Chad’s Oil: Miracle or Mirage?
Following the Money in Africa’s Newest Petro-State

Ian Gary
Catholic Relief Services

Nikki Reisch
Bank Information Center
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Notes:

• For consistency, monetary conversions are based on an exchange rate of 510 CFAF (Communauté Financière Africaine franc) to U.S. $1.

• ExxonMobil is referred to in this report as “ExxonMobil”. The company is known as Esso in Chad, Europe and elsewhere. ExxonMobil’s wholly-owned affiliate in Chad is known as Esso Exploration and Production Chad, Inc. (EEPCI)

Cover photo: Chad villagers returning from fetching water walk past an oil well drilling rig in the Doba oil field area of southern Chad. (Tom Stoddart, Katz Pictures/JPg/K2)

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- Decree 457 Concerning the Creation of a Provisional Revenue Management Committee for the Oil Producing Region
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Key Terms and Abbreviations

bbl  barrels
bpd  barrels per day
BEAC  Banque des Etats de l’Afrique Centrale
BIC  Bank Information Center
Brent  North Sea crude blend used to set a benchmark price in the world oil market
CCSRP  Collège de Contrôle et de Surveillance des Ressources Pétrolières
CFAF  Communauté Financière Africaine franc
Collège  Collège de Contrôle et de Surveillance des Ressources Pétrolières
Consortium  ExxonMobil/ChevronTexaco/Petronas oil consortium
COTCO  Cameroon Oil Transportation Company
CPPN  Commission Permanente Pétrole de N’Djaména
CPPL  Commission Permanente Pétrole Locale
CRS  Catholic Relief Services
CTNSC  Comité Technique National de Suivi et de Contrôle
ECMG  External Compliance Monitoring Group
EIB  European Investment Bank
EIR  Extractive Industries Review
EITI  Extractive Industries Transparency Initiative
EMP  Environmental Management Plan
FACIL  Fonds d’Actions Concertées d’Initiative Locale
FGF  Future Generations Fund
FSO  Floating Storage and Offloading vessel
GRAMP/TC  Groupe de Recherches Alternatives et de Monitoring du projet Pétrole Tchad-Cameroun
HIPC  Heavily Indebted Poor Countries initiative
IAG  International Advisory Group
IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
IFC  International Finance Corporation
IFI  International Financial Institutions
IMF  International Monetary Fund
IRSC  Institutional Reform Support Credit
MPS  Mouvement Patriotique de Salut (Patriotic Salvation Movement)
MTEF  Medium Term Expenditure Framework
NGO  Non-governmental organization
OFDA  Oil Field Development Area
PRGF  Poverty Reduction and Growth Facility
PRSP  Poverty Reduction Strategy Paper
PWYP  Publish What You Pay
RDP  Regional Development Plan
RESAP  Réseau de Suivi des Activités liées au Pétrole au Moyen Chari
SAC  Structural Adjustment Credit
TOTCO  Tchad Oil Transportation Company
USD  United States dollars
UST  United States Treasury
WBG  World Bank Group
Executive Summary

Chad’s Oil: Miracle or Mirage? The Chad-Cameroon Petroleum Development and Pipeline Project, transporting oil from landlocked southern Chad to the Atlantic coast of Cameroon for export, represents the foremost test case of the extent to which oil revenues can be used to alleviate poverty in a challenging developing country context. The most innovative feature of the project is the establishment of a legal framework (Chad’s Law 001 and subsequent amendments and decrees) that earmarks money for poverty reduction expenditures and creates an oversight committee to ensure the transparent management of the country’s oil wealth. Touting the promise of petrodollars for Chad’s poor over public concerns that new revenues would be lost to corruption and mismanagement, the World Bank provided financing that catalyzed the ExxonMobil-led oil development. Given the dismal track record of oil-producing countries around the world and the high stakes in a country as unstable as Chad, this experiment has come into the international limelight. The fate of the $4-billion plus project is not only of vital importance to the people of Chad, who hope to reap its benefits but risk bearing enormous costs if oil production leads to corruption, conflict and the further concentration of power in the hands of a few. It is also of great interest to other countries facing the challenge of transforming their oil wealth into benefits for their people; to donors attempting to solve the problem of the “resource curse”; and to energy-hungry industrialized countries searching for new and stable sources of oil.

Poverty, Politics and Petrodollars: Chad is a landlocked country with a long history of civil war, continued political instability, a weak judicial system, widespread corruption and an all-encompassing institutional capacity problem. This is an extremely challenging environment in which to attempt to turn oil revenues into benefits for the poor. And the stakes are high—if Chad’s oil money is mismanaged, it could mean increased hardships and conflict for the nearly seven million people in Chad living on less than $1 per day. Since independence in 1960, Chad has known more years of war than of peace, and rising tensions in the region mean that violence is never far off. A coup attempt in May 2004 reminded observers of the fragile political environment, and tensions have increased over the attempt by President Déby’s ruling party to change the constitution to allow him to run for a third term in 2006. The Chadian oil experiment depends largely on the political will of the government to respect the rule of law where there is little history of doing so, to develop accountable institutions, and to encourage democracy. In an environment where the government faces internal and external threats, such political will appears to be in short supply.

Chad’s Landlocked Treasure: After decades of on-again, off-again exploration and negotiations, in July 2003 Chadian oil began to flow through the 1,050 kilometer pipeline, produced by a consortium comprised of ExxonMobil, ChevronTexaco and Petronas, the Malaysian state oil company. Production from the three active fields in the Doba basin reached its current peak capacity of 225,000 barrels per day in late 2004 and more than 60 tanker shipments have been exported to date. Beyond the 1 billion barrel estimated reserves in these three fields, the presence of the pipeline infrastructure is spurring new oil production and exploration in Chad. ExxonMobil plans to add five new “satellite” fields to its existing production in 2005-2006 and, together with other companies like Canada’s EnCana, is exploring other parts of Chad. With these ongoing activities and the government’s efforts to attract more investment in the sector, Chad’s oil windfall is likely to be much larger than originally predicted.

Oil Revenues – Chad’s First Taste of Black Gold: The unprecedented measures put in place to safeguard against misappropriation of oil revenues are now being put to the test. In late 2003, ExxonMobil made its first royalty payment into the government of Chad’s escrow account at Citibank in London, and Chad was likely to receive $140-150 million in oil revenues during 2004 and over $200 million in 2005. Over their 25-year production span, the first three oil fields in southern Chad may earn the government...
more than $5 billion in oil revenues. Just how much more Chad will receive from other oil fields tapped in the future is yet unknown.

In response to pressure from civil society organizations concerned that the benefits of oil development would not reach the poor, the World Bank conditioned its financing for the pipeline project on the establishment of a revenue management plan. Chad’s innovative petroleum revenue management law stipulates that the majority of \textit{direct revenues} from oil production – royalties and dividends – be earmarked and spent on “priority sectors” targeting poverty reduction. In addition, a joint government-civil society petroleum revenue oversight committee (the \textit{Collège}) has been established to play a “watchdog” role, approving projects and monitoring the quality of their implementation.

While some information on Chad’s oil revenues is made public, details regarding the calculation of revenues and many key agreements between the oil companies and the government remain secret. Furthermore, legal safeguards contain notable loopholes. For example, all \textit{indirect revenues} – including income taxes on the oil companies – will go directly into general government coffers. These indirect revenues may amount to more than $3 billion over the next 25 years. In addition, the revenue management law does not cover any revenues from oil produced outside the three original Doba fields. These and other weakness mean that it is difficult for citizens to verify the accuracy of revenue information disclosed and that much oil revenue will fall outside of the jurisdiction of the law and the control of the \textit{Collège}.

On the government side, there is a profound lack of capacity to master the technical aspects of monitoring oil production and determining oil revenues. More than one year into Chad’s life as an oil producer, many basic aspects regarding the calculation of oil revenues remain the subject of dispute between the government and the ExxonMobil-led consortium.

\textit{“Just Add Oil” – Accountability from Scratch:} In a country lacking an effective system of checks and balances, the joint government-civil society revenue oversight committee created by Law 001 is a unique institution, critical to the effort to hold the government accountable for the use of oil money. Experience to date has shown that the \textit{Collège} has made promising strides to establish itself and exert its authority. At the same time it needs increased access to information, an improved ability to investigate expenditures and the cooperation of government to prosecute any wrongdoing identified. The \textit{Collège} lacks an independent and steady source of funding, and without support from Chadian civil society will be unable to effectively carry out oversight in a country as large as Chad. Finally, the government has placed trusted allies – such as President Déby’s brother-in-law – on the \textit{Collège} and has interfered with the selection of civil society members. While the \textit{Collège} can influence the budgeting process, reject ill-founded expenditures and investigate the execution of projects it approves, ultimately its ability to ensure that oil revenues are used for poverty reduction depends on the willingness of the judiciary to prosecute cases of misuse, fraud or corruption that the \textit{Collège} may uncover.

\textit{Budgeting for the Boom – Spending Chad’s Oil Revenues:} For a $4 billion-plus investment, the oil industry enclave in Chad is creating precious few jobs, making the generation of non-oil employment and the careful management and spending of oil revenue paramount. The ultimate success of the Chad experiment will be judged not on barrels of oil produced or revenues generated, but on the successful investment of these revenues in Chad’s people through a well-planned and executed budget system.

Chad has little record of effectively budgeting and spending government resources, and has a history of corruption and mismanagement in bidding and procurement procedures. The experience of the 2004 budget – the first containing oil revenues – and plans for 2005 show that there are many obstacles standing between transparent budgeting of oil revenues and spending those monies in a way that reduces poverty.
With increased scrutiny of revenue flows at the macro-level, problems with corruption and mismanagement will likely migrate downstream where they are more hidden from public view. As in other oil rich countries, systems of patronage may develop through the non-transparent awarding of government contracts funded by oil revenues. These tendencies, together with limited government capacity to absorb increased levels of funding, have grave implications for the poverty reduction objectives of a project dependent on the effective use of massive new government revenues. World Bank projects designed to increase capacities in these areas prior to the arrival of first oil have failed to meet their objectives. Despite World Bank promises, the result has been a “two-speed” project whereby the pipeline was completed a year ahead of schedule but the government remains largely unprepared to manage its oil windfall.

**Changing Chad – The Role of External Actors:** Ensuring that Chad’s oil boom benefits the poor requires not only building government capacity, but altering policies and, ultimately, changing politics. The experience to date reveals both the limits of external actors’ ability to influence these changes and the urgent need for those actors to use what leverage they do have to support adherence to the rule of law and compliance with the revenue management safeguards. In Chad, where citizens have limited influence on their government, external actors – such as the World Bank, IMF, and the U.S. and French governments – can be important sources of pressure for greater transparency and accountability. The rapid accumulation of petrodollars in Chad confronts the World Bank, IMF and other donors with a choice between using their known leverage today and relying on their uncertain leverage in the future.

**A “Model Project” Hanging by a Thread:** Many obstacles stand in the way of converting Chad’s oil wealth into concrete improvements in the lives of the country’s poor. While some have prematurely hailed the Chad project as a “new model” for harnessing oil revenues to benefit development, the record of Chad’s first year as a petro-state provides many reasons for concern.

Important building blocks for transparent and effective oil revenue management are being developed and need to be nurtured, but limited progress on this front is tempered by worrying trends in the political environment, weaknesses and loopholes in the revenue management system, problems with corruption, transparency deficits and severe government capacity constraints. The oil experiment hangs by a thread.

Chad’s experience shows that transparency is but one essential ingredient in a system of oversight, accountability and sanction. Transparent information can be used for both formal and informal enforcement of the law, but the tools to use it have to be in place. Investigative and judicial arms of the government must be independent and capable of prosecuting wrongdoing. Elections must be free and fair and Chadians must have the ability to change their government through the ballot box if they think it has not managed the oil wealth well. Informal enforcement – through monitoring by civil society and publicizing information on the radio and via other media – must be part of a system of accountability. Transparency is only meaningful if information is understood by the government and the public, and if the findings of oversight bodies lead to action.

It is too early to declare the Chad experiment a failure or a success. Whether or not Chad manages to escape the “paradox of plenty” may not be known for years. There are, though, clear lessons that can be drawn from Chad’s experience to date, which can serve as signposts to correct pressing problems in Chad and to guide efforts to assist other developing countries in managing resource wealth. And one of the most fundamental lessons that Chad offers today is the importance of ensuring that minimum conditions of respect for human rights, fiscal transparency, and demonstrated government capacity to implement pro-poor programs are in place prior to promoting investment in the extractive industries.

**Recommendations requiring urgent attention may be found on Page 93**
Introduction: All Eyes on Chad

“The exploitation of oil is a major new opportunity to accelerate development in one of the world’s poorest countries.”

– World Bank World Development Report 2003 on Chad-Cameroon Pipeline Project

“This is going to be the model for every single project of this type worldwide.”


“The development of the crude oil will benefit the entire Chadian nation.”

– Chadian President Idriss Déby

“We know that profound poverty is an unfortunate reality in much of Africa. Its alleviation requires private investment, collaboration and responsible governmental policies. The Chad-Cameroon Project embodies all these elements. It offers great hope to the people of these two countries and we are proud to be involved now and in the future.”

– Tom R. Walters, Esso (ExxonMobil) Chad Komé Groundbreaking Ceremony - October 18, 2000

Chad is among the newest and most precarious of Africa’s emerging petro-states. The Chad-Cameroon Petroleum Development and Pipeline Project, transporting oil from southern Chad to the Atlantic coast for export, represents the foremost test case of the extent to which oil revenues can be used to alleviate poverty in a difficult developing country context. The most innovative feature of the project is the establishment of a legal framework (Chad’s Law 001 and subsequent decrees and amendments) that earmarks money for poverty reduction projects and creates an oversight committee to ensure the transparent management of the country’s oil wealth. Touting the promise of petrodollars for Chad’s poor over concerns that the right governance conditions were not in place, the World Bank provided financing that catalyzed the ExxonMobil-led oil development. Given the dismal track record of oil producing countries around the world and the high stakes in a country as unstable as Chad, this experiment has come into the international limelight. The fate of the $4 billion-plus project is not only of vital importance to the people of Chad who hope to reap its benefits but risk bearing enormous costs if things go awry. It is also of great interest to other countries facing the challenge of transforming their oil wealth into benefits for their people; to donors attempting to solve the problem of the “resource curse”; and to energy-hungry industrialized countries searching for new and stable sources of oil.

As a landlocked country with a long history of civil war, continued political instability and a weak judicial system, Chad is as challenging an environment as any for such an experiment. And the stakes are high – if Chad’s oil money is mismanaged, it could mean increased hardships and conflict, especially for the 80 percent of Chad’s 8.3 million people who live on less than $1 per day. Since independence, Chad has known more years of war than of peace, and rising tensions in the region mean that violence is never far off. With oil flowing since July 2003, the unprecedented measures put in place to safeguard against misappropriation of oil revenues are being put to the test. At a time of heightened awareness of the pitfalls of dependence on petroleum exports, the World Bank has staked its reputation on the ability of the project to transform Chad’s economy and benefit the country’s poor. The very propriety of World Bank support for the “extractive industries” (oil, gas and mining) is, in large part, riding on the outcome of the Chad “experiment.” The lessons learned from the country’s experience to date offer insight into what can be expected in Chad’s future, what should be avoided elsewhere, and what role international actors should play to promote the interests of the poor in Africa’s unfolding oil boom.
**Context: The African Oil Boom**

In a world characterized by a seemingly insatiable demand for energy and a growing Northern preoccupation with decreasing dependence on petroleum from the Middle East, African oil is gaining both geopolitical and commercial significance. Oil production on the African continent is set to double by the end of the decade. The U.S. will soon be importing 25 percent of its petroleum from sub-Saharan Africa, and the region is expected to supply 20 percent of total world oil production by 2010. In the wake of the September 11, 2001, terrorist attacks on the U.S. and heightened tensions in the Middle East, securing new African oil supplies as a means of energy diversification has become strategically important, not only for the U.S. but for other industrialized nations. At the same time, the sheer pace of oil consumption in the world’s largest economies is contributing to a tighter global oil supply. The largest energy consumers – such as the U.S. and China – are competing to secure new sources of oil, pushing companies to frontier areas. These factors are driving a new scramble for Africa – this time for its hydrocarbon riches.

Oil and gas already comprise Africa’s largest export category, three-and-a-half times as important as all non-fuel commodity exports combined. The extractive industries accounted for more than 50 percent of Africa’s exports and 65 percent of all foreign direct investment during the 1990s. The dominance of extractive industries in Africa’s trade relationships, coupled with the decline in aid flows, make it all the more important that Africa use its oil in the interest of its people.

The new African oil boom – centered on the oil-rich Atlantic waters of the Gulf of Guinea, from Nigeria to Angola, but expanding across the continent – is a moment of great opportunity and great peril for countries beset by wide-scale poverty. On the one hand, tapping oil reserves could unleash enormous revenues for use in improving the lives of the poor; by CRS’ estimate, Africa’s petroleum producers will earn at least $200 billion over the next decade. On the other hand, the dramatic development failures that have characterized so many oil-dependent countries warn that petrodollars may not help developing countries to reduce poverty, but may in fact exacerbate it.

**A Cursed Past: Oil and the Paradox of Plenty**

There is little evidence that past oil exports have contributed to the welfare of developing countries. Indeed, 35 years of petroleum exports in Nigeria, for example, have not helped raise living standards; despite its oil wealth, per capita income in Nigeria is less than $1 a day and living standards are below the average in sub-Saharan Africa. Nigeria is perhaps the most prominent example of “the paradox of plenty,” whereby countries rich in natural resources suffer from lower living standards, slower growth rates and higher incidence of conflict than their resource-poor counterparts. The inverse association between equitable growth and oil and mineral abundance has come to be known as the “resource curse.” From 1970-1993, resource-poor countries (without petroleum) grew four times more rapidly than resource-rich countries (with petroleum) – despite the fact that they had half of the savings. The greater the dependence on oil and mineral resources, the worse the growth performance was – a finding that has been confirmed by economists in the World Bank and International Monetary Fund.

History paints a grim picture of what is likely to accompany rapid growth in petroleum production. Oil booms tend to increase government appetites for public spending, without an accompanying increase in the effectiveness of the spending. The concentration of fiscal resources from an oil boom frequently encourages rent-seeking behavior and fosters excessive and imprudent investment – all of which contribute to the maldistribution of resources, a decline in productivity and massive corruption. The volatility of oil prices makes planning difficult and renders the economy extremely...
vulnerable to external shocks. Non-oil-producing activities tend to suffer when oil sales push up the exchange rate, making other exports non-competitive. Labor-intensive sectors, such as agriculture, are often the most adversely affected by this economic phenomenon, known as the “Dutch Disease.” As a form of rent, petrodollars decrease the government’s reliance on non-oil revenues, including taxes, and actually weaken one of the links between people and their government that is essential to popular control over major decisions affecting a country and its resources. In such a context, governments tend to rely increasingly on repression through the use of security forces (rather than consent of the governed) to remain in power. Indeed, countries that depend upon oil exports are among the most economically troubled, the most authoritarian, and the most conflict-ridden states in the world today.

Addressing the Curse

The growing awareness of the “resource curse” has sparked an ongoing debate about the relationship between extractive industries and poverty, and the proper roles and responsibilities of international institutions, oil companies and civil society in addressing the problem.

The World Bank, as a significant source of financing, technical assistance and policy advice for the extractive industries in developing countries, has been at the center of this debate. In 2000, in response to concerns about the environmental, social and economic impacts of oil, mining and gas developments, the World Bank agreed to undertake an assessment of its support for these sectors in light of its poverty alleviation mission. It launched an independent evaluation called the Extractive Industries Review (EIR) – a two year process of stakeholder consultations and commissioned research aimed at identifying the impact of World Bank Group financing for oil, mining and gas on the alleviation or exacerbation of poverty. The final report of the EIR issued in January 2004 made recommendations about the future involvement of the World Bank Group in the extractive industries. These emphasize good governance and transparency as prerequisites to effective poverty alleviation. The Review’s central conclusion suggests that the extractive industries can only be an engine of equitable growth and poverty alleviation if certain basic conditions are in place before oil or mineral wealth is tapped, including: respect for human rights; consent of locally affected

Box 1

Financing a Project:
The Chad-Cameroon Oil Development and Pipeline Project

World Bank Group participation in an oil project opens doors to other financing sources, as in the case of the $4.2 billion Chad-Cameroon project.

Project finance includes:

- **World Bank Group**
  - IBRD loans to Chad and Cameroon $92.9 million
  - IFC loan $200 million

- **European Investment Bank** $41.5 million

- **Export Credit Agencies**
  - U.S. EXIM Bank $200 million
  - COFACE (France) $200 million
  - African Ex-Im Bank $500 million

- More than half of the total project cost was met by the equity partners – ExxonMobil, Chevron and Petronas – who covered the full cost of oil field development and one third of the export facilities.

- Remaining financing was provided by commercial arranging banks:
  - ABN-Amro
  - Credit Agricole Indosuez

(Note: Project cost was originally estimated at $3.7 billion. In an October 2004 presentation, ExxonMobil stated that the total project cost was $4.2 billion.)

communities; adequate government capacity to enforce laws, monitor and regulate the extractive sectors; and demonstrated government and corporate commitment to transparency. This principal finding was derived largely from the Review’s observations about the absence of “enabling conditions” in Chad, prior to the initiation of the oil pipeline project.

Heightened attention to the resource curse and greater recognition that the secrecy shrouding the extractive industries fosters corruption have also led to the creation of several initiatives aimed at increasing transparency in the extractive industries. The global civil society campaign, Publish What You Pay, calls for mandatory revenue disclosure by oil and mining companies (see Box 2). The U.K government led Extractive Industries Transparency Initiative (EITI) promotes voluntary disclosure of companies’ revenue payments and government receipts. Many oil companies have

![Box 2]

**The International Publish What You Pay Campaign**

Civil society groups, churches, investors and others have increasingly called on governments and extractive industry companies to be more transparent in their operations and financial dealings. With information about the amount of money received by their governments, civil society groups and ordinary citizens can use what political space exists to try to hold their governments accountable.

CRS and BIC, along with more than 220 civil society groups around the world, are members of the Publish What You Pay (PWYP) campaign. Launched in June 2002, the Publish What You Pay campaign promotes mandatory, rather than voluntary, disclosure of extractive industry (oil, gas and mining) payments from companies to host governments. National PWYP platforms are at work in the U.S., Europe, Azerbaijan, Nigeria, Chad, Congo-Brazzaville and other countries. The coalition is calling on the G8 industrialized nations to take leadership and promote the transparency of oil, gas and mining revenues worldwide. The campaign is advocating a “cocktail” of measures that would create a regulatory framework that promotes transparency among companies, governments and state-owned enterprises. One possible approach would be for stock market regulators to require oil, gas and mining companies to publish net taxes, fees, royalties and other payments to all national governments as a condition for being listed on international stock exchanges and financial markets. Relying on companies to disclose information voluntarily has so far failed in part because they fear discrimination by host countries and competitive disadvantage; it is difficult for a company to take positive steps toward transparency unless all of its competitors are obligated to do the same. The campaign calls for mandatory disclosure backed by legislation so that citizens in developing countries are able to hold their governments to account for the management of resource revenues.

The World Bank Group, through its Extractive Industries Review, has committed to requiring revenue transparency for any new oil, gas or mining project it funds by 2006. A group of international investors representing several trillion dollars in capital has also called on oil and mining companies to be more transparent in their revenue payments.16

The PWYP campaign is not suggesting that oil companies tell host governments how to spend their money, but rather that they should publish information that will help citizens hold their own governments accountable. Nor is the campaign calling on companies to disclose commercially sensitive information, but rather to publish the same basic data on payments made to governments as they are required to disclose in many “developed countries.” Mandatory regulation would also help address the legal and contractual obstacles to disclosure that companies face in many developing countries. Companies may be able to disregard secrecy clauses in production sharing agreements and other contracts if required to disclose payments by their home governments.

**Chad - Publish What You Pay / Publish What You Earn**

In Chad, some oil revenue payments are transparent, but as this report shows, other important aspects of revenue payments and contracts remain hidden from view. In October 2004, Chadian civil society organizations and churches launched the national platform of Publish What You Pay and, in Chad, “Publish What You Earn,” focusing on the transparency of government spending of oil money received. Many local groups are members of the coalition, including the Justice and Peace Commission of the Catholic Church, Commission Permanente Pétrole de N’Djaména (CPPN), Commission Permanente Pétrole Locale (CPPL), Réseau de Suivi des Activités liées au Pétrole au Moyen Chari (RESAP-MC), and Groupe de Recherches Alternatives et de Monitoring du Projet Pétrole Tchad-Cameroun (GRAMP/TC). The groups have called on the oil companies to renounce confidentiality clauses in oil contracts and asked the government to amend the oil revenue management law to cover all oil fields in the country. The full declaration of the Chad coalition can be found at www.catholicrelief.org/africanoil.cfm

For more information on the campaign, visit www.publishwhatyoupay.org
lent at least rhetorical support to the need for increased transparency in the sector. The British supermajor BP, for example, has said “We support the principle of transparency, while also acknowledging the practical obstacles that stand in its way – including traditions of confidentiality and the reluctance of some to embrace change.”

The work of these initiatives to increase transparency represents a first step toward breaking the “resource curse” and ensuring the democratic management of natural resources to the benefit of the poor. But transparency alone is not enough; true accountability for the use of oil wealth requires political will, corporate acceptance, democratic space and unrelenting public scrutiny.

**Chad: The Experiment in Breaking the Curse**

Oil was discovered in Chad over 30 years ago, but years of civil war and the sheer technical challenges of getting oil out of the landlocked country to world markets kept the country’s “black gold” in the ground until very recently. In 2000, World Bank support catalyzed the construction of a pipeline designed to transport oil from southern Chad through Cameroon to the Atlantic coast for export. The $4.2 billion Chad-Cameroon Petroleum Development and Pipeline Project represents not only the largest single private investment in sub-Saharan Africa today, but also one of the world’s most significant efforts to reverse the “oil curse” and promote poverty reduction through targeted use of oil revenues. The World Bank has exposed itself to considerable “reputation risk” by betting on the ability of this project to harness oil development for poverty alleviation in one of the poorest countries on earth. And many people are watching and waiting – both inside Chad and out.

Sponsored by a consortium of oil companies led by ExxonMobil, with partners Petronas (Malaysia’s state oil company) and Chevron, the pipeline has been operational since July 2003. The project is designed to carry oil from over 250 wells drilled in the Doba basin of southern Chad through a 1,050 km. underground pipeline, with a current maximum capacity of 250,000 barrels per day (bpd), to the town of Kribi on the Atlantic coast of Cameroon. A 12-km. offshore pipeline connects to a floating marine terminal where tankers are loaded for the world market. The estimated 1 billion barrels of oil in the three Doba fields under production will be extracted over a period of 25 years, with a planned peak production of 225,000 bpd, earning Chad some $3 billion over the project’s lifetime (depending on oil prices). However, these production estimates do not take into consideration oil from new discoveries outside the three Doba fields specifically supported by the project (Miaandoum, Komé and Bolobo). Such additional oil developments are no longer just a possibility; they are likely to increase both production levels and revenues for Chad by as early as 2006. (See Section Two: Chad’s Landlocked Treasure)

The participation of the World Bank and other multilateral financial institutions provided crucial political cover for private sponsors and lenders, without which the project would not have gone ahead. In the words of the World Bank itself, “World Bank Group involvement, as well as the financial investments of Chad and Cameroon in the pipeline companies, provide comfort to these oil companies and lenders that the political risks presented by this cross-border operation and first-time petroleum export venture from Chad can be adequately mitigated over the medium to long term required to support their respective equity and long-term debt investments.”

While the bulk of the project financing came from private banks and the project sponsors themselves, public financial institutions bore much of the political weight of the project. World Bank financing supported the government of Chad’s shares in two special purpose companies formed through joint ventures with the Consortium – Tchad Oil Transportation Company (TOTCO) and Cameroon Oil Transportation Company (COTCO) – created to build, own and operate the portions of the pipeline in Chad and
The Chad-Cameroon pipeline project is currently the single largest private sector investment in sub-Saharan Africa. The project will carry oil from over 300 wells drilled in the Doba fields in southern Chad through a 1,000 km. underground pipeline, with a capacity of 250,000 bpd, to Cameroon’s Atlantic coast at the town of Kribi.
Cameroon, respectively. In addition, two World Bank loans for Chad were approved to help build the government’s capacity to mitigate social and environmental impacts and to manage the oil economy: the “Management of the Petroleum Economy Project” and “Petroleum Sector Management Capacity Building Project.”

Prior to the pipeline project’s approval on June 6, 2000, local, and international civil society organizations expressed concern that in a context of corruption, political repression, weak legal frameworks and little capacity for fiscal management, the poor would not reap the benefits promised by the project, though they would bear its social and environmental costs. However, the World Bank maintained that oil represented the only viable economic development path for the poor country, and that with Bank assistance Chad would be ready to manage its petro-wealth well by the time oil flowed. While the Bank’s own experts argued that in a country like Chad, oil revenues were unlikely to benefit the poor and could actually fuel civil conflict, Bank appraisal documents nevertheless painted a rosy picture of the country, helping the project to proceed. Thus, contrary to the views of other observers, such as human rights analysts at the U.S. State Department, the Bank’s Project Appraisal Document in 2000 claimed: “Chad has successfully put in place democratic political institutions.”

By providing capacity building loans along with support for the investment itself, the World Bank felt assured that the government would be prepared for the coming

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### Box 3

**The World Bank Group’s Participation in the Chad-Cameroon Project**

Between its public and private sector loans, the World Bank Group provided over $300 million in financing for the Chad-Cameroon project. The International Bank for Reconstruction and Development (the commercial-rate public sector lending arm of the World Bank) provided loans to the governments of Chad and Cameroon to support their participation in the ownership of the transport system (the pipeline) itself. The “soft window” lending arm of the World Bank, the International Development Association, provided three concessionary loans for capacity-building to the governments of Chad and Cameroon, with the stated intent of reinforcing the countries’ institutional, legal and regulatory capacity before oil production commenced. IFC provided both direct loans to the Consortium and syndicated loans from private financiers.

#### World Bank Group Financing

<table>
<thead>
<tr>
<th>Loans</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD Loans</td>
<td></td>
</tr>
<tr>
<td>To Chad</td>
<td>$39.5 million</td>
</tr>
<tr>
<td>To Cameroon</td>
<td>$53.4 million</td>
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<td>IDA Loans</td>
<td></td>
</tr>
<tr>
<td>Chad: Management of the Petroleum Economy Project</td>
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<tr>
<td>Chad: Petroleum Sector Management Capacity Building Project</td>
<td>$23.7 million</td>
</tr>
<tr>
<td>Cameroon: Petroleum Environment Capacity Enhancement Project</td>
<td>$5.77 million</td>
</tr>
<tr>
<td>International Finance Corporation Loans</td>
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</tr>
<tr>
<td>A-loans to the Consortium</td>
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</tr>
<tr>
<td>(of which $85.5 million to COTCO, $14.5 million to TOTCO)</td>
<td></td>
</tr>
<tr>
<td>B-loan umbrella (leveraged over $100 million in additional financing for T/COTCO)</td>
<td></td>
</tr>
<tr>
<td>Proposed Supplemental IDA Financing</td>
<td></td>
</tr>
<tr>
<td>Chad: Petroleum Sector Management Capacity Building Project</td>
<td>$11.5 million (anticipated approval: April 2005)</td>
</tr>
<tr>
<td>Chad: Management of the Petroleum Economy Project</td>
<td>$8.5 million (anticipated approval: March 2005)</td>
</tr>
<tr>
<td>Total Financing</td>
<td>$259.87 million</td>
</tr>
</tbody>
</table>
petroleum era long before the oil began to flow. Largely as a result of civil society pressure, the World Bank conditioned its financial support for the project on the adoption of several measures for which the project is most well-known today: the passage of a revenue management law, stipulating how oil revenues would be spent to benefit the poor; the creation of a joint government-civil society revenue oversight committee; and the establishment of several independent monitoring bodies, to track the project’s implementation and its impacts on the local population.22

**Whose Risk? Whose Reward?**

The World Bank has called the oil project in Chad a ‘high-risk, high-reward’ endeavor. But the real question is whose risk and whose reward? The Consortium and the government will still reap benefits even if little is passed on to the people. The ultimate costs of the project’s failure will be borne by the population, who will have to live not only with the environmental and social footprint of oil development, but with the consequences of pouring petro-dollars into the pockets of a government that may not have the interest of its own people in mind.

In the context of the Extractive Industries Review, the World Bank often cited the Chad-Cameroon pipeline to justify its continued engagement in the extractive sectors. At the same time, civil society observers argued that the Chad project exemplified why oil development should not proceed unless minimum governance and human rights conditions are in place. Given the poor track record of oil-producing countries around the globe, the world is looking for a model of how to make petroleum work for the poor. A lot is riding on the Chad-Cameroon project. Not just the reputations of

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**Chad’s Oil Revenue Management System At A Glance**

Chad’s innovative oil revenue management system — based on Law 001 and subsequent decrees — sets out a legal and institutional framework for managing oil revenues from Chad’s three Doba fields. Key features of this system include:

- **All direct revenues** – royalties and dividends – are paid by the ExxonMobil consortium into Chadian government-controlled escrow accounts at Citibank in London.

