

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No 116242-TD

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT
FOR A PROPOSED

DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 44.8 MILLION
(US\$65 MILLION EQUIVALENT)

TO

THE REPUBLIC OF CHAD

FOR THE

FIRST ECONOMIC RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION

August 3, 2018

Macroeconomics, Trade and Investment Global Practice (MTI)
Social Protection and Jobs Global Practice (SPJ)
Africa Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

THE REPUBLIC OF CHAD - FISCAL YEAR

January 1st – December 31st

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 31, 2018)

Currency Unit = CFA Franc (CFAF)

SDR 1 = CFAF 773.675

US\$1 = CFAF 532.152

US\$1 = SDR 0.688

ABBREVIATIONS AND ACRONYMS

ADETIC	ICT Telecom Agency (<i>Agence de Développement des Technologies de l'Information</i>)
AfDB	African Development Bank
ANADER	National Agency for Rural Development
ARMP	Procurement Regulatory Agency
BDEAC	Development Bank of Central African States
BEAC	Bank of Central African States (<i>Banque des Etats d'Afrique Centrale</i>)
CAADP	Comprehensive Development Plan for African Agriculture
CCSRP	Oil Revenue Control (<i>Collège de Contrôle et de Surveillance des Revenus Pétroliers</i>)
CEMAC	Economic and Monetary Community of Central Africa (<i>Communauté Economique et Monétaire de l'Afrique Centrale</i>)
CFAF	Central African CFA Franc (<i>Franc de la Communauté Financière d'Afrique</i>)
CFS	Safety Net Unit (<i>Cellule Filets Sociaux</i>)
CNPCI	China National Petroleum Corporation International
COTCO	Cameroon Oil Transportation Company
CPIA	Country Policy and Institutional Assessment
CPF	Country Partnership Framework
DFID	UK Department for International Development
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EA	Environmental Assessment
ECF	Extended Credit Facility
EFSO	Emergency Fiscal Stabilization Operation
EU	European Union
FAO	Food and Agriculture Organization
FCPSG	Fiscal Consolidation Program Support Grant
FDI	Foreign Direct Investment
FRPC	Poverty Reduction and Growth Facility (<i>Facilité pour la Réduction de la Pauvreté et pour la Croissance</i>)
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GHG	Green House Gas

GoC	Government of Chad
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LDP	Letter of Development Policy
LIC-DSA	Debt Sustainability Analysis for Low-Income Countries
MDG	Millennium Development Goals
MDTS	Medium-Term Debt Management Strategy
MEDP	Ministry of Economy and Development Planning
MoA	Ministry of Agriculture
MoFB	Ministry of Finance and Budget
MoPE	Ministry of Petroleum and Energy
MPNTI	Ministry of Post and New Information Technology
NAPA	National Adaptation Program of Action for Climate Change
NDP	National Development Plan (<i>Plan National de Développement</i>)
NGO	Non-governmental Organization
NOPD	Non-oil Primary Deficit
NSPS	National Social Protection Strategy
ONDR	National Office for Rural Development
OPEC	Organization of the Petroleum Exporting Countries
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PNISR	National Investment Plan for the Rural Sector of Chad
PPG	Public and Publicly Guaranteed
PPP	Public-private Partnership
PRGF	Poverty Reduction and Growth Facility
PRML	Petroleum Revenue Management Law
PTF	Technical and Financial Partners (<i>Partenaires Techniques et Financiers</i>)
PV	Present Value
RER	Real Exchange Rate
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SHT	Chad National Oil Company (<i>Société des Hydrocarbures du Tchad</i>)
SNPS	National Strategy for Social Safety (<i>Stratégie Nationale de Protection Sociale</i>)
SODELAC	Lake Chad Development Company
SOE	State-owned Enterprise
SSA	Sub-saharan Africa
SSN	Social Safety Net
TA	Technical Assistance
TOTCO	Chad Oil Transportation Company

UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
USR	Unified Social Registry
VAT	Value-added Tax
WBG	World Bank Group
WFP	World Food Program

Regional Vice President:	Hafez Ghanem
Country Director:	Soukeyna Kane
Senior Global Practice Directors MTI/SPJ:	John Panzer (Acting)/Michal Rutkowski
Practice Managers MTI/SPJ:	Lars Christian Moller/Jehan Arulpragasam
Task Team Leader:	Markus Kitzmuller
Co-Task Team Leader:	Giuseppe Zampaglione

THE REPUBLIC OF CHAD

FIRST ECONOMIC RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION

TABLE OF CONTENTS

SUMMARY OF PROPOSED OPERATION	VII
1. INTRODUCTION AND COUNTRY CONTEXT	1
2. THE MACROECONOMIC POLICY FRAMEWORK.....	3
A. RECENT ECONOMIC DEVELOPMENTS	3
B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY.....	8
C. IMF RELATIONS	13
3. THE GOVERNMENT'S PROGRAM	14
4. THE PROPOSED OPERATION.....	15
A. LINK TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION	15
B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS	16
C. LINKS TO THE CPF, OTHER WORLD BANK OPERATIONS, AND WORLD BANK GROUP STRATEGY	38
D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS	39
5. OTHER DESIGN AND APPRAISAL ISSUES	40
A. POVERTY AND SOCIAL IMPACTS.....	40
B. ENVIRONMENTAL ASPECTS.....	41
C. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	42
D. MONITORING, EVALUATION AND ACCOUNTABILITY.....	44
6. SUMMARY OF RISKS AND RISK MITIGATION	45
ANNEX 1 - POLICY AND RESULTS MATRIX	47
ANNEX 2 - LETTER OF DEVELOPMENT POLICY.....	51
ANNEX 3 - IMF RELATIONS ANNEX	68
ANNEX 4 - ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE.....	70

The proposed Grant was prepared by an IDA team led by Markus Kitzmuller (Senior Economist, GMTA2, TTL), and Giuseppe Zampaglione (Lead Social Protection Specialist, GSP07, Co-TTL) under the guidance of Soukeyna Kane (Country Director, AFCW3), Lars Christian Moller (Practice Manager, GMF08), Jehan Arulpragasam (Practice Manager, GSP07), Francois Nankobogo (Country Manager, AFMTD), Jose R. Lopez Calix (Program Leader EFI, AFCW3), Michel Rogy (Program Leader SD, AFCW3), Christophe Lemiére (Program Leader HD, AFCW3), and Michael Hamaide (Country Program Coordinator, AFCML). Christine Richaud (Lead Economist, GMTA2) co-led the operation up until Concept Note Review and provided valuable advice along the way. The team consists of Amadou Ba (Senior Agriculture Economist, GFA01), Sebastien Boitreaud (Lead Financial Officer/Sovereign Debt, FABDM), Rafika Chaouali (Lead Financial Management Specialist, GG026), Xavier Decoster (Consultant, ICT), Olanrewaju Kassim (Economist, GMTA2), Bougadare Kone (Environmental Specialist, GEN07), Ziva Razafintsalama (Senior Agriculture Economist, GFA01), Silvana Tordo (Lead Economist, GEEX1), Faly Diallo (Finance Officer, WFALA), Eric Ranjeva (Finance Officer, WFACS), Aly Sanoh (Economist, GPV07), Julie Rieger (Senior Council, LEGAM), Escarlata Baza Nunez (Legal Analyst, LEGLE), Haoussia Tchaoussala (Senior Procurement Specialist, GGO07), Kandi Magendo (Financial Management Specialist, GGOAW), Micky O. Ananth (Operations Analyst, GMTA2), Rony Djekombe (Operations Analyst, GSP07) and Maude Valembroun (Language Program Assistant, GMTA2). The peer reviewers at the Corporate Review Meeting were Fernando Blanco (Lead Economist, GMTLC) and Jean-Pierre Chauffour (Lead Economist, GMTA4).

SUMMARY OF PROPOSED OPERATION

THE REPUBLIC OF CHAD

FIRST ECONOMIC RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION

Borrower	Republic of Chad.
Implementation Agency	Ministry of Finance and Budget.
Financing Data	IDA grant in the amount of SDR 44.8 million (US\$65 million equivalent) on standard IDA grant terms.
Operation Type	First operation in a programmatic series of two single-tranche development policy financing operations.
Program Development Objectives and Pillars	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.
Results Indicators	<p>1. Enhancing fiscal risk management</p> <ul style="list-style-type: none"> • No increase in the nominal stock of non-concessional external debt. Baseline 2017: US\$1.4 billion; Target mid-2020: US\$1.4 billion or less • Reduction in the number of conventions associated with tax exemption anomalies. Baseline 2017: 41; Target mid-2020: 31 or less • Reduction in the number of persons on the payroll who are ineligible for salaries. Baseline 2017: 1,172 ineligible per the HR audit; Target mid 2020: 750 or less • SOE operational Oversight Division in place and adequately staffed. Baseline 2017: No; Target mid-2020: Yes • Number of SOE audited financial statements published by the Oversight Unit. Baseline 2017: 9; Target mid-2020: 15 or more <p>2. Improving oil revenue transparency and management</p> <ul style="list-style-type: none"> • The Government has adopted a mechanism for the management of oil revenue that incorporates the stabilization of budget expenditure, in compliance with CEMAC rules on financial savings. Baseline 2017: not operational; Target mid-2020: operational • Number of EITI reports documenting the government disclosure policy on petroleum contacts and licenses and Chad's contract disclosure practice as compliant with EITI Requirement 2.4. Baseline 2017: 0; Target mid-2020: 2 • Information on the cost of oil production activities is available to the Ministry of Finance and Budget. Baseline 2017: No; Target mid-2020: Yes <p>3. Promoting resilience and economic diversification in key real sectors</p> <ul style="list-style-type: none"> • Number of new (to Chad) seed varieties tested, approved, and released. Baseline 2017: 0; Target mid-2020: 10 • Percentage increase in the cultivated land coverage with improved seed. Baseline 2017: 2% of cultivated land (as per National Seeds Policy 2014); Target mid-2020: 5% of cultivated land • Decrease in the wholesale price of international connectivity. Baseline 2017: XAF 250,000/Mbps/month; Target mid-2020: XAF 60,000/Mbps/month • ARCEP (the main ICT sector regulator) and ADETIC (another ICT sectoral agency) fulfill their transparency commitment by publishing annually their financial statements. Baseline 2017: 0 financial statements published; Target mid-2020: 4 financial statements published for 2017 and 2018 (2 for ARCEP and 2 for ADETIC) <p>4. Increasing social protection for the poor and vulnerable</p> <ul style="list-style-type: none"> • Number of institutions using the new Unified Social Registry Platform. Baseline 2017: 0; Target mid-2020: 12 • Number of households in the Unified Social Registry benefitting from government social safety nets (cash transfers/cash-for-work programs). Baseline 2017: 0; Target mid-2020: 12,200
Overall risk	High
Climate and disaster risks	<i>Are there short- and/or long-term climate and disaster risks relevant to the operation (as identified through the SORT environmental and social risk-rating tool)?</i> No
Operation ID	P163424

**IDA PROGRAM DOCUMENT
FOR A PROPOSED
FIRST ECONOMIC RECOVERY AND RESILIENCE DEVELOPMENT POLICY OPERATION TO THE
REPUBLIC OF CHAD**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes the First Economic Recovery and Resilience Development Policy Operation (DPO) of a series designed to support the Government of Chad (GoC).** This is the first in a programmatic series of two development policy financing (DPF) grants in the amount of SDR 44.8 million (US\$65 million equivalent). The Program Development Objectives (PDO) are to enhance fiscal risk management, improve oil revenue transparency and management, promote economic diversification in key real sectors, and increase social protection for the poor and vulnerable.

2. **The collapse of global oil prices, a persistently unstable regional security situation, and the high fiscal cost of ongoing humanitarian efforts, have strained Chad's public finances.** The Government has responded with a proactive but severe fiscal adjustment and the economy has experienced a deep and extended recession with high social costs. The crisis has also weighed heavily on the country's ability to implement much needed structural reforms for non-oil sector recovery and social inclusion.

3. **Following a global oil price drop, Chad's economy contracted 6.3 percent in 2016 and 3 percent in 2017.** Chad's oil sector has not only driven growth during boom years, but also translated falling oil prices into a sharp recession since 2016. The export price for Chadian crude oil fell from an average of US\$100 per barrel in 2013-2014 to US\$34 in 2016, putting an abrupt end to growth rates around 6.3 percent per year in 2013-2014. Oil-related fiscal revenues dropped from 11.7 percent of non-oil gross domestic product (GDP) in 2014 to just 3.5 percent in 2016. Chad's crisis has been aggravated by limited economic diversification and widespread poverty. In 2017, the economy struggled to recover and remained in recession, to a large extent due to an unexpected oil production shortfall following technical problems of a major oil producer.

4. **The new context of lower oil revenue, together with the challenging security and humanitarian situation, has greatly intensified economic, fiscal and social pressures.** In the absence of adequate macro policy buffers and in the presence of immediate financing needs, the Government had no room to undertake counter-cyclical fiscal policy to support economic recovery and protect social spending effectively. Monetary policy options have also been limited as the regional central bank is trying to manage the fallout from the oil price shock across Economic and Monetary Union of Central Africa (CEMAC) members (including Chad). Regional security threats have negatively impacted growth by reducing cross-border trade and kept foreign direct investment (FDI) away. Significant security expenditures are linked to Chad's continued efforts combating transnational terrorist groups (such as Boko Haram), supporting regional stabilization (peace-building) initiatives (2.8 percent of GDP in 2016), as well as providing for a vast number of refugees and displaced persons (around 2.8 percent of 2016 GDP per year).¹ Domestically, the Government keeps diffusing tensions between agricultural communities and pastoralists.

¹ Of the more than 750,000 displaced people currently living in Chad, 403,780 are refugees. The number of refugees is equivalent to over 3 percent of the population, the fifth-highest level in the world. See: UNHCR and World Bank IDA18 Refugee Sub-window Board Consultation Paper (September 19, 2017).

5. **The Government has demonstrated its determination to responsibly manage what has turned out to be a much deeper and longer fiscal crisis than expected.** Continued efforts to restructure external commercial debt came to fruition in February 2018, when an agreement in principle was reached. The finalization of this agreement in June 2018 has allowed Chad's public debt to return to sustainability and high risk of debt distress (as per the draft June 2018 World Bank-IMF Debt Sustainability Analysis). The substantial oil-collateralized loan with an international commodity firm – Glencore – had heavily reduced fiscal revenues and rendered debt unsustainable (see Box 1 for details). As a result, between 2014 and 2016, public spending was cut by 10.8 percent of non-oil GDP, and since 2016 an emergency fiscal consolidation action plan has been adopted and extended in the 2017 Finance Law. Despite such sharp adjustment, Chad's fiscal situation remained challenging during 2017, with a financing gap that required domestic arrears accumulation.

6. **Poverty reduction gains achieved over the past decade have been threatened by the current economic crisis.**² In the absence of a well-targeted and effective social safety net (SSN), the poor and vulnerable have likely 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 the beginning of the crisis, dwindling fiscal resources have disrupted vital public services despite the government's efforts to protect priority social spending. Payments to community-based teachers and health workers, funding for student scholarships, social-program benefits, and the provision of agricultural inputs have either been delayed or halted altogether at various occasions, and all public investment projects have been suspended.

7. **Building on the 2017 Emergency Fiscal Stabilization Operation (EFSO) (P163968), this series shifts World Bank support towards a structural resilience and growth agenda.** The authorities aim at sustaining growth recovery, fostering economic diversification in the medium-term, 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 management, state-owned enterprise (SOE) oversight 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 for the poor and vulnerable adds an explicit micro layer of resilience.

8. **With external commercial debt being restructured and continued strong commitment to fiscal consolidation, the macroeconomic policy framework for this operation is deemed adequate.** The baseline macroeconomic scenario underlying this operation builds on the recent (June 2018) completion of restructuring the Glencore commercial oil-collateralized loan and, in line with the International Monetary Fund (IMF) Extended Credit Facility (ECF), projects a fully-closed financing gap for 2018 and 2019 as well as a permanent return to fiscal and debt sustainability. The Government has been committed to expenditure consolidation and shows resolve to follow the path of prudent fiscal policy in the medium-term. In this context and with a view to the success of the government's program of structural reforms, external financial support will stay instrumental.

9. **Downside risks to the macro policy framework and reform implementation are high.** Further shocks to oil prices, low oil production or increased insecurity pose permanent threats to Chad's economic outlook and may continuously divert resources away from a medium-term structural reform agenda. As

² The latest poverty data are available as of 2011 only.

commercial banks are highly exposed to public finances, and despite recent arrears clearance, any further fiscal distress would spill over into the banking sector. Adverse weather conditions could reduce agricultural output and significantly slow GDP growth. Political and governance risks are high as well.

2. THE MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

10. **Chad is struggling to emerge from a deep recession with headline GDP growth projected at -3.1 percent in 2017.** Two key shocks - the global oil price slump and a deteriorating regional security situation – have led real GDP growth to decline from 6.9 percent in 2014 to -6.3 percent in 2016. As the price of Chadian oil fell from US\$110 in 2014 to US\$36 in 2016³, oil-related investment fell by over 80 percent⁴. Oil GDP, which previously accounting for 85 percent of exports and 20 percent of GDP, decreased by 11.2 percent. Non-oil GDP contracted by 6.7 percent in 2016. In 2017, unexpected oil production shortfalls have led to very weak oil sector performance, while prices have started to recover towards the end of the year. Oil GDP growth is estimated at -16.2 percent in 2017⁵ while non-oil GDP is estimated to decrease by 0.5 percent, due largely to cuts in public spending. A complex array of domestic and regional security challenges, including the rise of Boko Haram, intensifying clashes between farmers and pastoralists, and ongoing conflicts in several neighboring countries, have further disrupted economic activity.

11. **Anemic domestic demand and a widening negative output gap led to deflation in 2016 and 2017.** Since the drastic fall in oil prices in 2014, growth has been slower and is declining faster than its potential, thereby opening a substantial negative output gap. This is reflected in a sharp drop in consumer price index (CPI) inflation only slowly recovering from a deflationary -1.1. percent in 2016 and an estimated -0.7 percent in 2017. The primary sector contributed 1.3 percentage points to 2017 growth, driven mainly by agriculture and the oil sector. The contributions of the secondary and tertiary sectors stood at -0.2 and -3.9 percentage points, respectively, held back by lack of capital investment and significant domestic government fiscal arrears. Meanwhile, the economic downturn, the depreciation of the Naira, and trade disruptions reduced household purchasing power.

12. **The decline of oil revenues has dramatically reduced public spending thereby exacerbating social tensions.** Oil revenues dropped from 4.9 percent of nonoil GDP in 2015 to 3.5 percent in 2016. As fiscal revenues weakened from 17.1 percent of non-oil GDP in 2015 to 16.1 percent in 2017, total public spending dropped from 22.9 percent of non-oil GDP to 18.1 percent. The bankruptcy of several major companies, lower levels of recurrent spending, and the postponement of public investment projects resulted in layoffs in urban areas. Wage bill cuts affecting civil servants have led to country wide strikes.

13. **The collapse of global oil prices severely weakened the external position.** Falling oil prices widened the external current account deficit to 13 percent of GDP in 2016, until a combination of currency rationing and fiscal consolidation helped narrow the deficit to 5.2 percent in 2017. Deteriorating security conditions around Lake Chad have negatively impacted livestock exports to Nigeria—Chad’s second-largest source of foreign exchange (FX)—and the depreciation of the Nigerian Naira has contributed to a worsening trade balance. Financial and capital accounts have reflected significantly lower FDI in the oil and construction sectors, as well as adverse security conditions. As a result, FX reserves (imputed from

³ The Chadian oil price is the Brent price minus a quality discount.

⁴ Note that aging oilfields put additional downward pressure on production.

⁵ For 2017, oil production is projected to decline to below 37 million barrels due to production shortfalls by Esso following technical problems.

regional CEMAC level to national Chad level) had been fully depleted and turned negative - at -1 months of import coverage - by end-2016. Gross reserves at end 2017 amounted to 0 and are expected to only gradually be rebuilt.

14. **Oil-price shocks have also strained the regional currency union, leaving no more room for supportive regional policies.** CEMAC's common regional currency, the Central African CFA franc (CFAF), is issued by the Bank of Central African States (*Banque des Etats de l'Afrique Centrale*, BEAC) and pegged to the euro. Falling oil prices in 2014-15 severely weakened the external and fiscal balances of all six CEMAC member states. Regional GDP contracted by 0.7 percent in 2016, but may recover to 0.2 percent growth in 2017. The regional primary fiscal deficit is expected to shrink from 6.2 percent of GDP in 2016 to 2.4 percent in 2017, while regional debt levels rose from 50.6 to 51.5 percent of GDP. All six countries had resorted to exceptional financing from the BEAC, and four had breached their financing limits. After BEAC had adopted a loose indirect monetary-policy stance⁶, commercial banks approached their regulatory limits for holding government securities while Chad exhausted both its statutory and exceptional advances and is expected to start repaying its loans in 2019.

15. **Monetary conditions have remained tight and regional reserves accumulation has started to pick up.** Broad money and credit to the private sector both contracted on average across the region by about 1 percent y-o-y in November 2017, reflecting weak economic activity. Meanwhile, banks' excess reserves picked up in the latter part of the year (to 2.8 percent of GDP). Gross regional reserves at end-2017 reached 2.6 months of imports) slightly above BEAC's objective.

16. **Besides low oil prices, protracted regional insecurity and the repayment of an oil-collateralized loan significantly aggravated Chad's fiscal situation and ultimately rendered the government illiquid.** In 2016, the estimated fiscal deficit (including grants, cash basis) amounted to 5.2 percent of non-oil GDP but recovered somewhat to 2.3 percent in 2017. Oil-related fiscal revenue fell from 11.7 percent of non-oil GDP in 2014 to 3.5 percent in 2016 due to the collapse of global oil prices combined with payments on an oil-collateralized loan, which absorbed almost two-thirds of the value of oil shipments in 2016 (Box 1). However, in end-2017 higher oil prices induced oil revenues to slightly recover to 4.1 percent in 2017. Moreover, the reduced volume of trade with Nigeria and the Chadian government's robust support for regional peacekeeping efforts intensified fiscal pressures. Increased security spending has been compounded by the fiscal burden of indefinitely hosting large numbers of refugees, which costs around US\$282 million (around 2.8 percent of 2016 GDP) per year.⁷

17. **The Government responded to the oil price and security shock by pursuing a severe fiscal consolidation program.** 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. The non-oil primary deficit (NOPD) – Chad's fiscal anchor - fell from -9.7 percent of non-oil GDP at end-2015 to -4.2 percent at end-2017 and the overall fiscal deficit (cash basis) was contained at 5.2 percent of non-oil GDP in 2016. In 2017, the overall balance is estimated to be at -2.3 percent of non-oil GDP. By reducing both capital and recurrent expenditures, the Government cut total public spending from 29.4 percent of non-oil GDP in 2014 to 18.1 percent in 2017. Domestically financed public investment fell from 9.8 percent of non-oil GDP in 2014 to 1.1 percent in 2017, while recurrent spending dropped from 16.6 percent to 13.3 percent.

⁶ In April 2016, BEAC raised the ceiling for commercial-bank refinancing in Chad and halved the reserve requirement for the entire Chadian banking system.

⁷ UN 2017, Chad Humanitarian Response Plan.

The payment of civil-service salaries was delayed by three months at the end of 2016 and allowances are permanently cut by 50 percent.

18. **Despite maintaining fiscal discipline and gradual oil price recovery, Chad accumulated arrears and relies on external budget support to close the 2018 financing gap.** The Government has issued bonds in the regional debt market, reduced its debt service to Glencore, and created extraordinary oil revenues (see Box 1). However, after having received one IMF disbursement through a three (3) -year ECF arrangement, as well as some budget support from bilateral and multilateral donors (including US\$65 million through World Bank Group (WBG] support), Chad had to resume to arrears accumulation to close its 2017 financing gap. Domestic arrears increased to about 3 percent of non-oil GDP at end-2016, mainly reflecting the contraction of non-oil GDP. In 2017, recognized domestic arrears continued to accumulate (to the tune of an estimated CFAF 41 billion) mainly to close the 2017 financing gap. By end 2017, they accounted for CFAF 219 billion (3.8 percent of GDP). However, faster repayment is scheduled in 2018 and going forward, with priority to be given based on economic and social impact.

19. **A shallow banking sector remains highly exposed to fiscal risk and oil price volatility.** Fiscal policy affects the financial sector through direct banking sector lending to public enterprises and through the impact of public spending on private-sector activity. Formal financial intermediation is limited, and commercial bank credit to the economy represents less than 10 percent of GDP. Credit to the economy contracted by 5.1 percent in 2016 and 3.2 percent in 2017, while the deposit to loan ratio fell to 94 percent from over 100 built up during boom years. Chadian banks are also very sensitive to the effect of oil prices on both economic activity and the fiscal balance. The recession and ensuing fiscal consolidation delayed invoice payments and increased the stock of arrears, driving the share of nonperforming loans from 13.3 percent of total loans in 2014 to 28 percent in 2017. Recent stress tests indicate that bank vulnerabilities have increased, and short-term macroeconomic risks continue to threaten the solvency and liquidity of the banking sector.⁸ The BEAC's initial accommodative monetary policy stance delayed fiscal consolidation and intensified the banking sector's exposure to fiscal policy. Its interim emergency liquidity facility could prevent further deterioration, but banks continue to rely on BEAC refinancing now accounting for 17 percent of bank liquidity on average. Nonetheless, maturing public debt to banks has been successfully rolled over in 2017 and early 2018, helping the Government in the recent repayment of arrears to domestic and regional banks.

⁸ IMF, 2018.

