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MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT

CHAD:

CHAD-CAMEROON PETROLEUM DEVELOPMENT AND PIPELINE PROJECT
(LOAN NO. 4558-CD);

PETROLEUM SECTOR MANAGEMENT CAPACITY-BUILDING PROJECT
(CREDIT NO. 3373-CD); AND

MANAGEMENT OF THE PETROLEUM ECONOMY PROJECT
(CREDIT NO. 3316-CD)

August 21, 2002

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT No. 23999
OF THE
CHAD-CAMEROON PETROLEUM DEVELOPMENT AND PIPELINE PROJECT
(LOAN NO. 4558-CD);
PETROLEUM SECTOR MANAGEMENT CAPACITY-BUILDING PROJECT
(CREDIT NO. 3373-CD); AND
MANAGEMENT OF THE PETROLEUM ECONOMY PROJECT
(CREDIT NO. 3316-CD)**

Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by the Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 23999, dated July 17, 2002, of the Inspection Panel on the captioned Projects (Inspection Panel: Request for Inspection: Chad-Cameroon Petroleum Development and Pipeline Project - Loan No. 4558-CD; Petroleum Sector Management Capacity-Building Project - Credit No. 3373-CD; and Management of the Petroleum Economy Project - Credit No. 3316-CD, IPN Request RQ01/01 of March 22, 2001).

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LIST OF ACRONYMS AND ABBREVIATIONS

ASOSRP	Area Specific Oil Spill Response Plan
bbbl	Barrel
BP	Bank Procedure
CAS	Country Assistance Strategy
CCSRP	<i>Collège de Contrôle et Surveillance des Ressources Pétrolières</i> (Committee for Oversight and Control of Petroleum Resources)
CNPD	Coordination Nationale Projet Doba
CTNSC	<i>Comité Technique National de Suivi et de Contrôle</i> (National Technical Committee for Monitoring and Evaluation of the Pipeline Project)
COTCO	Cameroon Oil Transportation Company, S.A.
DHS	Demographic and Health Survey
EA	Environmental Assessment
EAS	Environmental Alignment Sheet
ECMG	External Compliance Monitoring Group
EEPCI	Esso Export and Production Chad, Inc.
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMP	Environmental Management Plan
EPC	Engineering, Procurement and Construction Companies
ERR	Economic Rate of Return
ESSD	Environmentally and Socially Sustainable Development
FACIL	<i>Fonds d'Actions Concertées d'Initiatives Locales</i> - Local Initiatives Fund
FCFA	Francs Communauté Financière Africaine
FDI	Foreign Direct Investment
GHG	Greenhouse Gases
GOC	Government of Chad
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAG	International Advisory Group
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
IPIECA	International Petroleum Industry Environmental Conservation Association
IPN	Inspection Panel Number
IRR	Internal Rate of Return
MTEF	Medium Term Economic Framework
NGO	Nongovernmental Organization
NOSRP	National Oil Spill Response Plan
NPV	Net Present Value
OD	Operational Directive
OMS	Operational Manual Statement
OP	Operational Policy
OPN	Operational Policy Note
PAD	Project Appraisal Document
PER	Public Expenditure Review

PPF	Project Preparation Facility
PRSP	Poverty Reduction Strategy Paper
QACU	Quality Assurance and Compliance Unit
RDP	Regional Development Plan
SAC	Structural Adjustment Credit
SEA	Strategic Environmental Assessment
SME	Small and Medium Enterprises
STD	Sexually Transmitted Diseases
STEP	Support and Training Entrepreneurial Program
TOTCO	Tchad Oil Transportation Company, S.A.
USD	United States Dollar

**LIST OF OPERATIONAL POLICIES, OPERATIONAL DIRECTIVES, AND
OPERATIONAL POLICY NOTES RELEVANT TO THIS REPORT**

OD	4.01	Environmental Assessment, 1991
OP/BP	4.04	Natural Habitats, June 2001/September 1995
OP	4.09	Pest Management, December 1998
OD	4.15	Poverty Reduction, December 1991
OD	4.20	Indigenous Peoples, September 1991
OD	4.30	Involuntary Resettlement, June 1990
OP	4.36	Forestry, September 1993
OP	10.04	Economic Evaluation of Investment Operations, September 1994
OPN	11.03	Management of Cultural Property in Bank-Financed Projects, September 1986
OP	13.05	Project Supervision, July 2001
BP	17.50	Disclosure of Operational Information, September 1993

I. INTRODUCTION

1. A Request for Inspection (Request) was submitted to the Inspection Panel (the Panel) on March 22, 2001 by Mr. Ngarlejy Yorongar, a Member of Parliament in Chad’s National Assembly, who was acting for himself and on behalf of more than 100 residents (the “Requesters”) in the vicinity of three fields of the Petroleum Development and Pipeline Project area (Cantons of Mian-doum, Komé, Béro, Mbikou, Bébédjia and Béboni, all in the Sub-Prefecture of Bébédjia), Republic of Chad (Map 1). The Requesters alleged that the Chad-Cameroon Petroleum Development and Pipeline Project and its complementary Bank-financed projects, described in Table 1, constituted a threat to local communities, their cultural property and the environment and that people in the oil field region (in the Doba Basin area) were being harmed, or were likely to be harmed, because of the absence, or inadequacy, of environmental assessment and compensation; and that proper consultation with and disclosure of information to the local communities had not taken place. The Request was registered by the Panel on April 11, 2001 (IPN Request No. RQ01/1).

Table 1. Projects Included in the Request for Inspection

Project	Financed by	Sector	Board Approval Date	Effectiveness Date
Chad Petroleum Development and Pipeline Project	IBRD Loan USD39.5 million	Energy	June 6, 2000	Aug 10, 2001
Petroleum Sector Management Capacity-Building Project	IDA Credit USD23.7 million equivalent	Energy/ Petroleum	June 6, 2000	Mar 23, 2001
Management of the Petroleum Economy Project	IDA Credit USD17.5 million equivalent	Public Financial Mgmt.	Jan 27, 2000	Sept 21, 2000

2. The Executive Directors and the President of IBRD/IDA were notified by the Panel of receipt of the Request. Management responded to the claims in the Request on May 10, 2001, noting that, in its view, the Bank had complied with its operational policies and procedures in the context of the Petroleum Development and Pipeline Project with regard to the environmental, social, cultural, and procedural matters raised in the Request. The Management Response provided evidence and documentation to demonstrate that the Bank had taken the necessary measures to follow its operational policies and procedures with respect to the design and appraisal of the Project and was doing the same to ensure that people in the Project area were not directly and adversely affected as a result of its implementation. Management therefore believes that the Requesters would not be adversely affected by the implementation of the Project in the future, since systems are in place to ensure that their views and concerns are identified and addressed as necessary. As important, the Bank has put in place extensive monitoring arrangements and supervision activities that should assist in providing a channel for addressing implementation issues.

3. In addition, Management addressed issues related to OD 4.15 on Poverty Reduction through its agreements with the Borrower on responsibilities and activities with regard to petroleum revenue management and governance in Chad, the purpose of which is to assist Chad to target the bulk of oil revenues flowing from the Petroleum Development and Pipeline Project to expenditures in priority sectors—health and social services; education; infrastructure; rural development; environment and water resources—all designed to assist in poverty alleviation in Chad.

4. The Panel in its Report to the Board found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive

Directors on October 1, 2001. On July 17, 2002, the Panel issued its Report outlining the findings of the investigation. At the outset, Management acknowledges the Panel's extensive and in-depth analysis of compliance issues associated with the projects under review. This analysis has brought into focus key issues and provided valuable input for further Bank work on these complex Projects.

5. This document, responding to the findings of the Panel, is organized in six sections. Section II below describes the status of the Projects under review. Section III summarizes the findings of the Panel. Section IV addresses a selected set of overarching issues:

- Regional Environmental Assessment and Planning – A Continuum;
- Equity and Poverty Reduction;
- Capacity-Building to Enhance Sustainability and Reduce Risks;
- Monitoring and Consultation; and
- Governance and Human Rights.

Section V presents the Management's Action Plan in response to the Panel's findings, and Section VI contains the conclusion. The Panel's findings, along with the Management's responses, are described in detail in Annex 1.

II. STATUS OF THE PROJECTS

6. Chad is one of the world's poorest countries, with an estimated 80 percent of its population of 7.5 million living on less than one US Dollar a day. The depth and pervasiveness of poverty is striking, and only a small fraction of the population escapes its consequences: poor nutrition and health; high child and adult mortality; and limited access to basic amenities, educational opportunities and social protection. Chad's rugged environment is also a major constraint to development, and a challenge for sustainable future growth. Making a dent in poverty in the coming years is the overriding objective for the country and its partners.

7. Oil development provides a major opportunity for Chad to break free from a poverty trap characterized by enormous needs and very limited resources, to diversify its economy, and to increase its fiscal revenues. If well-managed, additional revenues from oil can translate into significant poverty alleviation through greater availability of resources for priority sectors, improved infrastructure and wider delivery of better public and social services. Estimates suggest that incomes could grow twice as fast, for about a generation, than under a non-oil scenario, leading in all likelihood to a very significant improvement in welfare indicators. The Bank's Country Assistance Strategy (CAS) aims to help Chad prepare to make the best development use of its oil resources, and avoid the pitfalls encountered by many other countries in the exploitation of natural resources.

8. The Petroleum Development and Pipeline Project is the single largest private sector investment in Sub-Saharan Africa. It is expected to cost about USD3.7 billion, of which about 4 percent are funded by the Bank and IFC. The private sponsors, ExxonMobil of the United States (the operator, with 40 percent of the private equity), Petronas of Malaysia (35 percent), and Chevron of the United States (25 percent), which form a consortium (the Consortium), will develop the three oil fields of Komé, Miandoum, and Bolobo in the region of Doba, southern Chad. The Project will also comprise the construction of a 1,070 kilometer pipeline from the Doba oil fields to Cameroon's Atlantic coast at Kribi, three related pumping stations, ancillary facilities, infrastructure improvements, and installation of off-shore oil-loading facilities.

9. The Bank (IBRD/IDA) and IFC were originally approached to participate in the Petroleum Development and Pipeline Project in 1992. The involvement of the Bank and IFC in the Project is predicated on: (i) the unique opportunity it presents for Chad in particular to generate additional revenues to combat poverty; and (ii) the need to implement the Project in a socially and environmentally sound manner. It also provides an occasion to play a significant role in reducing poverty in one of Africa's poorest regions. This approach to the Project has been essential in integrating a range of relevant challenges into Project preparation, including social and environmental issues, and governance issues within the mandate of the Bank.

10. The Petroleum Development and Pipeline Project was prepared by the Consortium and the Governments of Chad and Cameroon, with the assistance of the Bank, IFC and other public and private lenders, from 1993 to 1999. The Project was appraised by the Bank in late June and early July 1999 and negotiated by the Bank from February to April 2000. An IBRD loan of USD39.5 million to the Republic of Chad, which will finance part of the equity of the Government of Chad (GOC) in the Tchad Oil Transportation Company, S.A. (TOTCO) and the Cameroon Oil Transportation Company, S.A. (COTCO), was approved by the Bank's Executive Directors on June 6, 2000. An IFC A Loan of USD100 million, which mobilized up to USD100 million in commercial bank lending to fund a portion of the Project costs of the Export System, was approved by IFC's Executive Directors on June 6, 2000. The European Investment Bank (EIB), like IBRD, provided financing to the GOC (about USD17 million equivalent) to finance its equity investments in TOTCO.

11. The Petroleum Development and Pipeline Project is accompanied in Chad by two associated projects: (i) the IDA-financed Management of the Petroleum Economy Project (USD17.5 million approved on January 27, 2000), which aims to build Chad's capacity to manage oil revenues and to use them efficiently for poverty reduction; and (ii) the IDA-financed Petroleum Sector Management Capacity-Building Project (USD23.7 million approved on June 6, 2000), which aims to assist the GOC in carrying out its responsibilities, including those under the Petroleum Development and Pipeline Project Environmental Management Plan (EMP) prepared in the course of an extensive Environmental Assessment (EA), and to establish an effective framework for further sound private sector investment in the petroleum sector.

12. As stated in the Project Appraisal Document (PAD), in Chad the outputs of the Petroleum Development and Pipeline Project are expected to be: (i) substantial fiscal revenues from the export of crude oil from the three oil fields to be developed (Komé, Miandoum and Bolobo); (ii) the existence and operation of a Petroleum Revenue Management Program; (iii) the development of the three oil fields and construction and operation of the export system by a private operator; and (iv) the environmentally and socially sound development of oil fields and construction and operation of the pipeline. To achieve these goals, a Petroleum Revenue Management Program was developed in collaboration with the Bank to target the bulk of oil revenues accruing to Chad from the Project for incremental poverty alleviation in a transparent manner.

13. A special purpose company, Esso Export and Production Chad, Inc. (EEPCI), a wholly owned subsidiary of ExxonMobil, was established to develop the Field System. The Consortium and the Governments of Chad and Cameroon have established TOTCO and COTCO, two joint-venture companies to own and operate, respectively, the Chad and Cameroon portions of the Export System. The GOC also owns a portion of COTCO. EEPCI is the Petroleum Development and Pipeline Project's manager and operator, responsible for overall coordination of the Project, including with TOTCO and COTCO, the two Governments, the Bank, IFC, and other lenders.

14. The Consortium and the Borrowers under the Bank loans share the responsibility for implementing the Petroleum Development and Pipeline Project. In Chad, the EMP is being implemented by EEPCI and TOTCO, in collaboration with the GOC. EEPCI and TOTCO have primary

responsibility for ensuring that contractors, workers and work sites comply with 1999 EA/EMP provisions. The compensation, resettlement, oil spill contingency and decommissioning plans are being implemented by EEPCI and TOTCO in collaboration with the GOC. EEPCI, TOTCO, and the GOC also monitor and evaluate the 1999 EA/EMP's implementation in Chad. In addition, the GOC is responsible for implementing the Petroleum Sector Management Capacity-Building and the Management of the Petroleum Economy Projects with the support of the Bank.

III. FINDINGS OF THE PANEL

15. This section summarizes the principal findings of the Panel's Report without reference to Management's position. Section IV addresses selected issues related to the Panel's findings, while Section V summarizes Management's proposed Action Plan. Annex 1 provides Management's detailed comments and proposed actions.

Table 2. Summary of Inspection Panel Findings on Compliance with Bank Policies and Procedures

Policy	Issue	Inspection Panel Finding*
OD 4.01 Environmental Assessment		
	EA process	In compliance
	Management of oil spills	In compliance
	Consultations	In compliance
	Contamination of surface/groundwater	In compliance
	Spatial context/Regional EA	Not in compliance
	Cumulative impacts assessment	Not in compliance
	Reports of the Expert Advisory Panel	Not in compliance
	Baseline data linkages to impacts and mitigation	Not in compliance
	Consideration of environmental costs and benefits of alternatives	Not in compliance
	Institutional capacity	Not in compliance
OP/BP 4.04 Natural Habitats		
		In compliance
OP 4.36 Forestry		
		In compliance
OP 4.09 Pest Management		
		In compliance
OD 4.30 Involuntary Resettlement		
	Expropriation	In compliance
	Mango Tree Grievance Procedure	In compliance
OD 4.20 Indigenous People		
		Not applicable (for Chad portion of Project)
OPN 11.03 Management of Cultural Property		
		In compliance
OP 10.04 Economic Evaluation		
	Pipeline Project – Risk	In compliance
	Pipeline Project – Externalities	In compliance
	Pipeline Project – Alternatives	Not in compliance
	Pipeline Project – Base Case	Appropriate and valuable to provide switching values
	Pipeline Project – Other benefits	Full compliance required a more detailed examination of other benefits
	Petroleum Economy and Capacity-Building Project – Sustainability and risks	Not in compliance
OD 4.15 Poverty Reduction		
	Petroleum Revenue Management Program	Concerns on whether some components of OD 4.15 on poverty have been fully met
	Hypothecation of oil revenues	In compliance
	Institutional capabilities and monitoring	Concern about realizing social objectives; continuing monitoring vital for Special Accounts
	Allocation of resources to producing region	Concern about review material that underpinned choice of 5 percent

Policy	Issue	Inspection Panel Finding*
	Implementation delays due to lack of capacity	Concern if delays not addressed urgently, future compliance jeopardized
	Accelerated action needed for capacity-building	Not in compliance
	Possible variations in oil revenue inflows	Not in compliance with provisions concerning risk analysis and institutional design
BP 17.50 Disclosure		In compliance
Monitoring and Supervision		Expression of satisfaction with strong external project monitoring capacity
Other Issues		
	Governance and human rights	Concern in particular about compliance with Bank policies that relate to informed and open consultation
	Pipeline Project ERR for Chad	Concern about adequacy of allocation of revenues to Chad

* This column does not refer to Management’s response or position on the findings. See Annex 1.