- **Indirect revenues** – income taxes on the oil companies, customs duties, etc. – are paid directly into Chad’s treasury.

- After debt payments to the World Bank and European Investment Bank are withdrawn from the Citibank account, the remaining direct revenues are allocated as follows:
  - 10 percent to a Future Generations Fund to save for the post-oil era in Chad
  - 72 percent to capital investments in five “priority sectors” to fight poverty: education, health and social services, rural development, infrastructure, and environmental and water resources
  - 4.5 percent to the oil-producing region in southern Chad as additional, earmarked funding
  - 13.5 percent to Chad’s treasury for discretionary spending, until 2007; thereafter, these funds will be divided among priority sectors.

- A joint government-civil society Petroleum Revenue Oversight and Control Committee – a.k.a. the Collège – has been established with the authority to approve or reject specific projects financed by direct oil revenues.

The oil revenue management system contains many weaknesses, not least of which is its limited application to revenues from only three oil fields in Chad, rather than the whole petroleum sector. (For more on revenue management in Chad, see Section Three “Chad’s Oil Revenues.”)
its financial backers, who claimed that their participation would help ensure that the project improved the lives of Chadians, but the future of other emerging petro-states, where the lessons learned from Chad may influence future policy choices.

**About the Report**

This report traces the performance of the “Chad experiment” in oil revenue management over the first year of petroleum production. It is based on research conducted between September 2002 and November 2004, including four trips to Chad and ongoing exchanges with civil society organizations in the country. (Note: The report does not focus on the social and environmental impacts of the construction phase of the project in Chad and Cameroon. These have been well documented in other reports. (See Annex, “Additional Resources on the Chad-Cameroon Pipeline”.) The report seeks to answer three fundamental questions: How are Chad’s oil revenues being used? What are the prospects for poverty reduction through the investment of petrodollars? What lessons can be drawn from Chad’s oil experiment?

The Report is organized as follows:

Section One, **Poverty, Politics and Petrodollars** provides an overview of the political trends, recent events and institutional factors affecting or likely to affect Chad’s ability to manage its petroleum wealth well.

Section Two, **Chad’s Landlocked Treasure – Oil Production and Exploration** describes the basic reality of current and future oil extraction in Chad.

Section Three, **Oil Revenues – Chad’s First Taste of Black Gold** discusses Chad’s oil earnings, from the calculation of revenues to the system for their management.

Section Four, **“Just Add Oil” – Accountability from Scratch** describes the Petroleum Revenue Oversight Committee (the Collège) and recounts the challenges of making this unique accountability mechanism work.

Section Five, **Budgeting for the Boom – Spending Chad’s Oil Revenues** traces how Chad has used its oil money to date and what obstacles it faces during the first full year of peak oil production.

Section Six, **Changing Chad – The Role of External Actors** describes the ongoing role of the International Financial Institutions (IFIs) and other donors in the Chad-Cameroon project and evaluates their attempts to build government capacity and influence government policies and practices.

The **Conclusion** offers a summary critique of the project, a prognosis for the future, lessons learned to date and a set of recommendations for the oil companies, the IFIs, donor countries, the Chadian government, the Collège, and civil society, about how to help ensure that this experiment does not fail the people of Chad.

**Bank Information Center and Catholic Relief Services Interest in Chad’s Oil Boom**

Before the petroleum project began, most civil society groups in Chad did not oppose the exploitation of oil outright. They demanded then, and continue to demand now, a just exploitation of oil—such that the Chadian population will reap oil’s benefits rather than suffer its potentially dire consequences. Like our local partner groups, both BIC and CRS are concerned with the just use of oil wealth to benefit Africa’s poor.

The **Bank Information Center (BIC)** seeks to ensure that the voices of the poor are heard so that people have a say in the development decisions affecting their lives. Given the influential role of the IFIs, such as the World Bank, in the Chad-Cameroon
Chad’s Oil: Miracle or Mirage?

Multiple Monitoring Mechanisms: All Bark and No Bite?

The Chad-Cameroon Pipeline has been described as the most heavily scrutinized project in the history of the World Bank. This description is not simply due to the attention and media coverage the project has attracted internationally. It is also a reflection of the extraordinary measures undertaken to establish multiple monitoring bodies charged with overseeing the project’s implementation, ensuring compliance with environmental and social policies, and tracking the achievement of the project’s stated poverty alleviation objectives. Although these “watchdogs” could have significant persuasive power, they have not always lived up to their potential. While critical findings and recommendations have, at times, supported the claims made by local organizations and helped prod project sponsors to take action on some of the most pressing problems, they have all too often fallen on deaf ears, making little or no dent in the project’s implementation.

Bodies like the International Advisory Group could do much more to advocate for the adoption of their recommendations, publicize their findings, and ensure that their reports get into the hands of those who can use them to press for remedies.

**International Advisory Group (IAG)**

The IAG is a five-member independent body of experts created by the World Bank in 2001 at the urging of civil society groups to monitor the implementation of the Chad-Cameroon project and advise the project sponsors, host governments and the World Bank regarding problems and issues that arise. The IAG reports directly to the World Bank president and is financed from the central funds of the World Bank Group and by European donors. Since it began working in 2001, the IAG has conducted eight missions to Chad and Cameroon and has published summary reports after each visit. Its most recent report was released on November 18, 2004. This and previous IAG reports can be found at [www.gic-iag.org](http://www.gic-iag.org).

The most prominent example of a “watchdog” recommendation that has gone unheeded is the IAG’s repeated calls for urgent measures to accelerate capacity-building efforts. Since its earliest reports, the IAG has critiqued the two-speed nature of the project, whereby construction has far outpaced measures to increase the institutional and technical capacity of the Chadian government. However, project construction blazed ahead, finishing a year ahead of schedule, while Chadian institutional and legal systems remain weak and unprepared to manage the growing petroleum sector.

While the IAG has provided a frequently critical voice and valuable perspective on the project, its recommendations have seemed to carry little weight. The fact that many of the same recommendations have been repeated in its reports indicates that they have resulted in little concrete action. In 2003, civil society groups in Chad observed that, “after five statutory missions to Chad, the IAG’s mandate does not grant it any greater influence than the ability to make recommendations to the different project actors.”

**External Compliance Monitoring Group (ECMG)**

The ECMG, staffed by a consulting firm called D’Appalonia, is under contract with the International Finance Corporation (the private-sector lending arm of the World Bank Group) to monitor the Consortium’s compliance with the environmental management plan. Throughout project implementation, the ECMG conducted quarterly site visits. After project completion (certified in 2004) the ECMG is mandated to conduct yearly visits. Since their first visit to the project site in February 2001, the ECMG has published 10 reports. These and other information about the ECMG can be found on the World Bank’s website at: [www.worldbank.org/afr/ccproj/project/pro_monitor.htm](http://www.worldbank.org/afr/ccproj/project/pro_monitor.htm).

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

The CTNSC is the government body in Chad charged with oversight of the environmental and social impacts of the petroleum sector. Responsibility for ensuring compliance with environmental and social standards ultimately rests with the government of Chad, but the CTNSC has faced capacity constraints, financial and organizational hurdles since its establishment. The CTNSC is currently funded entirely by the World Bank, through capacity building loans. However, with these loans running out and its staff shrinking, the CTNSC’s future is uncertain. The government of Chad’s failure to budget any resources for the CTNSC in 2004 or 2005 casts doubt on its commitment to the operation of the monitoring agency. Because of weak technical capacity and limited equipment, the CTNSC has relied heavily to date on ExxonMobil facilities and data, and thus has not been able to provide truly independent information on the impacts of oil development. The World Bank has envisaged a training program for the CTNSC, whereby its staff would work closely with the ECMG in coming months to learn from them, but the government of Chad has yet to agree upon the financing modalities for this arrangement.
project, BIC aims to help affected communities and civil society organizations in Chad hold public institutions accountable for the impacts of their activities in an effort to promote environmental, social and economic justice.

Catholic Relief Services (CRS), along with its partners in Africa, including the local Catholic Church, supports the proper democratic management of natural resources and the implementation of development strategies that provide concrete benefits for the poor. The Catholic Church in Chad and Cameroon has been at the forefront of the struggle to ensure that the Chad-Cameroon project benefits the poor, respects the human rights of local populations and limits the impact on fragile ecosystems. CRS is committed to helping to ensure that Africa’s oil boom improves the lives of the poor through increased investment in education, health, water and other vital necessities. For this to occur, Africa’s oil revenues must be well managed.
1. Poverty, Politics and Petrodollars

“Risks...to Chad’s development prospects include those of political turbulence and deteriorations of the rule of law more broadly...As oil revenues begin to accrue and the stakes rise, power may be contested by violent means. And road blocking, violent crime, and theft of public resources may increase.”

– World Bank, Chad: Country Assistance Strategy, December 2003

Petrodollars are profoundly transforming Chad, one of the poorest and most corrupt countries on earth. According to the World Bank, 80 percent of the population of 8.3 million lives on less than one dollar a day. The bulk of the population relies on agricultural production to survive and outside of oil, the major exports are livestock and cotton. The country ranks 167th out of 177 countries in the UN’s Human Development Index. Life expectancy is 44 years, only 35 percent of the school age population is in school and only 45 percent of the adult population is literate. One in five children in Chad will die before they reach their fifth birthday. Clean drinking water is a rare luxury. In a country more than twice the size of France, there are only roughly 650 km. of paved roads and many streets in the capital, N’Djamena, are dirt tracks. In an oil exporting country, there are scarcely any filling stations and refined products – petrol and kerosene, for example – are supplied by a thriving market in smuggled products from Nigeria and Cameroon. In a country with a giant fossil fuel extraction project, only 1 percent of the population has access to electricity. The needs, then, are overwhelming.

The $4.2 billion oil investment in southern Chad has boosted economic growth and investment indicators, but this trend is leveling off now that the major pipeline, oil well and facility construction phase has come to an end. Chad’s long-stagnant Gross Domestic Product (GDP) rose from $1.5 billion to $2.6 billion in 2003 because of the oil project. Exports have also jumped with the beginning of oil production and Chad, according to the Economist Intelligence Unit, had the highest real GDP growth in the world in 2004, estimated at 38 percent.

Like most other oil production in Africa, this oil investment and the associated government revenues are being inserted into a country with weak institutions as well as a tragic history of corruption, conflict, bad governance, repression and human rights abuses. The World Bank has described Chad’s institutional weakness as “all encompassing and greater than in most sub-Saharan African countries, reflecting the impact of almost three decades of civil strife.” Corruption is a pervasive problem – Chad was tied with Burma as the third most corrupt country in the world in Transparency International’s annual Corruption Perceptions Index for 2004. The 2003/4 Public Institution Index – an influential ranking of the strength and integrity of laws and institutions and the presence of corruption published by the World Economic Forum – placed Chad at the bottom of the list of 21 countries surveyed. The extensive misuse of public funds compelled the Catholic bishops of Chad to declare in 2004 that corruption was
Chad also performs miserably on six governance indicators compiled by the World Bank Institute, scoring at or well below the lowest quarter percentile in all six. (See chart “Governance Research Indicator Country Snapshot”)

Political power in Chad is strongly concentrated in the presidency, currently occupied by Idriss Déby, who took office in 1990 after his armed rebel forces captured the capital, N’Djamena. The last presidential and legislative elections – which saw Déby re-elected and his party maintain strong control of the National Assembly – were deeply flawed. The U.S. State Department reported that “fraud, widespread vote rigging, and local irregularities marred the 2001 presidential election and the April 2002 legislative elections” in which Déby’s party won 110 out of 155 seats in the National Assembly. To a large degree, checks and balances in the government exist only on paper, and President Déby has exerted control over the judiciary to such an extent that it cannot be said to be a curb on executive authority.

The threat of violence is omnipresent. There is a history of tension and conflict between the populations in southern Chad – home to most agriculture and oil deposits – and the northern-dominated government in N’Djamena. According to reports by the U.S. State Department and Amnesty International, massacres of civilians occurred during the 1990s in southern Chad near the oil-producing fields. Regional rebellions in the North by the Movement for Democracy and Justice in Chad, and in the East, have further destabilized the country.
The U.S. State Department 2003 human rights report for Chad paints a bleak picture of the governance and human rights environment in the country:

*Despite the country’s multiparty system of government, power remains concentrated in the hands of a northern ethnic oligarchy and its allies, resulting in a culture of impunity for a ruling minority... The judiciary remained ineffective, underfunded, overburdened, and subject to executive interference.*

Civilian authorities did not maintain effective control of the security forces, and there were frequent instances in which elements of the security forces acted independently of government authority. Security forces committed serious human rights abuses.


The Government remained highly centralized. The national Government appointed all subnational government officials, who often relied on the central Government for funds and for administrative personnel. In a July 15 press release, human rights associations criticized the militarization of the administration, noting that most of the country’s 17 new governors were formerly high-ranking military officials; they also criticized the new Director of Judiciary Police, who was implicated in several outstanding cases of judicial abuse.

The Government obstructed the work of human rights organizations during the year through arrest, detention, and intimidation; however, such groups still were able to investigate and publish their findings on human rights cases. Government officials generally were accessible to human rights advocates but generally unresponsive or hostile to their findings.³⁵

**From Bad to Worse**

This is not a picture of a polity characterized by the rule of law or one that appears able to manage petrodollar wealth well. Arguably though, this bleak picture has actually worsened since the onset of oil production.³⁶

There are no signs that recent World Bank and other donor support for the Chad-Cameroon project has improved the human rights and governance situation in the country – if anything, the situation has gotten worse. In the months prior to and since the inauguration of the pipeline on October 10, 2003 – which Chadian civil society groups marked with a national “day of mourning” – President Déby and his party have made moves that some analysts say are designed to strengthen and consolidate power. Several events have led observers to worry that the political situation is becoming more unstable and the governance and human rights environment more tenuous.

**Closing the Circle of Power**

President Déby has reshuffled the cabinet at least three times during 2003 and 2004, placing family relatives and members of his Zaghawa ethnic group in key positions of
power and sidelining potential rivals or sources of internal opposition prior to the next national elections in 2006. In June 2003, despite protests from southern opposition leaders, President Déby appointed his nephew, Moussa Faki Mahamat, who is also from the North, as prime minister, upending a 25-year political tradition in the country that held that there should be regional balance between those who occupy the offices of president and prime minister. In February 2004, President Déby appointed his brother-in-law, Idriss Ahmed Idriss, to become National Director of BEAC, Banque des États de l’Afrique Centrale, the regional bank for Francophone states in Central Africa and essentially the central bank of Chad.  

The frequent game of ministerial musical chairs has made it difficult to develop the capacity of key ministries at a time when administrative competencies need to be strengthened. (There have been more cabinet reshuffles since President Déby came to power in 1990 than in the previous 30 years of Chadian history.) Some observers believe that President Déby’s grip on power may be weakening. At the same time, there are widespread press reports that Déby’s health is worsening, and that the president was a frequent visitor to Paris for medical treatment during 2003 and 2004.  

A Coup Attempt Rattles the Capital

In May 2004, what was initially reported to be a fairly contained military mutiny over pay and conditions of service was later exposed as an attempted coup d’etat. While the coup attempt was being suppressed, the capital was tense, new military checkpoints emerged, tanks appeared on the street and mobile phone communications were cut off for days. In a televised address to the nation on May 18, President Déby confirmed that elements of the Presidential Guard and National Nomadic Guard had made an attempt on his life. “A group of fanatic and manipulated officers tried to disrupt the functioning of republican institutions on the night of 16 May . . . Their hidden agenda was the assassination of the president,” Déby said.  

Local and international observers attributed the coup attempt to two possible factors:

- A struggle for power and tensions within the Zaghawa ethnic group and Déby’s ruling regime prior to a vote on removing the constitutional provision that imposes presidential term limits. Some reports suggest that units involved in the rebellion were commanded by senior officers close to and trusted by the president. Reports also suggested that close Zaghawa political allies of Déby may have been involved in the coup attempt, including Daoussa Déby, the president’s elder half-brother; Tom Erdimi, who has since been dismissed from his position as an advisor to Déby on the oil industry; and his younger brother Timan Erdimi, also a close advisor to the president.  

- Unhappiness of some Zaghawa in the government and the military over Déby’s “ambiguous” position on the Darfur conflict. According to press reports, the two major Darfur rebel groups – the Justice and Equality Movement (JEM) and the Sudan Liberation Army (SLA) – draw support from Zaghawa living on both sides of the Chad-Sudan border. Senior Chadian officers and government figures are said to have provided logistical, financial and political support to the rebel movements. Meanwhile, Déby has attempted to walk a tightrope by acting as an “honest broker” in Darfur peace negotiations and maintaining good relations with Khartoum.  

In the background, the growing oil prize must also be a factor in the calculations of those jockeying for power.
A Third Term for Déby?

The coup attempt came days before a vote in the National Assembly on whether or not to put the question of abolishing constitutional term limits on the presidency to a national referendum. Throughout Africa, maintaining and respecting presidential term limits has been a key indicator of progress on the transition to a strong democracy. Chad, it seemed, was drifting backwards against a continental tide. A month after Chad’s oil project was inaugurated in October 2003, Chad’s ruling party, the Mouvement Patriotique de Salut/Patriotic Salvation Movement (MPS), declared its intent to change the constitutional provision limiting presidents to two terms in office. Prior to the approval of the referendum, Chad’s ambassador to the United States, Ahmat Hassaballah Soubiane, issued an open letter deploiring the move and criticizing a perceived personalization of Déby’s rule. Soubiane was promptly recalled from his post and has not since returned to Chad, preferring instead to participate in opposition politics from his exile base in the U.S.

Given the ruling party’s dominance in the National Assembly, the vote to put the constitutional amendment to a public referendum was not close, and 30 opposition legislators staged a walk out to protest an alleged violation of parliamentary rules. In supporting the change and signaling his intent to run again, President Déby broke his 2001 campaign promise to stay in power for only two terms. Some observers believe that the nation’s new oil revenues may have caused him to rethink his position. The referendum on the constitutional amendment was due to take place in early 2005, with opposition groups likely to urge a boycott. Opposition parties have already refused to participate in the commission established to prepare for the referendum. Few have any doubts that President Déby will get the desired result from the referendum. As the Economist Intelligence Unit notes, “Mr. Déby will use his control over the electoral process and local authorities to ensure that a referendum . . . will result in a positive outcome for him, enabling him to stand for election again.”

France, Chad’s former colonial power and major trading partner, with more than 1,000 military troops permanently stationed in the country, has come out in support of President Déby. France’s Minister with Special Responsibility for Cooperation, Xavier Darcos, visited Chad shortly after the National Assembly vote on the constitutional amendment and made a statement on national radio that was fulsome in its praise: “France supports the position of President Déby, who has been democratically elected on two occasions. She welcomes the fact that the National Assembly approved the revision of the constitution with an even greater majority than that usually enjoyed by the government.”

In a statement responding to questions from CRS and BIC about the abolition of presidential term limits, U.S. Ambassador to Chad, Marc Wall, said:

> The Chadian people have to make that decision. We believe they should be able to do so democratically and transparently. We believe governments must hold elections that enable peaceful political transitions to take place. Leaders must be prepared to hand over power on a regular basis based on the will of the people expressed in demonstrably free and fair elections. Kofi Annan was right when he observed, “the days of indefinite one-man or one-party governments are behind us.”

While laying out this marker on the upcoming referendum, the U.S. has steadily increased cooperation with Chad on anti-terrorism efforts, providing military assistance and training for company-sized units of the Chadian armed forces through the “Pan-Sahel Initiative.”
Darfur: Spreading Conflict and Instability

The precarious situation in which Chad perennially finds itself has been exacerbated by the crisis in the Darfur region of Sudan, which has spilled across the border into Chad. Chadians are involved in both sides of the conflict in Darfur, with Chadian “Arabs” fighting with the Janjawid and ethnic Zaghawa fighting with the anti-government Justice and Equality Movement and the Sudan Liberation Army.

Over 200,000 refugees have streamed across the border into Chad, initially receiving a warm welcome from their desperately poor neighbors but placing an additional financial burden on the Chadian state and aid groups. As U.S. Ambassador to Chad Marc Wall has said, “The presence of 200,000 Sudanese refugees in eastern Chad has placed a strain on an already fragile environment. Competition for scarce resources, such as firewood, water, and pasture, is increasing tensions between host communities and the refugees.”

To be a refugee is almost always to live in cramped quarters, with scarce resources in substandard conditions. To be a refugee in Chad is even more precarious. The local communities in eastern Chad that have received most of the refugees are themselves extremely poor, and the population influx is placing strains on social and economic infrastructure. Ironically, some of the refugee camps have better infrastructure or access to clean water than the surrounding villages. In late 2004, tensions erupted into violence between the local population and the refugees, and several refugees have been killed.

The security situation in the east of the country has deteriorated, and French troops have been deployed to help deliver aid, guard the border and increase security in the area of the refugee camps. Some reports state that the Sudanese government is increasing its links with anti-Déby militia groups. The rebellion that brought President Déby to power in 1990 was launched in eastern Chad with Sudanese support. In 2004, Janjawid made cross-border incursions into Chad and Déby, long an ally of Sudan, found relations with the country strained at best. According to the International Crisis Group, “These attacks appear designed to warn N’Djamena that any support – even unofficial – to the rebels could have serious consequences . . . Darfur is a serious threat to Déby.” The strategic town of Abéché, which Déby took in 1990 during the rebellion he led that eventually toppled the Chadian government, is now the center of relief activities to support more than 200,000 refugees in the area.

The Darfur crisis has added to long-running tensions between nomadic herders and farmers. This problem is growing as herders roam further and further south. Indeed, in early November 2004, news reports said 12 people were killed and numerous houses destroyed during a clash between Muslim herders and Christian farmers in the town of Bebedjia, near the oil fields.

Growing conflict and instability in Darfur and along the border will increase pressure to spend new oil revenues on the security forces to protect the regime and could create increased tensions in the military. President Déby will have his hands full to both prevent the Darfur conflict dynamics from spreading to other parts of Chad and keep an eye on simmering internal threats.
Curtailing Press Freedom

In this climate of increasing instability, conflict and consolidation of power by President Déby, independent voices have trouble being heard. A few independent newspapers that manage to publish in N’Djamena are often quite critical of President Déby and the government, but their circulation is small and mostly limited to the capital. In a largely illiterate society, radio is the most important means of communication and an essential element in any system of government accountability for the management of Chad’s new oil wealth. In June 2003, the editors of the radio station FM Liberté – run by local human rights groups – were arrested and charged with defaming the president, following a critical broadcast. The government shut down the station less than two weeks after international VIPs had been in the country for the October 2003 pipeline inauguration. It was not allowed to re-open until mid-December. The station was again threatened with closure during 2004. In February 2004, after broadcasting an interview with an opposition politician, Radio Brakos, another independent station in the southern town of Moissala, was closed and its director assaulted by security forces. Other independent radio stations have also been shut down, journalists have had their equipment confiscated, and other stations, such as the Catholic-run La Voix de Paysanne in Doba, have been forced to pay exorbitant license fees to stay on the air.

Public Executions

On October 25, 2003, an N’Djamena court sentenced four Chadians to death for the previous month’s murder of Sheikh Ibn Ouma Idriss Youssouf, the Sudanese executive director of the privately-owned Chad Petroleum Company. According to Dobian Assingar, the president of the Chadian League of Human Rights (LTDH), the men were sentenced to death after a three-day special trial of the criminal court and never received the right to appeal. Jean Padre, vice president of the LTDH, described the executions as “very worrying” and said “[w]e believe we are in a police state. We didn’t give the suspects a chance to appeal.” Five other men were also executed in what was the first judicial application of the death penalty since 1991. The hasty nature of these executions, as well as the failure to guarantee due process protections to the defendants, alarmed international and local human rights organizations. Authorities have justified the executions as a necessary response to repeated complaints by opposition parties and the populations about the insecurity reigning in Chad. However, rather than reassuring the local population, the government’s disregard for legal procedures and speculations about the incident’s connection to disputes over oil contracts have left many feeling uneasy.

An Experiment Hanging by a Thread

“I thought Déby would understand the tremendous stakes that everyone has in this project – especially the president under whose tenure it was realized – but he has been taking some very unhelpful steps.”

– Donald Norland, former U.S. Ambassador to Chad and a frequent proponent of the Chad oil project

As oil revenues increase and tension in the country builds in the run up to the 2006 elections, President Déby appears increasingly vulnerable. During the summer of 2004, Déby spent much time outside of the capital, in Abéché, and was said to have held meetings with a much smaller-than-usual circle of advisors. Déby brought back his son, Brahim Déby, from Canada to be his personal secretary and potentially to groom him as a successor. In September 2004, Déby personally directed a raid of arms caches in the capital rather than confer the task to subordinates. And in early November, the government ordered the military to confiscate satellite phones from private individuals and members of the military.
The Chadian oil experiment depends heavily on the political will of the government to respect the rule of law, develop accountable institutions and encourage democracy. In an environment where the government faces external and internal threats, such political will appears to be in short supply. An internal World Bank assessment from April 2004 noted that “political and governance-related risks loom large in a country still recovering from decades of civil war, where democratic institutions are still nascent and clans or regional loyalties often over-ride national interest . . . Most importantly, implementation of the Petroleum Revenue Management Program is subject to significant governance-related risks. Although steps are being taken to address these problems . . . effects of these long-term efforts are gradual.”

“[Déby’s] a survivor, but he does seem beleaguered. Another coup? I wouldn’t rule it out at all.”

– A Western diplomat based in Chad
2. Chad’s Landlocked Treasure: Oil Exploration and Production

Foreign companies have been eyeing Chad’s oil potential since as far back as the 1960s, but civil wars, political turmoil, periodic low oil prices and other barriers have prevented the development of Chadian oil fields until recently. Chad is home to seven petroleum basins – Doba, Doseo, Salamat, Bongor, Lake Chad, Logone Birni and Erdis – with Doba being the only site of production activity to date. The U.S. company, Conoco, drilled exploratory wells in Chad in the mid-1970s, but it was not until the late 1980s that oil companies, through the ExxonMobil consortium, became seriously interested in the country’s “black gold.”\(^{61}\) In 1996, when its seismic exploration program found 800 million to 1 billion barrels in proven reserves, ExxonMobil stepped up efforts to consolidate financing for the pipeline project and to bring the World Bank on board.

2.1 Drilling and Pumping – The Doba Project

In addition to financing the 1,000 km. pipeline to the Atlantic coast, a large portion of the nearly $4.2 billion ExxonMobil/Chevron/Petronas investment was earmarked for the construction of 250-plus wells, a network of feeder pipelines and a processing and pumping station in southern Chad.\(^{62}\) Current oil production in Chad comes from three fields in the Doba “Oil Field Development Area” (OFDA) – Komé, Miandoum and Bolobo – which started production in July 2003. These production activities take place under a legal framework based on a 1962 petroleum code and the 1988 convention and subsequent amendments agreed upon by the Consortium and the government. The convention establishes a royalty rate of 12.5 percent, and sets other financial arrangements as well as technical aspects of production. (See Section Three, Oil Revenues: Chad’s First Taste of “Black Gold”)

The oil consortium’s “21st century” industrial installations have landed on the plains of southern Chad, a savannah area where the vast majority of the population practices subsistence agriculture. Government presence there, in the form of civil administration, security forces, health clinics or schools, is virtually non-existent. Despite the proliferation of oil production infrastructure, villagers have experienced few of the benefits that such developments could provide. The villages closest to the facilities stand in the shadow of gas flares and are almost completely surrounded by oil field installations. High-volatage lines and other infrastructure criss-cross their farmlands. None of the villages has electricity, and the irony of a huge power grid feet away from their homes is not lost on many residents. (Photo: Ian Gary/CRS)

Villages enclavés, or “cut off” villages, stand in the shadow of gas flares and are almost completely surrounded by oil field installations. High-volatage lines and other infrastructure criss-cross their farmlands. None of the villages has electricity, and the irony of a huge power grid feet away from their homes is not lost on many residents. (Photo: Ian Gary/CRS)

(For information on negative impacts of the oil project on local villages, see the Box 8.)
Chad’s Oil: Permit Areas and Fields

Consortium officials are fond of saying that the investment is less of a petroleum project than a logistical project – and indeed it is. Almost everything needed has to be shipped into the landlocked country by air, road and rail. New roads and bridges were built and some existing roads upgraded; four generators were installed with a total capacity of 120 megawatts (more than four times Chad’s entire national generating capacity); an airstrip receives daily flights from the capital for oil workers from the U.S., the Philippines and elsewhere, coming and going on four-week rotations; and a pre-fabricated office park, which would not be out of place in suburban America (complete with U.S. voltage and power outlets), has been housed inside the high-security fences at Komé Base. There, oil company staff work in a sophisticated control room to monitor the facilities and the flow of oil along the entire pipeline route.

As construction activities have slowed and the project has entered the production phase, Chadian and foreign employment has steadily decreased. In the second quarter of 2004, ExxonMobil and its contractors employed 2,292 Chadians and 1,091 expatriates. Of the Chadians, only 8 percent were in supervisory positions and many of the Chadian employees were not local to the oil field area. For a $4 billion-plus investment, the oil industry enclave in Chad is creating precious few jobs, making the generation of non-oil employment through the careful management and targeted spending of oil revenue paramount.

First Oil Exports – A Year Ahead of Schedule

ExxonMobil announced the first tanker shipment of Chadian crude on October 3, 2003, a full year ahead of schedule, and just one week before the official project inauguration by President Déby in Komé on October 10, 2003. At the ceremony, Déby declared:

“The Chadian oil will serve peace in Chad, peace with our neighbors, with the rest of Africa and the rest of the world. It will enable Chad, the hub of the continent, to finally play its role as
a link and an instrument of dialogue between various regions of the continent . . . I say that this Chadian oil must be a source of harmony and reconciliation between the sons and the daughters of Chad.”

By November 2004, approximately 250 wells had been drilled and oil production had reached its planned peak of 225,000 barrels per day. By October 2004, 56 tanker cargoes had been loaded at Kribi and more than 52 million barrels of Chadian oil exported to the world market.

Meters at both Komé Pump Station 1, near the beginning of the pipeline, and at the Kribi Floating Storage and Offloading (FSO) vessel, where oil is loaded onto tankers, measure the flow of crude exports. According to ExxonMobil, in 2004 the Kribi measurement has been on average 1.4 percent less than the Komé measurement.

There is some dispute between the government and Consortium about the accuracy of metering and where official readings should be taken for the calculation of revenues. (See Section 3.4, “The End of the Honeymoon”)

All oil produced in Chad flows through a central treating facility at Komé, where water is removed and oil from the three fields is blended in order to produce sales quality crude for export. What bubbles out of the pipeline in Kribi is lower quality oil than that found in neighboring Nigeria – not a “light sweet” crude, but a “heavy sweet” crude with high acidity levels, making it much less attractive on the international oil markets and able to be processed in only a few refineries globally. One oil industry analyst described Doba crude as “the worst of the worst – absolute dregs.” This poor quality has meant a roughly $10-15 per barrel discount on “Doba crude” off the benchmark price of Brent North Sea crude oil. Oil traders in London say that in October 2004 Doba crude was fetching $30 to $35 per barrel as compared to $50 per barrel for light, sweet Nigerian oil. This discount has been the subject of some debate between ExxonMobil and the government of Chad. (See Section 3.4, “The End of the Honeymoon”)

Most Chadian crude is sold for refining in North America and Asia. The three Consortium partners also take a share of the oil produced for refining and sales using their own facilities.

**Production Profile**

At the time the project began, production from the three fields was forecast to gradually decline to 150,000 bpd by 2010 and slump further to 100,000 bpd after 2014, according to Consortium documents. However, this forecast may now change depending on satellite field production and possible new discoveries since ExxonMobil is keen to keep the pipeline full for as long as possible.
2.2 New Production and Exploration in Chad and Beyond

Chad’s much vaunted oil revenue management law – Law 001 of 1999 – covers only revenues produced by the original three fields in Doba, so any exploration and production from outside these fields has serious implications for the future of Chad’s oil revenue management experiment overall. ExxonMobil and the Canadian company, EnCana, are conducting exploration in Chad, with reported interest from Asian firms as well. Both ExxonMobil and EnCana will have to relinquish some of their acreage in 2005, making room for new investors.

With the pipeline infrastructure in place, Chad has been actively courting increased investment in the oil and gas industry. In October 2004, Chad organized its first ever-international oil and gas conference, under the patronage of President Déby and sponsored by ExxonMobil, Chevron, Petronas, EnCana, Schlumberger, Halliburton subsidiary KBR, and other industry players. (While one member of Chadian civil society was included on the official program – Thérèse Mékombé, then acting president of Chad’s petroleum revenue oversight committee – in the end, she was not given the chance to speak.) The section of seating demarcated for “civil society” remained conspicuously empty throughout the two-day conference. The 1000-euro entrance fee and lack of publicity around the conference in Chad left little doubt that the event was tailored to oil industry attendees and not representatives of the Chadian public.

