

CHAD-CAMEROON PIPELINE – BENEFITS FOR CHAD

- **In the mid-90s, the prospects for economic development in Chad were discouraging**

In 1997, most Chadians lived on less than a dollar a day. The country had fewer phones than the World Bank Group. The road from the airport to the hotel constituted 10 percent of the entire paved roads in the country. Chad's harsh physical environment, very narrow economic base, and lack of skilled people limited the opportunities for growth in most sectors. Developing this project seemed to be the only way to jumpstart economic development in the country. The WB wanted to bring together the Chadian government's commitment to create an environmentally and socially sustainable project along with the commercial interests of the oil companies to generate real economic benefits for the people. IFC also wanted to demonstrate that, with the right partners, private sector projects could be done properly in Africa. Pioneering efforts were needed, not only to manage the huge environmental and social challenges in the two countries, but also to ensure that the people would ultimately benefit. But first, the lack of local institutional capacity needed to be overcome to build the right environmental and social safeguards for project implementation. Therefore, in addition to a \$200 million loan arranged by IFC and \$92 million in WB loans to cover the equity stake by both governments in the pipeline, three IDA capacity building projects were designed and are currently being implemented by the governments with the assistance of WB staff.

- **The WBG had a unique opportunity to directly help alleviate poverty in Chad**

The project has already created over 13,000 local jobs; over \$400 million worth of infrastructure investments (roads, railways, bridges); and over \$680 million worth of local procurement. For the first time, major trade between Chad and Cameroon was over a road-bridge built by the project. There has also been unprecedented local consultations, oversight, and measures to deal with the unforeseen, including IFC-WB staff walking the 1,000+ km pipeline, consulting with villagers, and obtaining their feedback. It included advising on a hiring policy in the immediate vicinity of the construction to minimize problems associated with in-migration and conflict. Chad is expected to receive over \$2 billion as direct earnings over the project's life, and Cameroon, a transit country, will receive over \$500 million as transit fees. Indirect benefits, difficult to calculate at this early stage, will be realized well into the future.

The WBG is helping to build local entrepreneurship by catalyzing a viable small and medium enterprise sector in Chad. Technical assistance of \$40,000 to Finadev, a local bank, has already led to over 3,700 micro loans; this facility will be expanded to the south. Other technical assistance work has included creating micro enterprises in raising cattle and poultry. Training is also being provided for the banking sector in small business lending, and support for the launch of a leasing industry, amongst

various other initiatives. IFC has dedicated staff based in Chad for the last two years who coordinate activities with all the stakeholders to manage day-to-day issues as well as provide support and direction for IFC's future investment activities in Chad.

Supporting this aspect of Chad's development is more challenging and time-consuming because it requires a grassroots approach, in order to overcome the fact that Chad, even for a developing country, has little infrastructure and institutional capacity, as well as coming to terms with cultural differences. It also requires overcoming a tradition of subsistence trading to elevate some of these trades into viable small businesses. It requires committing donors to longer term funding and finding people who can deal with enormous challenges in the field every day. One of the biggest challenges is to manage expectations for the growth and development of the private sector. It is important to realize that this is a long-term process that will take years to fully come to fruition. The results are promising not only in Chad. The WBG has found that, in the major extractive industry projects, taking some initiative toward the local communities helps to capitalize on a large untapped opportunity. This is as true in Chad as it is in other WBG projects in Mozambique and Peru, just to name two other countries where local entrepreneurs have been trained and viable small businesses facilitated.

- **Overcoming the inherent risks requires constant attention but the WB and the governments have put a strong foundation in place**

As a first class oil company, ExxonMobil has employed a technical team that has efficiently dealt with the difficulties of large infrastructure projects. The 19 volume Environmental Impact Assessment was designed with the flexibility to deal with unanticipated problems. The technical, environmental, and social teams at the WB and the project sponsors have worked well together in the last few years since construction started. With the added benefit of independent consultants to provide a third party perspective, the project has reached "First Oil" stage with no major obstacles and with compliance with all WB and IFC environmental and social guidelines.

Not surprisingly, the public has viewed the potential for misallocation of petroleum revenues as the biggest risk of the project. But the Government of Chad has stuck to its commitment to prepare a strong legal underpinning for its oil revenue management program. The framework is stronger than any other put in place in the developing world with this scale of oil revenue. The nine member Independent Oversight Committee has been set up and, with the support of international technical consultants, will be fully prepared to monitor and direct revenues when they accrue to the dedicated offshore escrow account in early 2004. The results of all this spending will be disclosed to the public. In addition, the WB team is actively working with the Government of Chad on improving the public procurement system and expenditure management functions of priority ministries.

- **Why the WBG persisted in the face of continuous criticism**

The easy thing was not to do this project. That way, the unending criticism from all quarters would disappear and the enormous complexities associated with the commercial and government dealings would also evaporate. This would have satisfied those who felt the WBG was running a big reputational risk in engaging in the project. But we also recognized that we had a responsibility; a responsibility to the people of Chad, Cameroon and, more generally, to the people of Sub-Saharan Africa to demonstrate that they had the right to engage in and were ultimately responsible for their own development. We recognized that, in not doing the project, the prospect for economic growth would remain dim but doing it, with the right safeguards, the right design and the right effort on capacity building, would provide the people of Chad with a good opportunity – perhaps a once in a lifetime opportunity – to put them solidly on the road to real, long-term economic growth.