Table 1: Key Macroeconomic Indicators, 2015-2021

	2015	2016	2017(e)	2018(p)	2019(p)	2020(p)	2021(p)
Real Economy			(annual percentage change unless otherwise specified)				
Real GDP	2.8	-6.3	-3.1	2.9	3.0	6.2	4.8
Oil GDP	32.1	-11.2	-16.2	15.7	4.4	22.6	8.4
Non-oil GDP	-2.9	-6.7	-0.5	0.5	2.7	2.5	3.8
Per Capita GDP (US\$)	962.7	874.8	821.8	820.4	820.2	845.8	
GDP Deflator (level)	-8.0	-1.2	1.1	1.2	1.3	1.3	1.3
Consumer Price Inflation (average)	3.7	-1.1	-0.7	2.1	2.6	3.0	3.0
Oil Prices							
WEO (US\$/barrel)	50.8	42.8	54.4	64.7	60.7	58.0	56.6
Chadian Price (US\$/barrel) ¹	39.9	36.2	49.4	60.7	56.7	54.0	52.6
Oil Production for export (millions of barrels)	47.5	44.4	35.9	39.1	41.1	52.1	57.1
Fiscal Accounts			(percentage of non-oil GDP unless otherwise specified)				
Expenditures (total)	22.9	18.0	17.8	17.9	18.1	18.2	17.9
Revenues and Grants (total)	17.1	14.9	16.1	18.5	17.5	18.6	18.3
General Government Balance (incl. grants, commitment basis)	-5.8	-3.0	-1.9	0.6	-0.6	0.4	0.3
Overall Balance (including grants, cash basis)	-4.5	-5.2	-2.3	0.2	-1.2	0.0	-0.1
Non-oil Primary Balance (commitment basis, excluding grants)	-9.7	-4.4	-4.4	-4.5	-4.2	-3.8	-3.0
Selected Monetary Accounts			(annual percentage change unless otherwise specified)				
Base Money	-4.7	-7.7	5.8	...	...	...	...
Credit to the Private Sector	1.1	-2.7	0.7	...	...	...	...
Interest (BEAC key policy rate)	2.45	2.45	2.95	2.95	2.95	2.95	2.95
External Sector							
Exports of goods and services (GNFS,)	-31.0	-19.2	25.0	15.2	7.7	10.8	6.5
Imports of goods and services (GNFS)	-32.3	-6.7	4.1	3.0	5.0	5.1	4.9
Terms of Trade	-38.3	-19.3	17.0	8.2	0.1	0.1	0.1
			(percentage of GDP unless otherwise specified)				
Current account balance (incl. transfers)	-11.3	-13.0	-5.2	-4.4	-5.4	-4.7	-4.9
Gross Reserves (US\$ billions, eop.)	0.4	-0.3	0.0	0.1	0.3	0.5	0.7
Gross Reserves (imputed, months of next year's imports)	1.0	-1.0	-0.1	0.4	0.8	1.3	
External Debt	25.0	27.2	27.3	26.2	24.9	22.2	19.7
Exchange Rate (period average)	591.2	592.7	592.7	...	...	...	...
Memorandum Items:							
Nominal Non-oil GDP (CFAF billions)	5,184	4,838	4,829	5,005	5,264	5,604	5,996
Nominal GDP (CFAF billions)	6,474	5,984	5,747	6,077	6,403	7,041	7,602

Sources: World Bank (MFMOD and staff calculations), IMF and Chadian Authorities.

¹ The Chadian oil price is the Brent price minus a quality discount.

Table 2: Central Government Key Fiscal Indicators, 2015-2021

	2015	2016	2017 (e)	2018 (p)	2019 (p)	2020 (p)	2021 (p)
	(percent of non-oil GDP unless otherwise specified)						
Overall Balance (including grants, cash basis)	-4.5	-5.2	-2.3	0.2	-1.2	0.0	-0.1
Net change in arrears	1.3	-2.2	-0.4	-0.4	-0.6	-0.4	-0.4
Overall Balance (including grants, commitment)	-5.8	-3.0	-1.9	0.6	-0.6	0.4	0.3
Non-oil Primary Balance (commitment basis, excluding grants)	-9.7	-4.4	-4.4	-4.5	-4.2	-3.8	-3.0
Total Revenue and Grants	17.1	14.9	16.1	18.5	17.5	18.6	18.3
Revenue	13.2	11.9	12.2	13.7	13.7	15.0	15.3
Oil Revenue	4.9	3.5	4.1	5.4	5.0	5.8	5.7
Non-oil revenue	8.3	8.4	8.1	8.2	8.7	9.2	9.6
Grants	3.9	3.0	3.9	4.8	3.8	3.6	2.9
Expenditures	22.9	18.0	18.0	17.9	18.1	18.2	17.9
Current Expenditures	15.6	14.2	13.3	12.4	12.2	12.2	11.7
Wages and Salaries	7.1	7.5	7.8	7.1	6.8	6.5	6.1
Goods and Services	1.8	2.0	1.7	1.7	1.8	2.0	2.0
Transfers	4.6	2.2	1.9	2.2	2.3	2.4	2.4
Interest	2.1	2.5	1.9	1.3	1.2	1.3	1.2
Domestic	0.2	0.2	0.7	0.5	0.3	0.4	0.5
External	1.9	2.3	1.2	0.8	0.9	0.9	0.7
o/w Glencore after restructuring	1.7	1.9	1.1	0.6	0.6	0.6	0.5
Investment Expenditures	7.3	3.7	4.7	5.5	5.9	6.0	6.2
Domestically Financed	4.5	1.1	1.1	1.7	2.0	2.1	2.2
Foreign-Financed ²	2.8	2.7	3.6	3.9	3.9	4.0	4.1
Financing	4.5	5.2	2.3	-0.2	1.2	0.0	0.1
Domestic Financing	5.1	6.2	0.6	-0.6	0.8	0.3	0.6
Foreign Financing	-0.6	-1.0	1.7	0.4	0.4	-0.3	-0.5
Loans (Net)	-1.1	-2.2	0.7	0.6	0.0	-0.7	-0.9
Disbursements	0.7	0.4	3.3	2.0	1.2	1.2	1.3
Amortization	-1.7	-2.5	-2.6	-1.5	-1.2	-1.9	-2.1
o/w after Glencore restructuring	-0.7	-1.0	-1.2	-0.3	-0.1	-0.8	-0.9
Debt relief/rescheduling (HIPC)	0.4	0.6	0.6	0.5	0.5	0.4	0.4
External arrears ³	0.0	0.6	0.3	-0.6	0.0	0.0	0.0
Financing Gap			0.0	0.0	0.0	0.0	0.0

Source: Chadian Authorities, IMF and World Bank

² Includes projects financed by the BDEAC, but the corresponding loans (in CFAF) are counted as domestic financing.

³ 2016 includes arrears to China, cleared through an agreement in April 2017.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **The macroeconomic outlook hinges on solid oil GDP performance, favorable agricultural conditions, and a broadly stable security environment.** The assumptions underlying the medium-term projections explicitly build upon the successful restructuring of the oil-collateralized commercial loan with Glencore finalized in June 2018 (Box 1). This restructuring enables Chad to return to public debt sustainability, benefit from external concessional financing and close its immediate financing gap. Oil companies are expected to reach their upgraded production target of 120,000 barrels per day or more, and that international oil prices will peak around US\$65 in 2018 but continue relatively strong. Weather conditions are assumed to favor average agricultural production. Political stability and regional security won't require unexpected security or humanitarian expenditures nor disrupt trade.

21. **Chadian oil prices are projected to rise to an average of US\$60.7 per barrel in 2018, spurring a gradual increase in oil production and investment going forward.** As prices rise above US\$60 and stay above US\$50 over the medium-term, annual oil production in Chad is projected to increase gradually from 44.4 million barrels in 2016 to 52.1 million by 2020. Meanwhile, oil GDP growth, mirroring oil production closely, is estimated to contract sharply at -16.2 percent in 2017 before accelerating to 15.7 percent in 2018. Oil-related fiscal revenues are expected to pick up to 5.4 percent of non-oil GDP in 2018 and stay well above 5 percent through 2021.

22. **Growth is expected to follow oil sector performance and rebound gradually to around 5 percent in 2021.** Oil GDP is projected to grow at 15.7 percent in 2018, returning to "normal" after an unexpectedly weak 2017 and driven by strong prices and increasing production. After a slower 2019 due to delays in implementing new extraction technologies⁹, significant production increases in 2020 will outweigh decreasing prices and boost real GDP growth to 6.2 percent. Faster oil GDP growth is expected to gradually translate into positive spillover effects on non-oil GDP growth, leading to positive non-oil sector growth in 2018 and a solid 3.8 percent by 2021. This positive development will be helped by the dissipating impact of fiscal adjustment on the secondary and tertiary sectors as well as rising agricultural output (in part helped by expected production increases in the cotton sector). The inflation rate is expected to remain below 3 percent, adding price stability and thereby supporting economic recovery.

23. **External financing requirements remain substantial, and international reserves will rise only gradually.** Hard-currency rationing and improved exports are expected to narrow the external current account deficit to around 4.4 percent of GDP in 2018, before widening again in 2019 due to a slowdown in exports. Broad money supply is expected to increase in tandem with GDP. Access to external financing and a sustained recovery in global oil prices and oil-related FDI could enable Chad to gradually rebuild its FX reserves. FX reserves held by the regional Central Bank BEAC and imputed from the regional CEMAC level, are expected to increase from around 0 months of import coverage to above 1 month by end-2021.

⁹ Note that higher oil prices in 2019 will partially offset the impact of lower production on oil revenues.

Table 3: Balance-of-Payments Financing Requirements and Sources (CFA Francs, billion)

	2015	2016	2017 (e)	2018 (p)	2019 (p)	2020 (p)	2021 (p)
<i>BOP financing requirement and Sources</i>							
Overall Balance	-498	-515	-45	90	33	68	80
Current account deficit (incl. transfers)	882	549	301	263	352	346	371
<i>Financial and capital account</i>							
FDI	331	145	211	245	279	321	355
Capital transfers	108	77	78	84	109	117	131
Other medium and long-term investment	-33	-131	22	14	-16	-55	-67
Short-term capital	-54	-57	-55	9	13	30	32
Errors and omissions	31	0	0	0	0	0	0
<i>Financing</i>							
Change in reserves (decrease +)	359	421	-81	-163	-101	-110	-96
HIPC Debt relief	20	30	30	25	25	23	23
IMF ECF (planned) disbursement	34	37	27	(81)	(43)	(19)	(-8)
Expected Commercial Debt Restructuring (Glencore) in US\$	...	...	204	333	283	201	179
External arrears accumulation		27	15	-32	0	0	0
Residual Financing Gap		0	0	0	0	0	0

Source: Chadian Authorities, IMF and World Bank.

24. **On the fiscal side, prudent expenditure policy, efficiency gains and gradually mobilized nonoil revenues would create needed fiscal space.** While some increase in revenue will come from economic recovery and increasing oil production, more effective revenue mobilization and collection paired with rationalizing current and tax expenditure is expected to significantly contribute to fiscal sustainability.

25. **The Government would continue expenditure rationalization and gradually increase revenue collection to ease fiscal pressures.** As oil revenues rise, the overall fiscal balance is projected to improve from a deficit of 5.2 percent of non-oil GDP in 2016 to a slight surplus of 0.2 percent in 2018, and eventually stabilize close to balance (0 percent of GDP) by 2021. Meanwhile, a gradual increase in non-oil revenue would improve the non-oil primary balance from a 4.5 percent of non-oil GDP deficit in 2018 towards a 3.0 percent deficit in 2021. Current efforts to rationalize the wage bill and tax expenditure paired with necessary improvements in revenue mobilization should help realize the projected fiscal path. Given that this rationalization – including cutting salaries to ghost workers or ineligible recipients and tax exemptions without economic rationale – largely constitutes efficiency gains, it is not expected to affect growth negatively. At the same time, public service provision should benefit from efficient budgeting and in time salary payments.

26. **Expenditure – driven by recurrent components - would stabilize in the medium-term.** The rationalization of salaries, transfers, and subsidies based on the findings of audits currently underway is expected to contribute to reducing recurrent spending from 13.3 percent of non-oil GDP in 2017 towards 11.7 percent by 2021 while stabilizing total expenditure around 18 percent of non-oil GDP per year. This reflects a focus on inefficient recurrent and tax expenditure as supported under Pillar I in this operation, thereby creating space for capital investment to gradually rise from very low levels of 3.7 percent of non-oil GDP in 2016 to around 6 percent by 2020. Domestically financed investment is low at 1.1 percent of non-oil GDP in 2017, primarily due to low oil revenue closing fiscal space, but expected to reach 2.2 percent of nonoil GDP or half its 2015 level by 2021.

27. **As the non-oil economy recovers, rising non-oil tax revenue would contribute to sustain and then gradually increase total revenue.** The Government is planning to reduce tax expenditure stemming from administrative and customs measures helping to increase non-oil revenue from 8.4 percent of non-oil GDP in 2016 to slightly above 9.5 percent by 2021. Oil revenue is expected to rise gradually from 3.5 percent of non-oil GDP in 2016 to around 5.8 percent in 2020. Despite efforts to broaden the tax base, the low capacity of the tax administration and the slow pace of non-oil GDP growth will limit the scope to increase non-oil revenue further in the short- and medium-term.

28. **Beyond commercial debt restructuring, closing the 2018-2021 financing gap requires strong external budget support.** The authorities have financed part of the deficit by issuing bonds in the regional market. But banks have approached their regulatory limits on Chadian Government securities, constraining the potential for future bond issues. To solidify sustainable debt dynamics, Chad’s development partners and creditors must honor their past pledges of budget support and adequate debt restructuring while committing to deeper engagement going forward. This in turn will require that the Government adheres 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.

Table 4: External Financing Requirement and Sources, 2017-2021 (US\$ million)

Year	2017	2018	2019	2020	2021
<i>Financing need</i>	461	761	528	395	259
<i>Financing Requirements:</i>					
External commercial debt restructuring ¹⁰	204	333	283	201	179
IMF ECF program (160 percent of quota)	49	153	82	41	0
<i>Percent of quota</i>	25	75	40	20	
Budget support	208*	275	163	153	80
<i>Financing gap</i>	0	0	0	0	0

*2017 budget support (US\$ 208 million) includes planned US\$65 million from the African Development Bank (AfDB) that disbursed only in January 2018.

29. **Following the final agreement on restructuring external commercial debt with Glencore reached in June 2018, Chad’s external debt is assessed to be at high risk of debt distress.** The final agreement to restructure the debt to Glencore and the progress made in clearing external arrears contributed to a significant decline in debt vulnerabilities. The June 2018 draft joint WBG IMF Debt Sustainability Analysis (DSA) shows that all debt burden indicators, except the debt service to revenue ratio, are below their respective thresholds in the baseline from 2018 onwards. The debt-service-to-revenue ratio, which was significantly above the threshold in the 2017 DSA, is now projected below the threshold for 2019 and remains so over the projection period, except for minor breaches in 2020 and 2021. Overall, public debt vulnerabilities are elevated although the present value (PV) of the public debt-to-GDP ratio remains on a downward trajectory. The fixed primary balance scenario, which keeps the primary deficit-to-GDP ratio unchanged from 2017, shows the debt ratio declining at a slower pace throughout the forecast period, further highlighting the need to adhere to the prudent fiscal policy framework underpinning the IMF-supported program. Adoption and implementation of an appropriate

¹⁰ 2017 commercial debt restructuring reflects lower debt service due to shortfalls in oil production paired with active measure taken by the Government to reduce debt service to Glencore.

debt management strategy, while making progress in economic diversification would further reduce vulnerabilities.

Box 1: The Restructuring of External Commercial Debt with Glencore

The repayment of an oil-collateralized loan, which was contracted when oil prices were high, had left Chad's fiscal balance vulnerable to significant liquidity risk. Between September 2012 and August 2013, the Government signed two subsequent loan agreements for a total US\$600 million with a large international commodity-trading firm – Glencore - charged with selling Chadian oil on the international market. In mid-2014, the Government borrowed another US\$1.45 billion in a separate agreement, of which US\$1.3 billion to finance its acquisition of Chevron's 25 percent share of the Doba consortium and a combined 21 percent share in Chad Oil Transportation Company (TOTCO) and Cameroon Oil Transportation Company (COTCO), the two oil-pipeline companies that own and operate the Chad-Cameroun pipeline. In September 2014, the Government and Glencore agreed to renegotiate the terms of the initial two loans by reducing the interest rate and extending the maturity. In December 2015, the loans were consolidated, and their repayment schedule was extended to 2021. By end February 2018, the total outstanding loan balance was US\$1.255 billion.

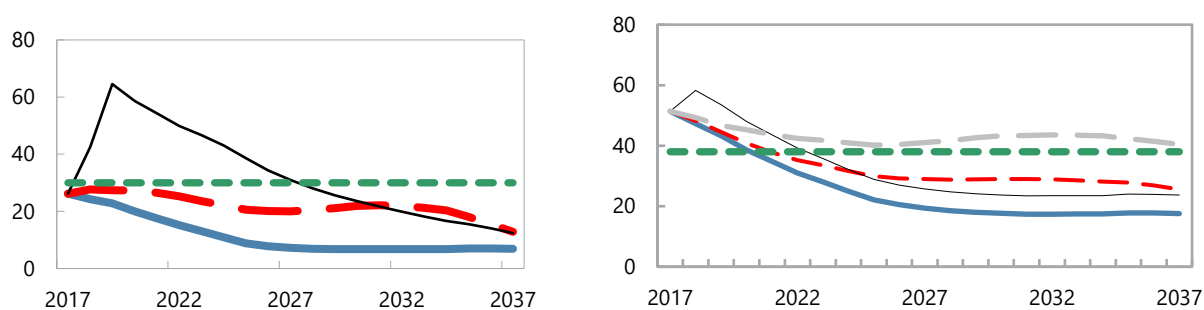
Following the sharp drop in oil prices, servicing this commercial loan almost fully depleted Chad's annual oil revenue in 2016. The 2015 consolidated loan agreement has been characterized by a relatively short maturity and high interest. In 2016, interest payments alone amounted to 1.9 percent of non-oil GDP, while amortization was 0.9 percent. Per contract, the payment priorities have been directly serviced from government oil revenue, first covering operating costs including pipeline transportation costs, royalties related to *Societe des Hydrocarbures du Tchad's* – SHT (Chad National Oil Company) share of net production, and marketing fees, and second servicing the loan. Any remaining revenue accruing is transferred to the Treasury. In 2016, debt service to Glencore amounted to US\$231 million out of US\$271 million oil sales revenue (after accounting for operating and transportation costs), leaving only US\$40 million to treasury.

In February 2018, Chad and Glencore agreed in principle to restructure the oil-collateralized loan. Chad hired international financial and legal advisors to develop options for restructuring and to renegotiate the loan on behalf of the Government. The broad terms of the restructured commercial debt include a 12-year maturity and a reduction in interest rate from 6.75 percent to 2 percent above LIBOR until 2021 and 3 percent above LIBOR thereafter. A grace period of two years on initial mandatory amortization leaves only mandatory interest payments for 2018 and 2019. An additional cash sweep mechanism provides a framework for immediate (additional) amortization and additional interest payments as a function of available oil revenues. When oil prices are low, the debt service burden reduces, and vice versa. The agreement is expected to return Chad to debt sustainability under the baseline and reasonable oil price and production scenarios, thereby paving the way to continued financial assistance from technical and financial partners (PTF - *Partenaires Techniques et Financiers*). The IMF program (ECF) will be fully financed and a first review has been completed in April 2018. Together with solid oil prices and production increases, this timely agreement will provide needed cash flow and fiscal space to Chad, lower debt ratios in the near and medium-term, and ultimately reduce the risk of debt distress.

In June 2018, a final agreement was reached between Chad and Glencore. The restructuring reestablishes debt sustainability and alleviates budgetary pressures. The agreement includes a significantly longer maturity, lower interest rate and fees, as well as a contingency (cash sweep) mechanism to adjust debt service depending on oil revenues. This insures fiscal balances against oil price and production volatility and helps maintaining liquidity.

Source: Chadian authorities; IMF.

Figure 1: PV of external debt to GDP ratio (left) and public debt to GDP ratio (right)



Source: Draft Joint World Bank IMF DSA, June 2018; 1/ The most extreme stress test is the test that yields the highest ratio on or before 2027, here a combination shock.

Table 5: External debt composition, end March 2018

	CFA francs (Billions)	Share of total debt (%)	Percentage of GDP
Multilateral	405.3	26.3	6.8
IMF	121.9	7.9	2.1
World Bank/IDA	99.0	6.4	1.7
African Development Bank	55.4	3.6	0.9
Others	129.0	8.4	2.1
Official Bilateral	395.6	25.7	6.7
Paris Club official debt	24.0	1.6	0.4
Non-Paris Club official debt	371.6	24.1	6.3
Commercial	739.5	48.0	12.5
TOTAL	1540.5	100	26.0

Source: Joint World Bank IMF DSA, March 2018

30. **External debt vulnerabilities remain high while arrears are gradually repaid.** The external debt trajectory will remain sensitive to shocks including on exports and to fiscal slippages. Given Chad's dependence on oil exports, uncertainty around oil prices and related production shocks weigh relatively heavy in the context of DSA scenario analysis. Because of liquidity challenges the Government accrued external arrears vis-à-vis several multilateral, bilateral, and commercial creditors (a bank from Taiwan, China) over the course of 2017. While repaying some US\$3.6 million to various middle eastern creditors and rescheduling debt with EXIM Bank of China, new arrears of around US\$14.3 million were accumulated, leaving the stock of external arrears at about 1 percent of GDP (US\$102 million) at end-2017. In early 2018 some arrears temporarily accrued while the authorities have repaid some US\$55 million owed to the Islamic Development Bank and through rescheduling debt with Libya.

31. **Increasing domestic debt (including external debt denominated in domestic currency) has also intensified risks to debt sustainability.** But government actions consistent with the current ECF would help to revert this tendency. There has been a greater reliance on non-central bank financing, notably issuance of government securities. While debt to the regional central bank (BEAC) remains high, its share in total debt has shrunk. In addition, in September 2017, all debt to the BEAC was consolidated and rescheduled into long-term securities with a grace period of 4 years and maturity of 14 years. In April 2018, domestic public debt rose by 1 percent of GDP (CFAF 55 billion) as the government cleared arrears of state-owned CotonTchad to commercial banks. The total public debt stock would fall from 52.5 percent of GDP in 2017 to 36.9 percent in 2021, then stabilize at an average of about 20 percent in 2023-2037. Stress tests again reveal the vulnerability of debt sustainability to macroeconomic shocks.

32. **Overall, a combination of sustained sound macroeconomic management and robust external support will help mitigate these risks.** Chad's fiscal position has remained sound during the global financial crisis, and its membership in CEMAC, along with recent PFM reforms and continued economic and financial oversight via the IMF's ECF program, has helped bolster macroeconomic stability. In the context of the current IMF ECF Chad appears to be broadly on track with the performance criteria of the first review fulfilled. However, for the authorities to break the vicious cycle of low public revenues, inadequate spending, and sluggish economic activity in the non-oil sectors, external budget support must bridge the gap between short-term stabilization and medium-term recovery. About 40 percent of the financing gap over the next three years must be financed through external sources. In this context, the proposed programmatic DPO operation will complement budget support provided by other development partners, as well as the government's efforts to restructure its existing debt obligations, to close the financing gap for the 2018 budget (Table 4).

33. **Chad's macroeconomic policy framework is adequate to support the proposed operation.** The successful conclusion of the external commercial debt restructuring with Glencore in June 2018 returns public debt to sustainability. At the same time, the Government has demonstrated a credible commitment to fiscal consolidation. Two-thirds of the overall fiscal adjustment in 2015 and 2016 was achieved through consolidation, with financing covering only one-third. Over the medium-term, authorities will continue to implement austerity measures, reduce the NOPD, manage arrears, and strengthen budget management. The consistency of the policy framework under the current IMF ECF program together with World Bank Technical Assistance (TA) for nonoil revenue mobilization will help establish the conditions necessary for the proposed operation to achieve its objectives and lends further credibility to the government's planned fiscal policy path.

34. **But downside risks are high.** Chad's GDP as well as its external and fiscal balances remain vulnerable to oil price and production shocks. Real economic activity is exposed to weather and climate-related shocks and change, while structural policy necessary to diversify Chad's economy is vulnerable to political change. While CEMAC membership has bolstered macroeconomic stability in the past, CEMAC's low FX reserves and the constrained fiscal space of its members pose additional downside risks adding to tight monetary policy space. The financial sector – banks – remains vulnerable to liquidity shocks and although roll over of short-term government debt has worked well so far, failure to continue doing so in the future may jeopardize fiscal and debt sustainability. Persistent regional insecurity—including the ongoing conflict with Boko Haram—presents serious risks. Any significant increase in either security spending or humanitarian assistance, e.g. through additional refugee arrivals, could also derail fiscal consolidation efforts. Damage to the Doba-Douala oil pipeline or trade disruptions along the Douala-N'Djamena corridor could undermine macroeconomic stability.

C. IMF RELATIONS

35. **On July 27, 2018 the IMF Board completed the Second review of the ECF.** This ECF was approved on June 30, 2017 and grants access to 160 percent of quota or SDR 224.32 million. Although support of US\$95 million had been envisioned, only US\$45 million were disbursed in 2017 due to delays in external commercial debt restructuring. After agreement in principle on restructuring the Glencore loan in February 2018, the IMF's first review (originally planned for September 2017) has been approved on April 13, 2018. The main elements of the program are the reestablishment of debt sustainability, achieving gradual fiscal adjustment by maintaining a tight spending envelope, better mobilizing non-oil revenue, and creating space for domestic arrears clearance. With a view to the second review, the program appears to be broadly on track, with all but one performance criteria for end-December 2017 being met. Five out

of seven structural benchmarks have so far been implemented, including notably the launch of the audit of unrecognized domestic arrears. Overall, risks to the program have declined significantly, but vulnerabilities of the banking sector will require close attention and action going forward. The second review of the ECF with IMF Board of Directors was completed on July 27, 2018, enabling the immediate disbursement of the equivalent of SDR 35.05 million (about US\$ 49.09 million).