At the conference, the Ministry of Petroleum stressed its desire to update the country’s petroleum code, perhaps by the end of 2004, with special emphasis on moving the country from a concession contract system to the production sharing system that is standard in most other African oil-producing countries. The Ministry of Petroleum also indicated its intent to establish a National
Environmental and Social Standards for New Oil Developments

With at least five of ExxonMobil’s “satellite fields” scheduled to begin producing in the next two years, and ongoing exploration activities by both ExxonMobil and EnCan, there is an urgent need to address the potential environmental and social impacts of these new oil developments.

The loan and project agreements signed between the World Bank and the government of Chad contain clauses outlining the government’s responsibility to ensure that all oil transported through the Chad-Cameroon pipeline be developed in accordance with the Environmental Management Plan (EMP) implemented for the development of the oil fields in the Doba basin:

Section 4.10. 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 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.

Similar language is found in the agreement between the IBRD and COTCO, regarding oil transported through the portion of the pipeline lying in Cameroon.

To date, however, the government agency responsible for environmental and social monitoring of oil activities has not demonstrated the capacity to fulfill its supervisory role. Consequently, ongoing oil exploration and new developments outside the three original fields in Doba are being undertaken without environmental and social oversight by the local or national government.  The failure to disclose information about the scope and status of current and planned oil activities or to comply with environmental and social standards, not only may constitute a violation of contractual obligations, but more importantly jeopardizes the wellbeing of communities. Furthermore, the above clause in the loan agreement is only binding so long as the loan is outstanding. As soon as the government of Chad pays the World Bank back, as it is expected to do by 2015, this legal leverage may be all but lost.

As petroleum activities in the region accelerate, the World Bank Group and oil companies seeking to exploit Chad’s reserves must share responsibility with the government for safeguarding against the negative environmental and social consequences of oil production. Clear guidelines on what is expected of new oil developments and how standards are to be met should be finalized and made public immediately.

Oil Company (NOC), in line with the pattern in many other African countries. Part of the government’s motivation stems from a desire for greater control over the marketing and sale of the country’s oil, given concerns about the fairness of the price that the Consortium claims Doba crude is fetching in the world market today. The Secretary General of the Ministry of Petroleum indicated that they would draw inspiration and advice from the NOCs of Algeria (Sonatrach), Cameroon (SNH) and Congo-Brazzaville (SNPC). (While the SNPC has made some positive moves recently, none of these companies is known for its transparency in the management of oil wealth.)

ExxonMobil’s Satellite Projects – New Oil Falling Outside the Revenue Management Law

Production from oil fields outside the original “Doba Three” – Komé, Miandoum and Bolobo – has moved quickly from a theoretical possibility to an impending reality. ExxonMobil uses a “spoke and wheel” concept in its oil field development – the processing facilities at Komé are the hub into which planned additional fields will feed. After the last of 30 wells have been drilled in the Bolobo field in late 2004, ExxonMobil planned to move drilling rigs to begin developing five new
“satellite” fields near Doba. These fields – Moundouli, Nya, M’Bikou, Belanga and Mangara – hold significant amounts of oil. Both Nya (four wells, 10 million bls.) and Moundouli (30-35 wells and 105 million bls.) will come on-line in late 2005/early 2006. A 30 km. pipeline is planned to connect Moundouli with Miandoum and the Komé processing and export complex. All five new fields fall under the existing 1988 convention and are covered by the same 12.5 percent royalty rate that applies to the first three fields, but Chad’s oil revenue management law covers none of these new fields. (See Section Three, Oil Revenues – Chad’s First Taste of “Black Gold”)

According to the World Bank loan agreement with Chad, though, all new oil using the pipeline must conform to the same environmental and social standards as the original Doba fields. (See Box 6)

Exploration
The pipeline project has spurred exploration in other parts of Chad and its neighbors, including the Central African Republic, Niger and Cameroon. (Priority access to the pipeline is provided first to the ExxonMobil consortium, then to other companies operating in Chad and finally to potential Cameroonian onshore finds.) Now that there is a reliable way to get oil to market, the ExxonMobil consortium and other companies are looking for new pockets of “black gold.”

ExxonMobil Consortium
The ExxonMobil consortium signed a new convention with the government of Chad on May 10, 2004, which applies to future exploration and development activities in fields outside those covered by the 1988 convention. These fields lie in the Chari West (aka Doba), Chari East (aka Dosseo) and Lake Chad basins. The convention grants an exploration permit for five years from February 3, 2004, with an option for a five-year renewal. The Consortium must relinquish 50 percent of its permit area after the first five years. (While the minister of petroleum signed the convention and President Déby used recess powers to approve the convention in May, as of December 2004, it was not yet formally ratified by Chad’s National Assembly.)

ExxonMobil holds the rights to 10 million gross acres in the Doba, Dosseo, and Lake Chad basins, and has made discoveries in all three basins. According to ExxonMobil, seismic tests continued through June 2004 in several areas outside the three oil fields of the original project. “Early results of exploration that began in 2001 have shown promise but the Consortium has not yet decided to proceed with any additional oilfield construction. If new economically feasible reserves are found, the additional crude could extend the peak production period,” according to ExxonMobil. The May 10, 2004, convention, while confidential, was obtained by CRS and BIC and shows that the ExxonMobil-led consortium plans to spend approximately $94 million on seismic operations and drill at least five exploratory wells in both Chari West and East in 2005/6.

EnCana Consortium
The sizeable Canadian company EnCana, in consortium with tiny Cliveden Petroleum Company, holds the rights to Permit H, a massive permit area of 430,000 sq. km. (the size of Spain), covering all or part of each of Chad’s seven oil basins. EnCana has conducted seismic operations in the Bongor and Lake Chad regions, and has drilled four exploratory wells in the Bongor basin in 2004. EnCana’s exploration program was valued at $50 million in 2004 and it plans to spend more than that amount in 2005 to drill exploratory wells, conduct additional seismic testing in Bongor, and undertake new seismic exploration outside of Bongor in the Lake Chad, West Doba and Dosseo basins. EnCana signed a convention in 1999 covering exploration and exploitation and will have to relinquish 50 percent of its acreage in January 2005. The royalty rate is contained in this convention and is said to be slightly higher than the 12.5 percent for

The new convention between Chad and ExxonMobil shows that the company plans to spend approximately $94 million on seismic operations in 2005/6.
the original ExxonMobil convention.\textsuperscript{77}

EnCana would not disclose the results of its exploration to date, but estimated that there is a 25 percent chance of finding a commercially viable reserve.\textsuperscript{78} In order to be economically feasible, the right reserve size and distance from Komé would have to be found in order to justify construction of a feeder pipeline. If a find was made in a part of the permit area close to Komé, the reserve size could be relatively small to justify the infrastructure expense, while reserves found further afield would have to be much larger. The quality of the crude found is another significant factor in calculating economic feasibility – heavy crude similar to Doba would be less attractive than a find of lighter crude. EnCana estimates that the earliest it could be producing would be 2009, assuming commercially viable fields are found. At Chad’s first international oil and gas conference in October 2004, an EnCana representative presented their exploration efforts and plans and concluded by saying its “upside” estimate was of a 3-5 billion barrel oil resource potential in Chad.\textsuperscript{79}

A filing in a Houston bankruptcy case related to Trinity Energy Resources, a former minority shareholder of the Permit H concession, seems to indicate that EnCana may have found sizeable quantities of oil. According to the filing, based on results from exploration drilling and other surveys, an engineering firm has reported 16 “identified prospects” and 57 leads in the EnCana concession’s two main basins, Bongor (30,000 sq. km.) and Lake Chad (18,250 sq. km.). The study revealed a 50 percent likelihood of at least 660 million barrels overall. The potential EnCana find in the Bongor basin is approximately 160 km. from Komé across flat terrain.\textsuperscript{80} Trinity’s filing also says capacity of the 1,050 km. pipeline can be doubled to 500,000 bpd with three added pumping stations.

The potential to dramatically increase the pipeline’s capacity highlights how conservative initial production estimates were and underscores the need for a cumulative impact assessment, a regional development plan, and a sector-wide system for transparent revenue management.

\textbf{Energem – A New Player on the Scene}

In December 2004, Energem, a company listed on the Toronto stock exchange with oil and mining interests across sub-Saharan Africa, announced that it had been granted an exploration and production permit in Chad – the first major new exploration permit granted by the government since the inauguration of production in the Doba fields. The Chad contract runs for five years and is renewable for two further three-year periods. Energem, which has a “strategic alliance” with PetroChina, was granted the permit to explore 8,200 sq. km. In the Chari West basin adjacent to the Doba fields and 259,664 sq. km. in the Largeau basin. The latter basin is roughly the size of the United Kingdom and is located in northern and central Chad. According to a company press release, Energem has already paid a $6 million signing bonus, with additional $4 million and $6 million payments to be made in 2005 and 2006, respectively. Another $21 million will be paid to the government at the start of any production.\textsuperscript{81} (These payments go directly to the Treasury and bypass the revenue management law.) According to press reports, the permit was agreed upon on October 16, 2004, and

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\textbf{Box 7}

\textbf{Exploration Beyond Chad}

Outside of Chad, exploration is taking place in an arc of potential reserves that stretches from Niger, around Lake Chad through the north of Cameroon to the Central African Republic (C.A.R.). In Niger, ExxonMobil, Petronas and the Chinese National Petroleum Corporation (CNPC) have launched exploration programs, although a reserve find would have to near 1 billion barrels to have export potential.\textsuperscript{86} In Cameroon, the state oil company SNH, in cooperation with the Algerian state oil company, Sonatrach, has undertaken seismic studies and plans to drill a test well in the Logone Birni in the extreme northern tip of Cameroon near the town of Maroua.\textsuperscript{87} In the C.A.R., U.S.-based Grynberg Petroleum has secured a 55,000 sq. km. concession in the Doba and Salamat basins that straddle the Chad-C.A.R. border.\textsuperscript{88} Canadian company United Reef Limited has a 25 percent interest in the concession.\textsuperscript{89}
confirmed by presidential decree on December 8 of that year.\footnote{82}

Energem’s 51 percent-owned subsidiary, Gulf of Guinea Petroleum Corporation (GGPC), was technically awarded the permit. “The award of the Chad permit is a substantial step forward in our upstream oil development and adds considerable value to our asset portfolio together with what we already manage through GGPC,” said Energem president Tony Teixeira.

According to \textit{Africa Energy}, “Energem president Tony Teixeira has a colourful past. In January 2001, he was accused by the U.K.’s then Africa minister Peter Hain of sanctions busting in Angola. Teixeira denied the accusation and challenged Hain to repeat it outside parliament, where the rules of parliamentary privilege would not apply.” Energem was formerly known as DiamondWorks, a mining concern linked in press reports to private security firm Executive Outcomes.\footnote{81} DiamondWorks was also involved in an oil deal in Sao Tome and Principe that led to the dismissal of the country’s prime minister by the president.

\textbf{Other Players}

Both China and Taiwan have been courting Chad diplomatically and seeking access to Chad’s oil opportunities. In October 2004, Chad signed a “preliminary cooperation agreement” with Taipei’s Chinese Petroleum Corp. (CPC) for cooperation on oil exploration.\footnote{84} According to some press reports, the Chinese National Petroleum Corporation (CNPC) has been wooing “politically connected minnow Cliveden Petroleum” for a stake in the Permit H concession.\footnote{85}

\textbf{Doba – The Tip of the Iceberg?}

While prior to project approval, the World Bank portrayed the Chad oil investment as a discrete project exploiting three fields in southern Chad, confirmed production from ExxonMobil’s satellite fields and ongoing exploration by ExxonMobil, EnCana and potentially others, make it likely that Chad’s oil production will significantly exceed the initial reserve estimates of 1 billion barrels. Indeed, the \textit{Financial Times}, recently quoted a World Bank official as saying that actual reserves are likely to be at least 2 billion barrels, with huge implications for the size of Chad’s oil revenue windfall.\footnote{90}

The World Bank investment played a catalytic role not only in bringing the three Doba fields to fruition, but in spurring further production and exploration. This will lead to unplanned impacts on local populations as well as new challenges for the revenue management system. As such, the World Bank will continue to share responsibility for the impacts related to the development of Chad’s oil sector for years to come.
Social and Environmental Impacts: Lasting Effects and Lessons for New Oil Development

“The Bank sees Chad-Cameroon as a learning process, but at whose expense are they learning? For communities, when a project fails, they don’t have a second chance.”
– Samuel Nguiffo, Center for Environment and Development

“Any large project like the Chad-Cameroon pipeline entails risks for the natural environment, and these risks must be managed.”
– World Bank, "Questions and Answers on the Chad Cameroon Pipeline"

The World Bank claims that its support for the Chad-Cameroon petroleum project represents a new approach for investments in the extractive industry sectors, not only because of its initiatives with regard to revenue management, but also because its involvement has “helped ensure that…the project [was implemented] in an environmentally and socially responsible manner.” However, outstanding problems documented in Bank-commissioned monitoring and investigation reports, and cited by local civil society observers, cast doubt on the soundness of the environmental and social management of the project and its net benefits for the local population.

If some significant environmental and social harms were not avoided in the development of the three fields in the Doba basin, where World Bank supervision was heavy and international scrutiny high, what should be expected in zones of new oil development, where the same monitoring measures are not in place?

In August 2004, local organizations issued a joint statement calling upon the World Bank Group not to grant a “completion certificate” to the Consortium (signifying that the project had been implemented in accordance with the provisions of the EMP and permitting the Consortium to withdraw money held in an escrow account as a guarantee) until outstanding issues were addressed. In their joint declaration, Chadian civil society groups highlighted what they viewed as unresolved problems related to: dust in the oil zone; waste disposal and management; the failure of ExxonMobil’s subcontractors to respect contracts with suppliers; increased appropriation of land and displacement of local villagers; community compensation payments made on an arbitrary basis; the absence of an independent recourse mechanism to resolve disputes regarding damages; and the lack of consultation with communities about the process of “social closure” by which villagers are asked to sign papers indicating that all claims for compensation have been resolved. The “completion certificate” was granted over this appeal. However, the failure to resolve long-standing problems has not gone unnoticed.

As recently as November 2004, a report by the IAG noted, “the environmental and social issues raised by the IAG are ongoing issues that need to be addressed, rather than new problems. They include waste management, dust control, soil reclamation, community compensation, social closure and emergency projects,” adding, “These issues must be given proper attention.”

Following are some of the most frequently cited negative impacts and outstanding problems linked to the petroleum development.
Inadequate Planning for Cumulative Project Impacts or Oversight of New Oil Activities

The World Bank’s Project Appraisal Document acknowledged that the pipeline would serve more than just the three oil fields currently producing in Doba, yet a cumulative, regional environmental and social impact assessment was not carried out prior to the pipeline’s construction. Consequently, the government of Chad is ill-prepared to deal with the variety of indirect effects caused by the oil activity or the induced impacts of additional oil developments in the region. Ongoing oil exploration activities are being undertaken without environmental and social oversight by the local or national government. In 2004, the ECMG noted that, “[T]he Consortium is conducting exploration campaigns in the Moundouli-Nya zone with a potential connection to the Doba pipeline from Miandoum, without any effective environmental and social monitoring by the CTNSC [the government body charged with monitoring].” The IAG found a similar lack of oversight of other exploration activities being conducted by the Canadian firm, EnCana:

“[EnCana is conducting its activities] without any applicable environmental or social regulations and with only a sporadic presence by the CTNSC, which acknowledges that it has jurisdiction but lacks the resources to exert supervision . . . EnCana has decided to comply with the principles of the Doba Project EMP. In reality, the company is the only judge of its compliance . . . The expansion of Esso and EnCana’s activities as a result of the launching of the pipeline reveals the potential for accelerated exploration in several basins in Chad over a period of several years. This could either be advantageous or harmful for Chad and its people depending on whether or not there is legal and regulatory oversight and whether its application is rigorous and effective. For the time being, however, the framework and the oversight mechanisms for the few regulations that do exist are all but absent.”

The Absence of a Regional Development Plan (RDP)

A regional development plan for the project-affected area is more than four years overdue—and still incomplete. Despite claims that the RDP was underway at the time of project appraisal in 2000, the plan has not yet been finalized. In November 2004, the IAG wrote that the RDP “has seen little progress.” In absence of a comprehensive map of local needs and priorities, it remains unclear what will guide the use of the 5 percent of oil revenues earmarked for the region. On September 2, 2004, the government of Chad issued a decree proposing the creation of an interim committee to manage the use of oil revenues in the producing region. However, the committee is not yet functional and to be effective, it will require a development plan on which to base allocation decisions.

Inflation

The IAG and local civil society groups have noted a problem with inflation in the cost of housing and other essential commodities in the oil producing area. Programs to mitigate the impacts of inflation were marked by many delays. Concerns were raised in particular about the high price and scarcity of meat, poultry, fish and staples such as millet and manioc.
Dust Pollution

Although problems related to dust pollution have now been acknowledged by the Consortium, after years of repeated community complaints, the Dust Control Plan has not yet been fully implemented and the Consortium remains reluctant to apply a more permanent (and more costly) coating on trafficked areas of the roads. Of all the kilometers of roads traced in the oil-producing region, only nine kilometers have been treated with an asphalt-like material, approximately six of which are within the Komé Base. The majority of the roads that pass through villages and beside agricultural fields are treated with water or molasses, neither of which has proven very successful at suppressing dust for a sustained period.

Increased Impact on Land Use and Household Viability

Up to 300 households may be made non-viable as a result of the Doba project—many more than had been anticipated. Because project installations, such as well pads, have taken more land in southern Chad than predicted, the impact on households’ economic sustainability has been more severe than expected: “the number of potentially non-viable households in the OFDA is currently about 240 and is projected to reach about 300, as opposed to the initially estimated 150.” This heightened impact is exacerbated by the lack of progress on land use planning since August 2003.

Furthermore, concerns have been raised about the quality of housing provided to villagers who have been displaced. In several cases, houses were not built to withstand the climate and have deteriorated or collapsed under heavy rains, leaving the relocated villagers to reconstruct homes.

Waste Management

The disposal of waste lubricating oil and drilling fluids in the oil field development area presents a potential threat to the groundwater. Concerns about waste management have been repeatedly cited in official monitoring reports and voiced by local populations. During its visit to Chad in May-June 2004, the IAG found that “Waste management, dust control and soil reclamation are still not regulated and require prompt measures on the part of Esso and the government.” The ECMG has raised concerns about the potential impact of present methods for disposing of drilling fluids on the shallow groundwater and, by extension, the quality of water used for drinking and household purposes in nearby villages.

(See Annex, “Additional Resources,” for information on reports describing the social and environmental impacts of the oil industry in Chad.)
3. Chad’s Oil Revenues: A First Taste of Black Gold

After years of planning, negotiation and construction of the pipeline and oil fields, Chad’s oil revenues started to trickle in with the first shipments of Doba crude in late 2003. ExxonMobil made an initial payment of $6.5 million into the Citibank escrow account in London at the end of November 2003, representing the first of what will be several billion dollars of oil revenue flowing into Chad over the next three decades or more.

Early public estimates from the World Bank about Chad’s future oil revenues tended to emphasize the low end of possible revenue scenarios, with conservative projections of $2 billion over the lifetime of the project and roughly $80 million annually. In addition, project loan documents used an assumption of $15/bbl. These smaller figures made the task of improving government capacity to manage the windfall from an oil boom appear more manageable than was actually the case.

However, recent estimates portray a much bigger Chadian oil boom.

- A World Bank internal report from April 2004 states that “total revenues are expected to reach $5 billion” over the next 25 years. An earlier internal report had a medium- to high-end range of $5-8 billion.
- The respected PFC Energy consulting firm estimated in 2004 that Chad would gain $3.8 to $6.1 billion from oil revenues over the next 15 years.

With the tightening of global oil supply, it is likely that the world will not see a return to below $20 per barrel oil (Brent) prices anytime soon. Thus, while it is impossible to make firm projections given so many unknown variables, it is very likely that Chad’s oil revenues will far exceed the initial $2 billion estimate. This will be a huge boon in an economy previously reliant on subsistence agriculture and the export of cotton and cattle.

Show Me the Money

For years observers wondered if Chad would be ready to manage the oil windfall by the time the first oil revenues arrived. In the end, Chad was far from ready to receive, let alone manage and effectively allocate, its oil windfall when the first payment was deposited in the Citibank account in London. The earlier-than-anticipated completion of the construction phase of the project, combined with long delays in the implementation of capacity building projects in Chad, left the petroleum revenue management system struggling to catch up with the reality on the ground.

It was a full eight months from the well-publicized inauguration of the project to the first $32 million transfer of oil money to Chad on July 6, 2004. This long delay fuelled suspicions among the population concerning the government’s intent regarding oil revenues. Several factors served to postpone the transfer of revenues. The government and BEAC – the central bank for Chad – had to finalize contracts regarding the establishment of accounts for revenue disbursement, stabilization, the Future Generations Fund and the oil-producing region. In addition, a commercial bank (or banks) in Chad had to be chosen to receive funds from BEAC and disburse money for priority sector projects. Other aspects of the petroleum revenue plan had yet to be put in place, such as a mechanism to manage the 4.5 percent of direct revenues earmarked for the oil producing region, and the full capacity of the revenue oversight committee.

The IMF and World Bank worked with BEAC to establish these accounts prior to the first transfer. There was some debate regarding the selection of the Chadian commercial bank to handle local disbursements. Some believed that choosing more than one bank would add further confusion and make it more difficult to “follow the money.” The IMF indicated that having more than one bank would be inconsistent...
"with the provisions of the decree on sterilization of oil revenues aimed at facilitating transparency." Others maintained that because the Chadian commercial banking sector is weak, no one bank could accommodate the inflows of revenue alone without disrupting the financial system.

In the end, two banks were selected: Commercial Bank Tchad (CBT) and Société Générale de Banque Tchadienne (SGBT). While it was positive to note that the government of Chad did not draw down funds from the escrow account before the mechanisms were in place, it was equally worrying to see that the mechanisms were not ready even though the World Bank, the IMF and the government of Chad had had years to work together to prepare for the arrival of first oil revenues.

By the end of September 2004, ExxonMobil reported that it had paid a total of approximately $109 million into Chad’s escrow accounts in Citibank in London. With the first payment in July 2003, the World Bank began posting information on Chad’s escrow account balances on its website. According to this disclosure, $84,602,728 had been transferred to Chad from the Citibank account by the end of November 2004. The difference between the amount paid in and the amount paid out reflects withdrawals for debt service payments to the World Bank and EIB. (See Chart “World Bank Disclosure of Escrow Account Activity”) The Chadian government itself has made no such disclosure.

<table>
<thead>
<tr>
<th>World Bank Disclosure of Escrow Account Activity</th>
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<tr>
<td><strong>Chad Cameroon Pipeline Project Financial Statistics</strong></td>
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<tr>
<td><strong>Escrow Accounts Monthly Balances</strong></td>
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<td></td>
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<tr>
<td>Transit Account (1) US Dollars</td>
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<tr>
<td>IBRD debt service US Dollars</td>
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<tr>
<td>IBRD debt service reserve account US Dollars</td>
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<tr>
<td>EIB debt service Euros</td>
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<tr>
<td>Borrower Account (2) US Dollars</td>
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<tr>
<td>Citibank fees and commission</td>
</tr>
<tr>
<td>Monthly transfers to Chad US Dollars</td>
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</tbody>
</table>

(1) Royalties, interests and proceeds of funds invested in Citicorp investment funds
(2) Including funds invested in Citicorp investment funds

While the World Bank began posting information regarding Chad’s escrow accounts in London in July 2004, the Chadian government itself has made no such disclosure.
Multiple Revenue Streams

As is the case in most other oil-producing countries, the revenue accruing to Chad from the oil industry comes in many forms. All these revenue streams combine to determine what is commonly referred to as the government’s “take” from the oil project versus what the oil company generates in profits. These sources of revenue include:

- Signature bonuses
- Direct revenues
  - Royalties
  - Dividends from the government’s minority participation in TOTCO and COTCO
- Indirect revenues
  - Income and other taxes on the oil consortium
  - Customs duties

Signature bonuses, a common practice in the global oil industry, are typically paid in cash to host governments upon signing a contract for a new concession, and are paid whether or not oil is eventually found. In some cases, signature bonuses can be very large – in Angola in recent years they have ranged from $100 million to $300 million. In Chad to date, signature bonuses have been small. Chad received a $25 million signature bonus in April 2000 when two new private sector companies, Chevron and Petronas, joined the project. In December 2003 and March 2004, Chad received two $15 million signature bonus payments related to a new exploration agreement then under negotiation with the ExxonMobil consortium.

In the first few years of oil production, Chad will receive only direct revenues – royalties and dividends. Indirect revenues – taxes on the Consortium – from operations in the three Doba fields will begin accruing in 2007 and will likely exceed total direct revenues from those fields. Over the roughly 25-30 year lifespan of the Doba fields project, revenue streams will be uneven. If no new oil is found in Chad, most oil revenues will accrue in the first 15 years of the project, according to the World Bank.112 Direct revenues started to flow in immediately with production, while indirect revenues are expected to begin to accrue to Chad in 2007, peaking in 2009, and then declining in a “lumpy” manner for the remainder of the project. As some civil society observers have noted, the Consortium enjoys a “tax holiday” during peak years of production, thus representing considerable lost income to the government of Chad.113

3.1 Oil Company – Government Agreements: Secrecy in the “Model” of Transparency

What Chad receives from its oil production is governed by a number of agreements between the government and the oil companies. It is ironic that in a project praised for its transparency, many of these agreements, or key aspects of them, remain confidential.

Oil development in Chad is regulated through a 1962 Petroleum Code described by the country’s Minister of Petroleum as “clearly outdated.”115 The code sets general terms for exploration, production and transport of petroleum in Chad, as well as the fiscal regime for these activities. For years the government has said it would promulgate a new petroleum code, but a number of key agreements have been signed between the government and oil companies in the absence of an updated code.

The terms of the Doba oil field development are covered by a 1988 “Convention for Exploration, Production and Transportation of Hydrocarbons” between the government and the Consortium and subsequent amendments.116 Signed between

In a project praised for its transparency, many key agreements remain confidential.
ExxonMobil and the Chadian government, the convention reportedly provides Chad with a 12.5 percent royalty rate. (The details of this convention remain confidential.) Unlike many other African oil producers, Chad uses a concession contract system and not a production sharing contract system. That is, rather than sharing in the production, Chad derives revenue from royalties and allows the oil consortium to sell production on the international market. Chad’s royalty rate and “take” from its oil is also lower than many other African oil producers.

Industry officials ascribe this to the high degree of political risk in Chad and Cameroon, the low-quality of Doba crude, the landlocked nature of the country and the significant up-front investment required to build the pipeline infrastructure. Chad’s inexperience in negotiating with one of the world’s largest companies should not be overlooked as another important factor.

ExxonMobil’s exploration activities are...
covered by a renewed exploration, production and transportation convention signed on May 10, 2004, providing for a 14.5 percent royalty rate – a miniscule improvement over the original convention.\(^{117}\) (CRS and BIC have obtained a copy of this convention. According to section 18.5 of the convention, the royalty rate applies during the contract’s 35-year validity.) This convention, negotiated primarily in Paris over many months, was preceded by the signing of a Protocole d’Accord (protocol agreement) and related decree in January 2003. According to some press reports, the government tied its own hands in the negotiations of the new convention with ExxonMobil when a former official signed the Protocole, which reportedly locked key provisions of the 1988 convention in place, preventing the government from increasing taxes, fees or other regulatory measures in its favor.\(^{118}\) According to Energy Compass in London,

Chad’s royalty rate and “take” from its oil is lower than many other African oil producers.

<table>
<thead>
<tr>
<th>Chad’s “Take” in Comparison to Other African Oil Producers</th>
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<tbody>
<tr>
<td>Percentage of mean estimated oil value retained by African governments, 2002-2010</td>
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<tr>
<td>Company</td>
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<td>--------------------------</td>
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<tr>
<td>Nigeria</td>
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<td>Gabon</td>
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<td>Cameroon</td>
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<td>Congo-Brazzaville</td>
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<td>Angola</td>
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<td>Equatorial Guinea</td>
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<td>Chad</td>
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“The government apparently tried to dismiss the letter, arguing that the inexperienced minister had acted without expert advice and that the document was illegal under Chadian law.”\(^{119}\) Despite approximately $1.6 million in World Bank-financed legal assistance, the Chadian government was able to negotiate only a marginally better deal in the new convention.

Calculating Revenues

Chad’s royalties are calculated on the basis of the sale value of each barrel of oil produced after transportation costs have been deducted. ExxonMobil has been using a transportation cost of approximately $10/barrel, a price that has been the subject of long-running disagreements with the government, which believed that the cost was set too high. The transport cost, adjusted on a quarterly basis, has been higher than initially anticipated, as noted by the IMF.\(^{120}\) (See Section 3.4 “The End of the Honeymoon,” page 48) According to ExxonMobil, four factors are involved in calculating the transport cost, each of which are detailed in the confidential agreements between ExxonMobil and the government.
These factors include:

1. Operation and maintenance costs for the pipeline;

2. Return on Investment (ROI) on the pipeline (described as a “difficult calculation” by ExxonMobil);\(^{121}\)

3. Commercial debt servicing on the pipeline infrastructure (paid twice a year on a $600 million loan);

4. A transit fee of U.S. $0.41 per barrel paid to the government of Cameroon for allowing the pipeline to pass through its territory.\(^{122}\)

The market price for a shipment of Chadian crude is negotiated between the seller – one of the Consortium members – and potential buyers approximately two months before actually loading the oil. The sale prices of the more than 56 shipments of crude exported from the terminal in Kribi since October 2003 are not publicly available. Documents obtained by CRS and BIC, though, show that the average sale price for Doba crude was $37.52/bbl.

According to oil industry journalists in London, tracking the sales and marketing of shipments of Doba crude is extremely difficult – it is perhaps the most secretive oil production in sub-Saharan Africa – and this is within the already murky and complex oil trading market system. What is known is that Doba crude – when traded on the international oil market – has been fetching a substantially lower price than the much-publicized Brent North Sea benchmark prices.\(^{123}\) (Because there are so many different varieties and grades of crude oil, buyers and sellers have found it easier to refer to a limited number of reference, or benchmark, crude oils. Other varieties are then priced at a discount or premium, according to their quality.) According to ExxonMobil, the discount off the Chadian crude has averaged around $8-$10 a barrel, while according to some oil industry analysts this discount for an early December 2004 shipment was as high as $18 a barrel.\(^{124}\)

The determination of the discount is dynamic, varying over time in relation to a number of factors:

- One factor is the quality of crude – the current Doba blend, as described in Section Two, is of poor quality and not very attractive on the world oil market. While this physical quality may not change, its influence on the discount may lessen over time. Oil producers may give customers a discount for new oil blends to compensate for the costs of recalibrating refineries to take the oil. This is known as a “new crude” discount.

- A second factor relating to the discount in 2004 was the high “freight rates” for shipping the oil. Globally, there is more oil being produced that needs to be shipped than there are tankers to ship it. Oil from the Gulf of Guinea is “freight sensitive” since it must travel long distances to North American and Asian markets.

- A third factor in the last half of 2004 was the large discount for all medium and heavy “sweet” crudes, owing in part to weak demand in Asia.

Because of the poor quality of the Doba crude, few refineries in the world can process it without damaging their facilities. Chevron, for example, retrofitted a refinery in Pembroke, Wales (U.K.) to handle Doba crude at a cost of $12 million.\(^{125}\)

Since the Consortium members are all large, vertically-integrated oil companies with their own refineries and sales outlets for refined products approximately 40 percent of the crude is being refined and sold by the Consortium members themselves. (This may also be a reflection of the relatively tepid response of outside buyers to Doba crude.)
According to ExxonMobil, “safeguards have been built into the agreements to make sure that the Consortium members cannot take advantage of that situation by selling to their own refineries at below market prices. To guard against that potential, sales to non-Consortium refineries are used to calculate the average price per quarter. This quarterly average market price is then submitted to Chad’s Ministry of Petroleum for approval and used in the calculation of Chad’s royalties.”

The amount of the quality discount for Doba crude, and how it is determined, has been the source of disagreement and confusion between the government and the Consortium, especially in light of record high-global oil prices during 2004. (See Section 3.4, “The End of the Honeymoon” page 48)

After selling Doba crude and deducting the transportation costs, the Consortium deposits the net royalties on a monthly basis in Chad’s escrow account at Citibank in London. Monthly payments are made using a provisional oil sale price set for each quarter on the basis of the adjusted price for the previous period. At the end of each quarter, royalty payments are adjusted to reflect the actual price received during that period, which then serves as the provisional price for the next quarter. Once Chad has made loan payments to the World Bank and the European Investment Bank, the remaining amount in the Citibank account is transferred to Chad. Contrary to some press reports indicating that the World Bank controls the account, Chad’s Citibank accounts are under the sole control of the government, while the Collége can monitor movements in and out of the accounts.

