OIL (F) - I/Drug?

MEMO FOR GEORGE WOLFE

FROM: (b)(6)

SUBJECT: CHAD CAMEROON PIPELINE

Here is some introductory material on the revenue management side of this pipeline project.

I will get more details this afternoon.

The Chad-Cameroon Petroleum Development and Pipeline Project

Questions and Answers

The extensive debate on this project has raised several issues and concerns. The following represent the 12 most critical questions and responses to them.

(Last Updated: **Wednesday, December 18, 2002**)

1. Why is the Bank Group involved?
2. How can we be certain the oil revenue will be used wisely?
3. What about the human rights situation?
4. Will the project permanently damage the environment?
5. How will local people be protected against health risks, particularly HIV/AIDS?
6. Is there enough funding for the environmental and social protection measures?
7. Has there been enough consultation?
8. How do we know the companies and countries will honor their agreements?
9. Who will supervise project implementation? Will there be independent monitoring?
10. What project reports will be available to the public?
11. What benefits can be expected from the project in terms of local employment and business opportunities in Chad and Cameroon?
12. Do the agreements give unreasonable rights to the private sector companies?

Rationale

1. Why is the Bank Group involved?

Chad is one of the poorest countries in the world. About 80 % of its 7.5 million people – or 6 million people – live on less than $1 a day. Chad also has very high infant mortality rates, limited access to basic social services, and extremely poor nutrition. Without oil, and despite recent growth of 5% a year, it could well take 35 years to double per capita income.

The country's harsh physical environment (90 % desert or semi-arid), very narrow economic base, and lack of skilled people limit the opportunities for growth in most sectors. This project provides Chad with a unique opportunity to lift itself out of its extreme poverty. The additional revenues could remove the bottlenecks that constrain growth and create opportunity for the next generation of Chadians.

However, natural resource "booms" are difficult to manage. Drawing on the Bank Group's global knowledge, the Bank wants to help the country make certain that its new wealth will be invested for the well-being of all Chadians. For this reason, the project is an important element in the Bank's country assistance strategy for Chad. The project will also generate new revenues for development in Cameroon.

The project should help to increase Government spending on key economic and social services. Rather than displace social sector projects, it will support implementation of World Bank and other donor-assisted projects in these sectors by generating additional revenues to finance critical Government expenditures, such as teachers' salaries. A related capacity-building project will assist the Chadians in introducing sound public expenditure management and to identify, prepare, and implement social sector investments.

Why now? Petroleum was discovered in southern Chad 30 years ago, and the country has been waiting anxiously ever since for the right combination of political strategy, international prices, and private interest to develop the resource. Chad is not the only country with untapped petroleum reserves. Exploration is underway right across the continent to find new oil sources – which could prove cheaper and more accessible. If Chad did not seize this opportunity, it could well have passed the country by.

More needs to be done to build capacity within civil society to participate fully in project implementation. This capacity building is underway and will continue over the next three years before oil revenues start to flow. Until the oil is developed, poverty will remain deep and widespread. For example, each year 60,000 children die before the age of five. Although the project by itself will not eliminate early childhood deaths, it is certain that revenues from the pipeline – linked to improved basic health and education programs – will save a large number of these young lives.

Governance/Corruption/Human Rights

2. How can we be certain the oil revenue will be used wisely?

Chad and the Bank Group have applied the lessons of international experience to the proposed management of the oil resources. The Government has already taken unusual steps to target most of the oil revenues to poverty reduction and to ensure public oversight of the use of these resources.

On December 30, 1998, Chad's Parliament approved a law that set out the Government's poverty reduction objectives and arrangements for the use of the revenues. Under the law, 10% of the royalties and dividends will be held in trust for future

Uses

generations, 80% of the remaining funds will be devoted to education, health and social services, rural development, infrastructure, and environmental and water resource management, and 5% will be earmarked for regional development in the oil-producing area (over and above its share of national spending).

Oversight

In addition, the law created an oversight committee to monitor the use of the oil revenues. This committee of nine members includes representatives of the Government, Parliament, the judiciary, and civil society.

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A related IDA capacity-building credit is supporting the work of the oversight committee, as well as strengthening Chad's general accounting office and the dissemination of information about government expenditures.

There will be annual published audits of the petroleum accounts, regular public expenditure reviews by the Government and the Bank, and special arrangements for channeling and accounting for the funds.