Management has responded thoroughly to these findings and observations of the Panel in Section IV and V and Annex 1.

IV. ISSUES

16. This section analyzes a selected set of key issues highlighted by the Panel in its Report. These are:

- Regional Environmental Assessment and Planning – A Continuum;
- Equity and Poverty Reduction;
- Capacity-Building to Enhance Sustainability and Reduce Risks;
- Monitoring and Consultation; and
- Governance and Human Rights.

Management welcomes the opportunity to discuss these issues in greater detail with the Panel in order to better explain the measures taken and consider whether there is a need to improve its actions and activities during implementation of the Projects.

A. Regional Environmental Assessment and Planning – A Continuum

17. For the purpose of the Petroleum Development and Pipeline Project, Management believes the objectives of OD 4.01 can be met through the Regional Development Plan (RDP) required by the 1999 EA/EMP for the Project.

18. In the context of the spatial analysis in the 1999 EA/EMP itself, a practical approach was used to analyze the spatial context of potential impacts. The relevant geographic study areas were determined as appropriate to specific topics and concerns, for example, the area concerned by potential impacts of an oil spill differs from that of demographic changes, such as in-migration. A single pre-determined study area in which the full range of impacts was analyzed would have been cumbersome and ineffective in accomplishing the purpose of the EA—to improve decision making. Annex 1, Comment 2 provides additional information on this point.

Regional EA and its Role in Regional Planning for the Petroleum Development and Pipeline Project

19. Management agreed that instead of a Regional Environmental Assessment (Regional EA) as such, the Borrower would take an approach that makes sense for this Project by preparing an RDP. This approach is consistent with the EA Sourcebook Update on this issue (World Bank Environmental Assessment Sourcebook Update on Regional EA, June 1996, Number 15). The EA/EMP was completed between 1997 and 1999. OD 4.01 does not require the use of the tool of Regional EA. OD 4.01 states, *inter alia*, that “Regional EAs *may* [emphasis added] be used where a number of similar but significant development activities with potentially cumulative impacts are planned for a reasonably localized area.” However, as discussed below, the absence of a formal Regional EA is largely a semantic issue, because, in the manner in which the Project is proceeding, the appropriate elements of a Regional EA will be part of the RDP.

20. As background, Management would like to note that a principal purpose of a Regional EA is to compare alternative development scenarios and recommend environmentally sustainable development and land use patterns and policies. Regional EAs are particularly useful when they precede the first in a series of projects or development interventions in an undeveloped region, where a region is slated for major developments, where cumulative impacts are anticipated, or in regional planning or agro-ecological zoning. In fact, as is noted in the Sourcebook Update on Regional EA, “[l]ittle has been written about regional environmental assessment. However, there is a body of literature on regional development and environmental planning” (EA Sourcebook Update, No. 15, p 1).

21. During the mid to late 1990s, the concept grew of applying Strategic Environmental Assessment (SEA, defined as environmental impact assessment applied to policies, plans and programs). Even more recently, Regional EA has been viewed by some as a form of SEA. In this context, SEA/Regional EA can be used as a tool to analyze the impacts of a planning instrument. In other words, unlike Environmental Impact Assessment (EIA), where a specific investment is fully mapped and assessed in advance of project implementation, SEA and Regional EA can, in some instances, be used as an *ex post* tool to analyze the impacts of a plan. Indeed, the Sourcebook Update notes that “a Regional EA may be carried out in conjunction with a regional development plan, and may also help shape investment priorities and activities downstream” (EA Sourcebook Update, No. 15, p. 2). It also notes that some Regional EAs are “intended to assess an existing development plan...” (EA Sourcebook Update, No. 15, pp. 8-9). In other words, some Regional EAs are used *ex ante* and others *ex post*.

22. In this case, however, due to the scope, timing and precedent-setting nature of the Petroleum Development and Pipeline Project, and its interrelationship with an extremely challenging and evolving economic and development context, Bank Management determined to proceed first with a RDP while also preparing the key elements of a regional assessment of environmental impacts that could be completed once the type of development plan referred to in the Sourcebook was finished and ready for assessment. This approach is consistent with the normal mandate for a Regional EA, which “will only allow it to give recommendations for improving an existing plan” (EA Sourcebook Update, No. 15, p. 10). As this RDP evolves, a Regional EA will, for all intents and purposes, be developed as part of the RDP. Thus, over time, as details become better known, this RDP will serve as both a development and environmental plan, eventually encompassing the information that would have been included in a Regional EA, and also will meet the objectives of OD 4.01. This will be the case even though, as noted above, the preparation of a Regional EA is not a mandatory requirement under OD 4.01. In addition, the overall objective of considering the regional dimension of environmental issues has already been incorporated in the 1999 EA/EMP and will be considered in more detail in the RDP. The RDP will accomplish the objective of the

framework emerging from the 1999 EA/EMP. The RDP also will strengthen long-term sustainability of the Borrower to deal with the major impact of oil development. Furthermore, the RDP process will build capacity in the region to engage in long-term planning and to address the cumulative impacts of multiple investments by both the public and private sectors.

23. It should also be emphasized that the Petroleum Development and Pipeline Project sponsors and the Borrower agreed that any use of the pipeline to transport oil developed outside the Doba Oil Field would be subject to the same environmental and social assessment requirements as oil produced in the Doba Oil Field. As stated in section 4.10 of the Loan Agreement: “The Borrower shall ensure that any oil developed outside the Doba Basin Oil Fields which is proposed to be transported through any part of the Transportation System in Chad is developed in accordance with the principles set forth in the 1999 EA/EMP with respect to environmental analysis and protection, consultation, information disclosure, resettlement and compensation and with the equivalent legal and administrative approval processes and information disclosure as applied with respect to the oil developed in the Doba Basin Oil Fields.”

24. In the light of OD 4.01, which does not “require” Regional EA and for which the circumstances were not appropriate, Management believes that this is not an issue of non-compliance. Management will, however, welcome the opportunity to discuss this matter in greater detail with the Panel.

B. Equity and Poverty Reduction

Poverty Reduction on a National Scale and the Allocation of Oil Revenues

25. The Panel’s Report contains a number of observations and findings pertaining to the provisions of OD 4.15 on Poverty Reduction and OP 10.04 on Economic Evaluation of Investment Operations. The Panel expressed concern about the adequacy of the allocation of revenues to Chad. Management agrees that the adequacy of revenue allocation to Chad is an important issue. Management, however, also wishes to note that this is not an issue that relates to failure of the Bank to follow its operational policies and procedures. The Report further asks whether all needed elements are in place today to ensure future compliance with OD 4.15 and achieve poverty reduction objectives. The Report notes that “there have to be limits to the coverage of any project” but that “successful translation of oil revenues into equitable, effective economic development and poverty reduction extends well beyond budget allocations and the auditing and control of public expenditure, requiring an infrastructure that extends from democratic institutions through to a growing real and financial private sector...” (para. 278). Management is in full agreement with this view.

26. By generating additional revenues through exploitation of oil in a severely resource-constrained environment, one of the key impediments to providing basic public services for the poor will be alleviated. However, the Petroleum Development and Pipeline Project, along with its complementary projects, can only generate some of the conditions needed for long-term poverty reduction, including greater public resource availability; increased foreign direct investment (FDI); mobilization of the population and other actors around issues of governance, environmental and social management and employment; and greater attention and funding to meet community needs. Continued strengthening of institutions, improved public economic management, more equitable and effective delivery of basic services, improved sector policies and transparency, and greater participation of the population in decision making processes, are also key to achieving poverty alleviation.

27. The concern of the Panel revolves around whether sufficient measures are in place to achieve poverty reduction objectives. Management supports the Panel’s suggestion for continued

monitoring, review and assessment of the Petroleum Revenue Management Program by a group such as the International Advisory Group (IAG). The Petroleum Revenue Management Program constitutes an innovation. The PRMP has the following features: (i) petroleum revenues, net of financing costs for the IBRD and EIB loans, will be channeled through project off-shore escrow accounts, which will be audited; (ii) royalties and dividends (representing about 85 percent of expected revenues over the first ten years of production) will be invested as follows: 10 percent with an external financial institution in long-term investment instruments for a “Future Generations Fund,” and 90 percent transiting through special Treasury accounts held in one or two private commercial banks in Chad (the “Special Petroleum Revenues Accounts”) to be used to finance incremental expenditures in the five specified priority sectors relating to poverty alleviation, distributions to the producing region and GOC recurrent expenditures; and (iii) income taxes on the oilfield operations and on the pipeline company TOTCO will be used to support increased development expenditures generally.

28. Although a moving baseline expressed as a proportion of real growth (rather than the use of a fixed baseline) for the allocation of oil revenues to priority sectors could have been considered, Management is confident that the significant size of oil revenues as a proportion of overall revenues will ensure that a very high proportion of revenue growth is related to priority sectors. In addition, the Poverty Reduction Strategy Paper (PRSP) process and the development of sectoral investment programs in each of the priority sectors should facilitate an appropriate balance among sectors.

29. Management notes the Panel’s Report’s finding of non-compliance with OD 4.15 concerning risk analysis and design, in view of the fact that the Petroleum Development and Pipeline Project does not contain definitive measures to sterilize those revenues that cannot be absorbed by priority sectors. The provision (para. 5(a)(iii)) of the PRMP included in Schedule 5 to the Loan Agreement for the Project states: “Amounts under paragraph 4(b)(i) above which cannot be used for the agreed objectives, or the use of which would jeopardize the Borrower’s macroeconomic stability, shall be held in the Special Petroleum Revenue Accounts, under arrangements to be agreed upon by the Bank, for their subsequent use in financing priority poverty reduction sectors referred to in paragraph 4(b)(i) above.” Discussions are currently ongoing between the Bank, GOC and the IMF to arrive at an agreement on such measures. Work is being carried out in the context of the development of a Medium Term Economic Framework (MTEF), which aims to smooth the impact of oil revenue variations on Chad’s investment programs. The MTEF and generated budgets will be managed by traditional budget mechanisms that are being strengthened through the Management of the Petroleum Economy Project but also by other means, including the structural adjustment program, technical assistance from the IMF, and the PRSP process, under which participatory sectoral expenditure programs are being developed.

30. Management recognizes that the poverty alleviation impacts sought through increased resources and their improved allocation to pro-poor expenditures will take some time to realize. These impacts are the farthest removed in time from the Petroleum Development and Pipeline Project itself and are the most sensitive to risks posed by actors and/or decisions that lie outside the Project’s scope. Management is addressing these issues through strong support for the PRSP process and for the broader economic management reform agenda, including a substantial program of budget system reform. In addition, in the context of the country program, each priority sector is receiving support for expenditure program development and, as has already been done in the context of HIPC, in developing budgets linked to outcome indicators. These indicators are being monitored closely and the ability to measure progress is being strengthened gradually, through stronger statistical mechanisms to inform decision making. Continued emphasis on improving governance, including transparent economic management, availability of information and participation of the

population in public decision making, stands at the core of Management's country dialogue with Chad and is reflected in many complementary parts of the country program outside of oil-related projects. The confluence of these actions is intended to maximize the poverty alleviation impacts of the Project in the medium to long term.

Poverty Reduction and Allocation of Revenues to the Producing Region

31. The Panel's Report expresses concern about the share of revenues allocated to the producing region by the GOC. Management notes that this is not a matter of compliance with Bank policy. The principle for such an allocation is provided for in Article 212 of the Constitution of Chad, which does not refer to any specific percentage. As provided in Article 8(c) of the Law on Revenue Management (adopted December 30, 1998), "Five percent (5%) of royalties shall be allocated to decentralized communities in the producing region in accordance with the provisions of Article 212 of the Constitution." This decision was arrived at through an internal political process. As is highlighted in the Petroleum Development and Pipeline Project documentation and in the Loan Agreements, the 5 percent of royalties accruing to the producing region will be in addition to the portion of priority expenditures accruing to it through national programs and the general budget. Nevertheless, Management agrees with the Panel that the available information on regional expenditure would be of use to stakeholders in the debate on the regional impact of budget allocation and in particular to those participating in the RDP development process. The GOC is committed to compiling existing information on budget allocations and execution and providing this information to participants in the RDP process.

Poverty Reduction in the Producing Region and Implementation Delays

32. As the Panel's Report notes, "Evidence of beneficial expenditures and planned activities taking place in the producing region before oil starts to flow could be an effective way of providing reassurance that the producing region will not lose out" (para. 285). FACIL, the Local Initiatives Fund (*Fonds d'Actions Concertées d'Initiatives Locales*) was designed to finance social and economic infrastructure and to promote income-generating activities in the oil producing region, while contributing to the mitigation of possible negative impacts. The RDP would also contribute to this objective. Management notes the Panel's finding that implementation delays for environmental and social management "threaten to compromise the delivery of poverty reduction in the later stages of construction of the Pipeline and in the early stages of operation..." (para. 287). Management, therefore, has intensified its efforts to support the GOC in implementing urgently capacity-building and accompanying measures, with the aim of fostering income-generating opportunities before oil starts flowing in the producing region. In this connection, actions have been taken to promote private sector development and establish support mechanisms for entrepreneurs to take advantage of income-earning opportunities (see Annex 1, Comment 38C).

33. Management takes the view that the delivery of early benefits under the FACIL to the producing region, although highly desirable, is not a matter of compliance with OD 4.15. Benefits of the FACIL will accrue within the life of the Petroleum Sector Management Capacity-Building Project as FACIL gains real capacity to carry out its tasks. Management will continue to monitor the implementation of this aspect of the Project in accordance with its policies and procedures on project supervision.

C. Capacity-Building to Enhance Sustainability and Reduce Risks

Objectives of the Capacity-Building Projects

34. Two capacity-building projects in Chad were prepared to complement the Petroleum Development and Pipeline Project.

- The Management of the Petroleum Economy Project, approved by the Executive Directors on January 27, 2000 and declared effective on September 21, 2000, aims to build Chad's capacity to manage its petroleum revenues. It has the following five main components: (i) strengthening public financial management; (ii) strengthening human resources management; (iii) reinforcing oversight and control; (iv) improving the poverty data base and developing a poverty reduction strategy; and (v) monitoring economic reform and coordinating capacity-building.
- The Petroleum Sector Management Capacity-Building Project, approved by the Executive Directors on June 6, 2000 and declared effective on March 23, 2001, aims to strengthen the capacity of Chad to: (i) manage the development of its petroleum resources in an environmentally and socially sound manner, beginning with the Petroleum Development and Pipeline Project in southern Chad; (ii) minimize and mitigate the potential negative environmental and social impacts of the Petroleum Development and Pipeline Project on the oil producing region, strengthen local capacity in the region, and provide opportunities for the region's residents to improve their living conditions; and (iii) establish an effective framework for further sound private sector investment in the petroleum sector, and engage effectively with such investors. The Petroleum Sector Management Capacity-Building Project has two main components: (i) the Doba Project Management Component, designed to increase Chad's capacity to monitor and manage the environmental and social impacts of the Petroleum Development and Pipeline Project, and to mitigate its impact on the producing region; and (ii) the Petroleum Sector Management Component, designed to strengthen the GOC's capacity to support and manage the development of Chad's petroleum sector.

Key Issues

35. The Panel's Report raises two principal issues: (i) insufficient analysis and appraisal of the sustainability and risks of the above two Projects; and (ii) the implementation delays in building the needed capacities. Management recognized that the GOC was not equipped with adequate institutions, appropriate laws, regulations or standards to manage and monitor a project of this magnitude and complexity. Management and staff have been acutely aware of the need to implement measures rapidly in environmental capacity-building and petroleum revenue management and have repeatedly highlighted the risks of slow implementation to the GOC. Management acknowledges that a more detailed discussion of the risks of these two Projects should have been included in the Projects' documentation. The multi-layered monitoring by the External Compliance Monitoring Group (ECMG), the IFC, the Bank and the IAG has been designed specifically in recognition of the fact that national capacity to monitor the Project would take time to develop. Management also wishes to note that the Petroleum Development and Pipeline Project was specially designed to reduce reliance on government and place more responsibility on the private sector operator. Significant discussions also were held by the Executive Directors to discuss risks prior to approval of the Pipeline Project in June 2000.