3.2 Dividing up the Revenues – A Leaky Revenue Management Law

“In all conscience, out of love and faithfulness to our people, with no external pressure, we freely made the decision to manage the oil revenues in a scrupulous and transparent way, through the law relating to the management of the oil revenues. This law is unique, one of a kind.”

– Chadian President Idriss Déby at the oil project inauguration ceremony, October 10, 2003

The most important test of the Chad-Cameroon experiment – how the massive amounts of new revenues will be used in Chad – is now underway. While the Chad revenue management plan is widely considered an example for other oil-exporters, even under the best case scenario, if followed exactly as designed, the revenue management framework still has major flaws and gaps that need to be addressed if oil revenues are to benefit the people of Chad. These problems center on the design of Chad’s revenue management law and the oversight committee established to monitor compliance with the law. (See Section Four “Just Add Oil”: Accountability from Scratch)

The World Bank had justified involvement in the project by highlighting its poverty alleviation potential and promoting social and environmental safeguards and mitigation measures not found in other oil projects. The Bank urged the government of Chad to make legal changes and substantive promises if it wanted the pipeline to proceed. The
Chadian government agreed to these and other measures aimed at managing the oil sector in order to see the project move forward. For reasons of reputation and security, the Consortium itself also had an interest in seeing that revenues not go directly into the hands of a government with a less-than-savory reputation but be earmarked for poverty reduction programs, especially in the oil-producing region, so as to avoid tensions with the local population.

**Chad's Law 001 – The Devil is in the Details**

As a condition of its support, the World Bank obliged the government of Chad to pass a new law on the management of oil revenues. It provided the government with a $41 million loan to develop a revenue management and financial control system, including financial support to key institutions, and maintained that Chad would have the institutions and capacity to manage oil revenues well before their arrival.

The National Assembly passed the new law on December 30, 1998, after only three hours of debate with 108 votes in favor and none in opposition. Signed into law by President Déby on January 11, 1999, the law stipulates the allocation of direct oil revenues. The Law also establishes a Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP) or a Petroleum Revenue Oversight and Control Committee (hereafter, the “Collège”), a joint government-civil society body whose task is to “verify,” “authorize” and “oversee” expenditure of oil revenues.

The Petroleum Revenue Management Law contains several significant provisions, outlined below. (An English translation of Law 001 is included in this report as Appendix 1, page 98.)

- The law stipulates that direct revenues – net royalties and dividends after World Bank and European Investment Bank debt service is paid – are first deposited in an offshore account opened with an international bank. (Citibank has been chosen to provide these banking services.)

- Of the balance, 10 percent of the direct revenues are to be deposited in an offshore account and invested in long-term external investments, the proceeds of which are to be used to fund poverty reduction programs in a post-oil future (i.e. a “Future Generations Fund”).

- The remaining 90 percent of revenues from the post-debt service balance pass through Chadian Treasury “Special Petroleum Revenue Accounts” opened in Chadian commercial banks and are divided in the following manner:
  - 80 percent (or 72 percent of the total direct revenues, net of debt service) is earmarked for investment expenditures – such as the construction of health clinics or schools – in five priority sectors (education, health and social services, rural development, infrastructure, and environmental and water resources.) The World Bank says this must be over and above a pre-oil revenue spending level in these sectors, using 2002 spending as a baseline.
  - 5 percent of the remainder (or 4.5 percent of the total direct revenues, net of debt service) is to be allocated as a supplement to the Doba oil-producing region to be disbursed by local authorities.
  - Until the end of 2007, the remaining 15 percent is allocated to finance recurrent government expenditures. After that, it is to be added to priority sector spending.

As good as the revenue management law appears on paper, there are very significant weaknesses in its design and practical application. This was made painfully clear in late 2000 when the government announced that it had spent the first $4.5 million of a $25 million signing bonus paid by the Consortium on military equipment rather than on any priority sectors. Embarrassed after having touted Chad’s revenue management
The Petroleum Revenue Management Law contains several significant provisions.\(^{45}\)

- The law stipulates a division of direct revenues – net royalties and dividends (World Bank and other donor loan repayments are subtracted) – which are deposited in an offshore account opened with an international bank – (Citibank).

- 10 percent is deposited in an offshore account and invested in long-term external investments, the proceeds of which would be used for poverty reduction programs in a post-oil future (i.e. a “Future Generations Fund”).

- The remaining 90 percent passes through Treasury “Special Petroleum Revenue Accounts” opened in Chadian banks and is divided in the following manner:
  - 80 percent is devoted to expenditures in five priority sectors (education, health and social services, rural development, infrastructure, and environmental and water resources); the World Bank says this should be over and above a pre-oil revenue spending level in these sectors, using 2002 spending as a baseline.
  - 5 percent of royalties is allocated as a supplement to the Doba oil-producing region to be disbursed by local authorities.
  - Until the end of 2007, the remaining 15 percent can be used to finance recurrent government expenditures.
system as a model, the World Bank noted that the plan technically did not cover such bonuses. Nonetheless, in the wake of public outcry the Bank and the IMF urged the government in October 2000 to establish the revenue oversight committee as soon as possible, freeze the remainder of the signing bonuses, brief the National Assembly on the matter, and comply with existing budget procedures for all other revenues. Chad agreed to these terms in order to be eligible for badly needed debt relief funds.

Critical weaknesses in the law remain. Taken together, they mean that much of the state monies raised from the oil sector will fall outside the jurisdiction of the law and the oversight mechanisms established to monitor them. This potentially gives wide latitude for rent-seeking on the part of both the government and the private sector.

First, significant oil revenues fall outside the jurisdiction of the Collège. Fiscal control is only exercised over special accounts that correspond to direct revenues generated by royalties and dividends. Other indirect revenues, such as corporate taxes and custom duties generated by the oil project, are not covered and go into ordinary Treasury accounts.

According to an analysis by the French official development aid agency, Agence Française de Développement (French Development Agency), these levies may represent as much as 45 percent of total revenues over the life of the project. A World Bank projection of the distribution of net revenues, using assumptions of 917 million barrels produced at an average of $25 per barrel, show that two-thirds of total revenues would be indirect – $3.3 billion would go to general budget expenditures, dwarfing the $1.6 billion going to priority sectors, the Doba region and the Future Generations Fund.

Second, the Law does not cover all of Chad’s oil but only the three fields in Doba. The Law specifically applies only to the three Doba fields of Bolobo, Komé and Miandoum, even though ExxonMobil will begin production on five new fields in 2005 and soon thereafter. Thus, significant new revenues will fall outside the revenue management system. According to former U.S. Ambassador to Chad, Christopher Goldthwaite, these potential revenues are a real concern. “This is the biggest danger. There is a lot of oil in this country that is not yet exploited. Depending on who you talk to, there are several times more than the proven reserves at Doba (roughly 900 million to 1 billion barrels).” The government has sought to allay the concerns of the IMF and World Bank over this issue, but has yet to legally close this loophole. (See Box 10)

Third, the allocation of 5 percent of revenues to the oil-producing communities may be inadequate. Oil communities bear the brunt of the impact of oil development, as witnessed in Nigeria and elsewhere, thus the figure allocated to the oil region has been strongly criticized. World Bank management has said that the 5 percent figure was arrived at “through an internal political process” in Chad. But given the human rights and security situation in southern Chad, flawed elections and consultations in the presence of armed security forces, observers doubt that the people of the oil-producing region had much, if any, say at all in the selection of the 5 percent figure. Some observers question whether the 5 percent annual allocation will be enough to redress harms suffered in the region, let alone secure the additional benefits of which Déby spoke at the pipeline’s inauguration.

Fourth, the law is vague regarding priority sector and regional spending. While it stipulates sectors such as education and health, spending within and among these areas is wide open. There is no ruling about whether money be spent, for example, on primary health clinics in rural areas or state of the art hospitals in the capital. Regional allocations are also not specified. In a country with a history of ethnic and regional discrimination, this may sow seeds for future conflicts over the distribution of oil rents.
Finally, the 5 percent allocation specified by the revenue law for the Doba oil-producing region can be changed by presidential decree five years after the passage of the law, or from 2004 onwards. The president of Chad, acting alone, has the power to change these allocations.

Furthermore, institutions related to the judiciary or the rule of law are not earmarked as a priority sector; thus, little apparent effort exists to strengthen other branches of government that might serve as a counterweight to presidential decree. This is troubling because, as the World Bank’s Inspection Panel noted, the 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.” It also requires effective democratic institutions.

3.3 Filling Out the Legal Framework – Building on Law 001

Chad’s Law 001 provided the legal skeleton of a petroleum revenue management system, but much remains to be fleshed out both in law and in practice. Many of the key aspects – or modalities – of Chad’s revenue management system remained unclear even after the start of petroleum production. This was not in compliance with Chad’s loan agreements with the World Bank, which required completion of all necessary implementation decrees by the end of 2001. The World Bank’s Inspection Panel report noted that neither a stabilization fund nor a sterilization mechanism had been spelled out in the revenue management law or the loan agreements and that the Bank “should have addressed this serious risk to poverty reduction objectives in a more definite manner.”

Sterilization and Stabilization

After long negotiations between the World Bank and the government, decrees were finally issued on July 1, 2003, to cover the establishment of the revenue stabilization and sterilization mechanisms, as well as to provide further clarification on the “additionality” of spending in the priority sectors and the functioning of the Collège. (See Section Four, “Just Add Oil”: Accountability from Scratch)

Stabilization funds are used to manage external risks due to price volatility – surplus earnings are stowed away when oil prices are high and drawn upon when oil prices are low. The high volatility of oil prices makes it extremely difficult for oil-dependent countries to plan and budget government revenues and expenditures. In its first year of production, Chad’s oil shipments have sold for between $25 and $44 per barrel, and benchmark Brent crude prices have fluctuated by $3 or $4 in a single day.
There is broad agreement within the IFIs on the need for stabilization funds to smooth out oil price shocks and enable efficient budgeting and planning for poverty reduction, but no African oil producer has an effective stabilization fund. Such funds are technically difficult to manage and come under strong political pressure to be used for immediate purposes. Oil stabilization funds can only be useful if they are relatively large owing to significant market price fluctuations. They seem to work best, one World Bank observer notes, “where oil does not dominate the local economy and where a long tradition of good governance exists, as in Norway.”

According to Decrees 238 and 239, of the 90 percent of direct revenues to be deposited in the special treasury account at BEAC, 80 percent is to be deposited in a second “sterilization account,” from which disbursements will be made quarterly to local commercial banks according to approved budget expenditures. All direct oil revenues received in excess of budgeted (predicted) revenues will be deposited in this sterilization account. When actual revenues do not meet planned revenues, the stabilization mechanism is activated. When planned revenues exceed actual revenues by up to 20 percent, the difference is withdrawn from the sterilization account. If the difference exceeds 20 percent, then the budget must be revised. If this situation lasts for more than three months, the government must revise the macroeconomic framework and the medium-term expenditure framework.

Given price volatility, maintaining the stabilization mechanism will necessitate significant technical capacity and political will on the part of the government. Already, the IMF has said that the government’s 2004 budget set aside less of the earmarked oil revenue – $13.3 million (6.785 billion CFAF) – under the stabilization mechanism than advised by IMF staff. It is clear that a well-functioning stabilization mechanism is crucial to Chad’s success in oil revenue management, but it is also likely that Chad, without a history of good governance or strong government institutions, will find it difficult to manage such a mechanism.

Future Generation Funds

Future Generation Funds (FGFs) are used to save money “for a rainy day” – to invest a portion of present oil revenue to prepare for a post-oil future. As Norway has learned, they are also potentially useful in preventing “Dutch disease” and the overheating of an economy during oil windfall periods. In some countries, FGFs have been set up but have not been sufficiently secure to avoid “early withdrawals” by politicians, corruption and mismanagement. Even in countries such as Norway, there has been enormous political pressure to spend the money sooner rather than later. Future Generation Funds require good overall economic management; to date, there are no known cases of a well-administered FGF owned by a badly-run state. The issue of FGFs has proven to be divisive within the IFIs. The view that such funds can scarcely be contemplated in a context of dire poverty contrasts with that of across-the-board enthusiasts who cite examples from Norway and the State of Alaska – two cases that hardly share the conditions of sub-Saharan Africa. The IMF has explicitly advised against FGFs in the case of Congo-Brazzaville, citing the need for postwar reconstruction. Chad has a provision for the establishment of a FGF as part of its revenue management scheme, and one is recommended for Equatorial Guinea on the basis of the country’s evident lack of absorptive capacity.

According to the loan agreement between the World Bank and Chad, “Moneys deposited in the Future Generations Fund shall be invested, under prudential rules and investment arrangements satisfactory to the Bank, in long-term investment instruments. Upon their liquidation, proceeds of such investments shall be used to benefit poverty
reduction objectives. The Borrower shall adopt not later than December 31, 2001, such prudential rules and investment arrangements satisfactory to the Bank.

The outlines of Chad’s Future Generations Fund are contained in a decree finally issued on March 18, 2004. A little over 5.8 billion CFAF ($11.3 million) was budgeted for deposit into the FGF for 2004, while 12.53 billion CFAF ($24.5 million) was set aside for the FGF in 2005. According to the decree, no money may be withdrawn from the FGF unless total oil revenues are less than or equal to 10 percent of the total state revenues for the preceding year. The maximum withdrawal cannot exceed the total amount of funds deposited in the FGF for the preceding year.

An investment committee for the FGF is composed of the prime minister, the minister of finance, the minister of petroleum, the minister of planning, the national director of BEAC (currently a brother-in-law of President Déby) and one member of the Collège, selected by his or her colleagues. With the possible exception of the member of the Collège, the president of Chad directly appoints all members of the investment committee, which is responsible for defining an investment strategy for the FGF.

A FGF account has been established at BEAC, but an investment strategy has yet to be developed. BEAC will choose an international financial institution to manage investments on its behalf, with the investment committee having approval authority over the contract. Both the investment committee and the Collège have the power to order, on an ad hoc basis, audits of the performance and management of the investment fund.

As usual, many questions remain. What sorts of audits will be conducted and how will they be financed? Will the audits be made public? Does the investment committee have the necessary competence to evaluate how well the international investment firm is managing the FGF? How will the investment committee fulfill its duties and will it manage the fund in the long term interest of all Chadians? How will the money eventually be spent?

**Money for the Oil-Producing Region**

The communities nearest to the oil production have experienced the most significant social and environmental impacts from the project. (See Box 8). In the design of the revenue management plan, 5 percent of direct revenues were to be allocated to decentralized local authorities for poverty reduction programs. Chad’s political decentralization program has been delayed for years, and at the end of 2004 there remained no locally elected government bodies. Consequently, the government argued that an interim mechanism had to be developed to handle the cash. This interim mechanism is the cause of some concern as it presents further opportunities for government rent-seeking.

It was not until March 18, 2004, that Decree No. 457 was issued regarding modalities for the temporary management of revenues for the oil-producing region. An account in the name of the producing region was established at the BEAC. In Chad’s 2004 budget, $5.1 million (2.6 billion CFAF) was allocated to the producing region. The very definition of the oil-producing region was still under discussion between the World Bank and the government well into 2004. Eventually the government issued Decree No. 457 on September 29, 2004, indicating that this region would correspond to the administrative structure of the region of Logone Oriental, rather than a smaller geographic area closer to the three Doba fields. This decree also established a provisional committee to manage the special earmarked funds for the region. The committee is composed of nine members from government, civil society and traditional authorities. The committee, with an office in the town of Doba, is responsible for selecting and approving projects of “regional interest” in line with the national development strategy. The decree specifies that the money will still be subject
to the oversight of the Collège, but that decisions regarding the allocation of money between projects in the region will be made by the interim committee. The committee would dissolve itself once elections for local authority structures have taken place. The government named committee members in October 2004, but, as of late 2004, none of the earmarked money had been disbursed.\(^{147}\)

At least one prominent opposition politician, Ngarlej Yorongar, a deputy of the National Assembly from the oil-producing region, has expressed dismay at this temporary mechanism for managing funds earmarked for the region.\(^{148}\) In an open letter in October 2004, he argued that until decentralized local authorities are put in place in the oil-producing region, the allocation should remain sequestered in an offshore account. Any other approach would be an “operation tending to divert the incomes” destined for the region. In addition, Yorongar argued that the temporary mechanism was itself in violation of Article Eight of the revenue management law calling for the funds to be managed by elected local authorities.

### 3.4 The End of the Honeymoon

Remarkably, the ExxonMobil-led consortium and the government of Chad were still debating the method for measuring production, sales and calculating revenues months after Doba crude started to be exported. Indeed, revenue determinants were still a subject of dispute in November 2004, over a year after the first exports. All revenue payments into Chad’s escrow account in London since the end of 2003 have been paid on the basis of ExxonMobil’s view of the matter and are considered by the government of Chad to be provisional, rather than final, payments.

These long running behind-the-scenes disputes flared into the open at the beginning of October 2004, a few days before Chad was to host its first-ever international oil and gas conference. A statement issued by the “Presidential Press Service” on October 7, entitled “Chadian oil: swindling, murkiness and fraud by the Consortium in the exploitation of Doba crude,” was widely covered by Chadian state radio and television and laid out a litany of complaints, including:

- A “fundamental divergence” over the application of ExxonMobil’s 1988 convention with the government. The communiqué said, “Despite a call to order issued repeatedly by the Chadian government... there has been only silence and a manifest refusal to respect previous undertakings.”\(^{149}\)

- Anger over the low sale price of Doba crude when Brent crude prices were peaking over the $50/bbl mark. “The sale price of Chadian oil is less than 20 dollars, yet the barrel price is 50 dollars on the international market today. This practice puts considerable strain on the meagre resources Chad expects of its oil.” (According to the communiqué, Chadian crude was being sold at a quality discount of $10.12/bbl off of Brent prices, with a $10.52 transportation cost deduction.)

- Receiving no royalty payments for the first quarter of production. The communiqué said that the government had received no royalty payments for oil production from July to September 2003 because the Consortium considered this as “stock mort” or oil used to initially fill the pipeline that would only be paid for at the end of the project’s lifespan.

- ExxonMobil’s insistence on metering Doba crude at the loading facility at the end of the pipeline in Kribi, rather than at the beginning of the pipeline in Komé, where meters register a slightly higher amount. According to the communiqué, Article 13 of the 1988 convention indicates metering should be done at Komé.
ExxonMobil appeared blindsided by the communiqué and was asked for comment by the press before it had seen the statement or received any official government notice. In a statement several days later, ExxonMobil said, “The consortium has continuously conformed to the agreements in force with the government . . . and with all the Chadian laws that affect our activities in Chad. Contrary to comments attributed to the government we have consistently communicated all relevant crude oil sales information to the government as provided for in our agreements with the government.” ExxonMobil noted “from time to time differences of opinion may arise with respect to contract interpretation. In these instances our objective is to seek equitable solutions through discussions. However, there are dispute resolution mechanisms in the agreements, including arbitration, which may be used to resolve certain impasses.”

During the “Chad International Oil and Gas Conference and Showcase” at the Ministry of Foreign Affairs in N’Djamena (October 13-14, 2004), ExxonMobil representatives were notably absent from the VIP seating section. President Déby, in his opening remarks, struck a conciliatory tone and did not mention the communiqué directly, saying that Chad and its oil business partners should “cooperate in dignity and respect one another . . . We request from our partners to have good faith and honesty in order to help us avoid the syndrome of certain oil producing and exporting countries. Let’s not work alone, but in total transparency for the benefit of all.”

According to a subsequent report in African Confidential, “government officials were anxious to disassociate themselves from the [communiqué] . . . A slightly embarrassed oil ministry official said it came from the presidency, while presidential spokesman Hassan Guedallah said it was ‘not an official communiqué, just an article written by a journalist of the presidential press service’.”

Coming on the eve of Chad’s first conference designed to attract new investors, the timing of a communiqué accusing the Consortium of breach of contract was puzzling. The motivation for going public with the dispute is unclear. Perhaps it was a negotiating ploy on the part of the government to extract a better deal with ExxonMobil on exploration, or it may have been a move by elements within the administration to embarrass another faction within government. It may also be seen as the complaint of a government that is now realizing, with oil revenues coming in, the poor deal that has been struck for the country.

Without access to the 1988 convention and subsequent amendments, it is difficult to evaluate the merit of some aspects of the government’s complaints. It is clear, though, that the discount for the quality of Doba crude is set by the international oil trading market and not by an aspect of the convention. Regarding the transport tariff, at one point Chadian government estimates had set this cost at $5/bbl, while an internal World Bank study had set the cost at around $9/bbl, close to ExxonMobil’s charge.

It is also clear that the government has a distinct lack of capacity to monitor production, verify the accuracy of royalty payments on its own or to understand many technical aspects of the oil industry, including calculations of transport costs. The Consortium itself provides much of what training is given to the government’s Ministry of Petroleum. With frequent cabinet and ministry changes, capacity that is built in the Chadian government is often lost soon thereafter.

At the same time, ExxonMobil may have contributed to the dispute by not being as forthcoming with information as it could have been. Soon after the communiqué was published, ExxonMobil organized a three-day workshop on the determination of oil revenues and the pricing of the Doba blend for Chadian government officials, members of the Collège.
According to members of the Collège who met with President Déby the day after the communiqué was released, the government planned to hire two international auditing firms to investigate technical and financial aspects of the project, including a “cost audit” designed to determine if all the cost deductions that ExxonMobil has taken are legitimate.

**Managing Oil Revenues Without Capacity**

More than one year into Chad’s life as an oil producer, it is clear that many aspects of the oil revenue management system are only now being set up and still lack definition. At the same time, there is a profound lack of technical capacity in the petroleum ministry and other relevant departments to master the technical dimensions of oil production and to provide effective monitoring of oil activities. Many basic aspects regarding the calculation of oil revenues are the subject of ongoing disputes between the government and the oil consortium. And there are many elements of the project – renowned for its transparency – such as the 1988 convention, which remain confidential or hidden from public oversight for all practical purposes. It is difficult for outside observers, or, it seems, even for the Chadian government, to determine whether ExxonMobil’s revenue payments accurately reflect what is owed.
4. “Just Add Oil”: Accountability from Scratch

“Everything depends on whether the law will be adhered to.”
– Christopher Goldthwaite, former U.S. Ambassador to Chad

“If the World Bank doesn’t monitor it, the money will go who knows where!”
– Pierre Djasro, Chef de Canton, Miandoum, Chad

Perhaps the most innovative and most talked-about aspect of the Chad-Cameroon pipeline project is the joint government-civil society body established to monitor the use of Chad’s oil revenues. In response to pressure from civil society organizations concerned that, in a country characterized by endemic corruption and political repression, the benefits of the project would not reach the poor, the World Bank conditioned its financing for the pipeline project on the development of a revenue management plan. The plan centers on a petroleum revenue oversight committee established by Law 001 called the Collège de Contrôle et de Surveillance des Ressources Pétrolières (the Collège). (See Section Three, Oil Revenues: Chad’s First Taste of “Black Gold”)

The Collège is tasked with approving and verifying the expenditures of oil money in line with relevant fiscal and procurement regulations and the authorized national budget—quite an ambitious mandate for a committee of nine part-time members and only four technical staff.

The experience of the Collège since it was constituted in 2001 represents a microcosm of the difficulties of creating a functioning system of political accountability in a country unfamiliar with such mechanisms. Despite these difficulties, the Collège has made promising strides to establish itself and exert its authority. Although progress has been made within the last 18 months on equipping the Collège and familiarizing its members with their responsibilities, the challenges ahead are daunting. The Collège is empowered to reject proposed expenditures and to shed light on the government’s use (or misuse) of the oil revenues, but whether actions are taken on the basis of their findings ultimately depends on Chad’s judiciary and the government’s political will. A law is only as good as its enforcement, and while the Collège can help apply the law, it cannot uphold it. It remains to be seen whether exposure of wrongdoing will precipitate any sanctions or remedies, and whether the Collège itself will fill the shoes of “town crier” for the country if laws go unheeded.

4.1 Collège Composition

The nine-member oversight committee was initially designed to include seven government representatives and two civil society delegates. However, pressure from Chadian organizations and their international allies led to the law’s amendment, increasing the number of civil society representatives on the committee to four, three people from various constituencies and one religious representative (whose seat would alternate between Muslim and Christian communities). Given the strong control that the MPS has over the government, many view the four civil society representatives as the Collège’s only legitimately independent members.

Today, the Collège is composed of nine members including:

- one magistrate, member of the Supreme Court
- one Deputy (representative of the National Assembly)
- one Senator (NB: The Senate has never been constituted; seat occupied by a Deputy)
- The National Director of the Bank of Central African States (BEAC)
The General Director of the Treasury and Public Accounting (the central Treasurer)
A representative of labor unions
A representative of human rights associations
A representative of non-governmental development organizations
A representative of the religious communities (alternating between Muslims and Christians).156

With the exception of the Director of BEAC (the equivalent to the Chadian central bank) and the Treasury representative, who occupy seats on the Collège by virtue of their government offices, all other members are appointed by their peers.

The president of the Collège, who is elected by the nine members, has significant responsibilities. He or she is responsible for: the administration of the Collège; representing the Collège in all official ceremonies; convoking and presiding over meetings; overseeing the Collège’s own expenditures within its budget; recruiting the necessary personnel for the Collège’s functioning in accordance with relevant legislation; conveying acts of the Collège to the government and other parties; and signing necessary documents providing the Collège’s approval for budget expenditures and disbursements. While the president has these significant responsibilities, different officers in the Collège are delegated various roles and the Collège relies on a consensus-driven approach to decision-making.

The first two presidents of the Collège were both the directors of the national branch of BEAC. This trend fostered a widespread misconception that the director of the central bank was automatically the president of the Collège. However, while the director of BEAC is automatically a member of the Collège, he does not have a right to any particular office within the Collège. Breaking with the past, on November 4, 2004, the Collège elected one of the deputies from the National Assembly, Lamana Abdoulaye, as its third president. At the same time, the members affirmed that Thérèse Mékombé, NGO representative, should remain as vice-president and that union representative Michel Barka should continue as the general secretary.157 Critics note, however, that while Lamana is not President Déby’s brother-in-law, as a former presidential advisor and member of the ruling party, he is also close to the regime.

Together, the president, vice president and general secretary constitute the “Executive Committee” of the Collège. In 2005 – the first full year of peak production oil revenues – they have their work cut out for them.

4.2 Objectives and Responsibilities

The principle objective of the Collège, according to its own operations manual – adopted belatedly in 2003 – is to make certain that Chad’s oil revenues are used to fight poverty. The Collège is tasked with ensuring that petroleum revenues are allocated in compliance with national regulations, in good faith and transparently, so as to prevent any lost earnings for Chad. According to the legal texts of establishment, the mission of the Collège is to verify compliance with the relevant finance laws, and authorize and control withdrawals from the special accounts.158

The Collège has the authority to exert its control in four key ways. First, by verifying the correspondence between production volumes and deposits into the Chadian accounts; second, by ensuring that revenues are allocated according to the law; third, by participating in the preparation of budgets for priority sector expenditures of petroleum revenues; and finally, by overseeing the execution of the budget, ensuring compliance with procurement regulations and proper implementation of projects through desk reviews and investigative missions.159
In theory, the Collège is to work with other authorities in the Chadian government to exercise “upstream” control – verification of revenues received from the three Doba fields and the formulation of the national budget – as well as “downstream” control over the execution of the budget and the implementation of individual projects. The Collège is to take part in debates regarding the formulation of the draft priority sector spending plans and aggregate national budget, and is given an opportunity to participate in the discussion of proposed expenditures at the inter-ministerial Budget Committee. The draft budget (including medium term expenditure plans and program plans) is supposed to be sent to the Collège at least 10 days before it is discussed by the Council of Ministers. The Collège is to verify that the budget is consistent with the relevant laws, and to flag any aspects of the approved budget that deviate from the revenue management law or priorities established in the PRSP. The comments of the Collège on the draft budget are to be conveyed both to the Council of Ministers and to the National Assembly when the proposed budget is submitted for adoption.

Once the budget is adopted, the Collège is required to approve all commitments of funds for specific projects financed from petroleum revenues, and all payments on the basis of work carried out. With regard to public procurement, for all projects that cost 10 million CFAF [approximately $20,000] or more, the Collège is charged with verifying the compliance of tenders with relevant laws and standard procedures. The Collège has just five working days to review requests for disbursements of funds for proposed projects. If it does not issue an approval or rejection (with justifications) within five days, its consent is assumed. Decisions regarding the approval of proposed expenditures are taken on the basis of recommendations from the technical staff, and require a two-thirds majority in cases where there is no consensus. Following disbursement of funds, the Collège has the power to conduct field investigations of project implementation.

In sum, the Collège has at least four opportunities for intervention in the spending of oil monies:

- During budget formulation
- At request for commitment of funds
- At request for payment of funds
- During project execution (See chart, “Stages in the Budget Execution Process,” on Page 54)

Regular Monitoring of Accounts

The Collège regularly monitors the balance of and transactions in all the accounts designated to receive oil revenues. One of the technical staff has primary responsibility for tracking the balances of the offshore accounts, as well as those maintained in Chad. Although, in theory, the Treasury is to submit the balances of the offshore accounts (at Citibank) and the national accounts (in BEAC, CBT and SGBT) to the Collège, the Collège staff must regularly request the information from the Ministry of Finance and Economy.

The Collège monitors and analyzes the evolution of petroleum revenues paid to Chad, with attention to the price of oil and the volume of sale reported by the Consortium. According to its operations manual, the Collège is to verify that the true number of barrels produced corresponds to what is indicated in official reports. While it does not receive production figures directly from the Consortium, the Collège obtains data about oil sales via the Ministry of Petroleum, which has daily access to the production and sale meters, if it so chooses. Perhaps more importantly, the Collège has the right to call upon independent experts to verify the determination and reporting of revenues. While the Collège has access to data on royalty payments, it does not currently have access to information on dividends paid to Chad in its role as a shareholder in TOTCO and COTCO.

The Collège has just five working days to review requests for commitments and disbursements of funds for proposed projects. If it does not issue an approval or rejection (with justifications) within five days, its consent is assumed.
Stages in the Budget Execution Process

Expenditure initiated by line ministries

Amount > 10,000,000 CFAF ($16,700)
Contract Needed

Solicitation of Bids

Opening of Bids (Tender Commission)

Evaluation of Bids: technical undercomission prepares report

Contract Award (Tender Commission)

Stage 1: Commitment
(an act by which the spending agencies incur obligations)

Work Completed/Goods Delivered

Stage 2: Verification
(the process of checking goods delivered, work done and exact amount due)

Stage 3: Order To Pay
(order given to Treasury to pay)

Stage 4: Payment
(from Special Treasury Account housed at a commercial bank in Chad)

The CCSRP reserves the right to be present, as an observer, on the Tender Commission especially when the contract is for a large amount or when strong suspicions of collusion arise.

In July 2004, the World Bank began posting the balance of the Citibank accounts on its website. The Government of Chad has not yet made any such disclosures. (See Section Three, Oil Revenues: Chad’s First Taste of “Black Gold”) Initially, members of the Collège complained of poor service from Citibank staff. It was only after Citibank was alerted to the political and economic importance of this particular client that measures were taken to facilitate the Collège’s direct access to account balances. Since the Collège offices were completed in 2003 and equipped with computers and a generator allowing regular electricity supply, the members have Internet access to the Citibank account balances. However, the balances of accounts held in Chad, at BEAC and two local commercial banks, are not available on-line.

Upstream Analysis of Budget

The Collège is to participate in the analysis of the draft budget to ensure that the content is generally compliant with the law on the management of petroleum resources, and that proposed expenditures are consistent with the national poverty reduction strategy (PRSP). In theory, this “upstream” involvement in the definition of the budget should allow the Collège to be familiar with the projects that will be submitted to it for approval, before they are asked to evaluate and respond to requests for disbursement within a delay of five days. Nevertheless, members of the Collège continue to call for an extension in the time they are allotted to review proposed expenditures, arguing that a period of five working days does not allow for a thorough consideration of projects.

These procedures regarding Collège participation in the budgeting process were not followed, however, for the elaboration of the 2004 spending plan. The Collège received the draft 2004 budget from the Ministry of Finance on December 3, 2003, only one day before it was required to submit its observations. In 2005, compliance with the above procedures was still not standard practice. Although the draft budget for 2005 was completed on schedule, it was only at the behest of the Collège, through an official letter to the government, that it was provided with an opportunity to comment – and then, only after the budget had been prepared for submission to the Council of Ministers. The difficulties experienced in both 2004 and 2005 reveal persistent obstacles to the Collège exercising its “upstream” control, and may indicate reluctance on the part of the government to allow it to do so.

