



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Dec-2018 | Report No: PIDC26196



BASIC INFORMATION

A. Basic Project Data

Country Chad	Project ID P168606	Project Name Chad Second Programmatic Economic Recovery and Resilience Grant (P168606)	Parent Project ID (if any) P163424
Region AFRICA	Estimated Board Date Jul 31, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy and Development Planning	Implementing Agency Ministry of Finance and Budget		

Proposed Development Objective(s)

The Program Development Objectives and pillars of the proposed series are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.

Financing (in US\$, Millions)

SUMMARY

Total Financing	40.00
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DETAILS

Total World Bank Group Financing	40.00
World Bank Lending	40.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The collapse of global oil prices caused a fiscal and economic crisis in 2016 and 2017.** Low oil prices left Chad’s external debt unsustainable and threw the economy into deep recession. Falling revenues, together with the obligation to service an oil collateralized commercial loan, rendered the government illiquid. In fact, more than 80 percent of oil revenues were used to directly service debt owed to Glencore, with only about 15 percent entering treasury accounts in



cash terms. Real GDP contracted by 6.3 percent in 2016 and 3 percent in 2017, opening a large negative output gap. This was reflected in a sharp drop in CPI inflation from 3.7 percent in 2015 to -1.1 percent in 2016, and 0.2 percent in 2017.

2. **In response to the oil price shock, the government had to pursue severe fiscal consolidation.** In early 2016, the authorities introduced cash-based budgeting and adopted an Emergency Fiscal Plan aimed at mitigating the short-term impact of the crisis. Significant expenditure cuts led to a fall in the non-oil primary deficit from 9.7 percent of non-oil GDP at end-2015 to 3.8 percent at end-2017, while the overall fiscal deficit (cash basis) was contained at 2.5 percent of non-oil GDP in 2017. In 2018, the overall fiscal balance is estimated to be at -0.6 percent of non-oil GDP. Domestically financed public investment took a major hit and dropped from 9.8 percent of non-oil GDP in 2014 to 0.7 percent in 2017, while recurrent spending dropped from 16.6 percent to 13.7 percent and arrears accumulated.

3. **To return to fiscal and debt sustainability, commercial debt restructuring as well as strong external budget support were necessary.** An important challenge has been to close an original financing gap of US\$1.222 billion in 2017 and 2018. Following almost a year of negotiation, Chad and Glencore signed a final debt restructuring agreement in June 2018, notably linking debt service to oil revenues through a dynamic cash sweep mechanism. This arrangement reduces the debt service to revenue ratio, mitigates the fiscal risk of oil price volatility, reduces the financing gap and returns Chad to a sustainable debt path. Furthermore, authorities have financed part of the deficit by issuing bonds in the regional market, however, banks have approached their regulatory limits on Chadian Government securities. Ultimately, Chad's development partners have provided budget support requiring the Government to adhere to the rules and mechanisms as agreed for the restructuring of its commercial debt while further rationalizing public financial management (PFM) and tightening expenditure controls.

4. **Despite fiscal stabilization translating into gradual recovery, years of recession and austerity have constrained social welfare and poverty-reduction.**¹ Real GDP expected to grow at an estimated 2.6 percent in 2018, largely supported by increases in oil prices and oil production. In the non-oil economy, favorable weather conditions and the privatization of the cotton public enterprise are expected to improve the agriculture sector's contribution to (non-oil) GDP growth. However, in the absence of a well-targeted and effective social safety net (SSN), the poor and vulnerable have been deeply affected by the crisis. During the oil boom, poverty rates declined (from 55 percent in 2003 to 47 percent in 2011), however, the absolute number of poor increased from 4.9 million to 5.6 million due to population growth. Progress on non-monetary poverty also presents a mixed picture. Since 2014 and up until 2018, dwindling fiscal resources and poor social spending execution have disrupted vital public services despite efforts to protect priority social and productive spending

Relationship to CPF

5. **The Country Partnership Framework (CPF) for FY16-FY20² is based on three engagement themes: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability.** The program supported by the proposed second Development Policy Grant is closely aligned with the three pillars of the CPF and designed to leverage World Bank investment lending projects and Technical Assistance activities across the four pillars, notably in the areas of domestic resource mobilization, tax policy and administration, SOE management, oil sector capacity building, agriculture value chain support and productivity enhancement, and social safety nets development.

C. Proposed Development Objective(s)

¹ The latest poverty data are available as of 2011 only.

² Report No. 95277-TD (November 3, 2015).



The Program Development Objectives and pillars of the proposed operation are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.

