

## External Monitoring of the Chad-Cameroon Pipeline Project

**D**riven by the emerging policy requirements of lenders, heightened public concern, and the scrutiny of civil society organizations, the market is increasingly demanding that companies adopt responsible and accountable environmental and social practices. To assist in managing these risks, lenders and project sponsors pursuing complex projects in emerging markets may benefit from the use of an **external monitor**. The role of the external monitor is to provide an independent, impartial, and transparent record of the sponsor's compliance with the project's environmental and social commitments.

A number of challenging project investment conditions may signal the need to consider use of an external monitor, including, but not limited to, projects involving:

- ▶ multiple public and private sector partners
- ▶ highly visible sectors such as natural resource extraction
- ▶ significant population resettlement
- ▶ indigenous peoples
- ▶ biodiversity and sensitive habitats
- ▶ complex project benefit sharing, revenue management, and governance systems
- ▶ weak national regulatory regimes.

This *Lessons of Experience* provides lenders and project sponsors with an understanding of the business case for employing an external monitor. The publication gives practical advice regarding the major steps

and key issues for designing, implementing and operating an external monitoring mechanism for complex projects. The objectivity and technical expertise of the external monitor can add value to a project by increasing trust and accountability between the sponsor and key project stakeholders including lenders, project-affected communities, civil society organizations, and government regulators.

To highlight the practical challenges and value of the external monitoring mechanism, the publication draws illustrative examples from the experiences of IFC during the **Chad-Cameroon pipeline project**. In 2001, IFC required an external monitoring role for the Chad-Cameroon project and appointed D'Appolonia S.p.A., a consulting firm from Italy, to form the **External Compliance Monitoring Group (ECMG)**.<sup>1</sup> While the scale and complexity of the external monitoring for the Chad-Cameroon project is not necessarily indicative of the level of effort and resources that would be needed on all complex projects, these lessons are a valuable source of practical experience with external monitoring. This publication has

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<sup>1</sup> The ECMG reports are published on the following website: [www.ifc.org/ecmg](http://www.ifc.org/ecmg)  
The client company website can be accessed at: [www.essochad.com/Chad/Chad\\_HomePage.asp](http://www.essochad.com/Chad/Chad_HomePage.asp)  
Project-related websites of the World Bank Group can be accessed at: [www.worldbank.org/afrc/ccproj/](http://www.worldbank.org/afrc/ccproj/);  
[www.ifc.org/ifcext/afrika.nsf/Content/ChadCameroonVideo](http://www.ifc.org/ifcext/afrika.nsf/Content/ChadCameroonVideo)

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## What is External Monitoring?

Monitoring is the sponsor's primary means for tracking and evaluating progress toward the implementation of commitments designed to avoid or mitigate the environmental and social impacts of the project. These actions are typically specified in the sponsor's

**Environmental and Social Management Program (ESMP)**. The ESMP details the procedures and actions necessary to prevent or manage the adverse impacts identified in the project's social and environmental impact assessment. This program is commonly implemented by an "**Environment and Social Management Unit**" (hereafter referred to as the "**E & S Unit**") within a sponsor's management structure.

The role of the **external monitor** is to provide field-based verification of project activities and ensure compliance by the sponsor with the commitments established in the ESMP. On projects with potentially significant environmental and social impacts that are diverse, irreversible, or unprecedented, IFC requires that sponsors retain qualified and experienced external experts to verify their monitoring information.<sup>2</sup>

Funded and logistically supported by the sponsor, the external monitor acts as an impartial layer of monitoring that complements the sponsor's internal monitoring systems. In addition, the project may be subject to additional oversight conducted directly by the staff of lenders, government regulators, and civil society groups.

<sup>2</sup> The IFC requirement for external monitoring by qualified experts is contained in Performance Standard 1, paragraph 24. Full text of Performance Standard 1 is available at [www.ifc.org/envsocstandards](http://www.ifc.org/envsocstandards). The Equator Principles II defines a broadly similar requirement as part of Principle 9: Independent Monitoring and Reporting. Full text of the Equator Principles is available at: [http://www.equator-principles.com/documents/Equator\\_Principles.pdf](http://www.equator-principles.com/documents/Equator_Principles.pdf)



Preparation for pipeline welding.

## What are the Benefits for Project Stakeholders?

For **lenders**, the external monitor is an important tool to objectively verify and report on sponsor compliance with environmental and social conditions of the investment agreement during project development. The financial sustainability of a project can be jeopardized if agreed environmental and social measures are not demonstrated to have been credibly implemented by the sponsor. Lenders with limited in-house environmental and social expertise may benefit from the external monitor's ability to act in part as the "eyes and ears" of the lender, fostering a proactive management approach to help the lender develop successful projects and avoid reputational damage and related liabilities.