Procurement Oversight

The Collège is also responsible for ensuring that projects financed with petroleum revenues follow proper bidding and contract procedures. With heightened scrutiny of the management of the petroleum accounts and the national-level allocation of revenues, the risks of corruption and misuse of funds may migrate “downstream” in the spending process, surfacing in irregular procurement practices and flawed project execution. Patronage systems commonly emerge in oil economies where actors engage in rent-seeking behavior to capture petrodollars through unproductive or corrupt means and rulers distribute oil revenue to key allies to exert control over a political system. The World Bank wrote that in Chad, “[t]he governance environment has tended to foster a local private sector dependent on patronage, in which political connections are more important determinants of business success than managerial competence.” A cable from a Western embassy in Chad to the home country capital noted in March 2003:

"We have received several reports that those close to the president and the centers of power are establishing their own construction companies, non-governmental organizations and other enterprises that can bid on priority-sector contracts. They are thus positioning themselves to benefit personally from the oil revenues while abiding by the letter of the petroleum law (albeit demonstrating a limited understanding of the principle of conflict of interests)."

Although the draft budget for 2005 was completed on schedule, it was only at the behest of the Collège, through an official letter to the government, that it was provided with an opportunity to comment. The difficulties experienced in both 2004 and 2005 reveal persistent obstacles to the Collège exercising its “upstream” control, and may indicate reluctance on the part of the government to allow it to do so.
Particularly in light of these tendencies and past problems with improper bidding procedures and cronism in Chad, the Collège’s oversight of how project contracts are awarded and executed is of utmost importance.

One of the Collège’s four technical staff is responsible for procurement oversight. This procurement specialist has the responsibility of ensuring that all bidding procedures and related procurement regulations are followed for projects to be financed from petroleum revenues. According to Chad’s current procurement code, all projects with a total cost of 10 million CFAF (approximately $20,000) or more must be submitted to a competitive bidding process. The National Assembly has approved a revised procurement code, but its implementation has been stalled due to delayed issuance of decrees. As of October 2004, 13 of the 20 implementation decrees necessary to bring the procurement law into effect had been passed, and the remaining seven were to be issued soon. However, the 2005 budget designates no resources for training the staff of the government ministries and the regional officers in the new procurement procedures.

Recent audits of public procurement by the Chadian National Director of Public Procurement found poor compliance with regulations, highlighting risks of “leakage” in the procurement stage of the spending process. According to an internal World Bank report:

> “During 2002-2003, reports of the ministry of Finance’s General Inspectorate and the AGO revealed continuing problems in public-fund management. Procurement regulations were often ignored, resulting in over-billing. The quality of expenditure was poor, with more emphasis on the needs of the central administration, rather than on improving delivery of basic services. Moreover, several instances of corruption and embezzlement of supplies intended for local facilities occurred.”

A “Public Expenditure Tracking Survey” of the Ministry of National Education showed that only 38 percent of budgeted expenditures on supplies actually reached the schools for which they were allocated. According to the World Bank, this is due to appropriation of resources at intermediary levels, to leakages and inadequate record keeping and reporting, particularly in the monitoring of deliveries. These findings call attention to the need for much more extensive reforms in budget execution and monitoring, and underscore the importance of tracking oil revenue expenditures on the ground.

Such problems may have an effect on the Collège’s work. While all the projects submitted to the Collège in 2004 seem to have followed applicable procurement procedures, contracting of the largest project financed from oil revenues in 2004 (the three-year, 35 billion CFAF ($68 million) Ngoura-Bokoro road construction), was already in process when submitted to the Collège. As a result, the Collège had limited opportunity to review or comment on the planned project or bidding process. Now it faces the challenge of tracking evolving expenditures throughout the project’s three-year implementation to ensure that price adjustments over time do not mask “leakages.”

Disbursements

The Collège is to track and control all payment orders received from priority sectors, and maintain a summary table of operations realized by priority ministries corresponding to transactions in the commercial and BEAC accounts. One of the technical personnel is responsible for all payments made in the progressive disbursement system, whereby money is released in tranches as progress is measured on project implementation. Thus at each stage of budget execution for which Collège
approval is required, the procurement specialist and the payment specialist submit their comments and recommendations to the members of the Collège, who base their decision on the counsel of their technical staff.

Responsibility for oversight of spending in each of the priority sectors has been delegated to one of the members of the Collège. For example, Michel Barka, the labor representative and general secretary for the Collège, is responsible for the health sector, while Dobian Assingar, the human rights representative, is in charge of public works expenditures. Although this division of labor helps to facilitate systematic tracking of expenditures, some members of the Collège complain that without particular expertise in the sector for which they are responsible, and given limited time to review project dossiers, they cannot necessarily verify the quality of projects and safeguard against flaws in project design or misuse of funds during implementation.

Investigating Expenditures

According to the revenue management law and accompanying decrees, the Collège may conduct investigations of the Ministry of Economy and Finance and the technical ministries responsible for the priority sectors to verify that expenditures undertaken are executed in conformity with the approved budget and follow proper contractual procedures. However, the Collège does not necessarily have the funds and capacity necessary to exercise this investigative authority. In their quarterly report for July-September 2004, the Collège noted that it had not conducted visits to many of the sites of projects financed by oil bonus money or revenues, because of insufficient budget.

Furthermore, with only two vehicles available and limited staff time, traveling to sometimes remote project sites in a country more than twice the size of France is not always practical.

4.3 Performance of the Collège to Date

Oil Bonus Money as the Test Case

The Collège cut its teeth overseeing the use of seven-plus billion CFAF (approximately $13.7 million at current rates of exchange) of the 2000 signing bonus – the amount remaining after approximately $4.5 million was spent on military equipment and another 7 billion CFAF (more than $10 million) was spent on diverse items, from building renovation to road maintenance, to the purchase of over 30 vehicles for the government. Most of these expenditures were not submitted to the financial controller, did not follow procurement procedures and/or were not included in the official state budget. After a somewhat slow start (a spending plan for the oil bonus money was not originally submitted to the Collège), the Collège controlled the disbursement of the remaining bonus funds and undertook site visits to verify the execution of some of the approved projects.

Although the Collège did, in the end, exercise control over expenditures in most of the priority sectors, a large portion of the oil bonus remainder spent by the Ministry of Public Works was not subject to the Collège’s oversight. For example, the public works sector withdrew more than 1 billion CFAF of the bonus money, while the Collège only approved disbursement of 235 million CFAF. The Ministry of Public Works has proposed to use 998 million CFAF to finance the improvement of a segment of road from Abéché to Adré, near the Sudanese border, and some 50 million CFAF more for the purchase of 20 motorcycles and three vehicles. However, the Collège has vowed not to approve any further vehicle purchases until those recently bought depreciate.
Getting to ‘No’

In the first exercise of its oversight authority, the Collège refused to approve disbursement of a portion of the bonus funds designated for a food security program, to a project that included the purchase of several vehicles. The Collège also disagreed with the project’s design, which planned for the purchase of grain from Salamaat in Chad, on the grounds that purchasing the food locally would not help alleviate the food crisis. Civil society observers have noted that when the Collège made clear its intent to control the disbursement of the oil bonus money at a meeting of the managing directors of the priority sector ministries, the directors were so put off that they no longer wanted to hear about the remaining bonus money, let alone submit spending plans to the close scrutiny of the Collège.

In the first quarter of 2004, the members of the Collège undertook investigations of the expenditure of bonus money. In the course of visits to the sites of 30 of the priority sector projects financed from the petroleum bonus, the Collège found numerous irregularities including incomplete projects, waterless wells, and changes to the implementation plans for projects after their approval. In Moundou, where money had been approved for the construction of a technical high school, local authorities had no knowledge of the project (the last information they had received about a high school dated from 2000 when a project financed by Taiwanese funds was planned). In response to this confusion, the Ministry of National Education explained that the project was not, in fact, for a high school (as had been approved by the Collège), but the construction of primary school classrooms. The Collège noted that further investigation was necessary to get to the bottom of the conflicting information. Of the 12 wells visited in the region of Ouddai, only two were functional.

Among the reasons for the irregularities in project execution, the Collège’s investigations found the following: non-payment of start-up advances to the executing companies; the absence of preliminary geophysical studies to determine the necessary depth of wells; lack of supervision by the priority sectors; and the lack of information provided to local authorities about projects to be carried out in their zone. The Collège submitted a report of their findings to the government, but it is not clear what, if anything, happened as a result.

Public Reporting Obligations

The experience with the use of oil bonus money in 2003 underscores the importance of ensuring that information about the priority sector projects planned and approved by the Collège is disseminated to existing local government authorities and to the public. During 2004, the Collège took a number of steps to improve its public reporting practices, including developing a new website and holding press conferences to report on the Collège’s activities and the status of budget execution. As of November 2004, the Collège had produced quarterly reports through the third quarter of 2004 and published some information on oil revenue expenditures to date. These documents are available on the Collège’s website at www.ccsrp-tchad.org.

However, most of the reporting published by the Collège is retrospective in nature. Collège staff have said that they have not yet considered alerting the public in advance of projects to be carried out, so as to enable the public to track the use of oil money and reinforce the Collège’s efforts to supervise project execution on the ground.

4.4 Chief Weaknesses in the Structure, Mandate and Operation of the Collège

Part-time Members for a Full-time Job

The Collège is structured much like a Board of Directors, whose members each have full-time jobs outside of their service on the committee. The nine people who sit on
the Collège respectively hold positions in government, as directors and representatives within ministries and the National Assembly, and in civil society, as leaders and activists within various organizations. Fulfilling its important mandate requires the Collège to function very much as an activist board of directors. However, overseeing the use of the country’s oil revenues (which may soon double Chad’s national budget) is no small task, and may require more resources than the (part-time) members of the Collège are able to contribute. Time constraints pose a real obstacle to the Collège’s task. Although four full-time technical personnel were hired to support the Collège in the third quarter of 2003, depending on the rate of oil production and pace of spending, the work may soon surpass the capacity of this limited technical staff. Although there is no statutory limit on the number of support staff the Collège may employ, the budget may constitute a constraint on the future ability of the Collège to adapt to needs that arise.

Therese Mékombé, the acting president of the Collège until October 2004, spent a tremendous amount of time in trainings and meetings in 2003 and 2004. While her dedication is commendable, and enabled the Collège to be represented at and to take part in various decision-making processes (such as those surrounding the finalization of the stabilization account and the arrangements with local commercial banks), her efforts have exceeded the expected role of Collège members. It is not certain that future members will have comparable time to devote to the work of the Collège.

Furthermore, it is not clear that the Collège has, to date, made best use of the limited time of its members. The types of trainings conducted, including a visit to Norway to learn about management of petroleum revenues, may not have been the most productive way to train the Collège members on how to carry out their roles. Given that the members of the Collège can only sit on the committee for a maximum of six years (and most are there for far less time, given frequent changes within government offices), expensive and time-consuming investments in capacity-building activities (especially those that are not directly relevant to the Chadian context) may not be appropriate.

While three economists and a procurement specialist were hired in August and September 2003, at least one member of the Collège indicated that they still lack certain competencies. For example, there are no plans to hire a fiscal (tax) specialist, despite the fact that the resource flows will become more complex as indirect revenues begin to accrue in the coming years, and the technical staff do not include experts in each of the priority sectors that the Collège must oversee.184 (While the College has the authority to commission audits or hire experts, it is not clear that it has sufficient funds or time to do so as needed.) As of October 2004, none of the technical staff had received any professional training related to their functions on the Collège.185

Eyes on Half the Prize

One of the most striking limitations on the Collège’s oversight role stems from the laws that it is charged with enforcing. Members of the Collège have long-pointed out weaknesses in the design of the revenue management system which limit their mandate and may ultimately diminish the impact they can have on government accountability. (See Section 3.2, “Dividing up the Revenues: A Leaky Revenue Management Law”) First, the Collège’s oversight is limited to the use of direct revenues from the three fields in Doba. Secondly, because Law 001 does not specify how “indirect revenues” are to be allocated, the Collège has no role to play in verifying the use of what will soon be a large portion of the country’s revenues, particularly after a number of tax exemptions will be lifted by 2008. Furthermore, the law does not specify whether non-fiscal revenues such as signing bonuses are subject to oversight by the Collège. Although the scandal surrounding the initial use of the 2000 bonus prompted the government to submit the remainder to the Collège’s oversight, this is not mandated by law. In 2003-2004, for example, the government received two payments
of $15 million each for negotiations surrounding a new convention with ExxonMobil, but these payments did not pass through the Collège.

**Short Tenure of the Collège Members**

Another structural weakness of the Collège has to do with the instability of its membership. As of November 2004, the only members of the Collège who had been present since its establishment were the three civil society members representing development NGOs, labor unions and human rights associations. All of the government members have changed at least once since the Collège’s establishment, and in some cases, as many as three times. The high turnover of government representatives reflects the frequency with which the cabinet has been reshuffled by the government. The continual shifts in the Collège’s composition have taken a toll on its ability to function effectively and jeopardized institutional memory and capacity building. New members lack what training the Collège has received and a heavy reliance on one or two individuals leaves serious questions regarding sustainable capacity building for the institution as a whole.\(^{186}\)

In its November 2004 report, the International Advisory Group (IAG) warned that with a complete overhaul of its membership in two years, the Collège risked to lose the skills gained and the institutional memory acquired to date. The IAG recommended that hiring additional technical staff would help to offset the inevitable knowledge losses that will occur as trained members term-out of the Collège, as would continual training for the Collège and its staff. Furthermore, the IAG suggested that a phased renewal of the Collège members (for example, rotating members in thirds) may also reduce some of the disruption and inefficiency that characterize the high-turnover system in place today.\(^{187}\) Civil society observers have also called on the Déby administration to commit to greater stability in the government offices that are allocated seats on the Collège.

**Limited Access to Information**

Perhaps one of the greatest constraints on the Collège’s operation is the difficulty of obtaining necessary and complete information in a timely fashion. In May 2004, Therese Mékombé, then acting president of the Collège, sat on a panel at the Royal Institute of International Affairs in London with Andre Madec of ExxonMobil, and explained the difficulty that she and her colleagues had obtaining information on production figures and sales data, with which to cross-check reported revenues. Ms. Mékombé asserted that the Collège was “underfunded, understaffed and deprived of information by both ExxonMobil and the Chadian government.” At that meeting, Mr. Madec promised that ExxonMobil would provide the Collège with any documentation it requested.\(^{188}\) However, in October 2004, Collège staff still maintained that ExxonMobil did not regularly provide documents to the Collège.\(^{189}\)

According to its Operations Manual, the Collège has a right of access to information relevant to the determination of petroleum revenues, including, but not limited to:

- volume of crude produced and sold
- discount off the price of a barrel of oil
- transfer fees and banking commission
- debt service payments
- bank account balances
- transaction fees
- exchange rate for transactions
- payment of dividends and royalties by oil companies
- taxes, customs duties linked to petroleum exploitation
- production and transportation costs of crude
- all other factors that influence directly or indirectly petroleum revenues.
Any irregularities noted in the above information are to be reported to the Auditor General (Chambre de Comptes).

ExxonMobil maintains that its obligation is to provide information to the Ministry of Petroleum, and it is up to the Chadian government to ensure that that information is shared with the Collège, as needed. However, members of the Collège note that it remains difficult to access information from the Treasury and the Ministries of Petroleum and Finance, who are responsible for reporting on the quantities of oil exported and financial flows. There are no regular meetings between the Collège and the government and the Ministry of Petroleum does not routinely send the quarterly production figures to the Collège; they must be requested. The World Bank project staff have recommended the creation of an inter-ministerial committee to ensure communication between the Collège, the Ministry of Petroleum and the Coordination Nationale responsible for the oversight of the petroleum development and pipeline project. However, as of November 2004, such regular, monthly meetings between the Collège and relevant government and corporate actors were not yet institutionalized.

The reluctance of the oil consortium and the government to more proactively disseminate information, together with the hesitancy of the Collège to ask for it, make for stunted communication and an irregular flow of information, at best.

The Hen Guarding the Foxhouse

For more than two years, the members of the Collège have been calling for an independent budget, earmarked directly from oil revenues or otherwise fixed outside of national fiscal processes. At present, the Collège’s budget is determined annually and authorized by the Ministry of Finance – the very body whose fiscal operations the Collège oversees. To date, funding for the Collège has come from the government directly as well as from World Bank loans.

In 2003, the planned budget for the Collège was on the order of 381 million CFAF ($745,000), of which 131 million CFAF ($255,000) was to be provided out of the national budget, while the remaining 250 million CFAF ($490,000) was to be paid from a World Bank capacity building project. At the end of December 2003, only 186 million CFAF had been spent, and of that, only 83 million CFAF had been supplied by the Bank’s capacity building credit. (See Section Six, Changing Chad - The Role of External Actors)

Although the government of Chad did not grant the full amount of funds requested in 2003 by the Collège, the money it did allocate was disbursed more rapidly than were the designated World Bank funds.

The 2004 Chadian government budget contained a line item allocation of 75.9 million CFAF ($149,000), although the Collège had proposed a budget of nearly ten times as much, at 677 million CFAF ($1.3 million). According to Collège documents, in 2004 the World Bank capacity building credit provided 28 million CFAF ($54,000) to cover the salaries of the technical staff, but did not contribute any money to the Collège’s general operating budget.

For 2005, the Collège proposed a budget of nearly 600 million CFAF ($1.1 million), but it is not yet known what the government will agree to finance, as the 2005 Budget was still under discussion in the National Assembly at the time of writing.

The World Bank’s proposed supplemental capacity-building credit, scheduled for approval in April 2005, includes $1.3 million earmarked for support to the Collège and the Auditor General’s office. The portion of the loan allocated to the Collège would cover ‘salaries of the Collège’s technical staff until those are assumed by the state budget, training and study tours, technical assistance, and information and communication services.’
The Collège attributes its inability to perform all of its functions largely to budgetary constraints. However, the problem may not only be that the Collège’s funding is insufficient, but that their proposed budget reflects a poor prioritization of expenditures and includes unreasonably high costs for certain items. Some have argued that the budget should prioritize project evaluation and investigation missions, and maintenance of the generator for the office (necessary to provide steady access to computers, email, and the internet) over other less crucial activities, such as visits to neighboring countries. However, debates over the allocation of the Collège’s own budget may be of less importance in the near-term than simply securing a steady stream of funding for their continued operation. The risk of the Collège being starved for the funds needed to do vital work if it is wholly reliant on the government for its budget outweighs concerns about appropriate budgeting priorities.

Additional resource constraints also limit the Collège’s ability to conduct investigations. As of November 2004, the Collège only had two vehicles at its disposal, of which at least one must be in N’Djamena at all times. Given how vast Chad is and how few paved roads the country has, the task of investigating petroleum revenue projects on the ground is a daunting one, requiring not only sturdy vehicles and sufficient gas, but enough time to make the trip out to some of the zones in which projects are to be executed. With limited funds available both for equipment and the additional costs of missions out of N’Djamena, and the limited availability of members of the Collège, it is unlikely that the Collège will be able to trace the oil money to its end use without the assistance of civil society organizations and citizens.

Controversy over Appointments – the Government Trying to Choose its Watchdogs?

To date, there have been questions about the independence of government representatives appointed to the Collège and concern about the government’s recent attempts to control civil society appointments. It could be said that civil society predicted the emergence of such controversies. Shortly after the law’s passage, civil society introduced into the National Assembly a number of modifications to Law 001, including the suggestion that the procedure for designating the members of the Collège be clarified. They asserted that with regard to the civil society representatives, the law must be very clear that it is up to civil society, and civil society alone, to designate those representatives it judges worthy to represent it. Recent events have cast doubt on this exclusive right.

Idriss Ahmed Idriss, the brother-in-law of President Déby, was named head of the central bank in early 2004 and, by virtue of that position, became a member of the Collège. This appointment was greeted with concern and skepticism nationally and internationally because, despite the fact that many characterize Mr. Idriss as extremely capable, he is closely linked to Déby’s family. Although he was named to the directorship of BEAC in February 2004, Ahmed Idriss did not take his position on the Collège for months. He was sent to neighboring Cameroon for training on the banking and financial system of the central African monetary union – a journey that although only several hours from N’Djamena, somehow prevented him from joining the Collège and attending meetings until late August 2004, thereby delaying the election of Collège officers.

In addition to appointing Déby family members to influential government posts, the government also appears interested in influencing the selection of civil society representatives on the Collège. When the religious seat became vacant at the end of 2003, the government failed to authorize the Catholic Church’s nominee for the position—a step that is usually just a formality. For months, the government dragged its heels, refusing to issue a decree confirming the appointment of Marc Beremadji, a former Chadian finance minister who worked as a lay member of the Church. Though
the government eventually explained its resistance arguing that the seat reserved for a religious representative had to be filled by a clergy member and not a lay person, many speculate that the refusal to confirm Beremadji was an attempt to keep the qualified fiscal specialist off the Collège. The Church eventually capitulated and nominated a priest to the position, who is knowledgeable of the oil sector in his own right. He

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**Box 11**

**Beremadji: The Man Who Knew Too Much**

In November 2003, the seat on the Collège designated for a representative of the religious communities became vacant. A Christian representative was to be named to replace the outgoing Muslim cleric who had sat on the Collège since its formation. The Protestant and Catholic Churches had agreed to alternate their occupation of the Christian seat, so that while the spot on the Collège rotates between a Christian and Muslim every three years, the Christians alternate their turns between the Catholic and Protestant confessions (effectively each Christian confession sits on the Collège every six years).

According to Executive Decree No. 314/PR/PM/2002, concerning the replacement of members of the Collège, each seat representing a designated constituency (not automatically occupied by the holder of a particular government office) shall be selected by his or her peers, for a term of three years, renewable once. Upon nomination by his or her peers, a representative is to be confirmed by government decree. The law regarding the composition of the Collège nowhere stipulates that the government has a right to review or object to chosen representatives; it is implied that the government shall simply render the appointment official by issuing a decree confirming the appointee’s name and position as a member of the Collège.

Nevertheless, in late 2003, when the Catholic Church of Chad named a successor to the outgoing Muslim cleric sitting on the Collège, the government failed to issue such a decree. The representative named by the Catholic authorities was Marc Beremadji, a man with ample relevant experience as a former Chadian Minister of Finance and astute budgetary analyst. Mr. Beremadji had recently been a consultant to the Ministry of Finance under the World Bank’s Management of the Petroleum Economy project. By the end of 2003, the government had still not issued a decree confirming his nomination. The seat on the Collège remained vacant.

In December 2003, during a meeting with the Archbishop Ngarteri of N’Djamena, the prime minister of Chad offered his explanation for the government’s failure to confirm the selected representative. He explained that the government understood the law to require a cleric to fill the seat designated for a representative of the religious communities, not a layperson. The prime minister indicated that the government sought the “moral authority” that a member of the clergy would bestow upon the Collège. However, Archbishop Ngarteri and the rest of the Catholic Church rejected the notion that their representative would simply provide a rubber stamp or a religious seal of approval on the Collège’s operations. They wanted someone competent in the field of fiscal oversight. Some speculate that the government’s inaction stemmed less from their resistance to having a layperson occupy the position than from their displeasure with the nomination of someone as qualified and able to monitor fiscal activities as Mr. Beremadji. Although the prime minister urged the Archbishop to reconsider his nomination, the Church refused to revoke Mr. Beremadji’s name until or unless the government provided a formal written explanation of its response.

Some debate was had within the Collège about whether or not the religious constituent’s seat had to be filled by a cleric, but the more significant concern revolved around the question of the government’s authority to review and oppose representatives nominated to sit on the Collège.

By July 2004, the Church had still not received an official explanation for the refusal to authorize Beremadji’s appointment. Reluctant to “play the politics of the empty chair” by allowing the seat to remain vacant, the Church decided to revise its nomination and appoint a priest, Father Antoine Bérilengar to sit on the Collège. Father Antoine, himself experienced with issues related to the petroleum sector, would not face the same overt resistance from government because he is a clergy member. Father Antoine Bérilengar’s nomination was finally confirmed by government decree in October 2004.
was confirmed in late October 2004. Although the storm has passed, the incident signals the importance of checking against future government attempts to influence the composition of the Collège. (See Box 11)

“Société Civile-Bis”: A Parallel Civil Society?

Some observers fear that the experience with the religious representative may signal the government’s desire to have a stronger hand in controlling the selection of Collège members, and ultimately the Collège itself. Several local organizations have noted a trend toward the creation of a second, pro-government civil society, sponsored by the Déby administration or the president’s party, the MPS. As targeted efforts continue to strengthen pro-government NGOs, there is some concern that government attempts to exert control over the selection process for Collège members could later permit the regime to install “friendly” civil society representatives.

Dobian Assingar, a member of the Collège from the Chadian League of Human Rights, expressed concern about the designs of these faux NGOs on the Collège seats reserved for civil society: “Already a certain civil society composed on 43 phantom organizations, created wholly by the regime, is lying in wait, and has been jockeying for a while to occupy the spaces reserved for the civil society on the Collège.”

4.5 Technical Support to the Collège

For two years, a representative of the U.S. Treasury Office of Technical Assistance served as a consultant to the Chadian Ministry of Finance and to the Collège. After the departure of the advisor in January 2004, the Collège was left with no technical support at a critical juncture in its short history – revenues had just begun to flow to Chad, the 2004 budget was nearing finalization and the operations manual for the Collège had yet to be finalized and adopted. Despite earlier apparent staff-level tensions between the World Bank and U.S. Treasury Department, in April 2004, the World Bank expressed its desire to see U.S. Treasury re-appoint a permanent advisor to Chad. In July-August 2004, the U.S. Treasury Department sent a technical mission to Chad to assess the functioning of the Collège and to gauge the need for further support. As of November 2004, the U.S. Treasury was trying to recruit one or two French-speaking budget specialists to provide technical assistance to the Chadian Ministry of Finance, as well as the Collège. However, it is important that the Collège receive dedicated assistance, as members of the Collège have raised concerns in the past about “sharing” an advisor with the Ministry of Finance, whose activities they are responsible for overseeing.

4.6 A Law is Only as Good as its Enforcement

While the Collège can influence the budgeting process, reject ill-founded expenditures and investigate the execution of projects it approves, ultimately the ability of the Collège to ensure that oil revenues are used for poverty reduction depends on the willingness of the judiciary to prosecute cases of misuse, fraud or corruption that the Collège may uncover. As Collège member Therese Mékombé highlighted in a presentation to the Royal Institute of International Affairs in London, “Many fear that perpetrators will not be punished [under]... Law 04 on punishment in the cases of embezzlement. [There is a] lack of confidence because of the experiences of other monitoring institutions such as the Auditor General’s office, General Inspection of Finances and the General Assembly.” If and when disputes arise between the government (Finance Ministry) and the Collège regarding the use of oil revenues, they are to be referred to the Supreme Court. This reliance on Chad’s judicial system represents possibly the weakest link in the revenue management system.
Long before the project was approved, both IFIs and civil society recognized the weakness of Chad’s legal system and the lack of independence of the judiciary. Indeed, corruption within the Chadian justice system has allowed for the impunity with which government officials routinely violated rights and extorted funds in the past. The Chadian Supreme Court, containing the office of the Auditor General (Chambre de Comptes), was only established in 1999 – testimony to Chad’s short history with judicial and financial accountability mechanisms. In January 2000, the World Bank responded to criticism about its lack of attention to the oversight capacity of the Supreme Court, explaining, “The little detail on the oversight capacity of the GAO of the Supreme Court reflects the fact that this is a very recent institution, put in place this last spring. It has no capacity at this time” (emphasis added). The situation has scarcely improved over the last several years. In March of 2004, for example, in an extra-constitutional move, Déby replaced the head of the Supreme Court. This latest move calls into question the ability of the Supreme Court to play an impartial role as adjudicator of disputes regarding the spending of oil revenues.

The World Bank and the IMF have both made much of several audits that were conducted of the government’s use of debt relief funds (from the Heavily Indebted Poor Countries (HIPC) initiative) and the procedures followed for the five largest public projects executed in 2002. The institutions maintain that the critical reports issued from these audits attest to the government’s commitment to improve transparency and accountability for the use of public resources. The World Bank called the publication of the audit reports “a major and commendable step toward transparency.” However, one must ask, beyond their publication, what impact did these reports have? In April 2004, the World Bank noted “effective enforcement of accountability and sanction mechanisms still requires significant strengthening and streamlining.”

During consultations with the IMF in early 2004, the government of Chad committed to “implementing measures aimed at improving accountability in the use of public resources… [including] by early 2004, all the recommendations of the recent audits of HIPC Initiative-financed contracts and of the five large contracts awarded in 2003.” The IMF report on the consultation further explains:

“The government will take action against officials and companies implicated in irregularities identified by the recent audits. A Budget Discipline Court will be set up, and its work will be linked with a strengthening of the controls of the inspectorates in various
ministries. The government intends to finalize soon an action plan to reform the justice system and initiate its implementation. It also intends to review existing anticorruption legislation and the degree of its effectiveness; study the possibility of creating an anticorruption body; and promulgate the new procurement code and make it effective by adopting its implementation decrees."

As of November 2004, there is no sign of this Budget Discipline Court and little evidence of actions taken against officials and companies implicated. Furthermore, the new procurement code has not yet been fully promulgated. Similarly, the government’s apparent inaction on the findings of the Collège regarding the implementation of projects financed by the oil bonus money bespeaks either a lack of power or a troubling lack of will.

**The Right Mix: the Collège’s Focus and its Future Role**

The Collège has a vital role to play in monitoring the formulation and execution of the budget and in exercising third party verification of reporting on oil revenue payments and expenditures. While there is great need for oversight, the Collège must use its scarce resources well, concentrating its time and funds on the most critical points of intervention. The Collège’s unique advantage and its strength lie in:

- Its privileged access to complete and timely information about oil revenue inflows and government budgetary expenditures, and;
- Its ability to render this information public, diffused widely so that people on the ground can verify that stated projects and expenses correspond with actual realities in local areas.

Disproportionate focus on revenue inflows may hinder the Collège’s ability to inform the public *in advance* of what they can expect to be done with oil revenues, or to shed light *often and in a timely manner*, on projects that are not executed properly on the ground. Given the limited staff and resources of the Collège, active participation of civil society organizations and citizens in a public revenue tracking and alert system is vital to the overall success of the accountability mechanism. However, the Collège’s ultimate impact depends largely on the government’s responsiveness to its findings.

A sign warns travelers that new roads, along with making it easier to conduct business, facilitate the spread of AIDS. Chad’s oil revenues will have to be invested wisely not only in roads, but in health, education and other social services for the population. (Photo: Ian Gary/CRS)
and the enforcement of law. (In this sense, the role of the Collège can be compared to the U.S. Congressional Budget Office that can highlight problems in government procurement contracts but is unable to take legal action.) The apparent failure of the government to undertake any remedial action following the release of the Collège’s report on the spending of the bonus money raises serious questions about the future efficacy and power of the Collège’s oversight function, the independence of the judiciary, and the political will of the Chadian government.

The failure of the Collège’s report on the spending of the bonus money to precipitate immediate remedial action by the government raises serious questions about the future efficacy and power of the Collège’s oversight function, the independence of the judiciary, and the political will of the Chadian government.
5. Budgeting for the Boom: Spending Chad’s Oil Revenues

As the preceding chapters have described, Chad is an extremely challenging context in which to test the poverty-alleviating potential of petroleum revenues. But even if the political climate was stable; even if oil exploitation had no deleterious impacts on the environment, social structures or the local economy; even if there was no uncertainty about how oil revenues were calculated; even if government earnings were maximized…there would still be the challenge of the budget—its formulation and its execution. In essence, the poverty-reduction potential of the oil development project hinges on the effective use of oil revenues through the state budget. Oil-producing countries commonly face difficulties “sowing their petroleum,’ that is, turning oil revenues into long-term benefits for their people,” a feat which depends on the quality of public policy. And Chad’s history with systematic and transparent budgeting is both short and flawed; the coordinated budget process is still very much at a nascent stage, and Chad is learning with a set of rapidly changing numbers. Furthermore, while some procurement irregularities are to be expected anywhere, history shows us that Chad suffers from a higher-than-average incidence of problems with budget execution. Thus, in Chad, the prognosis for the pipeline project cannot be separated from that of the budgetary process itself.

5.1 Budget Basics

Chad’s budget follows the calendar year. At present exchange rates (particularly given the declining value of the dollar), the national budget is approaching $1 billion. Excluding grants, loans and other external financing, oil revenues now make up the largest single source of government revenues. The budget has grown by more than 50 percent since 2003, when oil production began. Understanding what role petrodollars have played in this growth and what it means for spending requires a closer look at the budget process and results for 2004 and 2005.

Learning by Doing: The Short History of Budgeting in Chad

The task of ensuring effective and transparent management of Chad’s petroleum revenues is made more difficult by the sheer complexity of the Chadian budget system. Not only has the Chadian government had a relatively short and checkered history of following formal budget procedures, the Ministry of Finance and other line ministries are just getting accustomed to producing multi-year budgets (“medium-term expenditure frameworks” or MTEF’s, as required under IMF lending programs) and have experienced difficulty managing various revenue streams, each with different expenditure constraints. On top of oil revenues, the Chadian government accrued savings from debt relief linked to the Highly Indebted Poor Countries (HIPC) initiative, and received additional financing from donors and IFIs. In 2003, some ministries failed to keep oil bonus money and revenues from HIPC distinct, making it extremely difficult to track how the monies were used.