3. THE GOVERNMENT'S PROGRAM

36. **The Government recently launched Chad's first long-term development strategy.** This document, "Vision 2030" (*Vision 2030: le Tchad que Nous Voulons*), reflects the perceptions and aspirations of the Chadian people as expressed in a recent national survey. It comprises four strategic axes: (i) consolidating national unity; (ii) strengthening good governance and the rule of law; (iii) promoting economic diversification and competitiveness; and (iv) improving the quality of life of the Chadian population. The objectives of the Vision 2030 are intended to guide short-, medium-, and long-term national development planning, and the strategy's overarching goal is to enable Chad to become an emerging economy by 2030.

37. **The government's medium-term strategy, the Five-Year Plan for 2017-2021, is designed to lay the groundwork for the Vision 2030.** The plan aims to facilitate structural economic transformation, promote greater private investment in the non-oil sectors, and introduce principles of performance-based management into the public administration. The plan's reforms are carefully prioritized to reflect Chad's complex and volatile economic and security context.

38. **The authorities have approved a PFM Action Plan to accompany the fiscal consolidation.** This plan establishes a framework for monitoring the implementation of PFM reforms by the Ministry of Finance and Budget (MoFB), including the adoption of the Integrated Financial Management Information System (IFMIS) in accordance with CEMAC directives for PFM efficiency and transparency. While the government's deep expenditure cuts are mitigating the short-term impact of lower oil revenues, PFM reform will support sustainable long-term fiscal dynamics by improving the underlying structural efficiency of both revenue and expenditure management. Key government priorities for PFM reform include tax policy and administration, the public-sector wage bill, and state-owned enterprises (SOEs). Several audits and studies have been launched to provide the groundwork and informational basis for reforms.

39. **In the agricultural sector, the two main programs include (i) a five-year agricultural development plan (2013-2018) and a National Investment Plan for the Rural Sector of Chad (PNISR 2016-2022).** The objective of the five-year plan is to increase cereal supplies (the principal crop for the Chadian population) and to give real impetus to agricultural production, which is low and highly dependent on rainfall. The Action Plan aims (i) to increase agricultural production and productivity on a sustainable basis; (ii) to promote farmers access to agricultural inputs and equipment; (iii) to improve most vulnerable groups access to food; (iv) to strengthen the capacities of farmers' organization and extension services; and (v) to promote most promising value chains. The PNISR is the national translation of the Comprehensive Development Plan for African Agriculture (CAADP), which aims to make the rural sector an important source of economic growth to ensure the food and nutritional security of the Chadian population.

40. **The Government also developed a National Strategy for Social Protection (2014-2018).** The overall objective of the strategy is to establish a comprehensive social protection system to address key SP challenges and contribute to a more equitable society.

41. **Finally, Chad intends to reinforce environmental protection, greenhouse gas (GHG) emissions mitigation measures and adaptation actions in respect to climate change.** The livelihood of most poor and vulnerable is increasingly affected by major climate risks and natural hazards. Chad ranks 79th globally in terms of climate related hazard and exposure. Droughts, extreme precipitation and temperature not only pose an immediate challenge to human life but also to the livelihoods of a significant share of Chad's population depending on agriculture and animal husbandry. To mitigate risks and adapt to climate impact, Chad has submitted and ratified its Nationally Determined Contribution through a variety of current and planned initiatives including the National Adaptation Programme of Action for Climate Change (NAPA adopted in 2009) and a variety of regional adaptation and preservation projects, particularly in the Lake Chad basin. In the medium-term, building fiscal space, increasing agricultural productivity, diversifying the economy and providing targeted social protection can complement more targeted interventions to boost overall resilience in the face of climate related risks.

4. THE PROPOSED OPERATION

A. LINK TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

42. **The proposed operation would be the first in a programmatic series of two development policy grants for the period 2017-2018.** The operation is programmed under IDA18 with a total amount of US\$65 million. It follows a 2017 standalone EFSO that was conceived as a first stage supporting Chad in its stabilization effort while preparing the ground for the second stage, e.g. structural measures to build resilience and start sustainable recovery, in the context of this programmatic DPO series.

43. **The PDO 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.** 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.

44. **The proposed series 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.

45. **This programmatic DPO series 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.

46. **The operation integrates key lessons learned from past operations.** A first lesson is related to the inherent limitations of emergency operations and the need for proper complementarity and sequencing with a medium-term growth agenda. This requires a direct line of sight from immediate emergency responses to more ambitious growth enhancing reforms which target a sustainable solution to the crisis. A second lesson concerns the country's modest track-record which points to the need to be realistic about what can be achieved in terms of reform implementation and results in a two-year period. A third lesson singles out institutional capacity of the Government as a major factor in determining the breadth of the policy reform agenda, which requires accompanying technical capacity to implement reforms while properly monitored. Indeed, in a fragile environment, where capacity is weak, combining policy lending with customized technical assistance support is critical. The proposed operation is therefore complemented by key technical assistance and investment projects in each area¹¹. Finally, a fourth lesson is the need for fiscal stabilization to be complemented by social mitigation, particularly safety nets¹²: Fiscal stabilization needs to go hand in hand with reforms aimed at improving the capability of the State to protect the poorest in an efficient and sustainable way.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar I – Enhancing Fiscal Risk Management

1.1. Strengthening the Management of PPG Debt

47. **Despite benefiting from heavily indebted poor countries (HIPC) debt relief in 2015, Chad has recently been in debt distress.** Following the HIPC completion point in April 2015, Chad could secure at least US\$756 million in debt relief. However, repaying the external commercial and oil collateralized loan with Glencore had a significant negative effect on the flow of oil revenues to the budget and rendered Chad illiquid. Therefore, the country has been in external debt distress, and the successful completion of restructuring this loan (as agreed in February 2018 and finalized in June 2018) constitutes a necessary condition to put public debt back on a sustainable path.

¹¹ These include notably: IMF TA on debt management, EU support in the analysis of tax expenditures, and audit of payroll; the Bank's analytical and financial support on revenue mobilization, [SOE reforms], [ICT], agriculture, and social protection; as well as AfDB and EU support in PFM.

¹² This lesson is derived from the Implementation Completion Report for Chad's DPO in 2004-2005, the predecessor operation approved in 2015, the Bank Systematic Country Diagnostic, the strategic orientation of the World Bank Group's Country Partnership Framework (CPF) for FY16-20, and other project work and policy dialogue with the Government conducted by the World Bank and other development partners.

48. **By expanding the domestic debt issuance program in the CEMAC market, the stock of domestic public debt has also risen significantly.** In 2016, Chad issued CFAF 174 billion (net) in Treasury Bonds, with maturities of two to five years, and CFAF 67 billion (net) in Treasury Bills bringing the combined stock of Treasury Bonds and Bills to CFAF 470 billion or 7.9 percent of GDP. The stock of debt also includes sizeable advances by BEAC (the regional central bank), loans from commercial banks, Development Bank of Central African States (BDEAC), Republic of Congo (in 2012), Equatorial Guinea (in 2013), and Cameroon (2016), as well as, verified domestic arrears of CFAF 168 million or 2.8 percent of GDP at end 2016.

49. **Significant weaknesses in debt management have contributed to the problem.** First, several entities are involved in the signing of external debt agreements undermining the ability of the Government to have an overview of its debt portfolio. SOE non-concessional external debt (for example the oil revenue collateralized commercial loans contracted by SHT) weighs heavily on debt sustainability. There is also a lack of a comprehensive database of debt contracts, resulting in technical delays in servicing the debt and accurately and consistently calculating the stock of debt. Debt management is split between two ministries (in charge of Planning and Finances), with limited coordination, both in terms of new contracts and disbursements. Finally, weaknesses in cash management also impact debt management, through delays in debt service, and the accumulation of domestic and external debt arrears.

50. **To improve debt the Government has undertaken several measures.** The reinforcement of the regulatory framework for debt management started in June 2014 with a decree strengthening the organization and roles of the inter-ministerial committee for debt analysis and its associated technical units, ensuring the participation of the Ministry of Economy and Development Planning (MEDP) responsible for external debt. The procedures introduced in this new decree have been implemented and the debt directorate is now consulted on all new borrowings. In addition, a first annual debt management report for 2015 has been published on the MoFB web site in October 2016. An annual borrowing plan is also regularly produced and revised per the financing needs of the government in good coordination between the relevant units. However, several important weaknesses remain, and represent a major source of risk, including the lack of a comprehensive medium-term debt management strategy (MDTS) and the absence of regular reporting on the debt stock, repayment, servicing and schedules.

51. **With the support of this operation, the Government will suspend all external borrowing and guarantees to SOEs on non-concessional terms¹³, and will prepare a stock-taking of loans and guarantees.** This will pave the way for the preparation of a MDTS, the preparation of which would be a trigger for the second operation¹⁴. In parallel, as a trigger for the second operation, the government plans to strengthen the debt unit at the MoFB with the required human and technical resources, to improve the debt recording system so that all government debt is properly and timely monitored and to publish a debt statistical bulletin on a semi-annual basis. The program will be supported by active policy dialogue and TA from the IMF and the World Bank. The suspension of non-concessional borrowing and improvement in debt management is expected to contribute to easing liquidity pressures significantly. As a result, the nominal stock of external commercial debt is expected to diminish by mid-2020 compared to a stock of around US\$1.4 billion at the end of 2017.

¹³ This will apply to all external debt contracted by the Government and non-financial public enterprises, with a maturity of more than one year.

¹⁴ The IMF plans an MTDS mission in N'Djamena for September 2018. As part of the mission, the Chadian debt team will assess costs and risks related to debt and draft a preliminary debt strategy report. This report is expected to be finalized and approved by the authorities by end 2018 and should pave the way towards implementing a better understanding/assessment of debt management costs and risks.

Prior Action 1: (i) The Minister of Finance and Budget and the Minister of Economy and Development Planning have issued an inter-ministerial regulation “*Arrêté*” suspending the use of non-concessional external debt contracted or guaranteed by the Government and non-financial public enterprises, with a maturity of more than one year (except for short-term commercial loans and re-scheduling of debt contracted before June 30, 2017); and (ii) the Ministry of Finance and Budget has published a report on the public and publicly guaranteed (PPG) debt situation at end-2016.

Indicative Trigger 1: The Ministry of Finance and Budget (i) has strengthened the debt management unit with (a) adequate staffing; (b) material; and (c) an improved debt recording system; and (ii) a draft MTDS report has been prepared.

Results Indicator 1: No increase in the nominal stock of non-concessional external debt. Baseline 2017: US\$1.4 billion; Target mid 2020: US\$1.4 billion or less.

1.2. Rationalizing Tax Expenditures

52. **The rationalization of tax expenditures is a central priority for increasing government revenue and progressively rebuilding fiscal buffers.** Tax expenditures led to an estimated loss in fiscal revenue to the government of 50 percent of non-oil revenues (or 4.7 percent of non-oil GDP) in 2014 and this ratio has likely increased. Given the magnitude of the impact of the crisis on revenue, the Government has decided to undertake ambitious reforms to streamline tax expenditures. Since September 2016, with the support of the World Bank EFSO, the Government put a freeze on any new tax exemptions, except those under the Vienna convention or those related to PTF until an ongoing study on tax expenditure would be completed and new measures adopted. The study covered a census of existing exemptions, analyzing the regimes under which they were granted, and assessing the revenue losses caused by these exemptions compared to their impact on investment, economic and social development. The study is a collaborative effort between the Government and the European Union (EU), and its validation by the Government is forthcoming. In addition, the Government has launched a review of current exemptions to assess the fiscal losses embedded in the Tax Exoneration Agreements (*Conventions d’Etablissement*¹⁵). This review pertains to around 39 *Conventions* covering the largest firms. As of May 2017, 24 *Conventions* have been reviewed, revealing a total fiscal loss of around US\$277 million (or around 2.7 percent of GDP) worth of tax exemptions granted in 2015 and multiple anomalies in their application. Importantly, the decisions on tax exemptions are not centralized at the MoFB level, which significantly undermines controls over related fiscal implications, costs, and benefits, as well as their compliance with CEMAC regulations. As per end 2017, the freeze on new exemptions has been repealed.

53. **With the support of this operation, the Government has issued regulations requiring that any new eligible tax exemption be approved by the MoFB.** This constitutes a logic next step to put a halt to uncontrolled accumulation of exemptions and afford the MoFB time to take stock of and regain control of the process granting tax exemptions. The Government also plans to complete and validate the review of the *Conventions* and apply the recommendations of the study of tax expenditures. This will pave the way for adopting measures under the second operation for suspending, terminating, or revising the *Conventions* and other tax exemptions that present irregularities, or are not consistent with CEMAC regulations. Under the second operation, the Government will also act to enhance transparency by issuing an inventory of tax exemptions and derogations as an Annex to the 2020 Finance Law. This is expected to contribute to streamlined exemptions based on a better-informed assessment of their costs and benefits for the country, with reduced fiscal losses. Thus, the program supported by the series should contribute

¹⁵ Conventions are bilateral contracts between ministries and enterprises, effectively exempting them from taxation and/or specifying specific tax treatment over a specified period (often long-term).

to a significant reduction in conventions associated with tax exemption anomalies from 41 in 2017 to less than 32 in 2020.

54. **In parallel, a comprehensive tax policy and administration reform will be essential to increase fiscal space in the longer run.** Revenues remain at great risk due to lack of diversification and strong dependence on the oil sector. Efforts in recent years by the Government to increase the tax base and diversify revenue have remained limited. Progress in strengthening the tax administration through developing an action plan to fight fraud and strengthen capacity of major revenue authorities as well as to launch the Standard Integrated Government Tax Administration System remain incomplete. Similarly, progress toward broadening the tax base, through strengthening tax administration and tax collection from 32,000 enterprises and reducing tax exemptions are also incomplete. Currently Chad has a narrow tax base of around 11,200 firms, of which, approximately 250 are responsible for about half of all non-oil tax revenues. A World Bank Revenue Mobilization Project under preparation will help address these broader and long-term issues and provide technical support to the reforms supported under the DPO around tax expenditures. As a result, the number of conventions associated with Tax exemption anomalies is expected to decrease from 41 in 2016 to 31 or less by 2019. Overall, World Bank support is expected to help boosting nonoil revenue collection by around 4.5 percent of GDP between 2017 and 2021.

Prior Action 2: The Government has (i) completed and validated a review of its known tax exoneration agreements (*Conventions d'Établissement*) and a study of tax expenditures; and (ii) issued and implemented regulations stating that all new tax exemptions require a prior written approval by the Minister of Finance and Budget.

Indicative Trigger 2: The Government has: (i) implemented measures needed to eliminate the irregularities identified in the review of the Conventions and the exemptions that are inconsistent with the CEMAC list of exceptions; and (ii) published an inventory of tax exemptions and derogations in an Annex to the Finance Law (LOF 2020).

Results Indicator 2: Reduction in the number of conventions associated with tax exemption anomalies: Baseline 2017: 41; Target mid 2020: 31 or less.

1.3. Improving the Efficiency of the Public Wage Bill

55. **In the wake of the crisis, the Government introduced a package of austerity measures in the 2016 Budget, later extended to 2017 and 2018.** Key measures included the reduction of deconcentrated administrative offices from 550 to 160, the merging of all public agencies in charge of sport and youth, restructuring the National Radio and Television Agency, an audit of the efficiency of large government projects, a revision of criteria for scholarships, and a census of community teachers.¹⁶ Furthermore, the Government reduced the allowances for all civil servants by 50 percent with the support of the EFSO. This measure was supported by the EFSO and remains active as part of a broader effort to harmonize the allowance regime for all civil servants. In parallel, an audit of the payroll was launched to lay the groundwork for more substantive reforms.

56. **Streamlining the oversized payroll of the central government is a major priority.** Wages and salaries accounted for 7.5 percent of GDP in 2016. From 2007 to 2015, total wages and salaries in the public administration tripled, while the number of civil servants doubled. In 2015, the Government conducted a biometric census of civil servants which generated savings estimated at over 17 billion CFAF per year. The census identified 10,220 ghost workers who represented 12 percent of the total workforce.

¹⁶ Source: Revised Finance Law. Government of Chad. September 2016.

However, the census did not cover payroll components such as retirees, scholarships, family allowances and allowances for senior managers which represented 22 percent of the total wages and salaries. Overall, remaining irregularities in the wages and salaries of civil servants are estimated at 7.6 percent of total salaries paid by the Government and equivalent to 0.8 percent of non-oil GDP in 2016.

57. **To address these weaknesses, the Government undertook an audit of the public payroll system for the central government.** An international firm was hired to carry out the audit including a diagnostic of the payroll management and propose recommendations for its improvement. The audit focused on payroll irregularities including: (i) identification of ghost workers among newly recruited civil servants following the previous census; (ii) identification of inconsistencies in wages; and (iii) the verification of consistency in salary increases, pensions, scholarships and allowances across the full public payroll. The EFSO supported the preparation of an interim report.

58. **With the support of this operation, the Government - after validating the audit - will take immediate action to eliminate identified ghost workers, under-aged workers, retirees and other irregularities.** In detail, the Government implemented the results of the audit through elimination of workers from payroll as reflected in the revised budget law 2017. As a trigger for the second operation, the 2018 Finance Law will incorporate corresponding remedial actions. Furthermore, an implementation completion report will be prepared to clarify procedures and responsibilities for handling HR actions related to hiring, promotions, and exit from the civil service workforce, so that prompt action can be taken to reflect these actions in terms of changes or cessations of salary payments. Thus, by end 2020, it is expected that irregularities in the payroll will decline with ineligible salaries being eliminated from 1,172 in 2017 to less than 750 by 2020.

<p>Prior Action 3: The Government has (i) eliminated identified ghost and under-age workers from the payroll; and (ii) issued a circular announcing measures planned to phase out all payments to ineligible recipients as per the audit.</p>
<p>Indicative Trigger 3: The Government has (i) implemented through the LOF 2018 the measures needed to address the remaining irregularities observed in the payroll audit; and (ii) published an implementation completion report of recommendations of the payroll audit.</p>
<p>Results Indicator 3: Reduction in the number of persons on the payroll who are ineligible for salaries. Baseline 2017: 1,172 ineligibles per the HR audit; Target mid 2020: 750 or less.</p>

1.4. Improving SOE Transparency and Oversight

59. **Chad's SOE sector is in a dire state, lacks transparency, and constitutes a substantial risk to fiscal sustainability.** The SOE portfolio in Chad is estimated at about 30 entities in which the Government has an equity stake, including: SOEs, parastatal companies, and private companies. However, there is significant uncertainty as to the full universe of SOEs, their date of creation, and their legal status. SOEs represent a very significant fiduciary risk for the State, as the financial situation of major companies does not allow them to meet their salary and tax obligations, as well as other financial charges. In several cases, SOEs rely entirely on direct subsidies from the Government to achieve financial viability, while other SOEs incur losses even after accounting for these subsidies. Preliminary estimates suggest that subsidies to SOEs rose from 3.4 percent of non-oil GDP in 2011 to 4.8 percent of non-oil GDP in 2014. In addition to the traditional recipients of subsidies, such as the electricity and water companies or the cotton parastatal (CotonChad), the list of subsidized enterprises also includes new companies such as the cement plant, the oil refinery, the tractor assembly plant, and the fruit juice company. All these companies sell their products

and services at prices significantly below cost recovery levels and constitute monopolies. Furthermore, some SOEs receive unbudgeted financial support from the central government, without any adequate recording or transparency.

60. **To address large unknowns regarding the financial situation of the SOE sector, the Government undertook an audit of a subset of the SOE portfolio.** The audit was commissioned by the Government to assess the financial position of these entities and the related implications in terms of fiscal sustainability. The findings are summarized in Box 2. However, the lack of a comprehensive inventory of SOEs and related financial information limited the comprehensiveness of the audit. The EFSO, which supported this audit, complemented this exercise by a preliminary inventory of major SOEs in May 2017, together with an obligation to transmit financial statements, for the last three years from all to the Government. With these actions, the country authorities aim to embark on a serious effort to assess government exposure to fiscal risk inherent in its SOE portfolio.

61. **The lack of adequate regulations and the absence of an SOE supervisory role at the MoFB represent a major constraint to improved SOE oversight and financial monitoring.** While the Ministry of Industry and Commerce is tasked with managing the Government SOE sector reform agenda, with a specific unit mandated to prepare and accompany privatization, restructuring and liquidation of SOEs, the MoFB has a financial oversight unit in the treasury. Unfortunately, this unit is neither widely known to the rest of the government structure nor operational, and as such, does not play the role of oversight and monitoring of SOEs that it is expected to play. Hence, there is an absence of monitoring and oversight of SOE's financial position and activities, nor is there a regular assessment of SOE-related fiscal risks. Furthermore, while SOE operations and activities are reported to be regulated by the general law (code general), they are not in compliance with their reporting requirements and do not publish and/or share financial statements, audited accounts, and/or any other reporting with MoFB.

62. **With the support of this operation, the Government will revive the dormant SOE oversight Division.** To play the important role that is expected of it in overseeing the performance of SOEs and advising the MoFB, the oversight unit should be restructured and enabled with adequate human and financial resources, as well as tools and procedures. Adequate staffing would ensure that all core functions of the Division are fully operational and competent to carry out their mission. In the second DPO operation, the Government will develop and introduce the performance based contracts with SOEs, which will form the basis for government subsidies, guarantees and other support, as well as overall SOEs accountability. The SOEs oversight Division will continue the publication of the annual SOEs audited financial statements, including 2016 and 2017 accounts, and will update the rules and regulations governing SOE operations, oversight and control. As a result, by the end of the series, these actions are expected to lead to enhanced institutional oversight of SOEs, improved transparency and a better knowledge of the financial situation of the SOE sector and related contingent liabilities. The establishment of performance contracts between technical ministries and SOEs will be an important tool to their oversight and to improving their performance. Going forward, opportunities for reforms of individual SOEs will also be explored.

63. **The Government will also continue to publish audited SOE financial statements for the SOEs inventoried by the Oversight Unit.** The MoFB has already published the financial statements of nine important SOEs inventoried in May 2017 (and covered in the KPMG study/audit) on the MoFB website. The SOEs inventory will be completed by Oversight Unit, who will also review the legal and regulatory framework governing SOEs. The updated inventory will serve as basis for the publication of SOEs audited

financial statement going forward. The publication of audited financial statements is a critical performance and accountability tool of the SOEs reforms.

Prior Action 4: The Ministry of Finance and Budget has: (i) identified an Oversight Body in its organizational chart to oversee and monitor SOEs and defined such body's responsibilities through the adoption of terms of reference (ToR); and (ii) published the most recent audited (certified) financial statements of nine identified SOEs on the Ministry of Finance and Budget website.
Indicative Trigger 4: The Ministry of Finance and Budget has (i) allocated adequate financial resources in its Budget Law 2019 to the SOE Oversight Division; and (ii) completed the inventory of SOEs.
Results Indicator 4: SOE Operational Oversight Division in place and adequately staffed. Baseline 2017: No; Target mid 2020: Yes
Results Indicator 5: Number of SOE audited financial statements published by the Oversight Unit. Baseline 2017: 9; Target mid 2020: 15 or more.

Pillar II: Improving Oil Revenue Transparency and Management

64. **Oil revenues need to be managed effectively and transparently.** The medium-term fiscal position is projected to improve, supported by a recovery in oil production, stable oil prices, and the coming on stream of three new fields. Over the medium- to long-term, production is expected to increase gradually in line with the capacity of new fields before reaching a peak around 2025. The Government aims to increase its daily production targets from the current 100,000 barrels per day in 2017 to 180,000 barrels: an ambitious but not impossible target from a geological point of view, particularly given the promising results of exploration activities in the Bongor basin. But development is highly dependent on international oil prices, and in the current oil price outlook scenario operators have been prudently prioritizing development plans. In this context, oil revenues accruing to treasury will continue to be modest in the short- and medium-term. However, increasing oil production and the implementation of the reforms planned by the Government in the context of the IMF's ECF will gradually increase fiscal space and create the conditions and need for a more effective management of oil revenue.

Box 2: A Brief Overview of WBG Engagement in Chad's Oil Sector since 2000

The WBG began its involvement in Chad's petroleum sector in late 1994, when it agreed to work with the GoC to unlock the potential for a large private sector investment in the Doba Basin. The institution saw its participation in providing financing for this project as a prime opportunity to help Chad increase its fiscal revenues and ensure that the new funds would be dedicated for the most part to poverty alleviation. A second objective was to ensure that the project would be carried out in an environmentally and socially sound manner. In 2000, the World Bank appraised the Chad-Cameroon Petroleum Development and Pipeline Project (P044305), which was designed to support the Government role vis-à-vis the development of three oil fields in the Doba Basin, and the construction of an Export System comprising a 1070 kilometers pipeline, from the oil fields in Chad and an offshore oil-loading facility near Cameroon's Atlantic coast. Two transportation companies, the TOTCO and the COTCO, were created to manage the export system, formed as joint-venture company between the Consortium (ExxonMobil, Chevron, and Petronas), the GoC, and the Government of Cameroon, while the development of the three fields was carried out by the private sector investors. Given the significance attached to mitigation of political risk at the time, the Exxon Mobil- led Consortium was unwilling to proceed without WBG participation.

To ensure that the revenues of this project supported poverty alleviation efforts, a transparent revenue management framework was considered vital. In addition, petroleum revenues needed to be managed carefully to avoid inflation and pursue poverty reduction efficiently. The government's strategy for managing these funds was set forth in the Petroleum Revenue Management Law (PRML) adopted in January 1999. The PRML specified

that one-tenth of the royalties and dividends generated by exports would be set aside in a Future Generations Fund, 80 percent of royalties and 85 percent of dividends would be allocated to finance expenditures in the priority poverty reduction sectors, while 5 percent of royalties would be earmarked for expenditure by local entities in the producing region. The remaining 15 percent of the funds would be used for general expenditures until the end of 2007.

Revenues generated by oil exports (royalties, dividends, and direct taxes) would move through an escrow account based in London before being transferred to Chad and would be transparently managed through the general budget process. Oil revenues would be used to finance both investment and recurrent expenditures and would be treated as additional to the “baseline” budget of the fiscal year preceding the first oil revenues. Expenditures from the special petroleum revenue accounts would be authorized in accordance with sector expenditure programs, considering implementation capacity constraints, and would require the approval of a body established for this purpose—the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (the Oversight Committee on the Management of Petroleum Resources, known as the Collège).