Key Results

6. **This second programmatic Economic Recovery and Resilience (ERR) DPO will support Chad in building resilience and consolidating transition to a sustainable, structural growth path.** Building on the First Economic Recovery and Resilience DPO (P163424), this second grant in a series of two solidifies the shift of World Bank support towards a structural resilience and growth agenda. The authorities aim at sustaining recovery, fostering economic diversification, and developing coping mechanisms for the poor and vulnerable. Four intertwined pillars combine structural measures to enhance fiscal risk management with boosting economic diversification and social resilience. Improved debt, Public Financial and oil revenue management are complemented by increased productivity in agriculture and competitive, open access information and communication technologies (ICT). Finally, putting in place a well-targeted and fully operational social protection system adds an explicit micro layer of resilience.

D. Concept Description

7. **The proposed operation supports structural policy reform to improve debt and oil revenue management, increase productivity in agriculture and ICT telecom sectors and build a well targeted social safety net.** The operation is programmed under IDA18 with a total amount of US\$40 million. It follows the First Programmatic Economic Recovery and Resilience DPO that passed Board in September 2018, as well as a 2017 standalone Emergency Fiscal Stabilization Operation that was conceived as a first stage supporting Chad in its stabilization effort while preparing the ground for the second stage, i.e. structural measures to build resilience and start sustainable recovery in the context of this programmatic DPO series.

8. **The main policy pillars are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.** First, this programmatic series aims at enhancing fiscal risk management through (a) improved debt management; (b) rationalization of tax expenditures; (c) streamlining the payroll for enhanced fiscal space; and (d) improved oversight and transparency in the management of SOEs. Second, to improve the contribution of the oil sector to fiscal sustainability and economic resilience it promotes (i) a functional oil revenue management mechanism; (ii) transparency in the financial performance of the SHT; and (iii) improved control over oil production costs. Third, to increase diversification and resilience of Chad's population in face of economic and climatic shocks, the operation (a) contributes to greater agricultural productivity for more sustainable and inclusive growth; and (b) strengthens the contribution of the ICT sector to inclusive growth through enhanced affordability and coverage of services, as well as improved transparency for public and private service delivery. Fourth, it increases social protection for the poor and most vulnerable groups including refugees, by developing an effective and well-targeted SSN system, and implementing cash transfers.

9. **The operation is well aligned with the strategic objectives of the 2017-2021 National Development Plan (NDP).** It focuses on three of the four strategic Pillars of the government's program, including Pillar 2, strengthening good governance and the rule of law, Pillar 3, development of a robust and competitive economy, and Pillar 4, improving the quality of life of the Chadian population.



10. **This second programmatic DPO will also help catalyze private investment through improving the investment climate and creating opportunities in key sectors of the economy.** Maximizing the impact of development financing is a central medium-term objective. The importance of concessional finance in supporting inclusive economic growth should be gradually reduced and compensated by private sector activity and investment: 1) Improved debt management and SOE oversight will reduce fiscal risk and create fiscal space for effective public investment able to crowd in private investment; 2) at the same time, enabling competitive input markets in agriculture (here through effective agricultural extension services and high-quality seeds) and telecommunication (here through a competitive, open access fiber optics infrastructure) will not only break power of inefficient SOEs, but also lower entry and business costs across the economy. In the medium-term, it creates permanent opportunity for competition and innovation as well as significant consumer welfare gains.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. **The proposed programmatic Development Policy Grant is expected to have a positive impact on poverty reduction in the medium- and long-term.** Actions supported by this operation are expected to help decrease poverty in the medium- and long-term through the promotion of inclusive growth in agriculture, and the development of more affordable ICT services and broader coverage in underserved areas. In addition, a properly targeted expansion of the Social Safety Net system has the potential to have a significant impact on allowing households to move out of poverty and strengthen household resilience to shocks.

Environmental Impacts

12. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country's environment, forests and other natural resources.** All the actions are policy-oriented; they do not support direct investment in environmentally impactful projects or involve policy actions with significant environmental consequences. The assessment of potential impacts related to actions supported by the DPO will rely on the existing national legal and regulatory framework and will be monitored and addressed through the national procedures in place in Chad. Environmental Assessment (EA) is a legal requirement in Chad and is widely applied to all developmental projects. The EA process is based on Presidential Decree No. 630/PR/PM/MEERH/2010 on EA regulations and the ministerial decision No. 039/PR/PM/MERH/SG/DGE/DEELCPN/2012 with respect to the general guidelines and procedures for EA. The department of EA and pollution control in the Ministry of Environment and Fisheries is institutionally charged with reviewing and clearing environmental impact assessment (EIA) documents.

CONTACT POINT

World Bank

Markus Kitzmuller, Giuseppe Zampaglione
Senior Economist

Borrower/Client/Recipient



Ministry of Economy and Development Planning

Implementing Agencies

Ministry of Finance and Budget

Senoussi Zakaria

DG Finance

senoussizakg@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Markus Kitzmuller, Giuseppe Zampaglione
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Approved By

Country Director:	Francois Nankobogo	07-Jan-2019
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