Recent Progress: Management of the Petroleum Economy Project

36. Public expenditure reviews in the health and education sectors have been completed. Together with the tracking of expenditure to destination, they provide the building blocks for the preparation of medium-term expenditure programs, which are essential for providing a framework for efficient use of oil revenues (see also Annex 1, Comment 37). In addition, personnel of the newly created Auditor General's Office have completed an audit of the off-budget use of the oil bonus, and are in the process of overseeing the ex post audit of 2001 procurement contracts and the procurement system.

37. Timely implementation of a full-fledged system to monitor oil revenue flows, allocate them in accordance with the Petroleum Revenue Management Program and spend them efficiently for poverty reduction in priority sectors by early 2004 remains a challenge. Management's dialogue with GOC has emphasized that improving governance is the key element to adequate management of oil and other revenues, and governance has emerged as a key issue in the GOC's PRSP, following extensive regional consultations. Improving such management depends only partially on the Management of the Petroleum Economy Project. It relies heavily on macro-economic and sectoral capacity-building work and dialogue being carried out outside of the Project and documented elsewhere (PRSP, CAS, adjustment lending, etc). Chad's essential institutional capacity needs are expected to be in place for the 2004 budget exercise. These needs are: (i) to assess the levels of revenue accruing to Chad and to monitor oil revenue flows; (ii) to have appropriate planning and budgeting processes for priority sectors in place; and (iii) to include information on regional allocation of resources in the budget decision making process. Training of staff at the Ministry of Finance is also ongoing. Management is committed to continuing its support to meet these objectives.

38. With regard to the operation of the oil revenue account, its operation will have continued monitoring by the IAG. In addition, Management will continue to support strengthening of the existing operational capacity of the Committee for Oversight and Control of Petroleum Resources (CCSRP – *Collège de Contrôle et Surveillance des Ressources Pétrolières*). This Committee is charged under the Law on Revenue Management to: ensure that commitments for funding from the Special Accounts meet the requirements of the Finance Act; and authorize and monitor disbursement from the Special Accounts and the appropriation of funds. On-site technical assistance is being provided by the US Government. The 2002 Budget allocated FCFA 100 million for the functioning of the CCSR, and has published its 2001 annual report and its first quarterly report for 2002. (See also Annex 1, Comment 34A.)

Recent Progress: Petroleum Sector Management Capacity-Building Project

39. Attention was paid to capacity-building during regular supervision visits, since Board approval of the Petroleum Development and Pipeline Project in June 2000. There was a slow start on the Petroleum Sector Management Capacity-Building Project, due to delayed actions by the GOC on personnel recruitment and procurement matters. Implementation of the Petroleum Sector Management Capacity-Building Project, however, has gathered momentum during the first half of 2002. Given the start-up delays, Management intensified its supervision, with frequent visits to the field, and in March 2002 named a senior Program Coordinator based in Chad to oversee supervision of the Pipeline-related Projects.

Doba Oil Field Development Component

40. The National Technical Committee for Monitoring and Evaluation of the Pipeline Project (CTNSC – *Comité Technique National de Suivi et de Contrôle*) is responsible for monitoring and control of environmental and social impacts of the Petroleum Development and Pipeline Project in

Chad. It is made up of representatives of several ministries, including the Ministries of Environment and Water Resources (chair); Mines, Energy and Petroleum; Public Works; Transport and Urban Affairs. The basic role of the CTNSC permanent staff, headed by an Executive Secretary, is to monitor closely the operations of the Project, cater for exceptional emergency situations where TOTCO's capacity may be overtaxed, and coordinate interventions of Government agencies, particularly in the areas of water and environment, mines, industry, health and social affairs. The CTNSC is now fully operational. Its on-site supervision team is in place (see para. 46 for recent additions to the CTNSC staff). Key studies have been launched. Other recent efforts include:

- Bids for the Expert Advisory Panel to assist CTNSC on socio-environmental matters and for establishing an environmental management and monitoring system were received;
- An agreement was signed with a consulting company for the socio-demographic survey in the oil producing region;
- The preparation of the National Oil Spill Response Plan (NOSRP) is being synchronized with the preparation of the Area Specific Oil Spill Response Plan (ASOSRPs);
- Three economists are being trained on oil revenue projections and a training program for the staff of the Petroleum Directorate is under preparation. Both the GOC and the Consortium are also providing technical training to Chadians who will be on site to monitor oil being pumped into the pipeline and onto cargo ships at the Kribi terminal;
- Regular follow up meetings are being held with the Consortium, as are consultations and information sharing with civil society, NGOs and local administration;
- A communication strategy for civil society and GOC officials has been developed at the national and local levels;
- An urban planning study for Bébédjia, Doba, and Moundou is being finalized. Work has started on the feasibility study for public markets and slaughterhouses and their construction should start after the rainy season. Enterprises have been recruited to improve the drainage system in Doba and the contract for water supply facilities (boreholes, pumps and standpipes) has been awarded;
- The STD/HIV/AIDS prevention campaign in the Project area, particularly in the Doba and Bébédjia regions, has started under the guidance of a health expert recruited by CTNSC in mid-April (efforts on STD/HIV/AIDS started earlier through work with the Consortium);
- To promote the sustainable use of natural forests and meet the increased demand for fuel wood in the Project area, the Household Energy Agency (AEDE) has started to implement pilot projects in five villages that will serve as best practice models for replication in other villages of the Project area;
- FACIL has been established to finance social and economic infrastructure and to promote income-generating activities in the oil producing region, while contributing to the mitigation of possible negative impacts. A second information campaign on the activities to be supported by this Fund was carried out in May 2002. The FACIL steering

committee has received some 200 funding proposals, out of which sixty-five requests for micro-credits are actively being considered by five financial intermediaries;

- The joint Bank/IFC SME Initiative has a full-time coordinator in N'Djamena and work has begun on several SME activities; and
- In December 2001, a draft *Cadre de Développement Regional de la zone pétrolière* was completed that: (i) promotes a coordinated approach to regional development; (ii) sets preliminary intervention priorities for FACIL; and (iii) provides baseline information for elaborating the RDP. The draft *Cadre* and the terms of reference of the RDP were endorsed in April 2002 by representatives of civil society, the CTNSC, the Bank, and the GOC after three months of intense discussions. Completion of the RDP is expected during the first half of 2003, before oil revenues materialize.

Petroleum Sector Management Component

41. The Petroleum Directorate has prepared terms of reference for mobilizing specialized consultants to assist the GOC in developing sector policy for the: (i) reform of the hydrocarbon sector, including strengthening the GOC's ability to build on the Petroleum Development and Pipeline Project experience and deal effectively with private oil companies to explore and develop the country's potential hydrocarbon reserves; (ii) preparation of a legal and regulatory framework for the hydrocarbon sector with the objective of attracting more investments into the sector; (iii) design and implementation of a petroleum exploration and development promotion strategy; and (iv) training of Chadian nationals in the overall management of the sector, including development of their capacity to negotiate with prospective investors. In addition, EEPCI has trained a significant number of Chadians for skilled construction and technical jobs as well as for future jobs in operating the fields. Also, international contractors for EEPCI have retained the services of Chadians, including provision of training.

D. Monitoring and Consultation

Monitoring

42. The concluding chapter of the Panel's Report, on Monitoring and Supervision, notes the seven layers of Project monitoring and supervision and the enhanced Bank field presence in Chad, confirmed by the ECMG in its Third Site Visit Report, by the IAG in its December 2001 Report and by the Panel itself during its field visits. The Panel has expressed satisfaction, in particular, with the strong external Project monitoring by the ECMG and the IAG. Nevertheless, in several specific areas, the Panel called special attention to monitoring and supervision gaps. For example, investigation of work on oil spill response plans suggests that Management is in compliance with OD 4.01, but the Panel urges continued monitoring and implementation of commitments by relevant parties. Concerning surface and groundwater contamination from drilling, the Panel did not find any conclusive evidence that Management is not in compliance with OD 4.01, but again urged monitoring. The Panel's comments reflect concern about continuing compliance with compensation requirements of OD 4.30. Implementation delays in capacity-building gave rise to apprehensions that future compliance with the poverty reduction mandate of OD 4.15 might be in jeopardy. In other instances, the Panel reiterated the importance of continuous or periodic monitoring by the Bank, by the GOC and by independent bodies.

43. Management agrees with the Panel that the Petroleum Development and Pipeline Project is challenging, has considerable risks and warrants exceptional attention through supervision and monitoring:

- Management shares the Panel's overall view that monitoring and supervision as well as continuous consultation are serious issues and that continued vigilance in these matters is critical;
- Management will continue to dedicate the necessary resources to conscientious and thorough Project supervision and monitoring by the Bank;
- Management is equally cognizant of the importance of providing the necessary assistance to strengthen Chadian capacity for monitoring environmental and social issues and is making significant efforts to accelerate progress in its assistance programs; and
- Management is committed, as it has already demonstrated, to continue to follow up, as appropriate, on the recommendations of the independent monitoring groups, the ECMG and the IAG.

44. Management has provided four semi-annual reports to the Executive Directors of the Bank. The latest of these covered the period from January to June 2002. This report noted that the multi-layered supervision and monitoring structure are all operational. The IAG was appointed in February 2001 and has visited Chad three times. Its reports have been released to the public and provided in both French and English on the IAG website (www.gic-iag.org). The reports of the ECMG are also public and available in French and English on the IFC and Bank websites.

45. The Bank and IFC have fielded supervision missions for the Petroleum Development and Pipeline Project, since Board approval in 2000. In the second half of 2001, Management authorized an increase of supervision intensity to monthly field visits. In the light of this supervision and reports of the IAG and ECMG, Management decided by year's end to move a full time supervision team to the field to support GOC capacity-building initiatives. In March 2002, Management appointed a senior Program Coordinator in charge of the cluster of oil-related Projects, who arrived in Chad in April. A second expert appointed by IFC also joined the Chad Country Office in March with oversight responsibilities for strengthening the SME sector, including supervision of the recently approved Institutional Development Fund (IDF) Grant to the Chamber of Commerce. These two experts are supported from Bank headquarters by another senior staff member and, in N'Djamena, by a social scientist in charge of the relationship and communication with civil society, and a senior operations specialist responsible for following up on procurement. In addition, IFC has maintained its project team of environmental, social and SME staff. As a part of the new supervision arrangement, joint Bank/IFC teams were also established in June 2002 to further strengthen supervision of social and environmental aspects of the Petroleum Development and Pipeline Project. This intensified supervision effort has already improved many aspects of implementation.

46. Management has acknowledged that the pace of capacity-building in Chad has been slow, although significant progress has been made recently. Since January 2002, almost all of the positions envisaged for CTNSC have been filled. There are now seven professional staff at headquarters, including the director, a procurement specialist, an accountant and a monitoring specialist. CTNSC has recruited twelve additional, professional field staff, in socio-economics, environment and health. Other actions include acceleration of the procurement process; operationalization of the environmental management and monitoring system; completion of a socio-demographic survey of the oil producing region; staff training; and procurement of equipment. Capacity-building activities are being carried out through cooperation among the stakeholders involved, including CTNSC, TOTCO, Consortium and civil society organizations. Bi-weekly meetings are held to: follow up on

implementation and discuss Project risks and mitigation measures; share information; and formulate procedures to address needs for rapid intervention, safety, security and compensation.

47. The Panel has urged the Board to ensure that the external monitoring capacity in the form of the IAG and the ECMG is sustained for as long as necessary and certainly well beyond disbursement of the loans in question. IDA is seeking replenishment of the Trust Fund to finance the work of the IAG. The ECMG will be in place to monitor the Petroleum Development and Pipeline Project four to five times per year during construction and a minimum of once per year during the 13-year life of the loan.

Consultation

48. The Panel has commended Management's efforts to encourage consultations with local communities and civil society and urged their continuance, both in general and in specific instances, where it is concerned that these voices may not be heard. The consultation process has known three phases, *Phase I - 1993–1997: Initiation of Dialogue; Phase II – 1997–1999: Consolidation Phase; Phase III – post-1999: Broadening, Deepening and Upscaling*. The 1997 Draft EA was released in October and discussions were carried out between the Bank, IFC, the Consortium and the GOC on Petroleum Development and Pipeline Project impacts and mitigation planning. After the 1997 Draft EA was publicly disclosed, the consultation process improved both as a result of the availability of the environmental documentation and of the subsiding tensions in the Project area as political stability improved, especially after 1998. Also, as a result of Bank comments on the 1997 Draft EA, the consultation process was reviewed and strengthened. An extensive public information and consultation campaign was launched during the summer of 1997, which included a Public Information Campaign in two rounds. A concrete output of the consultation process is the rapid growth in civil society organizations. There has also been a shift of focus from narrowly defined impact mitigation to the broader issue of regional development. Civil society organizations are involved in the definition and operation of the FACIL and in the elaboration of the RDP. The broad consultation process undertaken for the Petroleum Development and Pipeline Project was unprecedented in Chad and opened the way for increased civil society participation in public debates over broad policy issues such as petroleum revenue management, governance, and social and environmental issues. This participation is today consolidated in the context of the PRSP process and in the formal representation of civil society in several official bodies, such as the Steering Committee for the ongoing PRSP and the PROCC.

49. The Consortium has taken proactive steps to improve its communication and outreach efforts, for example, hiring public information experts in Chad to assist with and improve dissemination of information to the public and adding a new Local Community Contact in the oil field area to liaise with herders. In the first quarter of 2002, the Consortium reported that 159 consultation sessions were held in Chad. Efforts have been made to involve NGOs in the implementation of certain aspects of the Petroleum Development and Pipeline Project. The Consortium publishes a newsletter in Chad that will be disseminated more widely. Reading rooms have also been reopened in several locations. In collaboration with the CTNSC, a periodic consultation system with civil society has been put in place. The second round of consultations took place in Doba on April 29 and 30, 2002. In November 2001, the Bank engaged a communications expert to assist the GOC; discussions are focusing on upgrading radio station facilities in southern Chad and organizing regular Information Caravans to the villages in the Project area.

50. The IAG has identified a “need to create a permanent framework for dialogue between the contracting parties and the stakeholders” overseen by the *Coordination Nationale Projet Doba* (CNPD). Management plans to continue the consultation efforts and will pursue the establishment of a permanent framework for dialogue.

E. Governance and Human Rights

51. Management wishes to note, as does the Panel's Report, that despite the references in the Request to directives on "respect for human rights," the Bank has no such directives. Management also notes that in its Report, para. 215, the Panel states that "[it] is not within the Panel's mandate to assess the status of governance and human rights in Chad in general or in isolation, and the Panel acknowledges that there are several institutions, (including UN bodies), specifically in charge of the subject. However, the Panel felt obliged to examine whether the issue of proper governance or human rights violations in Chad were such as to impede the implementation of the Project in a manner compatible with the Bank's policies." In conclusion, with respect to this issue, the Panel finds that "the situation in Chad is far from ideal, and raises questions about compliance with Bank policies, in particular those that relate to informed and open consultation, and it warrants renewed monitoring by the Bank."

52. Management has been very keen to ensure that there was informed and open consultation during the design and preparation of the Petroleum Development and Pipeline Project. An important consultation process took place to: (i) share Project information with the affected communities; (ii) determine Project needs and establish communities' entitlement and compensation; (iii) agree on a framework for mitigating adverse impacts; and (iv) develop an RDP for the Project-related areas. During the consultation process, opportunities have been given to the affected communities to make their views known to the Project sponsors and the GOC. Information has been disseminated in local languages and, where necessary, Bank staff have been involved in improving the quality of the consultation process, including building capacity for constructive engagement of local NGOs.

53. A key focus of the work of the IAG has been the need for structured, sustained communication among all parties. The IAG observed in its July Report (Report of Visit to Chad, June 3 to 17, 2002) that the anticipated "growth of powers transferred to the local level as part of regionalization should give a stronger voice to the populations most directly concerned by the project."

54. The Panel states in para. 136 of its Report, "Since 1999, Management has made significant efforts to achieve compliance with paragraph 19 of OD 4.01, encouraging frequent consultations with local communities and civil society in an environment more conducive to an open exchange." As the Panel suggests, Management intends to continue to monitor and to promote activities that would ensure that meaningful dialogue with civil society takes place.

