organizational capacity remain weak, and fiduciary risk is likely to increase in the short term with the unexpected fall in oil price and thus government revenue in 2009 and 2010—combined with the pressures to preserve or increase the level of security and regime maintenance expenditures, hence risking downward pressures on pro-development, pro-poor expenditure. Staff skills remain insufficient for efficient budgeting, and motivation has been weakened by the spreading culture in which fundamental budget, procurement, and financial rules are broken with impunity.

28. While the risk is high, oil revenue will continue to accrue in large amounts over the foreseeable future. Good development outcomes in the long run are still possible, if the slight progress actually registered in budget preparation in recent years continues, and is complemented by urgent improvements in budget execution, monitoring and control—with

95. The Procurement Control Office (*Organe de Contrôle des Marchés Publics*—OCMP) is proposing the creation of a separate authority for public contracting, with private participation. The future of this proposal is unclear, and so is its likely effectiveness.

support from the ongoing multidonor program to strengthen public financial management and renewed involvement by the Bank in monitoring overall fiscal and expenditure outcomes. Especially important in this respect will be the constructive and assertive cooperation of certain major bilateral partners.

29. There is a scenario under which—with continued substantial oil revenues; a focus on the basics; recognition of capacity realities; and most important, a new determination by government—the experience learned through the Management of the Petroleum Economy project and the program as a whole can substantially increase the development effectiveness of expenditure and its pro-poor profile. The most important steps in this direction would be:

- in budget preparation, to refocus on sound preparation of investment projects (demand-driven, cost-conscious, and with the requisite balance between capital and recurrent inputs);
- in budget execution, to establish a robust treasury single account system, and streamline procedures while restoring legality and rule-compliance for all;
- in public financial accountability, to strengthen the autonomy and support the efforts of both the *Inspection Générale de l'Etat* and the Chamber of Audit;
- in participation, to resume effective activity by the *Collège de Contrôle*, which would improve both the quality of decisions and public support for the government.

BANK PERFORMANCE

30. Quality of entry was *unsatisfactory*, owing to the flaws in project design, insufficient recognition of capacity limitations, and inappropriate performance framework. The risk assessment was partial and inadequate as well, with mitigation measures patently insufficient,⁹⁶ but what is most inconsistent with Chad's realities and the experience of similar projects is the PADs overall rating of risk as modest.

31. Supervision was *moderately unsatisfactory*. Most Bank staff worked diligently and with the highest degree of commitment and competence to try and help achieve the project objectives, at least in part. Unfortunately, the best efforts at supervision could not have succeeded given the flaws in project design (and the revenue management provisions of the whole program). Moreover, ownership and responsibility of the task team was not helped by the assignment of two high-powered consultants, former Bank senior staff, to de facto supervisory and direct implementation responsibilities during the first three years of the project. (This may help explain the unusually rapid rotation of task team leaders—six altogether in the fewer than six years of the project.) Despite the guidance provided by competent and committed country and sector management, such lack of continuity in direct team leadership cannot be conducive to effective supervision. Nevertheless, after the delays and financial management difficulties of the first three years, the Midterm Review achieved both a sensible reallocation of funding among the project components and a partial resolution of the fiduciary issues.

96. For example, the risk of a “temporary disparity of treatment within the civil service” was to be mitigated by an information campaign, and that of a failure to “review the Auditor General’s mandate” by exposure to international best practice.

32. Overall Bank performance is rated *unsatisfactory*.

BORROWER PERFORMANCE

33. Borrower performance, overall, was *highly unsatisfactory*. Implementing agencies, especially the *Cellule Economique*, did make some efforts to abide by the revenue management arrangements and to improve budgeting. Their performance was unsatisfactory, but in large measure for factors beyond their control—primarily political interference. Government performance was highly unsatisfactory. As in the case of the program and for the other projects in the cluster, government commitment appeared very strong during project preparation but did not translate into effective support during project implementation. Most telling is the shortfall in government contribution—less than one-third the promised amount of \$1.9 million—despite the substantial oil revenue accruing after 2003. Also, project oversight was weak to indifferent, with failure to take the basic steps required to put in place a project financial management system and conduct adequate audits of project funds.

34. Government performance was even more questionable concerning the capacity-building dimension of the project. The increasing tolerance for rule evasion, severe violations of basic procurement and financial management procedures, lack of accountability, and leaks of resources between the budget allocations and the intended beneficiaries—all undermined the efforts of a number of committed and competent Chadian public officials and created a culture of impunity. Especially instructive, albeit couched in technical language, is the recommendation in the 2006 PER Update to “progressively improve the arrival of the expenditure to the final beneficiary (salaries, operational expenses, construction funds, etc.).”

35. Compounding the problem, at the same time as grave violations by some were tolerated the majority of budget managers and civil servants remained hamstrung by an antiquated, overly centralized, and extremely burdensome set of rules concerning budget execution, the expenditure cycle, and procurement. (In this light, the achievement, after project closure, of a number of minor technical improvements in the formal budgeting system should be noted, but is insufficient to permit a higher rating.)

Annex E. IFC's Advisory Services in Chad

Program Context

1. When IFC embarked on the Chad-Cameroon pipeline project in June 2000, the expected development impact of the project included expansion of the non-oil private sector, including foreign direct investment. As part of this effort, IFC has used Advisory Service (AS)⁹⁷ operations to assist Chadian companies in expanding their participation in the economic activities generated by the project. (See Table E.1. There have been no such AS projects in Cameroon.)

Table E.1. IFC's Advisory Service Operations in Chad: 2000-08

<i>Name, Business</i>	<i>Components</i>	<i>Cost ('000\$)</i>	<i>Start date, End date</i>
LKG: CHAD SME, (#537745), Value addition to firms	-capacity building -access to finance -access to information.	\$2.17 million	04/01/2002 to 01/01/2008
FINADEV TCHAD TA, (#534603), Access to finance	- Access to finance for microenterprises through Finadev Tchad - a specialized microfinance window of Financial Bank Tchad.	\$1.5 million	03/01/2005 to 12./31/2007
Chad Capacity Building, (#533974), Infrastructure	-Support for Linkages program -Budget support for <i>Collège</i> -Technical Advisor, Ministry of Petroleum -Seminar on the oil economy -Technical review of the <i>Collège's</i> monitoring and auditing procedures -Data management upgrade for <i>Collège</i>	-\$400,000 -\$300,000 -\$200,000 -\$150,000 -\$500,000 -\$500,000 Total: \$1.15 million*	06/01/2005 to 12/30/2007

Source: IFC.

Notes: *cost figures shown here relate to FMTAAs (Funding Mechanism for Technical Assistance and Advisory Services) allocations only. Total cost for the program was estimated at \$2.5 million, with the balance from other sources. All three are closed projects, with Project Completion Reports (PCRs).

Program Description and Results

LINKAGES PROJECT: CHAD SME

2. IFC launched the Chad Small and Medium Enterprise (SME) Initiative in July 2002 as a linkage project to support the Chad-Cameroon pipeline project. The SME program had two

97. Through Advisory Services, IFC provides advice to governments, private companies, and industry sectors on how to grow businesses sustainably as well as to create a positive investment climate, with a focus on five business lines: Access to Finance, Business Enabling Environment, Environment and Social Sustainability, Infrastructure, and Corporate Advice.