In 2005, a tight financial situation continued to prevail despite the approval of a new program under the IMF’s Poverty Reduction and Growth Facility (FRPC) at the beginning of that year. Eventually, the Government decided to amend the law to address these problems. It submitted to Parliament amendments abolishing the Future Generations Fund and allowing use of resources saved so far to cover the budget deficit; expanding the priority sectors to justice, territorial administration, and security; increasing the percentage of direct oil revenues used in non-priority sectors from 13.5 to 30 percent; and expanding the scope of the law to all oil fields. The revised Law was enacted on January 11, 2006. In April 2006, the Government and the World Bank reached an interim agreement under which at least 70 percent of all petroleum revenue (direct and indirect) would be used to finance priority sectors. In March 2007 a new oil revenue mechanism was adopted by decree, and management agreements were signed with the BEAC. The new mechanism was designed as a tool for fiscal policy, allowing a much greater coordination with the medium-term fiscal framework than the original mechanism based on strict earmarking. In the meantime, the Government started to work on a permanent revenue management mechanism based on the same design principles. The mechanism was superseded by the current revenue management law (law 002/PR/2014).

However, in 2008, the World Bank withdrew from the project while IFC continued its engagement in the project until 2012. Ex post, lack of adequate monitoring of poverty developments and satisfactory handling of direct environmental and social impact were identified by an Independent Evaluation Group (IEG) report in 2010, concluding that the fundamental objective of poverty reduction had not been met while the oil revenue windfall was associated with a resurgence of civil conflict and worsening of governance (IEG 2010).

References: The WBG Program of Support for the Chad-Cameroon Petroleum Development and Pipeline Construction – Program Assessment Report (Report no. 50315); Independent Evaluation Group, the World Bank (September 16, 2009)

II.1. Improving the Transparency and Efficiency of the Oil Revenue Management Mechanism

65. **Subsequent amendments to the oil revenue management law undermined its role as fiscal tool.** At the outset of the Chad-Cameroun pipeline project¹⁷, the oil revenue management law (Law 001/PR/1999) was designed to ensure that the country's oil revenues would help to finance badly needed development and poverty reduction programs for current and future generations. This fiscal tool was associated with a pioneering oversight mechanism, the *Collège de Contrôle et Surveillance des Revenus Pétroliers* (CCSRP), an independent body tasked with the oversight of government spending in priority sectors. The mechanism was built around expected royalties from the sale of oil, and dividends from the government's participation in the two transportation companies (TOTCO and COTCO) that own and manage the Chad-Cameroun pipeline. In 2003, on the back of rising international oil prices, oil revenue was accruing at a faster pace and in larger than expected amount, leading to early cost recovery and the prominence of tax revenue (indirect revenue). Conscious of the decreased effectiveness of its revenue management framework, in March 2007 the adoption of a decree substantially increased the scope and coverage of the oil revenue management mechanisms, with the inclusion of indirect revenue, a clear macro-fiscal and poverty reduction objective, a strengthened stabilization function, and an expanded oversight role of the CCSR. Law 001/PR/1999 and associated regulatory framework were superseded by a new revenue management law - Law 002/PR/2014. Under the new framework, no stabilization or saving function is envisaged, and the revenue management mechanism has simply become a budget earmarking to channel oil revenue to a list of priority sectors and to support general government expenditure.

66. **Going forward, a clear policy and the associated framework for the management of oil revenue will once again be a critical element for fiscal sustainability and economic resilience.** The expected rebound in oil production, robust indication of further production potential from on-going exploration activities, and the expectation of increased fiscal space because of structural reforms and debt restructuring, set the stage for oil revenue to once again play a central role in supporting fiscally sustainable and inclusive growth. To this end, a transparent and effective revenue management mechanism is a policy priority. Such mechanism would have to be fully integrated with the budget process and the medium-term fiscal framework. It would provide an effective tool to manage oil revenue with the objective of reducing the impact of price and volume volatility on the economy, as well as supporting inclusive growth through the strategic deployment of finite extractive revenues for a resilient non-oil economy. This will be done by: (a) providing resources to allow for the smoothing of expenditure; (b) insulating expenditure from unforeseen oil revenue fluctuations; (c) sterilizing the impact of saving, and (d) protecting priority programs for poverty reduction and investment in the non-oil economy.

67. **With the support of this operation, the Government intends to promote the transparency and effectiveness of its fiscal policy through the establishment of a functional oil revenue management mechanism.** A government *Arrêté* creates an inter-ministerial committee encompassing representatives of the MoFB, Ministry of Petroleum and Energy (MoPE), and the SHT. The Committee will be tasked with the forecast and oversight of oil revenue, the assessment of effectiveness of Law 002/PR/2014, and the design of a new oil revenue management mechanism aimed at supporting fiscal policy for long-term sustainability, insulating expenditure for oil revenue volatility, and supporting priority programs. As an indicative trigger the Government will design and submit for approval the legal framework for the new revenue management mechanism. As result, the Government will assess the effectiveness of the new

¹⁷ This project comprised the development of three fields in the Doba basin with production being sent through a 1076 kilometers long pipeline connecting Chad to an export terminal in Cameroonian waters.

revenue management mechanism as a fiscal policy tool, and in terms of its contribution to equitable development, as well as its alignment with the relevant regional (CEMAC) treaties. Going forward, opportunities for additional institutional and regulatory reforms would be explored.

Prior Action 5: The Minister of Finance and Budget and the Minister of Petroleum and Mining have (i) established, by inter-ministerial decision (*Arrêté*), a coordination body, with representation from the Minister of Finance and Budget and the Minister of Petroleum and Mining and SHT; (ii) tasked such body with (a) forecasting and analyzing petroleum revenues; (b) assessing the effectiveness of the petroleum revenue management mechanism provided under the Law 002/PR/2014; and (c) designing a new mechanism for the management of petroleum revenue aimed at supporting fiscal policy, the allocation of resources to support priority programs, and macro-fiscal stability, the allocation of the resources to support priority program and macro-fiscal stability; and (iii) published, through the Ministry of Finance and Budget, quarterly petroleum sector updates for the last two quarters of calendar year 2017 and the first quarter of calendar year 2018.

Indicative Trigger 5: The Government has submitted to parliament for approval the legal framework for the new oil revenue management incorporating the stabilization of budget expenditure.

Results Indicator 6: The Government has adopted a mechanism for the management of oil revenue that incorporates the stabilization of budget expenditure, in compliance with CEMAC rules on financial savings. Baseline 2017: not operational; Target mid 2020: operational.

II.2. Improving Transparency and Oversight in the Oil Sector

68. **Chad became Extractive Industries Transparency Initiative (EITI) compliant in May 2013.** The EITI is one of the most widely-adopted interventions aimed at improving knowledge of revenue distribution in the mining and oil and gas sectors worldwide. In Chad, the EITI provides a foundation for dialogue between various stakeholders and has thus become an important entry point for examining the social and economic impacts of oil in the country. Currently, evaluation of reports under the (latest) 2016 Standard need to assess the extent to which disclosure is more relevant to citizens and local communities.¹⁸ While Chad EITI implementation is compliant with respect to the 2011 EITI Standard, the next validation, expected to take place between July and September 2016, will assess Chad's compliance with the 2016 EITI Standard.

69. **A self-assessment conducted by Chad's National Permanent Secretariat for EITI identified several implementation shortcomings vis-à-vis the 2016 EITI Standard.** One of the most relevant shortcoming is the absence of an explicit government policy on the disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals, which makes EITI implementation in Chad non-compliant with EITI standard 2.4. Other areas related to effective civil society participation and the lack of a functioning petroleum and mining cadasters, for which TA is negotiated under the Chad Domestic Resource Mobilization and Management Project (P164529) and the EITI TA projects under preparation. Chad has recently embarked in a reform of its governance systems aimed at increasing the transparency of public finance and open access to information. These principles, which are reflected in Law n° 018/PR/2016 on the code of transparency and good governance in PFM, are fully aligned with the guiding principles of the 2016 EITI Standard. To respond to the 2016 EITI Standard requirements and to align the transparency in the petroleum sector to the principles of Law n° 018/PR/2016, the Government, through the MoPE, has agreed to adopt a disclosure policy for petroleum contract and licenses, and

¹⁸ See Alstine, 2017, Critical reflections on 15 years of the Extractive Industries Transparency Initiative (EITI). *The Extractive Industries and Society* 4 (2017) 766–770. Elsevier.

underscore its commitment to transparency by gradually publishing all such contract and licenses in a government portal.

Box 3: – EITI Standard on Contract Disclosure (2.4)

- a) Implementing countries are **encouraged to publicly disclose** any contracts and licenses that provide the terms attached to the exploitation of oil, gas and minerals.
- b) **It is a requirement** that the EITI Report documents the government’s policy on disclosure of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals. This should include relevant legal provisions, actual disclosure practices and any reforms that are planned or underway. Where applicable, the EITI Report should provide an overview of the contracts and licenses that are publicly available, and include a reference or link to the location where these are published.
- c) The term contract in 2.4(a) means:
 - i. The full text of any contract, concession, production-sharing agreement or other agreement granted by, or entered into by, the government which provides the terms attached to the exploitation of oil gas and mineral resources.
 - ii. The full text of any annex, addendum or rider which establishes details relevant to the exploitation rights described in 2.4(c)(i) or the execution thereof.
 - iii. The full text of any alteration or amendment to the documents described in 2.4(c)(i) and 2.4(c)(ii).
- d) The term license in 2.4(a) means:
 - i. The full text of any license, lease, title or permit by which a government confers on a company(ies) or individual(s) rights to exploit oil, gas and/or mineral resources.
 - ii. The full text of any annex, addendum or rider that establishes details relevant to the exploitation rights described in in 2.4(d)(i) or the execution thereof.
 - ii. The full text of any alteration or amendment to the documents described in 2.4(d)(i) and 2.4(d)(ii).

Prior Action 6: The Ministry of Petroleum and Energy has: (a) (i) issued a communiqué announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector; and (ii) published such communiqué on its website and that of the Ministry of Finance and Budget; and (b) published contracts and licenses (as such term is defined under EITI Requirement 2.4 of EITI Standard 2016) representing at least 50 percent of hydrocarbon production in 2015 on the website of the Ministry of Finance and Budget.

Indicative Trigger 6: The Government has adopted the disclosure policy for petroleum contracts mandating their publication, and all petroleum contracts and licenses are publicly accessible, including through the EITI website and/or a government website.

Results Indicator 7: Number of EITI reports documenting the government disclosure policy on petroleum contacts and licenses and Chad’s contract disclosure practice as compliant with EITI Requirement 2.4. Baseline 2017: 0; Target mid 2020: 2

70. **Since the start of oil production in 2003 the complexity of the oil sector has grown exponentially, and the national oil company has emerged as a crucial player in the sector.** In the early 2000s the oil sector had a simple institutional and regulatory framework - a sector ministry, one type of oil contract, and one type of fiscal regime. Rising oil prices, the presence of a pipeline connecting Chad to the coast, and increased information on the country’s geological potential resulted in a substantial increase in exploration activities, a diverse group of oil companies, and several types of contractual and

fiscal arrangements. The creation of the SHT in July 2006 introduced a new player that has since grown in influence and level of participation in oil sector activities, requiring coordination with other government agencies and increasing the complexity and risk profile of oil revenue accruing to the government. In addition to direct participation in oil activities, SHT own 40 percent of a refinery operated by China National Petroleum Corporation International (CNPCI), and since 2012 is tasked with the commercialization of the government's royalty in kind in addition to its own share of production arising from its participating interests (25 percent of the Doba consortium, 15 percent share in Caracal, the contract holder of DOI, DOB, DOH, Borogop and Chari East Doséo; 10 percent of existing production from block H operated by CNPCI, and 100 percent of the Sedigui field, among other).

71. **Notwithstanding its critical position in Chad's oil sector, up to 2017 the SHT did not publish a report on its activities or its financial statements.** The resources of the SHT consist of a 2 percent commission on the sale of oil, the net income from its equity, interest income, loans, and state subsidies. The company is subject to the oil specific fiscal regime for its production activities, and to the general income tax for its marketing. It is not subject to any dividend rule, and its Statutes provides ample discretion to its General Assembly. The SHT is also linked to an exclusive oil marketing agreement with a commodity trader, that is also the basis for the series of oil backed loans discussed in Box 1. Transparency in the financial performance of the SHT would help to shed lights on its efficiency and its impact on the country's economic development. SHT management has embarked to strengthen internal governance and transparency, with support from a forthcoming World Bank supported TA grant on Domestic Resource Mobilization.

72. **Rules, regulations, and contractual agreements need to be re-enforced with controls to ensure their integrity.** The challenge of assuring the integrity of oil revenue flows has become more complex with the deepening of the oil sector. The transactions associated with the oil sector are large and technically complex. This, associated with weak oversight capacity, weak authorizing environment, and lack of coordination among government institutions increases the risk of malpractice or lack of compliance. Even in the perfect environment, weak oversight results in information asymmetry and lack of knowledge for the relevant government entities, that results in their inability to strategically plan the development of the sector and take actions to ensure its sustainability. One of the principle tools for ensuring integrity is the audit process. This is a formal process for verifying financial and other data against documentary evidence, according to standards concerning accuracy and independence, efficiency and good practice. With respect to the oil companies, the Government has the legal and contractual rights to carry out financial audits on a routine basis. In addition, it may request special audits. How the Government chooses to use its rights has a direct bearing on its success in mobilizing revenue and ensuring the sustainable development of the sector. In Chad, audits – financial or otherwise – are not a common practice. Yet the efficiency of oil production activities varies widely across operator, raising the questions as to the underlying reasons beyond obvious factors such as scale, technology, and reservoir complexity.

73. **Cost audits are a critical tool for ascertaining the accuracy of the cost information provided by companies.** Excessive costs lead to understatement of profits or lower share of profit oil (depending on the type of contract) and subsidize inefficiency in oil operations. However, a cost audit requires deep technical expertise, and access to comparator data with which to challenge costs of specific equipment, services, and material submitted by the operator. If costs are abnormally high, and if the transaction took place between related parties, abusive transfer pricing or profit shifting may be at play. It could also be

an indicator or inefficient production processes and inappropriate decision making. The participation of the SHT as equity holder can serve as an incentive to efficiency, but only if it is experienced and efficient.

74. **With the support of this operation, the Government intends to promote increased transparency and efficiency in oil operations, starting from the SHT.** To this end, *as Prior Action* the SHT will prepare and publish quarterly reports summarizing oil revenues that it receives as equity participant, and as agent of the Government covering the period 2015-2016. It will also publish certified and verified annual financial reports for the same period, for SHT holding and its subsidiaries (audited in accordance with OHADA). This measure will shed some light on SHT's financial performance, and set the stage for benchmarking and public oversight. *As trigger* for the second operation in the series, the Government will realize an audit of joint operations of two oil companies operating in Chad – namely Glencore and OPIC (both of significant strategic importance to SHT), and will take initial steps to action the recommendations of the auditors. *As a result*, by the end of the series, these actions are expected to lead to enhanced transparency and a better knowledge of the financial situation of the SHT, as well as improved understanding and control of production costs across operators. Going forward, opportunities for institutional and regulatory reforms would be explored.

Prior Action 7: The SHT has published certified/validated financial statements for the period 2017 on its website.

Indicative Trigger 7: The SHT has ensured completion of audits of two oil companies operating in Chad, and started the implementation of the audit's recommendations.

Results Indicator 8: Information on the cost of oil production activities is available to the Ministry of Finance and Budget. Baseline 2017: No; Target mid 2020: Yes

Pillar III: Promoting Resilience and Economic Diversification in Key Real Sectors

Contributing to Enhanced Agriculture Productivity.

75. **Chad has large agricultural potential.** It is endowed with a total agricultural land of over 49 million hectares (ha), but only 6 percent is currently cultivated and less than 1 percent is under irrigation. Yet, the country has water resources that remain largely untapped (only 9 percent of its potential is used). In addition, Chad's three distinct agro-ecological zones offer a unique opportunity to diversify agricultural production and develop vibrant value chains. Major crops are cotton, sorghum, and cassava. Chad is one of the main livestock-producing countries in the Sahel, with a herd of around 94 million head (accordingly to the Food and Agriculture Organization (FAO) April 2014 livestock census). The national herd consists of cattle, small ruminants, camels and poultry; mainly kept using traditional livestock management practices (nomadic, transhumant and semi-transhumant).

76. **Agriculture, including livestock, plays a prominent role in the economy, but its potential remains largely untapped.** Agriculture (dominated by subsistence farming, livestock and fisheries) remains an important part of Chad's output at around 25 percent of GDP in 2016. It is also a significant contributor to GDP growth (at 0.4 percent in 2016) and exports earnings. It is the main source of employment in Chad with more than 80 percent of the population. Its exports are mainly made up of livestock, the second source of FX income after oil. The Systematic Country Diagnostic (SCD) of 2015¹⁹ identified the need to boost agricultural productivity as a key theme for reducing poverty and promoting growth. It also

¹⁹ Report No. 96537-TD (September 2, 2015).

identifies the need to intensify agriculture, and the importance of improved governance of input supply systems such as for fertilizer and seeds.

77. **However, Chadian agriculture remains very extensive and has very low productivity.** Per the Agriculture Sector Review (2017), a European Commission funded study carried out with TA from FAO as an input to the elaboration of a new Governmental framework strategy for the agricultural sector (*loi d'orientation agro-sylvo-pastorale et halieutique*), several related factors explain the low productivity of Chadian agriculture:

- Low use of improved technology: in Chad, agriculture (including livestock) relies mostly on traditional techniques with an extremely low use of improved technologies. Farmers do not have reasonable access to improved agricultural technologies, or in most cases the “know-how” skills that they need to improve productivity sustainably and significantly. Less than 5 percent of crop farmers are using improved seeds.
- High use of extensive agricultural practices: farming practices remain extensive (compared to intensification using more inputs and improved seeds), or confinement of fed animals. As a result, natural resources such as fertile land are become increasingly scarce over time. Therefore, access to degrading and shrinking natural resources often result in conflicts between diverse user communities that sometimes have differing interests, particularly herdsmen and crop farmers. In addition, increasing pressure on natural resources in marginal areas and their fragile eco-systems are leading to desertification and soil erosion.
- Weak extension services and institutional capacity: this lack is partly due to weak agricultural extension services and very limited agricultural research capacity. These limitations significantly hinder the adaptation, testing, and dissemination of new agricultural technologies in the country. The Government has already taken measures to reorganize and improve the coherence and availability of extension services through the creation of the National Agency for Rural Development (ANADER). ANADER resulted from the integration of the National Office for Rural Development (ONDR), the Lake Chad Development Company (SODELAC) and the National Program for Food Security (PNSA). The 2014 Agriculture Public Expenditure Review (PER) pointed out the low budget allocation for extension services, poor allocation procedures, and low focus on results delivery.

78. **The policy reforms in the agriculture sector supported by the series are two-pronged:** (i) creating conditions for increased dissemination and adoption of higher potential agricultural technologies and better practices through public agricultural extension; and (ii) improving the efficiency of agricultural input supply chains for seeds, including through creating better legal and institutional conditions for private sector seed producers and distributors.

79. **The seed varieties currently under cultivation in Chad are typically saved from previous harvests and often are of low quality and low productivity.** Although agriculture research in Central and West Africa has developed high yielding and locally adapted varieties, their adoption by farmers in Chad is still not in evidence. Effective scaling-up of seed production, marketing and quality control are constrained by a weak institutional framework for extension services to farmers, including missing regulations. The proposed reforms will pave the way for greater private sector involvement in seed production and marketing. The reforms will also contribute to develop the seed market in Chad and ultimately to quickly increase agriculture productivity for all the crop.

80. **With the support of the first operation in the present DPF series, the Government will implement its new Seed Law through:** (i) the adoption and publication of an inter-ministerial order (*Arrêté*) on technical regulation of seed production, control and certification; (ii) the adoption and publication of the Ministerial Order on specific technical regulations for seed production for various species of vegetables and cereals; and (iii) the issuance of a Ministerial Order (*Arrêté*) setting up the implementation of the seed control and certification function within the Ministry of Agriculture (MoA).

81. **In the proposed second operation, the Government will create conditions for modernizing and enhancing extension services to farmers.** This includes (i) the preparation, adoption and publication of a new agriculture extension strategy through a MoA Ministerial Order (*Arrêté*); (ii) the preparation and adoption by an MoA Ministerial Order (*Arrêté*) of a five-year action plan for the newly created agency of rural development (ANADER); and (iii) the signature of a performance contract between the MoA and ANADER. Furthermore, the mechanisms for community based seed production are to be set up through an MoA Decree. Ultimately, thus, these actions should lead to an increase in the adoption of improved technologies; and to an improvement in the surface coverage with improved seeds.

82. **The proposed reforms in agriculture sector are designed to complement and ensure the effectiveness of investments planned in the context of the World Bank Investment Project Financing (IPF) Operation, “Climate Resilient Agriculture and Productivity Enhancement Project” (P162956), currently under preparation.** The IPF will contribute to strengthen the capacities of the MoA, Irrigation and Agriculture Equipment to design and implement informed policies and strategies. The IPF will also support the adoption of improved technologies and strengthen the resilience of the agricultural production systems of targeted communities to enable them to make informed decisions and proactively manage anticipated pressures linked to climate variability and change. The inclusion of a prior action under Pillar III and associated triggers in the present DPO represents a commitment by the Government to support the legislative and policy changes (Prior Action 8) and institutional strengthening for implementation (Triggers 8 and 9) necessary to make good use now and over time of the new capacities and productive investments financed through the IPF.

83. **Enhancing the legislative environment for seed production and certification and improving the institutional environment for agriculture services delivery will boost productivity directly and promote greater private sector involvement in the seed sector through reducing uncertainties and providing clearer rules. This will increase income and resilience of Chadian farmers already using improved seed, but more importantly will promote scaling up of good practice in this area to include many more users.** Providing improved seeds for use and increasing their impact through better extension services will have a major positive impact in the medium-term, potentially adding some 330,000 tons or some 11 percent of total 2016 agricultural output per year by 2020. Assuming improved quality seeds will be sown on 211,000 hectares that are cultivated now but not covered by improved seeds (or about 5 percent of cultivated land in 2020), the production of crops including sorghum, millet, irrigated rice, and maize are projected to increase from 2,874,000 tons in 2016 to 3,200,000 tons in 2020. Expected productivity increases for rainfed cereals are: Sorghum from 750kg/ha to 1.2tons/ha; millet from 500kg/ha to 750kg/ha; and maize from 900kg/ha to 2.5tons/ha.

Prior Action 8: The Ministry of Agriculture has implemented a Seed Law through: (i) the adoption and publication of the inter-ministerial *Arrêté* on seed production, control and certification regulations; (ii) the adoption and publication of an *Arrêté* on specific technical regulations for seed production of specific varieties of vegetables and cereals; and (iii) the issuance of an *Arrêté* setting up the establishment of the seed control and certification function within the Ministry of Agriculture.

Indicative Trigger 8: The Government has started to modernize agricultural extension services to farmers through: (i) the publication of a new agriculture extension strategy by *Arrêté*, (ii) the adoption of a five-year action plan for the newly created agency of rural development (ANADER) by *Arrêté*; and (iii) the signature of a performance contract between the Ministry of Agriculture and ANADER.

Indicative Trigger 9: The Minister of Agriculture has issued an *Arrêté* approving the mechanisms for community- based seed production and started its implementation.

Results Indicator 9: Number of new (to Chad) seed varieties tested, approved, and released. Baseline 2017: 0; Target mid 2020: 10

Results Indicator 10: Percentage increase in the cultivated land coverage with improved seed: Baseline: 2% of cultivated land as per National Seeds Policy 2014; Target mid 2020: 5% of cultivated land

Strengthening the Contribution of the ICT Sector to Inclusive Growth

84. **The performance of the ICT sector in Chad is among the poorest in the world.** Chad’s ICT sector ranks among the weakest in Sub-saharan Africa (SSA), with at least 15 percent of the population not covered by any mobile signal, 80 percent not covered by mobile broadband, and a stagnating mobile penetration rate at 50 percent of the population. Entry into the ICT sector in Chad is locked by the incumbent (*Société des Télécommunications du Tchad* or Sotel which is the sole manager of the international fiber linking Chad to Cameroon. There is marginal competition on the fixed internet segment (which is mainly narrowband internet)²⁰. Mobile services dominate the ICT sector, but prices remain high and the quality of service is poor, especially for mobile broadband services. This poor performance can be explained by at least two major constraints: (i) limited international connectivity; and (ii) the weak enabling environment with high sectoral regulatory fees and lack of transparency from sectoral agencies.

85. **International connectivity is limited, with only one operational fiber linking Chad to the SAT-3 submarine cable via Cameroon.** In Cameroon, the incumbent operator (*Cameroon Telecommunications-CAMTEL*) occupies a monopoly position at the border of Chad, enforcing excessive wholesale prices that adversely impact the emergence of competitive retail prices. In Chad, the Sotel is currently the sole operator of the fiber backbone linking N’Djamena to Cameroon (Camtel). To reach Cameroon, other Chadian operators are either forced to go through Sotel to benefit from fiber backbone connectivity, or use their own microwave backbone which provides far less capacity than a fiber backbone. To make things worse, the international gateway that was once liberalized had turned back into a public monopoly in 2013: since 2007 mobile operators could operate their own gateway for international connectivity (via satellite). However, the Ministry of Post and New Information Technology (MPNTI) introduced the obligation to use the international gateway of the incumbent Sotel for voice services, which was later transferred to the ADETIC - ICT Telecom Agency (*Agence de Développement des Technologies de l’Information*), an ICT sector agency, in 2016 (cf. below). The “re-monopolization” of the international gateway is a major step backwards and is contrary to international best practices and the recommendations of the World Bank. As of 2017, the total available international connectivity capacity for Chad is estimated to be around 2Gbps, compared to 32Gbps for Benin, 124Gbps for Senegal, and 178Gbps for Côte d’Ivoire²¹.