For **project sponsors**, the external monitor increases the sponsor's ability to document, manage, and reduce their risk exposure to environmental and social issues. By providing additional technical expertise to supplement the sponsor's E & S Unit, the external monitor increases the operational capacity of the sponsor's management to take timely actions to improve performance and comply with environmental and social commitments.

## The Chad-Cameroon Pipeline Project

The Chad-Cameroon project is a US\$3.5 billion development of an oil field in Chad by a consortium headed by ExxonMobil, and a 1,070 km long pipeline extending through Chad and Cameroon to the Atlantic coast, constructed and operated by the Tchad Oil Transportation Company S.A. (TOTCO) and the Cameroon Oil Transportation Company S.A. (COTCO) (hereafter collectively referred to as the "Consortium"). Funded and logistically supported by the Consortium, the ECMG serves as the external monitoring team responsible for auditing the implementation of the Consortium's environmental and social commitments for the Chad-Cameroon Oil Pipeline project.



Pipeline trenching in Cameroon.

The risk for sponsors whose projects are associated with poor environmental and social performance extends beyond damage to the corporate brand. Underperforming companies can lose their license to operate along with the critical support of project-affected communities. Their products and services may incur barriers to market entry from consumers and regulators, and their ability to raise capital from lenders may be constrained. The technical expertise of the external monitor allows sponsors to have documented, independently verified, and publicly available reports of their actions—a critical, unbiased record which can be used to defend against potential allegations of poor environmental and social performance.

The benefit of external monitoring for **host countries** is the availability, at no cost, of an expert team that provides regular, objective monitoring of project compliance with applicable regulations and with other environmental and social requirements, as agreed with the sponsor at the outset of the project. The external monitor may be particularly useful in helping to coordinate joint technical solutions where responsibilities, such as community health issues in project

affected communities, are typically shared by the sponsor and various levels of government.

With respect to **project affected communities** and **civil society groups**, the external monitor provides a team of qualified technical experts that can directly investigate and report on specific issues of concern for the local communities in the project area. It provides reporting that can be an independent source of information for local communities and NGOs, which in turn serves to foster an atmosphere of trust required for effective working relationships.

## How to Maintain the Independence of the External Monitor

Maintaining impartiality, objectivity, and transparency in the eyes of all project stakeholders is critical to the success of the external monitor. However, the reliance of the external monitor on the financial and logistical support of the sponsor may create perceptions of bias. A number of steps should be taken to proactively reassure project stakeholders as to the independence of the monitor, including:

*The external monitor provides an impartial and transparent record of the sponsor's compliance with the project's environmental and social commitments.*

- ▮ establishing a robust and transparent site visit monitoring process by the external monitor that demonstrates a reliance on field-based empirical findings
- ▮ creating a well defined reporting process for which the external monitor has ultimate responsibility for final content
- ▮ establishing and abiding by clear operational protocols which define the relationship of the external monitor to other project stakeholders and allow the external monitor to avoid conflicts of interest.

These issues, among others, are discussed in further detail below.

## Key Components of the External Monitoring Mechanism

### Structure of the External Monitoring Team

Environmental and social issues on projects are often interrelated, a fact reinforced by current international best practice for integrated environmental and social impact assessment and management. In order to properly address the environmental and social issues of complex projects, it is recommended that the external monitoring team be multidisciplinary in composition.

Visit to tree nursery.



ECMG Public Health Specialist consulting with community healers.

During the project construction phase of the Chad-Cameroon project, the ECMG was composed of six permanent members, including a team leader, expert in pipeline engineering and related health and safety issues; a team coordinator, specialist in environmental science and engineering; and individual specialists in socio-economic and socio-cultural issues, institutional development, environmental and social capacity building, earth sciences, and public health.

This varied composition of the ECMG created a strong internal dialogue during the review of specific findings from the standpoint of different disciplines. In addition, the multifaceted team provided technical expertise and credibility to a wide range of issues when engaging with all interested parties, including IFC, the Consortium, the host governments, and civil society organizations. During IFC's selection of firms to act as the ECMG, the expert technical capabilities demonstrated by D'Appolonia, the firm eventually selected, was cited by the Consortium as a key factor in convincing them that the ECMG would be able to add tangible value to the project.

It is important to note that during the initial planning phase the key individuals comprising the external monitoring team

may not have full knowledge of all the project's technical issues. Accordingly, it may be helpful to create an understanding between lenders and the sponsor to allow the team to be complemented by additional specialized experts for unplanned issues which may arise during project development.