AS projects are rated on six dimensions: (1) Strategic relevance—Did IFC do the right project at the right time?; (2) Output achievement—Were the products, capital goods, and services delivered?; (3) Outcome achievement—Were the intended short- and medium-term effects of the intervention achieved?; (4) Impact achievement—Were the intended longer-term effects of the intervention achieved?; (5) Efficiency—Were the costs reasonable in relation to the potential results?; and (6) IFC Role & Contribution—What was IFC's role and contribution in engaging in this intervention? Ratings on the first five dimensions are synthesized into an overall rating of Development Effectiveness.

phases: the pilot phase and the development phase, with the program being more successful in the second phase. The first/pilot phase covered the three first years (2002-04) and represented a comprehensive approach, with three components: capacity building, access to information, and access to finance, with a total of nine activities. During the construction phase of the pipeline project (2000-03), the SME program received little attention from EEPCI⁹⁸, which was focused on the pipeline construction. In addition, the program faced the following challenges: program design unsuited for Chad; underestimation of human and financial resources; inadequate links between program components; no monitoring and evaluation framework; and no client ownership. Overall, the pilot phase of the SME program was not successful.

Table E.2. Ratings of IFC's Advisory Service Operations in Chad: 2000-08

<i>Name</i>	<i>Categories</i>	<i>PCR ratings</i>	<i>IEG-IFC ratings</i>
LKG: Chad SME	A: Development Effectiveness 1. Strategic Relevance 2. Output Achievement 3. Outcome Achievement 4. Impact Achievement 5. Efficiency B: IFC's Role & Contribution	Mostly Successful Excellent Satisfactory Satisfactory Satisfactory Partly Unsatisfactory Excellent	Mostly Successful Satisfactory Satisfactory Satisfactory Satisfactory Partly Unsatisfactory Satisfactory
Finadev Tchad TA	A: Development Effectiveness 1. Strategic Relevance 2. Output Achievement 3. Outcome Achievement 4. Impact Achievement 5. Efficiency B: IFC's Role & Contribution	Successful Unsatisfactory Unsatisfactory Unsatisfactory Unsatisfactory Excellent Unsatisfactory	Mostly Unsuccessful Satisfactory Unsatisfactory Unsatisfactory Unsatisfactory Partly Unsatisfactory Unsatisfactory
Chad Capacity Building	A: Development Effectiveness 1. Strategic Relevance 2. Output Achievement 3. Outcome Achievement 4. Impact Achievement 5. Efficiency B: IFC's Role & Contribution	Not Rated Partly Unsatisfactory Satisfactory Not yet achieved Not yet achieved Partly Unsatisfactory Satisfactory	Mostly Unsuccessful Satisfactory Satisfactory Partly Unsatisfactory Partly Unsatisfactory Partly Unsatisfactory Satisfactory
Overall Assessment of the Advisory Service Program	A: Development Effectiveness 1. Strategic Relevance 2. Output Achievement 3. Outcome Achievement 4. Impact Achievement 5. Efficiency B: IFC's Role & Contribution		Mostly Unsuccessful Satisfactory Satisfactory Partly Unsatisfactory Partly Unsatisfactory Partly Unsatisfactory Satisfactory

Source: IFC

Notes: Evaluation standards are:

Development Effectiveness: Highly Successful, Successful, Mostly Successful, Mostly Unsuccessful, Unsuccessful, Highly Unsuccessful, Not Achieved, Not Rated

Strategic Relevance, Output Achievement, Efficiency, IFC's Role & Contribution: Excellent, Satisfactory, Partly unsatisfactory, Unsatisfactory, Not Rated

Outcome Achievement, Impact Achievement: Excellent, Satisfactory, Partly unsatisfactory, Unsatisfactory, Not Rated, Not yet Achieved

⁹⁸ IFC also had no local presence during the construction phase.

3. During the operational phase of the pipeline project from 2004 onwards, with the pressure of the construction phase deadlines disappearing, EEPCI was more receptive toward a local supplier development program. EEPCI also wanted to appease the local business community, which was disgruntled from not being included at all during the construction phase. The second/development phase of the SME program also focused on three components: entrepreneurship capacity building, business linkages, and access to finance. The SME program currently focuses on preparing local companies to bid for goods and services contracts with EEPCI and its subcontractors, through the Enterprise Center (EC).

4. The EC was created in December 2004—part of the business linkages component—as a joint partnership between IFC, the Chamber of Commerce of Chad, and EEPCI.⁹⁹ EEPCI's e-procurement experience in Chad with the EC has now been published as a manual ("Developing a Transparent System for Local Contracting," November 2008, www.commdev.org). The manual provides a step-by-step guide for SMEs in developing countries get access to procurement opportunities with large companies through a transparent system for local contracting, based on the Chadian experience.

5. In 2005, EEPCI decided to carry out all its procurement for Chad (about \$300 million annually) electronically through its e-procurement system. This was a challenging task, since Chad has little Internet connectivity, extremely low computer literacy, and sporadic electricity (as little as one to two hours a day). IFC partnered with EEPCI to make e-procurement a reality by introducing training related to the e-procurement system at the Enterprise Center.

6. The EC has its main office in N'Djamena, the capital city, with satellite centers in the oil field area (Doba, Moundou, and Sahr). The EC's reach and network has been useful in conducting an SME mapping exercise that increased the pool of SMEs that EEPCI could work with for local procurement. Initially, EEPCI had a list of only 17 local SMEs, but the list expanded to more than 1,300 SMEs after the mapping exercise.

7. Based on current information, the EC has helped 19 local and joint venture companies get EEPCI contracts worth \$33.18 million that have generated 149 jobs. Given that EEPCI's annual procurement in Chad is currently about \$300 million, there is significant potential for Chadian SMEs. These figures also suggest a low level of "local content" in EEPCI's supply chain in Chad¹⁰⁰ (Cameroon as well), similar to the experience of other West African oil producers like Nigeria, Equatorial Guinea, and Angola.

8. Based on the EC's successful partnership with EEPCI, it has started to expand its local supplier development work to other clients. In June 2007, UNICEF signed an 18-month \$120,000 partnership contract with the EC to train local entrepreneurs operating in the field of water well drilling. The EC intervention will provide UNICEF local supplier identification

99. The EC concept is being standardized as Linkage products in other IFC projects (such as Cairn energy, India).

¹⁰⁰ In 2008, total spent by EEPCI in Chad was one third of the total supply chain - \$400M for foreign supplies and \$200M for local services & supplies (50% purely local and 50% joint venture).

and evaluation, assistance is setting up and structuring bids, assistance to SMEs to respond to bids, and training and consultation to improve the quality of SMEs.

9. Under the Community Agricultural Program, the Enterprise Center is supporting a poultry initiative to assist people displaced from their land in the Oil Fields Development Area (OFDA) to become egg producers and sell to EEPCI's caterers, who meet their current demand (about 70,000 eggs per month) through imports from Cameroon. The poultry initiative is currently progressing well, based on supervision reports. There is also an ongoing pilot program for growing vegetables for the EEPCI caterer.

10. The SME program has performed better in the development phase and has contributed to local private sector development. Overall, the development effectiveness of the Chad SME program is rated *mostly successful*.