The Government has committed itself to observing the law as part of the Bank Group's loan and credit agreements for the pipeline itself and for the related capacity-building operations. Good performance in this respect is also central to implementing the Bank's country assistance strategy. Even with the project, Chad will need the support of the international development community to achieve its development objectives. The decree concerning the scope of work of the oversight committee has been finalized.

In Cameroon, increased revenues from the project will be less significant: only 3% of the national budget, compared with 45-50% in Chad. Hence, earmarking of the funds for poverty-related spending seemed more cumbersome than practical. Public disclosure of the use of oil revenues is already part of the Bank and IMF's economic reform program in the country.

Actual revenues from the pipeline will not begin to flow until early 2004. During that time, the Bank will work with the two governments to strengthen key institutions for implementing and monitoring project activities. Three parallel capacity-building projects – two in Chad and one in Cameroon – will help implement an improved public expenditure system in Chad and bolster both countries' capacity to implement environmental protection measures. The time until year 2003 is also being used to prepare a specific development plan for the oil-producing region.

Also, see the Statement to the European Parliament's Development Committee (8 KB) and the Note on the Use of the Petroleum Bonus (8 KB).

The Chad-Cameroon Petroleum Development and Pipeline Project

Project Overview

Project Summary | Rationale | Project Status | Description and Financing | Project Benefits | Revenue Management | Environment | Capacity-Building Projects | Maps | Chad at-a-glance | Cameroon at-a-glance | Concept Paper

(Last updated: **Wednesday, December 18, 2002**)

Project Summary The project is to develop the oil fields at Doba in southern Chad (at a cost of US$1.5 billion) and construct a 1,070 km pipeline to offshore oil-loading facilities on Cameroon's Atlantic coast (US$2.2 billion). The sponsors are ExxonMobil of the U.S. (the operator, with 40% of the private equity), Petronas of Malaysia (35%), and ChevronTexaco of the U.S. (25%). The project could result in nearly US$2 billion in revenues for Chad (averaging US$80 million per year) and US$500 million for Cameroon (averaging US$20 million per year) over the 25-year production period.

Project Rationale This project could transform the economy of Chad. The country is so poor at present that it cannot afford the minimum public services necessary for a decent life. By 2004, the pipeline would increase Government revenues by 45-50% per year and allow it to use those resources for important investments in health, education, environment, infrastructure, and rural development, necessary to reduce poverty.

Bank Group involvement has improved the project in a number of ways. It has supported the development of a sound revenue management program, triggered the application of the Bank Group's strict environmental and social policies, and ensured broad public consultations - in the two countries and around the world.

Project Status On June 6, 2000 the Board of Directors of IBRD, IDA (the World Bank's lending arm for the poorest countries), and IFC approved lending for the Chad-Cameroon Petroleum Development and Pipeline Project and two related Capacity-Building projects, one project each in Chad and Cameroon for petroleum, environmental, and social aspects associated with petroleum development and export. An IDA credit for revenue management in

Chad was approved by the Board in January 2000.

Physical implementation of the project is proceeding faster than planned. Construction of the pipeline is ahead of schedule and capacity-building activities are building up momentum. In order to provide effective support for implementation of the pipeline and related projects, the World Bank Group has reinforced its project management team and established full-time presence with additional staff in the field.

By the end of September 2002, according to the project sponsors' management team, about two-thirds or 700 km of the 1,070 km long export pipeline had been welded and buried 1 meter underground. About 3 kms per day of pipeline were being laid each day. All of the required pipe has been delivered to storage yards along the pipeline route. Clearing of the 30-meter wide construction right of way at the oilfield end of the pipeline in Chad was started. In the oilfields in southern Chad, all five of the oil well rigs are working and a total of 26 wells (19 of these for crude oil production) had been drilled. Some of the wells are being used to inject water or well clean-up/test fluids back into the deep underground reservoir and to explore the limits of the oilfields. One of wells is expected to yield enough clean-burning natural gas to fuel one of the oilfield's electricity generators. About 265 wells will be needed to complete development of the oilfield area. Work began on laying flow line and gathering system pipes that will collect crude oil from wells and move it to the central oilfield facility for treatment. In addition, steel erection and cement foundation pouring was underway for storage tanks, pipe support, and the building component of the central oilfield facility and the crude oil gathering station at Miandoum. Over half of the 48 pipeline "block" valves, which make it possible to shut down sections of the line for maintenance or in the event of an emergency, had been welded into place along the pipeline. Telecommunications crews started to install solar-powered equipment for the valves so they can be remotely controlled from the pipeline's central control room. A fiber optic cable that is to serve as the backbone for the project's telecommunications systems for voice and data service to manage the pipeline and control pumps and valves is being installed alongside the pipeline.