²⁰ Sotel Tchad is the main provider of fixed internet services over wireline (copper DSL) and wireless (CDMA2000), and there are three small independent ISPs (AlbideyNet, PrestaBist and Saonet) focused on corporate customers and providing broadband via satellite-based technologies.

²¹ Source: Telegeography, Global Bandwidth Forecast Service Q3 2017.

86. **To break the monopoly situation on the supply side (Cameroon), the GoC has deployed a second optic fiber from N'Djamena to Sudan that is still not operational, and a third optic fiber from N'Djamena to Niger is planned to be jointly financed by the African Development Bank (AfDB) and the EU.** The second optic fiber was financed by the GoC and will connect N'Djamena to Sudan to diversify the supply of international connectivity by linking it to submarine cables in the Red Sea; although the fiber has been deployed it is still not operational due to technical and governance issues. A third optic fiber connecting Chad to Niger is planned to be jointly financed by the AfDB and the EU – the AfDB approved the project in December 2017, the EU approved in February 2018). To operationalize all the governmental fiber (to Cameroon, Sudan and Niger), the Government announced plans to introduce a Public-private Partnership (PPP) with Chadian operators to ensure the wholesale access of international connectivity. Although the negotiations on the PPP started well, Chadian operators now state that the process is has come to a halt despite being supported by AfDB and EU under their IPF to build the Chad-Niger fiber optic (open access PPP is a disbursement condition for the AfDB and EU), and there is ongoing debate on the definition of the PPP model. An important challenge for the setting up of the PPP is that Sotel would no longer be the operator in charge of managing the N'Djamena-Cameroon fiber, thus depriving it from a major source of revenue.

87. **With the support of the proposed series, the Government will increase international wholesale capacity and redundancy by establishing by decree the PPP model which will manage the optic fiber on an open access basis with the objective to lower the cost and improve the reliability of international connectivity.** Under the first operation, to set up the framework for the PPP, the Ministry of ICT has detailed the PPP principles to be implemented and the timetable of the actions to be taken by publishing a “communiqué” available on its institutional website²². As the proposed trigger for the second operation, the Government will subsequently specify by decree the open access wholesale PPP model for all the governmental fiber optics (Cameroon, Sudan, and Niger) through the adoption of the Ownership Model (i.e. “who owns the fibers”) and the Management Model (i.e. “how will the fiber be managed” such as a *concession*, *affermage*, or other types of contract). By adopting by decree on the Ownership and Management model, the Government will have clarified the technical and governance issues for the N'Djamena-Sudan fiber and will be ready to implement the PPP to manage the three fiber-optics backbones. The adoption of the PPP model will also follow the disbursement condition to allow for the deployment of the third fiber optic to Niger financed by the AfDB and the EU. As a result, the effective implementation of the PPP along with the deployment of the third fiber to Niger are expected to contribute to a decline in international wholesale tariffs.

88. **Second, the enabling environment for the sector is weak with high sectoral regulatory fees and a lack of transparency from sectoral agencies.** The ICT tax system is not optimal given the size of the sector: although the ICT sector accounts for less than 3 percent of GDP, the sector contributed to around 11 to 14 percent of total government tax revenues²³ and has further increased in 2018. This affects the affordability of Chadian digital services, impedes positive spillover effects the ICT sector could have on the economy, and ultimately results in lower direct and indirect fiscal revenue for the Government in the long-

²² Communiqué portant sur les Options de gestion des infrastructures en fibres optiques en République du Tchad, du 26 septembre 2017.

²³ In addition to the value-added tax (VAT) rate of 18 percent, taxes on the telecom sector include: (i) a specific excise tax (*droit d'accise*) for mobile operators, representing 18 percent of their total sales; (ii) a sectoral regulatory fee (*redevances*) representing 9 percent of mobile operator revenues; (iii) a specific tax of XAF50 per minute for incoming international calls; and (iv) tax on pylons. The total tax revenue paid by mobile operators amount to half of their total revenues, one of the highest rate in Sub-Saharan Africa.

run. Compared to 2017, the tax increase in 2018 is mainly explained by a 2-percentage point increase in sectoral regulatory fees from 7 to 9 percent of mobile sales revenues²⁴, with 2.5 percent for the sectoral regulatory agency ARCEP and 1.5 percent for the digital development agency ADETIC (the rest going to other agencies or the national treasury):

- The sectoral regulatory agency **ARCEP** captured half of the regulatory fee increase as its share increased from 1.5 percent of mobile sales in 2017 to 2.5 percent in 2018. This represents an annual budget of around XAF 4.5 billion (around US\$8.5 million), a significant amount for a regulatory agency comprised of 133 staff (the ARCEP states that it needed to increase its annual budget as it has to reimburse loans contracted to finance the deployment of the second fiber to Sudan). In parallel to this budget increase, the ARCEP has stopped publishing ICT data since December 2015 in its ICT market observatory²⁵, which hinders the elaboration of sound sectoral policies.
- The other main sectoral agency, the *Agence de Développement des Technologies de l'Information et de la Communication* **ADETIC**, is also not fully functional and is not managed transparently. Its role is to promote the usage of digital services in Chad and finance universal services projects in rural areas. Since 2017, the ADETIC earns 1.5 percent of mobile sales each year, and before the first operation there has been some lack of clarity of how it should pinpoint its revenues for universal service projects. The ADETIC also draws additional resources from the international gateway monopoly it owns (revenues of XAF 5 billion in 2016). In 2016 and 2017, ADETIC spent several XAF billion on numerous projects²⁶, but very limited resources have been dedicated to universal service projects and the increase in rural connectivity, with the deployment of only two mobile sites in rural areas²⁷.

89. **To improve the enabling environment, this series will support the Government in its efforts to increase the transparency in the management of fiscal resources by the two main sectoral agencies ARCEP and ADETIC.** With the first operation, the Government has: (i) ensured the publication by ADETIC of its financial statement for the years 2015 and 2016 (the financial statements have been provided to the World Bank and will be published online in April 2018); and (ii) has clarified by decree the percentage of ADETIC resources specifically dedicated to Universal Service projects²⁸. With the second operation, the Government will foster the transparency of its sectoral agencies with the online publication by ARCEP and ADETIC of their 2017 financial statements and the online publication of the up-to-date ICT market data observatory.

90. **Proposed reforms in the ICT sector are critical for its development, and to enhance the benefits of ICT services for inclusive growth, but success will require sustained government commitment to reforms.** Reforms touch upon sensitive areas and may affect some vested interests. In parallel, it will be particularly important to carry out ongoing reforms of Sotel undertaken by the government.

²⁴ With the following break-down: 4 percent for the Treasury, 2.5 percent for the regulator ARCEP, 1.5 percent for the Universal Service agency ADETIC, and the remaining 1 percent for the *Ecole nationale supérieure des TIC* (ENASTIC) and the *Agence Nationale de Sécurisation Informatique et de Certification Electronique* ANSICE. (Loi de Finances 2018, art. 39).

²⁵ The ICT market observatory is accessible at: <https://www.arcep.td/publications/observatoire/>.

²⁶ Projects include "ICT community centers" in rural areas, the creation of websites for other Ministries and institutions, the digitalization of the national postal company, the connections of universities, the creation of an "online virtual university", the creation of the Ecole Nationale Supérieure des TICs (ENASTIC), and preparatory works for the creation of a public data center (even though private data centers already exist in Chad).

²⁷ ADETIC only finances the electrification of these two sites, the rest of the infrastructure is financed by Chadian operators

²⁸ Décret n°1112/PR/PM/MPNTI/2017, juillet 2017.

<p>Prior Action 9: The Government has continued the set-up of the open access wholesale PPP for the governmental fiber optic network (to Cameroon and Sudan, and upcoming to Niger) with a communication by the Minister of ICT dated September 26, 2017, published on the Ministry of ICT website, detailing the open access wholesale principles for the PPP.</p> <p>Prior Action 10: The Government has increased transparency of FSUCE through: (i) the online publication by ADETIC of its 2015 and 2016 financial statements; and (ii) the clarification by <i>Decree</i> of the percentage of FSUCE resources dedicated specifically to the funding of the universal service/access to ICT services (Universal Service Fund).</p>
<p>Indicative Trigger 10: The Government has issued a decree for the Ownership and Management model defining the open access wholesale PPP model for the governmental fiber optics (Cameroon, Sudan, and Niger).</p> <p>Indicative Trigger 11: The Government has further enhanced the transparency of the sectoral agencies with the online publication by ARCEP and ADETIC of their 2017 financial statements and the online publication of the ICT market data observatory with up-to-date data.</p>
<p>Results Indicator 11: Decrease in wholesale price of international connectivity. Baseline 2017: XAF 250,000/Mbps/month; Target mid 2020: XAF 60,000/Mbps/month).</p> <p>Results Indicator 12: ARCEP (the main ICT sector regulator) and ADETIC (another ICT sectoral agency) fulfil their transparency commitment by publishing annually their financial statements. Baseline 2017: 0 financial statements published; Target: mid 2020: 4 financial statements published for 2017 and 2018 (2 for ARCEP and 2 for ADETIC).</p>

Pillar IV: Increasing Social Protection for the Poor, Vulnerable and Refugees

IV.1. Implementing Cash-transfers and Cash-for-work Programs based on a Unified Social Registry

91. **Chadian households have very limited access to formal social protection and the public provision of basic services is inadequate.** The safety net system in place to help poor households out of their chronic poverty is very limited and unable to reduce their vulnerabilities or enable them to cope with covariate risks. Per recent estimates, in 2014, about US\$109 million was spent to finance different types of safety nets in Chad, i.e. 0.8 percent of GDP. This is below the Sub-Saharan average but it still represents a significant amount of resources. These resources serve mainly as an emergency response tool, particularly to food crises. Much of the SSN system is funded by development partners (74 percent), while only 26 percent of total safety net spending is funded by the Government (as of 2014). Safety nets, as provided by the government, are limited to subsidies to children, either as in-kind support in education and nutrition, or as free access to healthcare services. Other support is provided in the form of exemptions from health cost expenditures. However, such exemptions are universal in nature, and not targeted. Given that access in poor rural areas is very limited compared to better off urban areas, such exemptions also tend to be intrinsically regressive. Moreover, support provided by development partners is mostly to vulnerable households who experience transient shocks (typically of a seasonal nature) and the assistance provided is often in-kind.

92. **Safety nets for the chronic poor constitute only about 20 percent of total safety net spending.** Aspects of the current system that constrain a long-term and sustainable approach to fighting poverty and vulnerability include: unpredictability of the interventions and their humanitarian nature which is short-term focused; the lack of long-term access to safety nets; and the limited ability to track beneficiary households and monitor changes in their consumption levels, human development achievements, and livelihoods. Insufficient financial resources are also a constraint.

93. **In July 2015, the Government approved a National Social Protection Strategy (NSPS) based on a more systematic and structured approach to safety nets.** This new approach includes the establishment of systems to identify, register, target, support, and monitor beneficiary households. Such a framework is intended to help the Government and its partners to transition from an emergency approach to vulnerabilities to a longer-term approach aimed at building resilience and strengthening livelihoods proactively. With the introduction of the NSPS, the Government is looking to establish a more permanent safety nets system that in the long-term may become the key platform to deliver direct support to chronic and transient poor in Chad. The proposed direct support comes in a combination of cash support and training, which has been proven to help the ultra-poor and vulnerable groups escape extreme poverty, support them in time of crisis and graduate in much more sustainable ways than households receiving just cash or just training and inputs. It has been demonstrated that such an approach is also relevant in post conflict and fragile contexts. The NSPS was prepared under the leadership of the Ministry of Planning and Prospective and of the Ministry of Women, Social Action and National Solidarity and with support from major partners, United Nations International Children’s Emergency Fund (UNICEF), World Food Program (WFP), the World Bank, the FAO and national and international Non-governmental Organizations (NGOs).

94. **Following the NSPS, a Safety Nets Unit (CFS – *Cellule Filets Sociaux*) was established to implement a pilot Social Protection Project.** In March 2016, the Government established a SSNs Unit to implement a World Bank/UK-DFID Adaptive Social Protection Pilot Project of US\$10 million, the Chad Safety Nets Project (P156479). With the support of the EFSO, the Government has been completing the recruitment process of key staff of the CFS and the pilot has been launched in the regions of Bahr El Gazel, Logone Occidental and Ndjamena.

95. **As part of the arrangements to build a national safety nets system, the Government issued a decree creating the Steering Committee of the Safety Nets program.** Following the establishment of the CFS, the Government agreed to establish a Steering committee to provide strategic guidance to the pilot Project implementation, and inputs to the broader agenda on social protection and safety nets in Chad. This action was supported by the EFSO. Ongoing activities include the preparation of specific tools for identification, appropriate targeting, and registration of beneficiary households, resulting ultimately in the transfer of cash, along with accompanying measures to ensure that resources reach intended beneficiaries and contribute to improved well-being. The proposed series aims to support this program. In parallel and in support of the objectives stated in the Letter of Development Policy (LDP), the Government through the SSNs Unit will select and pay 6,200 cash transfer program beneficiary households in Logone Occidental and Bahr El Gazel Regions. The selection and payment will be made based on a survey of 23,000 poor and vulnerable households in both regions using a well-tested methodology based on poverty and vulnerability criteria and clear criteria for payments of beneficiaries.

96. **With the support of the series, the Government will set-up a Unified Social Registry (USR) for social protection programs in Chad.** The USR is a dynamic, institutionalized database that will contain socio-economic information for a significant proportion of the country’s low-income population especially potential beneficiaries of social protection programs. The database is expected to be used by several actors which implement social protection programs in the country, but do not necessarily follow the same eligibility criteria. This database represents the main tool to identify, determine eligibility of the target and track beneficiaries according to the objectives of the respective programs. The USR will be developed in order to: (i) minimize the costs of collecting data since the same data can be used by different partners with a harmonized methodology; (ii) facilitate coordination of interventions between different partners and reduce the multiple targeting of beneficiaries; (iii) allow for better responses to crises because

programs can be scaled up faster on the basis of the existing registry; and (iv) facilitate the monitoring and evaluation of the entire NSPS.

97. **As a prior action, the Government intends to require all partners to use the harmonized questionnaire and to make available the collected data to the authorities.** This measure aims at putting together social data collected by all partners involved in social protection. An outreach effort is being carried out for the use of the harmonized questionnaire as a main tool for data collection by the partners for their respective programs. The data will be made available to the Government through the CFS which will store the collected information. This information will be accessible only to the stakeholders, per clearly defined security and confidentiality clauses. A manual will be elaborated to explain the use of the information, with details on the way to request these data. The manual will also describe aspects of data confidentiality to ensure that households are well protected. As a trigger for the second operation, a platform will be created for hosting the USR under the purview of the MEDP, and modalities for managing the data will be established by *Arrêté*.

98. **By the end of the programmatic series, a significant number of households is expected to be selected through the USR.** The number of institutions expected to use the USR will be of at least 12 by 2020, while the number of households in the USR benefitting from Government cash transfers and cash-for-work programs is expected to be of more than 12,200 by mid-2020.

Prior Action 11 The Ministry of Economy and Development Planning has issued an <i>Arrêté</i> requesting all national and international stakeholders involved in the collection of data on social protection to: (i) use a harmonized questionnaire for data collection; and (ii) make all data available to the Government through the CFS.
Indicative Trigger 12: The Ministry of Economy and Development Planning has issued and implemented an <i>Arrêté</i> creating a platform for hosting the USR, under its institutional tutelage, and for managing the data collected through the Unified questionnaire.
Results Indicator 13: Number of institutions using the new USR Platform. Baseline 2017: 0; Target mid 2020: 12
Results Indicator 14: Number of households in the USR benefitting from government social safety nets (cash transfers and cash-for-work programs). Baseline 2017: 0; Target mid 2020: 12,200.

99. **In addition to a severe economic and social crisis due to fall in oil prices, Chad is facing an important refugee challenge.** Conflicts and unrest across its borders in Central African Republic, Sudan and Libya as well as terrorist activities led by Boko Haram in the Lake Chad Region have resulted in an inflow of over 403,000 refugees. Most of them have been in exile for more than a decade living either in camps (there are 19 official refugee camps in Chad) or in host communities, which were already living in poor conditions and must now share their limited livelihoods and resources with refugees. Although host communities are significantly impacted by the protracted refugee presence they benefit from a much smaller share of national and international humanitarian assistance than refugees. This limited access to assistance or basic services may also generate tensions between host communities and refugees.

100. **Committed to provide the required assistance to both refugees and host communities, the Chadian Government intends to set up legal provisions to strengthen the rights of refugees and displaced persons.** Chad is a party to several international conventions that concern refugee matters²⁹.

²⁹ These include the 1951 Convention relating to the Status of Refugees and the 1967 Protocol relating to the Status of Refugees, as well as the 1969 Convention Governing the Specific Aspects of Refugee Problems in Africa.

However, these have not yet been translated into national law and draft legislation has been in the making for several months. The current draft is comprehensive in its coverage and progressive in its ambition as it grants refugees essential rights to move towards socio-economic inclusion. The approval of the law will provide an adequate legal framework to support access of refugees to basic services and to economic opportunities. It will also provide the appropriate context for the GoC to use the IDA18 Refugee Sub-window on Refugees and Host communities to finance the Refugees and Communities Project (P164748) currently under preparation.

Table 6: Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Debt management	<i>International Monetary Fund (2016), "Chad – Third and fourth reviews under the ECF", November, Washington D.C. and (draft) Debt Sustainability Analysis (June 2018)</i> The IMF assessment points to the urgent need for improved debt management, and the most recent joint WBG IMF DSA (June 2018) concludes that Chad is at high risk of debt distress after the agreement in principle to restructure the Glencore Loan has been implemented. This step reduces the risk of debt distress from actual distress to a high-risk rating as vulnerabilities persist and further arrears clearance remains necessary.
Tax expenditures	<i>IMF (2016), " Réforme de la fiscalité intérieure dans un contexte de choc", April, Washington DC ; EU (2017, draft) Orientations Après l'Atelier National sur l'évaluation des dépenses fiscales et la réforme de l'IRPP (G. Chambas and JF. Brun).</i> The proliferation of tax exemptions is incompatible with the application of an efficient tax system.
Wage bill	<i>Ernst and Young (2017) : Rapport provisoire de l'audit comptable et organisationnel de la solde du personnel civil de l'Etat du Tchad</i> The effective control of the Chadian public payroll has a definite impact on the effective management of the government public finances. The payroll has tripled in less than ten years combined with a doubling of the civil servant over the same period. about 50 percent over the period before falling in 2014 following the oil price crisis. The preliminary results have identified potential fiscal saving of CFAF 40 billion over the period from January 2014 to September 2016. This saving represents annually CFAF 14.5 billion or 4.3 percent of the projected total wage bill in 2017.
SOEs	<i>Evaluation du portefeuille des entreprises publiques et parapubliques, des organismes ainsi que des participations de l'Etat (draft), KPMG, 2017</i> Preliminary results of the SOE audit commissioned by the Government show that out of 10 SOEs reviewed for which partial financial information could be obtained, nine consistently incurred losses. The one that reported profits, still benefited from government subsidies. Besides the subsidies, it was reported that of the 10 SOEs, seven alone received government subsidies during 2010-2013 that reached 6.55 to 7.4 percent of non-oil GDP on average per year. Most SOEs are financially bankrupt and receive subsidies that are multiples of their capital each year.
Oil Sector	<i>The World Bank (2011); National Oil Companies and Value Creation; Working Paper.</i> <i>The World Bank (2014); Sovereign Wealth Funds for Long-term Development Finance, Policy Research Paper</i> <i>The World Bank (2016) Strategic Investment Funds: Opportunities and Challenges. Policy Research Paper.</i> <i>The World Bank; Chad Sector Diagnostics and Value Chain Analysis (under preparation)</i>
Agricultural productivity	<i>The World Bank (2015), The Republic of Chad: Priorities for Ending Poverty and Boosting Shared Prosperity-Systematic Country Diagnostic, Washington D.C. Agriculture Sector Review (2017), a European Commission funded study carried out with TA from FAO as an input to the elaboration of a new Governmental framework law for the agricultural sector (loi d'orientation agro-sylvo-pastoral et halieutique):</i> The study identifies and analyzes the major issues for agriculture development. It also formulates priority development options related to agriculture (crops, livestock and fisheries) that will guide future investment efforts to improve the living conditions of the Chadian population in general and rural areas in particular.

ICT	<p><i>The World Bank (2016), World Development Report – Digital Dividends.</i> In many instances, digital technologies have boosted growth, expanded opportunities, and improved service delivery. Yet their aggregate impact has fallen short and is unevenly distributed. For digital technologies to benefit everyone everywhere requires closing the remaining digital divide, especially in internet access.</p> <p><i>The World Bank (2017), AFCW3 Economic Update, Enabling the Digital Revolution in SSA: What Role For Policy Reforms?</i> A report on the economies of countries in Africa’s Sahel focuses on a lack of access to information and communications technology, and proposes options to address this issue.</p>
Social safety nets	<p><i>Shaping Adaptive Safety Nets to Address Vulnerability (2016); Small area poverty estimation (2016); Developing an Identity Management Framework in Support of Social Protection in Chad (2016); Evaluation de la situation nutritionnelle et de mortalité dans les régions de la bande sahélienne du Tchad (2014). Tchad : Profilage socioéconomique des réfugiés soudanais, centrafricains et nigériens. UNHCR-WFP, Septembre 2017.</i></p> <p>The first two reports conclude that the absolute number of people living in various degrees of poverty has increased. According to recent estimates, in 2014 about US\$109 million was spent to finance different types of safety nets in Chad, i.e. 0.8 percent of national GDP. This is below the Sub-Saharan average. Moreover, the vast majority of such expenditures were financed by development partners (more than 70 percent). Key conclusions include (i) Building a SSN system is a priority for Chad; (ii) This should build on a national social registry with adequate targeting methods. The last report is based on a census of refugees in 19 camps and provides a detailed outlook on their demographics, vulnerability, economic situation, assets and consumption levels.</p>

C. LINKS TO THE CPF, OTHER WORLD BANK OPERATIONS, AND WORLD BANK GROUP STRATEGY

101. **The Country Partnership Framework (CPF) for FY16-FY20³⁰ was discussed at the Board on December 10, 2015.** The CPF, which succeeded the interim strategy note for FY10-FY12, 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 series is closely aligned with the three pillars of the CPF.

102. **The proposed series builds on a larger effort by the World Bank to help the Chadian Government cope with the impact of multiple exogenous shocks and lay the groundwork for sustained growth recovery and social inclusion.** In December 2015, the Board approved the Chad-DPO Fiscal Consolidation Program Support Grant (P155480) (FCPSG), Chad’s first DPO in a decade. The FCPSG aimed to reinforce macroeconomic stability, protect critical expenditures, and initiate a medium-term structural reform agenda. It supported measures to broaden the tax base, rationalize public spending, enhance PFM transparency, and streamline business-registration procedures. In December 2016, as a protracted slump in global oil prices coupled with persistently high security and humanitarian costs further strained Chad’s fiscal resources, the Board approved US\$80 million in additional financing for the FCPSG through Crisis Response Window allocation. The FCPSG’s implementation has been broadly on track, with a substantial increase in the number of taxpaying firms and newly registered businesses observed despite the difficult economic climate. While less progress has been achieved in enhancing public procurement and limiting recourse to extraordinary spending procedures, the Government is now preparing to implement a new procurement code, while the fiscal consolidation and the recent shift to cash-based budgeting are expected to curb the use of extraordinary spending procedures. A new public expenditure and financial accountability (PEFA) assessment has been completed in 2017, providing updated information on key fiscal indicators. Considering the country’s dire macro-fiscal situation, the World Bank provided a US\$71 million emergency DPF operation - the EFSO – in June 2017, which builds on the FCPSG and will help the Government meet urgent financing needs while laying the groundwork for more substantive reforms.

³⁰ Report No. 95277-TD (November 3, 2015).

103. **The proposed series has been designed to leverage and complement ongoing and planned World Bank projects and TA activities across the four pillars, in the areas of resources mobilization and SOE management, agriculture, and social protection.**

- The proposed series will be prepared and implemented in parallel with a Domestic Resource Mobilization and Management Project targeting improved PFM in the areas of tax policy and administration, PFM and SOE oversight. A TA will be provided by the World Bank and the IMF in support to debt management, to ensure that the proposed reforms receive adequate technical support for strengthening the Debt Unit and preparing the MDTs.
- The series will be supported by an ongoing oil sector capacity building grant, aimed at improving technical and financial knowledge of the MoPE to strengthen its oversight capacity. The series will also be supported by a grant financed oil sector diagnostics aimed at updating understanding of the sector, and recent dynamics. An oil sector value chains study is envisaged (financing to be secured) to assess the potential for economic linkages and regulatory and institutional measures. These activities would also lay the foundations for a more effective and strategic re-engagement of the World Bank in the sector.
- The DPO series will complement two World Bank agricultural investment lending projects in Chad. The prior action on agricultural seeds and triggers on fertilizer supply chain reforms, agricultural extension strategy, and implementation plans for the new ANADER institution will enhance the outcomes of the World Bank-funded Value Chain Support Project (P133021) and the Climate Resilience Agriculture and Productivity Enhancement Project. The proposed measures will contribute to ensuring that farmers supported by these two projects will have access to high quality seeds, fertilizers and relevant extension services for sustainable productivity improvement. The series will also build on ongoing TA (Western Africa: ICT Policies and Support (P164504)) in the ICT sector.
- The series will also leverage and complement a pilot Safety Nets project (P156479) financed by the World Bank and by the UK Department for International Development (DFID). The project is currently being implemented. In the amount of US\$10 million, the pilot project will operate in 3 regions, with the expectation that it will later be expanded to the rest of the country.