FINADEV TCHAD TA

11. IFC supported Finadev as a key component of the Chad SME Initiative that was launched in June 2000 to help local companies benefit from the economic opportunities generated by the Chad-Cameroon pipeline project. Finadev was launched in July 2001 as a specialized window of Financial Bank Tchad and was the only licensed microfinance institution in Chad. IFC was one of the founders of Finadev and supported the MFI through \$30,000 grant funding in the start-up phase.

12. Since inception, Finadev faced significant challenges related to the difficult investment climate in Chad, inadequate staff capacity, and weak governance. Retention rates of clients have steadily declined over time. IFC supported Finadev through various rounds of financial restructurings, with a view to reach the underserved SMEs in Chad. However, operating and financial results continued to be poor and IFC decided to exit the project in 2007, though other shareholders decided to continue operations with new funding.

13. The development effectiveness of the Finadev Tchad TA is rated *unsuccessful*.

CHAD CAPACITY BUILDING

14. The Chad Capacity Building project was conceived in December 2004, for an 18-month period, to provide financial support to the ongoing IDA projects. The IDA projects were at the heart of the WBG capacity-building initiatives that had three major themes: (i) overall management of the petroleum economy within the public sector bodies in Chad; (ii) development of monitoring and supervision capabilities of environmental and social matters within the relevant ministries in Chad and Cameroon; and (iii) SME development through technical assistance and access to finance in Chad. Given the slow progress in the IDA capacity-building projects, the WBG adopted a number of risk mitigation measures in mid-2004: a full-time coordinator was appointed for all of the Bank Group's related capacity building initiatives; additional Bank sector experts were given a clear mandate to spend the majority of their time on capacity-building work; and IFC streamlined the SME program to only those components that had the potential for success.

15. The Chad Capacity Building project was among the first AS projects to receive FMTAAS funding, the dedicated funding source for AS operations that IFC set up in 2004 to

improve the sustainability of IFC contributions toward AS operations. The Chad Capacity Building project is a good illustration of the close WB-IFC collaboration that marked the Chad-Cameroon pipeline project as well as the intensity of WBG supervision efforts. IFC's role in the program was to secure funds and provide administrative oversight. Since the activities related primarily to government entities, the WB undertook the tasks regarding planning, implementation, and supervision.

16. Of the five components of the Chad Capacity Building project, three were for strengthening the operations of *Collège*, the independent body mandated to monitor the allocation and use of oil revenue by the government, and one was for placing an oil expert in the Ministry of Petroleum. The original technical advice component for the *Collège* was changed to budget support, used primarily for meeting the travel expenses of the *Collège* members in the oil-producing region to hold meetings with the public.

17. The Technical Adviser to the Ministry of Petroleum was installed in October 2005 only to be recalled in December as a result of the dispute between the WB and the government over the latter's unilateral amendment of the Petroleum Revenue Management Law. Substantial expenses were incurred, but the objectives of the Technical Adviser were not met. Likewise, the Seminar on Oil Economy was discontinued due to the dispute between the WB and the government. As the training was not fully carried out, the cost incurred for the only seminar (two were planned) that took place did not provide full value to the participants. Though the IFC SME-Linkages program received some funding from the Chad Capacity Building initiative, the results are reported as part of another AS operation (see above).

18. IFC's support for the Chad Capacity Building project was timely in its efforts to mitigate the perceived risks in the ongoing capacity-building initiatives through the IDA projects. However, implementation and delivery of the program were difficult as country conditions, particularly with regard to security, caused delays and limited the pool of consultants. Also, the timely execution of programs was affected adversely by personnel turnover in the government.

19. Overall, the development effectiveness of the Chad Capacity Building project is rated *mostly unsuccessful*.

Lessons

20. *Understanding the needs and internal constraints of the client company and a high degree of flexibility are essential for designing effective Advisory Service programs.* In the pilot phase of the Chad SME program, most of the activities under the Africare and STEP (Support and Training Entrepreneurship Program) programs were not relevant to EEPCI. However, the poultry initiative that was started as an alternative source of income for people displaced by the project in the Oil Field Development Area was continued. Also, the SME program did not get traction from EEPCI in the first phase, since they were occupied with meeting the construction deadlines.

21. *In large, complex WBG projects with multiple stakeholders, good WB-IFC collaboration is essential.* In the case of the Chad-Cameroon pipeline project, there was a high degree of WB-IFC collaboration that extended to Advisory Services operations as well. In late-2004, when the WB-supervised (IDA-funded) capacity-building projects were found to be progressing slower than expected, IFC was able to provide fresh funding for sustaining the capacity-building initiatives and improve their chances of success. It also illustrates well the intensity of WBG supervision efforts in the Chad-Cameroon pipeline project.

22. *A strong local institutional partner is critical for success.* The weak capacity at the Chamber of Commerce of Chad to internalize the project remains a key challenge for the sustainability of the Enterprise Center, the current focal point of IFC's Advisory Service operations in Chad. Like many other Chadian institutions, the Chamber of Commerce is yet to complete its transition from a dysfunctional, politicized outfit to a consular institution truly representative of the private sector. At a broader level, IFC is committed to provide institutional support to the Chamber of Commerce. It is expected that in a year's time, the Chamber of Commerce will take on a more active governance role in the Enterprise Center's management.

23. *IFC's Linkages projects have the potential to: enable local companies participate in the economic activity created by the project; help sponsors—typically large MNCs—meet national content needs; and promote local economic development.* In the case of the Chad-Cameroon pipeline project, the Enterprise Center became the cornerstone of EEPCI's procurement platform that was the sole source for all of its purchases in Chad, starting in 2005, with an annual budget of about \$300 million. The Enterprise Center has helped local Chadian firms compete successfully for Exxon's procurement contracts. As discussed in greater detail in Annex A, these effects, together with other direct effects for beneficiaries, has promoted Local Economic Development.

Summary and Conclusions

24. IFC's Advisory Service operations have been an ingredient of the WBG effort to expand the development impact of the Chad-Cameroon pipeline project. The Chad SME program—the centerpiece of IFC's AS operations in Chad—contributed to WBG capacity-building initiatives in the program. Likewise, the Chad Capacity Building project supported the IDA-funded capacity-building initiatives, which failed. These two Advisory Service operations are symbolic of the high level of WB-IFC collaboration in the Chad-Cameroon pipeline project and the intensity of WBG supervision efforts.

25. The Enterprise Center, which has become the focal point of the Chad SME program, illustrates well the internal learning value of the Chad-Cameroon pipeline project for the IFC in subsequent large, complex projects with multiple stakeholders. In particular, it shows the symbiotic relationship between the Chad-Cameroon pipeline project and the BTC oil pipeline project approved in 2003, involving Azerbaijan, Georgia, and Turkey, with BP as the lead private sponsor. While BTC incorporated several important features from the Chad-Cameroon pipeline project—such as environmental impact assessment, environmental management plan, consultation, compensation, multiple layers of monitoring, and future generations fund, the Chad-Cameroon pipeline project borrowed the Enterprise Center

concept from BTC and has implemented it successfully in Chad, except for the supplier financing facility.