On the Chad-Cameroon project, this flexibility allowed for the addition of a cultural heritage expert to the ECMG who helped identify and mitigate key gaps in the Consortium's management of impacts to cultural heritage sites during construction of the pipeline. Incidents of inadequate management of heritage sites along the pipeline route resulted in a retroactive non-compliance citation by the lenders against the Consortium. Further incidents that may have resulted in costly project delays were avoided due to the dialogue between the ECMG and the Consortium's E & S Unit, which allowed for the identification and management of potential cultural heritage impacts.



Revegetation of the pipeline right-of-way in the Atlantic Littoral Forest of Cameroon.

During construction, the ECMG also added an ecologist who provided key input into the management of invasive species and overall bio-restoration issues along the pipeline route. Additionally, the presence of a public health expert on the team played an important role in facilitating joint approaches to managing the occupational health issues of employees and the larger community health issues faced by communities and government authorities.

## Lesson 1 — *“An integrated environmental and social approach facilitates effective monitoring.”*

- ▶ The effectiveness of the external monitor is greatly improved by mobilizing an integrated and technically capable environmental and social team.
- ▶ This integration allows the external monitor to interact with the sponsor and provide expert evaluation of environmental and social issues, and to foster engagement with project-affected communities, government, and civil society organizations.
- ▶ Flexibility to expand the external monitor team to confront new, unplanned issues is helpful, but should be carefully considered to ensure unnecessary costs for the project sponsor are avoided.
- ▶ Consulting the sponsor during the selection of the external monitor provides a key opportunity to build trust in the technical capability of the external monitor.

## Operational Protocols of the External Monitor

The formulation of operational protocols may be helpful to clearly establish the role and interaction of the external monitor with respect to other project stakeholders. On the Chad-Cameroon project, the operational protocols promoted the need for active cooperation between the ECMG and Consortium's E & S Unit. The responsibility to provide objective, external reporting on ESMP compliance to IFC and the lender group based on accurate data and empirical findings was defined as the exclusive responsibility of the ECMG. For host country governments and related agencies, the protocols reinforced that the ECMG was not meant to replace, but rather to complement, effective project monitoring by government regulators.

*Maintaining impartiality, objectivity, and transparency in the eyes of all project stakeholders is critical to the success of the external monitor.*

**Lesson 2** — *“Clear operational protocols are critical to the perception of independence and impartiality of the external monitor.”*

- ▶ Clear operational protocols allow the external monitor to avoid conflicts of interest and maintain a position of independence with project stakeholders and affected communities.
- ▶ Once established, every effort should be made to ensure that all project stakeholders are aware of, and abide by, the operational protocols governing the activities of the external monitor.

With respect to interactions with civil society, the ECMG was defined as an independent entity readily available to listen to civil society concerns provided they could identify specific grievances or complaints that could be investigated in the field. In practice, it proved difficult to ensure that the ECMG did not become a parallel grievance mechanism for the project. Early in the project it was therefore necessary to make clear that the ECMG would not respond to generalities, such as “pipeline construction is going to deteriorate the quality of life for the local villagers”. However, specific technical issues such as “hydrotest discharge water has damaged farmland near a specific village and the farmer has not been compensated” could and would be investigated by the ECMG.

**Funding and Logistical Arrangements for the External Monitor**

The resources required for the external monitoring mechanism can be expected to vary as a function of the project's complexity and the extent of potential environmental and social impacts. The relationship with the external monitoring mechanism may call for

significant logistical resources and cooperation from the sponsor and all project stakeholders. The sponsor should expect an initial period of start-up adjustments, particularly with respect to the establishment of a working relationship between the sponsor's E & S Unit and the external monitoring team.

The upfront costs incurred by the sponsor employing the external monitor are not insignificant. These costs, however, should be weighed against the potential costs from project delays, environmental and social liabilities, corporate brand damage, potential litigation, and community upheaval that can emerge as complex projects are sited and constructed.

At the end of the two year construction phase of the Chad-Cameroon project, the direct ECMG cost to the Consortium was approximately \$US1.5 million for the labor and travel expenses of quarterly site visits, and an additional \$US 2 million budgeted by the Consortium to provide technical and logistical support for the ECMG. Annual ECMG site visits during the operations phase cost approximately \$US100,000 per visit. The total direct costs of labor, travel, technical, and logistical support of the ECMG are estimated at less than 5 percent of the Consortium's total environmental and social management costs (approximately \$US 40 million) for the project.

Village well constructed by the Project in Chad.