55. The Requesters allege the Bank has not complied with directives on governance. Management notes that, although there is no specific Bank policy or directive on governance as such, a number of its policies or directives cover various aspects of good governance, such as consultation, transparency, anti-corruption, legal frameworks, and institutional capacity (IBRD, *Governance: The World Bank's Experience*, 1994). Typically, governance issues are addressed in the preparation of the CAS. For Chad, the Interim CAS highlights strongly the need to promote good governance and the CAS under preparation focuses on the same issue. In addition, in Chad, the Bank has supported, through the Structural Adjustment Credit (SAC) IV approved by the Board on December 18, 2001, a reform program focused on: (i) improved governance by the adoption and implementation of a governance strategy and action plan; (ii) more transparent, accountable and efficient use of public resources for poverty reduction through the reform of: (a) the budget cycle; (b) public procurement including anti-corruption measures; and (c) the civil service; and (iii) poverty reduction in the rural areas through measures to strengthen cotton farmers' associations. This assistance is being furthered through the proposed SAC V, which is expected to be presented to the Board in October 2002.

V. MANAGEMENT’S ACTION PLAN IN RESPONSE TO THE FINDINGS

56. Management has considered fully the findings of the Panel’s Report, as shown in Annex 1, and has developed concrete actions to address outstanding issues, both those in which the Panel raises questions about compliance with Bank policies and procedures and its more general suggestions to improve the effectiveness of the three Projects. Management proposes the following actions, presented in Table 3 below.

Table 3. Proposed Management Action Plan

ACTION	ISSUE <i>(numbers in parentheses refer to the Panel’s findings and Management’s comments in Annex 1)</i>
Environmental and Social Compliance	
<p>Regional Development Plan (RDP) and 1999 EA/EMP - Management will intensify its efforts to work with the relevant Chadian agencies to prepare the RDP, in lieu of revising the 1999 EA/EMP, to address spatial issues and satisfy the objectives of Regional EA. A consultant contract award for RDP services is expected by end September 2002 with a final plan due in April 2003.</p> <p>Management will also request the opportunity for dialogue with the Inspection Panel to exchange views on the spatial context for the Petroleum Development and Pipeline Project and the application of Regional EA.</p>	<p>OD 4.01: Spatial context, Regional EA and cumulative impacts (2, 4, 5 and 7)</p>
<p>Expert Advisory Panel - In May 2002, GOC received bids for another Expert Advisory Panel and selection is expected shortly. Management will involve the Quality Assurance and Compliance Unit (QACU) of ESSD and the safeguards team of the Africa Region in the formal review of the reports and recommendations prepared by this panel. These reviews will support the supervision and monitoring activities of the Bank. Management will facilitate coordination between this panel and other groups involved in the Petroleum Development and Pipeline Project’s implementation and monitoring.</p>	<p>OD 4.01, paragraph 13: Expert Advisory Panel involvement during EA formulation (6)</p>
<p>Baseline Data - Management will continue to monitor implementation of the 1999 EA/EMP in order to address linkages of the baseline situation to success or failure of mitigation measures and will follow up on recommendations of the ECMG and the IAG regarding baseline data linkages to impacts and mitigation.</p> <p>Management will facilitate the provision of new economic, demographic, social and health data to the GOC and RDP preparers. The RDP is expected to consider health and socio-demographic issues and impacts.</p>	<p>OD 4.01, Annex C, paragraph 2: Baseline data linkages to impacts and mitigation (8)</p> <p>Baseline data to compare health impacts pre- and post-oil (9)</p>
<p>Consideration of Alternatives – The Petroleum Development and Pipeline Project is being implemented based on the preferred alternative presented in the 1999 EA/EMP and in the PAD approved by the Board in June 2000. Management will request the opportunity for dialogue with the Inspection Panel to exchange views on methodologies for comparison of alternatives used in the Project.</p>	<p>OD 4.01, Annex B, paragraph 2 (f): Panel notes satisfaction with justification for selected alternative but questions lack of environmental cost-benefit analysis and economic valuation of environmental impacts of alternatives (10)</p>

ACTION	ISSUE <i>(numbers in parentheses refer to the Panel's findings and Management's comments in Annex 1)</i>
Institutional Capacity - Management has strengthened its field presence in Chad and will provide continued monitoring and supervision on a regular basis from both Bank headquarters and its field offices to ensure that progress in capacity-building is sustained.	OD 4.01: Institutional capacity, particularly in respect to CTNSC (11)
<p>Monitoring - Management is committed to continued monitoring through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p> <p>Management is continuously monitoring progress in preparation of sound NOSRP and ASOSRPs, consistent with the standards of the International Petroleum Industry Environmental Conservation Association (IPIECA) and the 1999 EA/EMP. Management will follow up to ensure that disclosure and consultation are carried out appropriately</p> <p>The RDP will incorporate concerns regarding regional water management, including provision of clean drinking water. ASOSRPs will contain scenarios located in the drainage area of Lake Chad.</p>	<p>Panel urged continued monitoring of a number of issues:</p> <ul style="list-style-type: none"> • Oil spills / ASOSRP (13) • Regional water contamination (14) • Local potable water contamination (15) • Contamination of surface/groundwater from drilling (16) • Air pollution (17) • Avoidance of Ogoniland, Nigeria situation – (21) • Compensation (25)
Consultation - Management will continue the consultation efforts and will pursue the establishment of a permanent framework for dialogue. In November 2001, the Bank engaged a communications expert to assist the GOC; discussions are focusing on upgrading radio station facilities in southern Chad and organizing regular Information Caravans to the villages in the Project area.	OD 4. 01, paragraph 19: Consultation - Panel commends efforts and urges that they continue (22, 28)
Economic Evaluation	
Economic Analysis - Management will continue to monitor implementation of the Petroleum Sector Management Capacity-Building Project, including monitoring of the training program for staff of the Petroleum Directorate and recruitment of 10 Chadian controllers. Management will also follow up on the potential need to hire international experts under the Capacity-Building Project.	Technical assistance to monitor and audit oil produced and revenue generated – essential that this is operational before oil production commences (31)
Other Economic Benefits. Although no action is feasible with respect to the PAD itself, Management will continue to monitor and collect data on the economic benefits of the Project.	OP 10.04: More detailed examination of other economic benefits desired in the PAD (32)
Sustainability and Risks - Management has intensified supervision, notably by the assignment of senior staff members to the Chad office, and will continue its efforts to support accelerated implementation by GOC of measures to build capacity in environment and petroleum revenue management.	OP 10.04: Analysis of risks and sustainability in Management of the Petroleum Economy Project and Petroleum Sector Management Capacity-Building Project (34)

ACTION	ISSUE <i>(numbers in parentheses refer to the Panel's findings and Management's comments in Annex 1)</i>
Poverty Reduction	
<p>PRMP - Handling and Allocation of Oil Revenues - Management has intensified supervision of the Project, notably by the appointment of senior staff members to the Bank's Chad office, and remains committed to supervise and help strengthen monitoring of PRMP implementation. Management is also committed to the continued monitoring, review and assessment of its implementation by the IAG. In addition, Management will continue to pursue the actions that are being taken outside the scope of the three Projects to assist GOC to put in place long-term economic and budget management capacity.</p>	<p>OD 4.15: Future compliance with OD 4.15 – sufficiency of measures to deliver poverty reduction outcomes are of concern; vital to have continuing monitoring, review and assessment of handling and allocation of oil revenues by an independent body such as the IAG (35)</p>
<p>PRMP - Institutional Capabilities and Monitoring- Management is committed to continued monitoring, review and assessment by the IAG and will continue to implement measures recommended by the IAG as appropriate.</p>	<p>Petroleum Revenue Management Program and institutional capabilities and monitoring - vital that the dedicated Special Accounts be subject of continuing monitoring, review and assessment by an independent body such as the IAG (36 D)</p>
<p>Allocation of Resources to Producing Regions - Management and the GOC will continue to carry out work underway in the Public Expenditure Review (PER) to determine regional patterns of public expenditure and to define the specific modalities by which decentralized local structures will manage the additional 5 percent of petroleum revenues reserved for the producing region.</p>	<p>Allocation of resources to producing regions - information essential for stakeholders concerning appropriate shares in national income and wealth (37)</p>
<p>Implementation Delays and Accelerated Action - Management remains committed to continue its intensified supervision efforts in the future. As per the Panel's suggestion, Management will pursue efforts to improve the situation on the ground. IAG and ECMG will also continue their regular monitoring and assessment of the Petroleum Development and Pipeline Project.</p>	<p>OD 4.15: Future compliance in jeopardy if implementations delays are not addressed (38A and 38E).</p>
<p>Community and Entrepreneur Needs, Commodity Price Increases - Management will follow up on assisting GOC to accelerate measures on serving community needs through FACIL and to implement progress on the Chad/Cameroon SME initiative and IDF Grant. Management will also follow up on issues related to price inflation.</p>	<p>Priority community needs in danger of not being fulfilled (38B) No evidence that capacity-building and support for entrepreneurs are in place (38C) Affordability of goods and services to the poor (38D)</p>
<p>Possible Variations in Oil Revenue Inflows - Together with the IMF, Management is currently discussing with GOC the modalities that would apply to the sterilization of unused funds held for future allocation to priority sectors.</p>	<p>OD 4.15: Risk analysis and institutional design - poverty reduction jeopardized by possible variations in oil revenue inflows (39)</p>
Monitoring and Supervision	
<p>Continued External Monitoring - IDA is seeking replenishment of the Trust Fund to finance the work of the IAG. The ECMG will remain in place to monitor the Petroleum Development and Pipeline Project four to five times per year during construction and a minimum of once per year during the 13-year life of the loan.</p>	<p>IAG and ECMG work urged to continue as long as necessary and well beyond disbursement of loans (40)</p>

VI. CONCLUSION

57. Management believes that the Bank has made exceptional efforts to apply its policies and procedures and to pursue concretely its mission statement in the context of the Petroleum Development and Pipeline Project, Petroleum Sector Management Capacity-Building Project and the Management of the Petroleum Economy Project. Given these actions, Management does not agree that, as a result, the Requestors' rights or interests have been, or will be, directly and adversely affected by these Projects. Management remains committed to a process of regular consultation and disclosure to assure the environmental and social soundness of the Projects during implementation. Management intends to pursue the improvement of governance and the alleviation of poverty in Chad through the Projects, and the Bank's country dialogue and assistance program for Chad.

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT ON
CHAD-CAMEROON PETROLEUM DEVELOPMENT AND PIPELINE PROJECT;
CHAD - PETROLEUM SECTOR MANAGEMENT CAPACITY-BUILDING PROJECT; AND
CHAD - MANAGEMENT OF THE PETROLEUM ECONOMY PROJECT**

**ANNEX 1
FINDINGS, COMMENTS AND ACTIONS**

No.	Finding	Sec/ Para	Pol- icy	Comment / Action
Environmental Compliance				
1.	EA Process. The Panel finds that Management is in compliance with OD 4.01 with respect to project classification.	5.5, 46	4.01	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
2.	Spatial Context. The 1997 Environmental Assessment document provides [...] neither discussion on how the boundary of the study area was defined, nor any mention of the potential area that could be affected by project development. [...] The Consortium and Bank Management did not explicitly consider the spatial dimensions of the Project as required by OD 4.01 with the result that they tend to restrict it to the immediate area of the three oilfields and the pipeline right-of-way to Cameroon [...]. In the light of this, the Panel finds Management not in compliance with OD 4.01 in this respect.	5.1, 27-29	4.01	<p>Comment: Management accepts the Panel’s statement that the 1997 draft EA documentation for the Petroleum Development and Pipeline Project did not provide discussion of how the boundary of the study area was defined or the potential area affected by Project development. Management notes that the 1999 revisions to the documentation were not taken into account in the determination of non-compliance.</p> <p>To address the study area issue, staff issued a deficiency memorandum (May 26, 1998) regarding the EA documentation, which included comments on the boundaries of the study area. As a result, the 1997 draft EA documentation was revised and the EA Executive Summary and Update and a detailed EMP were produced in 1999.</p> <p>The 1999 EA/EMP addresses study area definition and the potential area affected. A practical approach was used to analyze the spatial context of potential impacts. The relevant study areas were determined as appropriate to specific topics and concerns, e.g., the extent of potential impacts of an oil spill differs from that of demographic changes, such as in-migration. Management believes that a single pre-determined study area encompassing the full range of impacts would have been cumbersome and ineffective in accomplishing the purpose of EA – to improve decision making. Several examples of spatial contexts follow.</p> <ul style="list-style-type: none"> • The oil field development area is not part of the financing. Nevertheless, Bank Management and the Consortium addressed the oil field development area in the 1999 EA/EMP to ensure coverage of issues and improve decision making in accord with OD 4.01; • The preliminary Oil Spill Response Plan in the 1999 EA/EMP, subsequently superseded by the September 1999 General Oil Spill Response Plan, describes typical oil spill response scenarios for spills to international waterways, such as the Mbéré and Lim, which drain into Lake Chad; • The 1999 EA/EMP includes a requirement for an RDP, the boundaries of which extend well beyond the three oil fields and the pipeline right-of-way. The purpose of the RDP (EMP, Volume 4, Chad Portion) was to “outline appropriate measures to mitigate the anticipated indirect impact of the project.” The zone for the RDP is shown in the EMP, the April 2000 PAD (p. 109) presented to the Board and Annex 8 of the Credit Agreement for the Petroleum Development and Pipeline Project (shown in this document as Map 2); and • In addition, the Petroleum Revenue Management Program, which has detailed rules for the handling and allocation of oil revenues in Chad as a whole, takes into account the national implications of the Project. These economic impacts were not restricted to the immediate area of the OFDA and the pipeline right-of-way. <p>See also Comment 4.</p> <p>Action: Management will intensify its efforts to work with the relevant Chadian agencies to prepare the RDP, in lieu of revising the 1999 EA/EMP, to address spatial issues. Management will also request the opportunity for dialogue with the Inspection Panel to exchange views on the spatial context for the Petroleum Development and Pipeline Project.</p>

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3.	Temporal Context. The Panel is satisfied that the EA covers the life of the Project and that the temporal context has been clearly defined.	5.2, 30	4.01	<p>Comment: Management acknowledges the Panel's satisfaction with the clear definition and coverage of the temporal context of the Petroleum Development and Pipeline Project in the EA.</p> <p>Action: No action required.</p>
4.	Regional EA. [T]he Panel finds that potential regional impacts resulting from cumulative actions were not adequately dealt with. [...]the Panel cannot find any indication that any cumulative effects assessment was completed. The Panel finds this a serious omission. The Panel finds that in failing to require a cumulative effects assessment, Management is not in compliance with OD 4.01. In the Panel's view, after careful consideration of the evidence, the Pipeline Project requires a Regional Environmental Assessment. In failing to require the preparation of a Regional Environmental Assessment, which would adequately assess the nature and extent of broader environmental and social concerns resulting from the Project, the Panel finds that Management is not in compliance with paragraph 5 of OD 4.01.	5.3, 33-39	4.01	<p>Comment: Management wishes to note that OD 4.01, para. 5 does not require Regional EA, but suggests circumstances in which it may be appropriate. Instead of preparing a Regional EA, the methodology chosen was to prepare an EA/EMP that contained the framework and requirement for a more comprehensive RDP (EMP, Volume 4, Chad Portion). See Comment 2 above.</p> <p>It was evident early in the appraisal process that oil field development in Chad would have significant impacts, both positive and negative, on the surrounding area. The approach taken incorporated the understanding that impacts and opportunities would be manifested along a range of parameters driven chiefly by economic, social, and demographic factors. These factors would have direct and indirect effects on human settlements and social organization, the environment and the region's natural resource base.</p> <p>The choice of an RDP is considered by staff to be a more comprehensive approach than Regional EA, while serving the same objectives. OD 4.01 explains several uses and modalities for Regional EA - identification of issues that might be overlooked when a series of similar activities is planned in an area; comparison of alternative development scenarios and recommendations for environmentally sustainable development and land use; analysis of cumulative impacts; and as a tool in regional planning itself. The framework RDP, as set forth in the 1999 EA/EMP, provides the mechanism to address issues that might have been overlooked (because their full magnitude would have been unknown), examine alternative development scenarios and recommend appropriate land use and development patterns, as well as incorporate environmental concerns. Since the impetus for regional development was a single private sector investment, by an investor with negligible control over regional and cumulative impacts, the decision to prepare an RDP was deemed preferable to converting the investment EA to, or adding, a Regional EA. Furthermore, the RDP process will build Chadian capacity to engage in long-term planning and implement plans to address the cumulative effects of multiple investments by both the private and public sectors.</p> <p>The RDP is a development tool, to be implemented with a variety of financial resources (petroleum revenues as well as donor funding), which will capitalize on positive impacts, attenuate negative impacts as a result of the Petroleum Development and Pipeline Project and ensure sustainable human development. This five-year plan will integrate socio-economic and environmental issues linked to the Project, in harmony with the PRSP and sectoral policies (especially the national economic development policy for the rural sector) through participatory processes involving local communities, civil society and government agencies. The RDP will reflect the aspirations of populations within the region. It will include a land use plan and development actions; a program for the plan's implementation, including the need to reinforce institutional capacities of government; and a monitoring program. Because of the holistic approach to the plan, the RDP is expected to address cumulative (additive and synergistic) effects, defined as the incremental impact of the Project when added to other past, present and reasonably foreseeable future actions. In short, the RDP is expected to achieve the objectives of a Regional EA.</p> <p>Action: Management will intensify its efforts to work with the relevant Chadian agencies to prepare the RDP to satisfy the objectives of Regional EA. A consultant contract award for RDP services is expected by end September 2002 with a final plan due in April 2003. Management will also request the opportunity for dialogue with the Inspection Panel to exchange views regarding the application of Regional EA in the Petroleum Development and Pipeline Project.</p>