26. While local Chadian firms have been successful in getting an increasing share of procurement contracts from EEPCI¹⁰¹ through the EC, the overall low level of local content remains an issue. In part, this reflects the significant supply constraints in the Chadian economy. The issue of low local content is similar to the nationalization of expatriate management issue that IEG-IFC has highlighted in previous evaluations of African projects.

27. Overall, the development effectiveness of IFC's Advisory Services operations in Chad is rated *mostly unsuccessful*.

101. EEPCI's support of local Chadian companies through procurement and engaging them in the project supply chain has generated direct benefits (discussed in greater detail in Annex A) that have contributed to local economic development. This in turn has the potential to reduce the project's social risk and provide the necessary social license essential for the long-term sustainability of the project.

Annex F. Basic Data Sheet

Chad/Cameroon-Petroleum Development and Pipeline Project (Loan 4558)

Key Project Data (in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project costs	3723.0	4817.0
Loan amount	93.0	91.0
Cofinancing	3630	4726

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	06/23/1999	06/23/1999
Negotiations	08/09/1999	02/11/2000
Board approval	10/07/1999	06/06/2000
Signing	-	-
Effectiveness	09/30/2000	08/10/2001
Closing date	03/30/2005	06/30/2005

Staff Inputs (staff weeks)

	<i>Actual/Latest Estimate</i>	
	<i>No. Staff weeks</i>	<i>US\$('000)</i>
Identification/Preparation	193.3	1134.0
Appraisal/Negotiations	157.3	205.6
Supervision	186.9	2,034.1
ICR	4	43.6
Total	541.5	3,417.3

The staff weeks and totals for Supervision and ICR are not disaggregated in SAP.

Mission Data

<i>Stage of Project Cycle</i>	<i>No. of persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)</i>		<i>Performance Rating</i>			
<i>Month/Year</i>	<i>Count</i>	<i>Specialty</i>	<i>Implementation Progress</i>	<i>Development Objective</i>		
Identification/Preparation	8/8/1995	2	Team Leader (1), Sr. Energy Economist (1)			
	11/13/1995	7	Team Leader (1), Sr. Energy Economist (1), Petroleum Engineer (2), Pipeline Engineer (1), Economist (1), Environmental Specialist (1)			
	1/27/1996	1	Environmental Specialist (1)			
	3/19/1996	2	Petroleum Engineer (2)			
	9/6/1996	1	Sr. Energy Economist			
	2/8/1997	3	Team Leader (1), Sr. Energy Economist (1), Economist (1)			
	7/12/1997	4	Team Leader (1), Sr. Energy Economist (1), Economist (1), Environmental Specialist (1)			
	5/10/1998	1	Team Leader			
	Appraisal/Negotiation	7/2/1999	4	Team Leader (1), Counsel (1), Environmental Specialist (1), Program Assistant (1)		
Supervision	6/10/2001	1	Team Leader	S	S	
	11/18/2002	1	Deputy Coordinator	S	S	
	12/03/2004	2	Lead Financial Analyst (Team Leader) (1); Petroleum Engineer (1)	S	S	
ICR	03/15/2005	1	Team Leader			

**CHAD-A MANAGEMENT OF THE PETROLEUM ECONOMY PROJECT
(CREDIT 3316)**

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project costs	19.40	19.01
Loan amount	17.5	18.39

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	01/27/2000	01/27/2000
Negotiations	09/06/1999	12/09/1999
Board approval	10/07/1999	01/27/2000
Signing	04/02/2000	04/02/2000
Effectiveness	04/30/2000	09/21/2000
Closing date	06/30/2005	06/30/2005

Staff Inputs (staff weeks)

	<i>Actual/Latest Estimate</i>	
	<i>No. Staff weeks</i>	<i>US\$('000)</i>
Identification/Preparation	N/A	N/A
Appraisal/Negotiations	16	82
Supervision	250	1190.5
ICR	46	58
Total	307	1426.5

The staff weeks and totals for Supervision and ICR are not disaggregated in SAP.

Mission Data

Stage of Project Cycle	No. of persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		<i>Performance Rating</i>		
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation					
	01/1999	3	Consultants		
		2	Financial Management		
		1	Principal Economist		
		2	Public Sector Management		
		1	Sr. Procurement Spec.		
		1	Information System		
Appraisal/Negotiation					
	06/1999	3	Consultants		
		2	Financial Management		
		1	Principal Economist		
		2	Public Sector Management Spec.		
		1	Sr. Procurement Spec.		
		1	Information System		
Supervision					
	09/26/2000	1	Consultant (1)	S	S
	04/22/2002	2	Economist (2)	S	S
	05/27/2004	4	TTL(1); Public Sector Management (1); Economist (2)	U	S
	05/27/2004	4	Team Leader (1); Sr. Public Sector Spec (1); Sr. Economist (1); Sr. Procurement Spec. (1)	S	S
	10/28/2004	4	Team Leader (1); Sr. Public Sector Spec (1); Sr. Economist (1); Sr. Financial Management Spec. (1)		
	07/28/2005	2	Team Leader (1); Sr. Financial Management Spec.		
ICR					
	08/04/2005	1	Sr. Public Sector Management Spec.	U	U

Chad-Petroleum Sector Management Capacity Building Project (Credit 3373)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project costs	26.20	25.70
Loan amount	23.70	23.70

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	07/28/1999	07/28/1999
Negotiations	08/09/1999	02/11/2000
Board approval	10/07/1999	06/06/2000
Signing	-	-
Effectiveness	03/23/2001	03/23/2001
Closing date	12/31/2005	12/31/2006

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY97	-	26.37
FY98	-	116.27
FY99	-	160.92
FY00	48	294.42
FY01	1	5.49
FY02	-	0.00
FY03	-	0.00
FY04	-	0.00
FY05	-	0.00
FY06	-	0.00
FY07	-	0.00
Total	49	603.47
Supervision/ICR		
FY97	-	0.00
FY98	-	0.00
FY99	-	0.00
FY00	-	6.08
FY01	34	307.32
FY02	36	858.02
FY03	54	573.84
FY04	44	918.70
FY05	126	676.24
FY06	44	200.05
FY07	8	49.73
Total	346	3589.98

Mission Data

Names	Title	Unit	Responsibility/Specialty
Lending (from Task Team in PAD Data Sheet)			
Michel Layec	Lead Energy Economist	AFTEG	Team Leader
Ignatius A. Menezes	Economist	AFTEG	Economist
Philippe Benoit	Lead Specialist	AFTEG	Pipeline/Country Support
Jean Roger Mercier	Environment Specialist		Environment, Biophysical aspects
Tom O'Connor	Senior Geologist		Senior Geologist
Francois Rantrua	Rural Development Specialist	AFT	Rural Development
Dimitri Kanounnikoff	Information Analyst		MIS Specialist
Pushpa Schwartz	Information Analyst		Information Analysis
Charles Donang	Sr. Procurement Specialist	AFTPC	Procurement
Luc Lapointe	Procurement Specialist	AFTS2	Operations Support
David Freese	Sr. Finance Officer	LOAG2	Disbursements
Isabella Micali Drossos	Sr. Counsel	LEGLA	Lawyer
Bertrand de Chazal	Financial Management Specialist	AFTFM	Financial Management
Supervision (from Task Team Members in all archived ISRs)			
Marie-Francoise Marie-Nelly	Sr. Program Manager	AFRVP	Cluster Coordinator
Yves André Prevost	Sr. Environmental Specialist	AFTS4	Supervision of Environment Component
Bertrand Loiseau	Consultant	AFTEG	TTL, until October 2005
Chales Donang	Sr. Procurement Specialist	AFTPC	Procurement supervision
Silvana Tordo	Sr. Energy Economist	COCPO	TTL from October 2005, ad thematic leader for petroleum sector
Isabelle Paris	Sr. Environmental Specialist	AFTS4	Supervision of Environment Component
Jerome Chevallier	Consultant	AFTH3	Local Representative until June 2004
Michel Pommier	Consultant	AFTVP	TTL and cluster coordinator until August 2004
Etienne Nkoa	Sr. Financial Management Specialist	AFTFM	Financial Management Specialist