Budget Process in Theory and Practice

Each government ministry submits its individual budget to the minister of economy and finance, who then synthesizes them for discussion by the inter-ministerial Budget Committee (on which members of the Collège sit). After the budgetary commission makes adjustments, the draft budget is sent to the Council of Ministers for approval. Once approved, the Council of Ministers transmits the budget to the National Assembly (along with comments from the Collège), where it is adopted and made into law. Expenditure of the budget takes place in several stages: commitment of funds, verification of works to be reimbursed, authorization of payment, and disbursement of funds.
Public Participation in Budget Formulation

The Chadian budget is formulated by the technical ministries, each of which defends its program plan before the Council of Ministers. Until it is submitted to the National Assembly for review, elected officials have no opportunity to input into the national budget, and even then, there is little opportunity for National Assembly deputies to discuss the proposed spending plan with their constituencies or for citizens to have input into the budget process. In the best-case scenario, deputies in the National Assembly receive copies of the draft national budget two weeks before it is scheduled to be debated and passed by the legislature. This brief delay affords little time for public input on budget allocation and spending priorities or for members of the National Assembly to understand and digest the proposed national budget. The lack of decentralized local authorities also means that no needs assessments or planning discussions take place at the regional or local levels to feed into or respond to the proposed national budget. If the ultimate goal is to ensure that oil revenues (along with other state resources) are spent in a way that helps alleviate poverty, then it is imperative that the budget correspond to the needs of the poor.

5.2 Earmarking Oil Money for Priority Sectors

The oil revenue management system attempts to ensure pro-poor spending, by earmarking money for “priority sectors” and setting a minimum requirement for overall budget allocation to those sectors. According to Law 001 and the accompanying decrees, Chad requires that at least 42.6 percent of the non-oil revenue budget be spent on “priority sectors,” and that all oil revenues earmarked for priority
of some debate since the design of the revenue management system. The revenue management law defined priority sectors as:

- Public Health
- Social Affairs
- Infrastructure
- Education
- Rural Development (Agriculture and Livestock)
- Environment and Water

Many have called the failure to include expenditures on the judiciary and on energy needs illogical, given the importance of a functioning judiciary to sound revenue management and improved public administration, and the importance of energy to economic development. Furthermore, observers have expressed concern about the lack of correlation between the priority sectors as defined in the revenue management law and those identified in the national poverty reduction strategy (PRSP), which emphasizes the importance of good governance and judicial reform. During the August 2004 IMF/World Bank mission to Chad, an agreement was reached to allow cotton and energy expenditures to be included under the existing definition of priority sectors, with the caveat that the government define and adhere to a clear timetable for cotton sector reforms. (The IMF wants to ensure that the government does not use oil money indefinitely to cover the costs of cotton sector “mismangement.”)

To further complicate an already confusing budgetary process, the designated priority sectors do not correspond neatly to existing government ministries.

By September 15 each year, the government is to prepare a detailed plan for the allocation of oil revenues (for all priority sectors) to the satisfaction of the World Bank.
The plan is to be reflected in the program of public expenditures presented in the finance law (national budget) for the following year.\textsuperscript{208}

It is not clear, however, that the government is adhering to the requirements regarding priority sector allocations. The IMF’s Article IV Consultation Report for Chad, published at the end of April 2004, noted problems with the Chadian government’s failure to increase priority sector spending in the 2004 budget above baseline levels.\textsuperscript{209} Because non-priority sector spending was higher than expected, the 2004 budget did not meet the “additionality” constraint.\textsuperscript{210} The IMF report stated, “The composition of fiscal expenditure did not improve, as hoped, in favor of priority sector spending. While nonpriority expenditures continued to exceed their targets, \textit{mainly in defense}, priority outlays were lower than programmed in 2002 and the first nine months of 2003.” The IMF attributed the inadequacy of priority sector spending to, among other things, “a lack of focus by the authorities on putting in place the measures envisaged under the PRGF-supported program to improve execution of priority sector spending.”\textsuperscript{211}

5.3 How “Oily” is the 2004 Budget?

The late arrival of Chad’s first oil revenues to the national accounts in July 2004, coupled with suspension of budgetary assistance from the IMF and other donors earlier in the year, caused severe delays in the execution of the 2004 national budget. (See Section Six, Changing Chad: The Role of External Actors) The National Assembly did not approve the budget until February 2004, and a revised budget (amending the finance law for 2004) was passed in August.\textsuperscript{212} The total national budget for 2004 was 484.2 billion CFAF (approximately $950 million). Oil revenues comprised slightly more than 15 percent of anticipated government receipts, equivalent to approximately 40 percent of non-oil revenues (excluding aid, grants and loans).\textsuperscript{213}

Based on production estimates and oil price projections for 2004, Chad budgeted 73.5 billion CFAF in oil revenues for the year, of which approximately 36 billion CFAF, or roughly $72 million, was allocated to priority sector spending.

It is likely that oil revenues will double total government revenues in the coming years. Annual non-oil revenues in Chad are approximately 150 billion CFAF ($294 million). At 225,000 bbl/day (the pipeline capacity), Chad would only have to earn 1800 CFAF per barrel (or approximately $3.50) from royalties, dividends, and income tax on the Consortium \textit{combined}, in order for oil revenues to equal non-oil revenues. Depending on the price of oil and the resolution of outstanding disputes concerning the calculation of Chad’s earnings per barrel, experts believe that oil revenues could surpass non-oil revenue in 2005. Otherwise, a doubling of the country’s revenues is expected to take place in 2007, once the Consortium’s tax exemptions expire. While the 2004 revenues may seem relatively modest, the contribution of oil to the national budget is rapidly growing since the peak production level was achieved in late 2004. With 2007 just around the corner, indirect revenues will soon be added to the royalties and dividends already accruing to the state, placing a great deal more discretionary funds in the hands of the government.
When formulating its annual national budget, the government of Chad uses the IMF’s World Economic Outlook price for oil as a benchmark to estimate projected petroleum revenues for the year. According to the government stabilization decree (Decree No. 238), only those oil revenues that were budgeted for a given year can be spent. Any oil revenues received in excess of the budgeted amount (due to higher-than-predicted oil prices or production volume) are considered “windfall” and are to be deposited in a stabilization account, along with any other revenues that the government decides in advance to “save.” This provision is meant to guard against practices that have commonly occurred in other oil-producing countries, such as Congo-Brazzaville and Angola, whereby conservative oil prices are used to estimate the budget and revenues in excess of this amount have been used for unbudgeted (and thus untraceable) expenses. Any budgeted oil revenues that are not disbursed in the course of a year are carried over to the following year’s budget. So far, Chad appears to be complying with the stabilization decree.

Based on an average production of 140,000 barrels per day throughout the first year of production, Chad could reasonably expect to receive at least $140-150 million in revenues by the end of 2004, earning it a windfall (in excess of budgeted oil revenues) of approximately $20-$30 million. The draft 2005 budget contained estimated figures for the previous year that seemed to confirm these higher-than-expected earnings; petroleum revenues for 2004 were listed as 81.3 billion CFAF, or some $158 million. The exact amount of unspent, budgeted oil money from 2004 that will be carried over to 2005 is as of yet unknown. According to official Collège records, in a meeting with the members of the Collège on September 29, 2004, President Déby indicated that all oil money not spent by October 30, 2004, would be transferred to ministries thought to be capable of absorbing the funds. The official closure date for the national budget is usually November 30, but some speculate that the date was pushed up by one month in order to channel more money into certain sectors, such as Public Works. However, the draft 2005 budget indicated that some $22 million in unspent, budgeted funds would remain with the ministries to which they were allocated and be carried over into 2005.

### 5.4 Spending the Money: Priority Sectors

Spending got off to a slow start in 2004, due largely to delays in disbursement of oil revenues. Although oil has been flowing since July 2003 and the first sale was registered in November 2003, revenues did not arrive in Chad until July 2004.

Just under half of the oil money in the 2004 budget, or approximately 36.7 billion CFAF ($72 million) was allocated to the Ministry of Economy and Finance to cover debt service (9.567 billion CFAF – $18.76 million), the 10 percent of direct oil revenues for the Future Generations Fund (equivalent to 5.794 billion CFAF – $11.36 million), the 5 percent for the oil-producing region (equivalent to 2.611 billion CFAF – $5.12 million), and the stabilization fund – in which the government deposited 6.785 billion CFAF ($13.3 million) in 2004. After debt service payments and allocations to special accounts are deducted from the total oil revenue contribution to the 2004 budget, only slightly more than half, or some 36.8 billion CFAF ($72 million), remained for priority sector investments and operational expenses.
### 2004 Summary of Oil Revenue Projects Approved by the Collège

(Numbers are rounded for display purposes)

<table>
<thead>
<tr>
<th>Total 2004 Budget</th>
<th>491,329,951,000 CFAF</th>
<th>(approx. $963 million USD, at present exchange rate 510CFAF/$1USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total contribution of oil revenues to 2004 budget</td>
<td>73.5 billion CFAF/$144 million USD (revised estimate, from June 2004)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works</td>
<td>19.3 billion CFAF ($37.8 million)</td>
<td>16.6 billion CFAF ($32.6 million)</td>
<td>16.5 billion CFAF ($32.5 million)</td>
</tr>
<tr>
<td>National Education</td>
<td>2.8 billion CFAF ($5.5 million)</td>
<td>892 million CFAF ($1.7 million)</td>
<td>0</td>
</tr>
<tr>
<td>Higher Education and Research</td>
<td>2.2 billion CFAF ($4.3 million)</td>
<td>1.6 billion CFAF ($3.2 million)</td>
<td>1.3 billion ($2.6 million)</td>
</tr>
<tr>
<td>Health</td>
<td>2 billion CFAF ($3.9 million)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Environment and Water</td>
<td>2.2 billion CFAF ($4.3 million)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sanitation</td>
<td>3.6 billion CFAF ($7.1 million)</td>
<td>2 billion CFAF ($4 million)</td>
<td>2 billion CFAF ($3.9 million)</td>
</tr>
<tr>
<td>Social Action</td>
<td>640 million CFAF ($1.3 million)</td>
<td>78.1 million CFAF ($153,278)</td>
<td>78.1 million CFAF ($153,278)</td>
</tr>
<tr>
<td>Agriculture and Livestock</td>
<td>4 billion CFAF ($7.8 million)</td>
<td>2 billion CFAF ($1.9 million)</td>
<td>321 billion CFAF ($630,588)</td>
</tr>
<tr>
<td>Total Priority Sector</td>
<td>36.8 billion CFAF ($72.2 million)</td>
<td>22.2 billion CFAF ($44 million)</td>
<td>20.2 billion CFAF ($39.8 million)</td>
</tr>
</tbody>
</table>

As of November 8, 2004, the Collège had approved committed disbursements totaling approximately 24.4 billion CFAF ($47.8 million), and payments of approximately 21.7 billion CFAF ($42.5 million).

### The Road to Abéché

As the table above shows, the Ministry of Public Works received over 19 billion CFAF ($37.25 million) in the 2004 budget, or more than half of the total petroleum revenues available for priority sectors. The entire amount has been allocated to two road projects. (The Ministry of Land, Urbanism and Habitats received the next highest allocation of oil revenues in 2004 or some 3.6 billion CFAF ($7.06 million) – only a fraction of that which was allocated to Public Works.)
No one would deny that Chad is in dire need of roads. One trip outside the capital city, even to the closest suburbs of N’Djamena, highlights the limited reach of Chad’s transport infrastructure. However, Chad is in need of many things to help elevate its population out of the abject poverty in which most of the country lives, and it is not clear that spending the bulk of oil money on roads will be a silver bullet to reduce poverty.

The funds have been committed to finance the paving of 140 km. between Bisle-Ngoura and Ngoura-Bokoro, east of N’Djamena on the road to Abéché. According to the approved bids for this work, these two stretches of road will cost the Chadian government approximately 56 billion CFAF ($109.8 million) over three years.

The Economist Intelligence Unit observed:

\[
\text{The fact that 40\% of the oil revenue is allocated to road building while education receives only 5.1\% and healthcare 3.3\% suggest that it has not adhered to the spirit of the law. Spending on infrastructure imposes constraints, however, as limited government capacity and the lead-time required to implement infrastructure projects will slow down the government’s ability to spend the new revenue.}^{221}
\]

In contrast, the government and other observers explain the disproportionate allocation to public works not only in terms of the country’s dire need for better roads, but also in terms of the relatively higher absorptive (spending) capacity of public works as compared to other priority ministries.

In the report of its eighth mission to Chad, the International Advisory Group (IAG) noted, “The allocation of oil revenues in 2004 did not follow the guidelines of the National Poverty Reduction Strategy (NPRS) as closely as expected. In the attempt to accelerate spending, most of the revenues went to the Ministère des Travaux Publics et Transports. As of October 15, 65 percent of the oil funds had been earmarked; however this figure masks major inequalities since some of the main ministries have not yet committed any funds by this date.”^{223}

### 5.5 Budget Execution: From Problematic Procurement to Skimpy Spending

Beyond questions regarding the allocation of oil revenues among priority sectors, these funds must be spent effectively to help reduce poverty. Recent evaluations and audits of public expenditure conducted by the government of Chad’s own Inspector General have found “continuing widespread problems in procurement,” and “persistent weaknesses and abuses in public expenditure management.”^{224}

The Bank’s Country Assistance Strategy for Chad describes the pervasiveness of problems and the risk of increased corruption in the oil era:

\[
\text{“The lack of formal controls at the central and regional levels, especially with the country’s geographical fragmentation, has often led to misuse of power and public funds. With the new oil resources, it becomes all the more important to remedy institutional weaknesses that might otherwise lead to ever more corruption... Corrupt and non-transparent practices also constrain private sector development. The governance environment has tended to foster a local private sector dependent on patronage, in which political connections are more important determinants of business success than managerial competence.”}^{225}
\]
Lack of Absorptive Capacity

Many expert observers believe Chad has little capacity to spend public resources in a timely and effective way. The IMF has predicted that “very little of the budgeted 2004 oil revenues will be spent in 2004.” The Economist Intelligence Unit wrote, “The arrival of oil revenue in July and August will help to ease fiscal problems, but the spending of this revenue will continue to be slowed by capacity constraints.”

Based on past experience with its lending portfolio in Chad, the World Bank should have expected that Chad might face difficulties spending the oil money as it began to accrue to the government. In February 2003, for example, of the $273.8 million committed to Chad in the form of approved loans and grants from the World Bank’s IDA, only $51.8 million (or less than 20 percent of the funds) had been disbursed. This poor disbursement record reflects the difficulty that the government had in spending funds in a manner and timeframe consistent with project plans. As of 2003, the average length of time that it took for the government of Chad to actually start executing projects approved by the Bank was 10 months. The Bank’s own research exposes Chad’s weak absorptive capacity, showing that between 1999 and 2002, the average annual disbursement of Bank funds to Chad was less than $40 million (including both investment projects and structural adjustment loans). The Bank attributed this poor performance, in part, to Chad’s long and complex procurement procedures.

The government’s lack of absorptive capacity will have profound implications for the objective of turning oil revenues into visible benefits for the poor. With slow project execution, there may be growing discontent among the population. Over the next two years, the Economist Intelligence Unit predicts that:

Oil revenue will continue to increase at a faster pace than the government’s capacity to spend it . . . the surplus is forecast to widen to 1.8% of GDP in 2005. In 2006 the forecast reduction in oil prices, which will reduce oil revenue, coupled with an increase in government spending in the run-up to the elections, will cause the move from a fiscal surplus to a fiscal deficit of 1% of GDP.

5.6 The 2005 Budget: Big Spending

In contrast to 2004, the 2005 budget preparation process got underway much earlier and a draft finance law was approved by the Council of Ministers on September 30, 2004. The draft spending plan for 2005 reflects a 15 percent growth over the 2004 budget, largely attributed to sizeable investments and the influx of oil revenues. Figures regarding the anticipated oil revenues for 2005 were based on estimated annual oil exports of 79.8 million barrels. The projected revenues to Chad per barrel were calculated using a sale price of $38.50 per barrel (taken from the IMF’s World Economic Outlook), from which deductions of $7.80 for transport costs and $9.80 for the quality discount are expected, giving a net price per barrel of $20.90.

According to the draft spending plan, estimated direct oil revenues for 2005 – the first full year of peak oil production – will be 125.3 billion CFAF ($245.6 million). This represents an increase of about 55 percent over the previous year, when total petroleum revenues were estimated to be 81.3 billion CFAF ($159.4 million). The tables below provide a breakdown of how these revenues are to be allocated.

The draft 2005 budget proposes sharp increases in the allocation of oil revenues to certain sectors seemingly without regard to demonstrated capacity to spend the money. (See Table, “Allocation of Petroleum Revenues in 2004 and 2005”) Members of the Collège have expressed concern about the 2005 budget, questioning the decision to radically increase the annual allocation to certain sectors that have failed to spend

“...the quality discount...”

– World Bank Chad Country Assistance Strategy

The government’s lack of absorptive capacity will have profound implications for the objective of turning oil revenues into visible benefits for the poor.
money budgeted in 2004. Even those ministries that managed to spend a good portion of their petroleum revenue envelopes last year will be challenged to spend the significantly larger allocations planned for 2005. For example, the Ministry of Agriculture, which used almost 80 percent of its petroleum revenue allocation in 2004, is expected to spend three times that amount in 2005. Other ministries that performed far worse in 2004 are also expected to radically increase their absorptive capacities. For example, the Ministry of Public Health spent only one quarter of its 2004 oil revenue allocation but receives a five-fold increase in 2005.

<table>
<thead>
<tr>
<th>Proposed 2005 budget (allocation of direct petroleum revenues) in CFAF</th>
<th>(USD equivalents rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Royalties</td>
<td>125,300,000,000 ($245.6 million)</td>
</tr>
<tr>
<td>Future Generations Fund (10%)</td>
<td>12,530,000,000 ($24.5 million)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>200,000,000 ($392.156)</td>
</tr>
<tr>
<td>Priority Sectors</td>
<td>90,056,000,000 ($176.5 million)</td>
</tr>
<tr>
<td>Allocated Spending</td>
<td>87,000,000,000 ($170.5 million)</td>
</tr>
<tr>
<td>Stabilization Funds</td>
<td>3,056,000,000 ($6 million)</td>
</tr>
<tr>
<td>Oil-Producing Region (5%)</td>
<td>5,628,500,000 ($11 million)</td>
</tr>
<tr>
<td>Non-Priority Sectors (15%)</td>
<td>16,885,500,000 ($33 million)</td>
</tr>
</tbody>
</table>


To date, none of the revenues earmarked for the oil-producing region have been disbursed, largely because there is no one to administer them.

Without functioning local authorities or a comprehensive regional development plan based upon input from local communities, it is unclear how the government will ensure that the regional allocation is used to meet the needs of the local population.

5.7 Revenues for the Oil-Producing Region

“The development of the crude oil will benefit the entire Chadian nation. However, the residents of the oil area will specifically benefit from it, notably through the regional development plan.”

– Chadian President Idriss Déby at the oil project inauguration ceremony, October 10, 2003

To date, none of the revenues earmarked for the oil-producing region have been disbursed, largely because there is no one to administer them. According to a World Bank Project Appraisal Document for one of the pipeline project loans in 2000, the government of Chad was required to develop “mechanisms acceptable to the Bank regarding the distribution and application of funds [designated for the petroleum producing region]” by no later than January 31, 2003.234 It was not until more than 18 months after that deadline that the government of Chad issued a decree regarding the modalities for the administration of the 5 percent of direct revenues to be allocated to
the oil-producing region.²³⁵ (See Section 3.3, “Money for Oil-Producing Region”)

For 2005, more than 5.6 billion CFAF (over $10 million) has been allocated to the oil-producing region.²³⁶ Even with the establishment of a temporary committee to oversee use of the regional funds, without functioning local authorities or a comprehensive regional development plan based upon input from local communities, it is unclear how the government will ensure that the regional allocation is used to meet the needs
of the local population. The July 2004 report of the IAG noted that the decentralized government agencies in the project zone, responsible for managing the oil revenues to be allocated to the region, “will not be in place for two years” and “still suffer from a lack of information and involvement in the Doba Project.” Even with the creation of the interim mechanism, in the absence of a functioning local government to absorb and effectively administrate oil revenues, as well as a viable Regional Development Plan for the Doba, money that accrues to the regional account in the first years may go unspent altogether or may not be effectively spent. As a consequence, the local populations who have borne the brunt of the social, environmental and economic costs of the project to date may be the last to see the extra benefits promised from oil revenues.

The World Bank’s Petroleum Sector Management Capacity Building Project financed the creation of a pilot social development fund to support infrastructure projects and economic activities in the oil-producing region, with a particular emphasis on “micro-credit” and “local socioeconomic investments.” This initiative, called the Fond d’Action Concerté pour les Initiatives Locales or FACIL, was given a budget of $3.5 million. Start-up of the initiative suffered significant delays; it was not until 2003 that funds began to be allocated and within one year, almost the entire budget was spent. Since then, FACIL has faced persistent funding problems, and it remains unclear how, if at all, the work of this initiative will be sustained. In its most recent report, the independent monitoring group, the IAG, noted that “The disappointing results of FACIL and the uncertainty regarding its future financing calls into question the sustainability of this pilot project.”

**Conclusion – Pro-Poor Budgeting in Chad**

As the experience of the 2004 budget and planning for 2005 show, there are many obstacles standing between transparent allocation of oil revenues through the national budget and spending those monies in a way that reduces the poverty of millions of Chadians. The budget development process will have to be opened up to greater input from the Collège, members of the National Assembly and the Chadian people themselves to ensure that allocations address the most pressing needs. The government will need to develop the proper distribution of funds between priority sectors rather than merely giving more money to ministries – such as public works – that appear able to absorb it faster than others. All government ministries will need increased capacity to plan and execute projects in an efficient way so that “early successes” in the use of oil money will boost public confidence in the management of Chad’s new oil wealth. (This will be a difficult task given Chad’s poor history of executing projects and long delays in spending donor money.) Procurement and bidding processes will need to be improved to curtail corruption and non-transparent practices. And finally, special efforts will have to be made to ensure prompt and responsible use of targeted funds designated for Chad’s oil producing region. External actors must urgently respond to these needs, but, as **Section Six** describes, externally supported capacity-building and governance reform programs have had a limited effect.

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**Without functioning local authorities or a comprehensive regional development plan based upon input from local communities, it is unclear how the government will ensure that the regional allocation is used to meet the needs of the local population.**

**The local populations who have borne the brunt of the social, environmental and economic costs of the project to date may be the last to see the extra benefits promised from oil revenues.**
6. Changing Chad: The Role of External Actors

Ensuring that Chad’s oil boom benefits the poor requires building government capacity, altering policies and, ultimately, changing politics. The drive for those changes must come from within the country to be successful, but the role of outside forces cannot be ignored. Experience to date reveals both the limited ability of external actors to influence changes within government and the need for those actors to use what leverage they have to support adherence to the rule of law and compliance with safeguards, such as the revenue management system.

As the pivotal financier of the oil development and pipeline project, the World Bank continues to bear significant responsibility for the fate of the experiment in trading petroleum for poverty alleviation. While at the time of the project’s approval the Bank maintained that the Chadian government would be well-prepared to manage the petroleum sector and its windfall before oil began to flow through the pipeline, this rosy picture contrasts starkly with the reality on the ground. More than a year after the oil began to flow through the pipeline, the government remains acutely challenged to manage and regulate the oil sector and to use its newfound wealth well.

The influx of petroleum revenues to the country will inevitably alter relations between the government and the donors on whom the country has depended so much in the past. What will be the consequences of this changed relationship, and how will donors fulfill their own obligations to see that the oil experiment in Chad does not have disastrous results for the country’s people? While a decline in reliance on foreign aid is generally considered a positive signal of increasing economic independence, in Chad, where citizens have limited influence on their government, it could also spell the loss of important sources of external pressure for greater transparency and accountability. The rapid accumulation of petrodollars in Chad confronts the Bank, IMF and other donors with a choice between using their known leverage today and relying on their uncertain leverage in the future.

6.1 Dependence on External Financing – Will Oil Revenues Drive Donor Dollars Away?

Even as it looks ahead to decades of oil revenues, Chad remains extremely dependent in the short-term on external financing from bilateral and multilateral donors, including the World Bank and IMF. During the first year of oil production and sales, Chad’s budget rested largely on aid, subsidies, grants and loans. In 2004, grants and loans accounted for approximately 56 percent of Chad’s total revenues – a more significant portion of the budget than oil money. Even in 2005, when petroleum revenues are predicted to grow by 55 percent over the previous year, the government will rely on external financing for at least 40 percent of its budget.

The IMF and the World Bank provide the backbone of the country’s external financing and play an important role in securing additional funds for Chad because other donor commitments are commonly tied to the status of the country’s programs with the institutions. In early 2004, when the IMF failed to complete a review of Chad’s performance before the previous Poverty Reduction and Growth Facility (PRGF) program expired on January 6, 2004, disbursement of IMF funds was delayed and consequently other donors withheld planned budget support. This precipitated a financing crisis in Chad that led to backlogs in the payment of public servants’ salaries and other delays in budget execution. While the situation improved slightly once negotiations on a new PRGF commenced, relations with the IMF were further strained when Chad temporarily fell into arrears on its debt payments in July 2004 (late payments reached $8.8 million). Disbursements from the World Bank were (again) suspended in November 2004 due to additional arrears on debt service.
On November 12, 2004, the IMF announced that it had reached an agreement with the government of Chad on the issuance of a new, three-year loan under the PRGF, amounting to approximately U.S.$37.9 million for the period 2005-2007.\textsuperscript{242}

In addition to the Bank and Fund, the largest single source of aid to Chad is the European Union. Important bilateral donors include France (the former colonial power), Taiwan, Switzerland, Germany and the United States.\textsuperscript{243}

It remains uncertain whether donors will withdraw from Chad as oil revenues to the government increase over the coming years. However, there is good reason to believe that as oil revenues rise, official development assistance will decline. This could spell trouble for the Chadian government. Because Law 001 restricts the use of a large portion of direct oil revenues to priority sector capital expenditures (as well as debt service, savings and stabilization accounts), the Chadian government relies heavily on loans and grants from external donors to pay for non-priority and recurrent (non-capital) expenditures, including things like salaries for civil servants, customs administration, the judiciary, and the military, to name but a few of the expenses that fall outside of the sectors earmarked for direct oil revenues. The IMF explains that “foreign budgetary support would continue to be needed over the medium term, even in the presence of oil receipts, as most oil revenue in the early years of oil production is by law earmarked to finance spending in priority sectors that is additional to ‘baseline’ priority sector spending and non-earmarked domestic budget sources are insufficient to cover nonpriority and baseline priority sector spending in 2004-07.”\textsuperscript{244}

However, these projections do not factor in additional revenues from new oil fields, the use of which will not be subject to the restrictions of Law 001.

The World Bank’s prominence among donor institutions stems not only from the magnitude of its lending to the country, but from the high public profile it has taken around its role in reshaping the social and economic landscape of Chad through support for the oil sector. The Bank’s financing for the development of the Chad-Cameroon pipeline and capacity building components is the most prominent dimension of its overall lending program, which includes 12 active projects with a total commitment value of almost $389 million.\textsuperscript{245} While the loans for the pipeline project are not as large as those the Bank has provided for other initiatives in Chad, their impact on the country, whether good or bad, far exceeds those of some of the more costly infrastructure and social development projects in its portfolio. By supporting the pipeline, the World Bank catalyzed the emergence of an oil economy in Chad. Whether or not this new oil economy serves the country’s population depends on fundamental changes in the government’s capacity, policies, and politics.

6.2 Building Capacity: The World Bank and the Two-Speed Project

Translating petrodollars into poverty alleviation depends on the ability of the government to use oil revenues well. When the World Bank decided to support the Chad-Cameroon pipeline project in 2000, it did so on the premise that it would be able to build Chad’s capacity to manage its oil wealth by the time the pipeline was operational. To this end, it provided loans for the pipeline infrastructure and for two capacity-building projects for Chad – the Petroleum Sector Management Capacity Building Project ($23.7 million) and the Management of the Petroleum Economy Project ($17.5 million).\textsuperscript{246} The World Bank extended these three loans to Chad simultaneously, arguing that it could reinforce the capacity of the Chadian government to manage petroleum revenues and regulate the impacts of the industry before and during pipeline construction. Just prior to project approval, the Bank claimed that:

There will be cross-effectiveness conditions to ensure that the pipeline project does not go forward unless the capacity building projects are in place, [and that those projects would be] phased
to produce the critical outputs (improvement of the regulatory framework, human and technical capacity) before the end of the 18-month period following Board approval...[allowing] required capacity to be in place prior to the beginning of the pipeline project’s major infrastructure works and long before projected first oil.

The reality on the ground tells a different story.

Civil society organizations warned that capacity should be improved and democratic structures strengthened before the project started. But the Bank was confident—and overly so, as the past few years have proven. The failure of the capacity building projects to keep pace with the construction of the pipeline and oil production has been well documented by official monitoring bodies and civil society alike.

Persistent delays in government capacity building have plagued the project since the outset, leading the Bank-appointed IAG to denounce its “two-speed nature” whereby pipeline construction far outpaced needed changes in governance and government capacity. As early as 2001, the IAG called for a slow down in construction activities to allow for the social and environmental project components to catch up. This recommendation was not heeded. According to the World Bank, “The Governments [of Chad and Cameroon] have the primary responsibility for the management of the indirect impacts and for monitoring and evaluation of the environmental management plans.” However, capacity building efforts have been so seriously delayed and government participation in monitoring so limited, that the government was not able to fulfill its role during the critical construction period and is still facing challenges today. Construction of the pipeline and associated facilities was completed a full year in advance, while training programs and improvements in government capacity have lagged behind schedule.

As a result, although oil production began more than a year ago, the Chadian authorities do not have the capacity to fully participate in managing the impacts of the petroleum economy. As recently as June 2004, the External Compliance Monitoring Group (ECMG) wrote, “Government capacity to monitor the operations of the oil project is not yet fully effective, although the Doba Project construction phase is almost complete and new satellite oil fields are being explored.” Only a month later, the IAG stated simply: “The objectives of the two World Bank-funded projects to build Chad’s capacity to manage the petroleum economy, including a program to train Chadian administrators to manage the economy and the petroleum sector, have not been met.”

In 2000, the World Bank claimed that, “The main effort of capacity building (recruitment and training) will take place during the first year of project implementation, and the rest during the second year, i.e. before the main pipeline construction begins, and one to two years before the first oil flows.” Ironically, nearly four years after the project’s approval, the World Bank is still talking about the need to begin capacity building. In September 2004, the Country Director for Chad, Mr. Ali Khadr stated that, “Today, Chad is ready now to turn to a capacity-building phase – to think about what skills, knowledge, and incentives people who work within the institutions need in order to function.”

The failure to build government capacity as quickly as the pipeline has highlighted the pitfalls of supporting increased investment in the extractive industries in parallel with governance and institutional reforms. In 2003, after assessing a variety of projects including the Chad-Cameroon pipeline for the Extractive Industries Review, the Bank’s own Operations Evaluation Department concluded that “where the government lacks the ability to manage revenues well, increased investment designed to augment government revenues will have little benefit, and the Bank should focus its support on strengthening governance and managing of environmental and social risks.”

Although oil production has begun, the government still lacks the capacity to effectively master the budgetary process, regulate the social and environmental impacts of oil operations, or absorb the anticipated influx of revenue in its priority ministries.

“The objectives of the two World Bank-funded projects to build Chad’s capacity to manage the petroleum economy, including a program to train Chadian administrators to manage the economy and the petroleum sector, have not been met.”

— International Advisory Group, July 2004
An associated study recommended that, “The Bank should not support increased investment in countries whose governments lack the capacity to benefit from or manage such investment.”

Today, some Bank officials argue that even if they had delayed the start of the project by two years, as civil society groups demanded in 2000, things would not be better off because “capacity-building takes more than two years.” This recognition of just how time-consuming it is to build government capacity seems to have come too late.

**Internal Weaknesses in Government**

The slow disbursements of the capacity-building loans and the late start of training activities have delayed institutional strengthening in Chad. In addition, frequent reshuffling of the Chadian cabinet and the loss of key advisors has cost the government some of its most capable members and most knowledgeable petroleum specialists. The October 2004 government “communiqué” and disputes surrounding the calculation of payments to Chad may reflect the government’s poor grasp on the technicalities of hydrocarbon production and sales, and the absence of institutional memory within the government regarding the terms negotiated with the Consortium prior to the project’s start. The game of “musical chairs” within the government and political tensions between members of Déby’s party displaced the two people who were arguably the most knowledgeable about the terms of contracts with the ExxonMobil-led consortium. By some accounts, the Petroleum Directorate fell apart following the departure of its former head, Hassane Mahmat Nasser, when he was named as the minister of mines and energy in July 2004, with no jurisdiction over matters related to oil. Similarly, the representative of the Chadian government most directly involved in the negotiations of the contract with ExxonMobil in Houston in 1998, Tom Erdimi, was dismissed from office following the attempted coup on May 16, 2004. There appear to be few capable staff in the Ministry of Petroleum. In April 2004, the World Bank claimed to have supported the training of 10 inspectors capable of reading meters in Komé and Kribi, and five people on the modernization of oil revenue management.