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5.	<p>Regional Development Plan. The Panel notes that, although a Regional Development Plan is currently in preparation by the Government of Chad and the framework for such a document appears in the Project EMP documentation, the lack of capacity within the Government to prepare this document in step with the rapid pace of Project development is now clearly evident. This needs to be put in place without delay. [T]he Panel recalls its finding that Management failed to comply with paragraph 5 of OD 4.01 with regard to the preparation of a Regional Environmental Assessment as this would have provided the needed initial framework for the preparation of a Regional Development Plan.</p>	5.4, 42-45	4.01	<p>Comment: See also Comment 2 and Comment 4.</p> <p>Some delay occurred in the preparation of the RDP, because of debate over spatial aspects. One view was that a definition of the “region” was required a priori; the other view was that spatial analysis was premature, because the spatial dimensions are a product of economic, social and demographic processes.</p> <p>Some regional planning work has been accomplished in the context of FACIL, which has produced a <i>Cadre de Développement Régional de la zone pétrolière</i>, an area smaller than that envisaged for the RDP.</p> <p>The RDP will address the need for capacity within government, i.e., it will include an evaluation of the GOC’s capacity to carry out its responsibilities in conformance with the 1999 EA/EEMP and propose mechanisms to reinforce capacity as needed. The RDP is expected to fulfill the objectives of Regional EA and play an important role in capacity-building to address long-term, regional, cumulative impacts.</p> <p>Action: Management will intensify its efforts to work with the relevant Chadian agencies to prepare and implement the RDP and will pay particular attention to the capacity-building issues.</p>
6.	<p>Expert Advisory Panel. [T]he Panel finds that Management is not in compliance with paragraph 13 of OD 4.01 for failing to involve the independent Expert Advisory Panel during the formulation of the Project’s Environmental Assessment. Finally, the Panel notes that the CTNSC is currently recruiting a ‘new’ International Advisory Panel. Mechanisms should be put in place to ensure that comments of that Panel are fully incorporated into the Project review process.</p>	5.5.1, 48-53	4.01	<p>Comment: The GOC retained a Canadian-based firm in 1996 to staff an independent Expert Advisory Panel, composed of a Canadian environmental specialist, an American health specialist and a French socio-economist. The Expert Advisory Panel carried out missions in 1996-1999 and provided reports to the Governments of Chad and Cameroon. GOC did not renew the contract for the Expert Advisory Panel.</p> <p>Management notes the finding of the Panel and acknowledges that it could have more extensively involved the Expert Advisory Panel in the formulation of the EA. It should also be recognized that the Expert Advisory Panel’s comments and recommendations resulted in improvements in the EA process, including rerouting of the pipeline around the ecologically sensitive Mbéré Valley in Cameroon, which was consistent with staff’s own recommendation to do so after their site visit in 1998. Given that the Expert Advisory Panel made substantial contributions to the EA process, Management recognizes that its role could have been better described in the Response to the Inspection Panel Request.</p> <p>Action: In May 2002, GOC received bids for another Expert Advisory Panel and selection is expected shortly. Management will involve the Quality Assurance and Compliance Unit (QACU) of ESSD and the safeguards team of the Africa Region in the formal review of the reports and recommendations prepared by this panel. These reviews will support the supervision and monitoring activities of the Bank. Management will facilitate coordination between this panel and other groups involved in the Petroleum Development and Pipeline Project’s implementation and monitoring.</p>
7.	<p>Adaptive Design Process. [T]he Panel confirms its view that a cumulative impacts assessment should have been undertaken in the context of the Pipeline Project.</p>	5.5.2, 56	4.01	<p>Comment: See Comment 2 and Comment 4.</p>
8.	<p>Baseline Data - Linkages. In the Panel’s view, there is a lack of linkage among baseline data collection, assessment of Project impacts, and the application of specific mitigation and Management actions. [...] The Panel notes the significant effort which the Consortium has made to</p>	6, 57-66	4.01	<p>Comment: Management accepts the finding that this linkage was inadequate in the 1997 EA of the Petroleum Development and Pipeline Project. Impact analyses that led to the development of the mitigation measures were based on the baseline data in the 1997 EA, in the supporting documents of the 1999 EA/EEMP (e.g., Volume 5 of Supporting Documents) and in the reference documents. Identified data gaps from 1997 were filled in the 1999 documents. Additional baseline data were collected subsequently in specific areas. This process of data collection is ongoing as part of the ECMG monitoring, which is also revealing</p>

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	<p>collect baseline information about the Project and its effects. [...] The Panel finds, however, that this data has not been properly utilized to support the EA process. [...] The Panel, therefore, finds that Management is not in compliance with Paragraph 2 of Annex C of OD 4.01.</p>			<p>needs for new data. The adaptive design/change management process was put in place to deal with changing circumstances.</p> <p>Of particular importance to the Panel's concern is the innovative tool, specified in the 1999 EA/EMP, to link baseline data collection, assessment of Project impacts, and the application of specific mitigation and management actions on the ground. As stated in the May 10, 2001, Management Response, the "Handbook for Site-Specific Environmental Mitigation Actions" and the Environmental Alignment Sheets (EAS) are the instruments linking sensitive and special interest habitats with mitigation and management requirements. Volume 6 of the EMP: Chad Portion spells out this linkage. "In addition to allowing for a site-specific depiction of important biological resource information, the Environmental Alignment Sheets [...] also function as a tool for highlighting the locations along the Chad Transportation System where site-specific environmental management requirements are to be implemented prior to, during, and/or after construction of the pipeline" (p. 1).</p> <p>Baseline information in the EASs, mapped to a scale of 1:10,000, consists of vegetation/land classifications, villages/settlements, vegetation and wildlife resources. Mitigation and management resources comprise vegetation and wildlife protection measures, monitoring and surveys, fisheries protection measures, induced access management measures, erosion and sediment control and reclamation measures. The environmental management requirements appearing in the EASs have been designed to reduce construction and operations-related impacts to acceptable levels that are consistent with the impacts identified in the EIAs/EMPs. The baseline data, potential impacts and management requirements are coded on the EASs. The codes are summarized in tabular format by pipeline kilometer post in an accompanying document referred to as the Environmental Line List (Volume 6). Instructions on implementation are detailed in the "Handbook."</p> <p>Demonstration of the utility of this tool is not found in the 1999 EA/EMP but on the ground where it is being routinely used to accomplish the objectives of OD 4.01, Annex C, para. 2.</p> <p>Action: Management will continue to monitor implementation of the 1999 EA/EMP in order to address linkages of the baseline situation to success or failure of mitigation measures and will follow up on recommendations of the ECMG and the IAG regarding baseline data linkages to impacts and mitigation.</p>
9.	<p>Baseline Data – Health. The Panel finds that the socio-economic baseline survey for the larger region of the pipeline is adequate, but with certain qualifications. The Environmental Assessment Appendix B (Human Environment) does provide a detailed census and review of health problems of the region in southern Chad affected by the Project [...]. It does not, however, provide baseline data with which to compare pre- and post-oil revenue changes including inflation, employment, or projections of the increase in health risks such as HIV/AIDS [...] and STDs] resulting from the Oil Pipeline Project. [...]he EA does not clearly identify mitigation measures to deal with the increase in social, economic, and health problems resulting from, or influenced by, the Oil Pipeline Project. Integration of these findings would greatly</p>	6, 63	4.01	<p>Comment: Health and socio-economic data are available for the populations and areas where direct impacts have been foreseen, but baseline data to compare health and socio-economic changes, pre- and post-oil, for the broader producing region are not included in the 1999 EA/EMP. Management accepts the Panel's finding that monitoring of data for the broader region would contribute significantly to addressing regional impacts in the context of the RDP. Demographic and health data disaggregated by region became available in 2001 through a Demographic and Health Survey financed by the Bank (DHS); the 1997 DHS only provided baseline data countrywide. In addition, the 2001 PER, which focused on the health and education sectors, has made data available on expenditures by region for these sectors. Therefore, it is now possible to analyze changes in health outcomes and expenditure allocations for a given region. Two successive national-scale HIV/AIDS prevention projects have financed the monitoring and collection of data on HIV/AIDS, including in the Petroleum Development and Pipeline Project area.</p> <p>The GOC's statistical office collects countrywide economic and price index data annually. The quality of this data and its disaggregation by geographical area are being progressively improved. Currently inflation and price index data are available at the provincial level on an annual basis.</p> <p>Action: Management will facilitate the provision of new economic, demographic, social and health data to the GOC and RDP preparers. The RDP is expected to consider health and socio-demographic issues and impacts.</p>

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	enhance the EMP and contribute to the Regional Development Plan.			
10.	<p>Consideration of Alternatives in the EMP. With the exception of the economic evaluation, the Panel considers [<i>Alternative Analysis</i>, in the supporting Documents of the 1999 EMP] to be extensive, well prepared, and in support of the final decision for process and route selection. OD 4.01, however, requires that for each of the alternatives, the environmental costs and benefits should be quantified to the extent possible, and that economic values should be attached where feasible. The Panel finds little evidence that this economic analysis was undertaken in the evaluation of Project Alternatives. [...] While noting its satisfaction with the justification provided for the selected Project alternative, the Panel concludes that Management is not in compliance with paragraph 2 (f) of Annex B of OD 4.01 concerning the cost-benefit analysis of Project alternatives.</p>	7, 69-70	4.01	<p>Comment: Management acknowledges the finding that the alternatives analysis was extensive and well-prepared and acknowledges the Panel's satisfaction with the justification for the selected alternative.</p> <p>Management wishes to note that OD 4.01, Annex B, para. 2f, does not require quantification of environmental costs and benefits and economic valuations, but rather indicates that this be done to the extent possible and where feasible. Management believes that it did provide adequate and quantitative environmental data (e.g., length intersecting different habitat types, number of water courses, number of villages and the like) to compare alternatives. This was a methodological decision, which rested on the principle of minimizing (in many cases avoiding) adverse environmental and social impacts. The method adopted, i.e., avoiding or minimizing the costs of environmental damage, to select the preferred alternatives for each component and overall, accorded environmental values the highest significance. The valuation of adverse environmental impacts would necessitate valuing intangibles, use and non-use values, all of which are subject to considerable debate and interpretations, in a complex project with multiple components. Preferred alternatives were selected for (i) oil field development, (ii) transportation infrastructure, (iii) pipeline corridors and (iv) marine terminal locations, which then resulted in an overall preferred alternative. This decision making method was a methodological preference, not a flaw, because the outcome was an alternative that minimized both environmental and social adverse effects.</p> <p>Incremental environmental and social costs of the selected alternative were described in the Petroleum Development and Pipeline Project economic analysis (PAD, Annex 4, Part I) and their impacts on the net present value (NPV) and internal rate of return (IRR) of the country were assessed through a sensitivity analysis.</p> <p>Action: The Project is being implemented based on the preferred alternative presented in the 1999 EA/EMP and in the PAD approved by the Board in June 2000. Management will also request the opportunity for dialogue with the Inspection Panel to exchange views on methodologies for comparison of alternatives used in the Project.</p>
11.	<p>Institutional Capacity. It was clear to the Panel that the CTNSC, which up to January 2002 had only one field staff and one executive staff, is not yet in a position to execute its mandate. The Panel recognizes the lack of human and institutional capacity at the national level to manage and monitor projects of this magnitude and complexity and recognizes Management's significantly increased efforts to improve the situation on the ground. In the light of the above, however, the Panel finds that Management is not in compliance with the institutional capacity requirements of OD 4.01, particularly in respect to CTNSC.</p>	8, 78-81	4.01	<p>Comments: Management recognized that the GOC was not equipped with adequate institutions, appropriate laws, regulations or environmental standards to manage and monitor a project of this magnitude and complexity. Management believes that the Petroleum Sector Management Capacity-Building Project satisfies the requirements of OD 4.01 paragraph 12 and was designed so as to equip Chad with adequate capacity to monitor compliance with environmental and safety norms and standards by the oil industry in general and the pipeline operator in particular. For instance, this Project comprises: (i) activities at the oil field level (Doba) and at the national level to address petroleum-related issues; and (ii) the FACIL, which among other objectives, will also strengthen the capacity of local communities to invest in and manage infrastructure in the oil field region. Prior to Project effectiveness, additional assessment of local capacity was conducted and needs for further strengthening assessed.</p> <p>Management acknowledges that the pace of capacity-building in Chad has been slow. However, significant progress has been made recently. Since January 2002, almost all of the positions envisaged for CTNSC have been filled. There are now seven professional staff at headquarters, including the director, a procurement specialist, an accountant and a monitoring specialist. CTNSC has recruited twelve additional, professional field staff, in socio-economics, environment and health. Other actions include operationalization of the environmental management and monitoring system; completion of a socio-demographic survey of the oil producing region; staff training; and procurement of equipment.</p> <p>Capacity-building activities are being carried out through cooperation among the stakeholders involved, including CTNSC, TOTCO, the</p>

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				<p>Consortium and civil society organizations. Bi-weekly meetings are held to: follow up on implementation and discuss Project risks and mitigation measures; share information; and formulate procedures to address needs for rapid intervention, safety, security and compensation.</p> <p>In the second half of 2001, Management authorized an increase of supervision intensity to monthly field visits. However, in the light of this supervision and reports of the IAG and ECMG, Management decided by year's end to move a full time supervision team to the field to support GOC capacity-building initiatives.</p> <p>In March 2002, Management appointed a senior Program Coordinator in charge of the cluster of oil-related Projects, who arrived in Chad in April 2002. A second expert appointed by IFC also joined the Chad Country Office in March 2002 with oversight responsibilities for strengthening the SME sector, including supervision of the recently approved IDF Grant to the Chamber of Commerce. These two experts are supported from Bank headquarters by another senior staff member and, in N'Djamena, by a social scientist in charge of the relationship and communication with civil society, and a senior operations specialist responsible for following up on procurement.</p> <p>As a part of the new supervision arrangement, joint Bank/IFC teams were also established in June 2002 to further strengthen supervision of social and environmental aspects. This intensified supervision effort has already improved many aspects of implementation. Implementing capacity-building, however, must remain the responsibility of the GOC.</p> <p>Action: Management has strengthened its field presence in Chad and will provide continued monitoring and supervision on a regular basis from both Bank headquarters and its field offices to ensure that progress in capacity-building is sustained.</p>
12.	<p>Overall note on compliance: The Panel notes the substantial effort the Consortium and two host Governments have shown in the preparation of the 19-volume Environmental Management Plan. Despite the shortcomings to which we have drawn attention, the Chad Project, in terms of other similar oil and gas projects, is noteworthy for implementing a practical, 'hands-on' approach to environmental management. The EMP reflects an exceptional effort to address the challenges associated with environmental management of a complex project in a challenging physical and political environment.</p>	9, 82-83		<p>Comment: Management acknowledges the overall finding that the Petroleum Development and Pipeline Project is noteworthy for its approach to environmental management and that the 1999 EA/EMP represents an exceptional effort to address the challenges associated with environmental management of a complex project in a challenging physical and political environment.</p> <p>Action: Management is committed to monitor appropriate implementation of the 1999 EA/EMP and to periodic independent monitoring through the ECMG and the IAG.</p>
13.	<p>Oil Spills. [T]he Panel finds that the overall preparatory steps undertaken by the Consortium so far, and the existing obligations set forth in the relevant Project documents suggest that Management is in compliance with the provisions of OD 4.01 related to assessment and management in the event of an oil spill. The Panel would observe, however, that it is imperative for Management to monitor and ensure that all commitments by the relevant parties, in particular the complementary oil spill response plan to be developed by CTNSC, are implemented in their entirety</p>	10.1, 89-92	4.01	<p>Comment: The preliminary Oil Spill Response Plan in the 1999 EA/EMP was finalized as the General Oil Spill Response Plan, dated September 1999, which was disclosed in country and through the Bank InfoShop (October 15, 1999). EEPIC and TOTCO are responsible for its implementation. Under the General Oil Spill Response Plan, two ASOSRPs for Chad also must be prepared by TOTCO and the EEPIC. The 1999 EA/EMP provides that the ASOSRPs are to be ready six months (180) days before first oil. The Consortium agreed with IFC and the private lenders that the draft ASOSRP would be made public in country and at the Bank InfoShop 180 days prior to first oil and shall be subject to public consultation. The final ASOSRPs must be provided to the Bank, IFC and the private lenders at least ninety days before first oil. Such final ASOSRPs shall be verified by an independent expert.</p> <p>Management is closely monitoring progress on the preparation of the ASOSRPs and, as part of the Petroleum Section Management Capacity-Building Project, of an NOSRP, which the GOC is developing. Like the ASOSRPs and within the same time frame, the NOSRP shall be subject to independent expert verification, disclosure in country and at</p>