### Lesson 3 — “Sponsor management support for the external monitor is a key determinant of success.”

- ▶ To be successful, the sponsor's management needs to fully support the activities of the external monitoring team. The sponsor should consider creating a small, focused team within their E & S Unit to interface with the lender and coordinate with the external monitor.
- ▶ From the beginning of the project, the lender, the sponsor, and the external monitor should establish a common vision for the constructive and positive role of the external monitor.

It is important to emphasize, however, that although project reports, monitoring data (e.g., water and air quality, noise, etc.) and ESMP key performance indicators (e.g. non-compliant citations, recordable spills, consultation statistics etc.), help the external monitor to observe trends, flag potential issues, and assess data completeness and validity, they should not be considered sufficient to replace actual site visits. Field verifications allow the external monitor to obtain first-hand observations of project-affected areas and communities, to investigate issues, to explore options to correct non-compliance situations, and to ensure that previous corrective actions have been implemented.

Site visits by the ECMG were coordinated and jointly conducted with the Consortium's E & S Unit. To collect relevant information on project status, progress, and environmental and social issues, the ECMG held one-day individual meetings with the major project stakeholders, including the Consortium's E & S Unit, the main project contractors and sub-contractors, project-affected communities, government regulators, and civil society organizations. These meetings allowed the ECMG to be briefed on recent project developments from all stakeholder perspectives, and to establish priority issues for field verification. The World Bank office in the region played an important role early on in the project by assisting in the identification of

In addition, the Consortium provided a dedicated staff member to manage the relationship with the ECMG, a decision that greatly enhanced overall performance. The Consortium's E & S Unit facilitated the work of the ECMG in terms of ensuring availability of key staff for meetings, assisting with the provision of documents, information, and field data, and organizing logistical arrangements during project site visits.

### Site Visit Activities of the External Monitor

Site visit activities of the external monitor typically involve stakeholder meetings and interviews, review of project monitoring data and records, direct field monitoring, and close-out meetings to present and discuss preliminary findings.

Leading up to and during each site visit, the ECMG received ready access to the latest field reports from Consortium's E & S Unit, detailing the implementation and monitoring of the procedures and actions contained in the ESMP. These findings formed the basis of the ECMG's day-to-day interaction with the Consortium's E & S Unit during site visits.

Community meeting with the external monitor in northern Cameroon.



*Direct field monitoring is an essential task of the external monitor.*

local and national NGOs interested in the project and conducting their own project monitoring.

ECMG field monitoring activities typically included on-site substantiation of environmental and social issues identified by the various project stakeholders and pertaining to the conditions of the ESMP. For example, field visits by the ECMG highlighted traffic safety and road dust as significant impacts of increased project-related transport activities, which were not fully identified in the project design phase and relevant parts of the ESMP. Although the Consortium was investigating corrective actions, the increased focus on the issue provided by the ECMG ensured that the Consortium implemented a series of transportation safety measures such as speed controls, community awareness raising, convoy management, and road by-passes, in addition to more effective dust suppression.

Other technical issues that were monitored on site visits included protection of natural resources, waste management and pollution prevention, project footprint reinstatement, occupational health and safety, land

#### **Lesson 4** — *“Direct field monitoring is an essential task of the external monitor.”*

- ▶ The credibility of the external monitor is dependent on the use of direct field verification and the collection of empirical observations.
- ▶ Sole reliance on secondary sources, such as reports provided by the sponsor’s E & S Unit and project contractors, should be avoided, and adequate time for field verification should be planned.
- ▶ Close out meetings should be held at the conclusion of site visits to allow field observations and conclusions to be presented, and factual inaccuracies to be identified.
- ▶ Successful site visits require extensive logistical support from the sponsor.



ECMG close out meeting with officials in Cameroon.

acquisition (including resettlement, compensation, and livelihood restoration), and community health and safety.

Close out meetings were held at the conclusion of site visits and involved the ECMG, the Consortium’s E & S Unit, government representatives, and the lenders. The meetings allowed field observations, findings, and preliminary conclusions to be presented, and information gaps, additional data needs, and factual inaccuracies to be identified. Site visits by the ECMG were treated as a “snapshot in time,” consistent with the periodic frequency of the monitoring schedule. Additional information received after the site visits was set aside to be investigated during the next project visit. This approach allowed sufficient time for the Consortium’s E & S Unit to react to technical observations, and to evaluate the need for and implement corrective actions in time for subsequent monitoring visits.

#### **Frequency of Site Visits**

The frequency of visits by the external monitor to the project site is normally determined by the likelihood of impacts predicted to occur at different phases of the



project cycle. Planned schedules for site visits may also require adjustment, however, due to unexpected project specific issues. It is recommended that the precise schedule of the site visits be determined based on the prevalence of impacts in different project phases.