The short supply of skilled staff is compounded by the fact that the most competent government employees are frequently lured away from public office by the private sector, with offers of higher paychecks. Indeed, several

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**Box 13**

**Weak Environmental and Social Oversight by the Government**

One of the most glaring weaknesses in government capacity is with regard to environmental and social regulation and oversight of the petroleum sector. The government body responsible for environmental and technical compliance of the oil sector, the Comité Technique Nationale de Suivi et de Contrôle (CTNSC), is currently financed wholly by the World Bank, through the Management of the Petroleum Sector Capacity Building Project. But this support will only continue through December 2005, and remaining funds are insufficient to cover the costs of the CTNSC for all of next year. It is not clear to what extent the Chadian government has prioritized funding the continued operation of this oversight body in the coming years. Neither the 2004 nor the 2005 national budget includes funding for CTNSC, and as of November 2004, the World Bank and the government of Chad had not yet reached an agreement on the terms of a supplemental credit to the capacity building project, which could help finance the continued functioning of CTNSC. Its operation will be of increasing importance as oil explorations lead to the development of additional fields.

Ironically, just as production accelerated in recent months, the quality of the CTNSC’s oversight has waned. In its November 2004 report, the IAG notes that the CTNSC “has suffered a drastic diminution of its strength/manpower since May 2004, calling into question the quality of the social and environmental monitoring of the Doba Project and the other petroleum activities in the country by government teams. The office of Executive Secretary of the CTNSC has been vacant for several months and the on-site supervision team has gone from 14 to 4 people, due to resignation and the failure to renew certain contracts which had ended.”
of the most highly trained hydrocarbon specialists in Chad left the government for jobs with ExxonMobil.

Regarding Chad’s fiscal system, in April 2004, one World Bank official said, “I have never seen such a weak capacity in any country in the world . . . We [the World Bank] are here for 10-20 years.” That is, if the government agrees to keep them around for that long.

**Making up for Lost Time – and Money**

Recognizing that its previous capacity building loans did not achieve their objectives, the Bank is in the process of preparing supplemental credits to support further training and “capacity-building” activities for the Chadian government. However, one must ask what will make these loans more successful than those implemented in the past? What will prevent more debt accruing to the Chadian people with little result to show for it?

As of December 2004, there were two additional projects in the “pipeline” for Chad at the World Bank (International Development Association): a grant to supplement the Management of the Petroleum Era Economy loan and a supplemental loan for the Petroleum Management Capacity Building Project. Although the Bank has identified objectives and tentative timelines for the projects, Chadian government officials, having judged the previous capacity building projects to be insufficient, are insisting on further discussions about the nature of these supplemental projects before incurring additional debt.

The Bank conceives of the proposed $8.5 million supplemental grant for the Management of the Petroleum Economy Project, expected to be approved in March 2005, as the “vehicle for a number of essential reforms” including of the cotton sector, and the consolidation of reforms of the budgetary system, which were not achieved or remain incomplete despite previous credits with the same aims.

The supplemental Petroleum Management Capacity Building credit of $11.5 million was originally scheduled for approval in September 2004, but was delayed until April 2005. The proposed supplemental loan will be used to: finance a study of the sustainability of and further technical assistance to the CTNSC; support the Petroleum Directorate to formulate a new petroleum regulatory framework; extend financing for FACIL; and finance the completion of the Regional Development Plan.

The Regional Development Plan (RDP) for the oil-producing area, which was supposedly underway at the time of project approval in June 2000 with financing from the original Petroleum Sector Management Capacity Building Project, was still not complete by November 2004. According to sources at the World Bank, more than $600,000 had been spent on the plan as of April 2004, with little to show for it. A large portion of that money was paid to a Canadian consulting firm, whose work was deemed unsatisfactory by both the Bank and the Chadian government. After receiving a second, inadequate version of the plan from the consultants in mid-2004 (by which point some 85 percent of the $500,000 contract had been paid), the Bank and government of Chad agreed to hire Jerome Magrin, the author of a book called “From the Cotton Era to the Petroleum Era,” to revise and complete the long-overdue RDP, in collaboration with five Chadian specialists. The intent is to build off the work that consultants did, but with greater attention to actual development “planning” and the prioritization of the region’s needs. After a delay of more than four years, during
which time construction has impacted local communities and small social development initiatives have proceeded without much regional coordination, a finalized plan for development of the oil-producing zone would be a welcome, if overdue, tool to help address emerging problems and meet longstanding needs.

The money spent on the RDP to date was not the only portion of the Bank’s capacity building loan that was “lost.” Bank staff argue that approximately $5 million was lost due to fluctuations in the exchange rate (depreciation of the U.S. dollar) alone, and another $1.6 million was used to cover the cost of legal and technical assistance to the Chadian government during the negotiation of the new convention with ExxonMobil in April 2004—an unforeseen cost at the time the loan was approved.

The administrative costs of the Bank’s involvement in the Petroleum Development and Pipeline Project have been exceptionally high, both in terms of time and monetary resources. The frequent turnover in World Bank staff on the project team has interrupted the continuity of implementation and resulted in the loss of institutional memory, not to mention time, delaying the achievement of stated project objectives. Since the project’s approval, there have been at least three different task managers and a variety of technical staff. Despite this extra-ordinary attention, the scale of the problems remaining raises questions about the effective use of Bank funds.

Much of this cost is passed on to the government of Chad, through expenses paid out of existing loans or, ultimately through debt. Who bears the cost for ill-used or wasted money? Ultimately the people of Chad themselves do because, not only do they fail to reap the benefits of money well-spent today, but future generations bear the burden of repaying the loans taken out by the government.

6.3 Changing Policies

“[T]he Bank team will continue to monitor the situation closely and stand ready to intervene in response to any breach of Chad’s commitments under the Petroleum Revenue Management Program.”

— World Bank, April 2004. 267

The requirement that the government of Chad establish an oil revenue management system is perhaps the most prominent, but certainly not the sole example of the World Bank’s efforts to push for policy change in Chad. Since 1994, the Bank has been supporting adjustment loans that aim at reforming Chad’s economic policies and public institutions, complemented by IMF poverty reduction and growth facility credits, as well as structural adjustment support grants from other donors (namely, the E.U., France and the African Development Bank). A sixth structural adjustment credit of $25 million, the “Institutional Reform Support Credit” or IRSC, was approved for Chad on November 30, 2004, following the successful conclusion of negotiations between Chad and the IMF on the renewal of a macroeconomic program for the country. “Like its predecessors, the Fourth and Fifth Structural Adjustment Credits (SAC IV and SAC V), the proposed IRSC focuses on strengthening and improving governance and public resource management.”268 The very fact that the objectives of this latest loan are the same as those of previous Structural Adjustment Credits IV and V suggests that there has not been substantial progress on many of the policy reforms that the Bank has supported.

When the sixth and most recent SAC was approved, the Bank noted that: “Chad’s record on the implementation of governance and transparency reforms remains uneven…[and] governance problems persist, notably in the area of public procurement.” For all the focus on establishing laws and institutions, there has been
insufficient attention to their enforcement and operation. The Bank has conditioned its continued support for adjustment loans on the adoption of methodologies, completion of audits, or passage of laws. However, the indicators of progress it identifies do not assess whether the laws have been adhered to or audits followed-up. Indeed, the Bank’s own assessment recognized that “effective enforcement of accountability and sanction mechanisms is still in need of significant strengthening and streamlining.” The track record of the Bank’s efforts, however, tells of the difficulty of effecting meaningful and lasting policy reform. The Bank’s ambitious agenda of increasing transparency, accountability, the rule of law, and the efficient use of public resources, ultimately rests on the government’s commitment and political will.

Wielding Leverage over the Chadian Government: How Hard to Push?
At times, staff of the World Bank and IMF have had differences of opinion about how to use their respective leverage over the Chadian government, as lenders and advisors. One such dispute surrounded the issue of how hard to push the Chadian government regarding the extension of the oil revenue management system to all oil found in the country. As a condition of its 2003 PRGF credit, the IMF required Chad’s Council of Ministers to adopt principles for the use of oil revenues from new fields. However, the government failed to observe this condition, and conflicting views emerged about whether or not the IMF should require the measure as a “prior action” in order for Chad to access a subsequent credit in 2004. Some Bank staff maintained that stringent conditions requiring the extension of the revenue management provisions to new oil fields would not be accepted by the Chadian government and would risk driving President Déby further outside the institutions’ sphere of influence. One important bilateral donor also expressed concern about pushing the government of Chad too hard on the extension of revenue transparency and management commitments to the entire oil sector, citing risks of repercussions on regional stability.

A letter to the World Bank and IMF from the prime minister of Chad in late 2003 outlined the government’s commitment to the principle of extending the revenue transparency and management practices to new oil fields. This moral assurance and subsequent oral promises by the former prime minister seemed to reassure the World Bank of the government’s commitment in this regard, but the IMF was less satisfied. It was not until eight months later that, in the course of an August 2004 joint IMF-World Bank mission, the IMF seemed to soften its stance and accept the government’s non-binding commitment as a satisfactory measure. The Council of Ministers issued a public declaration in September 2004 regarding the government’s intent to follow the same principles of transparency and pro-poor expenditures in managing oil money from new fields. This incident reveals how disagreements between donors can lead to convergence around a “lowest common denominator” policy and ultimately detract from donors’ ability to help institutionalize greater transparency and accountability within the Chadian government.

6.4 Changing Politics
Although the World Bank frequently claims that its Articles of Agreement “require it to focus on economic considerations and not on political or other non-economic influences as the basis for its decisions,” like the IMF, the Bank’s involvement in reforming economic policies and institutions is inevitably political. Bank management has argued that human rights and issues of political repression only become a matter of concern to the Bank if they have “significant direct economic effects” on a Bank financed project. In a country such as Chad, characterized by political instability and persistent human rights violations, the very possibility of achieving meaningful economic reform is constrained by the political environment. Because of the severity of political problems in Chad, the World Bank’s Inspection
Panel explained that it “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.”

Bank management, too, has had to confront the reality of political repression in Chad on more than one occasion, though it has not necessarily taken a sustainable approach to addressing issues of governance and human rights. For example, in 2000, World Bank President James Wolfensohn personally intervened to help free local opposition leaders, and it was suggested that he was prepared to intervene again if the president’s brother-in-law had become head of the Collège. While laudable, such exceptional measures do not constitute a sustainable remedy for the governance and human rights challenges in Chad, which may increase in the oil era. According to the narrative accompanying the World Bank’s latest structural adjustment credit in November 2004, “[B]y raising the potential stakes associated with political power, oil revenues risk making the maintenance of socio-political stability even more of a challenge.”

The fate of Chad’s oil-for-poverty-reduction experiment cannot be divorced from the country’s politics, and high-level phone calls alone are insufficient safeguards. Senior management at the Bank have declared it “the most powerful institution in assisting countries in their obligation with regard to all human rights—civil and political rights and economic and social rights.” The Bank says it has “always taken measures to ensure that human rights are fully respected in connection with the projects it supports” and is working to “identify areas where we can do even more to reflect the principles enshrined in the [Universal Declaration of Human Rights] into all of our work.” As it makes progress expanding its efforts to protect and promote human rights, the Bank should consider Chad as among the most important and most urgent places in which to put those measures into practice.

6.5 Waning Donor Influence over an Oil-Rich Government?

As oil money flows into Chad and dependence on donor dollars declines, multilateral and bilateral donors may lose leverage over the government. In some countries, this might be perceived as a positive development, heralding greater independence to make policy and spending decisions free from donor conditionality. However, in Chad, where democracy has yet to take root, citizens and civil society organizations with limited influence over their own government often count on the pressure that external actors can bring to bear in the struggle to make the government more transparent and accountable to its people.

The timeframe for influencing the government may be running out, since oil revenues could soon enable the government of Chad to pay off some loans and to distance itself from donor institutions. In fact, the debt service arrangement put in place for the repayment of World Bank (IBRD) and European Investment Bank loans to Chad for the pipeline seem designed to facilitate this eventuality.

The IBRD and EIB loans to the government of Chad are repaid directly from the off-shore escrow account in London. In addition, a debt service reserve account was established “[to] hold at all times an amount equal to 18 months of debt service payments due to IBRD under the Chad loan. The reserve would be funded from Chad’s royalties, taxes and dividends generated during the first 12 months of project operations.” The debt service reserve account has been established and holds approximately $7.41 million. This repayment arrangement privileges the IBRD over other creditors, including IDA and the IMF, and reduces the envelope of oil revenues from which additional priority sector spending is drawn, rather than spreading the pipeline debt burden across all sectors of the national budget. However, perhaps more importantly, the strict debt service schedule may actually accelerate the pace at which the government of Chad severs its financial ties with donors.
Chad begins its eight-year repayment period for its IBRD loan on June 15, 2005, and is required to make fixed, semi-annual payments of $2.47 million. From 2004 to 2013, Chad’s estimated debt service to the IBRD and EIB will be $60 million. The World Bank expects the IBRD loan to the government of Chad for its participation in the pipeline project to be paid back by 2014. All debt financing for the project (incurred by project sponsors and the governments of Chad and Cameroon) is expected to be repaid by 2017. Thus while the government may continue to be dependent on the World Bank and other donors for budgetary support, once the pipeline credit is repaid, the World Bank will no longer be in a position to enforce clauses in the pipeline loan agreement. If, for example, new oil fields are discovered after the IRBD loan is paid back, requirements in the loan agreement regarding compliance of those oil developments with environmental and social standards will no longer apply, stripping the World Bank of important legal leverage to ensure that the government prevents and mitigates harm.

Given the uncertainty about just how dependent Chad will be on external financiers in the future, donors need to act soon and decisively to help institutionalize the safeguards and build the capacity necessary to check against future abuse of the country’s petroleum resources. Rather than softening their requirements regarding transparency and accountability for the use of public resources to appease present relationships, the World Bank, IMF, and other donors should not accept the “incremental policy slippages” that could add up to a fundamental departure from the accountable system of public resource management which they claim to support.
Conclusion: A “Model Project” Hanging By a Thread

“The success of the Doba project will be measured by poverty reduction rather than by barrels of oil produced or millions of dollars received by Chad from oil exports.”

– World Bank, Project Appraisal Document

“We hope so. Its leadership says it will. It has signed the agreements and issued the decrees committing it to do so. We believe that the law should be implemented fully. We shall monitor its implementation very carefully. As long as it is properly implemented, we believe it will yield considerable benefits for the Chadian people and could serve as a model for managing natural resource revenues responsibly and transparently.”

– U.S. Ambassador to Chad Marc Wall on whether the oil revenue management law will be followed

Many obstacles stand in the way of converting Chad’s oil wealth into concrete improvements in the lives of the country’s poor. While the Chad project has been prematurely hailed as a “new model” for oil revenue management benefiting development, the record of Chad’s first year as a petro-state provides many reasons for concern.

While important building blocks for accountable and effective oil revenue management are being developed and need to be nurtured, limited progress on this front is tempered by worrying trends in the political environment, weaknesses and loopholes in the revenue management system, problems with corruption, transparency deficits and severe institutional capacity constraints. Despite all the attention and support Chad has received from the World Bank and other donors, the country remains essentially unprepared to manage the complexities of an economy increasingly dominated by oil. The oil experiment hangs by a thread.

It is far too early to declare the Chad experiment a failure or a success. Whether or not Chad manages to escape the “paradox of plenty” may not be known for years. There are, though, clear lessons that can be drawn from Chad’s experience to date. (Photo: Marc Thomas)

Power, Politics and Conflict

Chad is neither an abstraction nor a blank slate, but a system of politics and power that predates the oil project and the “experiment” in creating a system of accountable revenue management. A small ruling group controls the government, its resources and institutions. As the coup attempt and other events in 2004 show, the possibility of violent conflict is ever-present and these tensions will only increase with the arrival of new oil wealth. Tensions exist within the ruling circle, between different ethnic groups, between nomadic herders and pastoralists and between refugees and local populations. Any number of “national emergency” scenarios – such as the current spillover of the Darfur conflict – could provide a pretext for the diversion of oil revenues. With a violent cataclysm or a government decision to ignore the safeguards put in place, the elaborately constructed technocratic “quick fix” for Chad’s governance problems could go up in smoke.
Chad is characterized by a system of impunity rather than rule of law. Chad’s judiciary is weak, underfunded and subject to executive interference. The country’s Supreme Court was only established in 1999. While Chad’s revenue management law and other legal and institutional innovations – such as the Collège – are important, these new laws are insufficient safeguards in Chad. Everything in the Chad “model” rests on the enforcement of the law and sanctions for violators in a country with a history of neither. This is a tenuous basis for hope. The supreme law of the land is the constitution and that can be easily changed in a one-party system where observers see elections as neither free nor fare. What makes the revenue management immune to a similar fate?

Over time, Chadian political actors may develop ways to evade legal safeguards or absorb new accountability institutions into the system of political power and patronage. New money not earmarked in the oil revenue management system will strengthen the hand of the government.

A Narrowing Window for Reform

The next two years will be extremely critical for Chad and those actors trying to encourage improvements in governance, human rights and democracy. Tensions may increase in the run-up to elections in 2006 and the government will earn higher-than-expected oil revenues due to elevated oil prices, as well as new oil fields coming on line in southern Chad. By 2006, if there is no significant evidence of quality spending of oil revenues in the producing region, tensions may rise in southern Chad. And in 2007, the government will have access to new money from indirect oil revenues not covered under the revenue management law. These factors will all combine to heighten tensions and increase the ability of the government to ignore internal and external pressure for reform.

Flaws in the “Model” Design

Large loopholes in the design of the revenue management system should have been addressed in the project formulation stage. Because indirect revenues – taxes on the Consortium and other fees – fall outside the revenue management law, $1-3 billion over the life of the project will go directly into government coffers. While the law on petroleum revenue management should have covered all oil found and developed in Chad, it in fact covers only three specific fields. Government statements may reassure donors, but they by no means guarantee sound revenue management in the future. In fact, the carefully worded declaration issued by Chad’s Council of Ministers leaves the door open to the creation of an entirely separate mechanism for managing new oil revenues – a move that could squeeze out the Collège and create parallel systems for managing oil revenue.

The Hen Watching the Fox House

Innovative oversight institutions – both within Chad and outside – have been hampered by limited mandates and insufficient capacity. Within Chad, the all-important Collège needs access to information in a timely fashion, the ability to investigate expenditures and the cooperation of the government to prosecute any wrongdoing identified by the body’s investigations. The Collège lacks an independent and steady source of funding, and the ability to effectively carry out oversight in a vast country. Outside Chad, new layers of oversight, like the International Advisory Group appointed by the World Bank, have the ability to expose problems but have no authority to enforce compliance with their recommendations. These oversight mechanisms rely on the will of the government of Chad, the World Bank and the oil companies to heed their advice.
Transparency and Secrecy

There is much that remains opaque concerning Chad’s oil and the revenues generated from production. Key contracts between oil companies and the government are shielded by confidentiality clauses and negotiated in secret by a few people. These contracts, which shape a major portion of the country’s tax structure, are hidden from public view, thereby preventing true oversight of revenues generated by the project. Key determinants of revenue, such as production, shipment and sales figures, are not made public. There is an urgent need to clarify the calculation of revenue payments to the satisfaction of both the government and the public. Despite the fact that dividends from Chad’s shares in the two transportation companies (TOTCO and COTCO) were expected to provide significant revenues and be subject to the Collège’s oversight, to date they have not been tracked. There is scant information about how much dividends have contributed to the government and where the money has gone.

Chad has been put forward as a model of oil revenue transparency, but some neighboring countries have achieved more in certain aspects of oil transparency. The government of Congo-Brazzaville, for example, recently published on its website all of its Production Sharing Agreements, recent production figures and audits of the state oil company, revealing huge problems in the management of oil monies.

While some elements of the Chad project are transparent – the publication of reports from the Collège and the posting of the Citibank escrow account activity on the World Bank website – these measures do not go far enough. Some documents, while available to the public en principe, are unavailable for all practical purposes. If it is difficult for the IMF resident representative or external researchers to obtain a copy of the national budget of Chad, imagine the difficulties for an ordinary citizen. Basic information on the government’s finances and expenditures is practically unavailable. Citizens need to have access to spending plans of priority ministries so they can track the allocation of money down to the local level. And, in a country with little access to the Internet and low levels of literacy, Internet-only publication of information without explanation is practically meaningless.

Transparency does not equal accountability. Transparency is an essential ingredient in a system of oversight, accountability and sanction, but transparency alone does not lead to accountability. Transparent information can be used for both formal and informal enforcement of the law and sanction of wrongdoing if the right conditions exist. Investigative and judicial arms of the government must be independent and capable of prosecuting wrongdoing. Elections must be free and fair and Chadians must have the ability to change their government through the ballot box if they think the government has not managed the oil wealth well. Informal enforcement – through monitoring by civil society and publicizing information on the radio and other media – must be part of a system of accountability. Transparency is only meaningful if information is understood by the government and the public, and if the findings of oversight bodies are acted upon.

“Sowing the Oil” – Spending Oil Money to Reduce Poverty

Spending oil money to reduce poverty – “sowing the oil” – is no easy matter. Because oil production is an enclave industry that produces few jobs (only a few hundred Chadians are directly employed in the oil industry) and has few linkages to the rest of the economy, the greatest impact on the country is through the generation of revenues. The only real link to the economy is through revenues provided to the national budget, making effective fiscal policies and expenditures all the more important. Chad has little record of effectively budgeting and spending resources, and a history of corruption and mismanagement in bidding and procurement procedures. While there are notable elements of transparency regarding revenues at the macro-level, it is
likely that problems with corruption and mismanagement will migrate “down the food chain” where they are more hidden from public view. As in other oil rich countries, systems of patronage are likely to develop through the non-transparent awarding of government contracts funded by oil revenues to companies connected to the circle of power.

To reduce poverty, livelihoods of the poor must improve – through increased access to health care, education, sanitation, etc. – and jobs must be created in the non-oil economy. This depends on the capacity of the Chadian government ministries to absorb increased levels of funding and develop effective spending plans – capacities that are woefully lacking. Outside the capital, the government’s reach is minimal; the public provision of social services is largely unheard of in southern Chad. The lack of government infrastructure in the regions and towns of Chad will make it difficult to absorb and spend money effectively. This has grave implications for the poverty reduction objectives of a project dependent upon the effective use of massive new government revenues. Increased spending on priority sectors does not equal poverty reduction; the spending must be effective. (Other oil rich countries, such as nearby Gabon, have high levels of spending on social sectors but lower than average poverty indicators for sub-Saharan Africa.) The government must make greater efforts to foster non-oil sector investment in the country.

All Encompassing Institutional Weakness

The Chadian government’s all-encompassing weakness, to borrow a phrase from the World Bank, has enormous implications on many fronts for the outcome of Chad’s oil story. The government has a lack of technical understanding of the oil industry and the relevant contracts, and few trained staff who understand how to calculate and manage revenues to ensure that Chadians receive as much as possible from oil sales. Key technical staff are transferred frequently lured away by the private sector, and the government capacity to monitor social and environmental impacts from oil production is extremely limited. The Ministry of Finance is still unable to manage the complexities of an oil boom economy.

While Chad’s oilfields and pipelines were built more quickly than planned, the capacity of government has lagged far behind. This two-speed problem was identified by many early on in the project and is now affecting the government’s ability to use oil revenues to reduce poverty. In many ways, the capacity of the Chadian government is far behind where it needs to be even after a year of oil production.

The World Bank – Remaking Chad?

World Bank financing played a linchpin role in bringing project finance together and raising the “comfort level” of the private sector investors. The World Bank recognized
many of the challenges that new oil revenues would pose for Chad, but argued that its involvement in the project would ensure that government capacity would be sufficiently developed before oil revenues arrived. This clearly has not been the case and Bank staff have since “learned” of the long-term nature of reforming and building government capacity. The Chad-Cameroon project provides a strong argument for proper sequencing of both governance reforms and increased government capacity prior to World Bank support for an oil investment. It reinforces the need to ensure that minimum conditions of transparency, the rule of law, respect for human rights, and demonstrated capacity to implement pro-poor programs exist prior to promoting investment in the extractive industries. Moreover, governance and human rights conditions arguably have not improved since project approval in 2000. Indeed, as this report has shown, conditions have deteriorated, raising new concerns regarding the ultimate success of the project. Finally, while the World Bank has justified its involvement in oil, gas and mining projects in the developing world on the basis of undeniable energy needs of the poor, it is important to remember that this project has, so far, only exported oil; no refined products derived from Chad’s oil are available in the country itself. In addition, Chad’s need for electricity generation and distribution, even in the capital, remains severe and is a key impediment to increased economic development.

Chad’s Special Relationships – The Role of Bilateral Donors

With the fate of the oil project hanging by a thread, the relationship between Chad and foreign governments, most notably France and the United States, will become key. The World Bank, IMF, France, the U.S. and European Union, among others, must share a common policy on the need for transparency and accountability in the management of Chad’s new oil wealth. These actors will have to emphasize the need for progress on increasing political space, democratic governance and respect for the rule of law, and carefully calibrate diplomatic engagement on the basis of progress. If petrodollars pour in as predicted, diplomatic engagement could become a more important lever for encouraging governance reforms than whatever financial assistance may be offered. With large American company investment in Chad, and strong American support for World Bank funding of the project, the U.S. government has an interest in seeing continued oil flow as well as broadly distributed economic growth and poverty reduction.

The Need for Transnational Civil Society Alliances

The complex transnational nature of the Chad-Cameroon project on the commercial side has been matched by important alliances between groups in Chad – NGOs, human rights groups, churches, labor unions and others – and international civil society allies. Key reforms and innovations – such as the revenue management safeguards and the International Advisory Group – likely would not be in place today were it not for pressure from a transnational civil society coalition working to ensure that global decision-makers hear local voices. As the project enters the critical test phase of managing oil revenues, it will take continued action and attention from local and international civil society organizations to track Chad’s revenues and hold the project proponents accountable for their fate. The newly established “Publish What You Pay / Publish What You Earn” coalition in Chad will need assistance to effectively push for increased transparency of revenue information and monitor oil money spending.

Whose Risk, Whose Reward?

Chad’s development as Africa’s newest petro-state rests at a critical juncture. Will new oil revenues fuel further conflict, corruption and impoverishment – as has been the
case in most other oil producing countries – or will Chad defeat the “resource curse” and enter a new era of oil-fuelled poverty reduction? The World Bank has said that its Chad gamble is a “high risk, high reward” project. While the rewards of the project are certain for the oil companies involved, the risks of failure will be borne by the poor of Chad. Failure will not mean merely lost time or money, or that things will simply not improve. Oil could make things demonstrably worse for the poor. This will mean disaster for millions of Chadians whose hopes hinge on every cargo of Doba crude. All actors – the Chadian government, the International Financial Institutions, the oil companies, Northern governments and civil society – must work urgently and in concert to ensure that Chad’s oil boom does not fade into a mirage for the poor.

**Recommendations**

The following recommendations are based on research conducted over a two-year period, including visits to Chad, interviews with project actors, and ongoing exchanges with Chadian civil society organizations. Many of the recommendations echo calls made by NGOs, Churches, human rights associations, and community organizations in Chad.

**Oil Companies**

The ExxonMobil-led consortium should:

- Publish all conventions and contracts regarding hydrocarbon exploration and production in Chad. The Consortium should renounce confidentiality clauses in contracts.
- Provide key information regarding the determinants of oil revenue directly to the Collège (Petroleum Revenue Oversight and Control Committee), including:
  - volume of crude produced and sold
  - information on the price discount for Doba crude
  - production and transportation costs of crude
  - payment of dividends and royalties
  - debt service payments
  - exchange rate for transactions
  - taxes and customs duties linked to petroleum exploitation.
- Make public annual audits conducted by reputable international firms (e.g., Ernst & Young, KMPG) relating to Consortium activities in Chad.
- Publish maps of planned oil well sites and feeder pipelines in areas of new oil development and make these available to local communities and civil society organizations in Chad.
- Immediately publish oil field-specific and cumulative environmental and social impact assessments. With the development of ExxonMobil’s satellite fields and EnCana’s ongoing exploration, the impact area of the pipeline project can no longer be considered as confined to the three original Doba fields.
**EnCana should:**

- Publicly support the application of existing laws regarding the transparency and management of petroleum revenues to any future EnCana oil production in Chad.
- Publish all conventions and contracts regarding hydrocarbon exploration and production in Chad and renounce confidentiality clauses in contracts.
- Publish, in a timely and systematic fashion, information regarding exploration and potential production activities.
- Fund third-party verification of its compliance with social and environmental safeguards during exploration activities in order to comply with the World Bank loan agreement regarding use of the pipeline export facilities.

**International Financial Institutions**

**The World Bank and IMF should:**

- Require demonstrated progress on enforcement of laws relating to fiscal management, including sanctions by the government for violations of procurement regulations and prosecution of wrongdoing uncovered through state audits, prior to providing additional project or policy lending or macroeconomic support. In absence of demonstrated enforcement and correction of identified problems, the passage of laws or publication of audits should not be considered satisfactory progress on the improvement of the judicial system or, for example, procurement procedures.
- Ensure that the government’s commitment to extend oil revenue management principles to the entire oil sector is made legally binding. The World Bank and IMF should discourage the creation of a second, separate system of oversight for revenues from new oil fields. A parallel oversight framework could provide additional loopholes and muddle efforts to render the sector transparent.
- Require the disclosure of all audits related to oil revenue determination, management and allocation, as well as spending by government ministries. This would include audits of the oil consortium (cost audits), audits of any state oil company created in the future and audits of the management of the Future Generations Fund. The World Bank and IMF also should require publication of any audit supported by their financing or required under the loan agreements and contracts for the Chad-Cameroon project.
- Hold public briefings in N’Djamena and in regional capitals to explain and discuss the findings of regular reviews and evaluations conducted, such as the IMF’s Article IV Consultation Reports, World Bank Country Assistance Strategies, or progress reports on the Poverty Reduction Strategy.
- Support the public dissemination of information about the national budget in Chad by helping to offset costs of reproduction, distribution and communication of information to the public, and by maximizing the amount of meaningful information that IFIs make available through their websites and local offices.
- Provide explanations of account balances, debt payments and revenue figures posted on the World Bank’s website. While encouraging the government of Chad to disclose such information on its own, the World Bank should publish additional information that it is entitled to disclose, such as oil production figures.
- Support and publish an independent assessment of the spending constraints and absorptive capacity challenges facing the Chadian government, so as to facilitate more even and effective use of funds across priority sectors. (Preference should be given to competent Chadians vs. foreigners for World Bank consultancies.)

**Conclusion: A “Model Project” Hanging By a Thread**
• Increase budgetary support to the Collège in the short term to reinforce its ability to investigate petroleum-financed expenditures, and to commission third-party assessments of production and revenue reporting.

• Identify and disclose clear benchmarks for progress in the development of Chad’s capacity to manage and spend oil revenues. The World Bank and IMF should link those indicators to clear sanctions and remedies aimed at preventing the consequences of misuse of revenues before they occur. They should not ignore “incremental policy slippages” that could develop into fundamental violations of the revenue management system.

• Devote more attention to the development of the non-oil economy in Chad, including the poverty reduction benefits of more labor-intensive sectors.

• Redouble efforts to promote greater fiscal transparency and accountability for the use of all public resources (oil and non-oil revenues)—a particularly urgent need in light of substantial “indirect” oil revenues (taxes and fees) arriving in 2007. The current focus on the transparent management of direct oil revenues should not divert attention from the need for responsible use of all government resources.

• Based on the experience of Chad, ensure that basic minimum governance standards—such as demonstrated respect for human rights, an independent media, a functioning independent judiciary and tested fiscal management and regulatory capacity—exist prior to extending support for oil, gas or mineral developments in any country.

**International Advisory Group**

• Increase efforts to widely disseminate reports and recommendations. The IAG should issue press releases and hold press conferences or public meetings with the publication of each of its reports.

• Conduct advocacy on recommendations between the issuance of semi-annual reports, in fulfillment of its mandate to advise the World Bank Group, governments of Chad and Cameroon, and the oil consortium on the implementation of the pipeline project and related developments. The IAG should request periodic briefings with the Executive Directors of the World Bank Group.

• Include a matrix in each report to track progress on the implementation of specific past IAG recommendations.

**Key donors such as the U.S., France and the European Union should:**

• Calibrate diplomatic engagement and bilateral support to measurable progress toward increasing political space, democratic governance and respect for human rights and the rule of law. (Head of state or ministerial level visits, without demonstrated progress in these areas, sends the wrong signal regarding reform.)

• Carefully monitor press freedom and provide financial support and backing to independent media outlets, especially radio. The U.S. should continue and expand its support for independent radio stations and special broadcasts that disseminate information regarding the national budget and fiscal transparency.