Cameroon-Petroleum Environment Capacity Enhancement Project (Credit 3372)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project costs	11.0	15.1
Loan amount	5.8	5.3

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal	07/21/1999	07/21/1999
Negotiations	08/09/1999	02/11/2000
Board approval	10/07/1999	06/06/2000
Signing	-	-
Effectiveness	03/28/2001	03/28/2001
Closing Date	12/31/2005	11/30/2007

Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY99	-	104,416
FY00	-	3,166
FY01	-	91,802
Supervision/ICR		
FY01	-	-
FY02	-	110,752
FY03	-	153,826
FY04	-	167,927
FY05	-	142,064
FY06	-	132,807
FY07	-	126,833
FY08	-	77,220
Total		1,110,812

Mission Data

Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members for Lending:

Name	Specialty
Jean-Roger Mercier	Team Leader
Mohammed Abou Bekhechi	Deputy Team Leader and Legal/regulatory Framework
Cynthia C. Cook	Socio-economic aspects, including cultural property
Luc Lecuit	Monitoring & Evaluation
Guy-Joseph Malembeti	Procurement
Joseph Bonlong	Financial Systems
Georges Visihio Minang	Relationship with NGOs and civil society
Jack Titsworth	Institutions
Marthe Malouf-Hardesty	Project Assistant

Supervision (from Task Team Members in all Archived ISRs)

Names	Title	Responsibility/Specialty
Mohammed Abdou Bekhechi	Lead Counsel	Legal and regulatory framework And TTL as of April 1, 2002
Luc Lecuit	Environmental Specialist	TTL till March 30, 2002 and Environment Management Information System Specialist
Emmanuel Noubissié	Senior Operation Officer	Project Management
Jerome Chevalier	TTL for the Cameroon	Coordination between CAPECE and CCPEP
Marie Françoise Marie-Nelly	Senior Program Manager	Cluster Coordinator
Yves Prevost	Senior Environment Specialist	Supervision of environmental activities
Cynthia Cook	Consultant	Environment and social activities
Jean Roger Mercier	Lead Environment Specialist	Environment and biophysical aspects
Isabelle Paris	Senior Environment Specialist	Supervision of third component of the project
Guy Joseph Malembati	Procurement Specialist	Procurement
William Dakpo	Procurement Specialist	Procurement
Kouami Hounsinou Messan	Procurement Specialist	Procurement
Michel Bakuzakundi	Consultant	Public health and HIV/AIDS
Helene Simone NDjebet Yaka	Operation Analyst	Disbursement
Rockya Fofana	Consultant	Information Systems
Ann Davis Gillet	Consultant	Communication Specialist
Fridolin Ondobo	Financial Management Specialist	Financial Management
Emeran Serge Avouna	Biodiversity Specialist	Biodiversity
Angelie Mani	Program Assistant	NGO liaison
Lydie Yangouot	Program Assistant	Administrative assistance
Germaine Mafougong	Program Assistant	Administrative assistance

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Annex H. Borrower Comments

PRESIDENCE DE LA REPUBLIQUE

 PRIMATURE

 MINISTERE DE L'ECONOMIE ET DU PLAN

 SECRETARIAT GENERAL

Le Ministre de l'Economie et du Plan

A

Madame MONIKA HUPPI, Chef de Division Evaluation

des projets sectoriels (Groupe indépendant)

**Objet : Commentaires de l'Emprunteur sur le rapport d'évaluation
 Rétrospective de programme d'appui à l'Exploitation pétrolière et à
 l'Oléoduc Tchad-Cameroun du Groupe de la Banque**

Le rapport considère le résultat du programme global comme insatisfaisant au vu de l'objectif central de la réduction de la pauvreté et de l'amélioration de la gouvernance grâce à l'utilisation des recettes pétrolières. Plus particulièrement, la performance du Gouvernement du Tchad au regard des résultats institutionnels, fiscaux et macro-économiques et de gouvernance, est aussi jugée très insatisfaisante. Cette appréciation manque de nuances comme en a manqué d'ailleurs les rapports entre le Tchad et la Banque Mondiale qui ont abouti à sa décision unilatérale de quitter le projet et au paiement anticipé des crédits octroyés au Gouvernement. S'il l'aborde, le rapport ne prend pas suffisamment en compte l'impact sur le programme des multiples agressions des mercenaires armés par le Soudan contre le Tchad. Notamment, les attaques dans la capitale en avril 2006 et en février 2008 ont obligé le Gouvernement à consentir d'importantes dépenses de défense du territoire national et de reconstruction, affectant temporairement les priorités de la SNRP.

Les principales contraintes du programme

Si plusieurs risques liés au programme ont été a priori identifiés, notamment « le débordement éventuel de la crise au Darfour » et « une instabilité sociale engendrée par la non distribution des recettes pétrolières à des activités pro-lutte contre la pauvreté et pro développement », l'ampleur des attaques des mercenaires à la solde du Soudan et les destructions qu'elles ont occasionnées ont été sans commune mesure avec les risques anticipés. Ainsi, comme le reconnaît le rapport, jusqu'en 2006, avant les attaques répétées des mercenaires « les allocations budgétaires ont

dans les secteurs prioritaires ».

Par ailleurs, l'impatience et la pression, des populations notamment des travailleurs pour bénéficier directement au niveau de leurs revenus, des ressources tirées de l'exploitation du pétrole a été passée sous silence dans les risques répertoriés dans le programme. Les mouvements sociaux ont, toutefois, amené le gouvernement à accorder en 2007 une augmentation des salaires de 15% en moyenne.

La gestion de quatre budgets différents auxquels le Tchad a été soumis (Recettes ordinaires, ressources pétrolières, IPTE, Financement) a rendu plus difficile la gestion du programme.

La rigidité du mécanisme de gestion des revenus pétroliers et le manque de souplesse de la Banque Mondiale pour sa révision et son adoption à l'évolution du contexte du Tchad, ont constitué un corset à l'intérieur duquel l'Etat du Tchad a pu difficilement officier.

Le retrait unilatéral et le remboursement anticipé à la Banque mondiale, à sa demande, des crédits IDA et de la BIRD, d'un montant de 67,5 millions \$US n'a pas manqué d'avoir des répercussions sur la mise en œuvre de la SNRP2.

En dépit des contraintes imposées par l'agression des rebelles armées par le soudan, des différences d'interprétation et des divergences d'appréciation avec le GBM, on doit pouvoir mettre à l'actif du programme quelques résultats tangibles.