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	and on a timely basis. In the Panel's view Management must require that the Area Specific Oil Spill Response Plans reflect adequate consultation with affected stakeholders and civil society within the geographical area covered by each plan.			<p>the Bank InfoShop, and review by the Bank.</p> <p>During the review period, consultations will be held with civil society and affected stakeholders, as well as a campaign of awareness raising and education on oil spill risk and remedial measures in the areas covered by the ASOSRPs. Training on oil spill response has already been implemented for staff of EEPPI, TOTCO and GOC staff in charge of monitoring the implementation of the 1999 EA/EMP.</p> <p>Action: Through its own supervision efforts and the independent monitoring of the ECMG and the IAG, Management is continuously monitoring progress in preparation of sound NOSRP and ASOSRPs, consistent with the standards of IPIECA and the 1999 EA/EMP. Management will follow up to ensure that disclosure and consultation are carried out appropriately.</p>
14.	<p>Regional Water Contamination. Although the Consortium has incorporated a number of mitigation measures in the Project design to avoid contamination of regional water supplies, the institutional mechanism for regional water management has not been developed to a similar extent. In the Panel's view, it is imperative that Management ensures that the Regional Development Plan, and those responsible for its implementation, give priority to the provision of safe and clean water to those living in the Project area. It is also imperative that such Area Specific Oil Spill Plans contain a review of the response to a spill to watercourses that form part of the watershed of Lake Chad.</p>	10.2.1, 99	4.01	<p>Comment: The 1999 EA/EMP requires that water monitoring wells be installed and that a water monitoring program be established to monitor Petroleum Development and Pipeline Project impacts on local potable water supplies in the oil field. The EA Executive Summary and Update, pages 7-6 to 7-7, lays out the scenarios for the ASOSRPs. These include various scenarios located within the drainage area of Lake Chad with potential international waterway implications. The NOSRP will also take into account the Lake Chad Basin.</p> <p>The RDP is expected to incorporate concerns regarding regional water management. As stated in the 1999 framework RDP contained in the 1999 EA/EMP (pp. 13, 19), provision of clean drinking water will be critical. Provision of safe and clean water is also expected to emerge as a priority need during the participatory consultations for the RDP as it has in the FACIL <i>Cadre de Développement Régional de la zone pétrolière</i>.</p> <p>Action: The RDP will incorporate concerns regarding regional water management, including provision of clean drinking water. ASOSRPs will contain scenarios located in the drainage area of Lake Chad. Management is committed to continued monitoring through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p>
15.	<p>Local Potable Water Contamination. In the Panel's view, it is imperative that Management ensure that a priority of the RDP, and those responsible for its implementation, be to provide safe and clean water to those living in the Project area.</p>	10.2.2, 102	4.01	<p>Comment: See response to Comment 14.</p>
16.	<p>Contamination of Surface/Groundwater from Drilling. Given the current status of Project implementation, and the cyclical nature of water shortages and availability in southern Chad, the Panel was unable to find any conclusive evidence that Management is in violation of OD 4.01 in connection with this issue. In the Panel's view, however, it requires continuing observation and monitoring by Management, perhaps through the IAG.</p>	10.2.3, 104	4.01	<p>Comment: Management acknowledges the finding of no non-compliance. The April-May 2002 ECMG Report, pages 32 to 35 (available on the IFC and Bank websites in English and French) describes what was planned, what has been done and what will be done. It indicates that monitoring is ongoing and improving. It notes the impacts of potential pollution sources and activities related to availability of water and its quality, including drilling impacts.</p> <p>Action: Management is committed to continued monitoring through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p>

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17.	Air Pollution. Although the Panel is satisfied that the probability of future harm due to air pollution is low, it should be the object of periodic monitoring by Management.	10.3, 107	4.01	<p>Comment: Schedule 7 of the Chad Loan Agreement for the Petroleum Development and Pipeline Project describes in detail the stack and ambient air emission standards, how they should be measured and how frequently. Schedule 7 specifies detailed monitoring procedures for all Project equipment that emits pollutants into the atmosphere.</p> <p>Action: Management is committed to continued monitoring through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p>
18.	Natural Habitats. At the current stage of Project implementation, the Panel finds Management in compliance with the provisions of OP/BP 4.04.	11, 114	4.04	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
19.	Forestry. [T]he Panel is satisfied that Management is in compliance with the provisions of OP 4.36.	12, 118	4.36	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
20.	Pest Management. [T]he Panel finds that Management is in compliance with the relevant provisions of OP 4.09.	13, 122	4.09	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
21.	Ogoniland Comparison. [T]he Panel concludes that the two situations are profoundly distinct. In the Panel's view, however, it is imperative that the environmental management actions in the 1999 EMP are fully implemented and that Management ensures periodic independent monitoring to assess the success of these actions.	14, 123- 124		<p>Comment: Management notes the finding concerning the differences between the situation in Ogoniland, Nigeria and that of the Chad-Cameroon Pipeline. Management agrees that there are distinct differences in technology and procedures concerning control of environmental pollution and protection of the environment.</p> <p>Action: No additional action required. Management is committed to continued monitoring through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p>
22.	Consultation. [I]t is evident that, at least prior to 1997, the consultations were conducted in the presence of security forces, which is incompatible with Bank's policy requirements. At the same time, the Panel recognizes that, since 1999, Management has made significant efforts to achieve compliance with paragraph 19 of OD 4.01, encouraging frequent consultations with local communities and civil society in an environment more conducive to an open exchange. In these circumstances, the Panel would commend these efforts and urge that they continue.	15.1, 135- 136	4.01	<p>Comment: Management accepts the finding that the Bank has made significant efforts to achieve compliance with consultation requirements and acknowledges the Panel's commendation in this regard.</p> <p>The consultation process has known three phases, <i>Phase I - 1993–1997: Initiation of Dialogue; Phase II – 1997–1999: Consolidation Phase; Phase III – post-1999: Broadening, Deepening and Upscaling.</i></p> <p>The 1997 Draft EA was released in October and discussions were carried out between the Bank Group, the Consortium and the GOC on Petroleum Development and Pipeline Project impacts and mitigation planning. After the 1997 Draft EA was publicly disclosed, the consultation process improved both as a result of the availability of the environmental documentation and of the subsiding tensions in the Project area as political stability improved, especially after 1998. Also, as a result of Bank comments on the 1997 Draft EA, the consultation process was reviewed and strengthened. An extensive public information and consultation campaign was launched during the summer of 1997, which included a Public Information Campaign in two rounds. A concrete output of the consultation process is the rapid growth in civil society organizations. There has also been a shift of focus from narrowly defined impact mitigation to the broader issue of regional development. Civil society organizations are involved in the definition and operation of the FACIL and in the elaboration of the RDP.</p> <p>The broad consultation process undertaken for the Project was unprecedented in Chad and opened the way for increased civil society participation in public debates over broad policy issues such as petroleum revenue management, governance, and social and environmental issues. This participation is today consolidated in the context of the PRSP process and in the formal representation of civil society in several official bodies, such as the Steering Committee for the ongoing PRSP and the PROCC.</p> <p>Management will continue to encourage consultation with local communities and civil society. Consultation with affected people and</p>

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				<p>local civil society groups has dealt with compensation (individual and community) and social investments, particularly in the context of FACIL.</p> <p>The Consortium has taken proactive steps to improve its communication and outreach efforts, e.g., in Chad, hiring of public relations experts to assist with and improve dissemination of information to the public and adding a new Local Community Contact in the oil field area to liaise with herders. In the first quarter of 2002, the Consortium reported that 159 consultation sessions were held in Chad. Efforts have been made to involve NGOs in the implementation of certain aspects of the Project. The Consortium publishes a newsletter in Chad that will be disseminated more widely. Reading rooms have also been reopened in several locations. In collaboration with CTNSC, a periodic consultation system with civil society has been put in place. The second round of consultations took place in Doba on April 29 and 30, 2002.</p> <p>The IAG has identified a “need to create a permanent framework for dialogue between the contracting parties and the stakeholders,” overseen by the CNPD.</p> <p>Action: Management will continue the consultation efforts and will pursue the establishment of a permanent framework for dialogue. In November 2001, the Bank engaged a communications expert to assist the GOC; discussions are focusing on upgrading radio station facilities in southern Chad and organizing regular Information Caravans to the villages in the Project area.</p>
23.	<p>Disclosure. The Panel concludes that adequate and timely release of documents was the norm rather than the exception in the context of the Pipeline Project. The Panel finds, therefore, that Management has complied with BP 17.50 on Disclosure of Operational Information.</p>	15.2,	17.50	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
Social Compliance				
24.	<p>Expropriation. It is the Panel’s view that Esso’s policy of compensating the community rather than the individual for fallow land is a sensible one. The Panel finds Management in compliance with Paragraph 14 through 17 of OD 4.30 on Involuntary Resettlement with regards to valuation of, and compensation for, lost assets including land tenure issues.</p>	17.1, 159, 162	4.30	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
25.	<p>General Issues of Compensation. In the Panel’s view the compensation and implementation processes were fair, transparent, and efficient. It was able to confirm that a 12-step land acquisition procedure was followed. The Panel found that these procedures were properly carried out. The Panel did not find any specific cases of improper or inadequate compensation to individual requesters for land, houses, or trees.</p> <p>Mango Tree Grievance Procedure. After reviewing the negotiations concerning compensation for mango trees, the</p>	17.3, 175- 178; 183; 193	4.30	<p>Comment: Management acknowledges the finding of compliance to date.</p> <p>Action: Management is committed to continued monitoring of the overall resettlement process through its own supervision efforts and the independent monitoring of the ECMG and the IAG.</p>

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	<p>Panel concludes that there has been no violation of paragraph 17 (c) of OD 4.30 in respect of grievance procedures.</p> <p>After a careful review of the available evidence, the Panel is satisfied that Management is so far in compliance with the provisions of OD 4.30 concerning compensation. The Panel, however, views the monitoring of the overall resettlement process as critical to ensure continuing compliance with the requirements of this policy.</p>			
26.	<p>Indigenous Peoples. [T]he Panel concludes that OD 4.20 is not applicable to the present case.</p>	18, 194-202	4.20	<p>Comment: Management acknowledges the finding that the Panel is in agreement that OD 4.20 is inapplicable to the Project in Chad.</p> <p>Action: No action required.</p>
27.	<p>Cultural Property. The Panel finds that Management is in compliance with OPN 11.03 on Management of Cultural Property.</p>	19, 209	11.03	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
28.	<p>Governance and Human Rights. It is not within the Panel's mandate to assess the status of governance and human rights in Chad [...] However, the Panel felt obliged to examine whether the issues of proper governance or human rights violations in Chad were such as to impede the implementation of the Project in a manner compatible with the Bank's policies. [...] The Panel observes that the situation is far from ideal. It raises questions about compliance with Bank policies, in particular those that relate to informed and open consultation, and it warrants renewed monitoring by the Bank.</p>	20, 210-217		<p>Comment:</p> <p>A. On Human Rights Issues. Management wishes to note, as does the Panel's Report, that despite the references in the Request to directives on "respect for human rights," the Bank has no such directives. Management also notes that in its Report, para. 215, the Panel states that "[it] is not within the Panel's mandate to assess the status of governance and human rights in Chad in general or in isolation, and the Panel acknowledges that there are several institutions, (including UN bodies), specifically in charge of the subject. However, the Panel felt obliged to examine whether the issue of proper governance or human rights violations in Chad were such as to impede the implementation of the Project in a manner compatible with the Bank's policies." In conclusion, with respect to this issue, the Panel finds that "the situation in Chad is far from ideal, and raises questions about compliance with Bank policies, in particular those that relate to informed and open consultation, and it warrants renewed monitoring by the Bank."</p> <p>Management has been very keen to ensure that there was informed and open consultation during the design and preparation of the Petroleum Development and Pipeline Project. An important consultation process took place to: (i) share Project information with the affected communities; (ii) determine Project needs and establish communities' entitlement and compensation; (iii) agree on a framework for mitigating adverse impacts; and (iv) develop an RDP for the Project-related areas. During the consultation process, opportunities have been given to the affected communities to make their views known to the Project sponsors and the GOC. Information has been disseminated in local languages and, where necessary, Bank staff have been involved in improving the quality of the consultation process, including building capacity for constructive engagement of local NGOs.</p> <p>A key focus of the work of the IAG has been the need for structured, sustained communication among all parties. The IAG observed in its July Report (Report of Visit to Chad, June 3 to 17, 2002) that the anticipated "growth of powers transferred to the local level as part of regionalization should give a stronger voice to the populations most directly concerned by the project."</p> <p>The Panel states in para. 136 of its Report, "Since 1999, Management has made significant efforts to achieve compliance with paragraph 19 of OD 4.01, encouraging frequent consultations with local communities and civil society in an environment more conducive to an open exchange." As the Panel suggests, Management intends to continue to monitor and to promote activities that would ensure that meaningful dialogue with civil society takes place.</p>