• Support Chadian civil society efforts to implement a monitoring system to track oil revenue expenditures from the capital to local levels, alerting the Collège to problems with project implementation and reinforcing its oversight function.

• Extend technical assistance to the Chadian government to strengthen fiscal management, as well as provide dedicated assistance to the Collège, with the goal...
of training local Chadians to provide the needed technical support on a sustainable basis in the future.

The Chadian government should:

- Extend the revenue management law to cover all oil produced in Chad. The government should make clear what will be done to ensure accountability for oil revenues from future fields and to guarantee against the development of duplicate oversight mechanisms.
- Disclose all contracts and conventions for oil exploration and production in Chad and renounce confidentiality clauses in all future contracts.
- Allow for public debate in the National Assembly on the elements of a new Petroleum Code.
- Refrain from finalizing new oil contracts until the new Petroleum Code is adopted.
- Publish all relevant audits relating to the generation, management and allocation of oil revenues. This would include cost audits of oil companies; audits of budget execution by priority sector ministries; audits of the management of the Future Generations Fund, and other relevant audits.
- Design and implement a continual government training program on oil revenue management including technical expertise to verify production figures and revenue payments from oil companies.
- Commit to greater stability of staff in government ministries, in an effort to retain institutional memory and skills acquired through training programs.
- Refrain from interfering in selection of civil society members of the Collège.
- Earmark a minimum percentage of annual oil revenues for the functioning of the Collège to ensure the independence and sustainability of its operations.
- Comply with decrees regarding the right of the Collège to provide input into the budget process. The government should ensure that the Collège participates in the budget committee meetings and receives the draft budget at least 10 days before its adoption by the Council of Ministers.
- Take action on the basis of the findings of audits and Collège reports (e.g. regarding misuse of oil bonus money), and implement commitments made to the IMF regarding the creation of a “budget court” and sanctions for violation of procurement laws.
- Institutionalize an inter-ministerial monthly meeting of government officials from the Ministry of Petroleum, Ministry of Finance and the Collège, among others, to share information on oil production and revenue generation. These meetings should serve to facilitate communication between actors already engaged in the petroleum sector and do not require the creation of any new structures or offices.
- Ensure adequate funding for the judiciary and respect its independence.

The Collège (Petroleum Revenue Oversight and Control Committee) should:

- Dedicate more of its limited resources to investigations of approved projects, to ensure that they are properly executed as planned and actually benefit the poor on the ground. The Collège should disseminate the findings of its investigations to both the government and the public in a timely fashion.
- Publish and disseminate information on projects to be financed with oil revenues as early as possible, alerting the public to what they can expect in the coming months or year.
- Hold public information sessions in regional towns to alert the population to the Collège’s mandate, increase public awareness of how oil revenues are to be used, and explain what mechanisms are in place to check against their misappropriation.
- Act on a presumption in favor of disclosure of any and all information that the Collège deems in the public’s interest.
- When necessary, use its right to commission third party experts to assess proposed projects or audit production or revenue reporting.
- Hold quarterly “open-house” meetings for Chadian civil society and develop strong working relationships with civil society groups to achieve its mission.
- Develop a regularly updated “matrix” of problems identified and what actions, if any, were taken to address these problems or violations of the law by the government.

Civil Society

Local civil society should:
- Proactively seek out information from the Collège and convey this information to key networks in the regions. The Collège will be unable to fulfill its oversight role without active collaboration with civil society, from the capital to the village level.
- Organizations in the capital should provide a simplified breakdown of the national budget, showing planned oil expenditures by region and sector, to enable local residents to alert oversight bodies to any discrepancies between planned and actual project implementation.
- Develop a coordinated monitoring and alert system to track the use of oil revenues. Civil society groups should identify existing structures or networks at the regional and local levels that can help disseminate and collect information about project execution to and from the population at large.
- Regularly convey findings to international allies and media outlets as well as to Chadians at large through popular education programs.

International civil society should:
- Support the revenue oversight efforts of Chadian civil society and the nascent “Publish What You Pay/Publish What You Earn” coalition.
- Devote resources to monitoring the status of human rights in Chad, in collaboration with local human rights associations conducting day-to-day surveillance.
- Continue to hold International Financial Institutions, oil companies, and Northern governments to account for their responsibilities vis-à-vis the project and the Chadian people.
Appendix 1: Unofficial Translation of Chad’s Revenue Management Law

LAW NUMBER 001/PR/99
RELATING TO THE MANAGEMENT OF OIL REVENUES

Pursuant to the Constitution, at its December 30, 1998 sitting the National Assembly debated and adopted, and The President of the Republic promulgated a Law, the terms of which follow:

CHAPTER I: GENERAL CONSIDERATIONS

Article 1: This Law is intended to define the mechanisms for the management of oil revenues from the development of the three (3) oilfields at KOME, MIANDOUM and BOLOBO.

Article 2: Oil revenues entail both direct and indirect resources. Direct resources are composed of dividends and royalties, while indirect resources are composed of the taxes, customs and other duties related to the exploitation of petroleum resources.

Article 3: The direct resources, referred to in line two of Article 2, are to be deposited in a special account in the name of the Government of Chad specifically opened for this purpose with an international financial institution, hereafter called the offshore escrow account.

These funds are to be allocated as follows:
- 90% of these funds are to be deposited in a special consolidated revenue fund in one or two major banking institutions active in this area;
- the remaining 10% is to be deposited in a savings account, as per the stipulations of Article 9 of the present Law.

Article 4: Indirect resources, taxes, customs and other duties are to be deposited directly into the nation’s public accounts.

Article 5: The various resources identified under Article 2 of the present Law are an integral part of the General Budget of the State.

Article 6: These revenues are to be allocated in accordance with the criteria defined in Chapter II of the present Law.

CHAPTER II: REGARDING THE ALLOCATION OF REVENUES

SECTION 1: PRIORITY SECTORS AND REGIONAL ALLOCATION.

Article 7: In essence, direct resources are to be allocated to the priority sectors.

Priority sectors include public health and social welfare, educational infrastructure, rural development (agriculture and livestock), environment and water resources.
Article 8: Direct resources, involving dividends and royalties, are to be deposited in the special account foreseen under Article 3 and are to be allocated as follows:

a) Eighty percent (80%) of these revenues are to be directed to expenditures related to the priority sectors as specified in paragraph two of Article 7,

b) For a period of five years from the date that production begins, fifteen percent (15%) of these revenues are to be devoted to the State’s recurrent operating and investment costs,

c) As per the stipulations of Article 212 of the Constitution, five percent (5%) of oil royalties are to be directed to the decentralized authorities in the producing regions.

Based on available resources, existing needs and the absorptive capacity of the region, these allocations can be modified by decree every five years.

The ways and means for managing and controlling these revenues will conform to the public accounting regulations in force at any given time.

SECTION 2: SAVINGS

Article 9: The remaining ten percent (10%) of direct revenues, that is the taxes and royalties specified under Article 3 of the present Law, are to be deposited in a savings account maintained with an international financial institution for the express purpose of benefiting future generations, in accordance with the regulations of the Bank of the Central African States (BEAC).

CHAPTER III: MECHANISMS FOR MANAGING THE SPECIAL ACCOUNTS.

SECTION 1: IN OPERATIONAL TERMS

Article 10: With respect to approvals, withdrawals, follow-up and control over the General Budget of the State, the mechanism for managing the Special Accounts falls under the Government’s normal budgeting processes.

Article 11: The Special Accounts are to be maintained with one or two of the available major commercial banks certified by the Central African Banking Commission [COBAC]. These accounts are to be directly fed by the escrow account referred to in the first paragraph of Article 3 of the current Law.

SECTION 2: CRITERIA FOR WITHDRAWALS

Article 12: Funds deposited in the special account for purposes of financing priority sector expenditures are to be committed in accordance with the Government’s annual public spending estimates.

Parts of the three-year development framework, the public spending estimates are the point of reference for the Finance Law and are subject to annual review by the Government.
In accordance with the principle of additionality, oil revenues expenditures on priority sectors are understood to be in addition to the general budget for the fiscal year prior to the initial receipt of oil revenues.

**Article 13:** Requests for withdrawals by the Director General of the State Budget must adhere to the procedures outlined in the Finance Law and must be submitted for the explicit authorization of the Petroleum Revenue Oversight and Control Committee (the Collège).

**CHAPTER IV: REGULATORY BODIES.**

**Article 14:** Control over the movement and use of oil revenues is exercised separately or jointly by the Financial Controller of the Ministry of Finance and Economy, the Petroleum Revenue Oversight and Control Committee, the Auditor General of the Supreme Court and the Parliament.

**SECTION 1: THE PETROLEUM REVENUE OVERSIGHT AND CONTROL COMMITTEE (The Collège)**

**Article 15:** A Petroleum Revenue Oversight and Control Committee is instituted.

**Article 16:** The Petroleum Revenue Oversight and Control Committee is composed as follows:

- One magistrate, member of the Supreme Court
- One deputy
- One Senator
- The National Director of the BEAC
- The Director General of the Treasury
- The Director of Petroleum Resources
- The Director of Planning and Development
- One representative of local NGOs, and
- One representative of unions

**Article 17:** The members of the Collège representing Parliament, the Supreme Court, national NGOs and unions are appointed to three (3) year terms renewable once.

**Article 18:** The mission of the Collège is:

- a) to ensure that commitments under the Special Accounts conform to the Finance Law.
- b) to authorize and control withdrawals from the Special Accounts and to oversee the allocation of these funds.

**Article 19:** A separate decree will outline the organization, operational procedures and control and oversight mechanisms available to the Collège.

**SECTION 2: OTHER REGULATORY BODIES**

**Article 20:** The Parliament controls the allocation of oil revenues by adopting and monitoring the implementation of the General Budget of the State.
**Article 21:** The Auditor General of the Supreme Court exercises control over the legality of State expenditures by official writ over its revenue accounts and by overseeing the legal stipulations defining the division of resources between the State’s General Budget and that of the decentralized authorities and the provisions dealing with developing reserves or investing surplus funds outside of the country.

**SECTION 3: OVERSIGHT MEASURES.**

**Article 22:** Oversight of the movement, allocation and utilization of oil revenues is guaranteed by virtue of periodic audits and reports to Government and particularly through:

- annual audits of the Special Accounts and of the Future Generations Fund;
- periodic reports on the management of the Future Generations Fund and on the stabilization account
- periodic reports from the Collège;
- the COBAC reports and audits on the major banks charged with the effective management of specific Special Accounts;
- the Auditor General’s annual audit of the General State Budget.
- the Government’s practice of annually publishing these various reports and audits.

**CHAPTER V: CONCLUDING CONSIDERATIONS:**

**Article 23:** This Law will be registered and published in the Official Bulletin of the Republic and implemented as the Law of the State.

Proclaimed at N’djamena, January 11, 1999

IDRISS DEBY
REPUBLIC OF CHAD
PRESIDENT OF THE REPUBLIC

LAW NUMBER 016/PR/2000
AN AMENDMENT TO LAW 001/PR/99 OF JANUARY 11, 1999
REGARDING THE MANAGEMENT OF OIL REVENUES

Pursuant to the Constitution; at its July 26, 2000 sitting the National Assembly debated and adopted, and the President of the republic promulgated a Law, the terms of which follow:

**Article 1:** Law number 001PR/99 of January 11, 1999 dealing with the Management of Petroleum Revenues is amended as follows:

**Instead of the previous Article 16: which reads,**

The Petroleum Revenue Oversight and Control Committee is composed as follows:
One magistrate, member of the Supreme Court
One deputy
One Senator
The National Director of the BEAC
The Director General of the Treasury
The Director of Petroleum Resources
The Director of Planning and Development
One representative of local NGOs, and
One representative of unions

The new formulation of Article 16 reads:

The Petroleum Revenue Oversight and Control Committee is an independent body composed as follows:

- One (1) magistrate, member of the Supreme Court
- One (1) deputy
- One (1) Senator
- The National Director of the BEAC
- The Director of the Treasury, and
- Four (4) civil society representatives

The remainder of Article 16 remains unchanged.

Article 2: This Law will be registered and published in the Official Bulletin of the Republic and implemented as the Law of the State.
Appendix 2: Additional Resources on the Chad-Cameroon Pipeline

Additional CRS and BIC reports


Environmental Defense, Chadian Association for the Promotion and Defense of Human Rights, Center for Environment and Development


- *The Chad-Cameroon Oil and Pipeline Project: A Call for Accountability*, June 2002 www.environmentaldefense.org/documents/2134_Chad-Cameroon.pdf
- *The Chad-Cameroon Oil and Pipeline Project: Putting People and the Environment at Risk*, September 1999 www.environmentaldefense.org/documents/728_ChadCameroon_pipeline.pdf


Friends of the Earth-International


Other Chadian and Cameroonian NGOs


Amnesty International

Documents on Chad: web.amnesty.org/library/eng-tcd/index

Academic Resources

*Chad-Cameroon Oil Pipeline Project: A Study Tool and Case Study*, Developed by Dr. J. Paul Martin, SIPA and the Center for New Media Teaching and Learning, Columbia University. www.columbia.edu/itc/sipa/martin/chad-cam
Useful websites

*Collège de Contrôle et de Surveillance des Revenus Pétroliers*
www.ccsrp.td (français)

*Groupe de Recherches Alternatives et de Monitoring du projet Pétrole Tchad-Cameroun*
www.gramptc.org (français)

*ExxonMobil (Esso Chad) website*
Chad-Cameroon Development Project page
www.essochad.com/Chad/Chad_HomePage.asp

*World Bank website*
Chad-Cameroon Petroleum Development and Pipeline Project page
www.worldbank.org/afr/ccproj

*International Advisory Group website*
Groupe International de Conseil
www.gic-tag.org
Endnotes


2 President Idriss Deby, Statement at inauguration ceremony of the Chad-Cameroon pipeline, October 10, 2003.


7 Ian Gary and Terry Lynn Karl, Bottom of the Barrel: Africa’s Oil Boom and the Poor, Baltimore: Catholic Relief Services, June 2003.


9 Terry Lynn Karl, The Paradox of Plenty: Oil Booms and Petro-States, Berkeley: University of California Press, 1997; see also Terry Lynn Karl, “The Impact of Oil Booms on Oil-Exporting Countries: Reflections on The Paradox of Plenty,” in Fueling the 21st Century: The New Political Economy of Energy, special edition of The Journal of International Affairs, vol. 53, no. 1 (fall 1999). These works should be consulted for a more complete explanation of the oil phenomenon described here. Both statistical work and case studies are clear on this point. See, e.g., Paul Collier and Anke Hoeffler, Greed and Grievance in Civil War, Policy Research Working Paper 2355, Development Research Group, Washington, DC: World Bank, May 2000 (showing that states dependent on the export of oil and minerals face a risk of civil war of 23 percent for any five year period, compared to a risk of 0.5 percent for a country with no natural resource exports).


12 A comprehensive study by Harvard economists Jeffrey Sachs and Andres Warner demonstrates that countries whose natural resource exports composed a high percentage of gross domestic product had abnormally slow growth rates between 1971 and 1989 when compared to countries following non-resource based development models. Drawing on data from 97 developing countries, this research confirms that there is a negative relationship between a country’s dependence on natural resource exports and their subsequent growth. Thus, countries that base their development on resources like petroleum grow more slowly than those that follow other development models. See, Natural Resource Abundance and Economic Growth, Development Discussion Paper no. 517, Cambridge: Harvard Institute for International Development, 1995.


14 See BP’s website at http://www.bp.com/sectiongenericarticle.do?categoryId=2011557&contentId=2016955

15 Although exploitable oil reserves have been known to exist in Chad since the 1970s, civil wars and protracted negotiations among oil companies, the governments of Chad and Cameroon, and the World Bank delayed exploitation, but it is now moving ahead at full speed.

16 “Investors Call for Greater Transparency by Extractive Companies,” ISIS Asset Management Press Release, London: May 19, 2003. The lack of transparency represents a significant business risk, making companies vulnerable to accusations of complicity in corrupt behavior, impairing their local and global “license to operate”, rendering them vulnerable to local conflict and security, and possibly compromising their longterm commercial prospects in these markets.


The EIU projects this will fall to 14% in 2005 and 10% in 2006. Economist Intelligence Unit, Chad Country Report, November 2004.


World Economic Forum, Public Institutions Index 2003, at: www.weforum.org/pdf/Africa_2003/pg_pub_rat_index.pdf Contracts and law is measured by: judicial independence; property rights in law; the risk posed by organized crime, such as extortion; and favoritism in decisions by government officials. The corruption ranking examines frequency of irregular payments by firms to obtain: import and export permits; connections to public utilities, such as electricity; and favourable treatment by tax-collection officials.


U.S. Dept. of State, Country Report on Human Rights Practices for Chad, 2002, Bureau of Democracy, Human Rights, and Labor, March 31, 2003. The U.S. State Department Human Rights Report 2001 also notes that “In May 2000, the President and the National Assembly appointed 15 members of the High Court of Justice, despite a law providing for their election. The Supreme Court began full operations in October 2000. The Constitution mandates an independent judiciary; however, the judiciary was ineffective, underfunded, overburdened, and subject to executive interference.”

U.S. Dept. of State, Bureau of African Affairs, Background note on Chad, January 2002 (Amnesty International AI-Index: AFR 20004/1997 01/03/1997). (Note: The Logone prefectures are where the oil project is located.) “AI regularly drew the attention of the Chadian authorities and of international opinion to the systematic use of summary and extrajudicial execution against unarmed civilians. During the past four years, the security forces have carried out such executions on several occasions among the civilian population of the Ouaddai and Logone Occidental and Logone Oriental regions. During the late quarter of 1996 and early 1997, Amnesty International received new information according to which the security forces are continuing to carry out summary and extrajudicial executions. Amnesty International believes that the periodic recurrence of massacres of civilians in Chad is due in large part to the impunity enjoyed by the perpetrators of such atrocities. Neither the massacre of civilians in Ouaddai in 1994 and in the two Logone prefectures in 1994 and 1995 nor the extrajudicial execution of Bichara Digi in August 1996 brought any official condemnation or independent and impartial inquiries. Hundreds of civilians have been killed and not one perpetrator of these violations has been brought to justice.”
The Catholic Bishops of Chad noted in April 2004 that “we observe a growing degradation of sociopolitical conditions of Chad, aggravated by tensions in the countries of the sub-region.”

Chad shares a common currency, the Communauté Financière Africaine franc (CFAF), with other Francophone countries in Central Africa. The BEAC serves, among other things, to enforce common monetary policies and the stability of the currency.


Economist Intelligence Unit, Chad Country Report, November 2004.


Ambassador Marc Wall, e-mail correspondence with authors, December 7, 2004.

“The Pan Sahel Initiative is an ongoing effort to assist four countries – Mali, Niger, Chad, and Mauritania – in detecting and responding to the migration of asymmetric threats across and within their extensive and poorly controlled borders. Under this program, company-sized units are trained and equipped as rapid reaction units, providing them the mobility, communication, navigation, and individual soldier skills essential for border security, internal defense, and counterterrorism efforts.” Federal Document Clearing House Congressional Testimony by General James L. Jones, U.S. European Command, Supreme Allied Commander, Europe, Before the Committee on Senate Appropriations, U.S. Senate, September 23, 2004.

The consortium was originally comprised of ExxonMobil, Total (now TotalFinaElf) and Shell. Total and Shell pulled out in 1999 and were replaced by ChevronTexaco and Petronas. ExxonMobil is the largest shareholder in the concession (45%) and lead operator, with 35% going to ChevronTexaco and 25% to Petronas. Outside the U.S., ExxonMobil is known as Esso. In Chad, it operates under the name Esso Exploration and Production Inc. (EEP).

Rob Kase, ExxonMobil representative at Chad International Oil and Gas Conference, October 14-15, 2004.

Authors’ interview with village chief from Ngala, Chad, May 16, 2004.


Esso Chad, Chad-Cameroon Development Project Report No. 15, Second Quarter, 2004, at [http://www.esso.com/Chad/Library/Reports/Chad_QuarterlyReports.asp](http://www.esso.com/Chad/Library/Reports/Chad_QuarterlyReports.asp); interview with Miles Shaw, Esso Chad, Kome, May 18, 2004.

Meeting with Esso Chad staff, N’Djamena, October 8, 2004.

Miles Shaw, Esso Chad, e-mail correspondence with authors, December 2, 2004. “At the FSO there is a Custody Transfer Meter which is a computerized and expensive meter used in the industry to measure sales transactions. As part of the overall meter system, this meter also has something called a Prover which is used to regularly calibrate the meter. This meter is accurate to +/- 0.2% which exceeds international standards. In addition, at each loading operation there are two other measurements taken to provide verification. The first is a manual gauging that is made on the FSO tanks and the second is a manual gauging of the off-loading vessel’s tanks. The Chadian and Cameroonian officials are stationed on the FSO and observe all these processes. At Kome, there is no Custody Transfer Meter (as there are no sale transactions at that point); instead there are 3 operational meters at Pump Station 1. They are not intended for sales- level accuracy and do not have the same Prover system to provide for calibration. Since the beginning of 2004, the year to date average variation between the two points of measurement (Kome Pump Station 1 and the FSO) is less than 1.4 %. As we have now gained more experience with the less sophisticated operational meters we recently adjusted these meters to manually eliminate the continuing difference and we will see with this adjustment over the next few months if the difference is further eliminated.”


The SNPC was represented by a contingent at the conference headed by Bruno Itoua, President of the SNPC. The SNPC and the government of Congo-Brazzaville have been under pressure from the IMF, local civil society organizations and the Catholic Church to reform its opaque financial accounting of its oil wealth. Recently some production, revenue, audit and contractor information has been published by the SNPC.


ExxonMobil website, [http://www2.exxonmobil.com/Corporate/About/OurActivities/NEW_Corp_OA_Up_Africa.asp](http://www2.exxonmobil.com/Corporate/About/OurActivities/NEW_Corp_OA_Up_Africa.asp), accessed on October 28, 2004.

Esso Chad, Chad-Cameroon Development Project, Report No. 15, Second Quarter, 2004; interview with Miles Shaw, Esso Chad, Kome, May 18, 2004.


Interview with Ben Viseur, EnCan, N’Djamena, October 8, 2004. Should EnCan be successful in their exploration, an additional “Concession Agreement” would need to be signed but this would not have an impact on the royalty rate.


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James Norman, “Filings point to EnCana success in Chad”, Platts Oilgram News, Vol. 82 No. 148, August 4, 2004, p. 1. “Other disclosures in the Trinity Chapter 11 case show expected Permit H production of 30,000 b/d in 2007 and 40,000 b/d in 2008, with 10% of that to Trinity at $25/bbl. There is no mention of the gravity or other characteristics of the crude.”


See United Reef’s website, http://www.unitedreef.com Royalties for the C.A.R. permit are 12.5% for oil and 5.0% for natural gas.


Meeting with World Bank staff in Washington, DC, October 2, 2004.


The above references are only a selection of the many sources available on the Chad oil project. For a comprehensive review of the issues involved, see the comprehensive reports of the International Advisory Group, which provides an in-depth analysis of the legal, economic, and environmental implications of the Chad-Cameroon pipeline project.


115 “Chad eyes change to revenue laws”, *Upstream*, July 1, 2004.


118 Interview with Michel Pommier, World Bank, Washington, DC, April 2004.


121 Meeting with Ron Royal, Managing Director, Esso Chad, and staff, October 8, 2004, N’Djamena.

122 Meeting with Ron Royal, Managing Director, Esso Chad, and staff, October 8, 2004, N’Djamena.

123 This benchmark is now a composite index of the traded prices of three similar North Sea grades – Brent, Foreties and Oseberg. The lowest traded grade for a particular day serves as the “benchmark” for that day.

124 This price was for oil loaded in December 2004 and may represent a low point for the discount off Doba crude.

125 Deborah Kelly, “Doba Finds a Home”, *International Oil Daily*, June 25, 2004. “Chevron identified the Pembroke refinery in southwest Wales as one of a handful of refineries in the world capable of adapting equipment and processes to refine Doba crude. Chevron described the grade as “a heavy, acidic blend similar to the North Sea crude oil currently refined at Pembroke”, adding that it is “particularly challenging” due to its higher calcium content. The acidic nature of the crude means that unless treated, it corrodes pipes in the refinery. The acidity has made Doba difficult to sell, forcing producers to put much of the crude through their own systems in the U.S. and Asia – which absorbs around 40% of Doba’s current shipments.”

126 Esso Chad, *Chad Export Project Report # 16, 3rd Quarter 2004*, Section 12.

127 See for example, Cesar Chelala, “Poverty persists in oil-rich Africa: Corruption: While officials grow rich off sub-Saharan oil, the general population’s standard of living still suffers,” *International Herald Tribune*, August 15, 2004. “Most of the money is held by the World Bank in a London account, and a citizens’ committee oversees its expenditures.”


129 Law No. 001/PR/99. Text of the law can be found in French at www.ccsrp-tchad.org


The IMF insisted on an audit of the bonus and the revenue oversight committee, with the public backing of President Déby, has subsequently played a role in approving the allocation of the remainder. “Fresh Look at Oil Bonus”, Africa Energy Intelligence, No. 333, November 6, 2002. “At the behest of the International Monetary Fund, Chad has been working for over a year on an audit of expenditure flowing from a $25 million front-end bonus paid by ExxonMobil and Petronas for the Doba-Kribi pipeline project which has been partially funded by the World Bank. The IMF disbursed a $7 million loan to Chad in late October. One condition was that Chad complete the audit and publish the findings by the end of the year. Modest compared to other bonuses paid by oil companies, the sum triggered an outcry in late 2000 because part of the money - $5 million - was immediately used by the government to buy military equipment. The transaction came despite all the mechanisms set up by the World Bank to control and verify how countries use oil revenue. The reason is simply that such mechanisms don’t cover bonuses.”

See World Bank, Chad Cameroon PAD, April 13, 2000.


Interview with former U.S. Ambassador to Chad, Christopher Goldthwaite, N’Djamena, September 30, 2002.

In Nigeria, 13 percent of oil revenues are earmarked for the oil-producing states in the Niger Delta. In practice, though, little revenue reaches the population.


Governments bent on serial borrowing conceivably can use an FGF as another source of collateral. The State Oil Fund of the Republic of Azerbaijan (SOFAR), established in 2000, stipulates that the Fund’s asset may not be used either for lending to government bodies, public or private companies, or as collateral for debts, commitments, guarantees or other liabilities of any entity in the country.

Analogies commonly used by pro-FGF voices are those of Norway and the State of Alaska; also, somewhat out of the context of mineral resources, that of the Tuvalu Fund. Recent FGF experience in Central Asia is conspicuously absent from most discussions.


On October 28, 2004, the government named the following members to the provisional management committee for the oil producing region: Deputies of the National Assembly: Ngamro Milengar; Ngandala Marie; Yorissim Kozoutou Simone; Civil Society representatives: Abbe Maurice Ndimadjingar; Mbailesem Betel Esac; Traditionnal Authorities: Nadjilounguar Edouard Ngarnguinam, Chef de Canton, Doba; Djassro Pierre, Chef de Canton, Miandoun; State Representatives: General Secretary of the Logone Oriental Region; Delegate of the Ministry of Economy and Finance for Logone Oriental.

Letter from Deputy Ngarlegy Yorongar to the President of the National Assembly (“Lettre au président de l’Assemblée nationale”), October 15, 2004, at: http://www.yorongar.com/article.php3?id_article=59

Chad drafted a national poverty reduction strategy in June 2003 in order to access funding and debt relief from the World Bank and IMF, as well as other donors. Although supposedly a participatory, "country-driven" document, the PRSP is subject to approval by the World Bank and IMF. Chad’s 2003-2005 strategy paper was approved by the institutions in October 2003. Chad’s Poverty Reduction Strategy Paper (2003-2005) can be viewed at: http://poverty.worldbank.org/files/Chad_PRSP.pdf. The Joint WB-IMF Staff Assessment of the PRSP can be found at: http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20031021100239.


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IDA and IFC, Chad: Country Assistance Strategy, November 18, 2003, p. 11.

Cable on file with authors.


IMF, Chad 2003 Article IV Consultation, April 2004, p. 17.


The Ministry of Education is the responsibility of the Member of the National Assembly on the Collège, currently Mr. Lamana Abdoulaye. The Ministry of Social Affairs is the responsibility of Nadju Taonidji, another Member of Parliament serving on the Collège. Therese Mekombe, the representative of development NGOs on the Collège, and acting president, is responsible for overseeing the activities of the Ministry of Water and Environment. Interview with Michel Barka, N’Djamena, October 14, 2004.


Interview with Mahmat Dagache, procurement specialist, CCSR, N’Djamena, October 12, 2004.

Interview with Naimbayel Djékondé, CCSR, October 2004, N’Djamena.


Interview with Mahamat Ramadane Dagache, October 2004.


199 Authors’ notes from Royal Institute of International Affairs, Conference on Oil and Gas in Africa, May 23-25, 2004.


203 IMF, Chad 2003 Article IV Consultation, para. 38.


206 Republic of Chad, Office of the President, Ministry of Economy and Finance, Decree 238/PR/MEF/03, Article 11.


209 IMF, Chad 2003 Article IV Consultation, p. 4. “The additionality constraint regarding priority sector spending, as specified in the modalities of use of oil revenue, would also not be met.”


214 Ministry of Finance and Economy, Direction Générale du Budget (DGB), « Annex 1, Projet de Budget 2005, Répartition des revenus pétroliers » (on file with authors).


217 CCSRP, Suivi budgétaire, « Compte Spécial Revenus Pétroliers (5617/1) 2004; Situation Générale des engagements et paiements au 08/11/2004 Secteurs Prioritaires »


IDA-IFC Chad: Country Assistance Strategy, December 2003, p. 11.

Meeting with IMF staff in Washington, DC, September 2004.


Economist Intelligence Unit Chad Country Report, November 2004


Interview, Naïmbayel Djékondé, CCSRP staff economist, October 14, 2004.


Interview with Gregor Binkert, former World Bank Country Director for Chad, N’Djamena, Chad, May 2004.


IMF, Chad 2003 Article IV Consultation Report, p. 15.


Unlike the loan for Chad’s stake in the oil transport system itself, the capacity-building loans were financed on “concessionary” terms, through the International Development Association. Although Chad, one of the world’s poorest countries, qualifies for IDA financing through the World Bank, the loan for the country’s stake in the pipeline was provided at near-market rates through IBRD, under a clause in the World Bank’s articles of agreement which allows for the exceptional extension of IBRD loans to even the poorest countries, for “enclave projects.” The World Bank drew upon a special clause in its articles of agreement (regarding “enclave loan arrangements”) that allowed it to offer Chad a loan, not on the concessional terms that this poor country would typically receive (from the International Development Association, or IDA), but on near-market terms (from the International Bank for Reconstruction and Development, or IBRD). “The IBRD loan to Chad, an IDA-only country, would be provided under the traditional elements of the enclave loan structure. Under this structure, IBRD loans are supported, in addition to the sovereign repayment obligations, by various support arrangements designed to enable IBRD to look directly to the
project revenues for repayment, together, in certain cases, with other guarantees. The project is expected to generate for Chad revenues each year far in excess (by a factor of greater than four) of the annual debt service payments due the Bank under the loan.” World Bank, Chad-Cameroun: Petroleum Development and Pipeline Project: Project Appraisal Document, April 20, 2000, p. 16. See also: Use of IBRD Guarantees to Support Private Enclave Projects in IDA-Only Countries (R97-85, IDA/R97-36), approved May 27, 1997; “The Bank’s Executive Directors have approved guarantees for enclave projects in IDA-only countries which earn foreign exchange revenues from creditworthy customers. The enclave guarantee is intended to cover risks of government action that may interfere with the functioning of the project.” From Facilitating Private Investment in Infrastructure: An Action Program at: http://www.worldbank.org/html/fpd/infraact[en.pdf]


For civil society’s accounts of the failure of capacity building measures, see: ATPDH, CED, Environmental Defense, “The Chad Cameroon Oil and Pipeline Project: A Call for Accountability,” June 2002.


World Bank, Chad-Cameroon PAD 2000, p.30.


Memorandum to Executive Directors and Alternates from Cheikh Ibrahima Fall, Subject: Chad/Cameroon Petroleum Development and Pipeline Project: Questions and Answers,” January 19, 2000, p. 9. p. 19.


Meeting with WB staff, October 12, 2004, N’Djamena


272 Inspection Panel, Investigation Report, Chadian claim, p. 61.

273 Inspection Panel, Investigation Report, Chadian claim, para. 35.


278 Such an arrangement did not sit well with Cameroon’s many creditors. Instead, the Bank charged Cameroon a 10% premium on its loans. See: Djiraibe, Horta, Nguiffo, *Access to Justice from Local Village to Global Boardroom: An Experience in International Accountability*, September 2004, p. 7.


285 Ambassador Marc Wall, e-mail correspondence with authors, December 7, 2004.

286 Information on contracts, audits and revenues from the Congolese oil industry has been published at www.congo-site.net