For the Chad-Cameroon project, the frequency of ECMG site visits was significantly higher during the construction phase, because the potential for adverse environmental and social impacts was highest during the pipeline and permanent facility construction. The ECMG undertook four project site visits per year during the construction phase of the project. Once the pipeline construction was completed in late 2003 and project completion was achieved in mid-2004, the ECMG schedule changed to annual visits as part of the operations phase. Additional visits during the operational phase are conducted only as necessary. This reduction in the frequency of monitoring reflects the relative decline in the potential significance of environmental and social issues due to end of the construction phase and the consequent reduction in the project workforce and related activities.



Pipeline stringing in the rainforest of Cameroon.

The transition from construction to operations needs to be carefully planned and implemented by both the sponsor's E & S Unit and the external monitor. During the last semester of the construction phase for the Chad-Cameroon project, the ECMG played a key role in ensuring that transition plans and sufficient overlapping of staff and resources within the Consortium's E & S Unit were in place to maintain satisfactory performance in terms of ESMP compliance. The transition also entailed commensurate changes to the structure of the ECMG including team reduction, redefinition of key team specializations, and modification of monitoring protocols during site visits.

### Lesson 5 — *"The external monitor plays a key role during the project transition from construction to operation."*

- ▶ The frequency of visits by the external monitor to the project site is normally determined by the likelihood of impacts predicted to occur at different phases of the project cycle.
- ▶ The attention and assistance of the external monitor is critical to ensuring a smooth transition between project phases.
- ▶ The shift from construction to operations phases requires restructuring of both the sponsor's E & S Unit and the external monitor to account for different monitoring and implementation requirements for the ESMP that are specific to the operations phase.

### Monitoring Compliance

During site visits, the external monitor may identify a real or potential "non-compliance" situation, which occurs when either the sponsor's E & S Unit or a project contractor fails to implement a specific environmental or social commitment contained in the ESMP.

As shown in Figure 1 on the next page, the definition of levels of non-compliance developed for the Chad-Cameroon project ranged from level 1 (least important) to level 3 (most severe), and each required a set of

*The external monitor plays a key role during project transition from construction to operation phases.*

actions on the part of the Consortium to address the issue depending on the severity of the potential impact. The information provided by the ECMG was used by the lenders as a direct source to assign significant non-compliance citations to the sponsor, as needed.

The lender may choose whether the external monitor should make the official determination of non-compliant situations or instead provide information to the lenders so that they may issue the non-compliance citation as necessary. The experience of the ECMG indicates that it may be advantageous to leave the ultimate decision to assign non-compliance with the lender. This may increase the leverage of non-compliance declarations and promote a positive response by the sponsor. The external monitoring team is then afforded the flexibility to investigate and report to the lenders regarding all potentially significant issues based on its professional judgment.

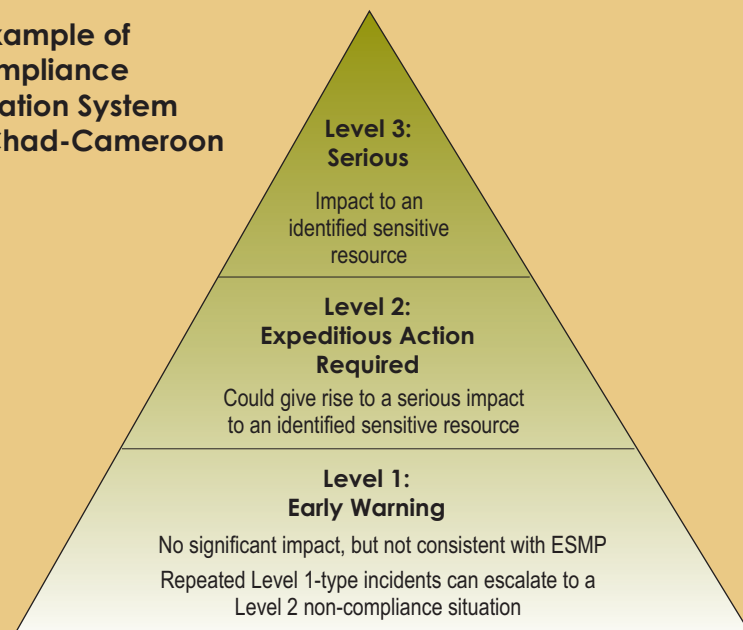
In addition to the questions of which party should issue non-compliance citations, the Chad-Cameroon project highlighted the importance of clearly stating the definition of non-compliance provisions. For example, the

**Lesson 6** — *“The lender should be the arbiter for decisions of non-compliance with the ESMP.”*

- ▶ Definitions of non-compliance provisions should be clearly established at the outset of the project.
- ▶ The lender should maintain sufficient leverage with the sponsor to ensure the resolution of non-compliance citations.