Construction of the offshore marine terminal near Kribi, Cameroon was more than 60% completed. Work on refitting the Floating Storage and Offloading (FSO) vessel was proceeding at Singapore, from where the refurbished tanker will move under its own power to its mooring location near Kribi. Logistics planning was completed for the installation of the 12 km undersea pipeline that will transport crude oil on the final leg of its journey from southern Chad to the FSO vessel.
The number of workers employed by the project at the end of the third quarter of 2002 was over 12,000 of whom about 80% were nationals of Chad and Cameroon; 4,166 from Chad and 5,796 from Cameroon, according to the project sponsors. About 60% of these workers were employed in skilled and semi-skilled jobs. Another 4% were in supervisory positions. Wage payments to Cameroonian and Chadian workers during the third quarter amounted to about $5.7

million and $4.4 million, respectively.

Over 2,400 training sessions were held during the third quarter of 2002 in an array of categories, including new worker safety, health, environment, and orientation sessions, classes in construction trade crafts, and high-level skill training in carpentry and electrical work. The number of training sessions was about 16% higher than in the last quarter mainly due to the greater demand for higher skills, so that this kind of training accounted for 1,472 training sessions. Maintenance technicians have been trained in Cameroon at the University in Ngaoundere. One of the project's facilities contractors commissioned skill training for workers at six existing schools in Chad in welding, electrical work, and vehicle mechanics, among others. Another school, CETIN in Sahr, Chad, teaches students to become electricians. Those who complete the course successfully, with tuition paid by the contractor, are potentially eligible for project-related jobs. A total of 3,944 persons, 2,914 from Cameroon and 1,030 from Chad, received training in high skills in 1,472 training sessions. A total of 5,746 workers in both countries received basic training orientation in safety, health, and environmental matters as well as in standard project policies during this quarter. Additional skill training was carried out in on-the-job mentoring situations on location.

A number of Chadians and Cameroonians have been hired and trained for technical and engineering positions for the operations phase of the project. Some 22 Chadians have recently been offered employment as technicians and 13 previously hired technicians, who completed their formal technical training in Canada, are now being assigned jobs in the U.S. to gain on the job experience.

Local businesses in both countries continued to benefit from project expenditures. These totaled over $50 million each in Chad and Cameroon during the third quarter of 2002 for a total of $100.8 million, according to the project sponsors. These figures represent an increase of 20% in Chad, due largely to the increasing level of construction activity at the central oilfield facility and along the pipeline route. The level of project expenditures in Cameroon remained the same in the third quarter as in the previous quarter.

The project gives priority to host country subcontractors and suppliers who meet competitive standards of quality, cost, reliability, schedule, and payment terms. An outreach program has been carried out to recruit host country businesses through advertising, one-on-one contacts, seminars, and workshops. Potential local business contractors are identified and those that qualify are registered with their qualifications in a searchable database so bid invitations can be extended to companies based on their areas of expertise. Jobs are broken into smaller increments when possible to provide host country businesses a better chance to compete and to help assure that opportunities are distributed fairly. Data on local business development practices are compiled to monitor their adherence to the project's Environmental Management Plan and contractor Socioeconomic Action Plans.

In order to increase the capacity of local entrepreneurs and businesses to take advantage of contracting opportunities offered by the project, the Bank Group has launched an initiative to strengthen the capacity of small- and medium-scale enterprises (SMEs), especially in Chad, to compete for business contracts. Besides training and technical assistance, offered through the local Chamber of Commerce and in collaboration with others, supported with a Bank grant and by IFC, a local micro-finance facility and credit for SMEs are being supported. In 2001, IFC approved a sum of $150,000 as an initial package to support SME strengthening and the Bank's grant approved in the first half of 2002 totals $460,000. IFC has placed a full-time SME Coordinator in N'djamena to: (i) coordinate SME development activities with the project sponsors, donor organizations, local business organizations, the Bank, and the Government of Chad; (ii) develop projects and programs in collaboration with partnering organizations to promote long-term linkages between SMEs and the project companies; and (iii) provide a platform for further IFC investment in the financial and manufacturing sectors.