Les résultats du programme

En accord avec le rapport et pour employer ses termes, le Gouvernement considère effectivement que le projet d'exploitation pétrolière et d'oléoduc Tchad-Cameroun a été satisfaisant. L'intervention du GBM a accéléré la mise en œuvre du projet et rassuré les principales parties prenantes. Ce projet a permis au Tchad de disposer de ressources pour le financement des actions de réduction de la pauvreté et de développement, même si l'élan a été momentanément freiné par les incessantes attaques des mercenaires à la solde du Soudan.

Jusqu'en 2007, les discussions entre le Gouvernement et le GBM ont été constructives. Elles ont permis de mettre en chantier un certain nombre d'initiatives parmi lesquelles, la prise en compte de la dimension environnementale dans la zone de production du pétrole, l'amélioration de la préparation du budget même si sa mise en œuvre rencontre encore des difficultés et la transparence des recettes même si un effort doit être encore fait sur la rationalisation de la dépense publique.

Les résultats du Tchad

Comme le reconnaît le rapport, le volet environnemental et social du projet d'exploitation pétrolière a été assez satisfaisant, les parties prenantes ayant réalisé les plans de réduction des impacts, même si tous les objectifs n'ont pas été atteints.

De même, le rapport note que les 5 % des revenus pétroliers prévus pour la région

relativement peu importants, ils correspondent bien au taux retenu dans le mécanisme de gestion des revenus pétroliers.

Il reconnaît aussi que le mécanisme de gestion des recettes pétrolières accepté par le Tchad a été d'« une transparence quasi unique en Afrique...De plus, l'habitude de transparence plutôt que de dissimulation s'est accrue.. », même s'il émet des doutes, avec le retrait de la Banque Mondiale et a priori sur la capacité de l'Etat tchadien à poursuivre cet effort.

Même, si le taux de 70% des dépenses toutes sources confondues n'a pas été atteint la part du budget alloué aux secteurs prioritaires a été en constante augmentation ainsi que leur taux d'exécution. En exécution budgétaire, celui-ci est passé de 48% à 58% en 2007 (contre une prévision budgétaire de 60%).

Si le rapport indique que « les résultats macro-économiques, de réduction de la pauvreté, de gouvernance et de développement institutionnel ont été décevants et qu'il n'y a à ce jour aucun signe des améliorations attendues », il n'intègre pas le fait que tous ces objectifs ne peuvent être réalisés que dans le moyen et long terme, comme le reconnaît en filigrane.

Le rapport s'étonne que des efforts ne soient pas faits pour la collecte de données fiables pour le suivi du développement humain et de la pauvreté. Il impute ce manque aux délais importants enregistrés dans la préparation de la SNRP2. Ce faisant ses auteurs semblent ignorer deux éléments.

Premièrement, il n'y a pas de rupture temporelle entre la SNRP1 et la SNRP2. La SNRP1 a continué à être mise en œuvre jusqu'à l'adoption de la SNRP2. La mise en œuvre des stratégies sectorielles s'est poursuivie dans les ministères des secteurs prioritaires. De plus, il n'y a pas de changements fondamentaux entre les deux SNRP. La SNRP2 a pour principale ligne de conduite « d'achever ce qui a été initié, optimiser les réformes entreprises et améliorer les résultats obtenus de la SNRP1 ».

Deuxièmement, nombre d'indicateurs monétaires et non monétaires de réduction de la pauvreté et de développement humain ne peuvent être obtenus que par des enquêtes. Il est ainsi du seuil de pauvreté, de son incidence et de sa profondeur, comme du taux net de scolarisation, de la mortalité infantile et maternelle, etc. Ces enquêtes ne sont pas liées à la préparation de la SNRP. Les dernières enquêtes de ces types, ECOSIT2 et EDST2, sans lesquelles il est difficile, à moins de spéculer, d'évaluer l'impact de la SNRP sur la réduction de la pauvreté et le développement humain, portent sur les années 2003 et 2004, donc juste au début de l'ère pétrolière. Ces enquêtes coûteuses ne peuvent être menées que dans des périodes espacées. C'est ainsi que le gouvernement a retenu de lancer une troisième enquête ECOSIT et EDST en 2010-2011.

En conclusion

En dépit du retrait de la Banque Mondiale du projet pétrolier, le Gouvernement poursuit les réformes entamées avec elle. Maintenant qu'il a pu restaurer durablement la sécurité et la paix à l'intérieur des frontières du pays, il est plus à même d'améliorer la gestion de ses finances publiques et de réaliser ses objectifs de réduction de la pauvreté, notamment dans le cadre du PAMFIP et de ses relations avec les autres partenaires au développement.

CC : Monsieur Louis Philippe Ong Seng

Administrateur du Tchad auprès de la Banque Mondiale ;

Marie Barton Dock Directrice des Opérations pour le Tchad /Banque Mondiale.

RÉPUBLIQUE DU TCHAD

UNITÉ- TRAVAIL -PROGRÈS

MINISTÈRE DU PÉTROLE ET DE L'ÉNERGIE

SECRETARIAT GÉNÉRAL

N'Djaména. le

DIRECTION DES ÉTUDES ET DE
LA LÉGISLATION PÉTROLIÈRE

**Synthèse du Rapport du Groupe Indépendant
d'Évaluation (GIE) de la Banque Mondiale**

Le rapport du Groupe Indépendant d'Évaluation (GIE) de la Banque Mondiale (BM), restitue une évaluation rétrospective du programme d'appui à l'exploitation pétrolière et à l'oléoduc Tchad-Cameroun du groupe de la Banque Mondiale (GBM).

Le programme d'appui à l'exploitation pétrolière et l'oléoduc Tchad-Cameroun est constitué des projets suivants :

1. Exploitation pétrolière et oléoduc Tchad-Cameroun, avec financement BIRD/SFI ;
2. Tchad- Projet de Renforcement des Capacités de Gestion du Secteur Pétrolier, avec financement IDA ;
3. Tchad-Projet de Gestion de l'Économie à l'ère pétrolière, avec financement IDA ;
4. Tchad-Activité d'Appui Conseil, avec financement SFI ;
5. Cameroun- Projet de Renforcement des Capacités de Gestion Environnementale, avec financement IDA.

Après avoir brièvement parlé de l'historique du programme, le rapport a fait ressortir les objectifs, les résultats attendus et les leçons à tirer après l'exécution de chaque projet du programme.

Les résultats de l'évaluation sont résumés comme suit dans le tableau ci-dessous.