Level 3 definition is controversial because it is necessary to define what constitutes both “damage” and a “specifically protected sensitive resource.” This issue was particularly important when the findings of the ECMG were used to assign a Level 3 non-compliance concerning impacts to cultural heritage sites. The ECMG was able to overcome this ambiguity by reporting any situations that were considered critical issues and providing factual observations to IFC and other stakeholders to allow them to assess the potential non-compliance situation.

**Fig. 1 Example of Non-Compliance Classification System for the Chad-Cameroon Project**



Source: D'Appolonia S.p.A

**The External Monitor and Other Layers of Project Monitoring**

On complex projects, the monitoring of ESMP commitments typically involves internal monitoring systems of the sponsor and the main project contractors, and external monitoring by the lender and government regulators. Successful project monitoring requires the development and integration of these multi-layered monitoring systems. For the Chad-Cameroon project, the ECMG was positioned as an additional observer to oversee the sponsor's internal monitoring systems and complement the external oversight conducted by other project stakeholders. Figure 2 indicates the position of the ECMG in the multi-layer monitoring system implemented for the Chad-Cameroon project.

The internal layers of the monitoring system for the Chad-Cameroon project consisted of environmental and social monitoring provided by the Consortium and their contractor companies. As is typical of complex projects, the Chad-Cameroon pipeline involved numerous contractors and sub-contractors, each of which was

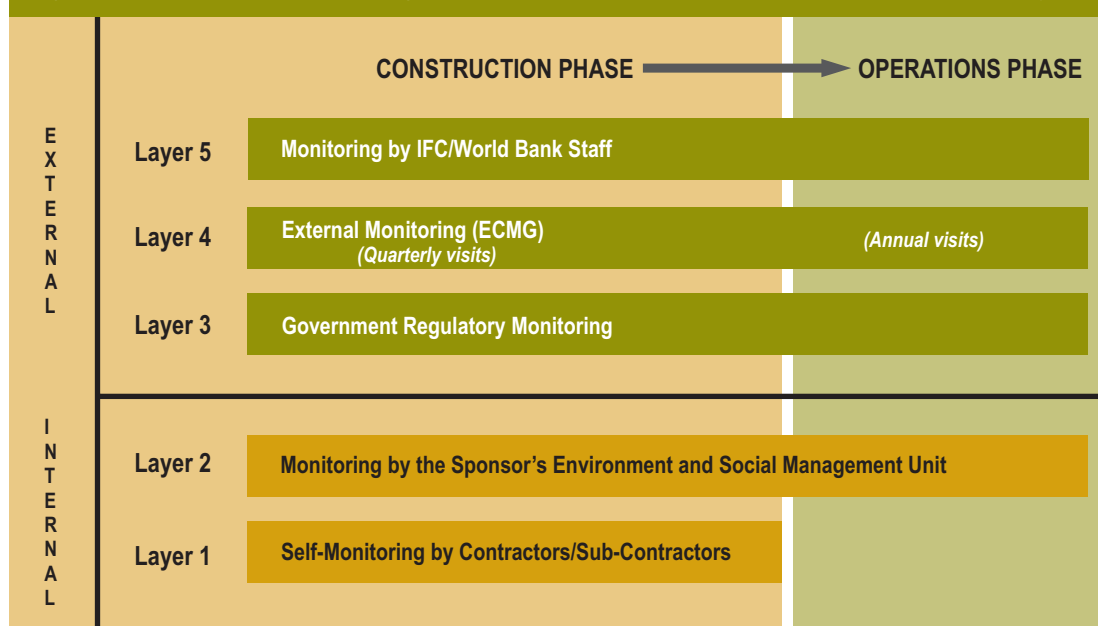
responsible for implementing different aspects of the project's ESMP. These contractors and sub-contractors each had a monitoring system within their management structure, and the Consortium's E & S Unit interacted with these groups during monitoring activities. The Consortium's E & S Unit assumed overall responsibility for monitoring the social and environmental compliance of contractors and sub-contractors associated with the project.

Initial site visits by the ECMG, however, demonstrated the limited capacity of sub-contractors to implement environmental and social commitments, which posed a risk to overall ESMP compliance. On subsequent site visits, the ECMG did not limit its field monitoring to the Consortium and its main project contractor activities, but also included field verification of sub-contractor responsibilities in the ESMP.