IFC has funded a feasibility study and is now reviewing a potential equity investment in FINADEV, a micro-finance bank in Chad which began operations in July 2001. IFC is supporting FINADEV's expansion to Moundou, in the oilfield area. In collaboration with two Chadian private banks and the European Investment Bank, IFC is seeking to facilitate the provision of term credit to SMEs. A feasibility study on setting up leasing companies in Chad has been completed together with a study of the fiscal and regulatory framework needed to create the appropriate operational environment. The successful Support and Training Entrepreneurial Program (STEP program) in Nigeria, which provides basic business management counseling and training to micro and small entrepreneurs, has been replicated in Chad. An information campaign to encourage the flow of critical SME-related information concerning contract opportunities (relating to the pipeline project as well as other business opportunities), training, and financing has been launched. IFC is also supporting a project, being implemented by the NGO Africare, to assist local agricultural producers and herders in the oil producing area to establish viable, profitable, and sustainable agricultural and livestock marketing enterprises.
No significant environmental problems (critical non-compliance situations, Level 3) have been reported so far. Significant progress was made in the preparation of the project's six area-specific oil spill response plans which will be subject to public review. Public information and consultation meetings to discuss the plans are to be held in communities throughout Chad and Cameroon in the next quarter, according to the project sponsors.

The Foundation for Development and Environment (FEDEC) in Cameroon which is overseeing the project's Indigenous Peoples Program (IPP) and conservation activities in Cameroon's M'bam and Djerem and Campo Ma'an National Parks was established in late 2001. FEDEC has an Administrator and a Community Development Facilitator to assist the Bagyeli/Bakola in identifying and selecting programs for funding consideration by the Foundation. Construction

of the pipeline through the Bagyeli/Bakola inhabited area was completed by the middle of 2002. Board members visited some Bagyeli/Bakola communities during 2001 and responded to their request for additional consultation. The results have confirmed the top four priority areas for the IPP: housing, education, health, and agriculture. The IPP was formally launched during this quarter. In June 2002, the FEDEC Board approved funding for four short-term IPP initiatives in the amount of $17,000. In 2001 farming implements were distributed to the Bagyeli/Bakola people and they are to be helped further with instruction in improved agricultural techniques and the provision of seeds. Also in 2001, educational supplies were provided to nine schools attended by 250 of their students. Building supplies were provided to support renovation projects at two boarding schools in Kribi and Bipindi for Bagyeli/Bakola students. A short-term education program is to be carried out and to pay school fees and provide clothing to the students attending these boarding schools and also to assist adults who want to undertake secondary education.

FEDEC is sponsoring a program to provide national identity cards to 80% of the Bagyeli/Bakola people who do not have them and are therefore unable to exercise their citizenship rights in the country. The Ministry of Public Health is providing vaccinations against diseases particularly common among the Bagyeli/Bakola, including tuberculosis, polio, and tetanus among the indigenous people, medical staff to administer them, and vehicles for field work.

During this quarter the FEDEC Board chose the World Wildlife Fund - Cameroon (WWF) to implement its conservation, environmental education, and ecological research and monitoring programs in the Camp Ma'an National Park. In its work plan proposal, WWF is to help improve the capacity of the Government of Cameroon to manage the new park, including anti-poaching measures, establishment of guard surveillance posts, and doubling the number of game guards. The FEDEC Board had earlier selected the Wildlife Conservation Society (WSC) to implement the program for the M'bam and Djerem National Park. The WSC will provide $350,000 in additional funding to support environmental studies and to help establish the conservation infrastructure in the park during the initial three-year startup period. The WSC aims to build the park-management capacity of the local authorities and work with local communities to motivate them to play a role in the protection of the park's habitat and wildlife.

Project Description and Financing The Petroleum Development and Pipeline Project involves:

(a) development of Chad's Doba oil fields;

(b) construction of a buried pipeline (1,070 km in length, and 76 cm

in diameter) from Doba to Cameroon's Atlantic Coast near Kribi, related pumping stations, ancillary facilities, and infrastructure; and

(c) installation of an offshore moored floating storage, offloading vessel 11km out to sea, associated marine pipelines, and related facilities.