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				<p>B. On Governance. The Requesters allege the Bank has not complied with directives on governance. Management notes that, although there is no specific Bank policy or directive on governance as such, a number of its policies or directives cover various aspects of good governance, such as consultation, transparency, anti-corruption, legal frameworks, and institutional capacity (IBRD, <i>Governance: The World Bank's Experience</i>, 1994). Typically, governance issues are addressed in the preparation of the CAS. For Chad, the Interim CAS highlights strongly the need to promote good governance and the CAS under preparation focuses on the same issue. In addition, in Chad, the Bank has supported, through the Structural Adjustment Credit (SAC) IV approved by the Board on December 18, 2001, a reform program focused on: (i) improved governance by the adoption and implementation of a governance strategy and action plan; (ii) more transparent, accountable and efficient use of public resources for poverty reduction through the reform of: (a) the budget cycle; (b) public procurement including anti-corruption measures; and (c) the civil service; and (iii) poverty reduction in the rural areas through measures to strengthen cotton farmers' associations. This assistance is being furthered through the proposed SAC V, which is expected to be presented to the Board in October 2002.</p> <p>Action: Management will continue the consultation efforts and will pursue the establishment of a permanent framework for dialogue. In November 2001, the Bank engaged a communications expert to assist the GOC; discussions are focusing on upgrading radio station facilities in southern Chad and organizing regular Information Caravans to the villages in the Project area.</p>
	Economic Evaluation			
29.	<p>Pipeline Project - Alternatives. [T]he discussion in the PAD's Annex 4 of alternatives for oil field development and oil transportation is limited to two key paragraphs. Moreover, they contain no quantitative economic evidence in support of the findings reported. In the Panel's view, this is inconsistent with the emphasis in paragraph 3 of OP 10.04, which states that "<i>Consideration of alternatives is one of the most important features of proper project analysis throughout the project cycle.</i>" In this respect, therefore, the Panel finds Management not in compliance with OP 10.04.</p>	21.1.1, 227-230	10.04	<p>Comment: Feasible Petroleum Development and Pipeline Project alternatives have been assessed in detail and quantified by the Consortium to find the optimal technical and financial alternative. These alternatives relate to: (i) which oil fields to develop and the sequence of development of these fields; and (ii) what transportation system should be used to export the oil. These assessments by the private sector have involved quantified economic comparisons using discounted cash-flow techniques. The assessments are proprietary and confidential and therefore the quantitative evidence could not be included in the PAD.</p> <p>For the transportation of oil the following options were quantified:</p> <ul style="list-style-type: none"> • Road from Komé to N'Gaoundéré plus rail from N'Gaoundere to Douala; • Pipeline from Komé to N'Gaoundéré plus rail from there to Douala; and • Pipeline from Komé to Douala. <p>The pipeline plus rail option was found to have merit, if recoverable oil was less than 250 million barrels and oil production levels were between 15,000 to 50,000 barrels per day. On the other hand, the road plus rail option was not cost competitive. The pipeline option was found to be the lowest cost means of transporting the Chadian crude to international markets, if recoverable reserves had a threshold of 250 million barrels and a oil production level of somewhat above 50,000 barrels per day. Reserves at Doba are estimated at 917 million barrels, with production of oil to be about 80,000 barrels per day.</p> <p>Concerning oil transport, additional options were considered in a preliminary way, e.g., transport via road from Komé to Garoua, Cameroon and then barge to Port Harcourt, Nigeria; and pipeline from Chad to Sudan and via the Sudanese pipeline to the Red Sea. These options were discounted because of lack of feasibility, long distance and/or security issues and were dropped without detailed or quantified study.</p> <p>Regarding oil field development, specific locations for each of the field components were selected and configured in a cost-effective manner. Regarding clustering of wells, alternative configurations and layouts were assessed, including the use of vertical and deviated wells. As indicated in the 1999 EA/EMP, vertical wells, with some horizontal</p>

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				wells, were the preferred alternative. Action: No action envisaged. The Petroleum Development and Pipeline Project is being implemented based on the preferred alternative presented in the PAD approved by the Board in June 2000.
30.	<p>Pipeline Project - ERR for Chad. The Panel was struck by the estimated financial returns to Chad over a 28-year period, having regard to the magnitude of the Project, and is concerned that it was unable to find any analysis justifying the allocation of revenues between Chad and the Consortium. [...]The PAD's Annex 4 cited above does not specify the studies that were undertaken, nor does it fully satisfy the assertion that the agreements signed by Chad were "reasonable." [...] While the Panel recognizes that Management sought to ensure that Chad had access to reputable legal and financial services in its negotiations with the Consortium, it remains concerned about the adequacy of the allocation of revenues to Chad.</p>	21.1.2, 232- 236		<p>Comment: Management agrees that the adequacy of revenue allocation to Chad is an important issue. Management, however, also wishes to note that this is not an issue that relates to failure of the Bank to follow its operational policies and procedures.</p> <p>Revenue allocation was subject to protracted negotiation. The Convention for Exploration, Exploitation and Transportation of Hydrocarbons in Chad dates from December 1988. It was successively amended in May 1993, March 1997 and October 1999 to set out the terms of the concession among the Consortium members and the GOC. The Bank is not a party to agreements between a private company and the government that contain confidential information. Nevertheless, the Bank made certain that Chad hired reputable, independent and experienced legal, technical and financial experts by making available to Chad USD3.0 million in PPF advances and a Japanese grant of USD1.0 million. Internationally recognized firms from Canada, France and the United States were used. In addition, Bank staff had access to the confidential models used to project future oil flows, projected prices, and anticipated revenues accruing to the parties, for the purpose of estimating future revenues under various scenarios and their potential impacts on the economy as well as contributions to development investments in Chad.</p> <p>The Bank undertook a study in 1997—a copy of which was supplied to the Inspection Panel—to provide an independent analysis, advise Management on the reasonableness of the agreement, and outline areas that might warrant further consultant advice to GOC. The study concluded that the agreement provides an acceptable share of revenues for the GOC and a reasonable rate of return for the Consortium. In the base case outlined in the PAD (petroleum reserves of 917 million barrels, USD15.25/bbl), the rate of return to the Consortium is 18 percent, which is not excessive, given the country risks. If more petroleum is found in the area and pumped through the pipeline or if international prices for petroleum products go up, the GOC's "take" increases.</p> <p>Action: No action required.</p>
31.	<p>Pipeline Project - Economic Analysis of Base Case Scenario. Although the analysis reports switching values for four key variables (capital expenditures, operating costs, crude sales revenue (price) and crude sales revenue (quantity)) in relation to the economics of the Project as a whole, none is reported for the benefits to Chad. Although it can be reasonably argued that this is not strictly a matter of compliance with OP 10.04 (since the switching values are reported for the whole Project), in the Panel's view it would have been appropriate and valuable to supply them.</p> <p>The Petroleum Sector Management Capacity-Building Project makes provision for technical assistance to place Chad in a position where it can monitor and audit both the oil produced and the revenue generated by the</p>	21.1.3, 237- 247	10.04	<p>Comment: Management acknowledges the finding that it is broadly in compliance with OP 10.04, para. 6.</p> <p>Switching Value: In the Base Case Scenario, which assumes 917 million barrels of developed reserves and a Brent oil price of USD15.25/bbl, Chad's rate of return is estimated to be 70 percent and that of the Consortium 18 percent. The switching values for Chad—the value at which Chad's NPV of benefits becomes zero—are the following: oil price of USD3.51/bbl or reserves at 271 million barrels. In other words the Brent price of oil would have to fall to USD3.51/bbl or proven reserves to 271 million barrels for the Project to become economically unattractive to Chad, both cases being highly unlikely.</p> <p>Monitoring and Auditing of Oil Production and Revenue Generated: First oil is expected by end 2003. Chad has hired independent auditors for the Consortium's accounts. The audit for the 1996-1998 period is completed and another is ongoing for fiscal year 1999-2000. Under the Petroleum Sector Management Capacity-Building Project, three economists are being trained on oil revenue projections and a training program for the staff of the Petroleum Directorate is under preparation. The Consortium is also providing technical training to Chadians who will be on site to monitor oil being pumped into the pipeline and onto cargo ships at the other end of the pipeline. The Petroleum Directorate is recruiting ten new Chadian controllers, who will be trained during October-December 2002. They will monitor oil production and pipeline flows from the Doba oil field</p>

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	<p>Pipeline Project. In the Panel's view it is essential that this be made operational before oil production commences and revenues begin to flow. The Panel finds that the analysis reported in Annex 4 (and elsewhere in the PAD) is broadly in compliance with paragraph 6 of OP 10.04 concerning risk.</p>			<p>to the Kribi terminal. The Petroleum Sector Management Capacity-Building Project also provides resources for hiring international experts that may be needed for this purpose.</p> <p>Action: Management will continue to monitor implementation of the Petroleum Sector Management Capacity-Building Project, including monitoring of the training program for staff of the Petroleum Directorate and recruitment of 10 Chadian controllers. Management will also follow up on the potential need to hire international experts under the Capacity-Building Project.</p>
32.	<p>Pipeline Project - Other Economic Benefits. In the Panel's view [...] full compliance with OP 10.04 required a more detailed examination of the 'other economic benefits' than was reported in the PAD.</p>	21.1.4, 248- 249	10.04	<p>Comment: OP 10.04 requires that "the expected present value of the project's net benefits must be higher than or equal to the expected NPV of mutually exclusive project alternatives." While confident that other benefits would accrue to Chad from the Project, given uncertainty concerning the magnitude of such benefits at the time of appraisal, Management opted for the most conservative assumption, i.e., that the value of such benefits was zero. In the Base Case Scenario, which assumes 917 million barrels of developed reserves and a Brent oil price of USD15.25/bbl, Chad's rate of return is high, estimated at 70 percent, despite this very conservative assumption.</p> <p>Management continues to monitor such benefits as part of Project supervision. This is based on direct oil revenues only (royalties, upstream income tax, corporate income tax and dividends). There are other benefits that have not been incorporated in the rate of return calculations. For example, the upgrading of roads and bridges, which may be a cost to the Project and Project sponsors, are in fact an economic benefit to Chad. The cost of expenditures on infrastructure installations and upgrades in Chad are estimated to be as follows:</p> <ul style="list-style-type: none"> • Roads/Bridges in Chad (about 175 km): USD 60 million • Construction of the Mbéré River Bridge: USD10 million <p>In addition, as of end March 2002, spending by the contractors in Chad's economy for goods and services amounted to USD97 million and as of June 2002, 3,654 Chadian workers were employed in the construction phase of the Project. There are also schooling and health benefits generated by the Project that further increase the economic returns to the country.</p> <p>Action: Although no action is feasible with respect to the PAD itself, Management will continue to monitor and collect data on the economic benefits of the Project.</p>
33.	<p>Pipeline Project Global Externalities – GHG. There is also a discussion of greenhouse gases [...] The Panel finds that Management is in compliance with OP 10.04 in respect of its treatment of externalities.</p>	21.1.8, 254- 256	10.04	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>
34.	<p>Sustainability and Risks</p> <p>A. Management of the Petroleum Economy Project– [A] more thorough appraisal of sustainability and risks would have been required in order to ensure proper compliance with paragraphs 5 and 6 of OP 10.04. In this respect, therefore, the Panel finds that Management is not in compliance with OP 10.04.</p>	21.2, 257- 262	10.04	<p>Comment: Management accepts the Inspection Panel's finding that a more detailed discussion of the risks present in the implementation of the Management of the Petroleum Economy and Petroleum Sector Management Capacity-Building Projects should have been included in the Projects' documentation. In view of this, the institutional risk ratings for both Projects have been revised to "substantial." Management and staff have been acutely aware of the need to rapidly implement measures in environmental capacity-building and petroleum revenue management, have repeatedly highlighted the risks of slow implementation to the GOC, and have intensified supervision, notably by the assignment of senior staff members to the Chad office, in order to support accelerated implementation by the GOC.</p> <p>A. Timely implementation of a full-fledged system to monitor oil revenue flows, allocate them in accordance with the Petroleum Revenue Management Program and spend them efficiently for poverty reduction in priority sectors by early 2004 remains a challenge. Management's dia-</p>

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				<p>logue with GOC has emphasized that improving economic governance is the key element to adequate management of oil and other revenues. Following extensive consultations, the GOC's draft PRSP gives even more attention to governance issues than did its Interim-PRSP and makes improved governance one of five key axes of the PRSP. Improving public resource management relies heavily on analytical work, such as the PER, prepared as input to the PRSP, and on policy dialogue carried out under other operations, including SAC IV, as well as on implementation of the Management of the Petroleum Economy Project.</p> <p>Management was keenly aware of the importance of timely and sustained capacity-building for management of petroleum revenues and, for this reason, sought Board approval of the Management of the Petroleum Economy Project some six months prior to approval of the Petroleum Development and Pipeline Project itself. Progress realized to date is summarized in the last six-month progress report to the Board. Given Management and GOC attention to these issues, key elements of the Project are proceeding ahead of the schedule originally envisioned. Most importantly, the CCSRP, which was planned to be operational in 2004, has been created, its members named, by-laws approved, and first reports made public. Practical evidence of the CCSRP Board's effective operation is its control, including rejection of ineligible expenditures, over use of early petroleum revenues (the signing bonus) as foreseen in the 2002 Budget Law.</p>
	<p>B. Petroleum Sector Management Capacity-Building Project. Given the identified weakness in implementation capacity in the Ministries of Environment and of Energy and Petroleum, and the importance of timely implementation of the rapid intervention measures, the Regional Development Plan and the pilot development fund (FACIL), the Panel finds that Management is not in compliance with OP 10.04 in respect of the analysis of sustainability and risk issues.</p>	21.2, 263-265	10.04	<p>B. With regard to environmental capacity-building, Management believes that a fuller discussion of risks in the Petroleum Sector Management Capacity-Building Project documentation could have contributed to improving the early stages of Project implementation. Multi-layered monitoring by the ECMG, the IFC, the Bank and the IAG was designed bearing in mind that national capacity to monitor the Project would take time to develop and would need to be complemented by extraordinary outside monitoring from the outset.</p> <p>Action: Management has intensified supervision, notably by the assignment of senior staff members to the Chad office, and will continue its efforts to support accelerated implementation by GOC of measures to build capacity in environment and petroleum revenue management.</p>
Poverty Reduction				
35.	<p>Petroleum Revenue Management Program – Handling and Allocation of Oil Revenues. Although the Request does not explicitly mention OD 4.15 on Poverty Reduction, issues related to compliance with this policy are addressed in Management's Response.[...] The Revenue Management Program has detailed rules for the handling and allocation of the oil revenues [...] The Panel recognizes the importance of this but, in its view, it is vital that this be the subject of continuing monitoring, review and assessment by an independent body such as the IAG. [...] The Pipeline PAD, the Revenue Management Program and the Guiding Principles provided evidence that suggests an intention by Management to comply with the broad provisions of OD 4.15, along with an</p>	22.1, 266-273	4.15	<p>Comment: OD 4.15 provides procedures and guidelines for operational work on poverty reduction, including recommendations on strategies to reduce poverty and guidelines on poverty work covered in other Bank directives. In its Response to the Request for Inspection in 2001, Management highlighted how the Petroleum Development and Pipeline Project fit into the Bank's strategy to assist the GOC in alleviating poverty.</p> <p>Management took steps with the GOC, before the Project became effective, to address poverty reduction issues and strategy in Chad. The GOC developed a "Revised 1998-2005 Orientation Plan," whose objective is "to combat poverty and improve the living conditions of its citizens" and an "Interim Poverty Reduction Strategy Paper for 2000-2001," (I-PRSP, July 16, 2000), which was designed to guide "a participatory national poverty reduction strategy (NPRS)." Its guiding objectives are to: (i) achieve a high level of sustained economic growth; (ii) develop human resources through the provision of better access to basic social services, health care and social protection; (iii) restore and safeguard the ecological balance by placing particular emphasis on the environmental problems associated with human activity; and (iv) continue and consolidate the democratization process of political and social life. The Bank is assisting the GOC to achieve these objectives through several projects and activities. The Petroleum Revenue Management Program is a key element in assisting Chad to achieve its poverty reduction objectives.</p> <p>The Bank is assisting the GOC to develop long-term economic and</p>