D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

104. **The proposed series is anchored in the Government Vision 2030 and five-year plan, which build on consultations with civil-society stakeholders and Chad’s development partners.** The supported reform agenda was developed through a consultative process involving numerous stakeholders from civil society and the private sector. Members of Parliament and other government officials participated in the discussions, as well as workshops on tax expenditures, PFM, and social protection. The government’s fiscal consolidation policy itself reflects consultations with labor unions, civil-society groups, and the representatives of the private sector. Additional consultations were held with Chad’s other development partners.

105. **The proposed operation is being prepared in collaboration with the IMF, EU, and AfDB, which are also providing budget support to Chad, as well as other partners and civil society.** During the preparation of the proposed operation the World Bank team has consulted with a range of development partners through a macroeconomic and budget working group. Coordination with the IMF has been

instrumental to the assessment of Chad's macroeconomic framework and projections of the macro-fiscal impact of exogenous shocks. Consultations on poverty reduction and social-protection policies have involved multiple UN agencies and both national and international NGOs.

5. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

106. **The proposed series is expected to have a positive impact on poverty reduction in the medium- and long- term.** The proposed operation is 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 SSN system has the potential to have a significant impact on allowing households to move out of poverty and strengthen household resilience to shocks. The overall impact on poverty therefore is expected to be positive in the medium- and long-term.

107. **Reforms underpinning Pillar I are expected to have a net positive impact on poverty.** Medium-term efficiency gains in fiscal and debt management and better overall risk management are expected to improve fiscal space for social protection and other public services as well as pro-growth investment. While fiscal rationing and stabilization policies of the Government may have a negative short-term impact on poverty through public sector job losses or decreases in public services, however, medium-term efficiency gains in fiscal and debt management and better overall risk management should clearly improve fiscal space for social protection and other public services as well as pro-growth investment. Improved control of fiscal risks should also contribute to macroeconomic stability, which is beneficial to growth and poverty reduction. The social costs associated to the elimination of irregularities in the payroll is likely to have only negligible social costs. However, the payroll audit may set the stage for deeper reforms of the civil service (beyond the scope of this operation), which would likely involve significant social costs and would require careful evaluation and adequate mitigation.

108. **Pillar II reforms in the oil sector are expected to lead to better transparency and to free-up resources that can benefit the poor.** A functional oil revenue management that incorporates stabilization of budget expenditure will protect the poor through better spending in social sectors. The opportunity cost of the current opaque system is high for the poor as there is no way to envisage alternative use of public resources that are likely to be pro-poor.

109. **The proposed reforms under Pillar III, in agriculture and ICT may lead to a more diversified economy and improved public services.** As around 80 percent of Chad's labor force is active in agriculture, productivity gains stemming from enhanced dissemination and adoption of agricultural technology and more effective input supply chains is bound to result in broad positive effects for vulnerable and poor households. Higher yields resulting from better seeds will improve food security and reduce economic vulnerability of the poor. The development of more affordable ICT technologies is also expected to contribute directly, over the medium-term, to the provision of better public services. This would benefit the poor who tend to rely disproportionately on public services. Cheaper, more effective ICT services in Chad, may also contribute directly to inclusive growth in agriculture by facilitating extension services, but also have cross cutting positive spillover effects for most sectors using ICT as an input. Ultimately, effective ICT is also expected to support faster and more efficient implementation of SSNs and related transfer and social protection systems nationwide.

110. **The expected medium-term impact of the reforms included in this operation on gender equity is positive.** In the medium- to longer-term, increased fiscal space for health, education, and SSNs would have positive impacts on services benefitting women. Increased spending for health may contribute to decrease very high maternal mortality rates. At 856 deaths per 100,000 women, Chad ranks only above CAR and Sierra Leone in international comparisons.³¹ In addition, increased funding for education and SSNs may support improved school attendance for girls. Families with limited resources often prioritize the education of sons, and, despite recent improvements, the 2014/15 Demographic and Health Survey shows that 44 percent of girls aged 15 to 19 have never attended school, compared to 30 percent of boys in the same age group. To help address this, the implementation of the NSPS clearly identifies women as the most vulnerable population, and targets them specifically as the primary recipients of cash transfers and cash for works programs. Additionally, by targeting refugees and host communities, Pillar IV will improve living conditions by women and children who are a majority of the forced displaced population.

B. ENVIRONMENTAL ASPECTS

111. **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.** 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 saddled with reviewing and clearing environmental impact assessment (EIA) documents.

112. **As per the World Bank *Policy on DPF*, the World Bank assessed whether specific country policies supported by the DPF series are likely to cause significant effects on the country's environment, forests, and other natural resources.** The assessment concluded that the policies supported by the proposed DPF are not likely to have negative impacts on the country's natural assets. All the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. The assessment of potential impacts related to actions supported by the DPF will rely on the existing national legal and regulatory framework, and will be monitored and addressed through the national procedures in place in Chad.

113. **Prior actions with respect to reforms in the agriculture and ICT sectors may have positive or little impact on the environment.** Improved seeds will increase productivity at the intensive margin, thereby reducing the need to increase cultivated land size and grow at the external margin. The extension of geographic coverage of mobile networks will certainly involve the destruction of some flora and fauna. However, the potential environmental impact from such actions could be minimized by avoiding areas where the impact will be substantial. Also, the licensed operators would be encouraged to begin revegetation of excavated sites immediately the sites have been backfilled.

114. **Prior actions and triggers designed for increasing social protection for the poor and vulnerable are also largely environmental neutral.** Although some cash for work under the social protection programs could be expected to have some small physical footprint, the Government will finance significant capacity-building activities including environmental and social safeguards through the CFS

³¹ World Health Statistics 2016, World Health Organization.

established on March 10, 2016. In conjunction with department of EA and pollution control, the CFS will play a key role in minimizing any environmental and social adverse impacts and enhancing the positive ones derived from social protection programs. Further, the operation's focus on ensuring adequate fiscal space to preserve pro-poor spending and maintain the government's capacity for effective social protection policy could indirectly support environmental objectives by mitigating the need for rural households to resort to environmentally unsustainable practices in the event of a natural disaster or a shock to agricultural production.

115. The Government's reform agenda encompasses a robust institutional framework for environmental protection. The NDP includes a pillar dedicated to environmental protection and adaptation to climate change built on four key elements: (i) the protection of Lake Chad and other critical ecosystems; (ii) improved land management in rural and urban areas; (iii) the mitigation of risks related to natural disasters; and (iv) the fight against desertification and the conservation of biodiversity. The 1998 Environmental Code was augmented in 2009 by a decree on pollution and environmental damage. The use of charcoal is officially forbidden in Ndjamená to minimize indoor air pollution, and the country is promoting the use of improved cooking stoves. Nevertheless, indoor air pollution remains a major health risk, and access to clean fuels is limited. The Environmental Code also defines principles for solid and hazardous waste management, though these are poorly enforced. The GoC promulgated a Forestry Law in 2008 that clearly distinguishes between conservation and production activities.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

116. Over the past three years, Chadian Government has demonstrated a credible commitment to PFM reform. The authorities have worked closely with the World Bank and other development partners to enhance the national PFM system both during and after the HIPC process, as well as during the implementation of FCPSG. The Government has made important progress in improving the budget process, information management, financial reporting, and external controls. In September 2016, Chad began publishing a "citizen's budget," both in print and online, to make fiscal policy more accessible to the public. The national budget system now more closely reflects the government's stated policy priorities, and it uses a revised classification system to facilitate inter-sectoral collaboration and enhance the monitoring of the national investment plan. The introduction of IFMIS-linked payroll-management software yielded savings of about CFAF 17 billion in 2014 alone, and the authorities are pursuing further measures to strengthen the payroll system. The implementation of the SYSTAC and SYGMA computerized payment systems has reduced payment delays and improved recordkeeping. The regular publication of budget documents and annual reports has enhanced transparency and reinforced external controls. Finally, a Court of Accounts is currently being operationalized with support from Chad's development partners. The Court of Accounts will greatly enhance the effectiveness and efficiency of the country's supreme audit institution.

117. Although there is cause for cautious optimism, many of these reforms will only yield substantial improvements in PFM over the medium-term. Chad's PFM system still faces a number of pressing challenges, including: (i) the poor quality and inadequate timeliness of financial statements produced by the current computerized accounting systems, which are not yet linked to IFMIS; (ii) the lack of information on the status of the budget and the government's financial activities during the fiscal year; (iii) the limited participation of sector ministries and civil-society organizations in the budget process; (iv) the production of incomplete budget-execution reports, including for donor-financed operations; and (v)

weak internal and external controls.³² Supported by the World Bank’s Public Financial Management Capacity Building (PARCAFIP) Project (P090265), the Government has completed a PEFA assessment in 2017, which provides detailed information on the current status of the country’s PFM systems. The Government recently adopted plan for computerizing the PFM system over 2017-2021. The French Development Agency (*Agence Française de Développement*) is preparing a new project to support Chad’s PFM reform agenda, including the computerization of the PFM system.

118. **In 2013, IMF staff carried out an onsite safeguards assessment of the BEAC.** This assessment was conducted during a period of significant change at the institution. It found that the regional central bank had made progress in strengthening its safeguards framework since the previous assessment in 2009. It concluded that the BEAC’s reserves appeared to be broadly adequate, though it noted the need for a more active reserve-management strategy. The assessment also confirmed that “major shortcomings relating to FX operations through the Paris office have been addressed.”

119. **The BEAC has taken important steps to strengthen its governance and control environment.** Since 2010, the BEAC has appointed a new governor, replaced five members of the senior management team, enhanced the role of the Audit Committee, established a new organizational structure for the Internal Audit Department, implemented a risk-based auditing approach, and broadened the scope of external audits to include the activities of the National Directorates and other agencies. The BEAC now publishes a full set of audited financial statements, and external auditors expressed unqualified (“clean”) opinions on the 2012 to 2016 Financial statements³³. A review of the audit reports and the IMF safeguards assessment found that since 2013 the BEAC has begun: (i) upgrading its practices to conform with international financial reporting standards; (ii) strengthening its computerized accounting system to improve information management; and (iii) implementing a computerized system for integrated risk management to hedge against risks arising from the diversification of its activities and the integration of new technology. The safeguards assessment recommended revising the BEAC charter, accelerating the implementation of existing reform plans, and strengthening safeguards related to accounting, information technology, reserves management, and currency operations. The IMF is monitoring the implementation of these recommendations. An update of the safeguard assessment completed in June 2016 confirmed the adequate implementation of the BEAC institutional reform and modernization plan.

120. **Overall, the fiduciary risk of the proposed operation is substantial.** This rating is based on the status of Chad’s PFM system and the BEAC’s safeguards framework, accounting systems, and auditing arrangements. The Chadian Government has made substantial progress in strengthening multiple aspects of PFM and budget management since 2006, and its continuing efforts are supported by the Bank, the AfDB, and the EU.

³² See : World Bank (2012) “Debt Management Performance Assessment” and *Département des Finances Publiques du Tchad* (2014) « *Professionaliser la gestion pour préparer le budget programme* ».

³³ The reviews of the audit reports and the IMF 2013 quadrennial safeguards assessment report found that since 2013, the BEAC has launched a series of reforms to enhance the capacity of its accounting system, including (a) upgrading its practices to conform with international financial reporting standards; (b) strengthening its computerized accounting system (SYSCOBEAC) to improve information management; and (c) implementing a computerized system for integrated risk management (SIRISBEAC) to better manage risks arising from the diversification of its activities and the integration of new technology. The recommendations of the 2013 assessment included revising the BEAC Charter, accelerating the implementation of the reform and modernization plan, and strengthening safeguards in accounting, information technology, reserves management, and currency operations. The implementation of these recommendations is being monitored by the IMF as part of its ‘rolling measures’ approach. Following the update of the safeguard assessment completed in June 2016, a new full safeguard assessment is being undertaken in 2017.

121. **Disbursement and Accounting.** The Recipient is the Republic of Chad, represented by the MoFB. The grant will be released in a single tranche of SDR 44.8 million (US\$65 million equivalent) upon effectiveness and if IDA is satisfied with (i) the program being carried out by the Recipient and (ii) the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow IDA's standard disbursement procedures for DPOs. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated government account for budget support at the regional central bank (the BEAC), which will form part of the country's FX reserves. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement. The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system in a manner acceptable to the World Bank. Based on previous experience, the execution of such transactions between the BEAC and the MoFB do not require more than four (4) days. The Recipient will report to the World Bank on the amounts deposited in the foreign-currency account and credited in local currency (CFAF) to the budget management system. If the withdrawal request is in foreign currency, the equivalent amount in CFAF reported in the budget management system will be based on the market exchange rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty (30) days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to the World Bank. If, after being deposited in this the account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be canceled. The Association will reserve the right to seek an audit of the deposit account by independent auditors acceptable to the Association. If an audit is requested, the Recipient would: (i) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and (ii) furnish to the Association such other information concerning the Dedicated Accounts and their audit as the Association shall reasonably request.

122. The closing date for the operation is June 30, 2020.

D. MONITORING, EVALUATION AND ACCOUNTABILITY

123. **The government's Negotiation Committee will oversee the implementation of the reform program supported by the proposed operation.** The Negotiation Committee, which is chaired by the MoFB, is an inter-ministerial committee charged with coordinating the preparation of the proposed operation and monitoring the reform program. The participating ministries, departments, and agencies will provide information on the status of their respective programs, and the committee will monitor their progress against program objectives. The committee previously collaborated with both the IMF and the World Bank during the successful HIPC completion process and the implementation of the FCPSG. A results framework will define concrete indicators and empirical benchmarks to monitor progress and facilitate ex post evaluation following the end of the program.

124. **Grievance Redress.** Communities and individuals who believe that they have been adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank DPO may submit complaints to the responsible country authorities, appropriate local or national grievance-redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected

communities and individuals may submit complaints to the World Bank’s independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of the World Bank’s noncompliance with its own policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND RISK MITIGATION

125. **The overall risk rating for the proposed operation is high.** Political and governance risks, macroeconomic risks, and risks related to institutional capacity for implementation and sustainability are especially serious.

Table 7: Proposed Operation Risks Ratings

Risk Categories	Rating
Political and governance	High
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of project or program	High
Institutional capacity for implementation and sustainability	High
Fiduciary	Substantial
Environment and social	Moderate
Stakeholders	High
Overall	High

126. **Political and governance risks are high.** Ongoing violence by Boko Haram has increased insecurity along Chad’s borders with Nigeria and Cameroon, compounding an already fragile situation at the borders with Libya, Central African Republic and, to a lesser extent, Sudan. These issues, as well as domestic security concerns, could divert scarce institutional and financial resources away from the reform program. Insecurity and conflict could destabilize the public finances, narrow the resource envelope for pro-poor spending, and increase the risk of arrears accumulation. The fiscal adjustment process intensifies the risk that domestic or regional conflicts could undermine political stability. In addition, the program targets structural reforms in sensitive areas which may encounter political resistance, notably around tax expenditures and payroll rationalization, SOE oversight and controls, the liberalization of inputs markets in the agricultural sector, and the reforms in the ICT sector. Despite a cabinet change in late December 2017, the Government has underscored its commitment to the reforms, which are critical for promoting growth in the non-oil sector and enhancing inclusiveness. However, risks of the reforms being delayed because of political resistance cannot be fully mitigated and remain high. Furthermore, general legislative elections have been announced for 2018.

127. **Macroeconomic risks are also high.** Agreement on external commercial debt restructuring has significantly reduced the risk of debt distress and improved macroeconomic stability, but public debt

vulnerabilities remain elevated. Also, uncertainty regarding future oil prices and oil production³⁴ as well as the volatile security situation add major sources of macroeconomic risk jeopardizing progress along the structural reform path. A decline in oil prices or production shortfalls would put additional pressure on fiscal accounts, compromising the government's ability to maintain a tight fiscal stance and service its public debt. In addition, unpredictable security costs and potential economic disruptions could divert resources away from priority social programs, structural reforms, and institutional capacity-building as supported by this operation. As commercial banks are highly exposed to the public finances, and despite recent arrears clearance³⁵, the ensuing fiscal distress might spill over into the banking sector and subdue credit to the private sector. While CEMAC membership has bolstered macroeconomic stability in recent years, low FX reserves and the constrained fiscal space of its members pose additional downside risks.

128. Both technical design of the program as well as institutional capacity for implementation and sustainability are subject to high risks, which can be mitigated by external technical support. Given the program opens engagement in complex policy areas including fiscal and oil revenue management or PPPs in the ICT sector, technical design risks are high. Parallely, Chad's limited institutional capacity presents serious obstacles to the implementation of major fiscal and PFM reforms. Complex and administratively difficult measures to prepare a MDTs, strengthen SOE management and streamline the payroll and tax expenditures, could prove especially challenging. Structural reforms in the agricultural and ICT sectors will also require adequate expertise and staffing. These risks will be mitigated by leveraging ongoing and planned World Bank projects in the policy areas supported by the proposed series, as well as TA from Chad's development partners, including France, the AfDB, EU, IMF and CEMAC.

129. As noted above, the fiduciary risk of the proposed operation is rated substantial. Recent progress notwithstanding, Chad continues to face serious challenges in terms of budget formulation, execution, and oversight. Sector ministries and civil-society groups have limited input into the budget process. Budget-execution reports are incomplete, and both internal and external control systems remain weak. However, the publication of the "citizen's budget," the adoption of a new PFM Action Plan, and the measures supported by the proposed operation mitigate these risks.

130. Stakeholder risks are high. The vested interests of various groups that benefit from the current distribution of public resources could impede the implementation of reforms supported by the proposed operation. Stakeholder risks are significant in areas critical for fiscal sustainability and unleashing Chad's growth potential, particularly the rationalization of tax exemptions and the public payroll, the oversight and enhanced financial transparency of SOEs, the liberalization of the input markets in agriculture, the definition of the open access PPP model for the governmental fiber optics, and the enhanced transparency in the use funds by the ICT sectoral agencies ADETIC and ARCEP.

³⁴ The oil-price and production outlook remains subject to significant uncertainty regarding global demand, Organization of the Petroleum Exporting Countries (OPEC) supply policy, US shale-oil and Chadian production. Finally, an appreciation of the US dollar-to-euro exchange rate could further increase demand for Chadian oil exports, while a depreciation could reduce demand.

³⁵ Since June 2017, the Government has cleared arrears that emerged last year towards domestic and regional banks.

ANNEX 1 - POLICY AND RESULTS MATRIX

Pillar I - Enhancing Fiscal Risk Management			
OBJECTIVES	PRIOR ACTIONS	INDICATIVE TRIGGERS	RESULT INDICATORS
<i>1.1. Strengthening the management of PPG debt</i>	1. (i) The Minister of Finance and Budget and the Minister of Economy and Development Planning have issued an inter-ministerial regulation <i>Arrêté</i> suspending the use of non-concessional external debt contracted or guaranteed by the Government and non-financial public enterprises, with a maturity of more than one year (except for short-term commercial loans and re-scheduling of debt contracted before June 30, 2017); and (ii) the Ministry of Finance and Budget has published a report on the PPG debt situation at end-2016.	1. The Ministry of Finance and Budget (i) has strengthened the debt management unit with (a) adequate staffing, (b) material and (c) an improved debt recording system; and (ii) a draft MTDS report has been prepared.	1. No increase in the nominal stock of non-concessional external debt. Baseline 2017: US\$1.4 billion Target mid-2020: US\$1.4 billion or less
<i>1.2. Rationalizing tax expenditures</i>	2. The Government has (i) completed and validated a review of its known tax exoneration agreements (<i>Conventions d'Etablissement</i>) and a study of tax expenditures; and (ii) issued and implemented regulations stating that all new tax exemptions require a prior written approval by the Minister of Finance and Budget.	2. The Government has: (i) implemented measures needed to eliminate the irregularities identified in the review of the Conventions and the exemptions that are inconsistent with the CEMAC list of exceptions; and (ii) published an inventory of tax exemptions and derogations in an Annex to the Finance Law (LOF 2020).	2. Reduction in the number of conventions associated with tax exemption anomalies: Baseline 2017: 41 Target mid-2020: 31 or less
<i>1.3. Improving the efficiency of the public wage bill</i>	3. The Government has (i) eliminated identified ghost and under-age workers from the payroll; and (ii) issued a circular announcing measures planned to phase out all payments to ineligible recipients as per the audit.	3. The Government has (i) implemented through the Law of Finance (LOF) 2018 the measures needed to address the remaining irregularities observed in the payroll audit; and (ii) published an implementation completion report of recommendations of the payroll audit.	3. Reduction in the number of persons on the payroll who are ineligible for salaries. Baseline 2017: 1,172 ineligibles per the HR audit Target mid-2020: 750 or less
<i>1.4. Improving SOE transparency and oversight</i>	4. The Minister of Finance and Budget has (i) identified an Oversight Body in its organizational chart to oversee and monitor SOEs and defined such body's responsibilities through the adoption of ToR and (ii) has published the most recent audited (certified) financial statements of nine identified SOEs on the Minister of Finance and Budget website.	4. The Ministry of Finance and Budget has (i) allocated adequate financial resources in its Budget Law 2019 to the SOE Oversight Division and (ii) completed the inventory of SOEs.	4. SOE Operational Oversight Division in place and adequately staffed. Baseline 2017: No Target mid-2020: Yes

			5. Number of SOE audited financial statements published by the Oversight Unit: Baseline 2017: 9 Target mid-2020: 15 or more
Pillar II - Improving Oil Revenue Transparency and Management			
OBJECTIVES	PRIOR ACTIONS	INDICATIVE TRIGGERS	RESULT INDICATORS
II.1. Improving the transparency and efficiency of the oil revenue management mechanism	5. The Minister of Finance and Budget and the Minister of Petroleum and Energy have (i) established, by inter-ministerial decision (<i>Arrêté</i>), a coordination body, with representation from the Ministry of Finance and Budget, the Ministry of Petroleum, and the SHT; (ii) tasked such body with (a) forecasting and analyzing petroleum revenues; (b) assessing the effectiveness of the petroleum revenue management mechanism provided under Law 002/PR/2014; and (c) designing a new mechanism for the management of petroleum revenue aimed at supporting fiscal policy, the allocation of resources to support priority programs, and macro-fiscal policy, the allocation of resources to support priority programs, and macro-fiscal stability; and (iii) published, through the Ministry of Finance and Budget, quarterly petroleum sector updates for the last two quarters of calendar year 2017 and the first quarter of calendar year 2018.	5. The Government has submitted to parliament for approval the legal framework for the new oil revenue management incorporating the stabilization of budget expenditure.	6. The Government has adopted a mechanism for the management of oil revenue that incorporates the stabilization of budget expenditure, in compliance with CEMAC rules on financial savings. Baseline 2017: not operational Target mid-2020: operational
II.2. Improving transparency and oversight in the oil sector	6. The Ministry of Petroleum and Energy has: (a) (i) issued a communiqué announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector; and (ii) published such communiqué on its website and that of the Ministry of Finance and Budget; and (b) published contracts and licenses (as such term is defined under EITI Requirement 2.4 of EITI Standard 2016) representing at least 50 percent of hydrocarbon production in 2015 on the website of the Ministry of Finance and Budget.	6. The Government has adopted the disclosure policy for petroleum contracts mandating their publication, and all petroleum contracts and licenses are publicly accessible, including through the EITI website and/or a government website.	7. Number of EITI Reports documenting the government disclosure policy on petroleum contracts and licenses and Chad's contract disclosure practice as compliant with EITI requirement 2.4. Baseline 2017: 0 Target mid-2020: 2

	7. The SHT has published certified/validated financial statements for the period 2017 on its website.	7. The SHT, has ensured completion of audits of two oil companies, and started the implementation of the audit's recommendations.	8. Information on the cost of oil production activities is available to the Ministry of Finance and Budget. Baseline 2017: No Target mid-2020: Yes
<i>Pillar III - Promoting Resilience and Economic Diversification in Key Real Sectors</i>			
OBJECTIVES	PRIOR ACTIONS	INDICATIVE TRIGGERS	RESULT INDICATORS
<i>Contributing to enhanced agriculture productivity</i>			
<i>III.1. Enhancing dissemination and adoption of agricultural technologies and good practices</i>		8. The Government has started to modernize agricultural extension services to farmers through: (i) the publication of a new agriculture extension strategy by <i>Arrêté</i> , (ii) the adoption of a five-year action plan for the newly created agency of rural development (ANADER) by <i>Arrêté</i> ; and (iii) the signature of a performance contract between the Ministry of Agriculture and ANADER.	9. Number of new (to Chad) seed varieties tested, approved, and released. Baseline 2017: 0 Target mid-2020:10
<i>III.2. Improving the efficiency of agricultural inputs supply chains (seeds)</i>	8. The Ministry of Agriculture has implemented a Seed Law through: (i) the adoption and publication of the inter-ministerial <i>Arrêté</i> on seed production, control and certification regulations; (ii) the adoption and publication of an <i>Arrêté</i> on specific technical regulations for seed production of specific varieties of vegetables and cereals; and (iii) the issuance of an <i>Arrêté</i> setting up the implementation of the seed control and certification function within the MoA.	9. The Minister of Agriculture has issued an <i>Arrêté</i> approving the mechanisms for community-based seed production and started its implementation.	10. Percentage increase in the cultivated land coverage with improved seed. Baseline: 2% of cultivated land (as per National Seeds Policy 2014) Target mid-2020: 5% of cultivated land
<i>Strengthening the contribution of the ICT sector to inclusive growth</i>			
<i>III.3. Lowering the cost of international connectivity</i>	9. The Government has continued the set-up of the open access wholesale PPP for the governmental fiber optic network (to Cameroon and Sudan, and upcoming to Niger) with communication by the Minister of ICT dated September 26, 2017,	10. The Government has issued an <i>Arrêté</i> for the Ownership and Management model, defining the open access wholesale PPP model for the governmental fiber	11. Decrease in wholesale price of international connectivity: Baseline 2017: XAF 250,000/Mbps/month

	published on the Ministry of ICT website, detailing the open access wholesale principles for the PPP.	optics (Cameroon, Sudan, and Niger).	Target mid-2020: XAF 60,000/Mbps/month
III.4. Fostering a transparent and efficient enabling environment for the provision of ICT services	10. The Government has increased the transparency of FSUCE through: (i) the online publication by ADETIC of its 2015 and 2016 financial statements; and (ii) the clarification by Decree of the percentage of FSUCE resources dedicated specifically to the funding of the universal service/access to ICT services (Universal Service Fund).	11. The Government has further enhanced the transparency of the sectoral agencies with the online publication by ARCEP and ADETIC of their 2017 financial statements and the online publication of the ICT market data observatory with up-to-date data.	12. ARCEP (the main ICT sector regulator) and ADETIC (another ICT sectoral agency) fulfill their transparency commitment by publishing annually their financial statements. Baseline 2017: 0 financial statements published Target mid-2020: 4 financial statements published for 2017 to 2018 (2 for ARCEP and 2 for ADETIC)
Pillar IV- Increasing Social Protection for the Poor, Vulnerable and Refugees			
OBJECTIVES	PRIOR ACTIONS	INDICATIVE TRIGGERS	RESULT INDICATORS
IV.1. Implementing cash transfer and cash-for-work programs based on a USR	11. The Ministry of Economy and Development Planning has issued an <i>Arrêté</i> requesting all national and international stakeholders involved in the collection of data on social protection to: (i) use a harmonized questionnaire for data collection; and (ii) make all data available to Government through the CFS.	12. The MEDP has issued and implemented an <i>Arrêté</i> creating a platform for hosting the USR, under its institutional tutelage, and for managing the data collected through the Unified Questionnaire.	13. Number of institutions using the new USR Platform. Baseline 2017: 0 Target mid-2020: 12 14. Number of households in the USR benefitting from government SSNs (cash transfers and cash-for-work programs). Baseline 2017: 0 Target mid-2020: 12,200