TABLEAU DES INDICES DE NOTATION DES PROJETS ET DU PROGRAMME

1. Projet d'exploitation pétrolière et d'oléoduc Tchad-Cameroun	Notation
Résultat	Modérant satisfaisant
Risque pour les résultats ou plan du développement	Important
Performance de l'emprunteur	Modérant satisfaisant
Performance du GBM	Modérant satisfaisant
2. Cameroun-Renforcement des Capacités de Gestion de l'Environnement	
Résultat	Modérant Insatisfaisant
Risque pour les résultats ou plan du développement	Important
Performance du GBM	Modérant satisfaisant
Performance de l'emprunteur	Modérant Insatisfaisant
3. Tchad-Renforcement des Capacités de Gestion du Secteur Pétrolier	
Résultat	Modérant Insatisfaisant
Risque pour les résultats ou plan du développement	Élevé
Performance du GBM	Modérant satisfaisant
Performance de l'emprunteur	Modérant satisfaisant
4. Tchad-Gestion de l'Économie à l'ère pétrolière	
Résultat	Modérant Insatisfaisant
Risque pour les résultats ou plan du développement	Élevé
Performance du GBM	Modérant Insatisfaisant
Performance de l'emprunteur	Très insatisfaisant

5. Tchad-Services Conseil de la SFI	
Efficacité du développement	Principalement un échec
Rôle et contribution de la SFI	Satisfaisant
6. Tchad-Cameroun Programme	
Résultat	Modérant Insatisfaisant
Risque pour les résultats ou plan du développement	Elevé
Performance du GBM	Modérant insatisfaisant
Performance de l'emprunteur	Insatisfaisant

De ce tableau il ressort en ce qui concerne le Tchad que, ni au niveau des résultats attendus, ni au niveau de la performance de l'emprunteur (c'est-à-dire le Gouvernement du Tchad), rien n'est satisfaisant : tout est plus ou moins négatif.

En conclusion, le rapport d'évaluation a établi que pour le cas du Tchad, l'objectif de l'appui du GBM au financement du programme n'a pas été atteint, à savoir la réduction de la pauvreté au Tchad et l'amélioration de la gouvernance pour la meilleure utilisation possible des recettes pétrolières, dans le respect des principes de sauvegarde sociale et environnementale durables.

Pour le GIE, l'échec du Tchad dans le programme s'explique par le manque d'appropriation par le Gouvernement et les manquements répétés dans les accords de base.

Toutefois, le rapport reconnaît que des progrès significatifs ont été faits dans les domaines suivants par le gouvernement du Tchad avec l'implication de la Banque Mondiale (BM) :

- Protection sociale et environnementale ;
- Infrastructure routière ;
- Accès à l'eau potable ;
- Gestion des 5% des coûts pétroliers dans la région productrice.

LES LEÇONS A TIRER

Le rapport a fait ressortir les leçons suivantes à tirer après constat négatif fait sur l'exécution du programme d'exploitation pétrolière et l'oléoduc Tchad-Cameroun :

- 1- Le respect d'engagement d'un gouvernement à s'approprier un projet reste un élément déterminant dans la réussite dudit projet ;
- 2- Malgré l'implication de la Banque Mondiale (BM), le programme a donné un résultat insatisfaisant. Donc la Banque Mondiale (BM) n'a pas pu éviter au Tchad la « malédiction des ressources » ;
- 3- Cet échec n'est pas une raison suffisante pour empêcher la Banque Mondiale (BM) de soutenir d'autres projets dans les industries extractives, car les erreurs connues au Tchad peuvent être corrigées.

OBSERVATIONS

La lecture du rapport nous amène à faire quelques observations suivantes :

- 1- Page 94 : Le CTNSC n'a jamais été mis sous la tutelle du Ministère de l'Energie, des Mines et du Pétrole comme le prétend le rapport. Le CTNSC a toujours été ancré au Ministère de l'Environnement ;
- 2- L'échec du gouvernement tchadien, l'emprunteur, doit être nuancé dans la mesure où le Tchad est dans une situation sécuritaire difficile d'une part et a fixé un certain nombre de secteurs prioritaires qui n'a pas toujours l'assentiment des bailleurs de fonds d'autre part;
- 3- Page 50 et page 52 : Au lieu de chercher à comprendre les raisons qui font que le Tchad est permanemment dans les hostilités, le rapport ne fait que critiquer les actions du gouvernement qui a utilisé une partie de la manne pétrolière pour la défense de la patrie vis-à-vis des agressions venant de l'extérieur.

Ces parties du rapport qui ne fait que critiquer les actions du Gouvernement tchadien doivent être revues.

(TRANSLATION)

PRESIDENCY OF THE REPUBLIC

PRIMATURE

MINISTRY OF ECONOMY AND PLANNING

GENERAL SECRETARY

N° _____/MEP/SG/09

The Minister of Economy and Planning

to

Mrs. MONIKA HUPPI, Chief of the Evaluation Division,

Sector projects (Independent Group)

Object: Borrower's comments on the performance assessment Report of the Program for the Chad-Cameroon petroleum development and pipeline construction

The report rates the program outcome as a whole unsatisfactory in light of the program's main objective which was to achieve progress in governance and poverty alleviation by means of oil revenues. More specifically, the Government of Chad's performance on institutional, fiscal, macroeconomic and governance aspects have also been considered highly unsatisfactory. This assessment lacks nuancing, just as the relationship between Chad and the World Bank did, which ultimately led to the World Bank's unilateral decision to disengage from the project and the early repayment of the credits allocated to the Government. Although it mentions it, the report does not attach sufficient importance to the impact which multiple attacks that Sudan-armed mercenaries led against Chad had on the program. Specifically, the attacks on the capital conducted in April 2006 and February 2008 have forced the Government to invest massively in the defense of the national territory and in reconstruction, affecting temporarily NSPR (National strategy for poverty reduction) priorities.

Main constraints of the program

Even if many of the program risks were identified at an early stage, among these the "possible spillover from the crisis in Darfur" and "social unrest if the oil revenue were not

used for pro-poor, pro-development activities", the scale of attacks conducted by the mercenaries paid by Sudan and the destruction they caused have extensively exceeded the anticipated risks. Thus, as the report underlines, until 2006 and before the repeated mercenary attacks, "the budgetary allocations were reasonably close to the agreed percentages and despite the divergence between budgets and outturns, actual expenditure on the priority sectors did increase".

Furthermore, the impatience and pressure from the populations, particularly the workers who expected to derive direct monetary benefits from oil resources extraction had not been listed among the potential risks. The social unrests have nevertheless prompted the Government to agree to an increase in salaries which averaged 15 percent in 2007.

The management of four different budgets which Chad was requested to maintain, (domestic revenue-financed budget, oil-financed budget, HIPC budget, aid-financed budget) made program management more difficult.

The rigidity of the oil revenue management mechanism and the World Bank's lack of flexibility regarding its revision and adaptation to Chad's context became a straight jacket in which the Government of Chad could operate only with difficulty.

The unilateral withdrawal and the early repayment to the World Bank, upon its request, of all IDA and IBRD credits which amounted to US\$ 67,5 millions, had repercussions on the implementation of the NSPR2.

Despite the constraints imposed by the Sudan-armed rebel aggressions and the differences in interpretation and appreciation with the World Bank, one has to point out some tangible results of the program.

Program outcomes

In agreement with the report and using its terms, the Government considers that the Chad Cameroon petroleum pipeline and development project has been satisfactory. The WBG involvement has accelerated project implementation and reassured the main stakeholders. This project facilitated Chad's access to resources devoted to poverty alleviation and development actions, even if this impetus was momentarily slowed down by the constant attacks led by the mercenaries paid by Sudan.

Until 2007, the discussions between the WBG and the Government were constructive. They allowed the implementation of a certain number of initiatives, these include taking into account the environmental dimension in the oil fields area, improving budget preparation even if its implementation remains difficult and, revenue transparency, even if efforts on public expenditure rationalisation are still needed.