External monitoring on the Chad-Cameroon project involved both the lenders and government regulators. Depending on their capacity, some lenders may use in-house or contracted environmental and social specialists to monitor the implementation of the ESMP. It is important to note that although

*Successful project monitoring requires the development and integration of multi-layered monitoring systems.*

**Fig. 2 Multi-layer Monitoring System for the Chad-Cameroon Pipeline Project**



Source: D'Appolonia S.p.A

## Lesson 7 — *“Monitoring the performance of contractors and sub-contractors is critical to project success.”*

- ▶ Lenders should conduct regular in-country supervision of the project. For lenders with limited staff resources and capacity for these activities, the role of the external monitor can be critical to successful implementation of the ESMP.
- ▶ The limited capacity and expertise of sub-contractors to implement environmental and social commitments should be recognized and addressed.
- ▶ The main project contractors should be contractually obligated to comply with the sponsor's ESMP and to establish an internal monitoring system. Although contractor compliance with the ESMP is the ultimate responsibility of the sponsor, their performance can be improved through involvement of the external monitor.

a role of the external monitor is to be in part the objective 'eyes and ears' of the lender, this should not substitute, but rather supplement, the regular in-country project supervision performed by the lender. For lenders with limited staff resources and capacity for supervision and monitoring activities, the role of the external monitor assumes additional importance to successful project implementation of the ESMP.

### Reporting the Findings of the External Monitor

A robust and transparent reporting process is fundamental to the integrity of the external monitor. On the Chad-Cameroon project, the ECMG prepared ESMP compliance assessment reports after each site visit. These reports were based on facts directly observed in the field with respect to the Consortium's adherence to environmental

and social commitments contained in the ESMP. The perception of the ECMG's neutrality was reinforced by its reliance on, and reporting of, empirical findings.

The ECMG assessment reports were submitted to the lenders and copied to the Consortium shortly after the conclusion of each site visit. The Consortium was given the opportunity to comment one time on any factual inaccuracies within a fixed number of days following receipt of the reports. It is recommended that the lender and the sponsor have an opportunity to suggest improvements to the reporting if there appears to have been factual inaccuracies in the compiled observations or interpretations, or if important information was not presented to explain field observations, compliance assessment and implementation strategies. However, to maintain credibility, it is critical that the ultimate responsibility and decisions regarding the content of final reporting for public disclosure rests with the external monitor.

Based on the experience of the Chad-Cameroon project, it is recommended that the reports of the external monitor be published on a specific and clearly identifiable website. Due to limited access to the internet in Chad and Cameroon, the World Bank country offices were instrumental in distributing paper copies to government agencies, project affected communities, and civil society groups. The ECMG made efforts to confirm that sufficient dissemination of the previous report had taken place prior to subsequent project site visits.

### Management of Change

Changes are a natural feature of any complex project and do not necessarily indicate a problem but the initiation of a process. Sponsors should be prepared for the

## Lesson 8 — “Ensuring widespread public access to monitoring reports reinforces trust in the role of the external monitor.”

- ▶ To maintain the perception of neutrality, it is critical that the ultimate responsibility and decisions regarding the content of final reporting for public disclosure rests with the external monitor.
- ▶ External monitoring reports should be published on a specific and clearly identifiable website. Paper copies of the report should be distributed and made available to project affected stakeholders.
- ▶ Widespread public access to monitoring reports reinforces the impartiality of the external monitor and the responsiveness to project impacts that affect stakeholders.
- ▶ Credible, objective reports assist the sponsor in demonstrating actions undertaken to reduce environmental and social impacts.

significant ESMP changes; and iv) delineate when changes should be communicated to the lenders and host country governments.

The Chad-Cameroon ESMP focused primarily on the pipeline right-of-way. From an environmental and social standpoint, however, other important issues related to the associated infrastructure of the pipeline corridor were not given sufficient attention in the ESMP. These included impacts from construction camps, pipe yards, access roads, borrow pits, and land use planning for oil wells and related infrastructure. The monitoring activities of the ECMG brought these issues to the attention of the Consortium and the lenders, and management of change procedures were used to adjust the ESMP accordingly to account for these project-related impacts.

The management of change procedure for the Chad-Cameroon project is, however, primarily an internal sponsor process with only vague procedures for external involvement by the lender or government regulators. While this internal company procedure may be sufficient for small changes to the ESMP, such as defining new procedures for the remediation of borrow pits, it may be less effective for negotiating and addressing more significant issues that may require substantial changes to the ESMP.

need to add or adjust mitigation measures in the ESMP resulting from new issues that were not previously identified or in recognition that despite the best planning intentions, mitigation measures may not be as effective as originally designed and thus need to be modified. A procedural approach to managing change is essential to ensure that the project continues to consistently conform to its environmental and social commitments.