ANNEX 2 - LETTER OF DEVELOPMENT POLICY

02 MAY 2018

REPUBLIQUE DU TCHAD

PRESIDENCE DE LA REPUBLIQUE

PRIMATURE

MINISTRE DE L'ECONOMIE ET DE LA
PLANIFICATION DU DEVELOPPEMENT

N° 6031/MEPD/18



UNITE-TRAVAIL-PROGRES

N'Djamena, le 02 MAI 2018

B.M. N'DJAMENA
Arrivée le 02 MAY 2018
Registre N° 429
Classement
Copie à

Monsieur le Ministre de l'Economie
et de la Planification du Développement
Au
Dr. Jim YONG KIM,
Président du Groupe de la Banque Mondiale
Washington DC

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement (LPD) décrit d'une part, le contexte socioéconomique du Tchad, les stratégies nationales de développement ainsi que les évolutions économiques récentes et d'autre part, présente les perspectives économiques et les réformes à moyen terme. Elle retrace l'ensemble des politiques publiques et sectorielles prioritaires initiées par le Gouvernement pour non seulement sortir de l'urgence et stabiliser la situation macroéconomique mais aussi relancer la croissance et diversifier l'économie tchadienne.
2. La LPD indique également les axes de réformes majeures pour bâtir une résilience solide et faire face aux effets des trois chocs majeurs liés : (i) à la chute continue des cours du pétrole et le remboursement de la dette envers la société Glencore; (ii) aux tensions sécuritaires au Tchad et dans la région qui continuent de peser lourdement sur le budget et, de manière générale, sur l'économie; et (iii) à l'accueil et la prise en charge continus d'au moins 750 Mille réfugiés, personnes déplacées et rapatriées, le long de la frontière avec les pays voisins. Cette LPD fournit les grandes lignes du programme de réformes à court et moyen termes.
3. En vue de soutenir son programme de résilience et de relance économique, le Gouvernement du Tchad sollicite de la Banque Mondiale un montant équivalent de

65 millions de dollars américains, sous forme d'un programme Don d'Appui Budgétaire (première de deux opérations). Cet appui permettra de stabiliser la difficile situation fiscale et macroéconomique qui affecte massivement le pays et contribuera à la mise en place des bases à plus longs termes de redressement des finances publiques, de stabilisation macroéconomique et de la relance de la croissance.

I. Contexte.

4. Depuis la restauration de la paix en 2009, la qualité du dialogue et plusieurs négociations ont permis de renouer le dialogue avec la Banque mondiale et de conclure avec le FMI un programme de référence en 2013. Depuis août 2014, le Gouvernement du Tchad prend des mesures courageuses pour mettre efficacement en œuvre son programme économique et financier à moyen terme. La mise en œuvre de ce programme a permis d'atteindre le point d'achèvement au titre de l'Initiative en faveur des Pays Pauvres Très Endettés (PPTE) en avril 2015, qui a été un important tournant pour le Tchad.
 5. Grâce aux décaissements d'appui budgétaire du FMI, de la Banque mondiale, de l'Union européenne, de la Banque africaine de développement, et de la France, les autorités ont pu financer les déficits causés par les chocs exogènes et la faiblesse des recettes hors pétrole et assurer ainsi la stabilité macroéconomique. Cela a également permis de réaliser des progrès importants en matière de réformes structurelles, conformément aux objectifs du programme et ce, en dépit du contexte particulièrement difficile en 2016 et 2017.
 6. Le Gouvernement a élaboré et mis en œuvre avec succès le Plan National de Développement (PND) couvrant la période 2013 à 2015 qui est relayé par le Plan National de Développement (PND 2017-2021) adopté récemment par le Gouvernement et dont la Table Ronde pour son financement tenue en Septembre 2017 a été couronnée de succès. En effet, ce premier plan est issu de la « Vision 2030, le Tchad que nous voulons » sur les quinze prochaines années. Le processus d'élaboration de la Vision 2030 et du PND a été encore plus participatif et inclusif que par le passé. En effet, il a recueilli les aspirations de toutes les couches de la population au niveau national et a été régi par la recherche d'un consensus fort autour des grandes orientations pour garantir l'appropriation par l'ensemble des acteurs et en conséquence faciliter sa mise en œuvre. Ainsi, il a offert une nouvelle occasion de renforcer le dialogue sur les politiques et stratégies sectorielles à mener entre l'administration, la société civile, les confessions religieuses, le parlement et les Partenaires Techniques et Financiers (PTFs). Aussi, le PND 2017-2021 constitue le cadre unique de concertation et d'assistance à moyen terme en matière de développement économique et social, pour le Gouvernement et pour les PTFs.
 7. Les chocs exogènes auxquels le Tchad est confronté depuis le milieu de l'année 2014 continuent de peser sur la situation économique, financière et sociale :
-

- a. Après une légère hausse et une stabilisation des cours mondiaux du pétrole dans la deuxième partie de l'année 2017, le prix du pétrole tchadien était à 50 dollars américains en 2017. En raison de ce niveau de prix, conjugué à l'augmentation graduelle prévue des prix et de la production après une baisse temporaire en 2017 et la résolution d'un emprunt de la société Glencore garanti par le pétrole qui se levait à la fin de février 2018 à environ 1,25 milliard de dollars américains, les recettes pétrolières versées au Trésor sont en train de stabiliser. Pendant 2016 et 2017, le Gouvernement a dû effectuer des coupes dans les dépenses d'investissement et rationaliser les dépenses courantes, notamment la masse salariale.
- b. Les forces sécuritaires tchadiennes restent très fortement impliquées dans les efforts de maintien de la paix, en particulier dans le bassin du Lac Tchad. Ces efforts sont primordiaux pour maintenir la sécurité régionale, mais le stationnement des personnels militaires, notamment au Cameroun, au Mali, au Nigéria, au Niger, ainsi qu'à la frontière avec le Soudan et la Libye grève considérablement le budget de l'Etat et altère la mise en œuvre du programme de développement économique et social du Gouvernement. La situation sécuritaire continue donc de perturber les échanges transfrontaliers et les activités économiques essentielles, notamment dans les secteurs de l'élevage et de l'agriculture.
- c. La crise humanitaire dans la région est aussi une source importante de difficultés pour le Tchad qui accueille plus de 750.000 réfugiés, personnes déplacées et rapatriées. Même s'il est difficile de mesurer le coût budgétaire direct, les autorités aident les réfugiés à accéder à la terre et aux services communautaires de base, et à s'installer dans les communautés hôtes.

II. Vision 2030 et PND 2017-2021.

8. Le projet de société incarné dans « la Vision 2030, le Tchad que nous voulons » traduit la volonté des autorités de faire du Tchad une puissance régionale émergente à l'horizon 2030. Cette émergence sera ancrée sur la cohésion nationale et sur la diversification des sources de croissance économique durable, créatrices d'emplois décents et permettant d'assurer à chaque Tchadien, l'accès équitable aux services sociaux de base. Il s'agira donc de donner une impulsion au processus de développement du pays visant l'émergence en 2030 à travers trois Plans Nationaux de Développement (PND 2017-2021, PND 2022-2026, PND 2027-2030). Ces plans seront mis en œuvre pour accélérer la transformation structurelle dans les domaines social, de la gouvernance et de l'État de droit, de l'économie et de l'environnement.
9. Le PND 2017-2021, document cadre de référence de la politique nationale des interventions de l'État et de ses partenaires, a pour objectif général de jeter les

bases d'un Tchad émergent dans un climat de stabilité. De manière spécifique, il s'agit de : i) œuvrer pour un Tchad en paix, respecté et impliqué dans son environnement régional et international ; ii) donner la possibilité à chaque citoyen d'accéder à l'eau et à la santé, au logement, à l'énergie et à la mobilité ; et iii) bâtir un Tchad dynamique, fort économiquement et respectueux de l'environnement. Ce Plan comporte quatre axes stratégiques, à savoir : i) Renforcer l'unité nationale ; ii) Renforcer la bonne gouvernance et l'État de droit ; iii) Développer une économie diversifiée et compétitive ; et iv) assurer une meilleure qualité de vie à la population (protection sociale). Des politiques efficaces de population et de santé de la reproduction permettront de tirer bénéfice du dividende démographique, et ainsi d'améliorer l'accès de tous les Tchadiens aux services sociaux de base.

10. Les besoins de financement du Programme d'Actions Prioritaires (PAP) du PND sont évalués à 5 538,233 milliards de FCFA au cours de la période 2017-2021, dont 618,5 sur ressources propres de l'Etat (11,3%) du coût global du PAP et 1 208,86 milliards sur financement extérieur déjà acquis (22,0%). Les projets et programmes de développement dont le financement sera assuré par le secteur privé représentent un coût de 1 629,442 (29,7%) dont près du tiers fera l'objet d'un Partenariat Public-Privé (PPP). Il en résultait alors un montant de financement à rechercher de l'ordre de 2081 milliards de FCFA (soit 3,3 Milliards USD), représentant 37.5% du coût global du PAP pour la période 2017-2021. Ce gap de financement a été comblé par les annonces lors la tenue de la table ronde à Paris en Septembre 2017 qui a permis de recueillir des promesses de contribution de USD 19, 159 milliards, soit 10 595,83 milliards de FCFA.

III. Situation macroéconomique en 2017 et Perspectives 2018-2019.

11. L'économie du Tchad reste affectée par les chocs exogènes, mais montre des signes timides de reprise, après la récession la plus sévère enregistrée depuis l'avènement de la production pétrolière en 2003. Après une contraction de 6,3% en 2016, la croissance du PIB réel restera négative à -3.0% en 2017, principalement due à une contraction du secteur pétrolier de 16.2% en raison d'une baisse pas prévue de la production. Les dépenses publiques modérées pèsent encore sur le PIB non pétrolier, cependant la dissipation des effets de l'ajustement budgétaire sur la demande intérieure, l'amélioration très graduelle de l'activité des secteurs secondaire et tertiaire, ainsi que la production agricole croissante, devraient mettre fin à une croissance négative en 2018. Dans l'ensemble, le secteur primaire devrait croître de 4.6% en 2018, en hausse de 3.1% en 2017, alors que l'industrie et les services commencent une récupération à 1,7% et 0.5% respectivement. Les prix à la consommation reflètent ces premiers signes d'amélioration de l'activité économique avec la déflation passant de 1,1% en 2016 à -0.7% en 2017.

12. La faiblesse des prix du pétrole, et l'insécurité régionale ont considérablement affaibli la position budgétaire du gouvernement. Le remboursement d'un prêt

pétrolier, qui a été contracté lorsque les prix du pétrole étaient élevés, a considérablement aggravé la situation financière du Tchad. Malgré un ajustement budgétaire important et des efforts pour restructurer la dette commerciale extérieure, le Tchad reste tributaire d'un financement extérieur d'un montant prévu de USD 428 millions en 2018. Les conflits régionaux et la crise humanitaire, ainsi que les pressions liées à ces dépenses représentent un autre risque pour une gestion budgétaire durable. Les revenus du pétrole ont diminué de 11,7% à 4,1% du PIB non pétrolier entre 2014 et 2017, mais devrait augmenter à 5,4% en 2018. Après des compressions drastiques des dépenses publiques d'environ 11% du PIB hors pétrole entre 2014 et 2016, les dépenses pourraient rester à 18,1% en 2017 et 17,9% en 2018. Ainsi, le solde budgétaire devrait être excédentaire à 0,2% du PIB non pétrolier pour 2018, contre un déficit de 5,2% en 2016 et 2,3% en 2017. Récemment, le déficit a été financé par l'émission des bons et obligations du Trésor sur le marché de la dette régionale et les appuis budgétaires des partenaires Techniques et Financiers.

13. La forte rationalisation de l'utilisation des réserves et l'assainissement budgétaire important ont contribué à une réduction du déficit du compte courant de 13% du PIB en 2016 à 5,2% en 2017. La balance commerciale s'améliore, grâce à l'augmentation des exportations et aussi du fait que les Investissements Directs Etrangers devraient croître en 2017. En tant que membre de la CEMAC, la politique monétaire et de change du Tchad est déterminée par la banque centrale régionale. Les réserves de change imputées au Tchad ont été négatives à -1,0 mois d'importations en fin 2016 et resteront autour de zéro à court terme alors que la couverture de la réserve régionale de 2 mois reste inférieure à ce qui est jugé adéquat (cinq mois) pour une union monétaire riche en ressources naturelles avec un taux de change fixe. La masse monétaire s'est contractée de 7,7% en 2016 à cause de l'impact de la crise sur le secteur financier, fortement exposé à la situation budgétaire du gouvernement et aux prix mondiaux des produits de base, mais devrait augmenter de 5,8% en 2017.

IV. Les programmes de réformes

14. La gouvernance démocratique et la réforme du secteur public demeurent des axes aussi importants de la politique de développement du pays. Un consensus s'est dégagé à l'échelle nationale quant à la nécessité de diversifier l'économie en dehors du secteur pétrolier. Le Gouvernement et d'autres parties prenantes au niveau national reconnaissent que le choc des cours du brut persiste et qu'il est important de réduire la dépendance à l'égard du secteur pétrolier comme moteur de croissance. Le Gouvernement est convaincu que l'amélioration du climat des affaires est un des moyens nécessaires pour attirer des Investissements étrangers en dehors du secteur pétrolier.

15. Dans le cadre de la mise en œuvre du PND 2017-2021, le Gouvernement maintiendra sa politique de diversification économique en soutenant la promotion

des filières porteuses, des produits forestiers non ligneux et des chaînes de valeur dans le développement rural (gomme arabique, arachide, riz, maïs, karité, miel, néré, sésame, spiruline, datte, pêche, viande, lait, etc.). Cela se fera notamment à travers des actions ciblées sur l'encadrement des producteurs, le commerce intracommunautaire, et l'opérationnalité des stratégies intégrées de développement industriel et de promotion des exportations.

16. Pour atténuer les effets pervers des trois chocs précités, les autorités souhaitent poursuivre et renforcer les différents programmes de réformes qui seront appuyés par les différents Partenaires Techniques et Financiers à travers les 4 piliers suivants : (i) améliorer la gestion des risques budgétaires et de la dette ; (ii) améliorer la transparence du secteur pétrolier et sa contribution à la diversification économique et à la croissance durable; (iii) promouvoir la diversification économique par le renforcement de la performance de certains secteurs clefs; et (iv) améliorer la protection sociale des populations pauvres, vulnérables, les réfugiés et communautés d'accueil. L'objectif principal étant de bâtir une résilience solide et de relancer la croissance économique à travers un programme de réformes structurelles et crédibles.

17. Pour atteindre cet objectif, le Gouvernement a identifié les mesures prioritaires suivantes :

Renforcer la gestion de la dette publique et publiquement garantie. Afin d'améliorer la gestion de la dette, le gouvernement a entrepris plusieurs mesures dont la suspension de tous les emprunts et garanties externes aux entreprises publiques à des conditions non concessionnelles et la publication du rapport annuel de la dette y compris les garanties. Cela ouvrira la voie à la préparation d'une stratégie de gestion de la dette à moyen terme (MDTS), dont la publication. Parallèlement, le gouvernement prévoit de renforcer la Direction de la Dette avec des ressources humaines et techniques nécessaires et de mettre en place un système adéquat d'enregistrement de la dette.

Rationaliser les dépenses fiscales. Compte tenu de l'ampleur de l'impact de la crise sur les recettes, le Gouvernement a décidé d'entreprendre des réformes sur les dépenses fiscales. Une étude sur les dépenses fiscales a été réalisée en vue de faire un recensement des exonérations existantes, en analysant les régimes sous lesquels ils ont été accordés et l'estimation de leur taille globale. Entre temps, le Gouvernement a décidé de geler l'octroi de toutes nouvelles exonérations. Finalement, le Gouvernement a : (i) complété et validé la revue des 37 Conventions d'Etablissement des plus grandes entreprises et l'Etude sur les Dépenses Fiscales ; et (ii) émis une réglementation exigeant que toute nouvelle exonération fiscale soit formellement approuvée au préalable par le Ministre des Finances et du Budget.

Améliorer l'efficience de la gestion de la Solde :Le Gouvernement a entrepris activement une profonde réflexion sur l'amélioration de la gestion des ressources publiques étant donné la nature et l'impact des chocs exogènes. En ce qui concerne la gestion des dépenses, l'approche du Gouvernement consiste à combiner un programme de stabilisation visant à limiter les dépenses avec une approche à moyen terme consistant à améliorer l'efficacité de la gestion des dépenses publiques. C'est ainsi que le Gouvernement a adopté une révision du Budget 2017 comprenant les mesures d'austérité dont : (i) l'élimination du fichier de la Solde tous les employés fictifs et sous la limite d'âge, et (ii) la publication en annexe d'une liste des mesures prises en vue de la cessation de tous les paiements inéligibles identifiés dans l'audit de la Solde.

Améliorer la supervision et la transparence des Entreprises Publiques et Parapubliques (EP). Pour mieux appréhender la situation financière du secteur des entreprises publiques, le gouvernement a entrepris un audit du portefeuille de l'Etat dans le but d'évaluer la situation financière de ces entités et les implications connexes en matière risque budgétaire. Le Gouvernement a (i) identifié une structure de supervision et de suivi financier des EP et clarifié ses responsabilités et (ii) publié les états financiers audités (certifiés) les plus récents des EPs. Dans la suite de cette réforme, le Gouvernement entend faire signer annuellement à partir de 2018 un contrat de performance entre les EPs et leur Ministère de tutelle. Les EPs devront dorénavant publier et transmettre au Ministère des Finances les états financiers audités. Et enfin, le Gouvernement compte soumettre au Parlement un nouveau Code de Gouvernance des EPs.

Améliorer la transparence et l'efficacité du mécanisme de gestion des recettes pétrolières et l'efficience dans la gestion du secteur pétrolier. Après l'impact désastreux de la baisse des cours du baril, le Gouvernement reconnaît que la conduite d'une politique claire et la mise en place d'un cadre adéquat pour la gestion des revenus pétroliers représentent un élément essentiel pour la stabilité budgétaire et la résilience économique. Le rebond attendu de la production pétrolière, la forte indication du potentiel de production à partir des activités d'exploration en cours et l'une augmentation de l'espace budgétaire prévue à travers des réformes structurelles et de restructuration de la dette, remettent le secteur pétrolier dans un rôle central pour la stabilité macroéconomique et la croissance soutenue. Le gouvernement a l'intention de promouvoir la transparence et l'efficacité de sa politique budgétaire en mettant en place un mécanisme fonctionnel de gestion des revenus pétroliers. À cette fin, un comité interministériel est créé et sera composé de représentants du Ministère des finances et du budget, du Ministère du pétrole et de l'énergie et de la SHT. Le comité sera chargé de la prévision et de la supervision des recettes pétrolières, de l'évaluation de l'efficacité de la loi 002 / PR / 2014 et de la conception d'un nouveau mécanisme de gestion des revenus pétroliers visant à soutenir la politique budgétaire pour la soutenabilité à long terme, la volatilité des revenus et le soutien des programmes prioritaires. Afin d'améliorer la transparence au sujet des transactions pétrolières, le Gouvernement s'engage dans une série d'actions qui incluent l'annonce publique de la préparation d'une politique sur la divulgation

proactive des contrats et les licences qui régissent l'exploration et l'exploitation de pétrole et de gaz ; la publication des contrats et licences représentant au moins 50 pourcent de la production d'hydrocarbures en 2015 sur le site Web du Ministère des Finances et du Budget et la publication par la SHT des états financiers validés et certifiés de 2017. Ces mesures sont en cohérence avec les prescriptions et la feuille de route de l'initiative EITI.

Renforcer la Productivité agricole.L'agriculture, y compris l'élevage, joue un rôle de premier plan dans l'économie tchadienne, mais le secteur souffre d'une faible productivité.L'agriculture (y compris le bétail) est la principale source de revenus pour plus de 85 pour cent de la population du pays. Cependant, les pratiques agricoles demeurent rudimentaires et la faible productivité agricole affecte négativement la croissance agricole et les revenus des agriculteurs. En outre, l'agriculture extensive de subsistance et la gestion traditionnelle du bétail sont de plus en plus difficiles car les ressources naturelles (les terres fertiles en particulier) sont de plus en plus rares. Parmi les facteurs de faibles rendements, il y'a une faible utilisation aux semences améliorées, le manque d'intrants (engrais, pesticides) et l'absence de technologie adéquate. Pour faire face à ces problèmes, le Gouvernement a pris plusieurs mesures dont la promulgation de la loi semencière qui est rendue effective par : (i) la mise en place du comité national des semences par Arrêté du Premier Ministre; (iii) la Publication par arrêté interministériel du Règlement général et spécifique sur la production, le contrôle, la certification et la commercialisation des semences ; et (iv) la mise en place effective de la fonction de contrôle et de certification des semences au sein du Ministère en charge de l'agriculture. En outre, le Gouvernement à l'intention de moderniser les services de vulgarisation agricole adopte et de faire promulguer la loi sur les engrais dans l'objectif de libéraliser le secteur.

Renforcer la contribution du secteur des Technologies de l'Information et des Communications (TIC) pour une croissance inclusive. La performance du secteur des TIC au Tchad reste assez limitée, avec une seule fibre opérationnelle reliant le Tchad au câble sous-marin via le Cameroun.Pour rompre ce monopole, le Gouvernement a déployé une deuxième fibre optique qui n'est toujours pas opérationnelle, et une troisième fibre optique devrait être financée conjointement par la BAD et l'UE. Ainsi, pour abaisser le coût de la connectivité internationale,à travers la mise en place du PPP avec accès ouvert de gros (*open accesswholesale*) du réseau de la fibre optique gouvernementale (axes Soudan et Cameroun et dans le futur proche Niger, le Gouvernement a publié un communiqué détaillant (a) les principes de l'accès ouvert de gros pour le PPP ; (b) le processus de mise en place dans des conditions transparentes ; et (c) le calendrier des actions à réaliser.Ensuite il sera défini le modèle PPP à travers : (i) l'adoption du modèle de Propriété et Gestion ; et (ii) l'adoption du modèle de Gouvernance.Pour étendre l'accès aux réseaux de télécommunications mobiles pour la population non couverte en milieu rural, le Gouvernement a assuré la transparence du Fonds de Service Universel des Communications Electroniques (FSUCE) par : (i) la publication en ligne des Etats Financiers 2015 et 2016 du FSUCE ; et (ii) la clarification par

décret du pourcentage des contributions du FSUCE dédiées au financement du Service Universel. Ensuite, sera mis en œuvre un projet pilote d'extension de la couverture géographique des réseaux mobiles subventionné par le FSUCE dans au moins une zone rurale non couverte.


La protection des couches vulnérables et des réfugiés et des communautés hôtes :
Le Gouvernement a approuvé en juillet 2015, une Stratégie Nationale de Protection Sociale (SNPS) basée sur une approche plus systématique et structurée pour les filets sociaux. Cette nouvelle approche comprend la mise en place des systèmes pour identifier, enregistrer, cibler, soutenir, et suivre les ménages bénéficiaires. Cette approche vise à encourager ses partenaires à passer d'une approche d'urgence aux vulnérabilités à une approche à plus long terme visant à renforcer la résilience et les moyens de subsistance de manière proactive. Conformément à cette stratégie, le Gouvernement, est en train d'exécuter un Projet pilote de Filets Sociaux depuis décembre 2016 dans trois régions. Le Gouvernement a émis un arrêté demandant à tous les partenaires nationaux et internationaux intervenant dans la protection sociale : (i) d'utiliser un questionnaire harmonisé pour leurs opérations de collecte de données ; et (ii) de mettre à la disposition du Gouvernement les données collectées à travers la Cellule Filets Sociaux (CFS). Ensuite, il est envisagé, la création d'une plate-forme devant abriter le Registre Social Unifié, pour la gestion des données collectées à l'aide du questionnaire harmonisé. Parallèlement à cette mesure, le Gouvernement a finalisé la sélection de 6.200 ménages bénéficiaires du programme de transferts en espèces au Logone Occidental et au Bahr El Gazel. La prochaine étape consistera à la validation, à l'enregistrement et à l'effectivité du transfert en espèces aux bénéficiaires.