Chad outcomes

As the report acknowledges, the social and environmental dimensions of the petroleum pipeline and development project proved to be quite satisfactory, the stakeholders implemented impact mitigation plans, even if not all objectives were attained.

Similarly, the report notes that although comparatively small, the expenditures in the oil-producing region financed by the 5 percent of oil royalties were effectively equivalent to the agreed rate identified in the oil resources management mechanism.

It also acknowledges that the oil revenue management mechanism accepted by Chad has shown a "transparency nearly unique in Africa ... and that habits have been built in the direction of openness rather than secrecy", even if raises doubts about Chad's capacity to pursue this effort following the World Bank's withdrawal.

Even if the targeted 70 percent rate of expenditures from all budgetary resources allocated to priority sectors was not reached, the budget share and expenditure effectiveness in priority sectors have improved steadily. This share rose from 48 percent to 57 percent in the executed budget of 2007 (against a budget forecast of 60 percent).

When the report indicates that "the macroeconomic, poverty reduction, governance, and institutional development outcomes were disappointing and there is as yet no evidence of the hoped-for positive improvements", it does not consider the fact that all these objectives may only be achieved in the medium to long term, a fact that it implicitly acknowledges.

The report seems surprised by the lack of efforts to collect data to monitor human development outcomes and poverty. It ascribes this lack to the substantial delays in the NSPR2 preparation. In doing this, the authors seem to ignore two elements.

First of all, there is no time break between the NSPR1 and the NSPR2. NSPR1 was implemented until NSPR2 was adopted. Implementation of sector strategies was pursued by the ministries of priority sectors. Furthermore, there are no fundamental changes between the two NSPR. The main line of conduct for the NSPR2 is to "complete what has been started, optimize the reforms initiated and improve the outcomes achieved by the NSPR1".

Second, several of the monetary and non monetary poverty alleviation and human development indicators can only be obtained through surveys. This applies to poverty level, its incidence and depth, as well as to net enrollment rates and infant and maternal mortality rates. These surveys are not linked to the NSPR preparation. The last round of these surveys, ECOSIT2 and EDST2, without which it remains difficult to assess the NSPR's impact on poverty alleviation and human development, if one does not wish to speculate, apply to the 2003-2004 period, just the beginning of the petroleum era. These costly surveys can only be conducted at long intervals. Consequently, the Government actually plans a third ECOSIT and EDST survey in 2010-2011.

Conclusions

Despite the World Bank's withdrawal from the petroleum project, the Government continues to implement the reforms initiated with it. Now that it has been able to durably restore security and peace in the country, the Government is in a position to improve public financial management and to achieve its poverty alleviation objectives, in particular within the framework of the PAMFIP and in its interactions with other development partners.

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CHAD REPUBLIC
PROGRESS

MINISTRY OF PETROLEUM AND ENERGY

GENERAL SECRETARY

PETROLEUM LEGISLATION AND STUDIES DIRECTION

UNITY-WORK-

N'Djamena, the:

**SYNTHESIS OF THE REPORT FROM THE INDEPENDENT EVALUATION GROUP
(IEG) OF THE WORLD BANK**

The report from the Independent Evaluation Group (IEG) of the World Bank (WB) presents a retrospective performance assessment of the Chad-Cameroon petroleum development and pipeline construction program supported by the World Bank Group (WBG).

The Chad-Cameroon petroleum development and pipeline construction program includes the following projects:

1. Chad & Cameroon: Petroleum Pipeline and Development Project, financed by IBRD and the IFC;
2. Chad: Petroleum Sector Management Capacity-Building Project, financed by IDA;
3. Chad: Petroleum Economy Management Project, financed by IDA;
4. Chad: Advisory Services financed by the IFC;
5. Cameroon: Petroleum Environment Capacity Enhancement Project, financed by IDA.

After a short summary of the program background, the report sets out the objectives, the expected outcomes and the lessons learned after each project implementation.

The evaluation results are summarized in the following table.

TABLE OF PROJECTS AND PROGRAM RATING INDICATORS

1. Chad and Cameroon: Petroleum Pipeline and Development Project		Rating
Outcome		Moderately satisfactory
Risks to development outcome		Significant
Borrower performance		Moderately satisfactory
Outcome		Moderately unsatisfactory
Risks to development outcome		Significant
WBG performance		Moderately satisfactory
Borrower performance		Moderately unsatisfactory
Outcome		Moderately unsatisfactory
Risks to development outcome		High
WBG performance		Moderately satisfactory
Borrower performance		Moderately satisfactory
4. Chad: Petroleum Economy Management Project		
Outcome		Moderately unsatisfactory
Risks to development outcome		High
WBG performance		Moderately unsatisfactory
Borrower performance		Highly unsatisfactory
5. IFC ADVISORY SERVICES IN CHAD		
Development effectiveness		Mostly unsuccessful
IFC's Role & Contribution		Satisfactory

6. PROGRAM	
Outcome	Moderately unsatisfactory
Risk to development outcome	High
WBG performance	Moderately unsatisfactory
Borrower performance	Unsatisfactory

Translator's note: Ratings reported above appear to have been inadequately transcribed from table ES 2 in the evaluation. Outcome ratings 2,3,4 and 6 are "unsatisfactory", WBG performance rating 3 and 4 are "moderately unsatisfactory".

This table shows that wherever Chad is concerned, neither expected outcomes nor the borrower's performance (Chad Government) are satisfactory; everything is more or less negative.

In conclusion, the evaluation report states that in the case of Chad, the objective targeted by the WBG through its financing of the program has not been reached, namely poverty alleviation and governance improvement for the best possible use of the oil revenues, in an environmentally and socially sustainable manner.

For the IEG, the failure of the program in Chad is explained by the lack of government ownership and repeated violations of the basic agreements.

However, the report acknowledges that significant progress was made in the following areas by the Government of Chad with World Bank support:

- Social and environmental protection;
- Transportation infrastructure;
- Access to clean water;
- Management of the 5 percent of oil revenues in the extraction area.

LESSON LEARNED

The report draws the following lessons after its negative assessment of the implementation of the Chad-Cameroon petroleum development and pipeline construction program:

1. Continued Government ownership remains a major factor in project success;
2. Despite the involvement of the World Bank, the program outcome was unsatisfactory. Therefore, the World Bank (WB) was not able to help Chad avoid the "resource curse".
3. This failure should not prevent the World Bank from supporting other extractive industry projects, because mistakes identified in Chad may be corrected.

OBSERVATIONS

After reading the report, we would like to express the following comments:

1. Page 94: the *Comité Technique National de Suivi et de Contrôle* (CTNSC) was never attached to the Ministry of Mines, Energy, and Petroleum as stated by the report. The CTNSC has always been attached to the Ministry of Environment;
2. The failure by Chad's Government, the borrower, must be nuanced to the extent that Chad faced a difficult security situation on one hand and it identified certain priority sectors with which donor agencies did not always agree on the other hand;
3. Page 50 and 52: Instead of trying to understand the reasons that caused Chad to be involved in permanent hostilities, the report limits itself to criticize the actions of the Government, who invested part of the petroleum windfall in the country's defense in the face of external aggressions.

The parts of the report that only criticize the Chad Government's actions must be revised.