It is recommended that the sponsor establish a “management of change” procedure to deal with changes in impacts from the project and with the resulting mitigation measures which need to be included in the ESMP. At a minimum, the procedure should have mechanisms which: i) identify material project scope or design changes that have not been included in the original ESMP; ii) identify, through monitoring, mitigation measures that are not achieving results and need to be altered; iii) establish criteria to differentiate between minor changes and

Erosion control measures on a river crossing in Cameroon.



*Ensuring widespread public access to monitoring reports reinforces trust in the role of the external monitor.*

In instances where significant cultural properties, natural resources and habitats, or sensitive species are encountered and potentially impacted, or where physical relocation or economic displacement of households are required, or changes to project social and environmental standards and commitments are requested, the management of change procedures should be established and the changes jointly assessed by the sponsor, the lender, the external monitor, and government agencies prior to the development of further mitigation measures. During the Chad-Cameroon project, the ECMG was primarily involved as a technical counterpart available to the lender group and the Consortium for technical advice regarding proposed ESMP adjustments.

By involving all key stakeholders, the decisions regarding significant required changes to the ESMP can benefit from a discussion that meets the needs of all stakeholders. It is important to note that in all considerations of ESMP changes, a balance is needed in the process to limit, to the extent possible, impacts to project development and unplanned costs while ensuring acceptable environmental and social outcomes.

**Lesson 9** — *“A procedural approach to Management of Change is essential to ensure that the project continues to conform to its environmental and social commitments.”*

- ▶ A management of change procedure is necessary to successfully adjust the ESMP to deal with unexpected environmental and social impacts during project implementation.
- ▶ The external monitor can be a key resource available to the lender group and the Consortium for technical advice regarding proposed ESMP adjustments.
- ▶ Various “classes of changes” should be established to differentiate between the degree of significance of the proposed changes with respect to the potential environmental and social impact of the project activities as defined in the ESMP.
- ▶ For significant changes, the procedure should involve mandatory consultation by the project with lenders and the external monitor, before implementation of the revised mitigation and monitoring alternatives.

## Conclusion

Market forces are increasingly demanding that companies take a proactive approach towards managing the environmental and social impacts of their projects. This IFC Lessons of Experience publication has demonstrated that external monitoring of environmental and social commitments can be a powerful resource to help lenders and their project sponsors reduce the risks inherent to complex projects.

Throughout the publication, the experiences of the External Compliance Monitoring Group (ECMG) on the Chad-Cameroon pipeline project have highlighted the technical value of an external monitor. This value is further enhanced by the external monitor's ability to increase the transparency, trust, and accountability between the key project stakeholders. While the decision to employ an external monitor is related to the particular scale and complexity of environmental and social issues associated with a project, the business case for external monitoring is based on the monitor's ability to enhance the company's approach to addressing project risk.

All project stakeholders stand to benefit from the involvement of an external monitoring mechanism. Project sponsors receive an objective reporting record of their performance on environmental and social measures, which can reinforce the support of project affected communities and defuse the allegations of external critics. Lenders benefit from an unbiased set of "eyes and ears" to assist them in ensuring project outcomes meet their environmental and social requirements.



Completed restoration along the pipeline route.

For project affected communities and civil society groups, the external monitor creates a reporting mechanism that acts as an independent source of information helping to reinforce the credibility and trust in the project sponsor required for successful projects. Host countries, who often suffer from limited capacity to monitor the project themselves, receive objective, technical, and publicly disclosed assurance that the project is achieving agreed environmental and social outcomes.

Complex projects require companies, lenders, project affected communities, civil society, and governments to work as part of a partnership based on mutual responsibility and trust. The external monitor can be an influential tool to ensure that environmental and social commitments are credibly implemented in the eyes of all project stakeholders, resulting in projects that are economically, socially, and environmentally sustainable.

*The external monitor can be an influential tool to ensure that environmental and social commitments are credibly implemented in the eyes of all project stakeholders.*

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### The Baku-Tbilisi-Ceyhan (BTC) Pipeline Project: Lessons of Experience

For IFC as a lender, the process of capturing lessons of experience from projects in an important one. In the "BTC Pipeline Project: Lessons of Experience," IFC environmental and social staff look back on an extremely challenging process and endeavor to extract some of the key operational lessons and good practices for the benefit of colleagues, clients, and the wider institution. While it is impossible to capture all the challenges and complexities encountered during the design and construction phase of the BTC project, this publication focuses on six thematic areas where environmental and social lessons learned were thought to be most valuable and applicable to other IFC-financed projects.

For more information, please contact: International Finance Corporation, Environment and Social Development Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433, U.S.A.

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