En plus d'une grave crise économique due à la faiblesse des prix du pétrole, le Tchad est confronté à un défi important pour l'accueil des réfugiés résultant de conflits en cours ou récents à travers ses frontières en République centrafricaine, au Soudan et en Libye; ainsi que les activités terroristes menées par Boko Haram au Nigéria, au Niger et dans la région des lac Tchad. Par conséquent, le pays accueille plus de 380.000 réfugiés et environ 100.000 personnes déplacées, parmi lesquelles près de 310.000 soudanais, environ 70.000 réfugiés de la République centrafricaine et autour de 8.000 réfugiés nigériens. Il existe 19 camps de réfugiés au Tchad, mais une proportion importante de personnes déplacées vit dans les communautés d'accueil. Engagée à fournir l'assistance nécessaire aux réfugiés et aux communautés d'accueil, le gouvernement tchadien considère que les réfugiés devraient être intégrés aux populations locales. C'est ainsi que le Gouvernement à l'intention de mettre en place des dispositions légales pour renforcer les droits des réfugiés et des personnes déplacées et de fournir des services sociaux de base équitablement aux réfugiés et aux communautés d'accueil.

V. Suivi du programme

18. L'appui budgétaire de la Banque Mondiale continuera d'être mis en œuvre sous la supervision du Comité de négociations au sein du Ministère des Finances et du budget. Cette dernière continuera à assurer la préparation de rapports trimestriels d'avancement du Programme en collaboration avec les différents secteurs concernés et s'efforcera de rassembler toute information pertinente pour un meilleur suivi du programme. Toutes les structures concernées par le programme s'activeront pour assurer une meilleure coordination avec les programmes des autres bailleurs afin de garantir leurs succès, de consolider la stabilité sociale et le cadre macro-économique et de soutenir une croissance économique nécessaire à la réduction significative et durable de la pauvreté au Tchad.
19. Vous renouvelant la gratitude du Gouvernement et du peuple tchadien, je vous prie de croire, Monsieur le Président, en l'assurance de ma considération distinguée.

Le Ministre de l'Economie et de la
Planification du Développement


Dr. Issa DOUBRAGNE



LETTER OF DEVELOPMENT POLICY - UNOFFICIAL ENGLISH TRANSLATION:

Dear Mr. President,

1. This Letter of Development Policy (LDP) describes on one side the socio-economic context of Chad, national development strategies and recent economic developments; on the other hand, it presents economic prospects and medium-term reforms. It traces priority public and sectoral policies initiated by the Government to get out of the current emergency, stabilize the macroeconomic situation, revive growth and diversify the economy of Chad.
 2. The LDP also identifies major reforms to build strong resilience and to deal with the effects of the three major shocks related to: (i) the continued fall in oil prices and the repayment of debt owed to Glencore; (ii) The security tensions in Chad and the region that continue to weigh heavily on the budget and, generally, on the economy; and (iii) the ongoing arrival of at least 750,000 refugees, displaced persons and returnees along Chad's borders. This LDP provides the outline of the short-and medium-term reform program.
 3. With a view to supporting its resilience and economic recovery program, the Government of Chad requests the World Bank an amount equal to US\$65 million, in the form of a programmatic development policy financing operation (this being the first of two operations in the series). This support will stabilize the difficult fiscal and macroeconomic situation that massively affects the country and contribute to the establishment of a longer-term basis for the recovery of public finances, macroeconomic stability and growth recovery.
- I. Context
4. Since the restoration of peace in 2009, the quality of the dialogue and several renegotiations have enabled renewed dialogue with the World Bank as well as the conclusion of an ECF program with the IMF in 2013. Since August 2014, the Government of Chad has taken courageous steps to effectively implement its medium-term economic and financial program. Its implementation has allowed to reach the completion point under the Initiative in favor of Heavily Indebted Poor Countries (HIPC) in April 2015, which was an important turning point for Chad.
 5. With the disbursement of budget support from the IMF, the World Bank, the European Union, the African Development Bank, and France, the authorities could finance the deficits caused by exogenous shocks and the weakness of non-oil revenues, thereby ensuring macroeconomic stability. This has also allowed significant progress regarding the structural reform agenda, in line with the objectives of this program and despite the particularly difficult context in 2016 and 2017.
 6. The Government has successfully developed and implemented the National Development Plan (PND) covering the period 2013 to 2015, which is succeeded by the recently adopted National Development Plan 2017-2021, including a successful (Donor) Round-Table for its Funding held in September 2017. Indeed, this plan has its roots in the "Vision 2030, the Chad we want" referring to the next fifteen years. The process of developing Vision 2030 and the NDP has been even more participatory and inclusive than in the past. Indeed, it has collected the aspirations of all layers of the population at national level and has been governed by the search for a strong consensus around the broad

guidelines to guarantee the appropriation by all stakeholders to consequently facilitate its implementation. Thus, it offered a new opportunity to strengthen the dialogue on sectoral policies and strategies to be carried out among public administration, civil society, religious denominations, Parliament and the technical and financial Partners (PTFs). The NDP 2017-2021 is also the relevant framework for medium-term consultation and assistance in economic and social development, for the government as well as the PTFs.

7. The exogenous shocks confronting Chad since 2014 continue to weigh heavy on the economic, financial and social situation:
 - a. After a slight increase and stabilization of world oil prices in the second half of 2017, the price of Chadian oil was US \$50 in 2017. Oil revenues paid to the Treasury are stabilizing due to the expected gradual further increase in prices and production after a temporary decrease in 2017 and the resolution of commercial debt with Glencore of about 1.25 mill US dollars that began in February 2018 (*with an agreement in principle). During 2016 and 2017, the government had to make cuts in investment expenditure and streamline current expenditure, including payroll.
 - b. Chadian security forces remain very strongly involved in peacekeeping efforts, particularly in the Lake Chad basin. These efforts are central for maintaining regional security, but the deployment of military personnel, particularly in Cameroon, Mali, Nigeria, Niger, and the border with Sudan and Libya puts significant strains on the state budget and alters the implementation of the Government's economic and social development program. The security situation continues to disrupt cross-border trade and essential economic activities, particularly in the livestock and agriculture sectors.
 - c. The humanitarian crisis in the region is also an important source of difficulties for Chad, which is home to more than 750,000 refugees, displaced persons and returnees. Although it is difficult to measure the direct budget cost, the authorities help refugees to access land and basic community services, and to settle into host communities.

II. Vision 2030 and the National Development Plan (PND) 2017-2021

8. The societal dimension embodied in "Vision 2030, the Chad we want" reflects the willingness of the authorities to make Chad an emerging regional power by 2030. This emergence will be rooted in national cohesion and the diversification of sustainable sources of economic growth, creating decent jobs and ensuring equitable access to basic social services for each Chadian. The aim will therefore be to give impetus to the country's development process through three national development plans (PND 2017-2021, PND 2022-2026, PND 2027-2030). These plans will be implemented to accelerate structural transformation in the social, governance and rule of law as well as the economy and environment sectors.
9. The general objective of the PND 2017-2021, a framework document for State and International intervention, is to lay the groundwork for an emerging Chad in a climate of stability. Specifically, it includes: i) working for a peaceful Chad, respected and involved in the regional and international environment; (ii) Providing the opportunity for each citizen to access water and health, housing, energy and mobility; and iii) to build a dynamic, economically and environmentally friendly Chad. This plan comprises four strategic axes, namely: i) strengthening national unity; (ii) Strengthening good governance and the rule of law; iii) Developing a diversified and competitive economy; and iv)

ensuring a better quality of life for the population (social protection). Effective population and reproductive health policies will benefit from the demographic dividend, thereby improving access to basic social services for all Chadians.

10. The funding requirements for the PND Priority Action Program (PAP) are estimated at 5491,815 billion CFAF in the period 2017-2021, including 618,492 from public resources (11.3% of the overall cost of the PAP) and 1208,86 billion CFAF of funding already acquired (22.0%). Development projects and programs financed by the private sector represent 1629.442 billion CFAF (29.7% of total cost), of which almost one third will be subject to Public-Private Partnerships (PPP). The remaining amount to be funded amounts to 2,035,02 billion CFAF (or 3.3 billion USD), or 37% of the overall cost of the PAP for the period 2017-2021. This funding gap has been filled by the announcements during the donor round table in Paris in September 2017 which raised pledges of USD 19,159 billion, or 10595,83 CFAF.

III. Macroeconomic situation in 2017 and outlook 2018-2019

11. The economy of Chad remains affected by exogenous shocks, but shows timid signs of recovery, after experiencing the most severe recession recorded since the advent of oil production in 2003. After a contraction of 6.3% in 2016, real GDP growth will remain negative at -3.0% in 2017, mainly due to a contraction of the oil sector by 16.2% due to an unforeseen decline in production. Moderate public expenditure still weighs on non-oil GDP, however the dissipation of the effects of budgetary adjustment on domestic demand, the very gradual improvement of the activity of the secondary and tertiary sectors, as well as growing agricultural production, should end negative growth in 2018. Overall, the primary sector is expected to grow by 4.6% in 2018, up from 3.1% in 2017, while industry and services begin recovery at 1.7% and 0.5% respectively in 2017. Consumer prices reflect these early signs of improved economic activity with inflation moving gradually out of deflationary territory – from -1.1% in 2016 to -0.7% in 2017.
12. Low oil prices and regional insecurity have considerably weakened the Government's budgetary position. The repayment of an oil loan, which was contracted when oil prices were high, greatly aggravated Chad's financial situation. Despite an important budgetary adjustment and efforts to restructure the external commercial debt, Chad remains dependent on external funding of US\$ 428 million in 2018. Regional conflicts and the humanitarian crisis, as well as the pressures associated with related expenditures, represent another risk for sustainable budget management. Oil revenues decreased from 11.7% to 4.1% of non-oil GDP between 2014 and 2017, but are expected to increase to 5.4% in 2018. After drastic cutbacks in public spending of about 11% of non-oil GDP between 2014 and 2016, expenditure could remain at 18.1% in 2017 and 17.9% in 2018. Thus, the budgetary balance should be in surplus at 0.2% of non-oil GDP in 2018, compared to a deficit of 5.2% in 2016 and 2.3% in 2017. Recently, the deficit was financed by the issuance of Treasury bonds on the regional debt market and external budget support from technical and financial partners.
13. The strong rationalization of the use of reserves and significant fiscal consolidation contributed to a reduction in the current account deficit from 13% of GDP in 2016 to 5.2% in 2017. The trade balance is improving, thanks to increasing exports and the fact that foreign direct investment is expected to grow in 2017. As a member of CEMAC, Chad's monetary and exchange rate policy is determined by the regional Central Bank. Chads imputed FX reserves were negative at -1.0 months of imports at the end of 2016 and will remain around zero in the short term while the regional reserve coverage of 2 months remains below what is considered adequate (five months) for a resource rich monetary union with a fixed exchange rate. Money supply contracted by 7.7% in 2016 because of the impact of the

crisis on the financial sector, which is strongly exposed to the Government's budgetary situation and world commodity prices; however, it is expected to increase by 5.8% in 2017.

IV. The reform program

14. Democratic governance and public-sector reform remain important parts of the country's development policy. There was a national consensus on the need to diversify the economy outside the oil sector. The Government and other stakeholders at the national level recognize that the oil price shock persists and that it is important to reduce dependence on the oil sector as a growth engine. The Government is convinced that improving the business climate is one of the means to attract foreign investment outside the oil sector.

15. In the framework of the implementation of the PND 2017-2021, the government will maintain its policy of economic diversification by supporting the promotion of non-timber forest products and value chains in rural development (Arabic gum, peanut, rice, maize, shea, honey, néré, sesame, spirulina, date, peach, meat, milk, etc.). This will be done through targeted actions regarding producer supervision, intra-community trade, and the implementation of integrated industrial development and export promotion strategies.

16. To alleviate the negative effects of the three above-mentioned shocks, the authorities wish to continue and strengthen the various reform programs which should be supported by the various technical and financial partners focusing on the following 4 pillars: (i) Improve the management of budget and debt risks (ii) Improve the transparency of the oil sector and its contribution to economic diversification and sustainable growth; (iii) Promote economic diversification through the enhancement of the performance of key sectors; and (iv) improve the social protection of poor, vulnerable, refugee and host communities. The main objective is to build resilience and revive economic growth through a program of structural and credible reforms.

17. To achieve this objective, the Government identified the following priority measures:

Strengthen public and publicly guaranteed debt management. To improve debt management, the Government has undertaken several measures, including **the suspension of all external debt and guarantees to public enterprises on non-concessional terms and the publication of the annual debt report including guarantees.** This will pave the way for the preparation of a medium-term debt management strategy (MDTS), including its publication. At the same time, the government plans to strengthen debt management with necessary human and technical resources and to set up an adequate debt-registration system.

Streamline tax expenditures. Given the magnitude of the impact of the crisis on revenue, the Government has decided to undertake reforms on tax expenditure. A study on tax expenditures was conducted to identify existing exemptions by analyzing the schemes under which they were granted and estimating their overall size. In the meantime, the Government has decided to freeze the granting of all new exemptions. **Finally, the government has: (i) completed and validated the review of the 37 Conventions of establishment of the largest enterprises and the study on tax expenditure; and (ii) issued regulations requiring that any new tax exemptions be formally approved by the Minister of Finance and Budget.**

Improving the efficiency of payroll management: The Government has actively undertaken a profound reflection on improving the management of public resources, given the nature and impact of exogenous shocks. Regarding expenditure management, the Government's approach is to combine a stabilization program to limit (short term) expenditure with a medium-term approach to improving the efficiency of public expenditure management. Thus, the Government adopted a revision of the Budget 2017 including austerity measures including: **(i) the elimination from payroll of all fictitious employees and under the age limit, and (ii) the publication in the annex of a list of measures taken in view of termination of all ineligible payments identified in the payroll audit.**

Improve the supervision and transparency of Public and Para-public Enterprises (SOEs). To better understand the financial situation of the public enterprise sector, the Government undertook an audit of the state portfolio to assess the financial situation of these entities and the related fiscal risk implications. The Government has **(i) identified a structure for the supervision and financial monitoring of SOEs (within the Ministry of Finance and Budget) and clarified its responsibilities and (ii) published the most recent audited (certified) financial statements of SOEs.** Following this reform, the Government intends to have a performance contract between SOEs and their (line) ministerial oversight department signed annually from 2018 onwards. SOEs will now have to publish and forward to the Ministry of Finance their annual audited financial statements. Finally, the Government intends to submit to Parliament a new Code of Governance for SOEs.

Improve the transparency and efficiency of the oil revenue management mechanism and efficiency in the management of the oil sector. After the disastrous impact of the decline in crude oil prices, the government recognizes that the conduct of a clear policy and the establishment of an adequate framework for the management of oil revenues is an essential element for fiscal sustainability/stability and economic resilience. The expected rebound of oil production, the strong indication of the production potential from current exploration activities and the increase of fiscal space through structural reforms and debt restructuring, are putting the oil sector in a central role for macroeconomic stability and sustained growth. The Government intends to promote the transparency and effectiveness of its fiscal policy by establishing a functional oil revenue management mechanism. **To this end, an interdepartmental committee is established and will be composed of representatives from the Ministry of Finance and Budget, the Ministry of Oil and Energy and the SHT.** The Committee will be responsible for the forecasting and supervision of oil revenues, the evaluation of the effectiveness of Law 002/PR/2014 and the design of a new oil revenue management mechanism to support fiscal policy for the long-term sustainability given revenue volatility and continuously needed support for priority programs. In order to improve transparency about oil transactions, the government is engaged in a series of actions that include the public announcement of the preparation of a policy on proactive disclosure of contracts and licenses that govern exploration and exploitation of oil and gas; The publication of contracts and licenses representing at least 50 percent of hydrocarbon production in 2015 on the Department of Finance and Budget website and the publication by SHT of the validated and certified financial statements of 2017. These measures are consistent with the requirements and the roadmap of the EITI initiative.

Increase agricultural productivity. Agriculture, including livestock farming, plays a leading role in the Chadian economy, but the sector suffers from low productivity. Agriculture (including livestock) is the

main source of income for more than 85 per cent of the country's population. However, agricultural practices remain rudimentary and low agricultural productivity negatively affects agricultural growth and farmers' incomes. Moreover, extensive subsistence agriculture and traditional livestock management are increasingly difficult because natural resources (especially fertile land) are increasingly scarce. Among the factors of low yields, there is low use of improved seed, lack of inputs (fertilizers, pesticides) and lack of adequate technology. In order to deal with these problems, the Government has taken several measures, including the promulgation of the Seed law, which is made effective by: **(i) the establishment of the National Seed Committee by order of the Prime Minister; (iii) The Publication by interdepartmental order of the general and specific regulations on the production, control, certification and marketing of seed; and (iv) the effective establishment of the seed control and certification function within the Ministry of Agriculture.** In addition, the Government intends to modernize the agricultural extension services and to have the Fertilizers Act promulgated with the objective of liberalizing the sector.

Strengthen the Information and Communications Technology (ICT) sector's contribution to inclusive growth. The performance of the ICT sector in Chad remains quite limited, with only one operational fiber linking Chad to the submarine cable via Cameroon. To break this monopoly, the government has deployed a second fiber that is still not operational, and a third fiber should be jointly funded by the AfDB and the EU. Thus, in order to lower the cost of international connectivity, through the establishment of an open access wholesale (PPP) network of the Government optical fiber system (axes including Sudan and Cameroon and in the near future Niger), **the government has issued a circular detailing (a) the principles of open access wholesale for PPP; (b) The process of setting the PPP up under transparent conditions; and (c) the timing of the actions to be carried out.** Then the PPP model will be defined through: (i) the adoption of the ownership and management model; and (ii) the adoption of the governance model. To extend access to mobile telecommunications networks for rural (often uncovered) population, **the government has ensured the transparency of the Universal Electronic Communications Service Fund (FSUCE) through: (i) the online publication of financial statements for 2015 and 2016 of the FSUCE; and (ii) clarification by decree of the percentage of FSUCE contributions dedicated to the financing of the universal service.** Next, a pilot project will be implemented to extend the geographical coverage of FSUCE-subsidized mobile networks in at least one rural area not covered.

Protection of poor and vulnerable, refugees and host communities: The Government approved, in July 2015, a national Social Protection Strategy (SNPS) based on a more systematic and structured approach to social safety nets. This new approach includes the establishment of systems to identify, register, target, support, and monitor beneficiary households. This approach aims to encourage its partners to move from an emergency approach to vulnerabilities to a longer-term approach to strengthening resilience and livelihoods proactively. In accordance with this strategy, the Government is in the process of executing a pilot project for social safety nets, active since December 2016 in three regions. **The government has issued a decree asking all national and international partners involved in social protection: (i) to use a harmonized questionnaire for their data collection operations; and (ii) to make available to the Government the data collected through the Social Safety Nets cell (CFS).** Secondly, the creation of a platform to house the Unified Social Register for the management of the data collected using the harmonized questionnaire is envisaged. In parallel with this measure, **the government has finalized the selection of 6,200 households benefiting from the cash transfer program to the Western Logone and**

Bahr El Gazel regions. The next step will be the validation, registration and effectiveness of the cash transfer to the beneficiaries.

In addition to a serious economic crisis due to low oil prices, Chad faces an important challenge due to the reception of refugees resulting from ongoing or recent conflicts across its borders in the Central African Republic, Sudan and Libya; as well as terrorist activities carried out by Boko Haram in Nigeria, Niger and the Lake Chad region. As a result, the country is home to more than 380,000 refugees and about 100,000 displaced persons, including around 310,000 Sudanese, about 70,000 refugees from the Central African Republic and around 8,000 Nigerian refugees. There are 19 refugee camps in Chad, but a large proportion of displaced persons lives in their host communities. Committed to providing the necessary assistance to refugees and host communities, the Government of Chad considers that refugees should be integrated into local populations. This is how the government intends to put in place legal provisions to strengthen the rights of refugees and displaced persons and to provide equitable basic social services to refugees and host communities.


V. Program implementation

18. The budget support of the World Bank will continue to be implemented under the supervision of the Negotiating Committee within the Ministry of Finance and Budget. The Commission will continue to ensure the preparation of quarterly program progress reports in collaboration with the various sectors concerned and will endeavor to gather all relevant information for better monitoring of the program. All entities involved in the program will be active to ensure better coordination across donor funded projects to guarantee their success, to consolidate social and macroeconomic stability, and to support economic growth necessary for a significant and lasting reduction of poverty in Chad.
19. Renewing the gratitude of the Government and the people of Chad, I would ask you to believe, Mr. President, that my distinguished consideration is assured.

The Minister of Economy and Development Planning

ANNEX 3 - IMF RELATIONS ANNEX

IMF Executive Board Completes Second Review under the ECF arrangement for Chad and Approves US\$ 49.09 Million Disbursement



INTERNATIONAL MONETARY FUND

[Send us your Feedback](#)

[HOME](#) [ABOUT THE IMF](#) [RESEARCH](#) [COUNTRIES](#) [CAPACITY DEVELOPMENT](#) **[NEWS](#)** [VIDEOS](#) [DATA](#) [PUBLICATIONS](#)

PRESS RELEASE NO. 18/317

Related Links

- [Chad and the IMF](#)
- [Press Releases](#)

What does it mean?

- [Arrangement](#)
- [Arrears](#)

Press Center


The IMF Press Center is a password-protected site for working journalists.

[PRESS CENTER](#)

EMAIL NOTIFICATION SIGN-UP

Sign up to receive free e-mail notices when new series and/or country items are posted on the IMF website.

[MODIFY YOUR PROFILE](#)



IMF Executive Board Completes Second Review under the ECF arrangement for Chad and Approves US\$ 49.09 Million Disbursement

July 27, 2018

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Chad's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. Completion of this review enables the immediate disbursement of the equivalent of SDRSDR 35.05 million (about US\$ 49.09 million). This brings total disbursements under the arrangement to SDR 105.15 million (about US \$147.27 million). The Board granted a further waiver of nonobservance of the continuous performance criterion on the accumulation of external arrears, for arrears incurred before completion of the first review under the ECF arrangement.

Chad's ECF arrangement was originally approved by the Executive Board on June 30, 2017 (see Press Release No. 17/257) for SDR 224.32 million (about US\$ 312.1 million or 160 percent of Chad's quota). The ECF-supported program aims to help Chad restore macroeconomic stability and lay the foundation for robust and inclusive growth. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

Following the Executive Board's discussion on Chad, Mr. David Lipton, Acting Chair and First Deputy Managing Director, made the following statement:

"Performance under the ECF-supported program has been satisfactory, reflecting strong commitment by the authorities to the objectives of the program. All, but one, end-December 2017 performance criteria, notably the non-oil primary balance, and most end-March indicative targets were met. The criterion on non-accumulation of arrears was missed by a small margin. All structural benchmarks have been implemented. In June 2018, the authorities reached a final agreement to restructure debt to a private external creditor.

"The authorities are determined to continue implementing their strategy to further stabilize the fiscal position, foster inclusive non-oil growth, and reduce banking sector vulnerabilities. A key element of the strategy is to create sufficient space for increased spending in social sectors and public investment, reduce debt, and to clear outstanding arrears. This will entail maintaining control over the wage bill, increasing non-oil revenue mobilization, strengthening governance, and improving public financial management.

"Chad's program is supported by the implementation of supportive policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets,

<https://www.imf.org/en/News/Articles/2018/07/28/pr18317imf-executive-board-completes-second-review-under-the-ecf-arrangement-for-chad>[7/31/2018 3:07:38 PM]

68

IMF Executive Board Completes Second Review under the ECF arrangement for Chad and Approves US\$ 49.09 Million Disbursement

which are critical to the program's success.”

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: ISMAILA DIENG

PHONE: +1 202 623-7100 | EMAIL: MEDIA@IMF.ORG



HOME
WHAT'S NEW
SITE MAP
SITE INDEX

ABOUT THE IMF
RESEARCH
COUNTRIES
NEWS
EVENTS

VIDEOS
DATA AND STATISTICS
PUBLICATIONS
SOCIAL MEDIA HUB
COPYRIGHT AND USAGE

PRIVACY POLICY
HOW TO CONTACT US
JOBS
GLOSSARY
SCAM ALERT

عربي
Français
Русский
Español

petroleum sector updates for the last two quarters of calendar year 2017 and the first quarter of calendar 2018.	No	
Prior Action 6. The Ministry of Petroleum and Energy has: (a) (i) issued a communiqué announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector; and (ii) published such communiqué on its website and that of the Ministry of Finance and Budget; and (b) published contracts and licenses (as such term is defined under EITI Requirement 2.4 of EITI Standard 2016) representing at least 50 percent of hydrocarbon production in 2015 on the website of the Ministry of Finance and Budget.	No	No
Prior Action 7. The SHT has published certified/validated financial statements for the period 2017 on its website.		
Pillar III. Promoting resilience and economic diversification in key real sectors		
Prior Action 8. The Ministry of Agriculture has implemented a Seed Law through: (i) the adoption and publication of the inter-ministerial <i>Arrêté</i> on seed production, control and certification regulations, (ii) the adoption and publication of an <i>Arrêté</i> on specific technical regulations for seed production of specific varieties of vegetables and cereals; and (iii) the issuance of an <i>Arrêté</i> setting up the establishment of the seed control and certification function within the MoA.	No	Yes - positive
Prior Action 9. The Government has continued the set-up of the open access wholesale PPP for the governmental fiber optic network (to Cameroon and Sudan, and upcoming to Niger with a communication by the Minister of ICT dated September 26, 2017, published on the Ministry of ICT website, detailing the open access wholesale principles for the PPP.	No	Yes - positive
Prior Action 10. The Government has increased the transparency of the FSUCE through: (i) the online publication by ADETIC of its 2015 and 2016 financial statements; and (ii) the clarification by <i>Arrêté</i> of the percentage of the FSUCE resources dedicated specifically to the funding of the universal service/access to ICT services (Universal Service Fund).	No	Yes- positive
Pillar IV. Increasing social protection for the poor, vulnerable and refugees		
Prior Action 11. The Ministry of Economy and Development Planning (MEDP) has issued an <i>Arrêté</i> requesting all national and international stakeholders involved in the collection of data on social protection to: (i) use a harmonized questionnaire for data collection; and (ii) make all data available to Government through the CFS.	No	Yes- Positive