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	<p>awareness of the challenges to effectively reduce poverty in Chad. Nevertheless, the Panel has concerns on whether some components of OD 4.15 have been fully met and whether Management has succeeded to put in place sufficient measures to ensure the sustained delivery of poverty reduction outcomes, and hence future compliance with OD 4.15.</p>			<p>budget management capacity and to ensure that essential capacity levels are reached by first oil. This work is expected to generate the capacity for the budget law of 2004 to: (i) monitor the level of oil revenues; (ii) apply these revenues according to the Revenue Management Law through the adequate functioning of the Oil Revenue Committee; (iii) allocate them in the context of a Medium Term Economic Framework (MTEF) with minimum allocation increases per priority sector; (iv) spend these revenues in accordance with sectoral expenditure programs linked to performance indicators in priority sectors; (v) provide a budget of expenditures per region for all priority sectors except rural development (which is expected in 2005); and (vi) disseminate budgetary documents widely for public scrutiny. Implementation of the activities that support these objectives under the Management of the Petroleum Economy Project is satisfactory and timely, although some crucial elements that fall outside of the Project's strict scope are still in progress in the context of the macroeconomic dialogue in future adjustment lending.</p> <p>Under Section 4.06 of the Loan Agreement for the Petroleum Development and Pipeline Project, Section 3.01 (f) of the Development Credit Agreement (DCA) for the Petroleum Sector Management Capacity-Building Project, and Section 3.04 of the DCA for the Management of the Petroleum Economy Project, GOC is committed to carry out the PRMP. In case of a breach of such commitments, Management would enforce its rights under those Agreements.</p> <p>Action: Management has intensified supervision of the Project, notably by the appointment of senior staff members to the Bank's Chad office, and remains committed to supervise and help strengthen monitoring of PRMP implementation. Management is also committed to the continued monitoring, review and assessment of its implementation by the IAG. In addition, Management will continue to pursue the actions that are being taken outside the scope of the three Projects to assist GOC to put in place long-term economic and budget management capacity.</p>
36.	<p>A. Petroleum Revenue Management Program – Moving Baseline. To avoid the risk that a priority poverty reduction sector might only receive a small net increase on the budget of the fiscal year before the first oil revenues, in the Panel's view, it would have been appropriate to have an additional safeguard, such as specifying a moving baseline, at least for an initial period.</p>	22.1, 275	4.15	<p>Comment: The Panel finds that under the current arrangements (fixed baseline to which oil revenues are added to fund priority sectors), the potential rapid growth of non-oil revenues could result in smaller incremental increases in priority sectors relative to potentially larger incremental increases to other sectors, and suggests using a moving baseline at least for an initial period (i.e., a proportion of the real growth rate in sectoral expenditures).</p> <p>First, during the next 10-15 years, revenues from oil are expected to increase dramatically faster than non-oil source revenues, even in a positive growth scenario. Second, concerning the issue of a moving baseline at least for an initial period, since 1998 the portion of total operating expenditures allocated to priority sectors has remained the same, averaging about 20 percent. Using actual data from 2001 as the baseline was an objective and monitorable method of establishing the baseline, and considered preferable to making uncertain projections for future years. In any case, the proportion of budgetary revenue allocations among priority sectors is the prerogative of the GOC. However, as provided in paragraph 5(a)(i) of the Petroleum Revenue Management Program, the annual expenditure program for the petroleum revenues prepared by the GOC will have to be satisfactory to the Bank.</p> <p>Action: No action required.</p>
	<p>B. Petroleum Revenue Management Program – Hypothecation. Given the risks demonstrably associated with 'windfall' oil revenues, in the Panel's view, the decision to hypothecate is in compliance with OD 4.15.</p>	22.1, 276	4.15	<p>Comment: Management acknowledges the finding of compliance by the Inspection Panel.</p> <p>Action: No action required.</p>

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	<p>C. Petroleum Revenue Management Program – Institutional Capabilities and Monitoring. [T]he Panel's investigation revealed serious concerns about the failure to develop and strengthen the institutional capabilities of the Government of Chad to a level where it could begin to monitor the Project effectively before the revenues start to flow. The Panel noted that the failure to achieve this objective raises questions about the ability to realize several of the other social objectives of the Project, in particular poverty reduction. In this regard, it is vital that the operations of the dedicated special account be subject of continuing monitoring, review and assessment by an independent body such as the IAG.</p>	22.1, 279	4.15	<p>Comment: Chad's essential institutional capacity needs are expected to be in place for the 2004 budget exercise. These needs are: (i) to assess the levels of revenue accruing to Chad and to monitor oil revenue flows; (ii) to have appropriate planning and budgeting processes for priority sectors in place; and (iii) to include information on regional allocation of resources in the budget decision making process. Training of staff at the Ministry of Finance is also ongoing. Management is committed to continuing its support to meet this objective.</p> <p>With regard to the operation of the oil revenue account, in addition to continued monitoring by the IAG, Management intends to continue supporting strengthening of the existing operational capacity of CCSRP. On-site technical assistance is being provided by the US Government. The 2002 Budget allocated FCFA 100 million for the functioning of CCSRP, which published its 2001 annual report and its first quarterly report for 2002.</p> <p>Action: Management is committed to continued monitoring through its own supervision efforts, and to the independent monitoring, review and assessment by the IAG, and will continue to implement measures recommended by the IAG as appropriate.</p>
37.	<p>Allocation of Resources to Producing Regions. [T]here are no Bank policies and procedures that directly guide the allocation of resource revenues to producing regions. Consequently there is no question here of non-compliance with OD 4.15. [...] However, the PADs neither suggest that any targeted studies of how to determine the appropriate share were carried out, nor do they cite any review material that underpinned the choice of 5 per cent. In the Panel's view, this is a matter of great concern. [...] It is not clear that Management has yet the information that would enable it to estimate regional shares of planned priority sector expenditures from expected oil revenues, although the ongoing public expenditure review process should be enabling it to assemble a clearer picture of existing regional patterns of public expenditure, and of the nature and extent of any disparities between regional shares. In the Panel's view, this kind of information is essential if the various stakeholders are to be in a position to debate and argue for appropriate shares in national income and wealth.</p>	22.1.1, 280-285	4.15	<p>Comment: Management acknowledges the finding that there is no question of non-compliance with Bank policies and procedures.</p> <p>No targeted studies were carried out to determine whether the 5 percent supplemental regional allocation decided upon by GOC in accordance with Article 212 of the Chadian Constitution was appropriate. This Article 212 provides for the principle of such allocation only, and does not refer to any specific percentage. The percentage was defined by GOC through internal consultation and subsequently approved by the Chadian Parliament in the context of the Revenue Management Law. Management did ensure that the GOC had ample access to examples of good practice with regard to revenue sharing arrangements (Alaska, Norway, etc.). Management, however, did not intervene in a highly complex, internal political process.</p> <p>The producing Region will receive these 5 percent to be managed by "decentralized institutions" in addition to the portion of priority expenditures that will accrue to it through national programs.</p> <p>The 2002 PER shows regionally disaggregated results for the health and education sectors only. In the education sector, delegated credits and allocations of centrally-purchased goods and services to the Logone Occidental region amounted to FCFA 49.4 million in 2000-2001, i.e. 7.6 percent of the national total. Total health expenditures in this region in 2000 were FCFA 1.6 billion, i.e., 10.2 percent of the national total. Under the current scenario, where oil revenues are projected to be FCFA 105 billion, an identical percentage of expenditures is allocated to the Logone Occidental Region, Education and Health receive FCFA 2.7 billion for health and FCFA 2.0 billion for education (excluding labor costs and investment).</p> <p>For all sectors, work is underway to (i) determine what proportion of current public expenditures are going to respective regions and (ii) to define which decentralized local structures will manage and administer the additional 5 percent and under which modalities. It is expected that the RDP will help to identify program investment needs.</p> <p>Action: Management and the GOC will continue to carry out work underway in the PER to determine regional patterns of public expenditure and to define the specific modalities by which decentralized local structures will manage the additional 5 percent of petroleum revenues reserved for the producing region.</p>

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38.	<p>Implementation Delays. A. Future Compliance. In the Panel's view, [implementation] delays threaten to compromise the delivery of poverty reduction in the later stages of construction and in the early stages of operation of the Pipeline Project. [...] If the problem is not addressed urgently, future compliance with OD 4.15 will also be in jeopardy.</p>	22.1.2, 286- 287	4.15	<p>Comment: Management agrees with the Panel that many other ingredients are needed to achieve poverty reduction "well beyond budget allocations and public expenditure control." Management also concurs with the Panel's findings on the crucial need for rapid capacity-building, in particular with regard to environmental and social monitoring of the Petroleum Development and Pipeline Project (see 38E), and will intensify its efforts in this direction. Delivering poverty reduction results nationwide through appropriate priority sector spending will take some time, even after first oil. Capacity-building to deliver broad-based services and to manage petroleum revenues transparently and effectively is progressing. Management's focus is squarely on achieving poverty alleviation objectives with the assistance and advice of the IAG and through the participatory PRSP process. Activities to promote credit provision, market development, and a dynamic private sector are underway, through collaboration with other donors and the private sector, with the assistance of IFC and the Bank. Further strengthening is also being explored.</p> <p>Action: Management remains committed to continue its intensified supervision efforts in the future and to the independent monitoring of the ECMG and the IAG.</p>
	<p>B. Community Needs. As the PAD noted, during various workshops local communities expressed their more immediate needs for (i) rural infrastructure (ii) credit, (iii) fertilizer and production equipment, and (iv) training. At the present rate of progress, it seems probable that these priority needs will not be fulfilled, at least within an appropriate time frame.</p>	22.1.2, 289	4.15	<p>Comment: The Panel notes that within the context of the Petroleum Development and Pipeline Project, emphasis was placed on achieving compliance with social and environmental safeguards and on mitigating potential negative impacts of the pipeline's construction and operation on directly affected people. Management wishes to note that this was among its primary obligations.</p> <p>In order to achieve tangible benefits, the FACIL fund was launched to support community investments and deliver them in the Project area. Needs for infrastructure, fertilizers and equipment, and credit access can be observed not only in the Project area, but in all regions in Chad. Increasing the availability of public revenues to address these needs is integral to alleviating poverty and improving the lives of the rural poor in Chad through the country assistance program.</p> <p>Action: Management will follow up on assisting GOC to accelerate those measures, such as FACIL, which pertain to the needs of communities generated by the Project's indirect impacts.</p>
	<p>C. Entrepreneurs. The Panel was not provided with evidence to suggest that the necessary capacity-building and support mechanisms are in place -- or are being put in place -- to enable entrepreneurs to take full advantage of important income-earning opportunities in the region that are likely to exist only during the initial construction phase.</p>	22.1.2, 290	4.15	<p>Comments: Most of the income-earning opportunities will come after the construction phase. The construction period is a short-term opportunity for businesses that have capacity and are in a position to carry out sub-contracts. Because of the Petroleum Development and Pipeline Project's size, there were high, but somewhat unrealistic expectations for business opportunities. Local businesses are mostly organized along informal lines and need stronger skills, particularly basic management skills, such as contract management, accounting, and negotiation techniques. Management did acknowledge during Project development that local businesses had low capacity and that not as many as might hope to do so would win or participate in sub-contracting opportunities. The amount of business going to local service and supply contractors is approximately USD97 million.</p> <p>Building capacity to benefit from medium- to long-term income-earning opportunities is the focus of the Chad/Cameroon SME Initiative, a joint Bank/IFC effort. Devising a program to address insufficiencies in capacity began in late 2000. In hindsight, raising local business capacity should have begun sooner. To ensure long-term sustainability and greater impact, the initiative seeks to: (i) develop realistic expectations of local government officials and the business community; (ii) take into account the capacity of local businesses and a relatively short lead time for implementation; and (iii) gain cooperation and buy-in from the Consortium and the EPCs.</p> <p>Since January 2002, work on the following SME initiatives has commenced: (i) FINADEV, a micro-finance Bank; (ii) a leasing study; (iii) IFC-EIB SME credit facility; (iv) agriculture and livestock marketing project; (v) loan officer SME training; (vi) Support and Training Entrepreneurial Program (STEP); and (vii) an information campaign.</p>

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				<p>In addition to this SME initiative, Management approved an IDF Grant of USD460,000 in February 2002 to assist in further capacity-building of SMEs. The activities for which the Grant has been given will strengthen: (i) the capacity of SMEs to become competitive in the bidding process; and (ii) the institutional capacity of the Chamber of Commerce to provide quality assistance to local SMEs.</p> <p>Action: Management will follow up on assisting GOC to implement progress on the SME Initiative and the IDF Grant to ensure that community and entrepreneur needs are met.</p>
	<p>D. Commodity Price Increases. For poor consumers competing with those who have money to spend, there can now be an affordability problem since the prices of the products on which they depend have risen.</p>	22.1.2, 291- 292	4.15	<p>Comment: Observations during staff supervision and ECMG missions that the Petroleum Development and Pipeline Project was contributing to price inflation in southwestern Chad have led to additional efforts to address income-related issues. The Consortium agreed to develop commissaries and to purchase grain for these commissaries from outside the Project area. Commissaries are now operational, and their performance is being assessed.</p> <p>Action: Management will follow up on issues related to price inflation.</p>
	<p>E. Accelerated Action. It is neither obvious to the Panel that the Petroleum Sector Management Capacity-Building Project nor the Petroleum Economy Project have made appropriate provision to identify and address the above-mentioned types of problems in the areas touched by the Pipeline Project's activities. This is despite their potential to impinge on that Project's potential to attain the poverty reduction envisaged in OD 4.15. [...]the Panel finds that the Project is not in compliance with these aspects of OD 4.15. The Panel, therefore, reiterates its call for Management to accelerate its efforts to improve the situation on the ground.</p>	22.1.2, 293	4.15	<p>Comments: Management acknowledges that a number of GOC capacity-building activities have been running behind schedule. After a slow start in 2001, due to delayed actions by the GOC on personnel recruitment and procurement matters, implementation gathered momentum during the first half of 2002. In the second half of 2001, Management authorized an increase of supervision intensity to monthly field visits. However, in the light of this supervision and reports of the IAG and ECMB, Management decided by year's end to move a full time supervision team to the field to support GOC capacity-building initiatives.</p> <p>In March 2002, Management appointed a senior Program Coordinator in charge of the cluster of oil-related Projects, who arrived in Chad in April. A second expert appointed by IFC also joined the Chad Country Office in March with oversight responsibilities for strengthening the SME sector, including supervision of the recently approved IDF Grant to the Chamber of Commerce. These two experts are supported from Bank headquarters by another senior staff member and, in N'Djamena, by a social scientist in charge of the relationship and communication with civil society, and a senior operations specialist responsible for following up on procurement.</p> <p>As a part of the new supervision arrangement, joint Bank/IFC teams were also established in June 2002 to further strengthen supervision of environmental and social aspects. This intensified supervision effort has already improved many aspects of implementation. Implementing of capacity-building, however, must remain the responsibility of the GOC.</p> <p>Management believes that these actions as well as those mentioned in Comments 38 A-D above to address social issues and implementation delays are targeted to help raise the productivity of the poor's physical assets, increase their incomes and improve living conditions.</p> <p>Action: As per the Panel's suggestion, Management will pursue efforts to improve the situation on the ground. IAG and ECMG will also continue their regular monitoring and assessment of the Project.</p>
39.	<p>Possible Variations in Oil Revenue Inflows. In the Panel's view, in order to avoid macroeconomic risks that could jeopardize poverty reduction, Management should have addressed this serious risk to its poverty reduction objectives in a more definite manner than the statement in the Revenue Management Program that "<i>Revenues (...) will be sterilized under arrangements acceptable to the Bank.</i>" In the light of this, the</p>	22.1.3, 294- 298	4.15	<p>Comment: Possible variations in oil revenue inflows and their impact were prominent in the discussions with GOC at the time of Petroleum Development and Pipeline Project preparation. The risks outlined by the Panel are referred to in the Project documentation, Loan Agreement, and in GOC's Letter of Development Policy, and an Agreement of Principle was recorded in the documentation. Paragraph 5(a)(iii) of the Petroleum Revenue Management Program in Schedule 5 to the Loan Agreement for the Petroleum Development and Pipeline Project provides that: "Amounts under paragraph 4(b)(i) above which cannot be used for the agreed objectives, or the use of which would jeopardize the Borrower's macroeconomic stability, shall be held in the Special Petroleum Revenue Accounts, under arrangements to be agreed upon by the Bank, for their subsequent use in financing priority poverty reduction sectors referred to in paragraph 4(b)(i) above." The Panel has</p>

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	Panel finds that Management is not in compliance with the provisions of OD 4.15 concerning risk analysis and institutional design.			<p>accurately noted that arrangements for sterilization are not included in the PRMP beyond a simple principle. Agreement could not be obtained on such modalities at the time of Project preparation in the light of the uncertainty of Project approval and effective realization.</p> <p>Action: Together with the IMF, Management is currently discussing with GOC the modalities that would apply to the sterilization of unused funds held for future allocation to priority sectors.</p>
Monitoring and Supervision				
40.	<p>Monitoring and Supervision. Earlier on, the Panel had expressed its concern about delays in establishing the local capacity required to effectively monitor the Project, which could compromise its long-term sustainability. At the same time, the Panel wishes to express its satisfaction that Management has established a strong external Project monitoring capacity in the form of the IAG and the ECMG. Under the circumstances surrounding the Project, they clearly have a very important role to play. The Panel would urge the Board to ensure that this function is sustained for as long as is necessary and certainly well beyond disbursement of the loans in question.</p>	23.1, 308		<p>Comments: In addition to its own strengthening of Project supervision and monitoring capacity (see Comment 38E), Management notes the Panel's satisfaction with the strong external Project monitoring capacity in the form of the IAG and ECMG. Like the Panel, Management also believes that this function should be sustained as long as necessary.</p> <p>Action: IDA is seeking replenishment of the Trust Fund to finance the work of the IAG. The ECMG will remain in place to monitor the Project four to five times per year during construction and a minimum of once per year during the 13-year life of the loan.</p>