The construction period will take three years and oil could begin to be exported by the end of 2003. Chad and Cameroon will benefit from oil revenues over a 25-year production period, in amounts totaling over US$1.8 billion (in royalties, dividends, and taxes) for Chad and over US$500 million (in transit fees, dividends, and taxes) for Cameroon.

The project also entails environmental management plans in Chad and Cameroon, a resettlement and compensation plan in Chad, and a compensation plan as well as an Indigenous Peoples Plan in Cameroon. In addition, Chad will carry out, with IDA support, a revenue management program designed to target petroleum revenues to the key poverty-alleviation sectors: health, education, rural development, infrastructure, water resources, and environment, in a transparent manner. IDA is also supporting parallel capacity-building projects to assist Chad and Cameroon in managing the environmental aspects of the project, and strengthen Chad's capacity to manage project revenues and the petroleum sector in general.

Total **project costs** are estimated at about US$3.7 billion; US$1.5 billion for development of the oil fields in Chad (field facilities) and US$2.2 billion for the pipeline and marine facilities (the export system). The project's private sponsors (led by ExxonMobil, the operator, Petronas, and Chevron) are financing about US$3.0 billion or 81% of the project costs from their own resources including 100% of the field facilities. About US$600 million in debt financing for the export system has been obtained by the sponsors from export credit agencies and commercial banks. The World Bank Group is providing US$92.9 million in IBRD loans (US$39.5 million to Chad and US$53.4 million to Cameroon, amounting to about 3% of project costs), for financing the two Governments' minority holdings in the joint-venture pipeline companies (TOTCO in Chad and COTCO in Cameroon). The World Bank's private sector affiliate, the International Finance Corporation (IFC), is providing an A loan of US$100 million (US$85.5 million to COTCO and US$14.5 million to TOTCO), about 2.7% of the total debt, and has mobilized another US$100 million (for COTCO and TOTCO) in commercial lending under a B loan umbrella. Additional borrowing for the export system has been obtained from U.S. and French export credit agencies. The European Investment Bank (EIB) is providing US$41.5 million to finance Chad and Cameroon's equity in the two joint-venture oil companies, TOTCO and COTCO (US$15 million and US$25.5 million, respectively).

Project Benefits:

The project is expected to generate substantial revenues and high rates of return on investments: for Chad (US$1.8 billion-nominal or over a 70% economic rate of return--EER) and for Cameroon (US$540 million-nominal-about a 40% ERR) over the 25-year operating period, assuming reserves of 917 million barrels and the World Bank price projection for Brent crude of about US$15.25/barrel. Other expected benefits are infrastructure improvements in Cameroon as well as in Chad, some employment generation in both countries, local project procurement, staff training, a spur in further oil exploration and development, and private investment in both countries.

Used properly, the project revenues could significantly benefit Chad's largely poor population by increasing expenditure on poverty-alleviation activities and promoting economic growth. Additional private investment in Chad and Cameroon is also likely to accompany and/or follow the sponsors' large capital investment in the project. In Cameroon, the revenues generated by the project could be used for priority public expenditures and help create an environment conducive to attracting more foreign investment. In both countries, project revenues should help ease financing constraints for development and budgetary expenditures in general.

A regional development program for the population in the Doba region in Chad and the Indigenous Peoples Plan for Cameroon's Atlantic Littoral forest dwellers will help improve livelihoods, job skills, and levels of education and health through improvements in water supply, sanitation, and other socio-economic infrastructure and services. The role of local NGOs especially will be strengthened through their involvement in the project, both via consultations/inputs during project implementation and as service delivery agents and trainers in project-related activities for the benefit of the local populations.

Revenue Management Well before the oil revenues will actually flow, the Government of Chad has established a far-reaching program for targeting the new revenues to key sectors at the heart of its poverty-alleviation strategy.

Environment A wide range of steps has been taken to minimize the social and environmental risks of pipeline construction and operation. In consultation with engineers, environmental experts, and local people, the pipeline route was altered to protect biodiversity, human settlements, indigenous peoples, and cultural heritage. The pipeline will be buried, rather than above-ground, and mainly follow existing infrastructure. Only a small area of tropical forest in Cameroon will be affected. To compensate for this, two large new national parks have been created in Cameroon.