PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB7896

Operation Name	First Programmatic Economic Recovery and Resilience Grant
Region	AFRICA
Country	Chad
Sector	Macro-Economics & Fiscal Affairs, Agriculture, ICT and Social Protection
Operation ID	P163424
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF CHAD
Implementing Agency	MINISTRY OF FINANCE AND BUDGET
Date PID Prepared	June 21, 2017
Estimated Date of Appraisal	
Estimated Date of Board Approval	November 29, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

This proposed Economic Recovery and Resilience Operation is designed to support the Government of Chad as it strives to better manage fiscal risks, promote economic diversification, and protect more effectively the poor and vulnerable. Multiple exogenous shocks, including the collapse of global oil prices, persistently unstable regional security situation, and the high fiscal cost of ongoing humanitarian efforts, have strained Chad's public finances and led to a proactive but painful adjustment and a deep recession, with high social costs. The crisis has also weighed heavily on the country's ability to implement much needed structural reforms for macroeconomic stabilization, economic growth in the non-oil sectors and social inclusion. Building on two emergency operations disbursed in FY16 and FY17 which have helped the government cover its urgent short-term financing needs and supported the government's policy response, this series aims to re-focus World Bank support on substantive structural reforms in support of better management of fiscal risks, economic diversification, and more effective protection of the poor and vulnerable in a very difficult economic and security environment.

The government has demonstrated its determination to responsibly manage what has turned out to be a much deeper and longer crisis than previously anticipated. Two-thirds of the overall fiscal adjustment in 2015 and 2016 was achieved through consolidation, with financing covering only one-third. The government cut public spending by 10.8 percent of nonoil GDP between 2014 and 2016, and adopted in 2016 an emergency fiscal consolidation action plan. These changes were codified in the 2017 Finance Law. However, despite the sharp fiscal adjustment, Chad's financial situation has worsened during the first [half] of 2017. A large oil-collateralized loan with an international commodity firm is also weighing heavily of fiscal and debt sustainability. Chad is in external debt distress and facing unsustainable public debt, as concluded in the joint IMF World Bank 2017 debt-sustainability analysis (DSA).

Although the government has maintained fiscal discipline, it still relies on external budget support to close the financing gap. In the context of an anticipated decline in future oil revenues, the nonoil primary deficit (NOPD) anchors Chad's fiscal policy. The NOPD fell from 16.2 percent of nonoil GDP at end-2015 to 4.4 percent at end-2016 due to a combination of expenditures cuts, improved budget management, and reduced recourse to extraordinary expenditures. The sharp fiscal adjustment contained the overall fiscal deficit (cash basis) at 5.5 percent of nonoil GDP in 2016, up only slightly from 4.5 percent in 2015. The government has financed the deficit through a combination of Treasury bonds issued in the regional debt market, IMF disbursements through a three-year ECF arrangement, and budget support from bilateral and multilateral donors, including the World Bank, the European Union, the African Development Bank, and France.

While the government has expressed its commitment to reforms, risks of delays in implementing the proposed structural reform agenda are high. The government is facing a very difficult fiscal situation, and is pressed with meeting urgent financing requests to avoid the escalation of the crisis. This may at times divert its attention from the structural reform agenda. Furthermore, some of the proposed reforms touch upon sensitive areas that are critical for unleashing the country growth potential, but will take time to implement and may potentially affect some deeply-entrenched vested interests, particularly in the area of tax expenditure rationalization, payroll management, SOE transparency and control, ICT liberalization, and agricultural input markets. Administrative capacity is also low, and adequate technical support through ongoing and planned investment projects and other interventions will be critical to complement the proposed series. External financial support will therefore be instrumental to the success of the government's program of structural reforms.

II. Proposed Objective(s)

The program development objective (PDO) of the series is to enhance fiscal risks management, promote economic diversification, and improve social protection for the poor and vulnerable. The series supports reforms aimed at mitigating fiscal risks by strengthening monitoring and controls over key sources of risks, and by helping to rebuild fiscal buffers. To tackle the dependency on oil and initiate economic diversification in an inclusive way, the series also supports increased agriculture productivity and the development of more affordable and growth-enhancing ICT services. Moreover, in order to enhance inclusion and better protection the poor and vulnerable, the operation supports the development of a functioning social safety net system. The operation builds on the reform agenda supported by the predecessor operations, particularly with respect to rationalizing public expenditure, improving the quality of public resource management and establishing a social safety net. Each of these objectives will contribute, either directly or indirectly, to reducing extreme poverty and promoting shared prosperity.

III. Preliminary Description

Building on recent emergency development policy financing operations and the planned debt restructuring, this series will support the government in its efforts to shift gears towards a medium term structural policy agenda. To mitigate the impact of the crisis and boost resilience, the authorities are promoting the development of programs aimed at coping mechanisms for the poor and vulnerable, while setting conditions for growth recovery and economic diversion in the medium term. In this context, the reforms supported by the proposed series focus on reducing fiscal risks while boosting growth in the non-oil sector and enhancing social protecting and services for the poor and vulnerable.

The proposed series is articulated around three intertwined pillars, and supports measures to (i) enhance fiscal management and improve oversight and transparency of State-Owned Enterprises (SOEs), (ii) boost agricultural productivity and develop Information and communication Technologies (ICT) for more inclusive growth and economic diversification, and (iii) put in place a well-targeted and fully operational social protection system for the poor and vulnerable. These measures build on progress achieved under the Emergency Fiscal Stabilization Operation (EFSO) [approved] in June 2017.

The proposed operation would be the first in a programmatic series of two standalone development policy financing (DPF) grants for the period 2017-2018. The proposed program is well aligned with the strategic objectives of the 2017-2021 National Development Plan (NDP). It focuses on three of the four strategic Axes of the government's program: (i) Axis 2, strengthening good governance and the rule of law, (ii) Axis 3, development of a robust and competitive economy, and (iii) Axis 4, improving the quality of life of the Chadian population.

The programmatic series is organized around three intertwined pillars:

(i) Improving the management of fiscal risks, through (a) improved debt management, (b) rationalization of tax expenditures and (c) streamlining the payroll for enhanced fiscal space, and (d) improved oversight and transparency in the management of SOEs;

(ii) Promoting economic diversification by (a) contributing to enhanced agriculture productivity for more sustainable and inclusive growth; and (b) strengthening the contribution of the ICT sector to inclusive growth through enhanced affordability and coverage of services, as well as improved taxation of the sector; and

(iii) Improving social protection for the poor and most vulnerable groups, by developing an effective and well-targeted social safety net system, and implementing cash transfers.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed series is expected to have a significant positive impact on poverty reduction in the medium and longer 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 social safety net system has the potential to have a significant impact on allowing households to move out of poverty and strengthen household resilience to shocks. The overall impact on poverty therefore is expected to be positive in the medium and longer term.

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.

The proposed reforms 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. 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 social safety nets and related transfer and social protection systems nationwide.

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 social safety nets would have positive impacts on services benefitting women. Increased spending for health, in particular, 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.[1] In addition, increased funding for education and social safety nets 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. It will be important however to monitor this impact during implementation of the accompanying programs set up as part of the social safety net.

A. Environmental Aspects

The proposed series is not expected to have any significant environmental impact. [TBC]

V. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	35.00
Borrower/Recipient	
IBRD	
Others (specify)	

[1] World Health Statistics 2016, World Health Organization.

Total

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