PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Development Policy Operation
Region	AFRICA
Country	Chad
Sector	Central government administration (100%)
Operation ID	P155480
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Chad
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	October 15, 2015
Estimated Date of Appraisal	October 27, 2015
Estimated Date of Board Approval	November 10, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

In April 2015, Chad attained the Highly Indebted Poor Countries Completion Point, fourteen years after having attained the decision point (May 2001). This achievement reflects Chad's renewed commitment to economic development and poverty reduction objectives, following a decade of conflict which ended with the peace agreement signed with Sudan in 2010. Since then, Chad began to play an increasingly important role in stabilizing the Sahel Region and Central Africa. The government has also taken bold steps and shown commitment to sustain macroeconomic stability, avoid accumulation of unsustainable non-concessional debt, and reinvigorated its development agenda, with the satisfactory implementation of the National Development Plan 2013-15, and the ongoing preparation of its successor for the period 2016-20.

II. Operation Objectives

The program development objectives (PDOs) of this operation are designed to strengthen government's ability to: (a) broaden the tax base; (b) further rationalize public spending and increase transparency in public resource management; and (c) promote the development of the nonoil economy by enhancing the business climate.

III. Rationale for Bank Involvement

Large exogenous shocks threaten to reverse Chad's progress in restoring fiscal and debt sustainability, as falling oil prices and regional instability have negatively impacted both the economy and the public finances. HIPC debt relied will substantially reduce Chad's external debt burden over the medium term, and the Government of Chad (GoC) has demonstrated a credible commitment to maintaining macro-fiscal stability. The authorities have taken steps to prevent the accumulation of unsustainable non-concessional debt and made renewed progress key reform areas through the implementation of the National Development Plan 2013-15.[1] A new development strategy for 2016-2020 is currently being prepared. The present value (PV) of the debt-to-exports ratio is projected to decrease from 56.2 percent at end-2013 to 34.3 percent at end-2020, and the debt-service-to-revenue ratio is projected to decrease from 32.4 percent in 2014 to an average of 17.2 percent over 2015-2020. However, this medium-term fiscal outlook is jeopardized by two major exogenous shocks that materialized in late 2014 and intensified in 2015. The first is the sudden and sharp decline in global oil prices, and the second is the deterioration of the domestic and regional security situation and the escalation of the conflict with Boko Haram. The decline in oil prices has had a severe impact on the main source of public revenue, while regional instability is increasing security costs and social expenditures and disrupting vital trade flows. The decline in oil export receipts is undermining the balance of payments and has impacted the nonoil economic growth through negative multiplier effects. In addition, ongoing conflict along the Nigerian and Cameroonian borders are seriously disrupting trade flows, as 90 percent of Chad's imports transit through the Douala – N'Djamena corridor, and oil exports travel via the Doba-Douala pipeline. Livestock, the country's second-largest export after oil, transits almost entirely through northern Cameroun and northeastern Nigeria on its way to large urban markets in Nigeria.

In order to address oil revenue shortfalls and close the fiscal and external gaps the authorities have launched an ambitious fiscal consolidation program. Though primarily intended to cover part of the financial gap created by the two exogenous shocks, the proposed operation also supports the government's efforts to improve overall fiscal policy and mitigate the budget's vulnerability to shocks. This includes diversifying fiscal revenues to reduce Chad's dependence on oil and increasing public expenditure efficiency through improved public spending composition and management supported by more competitive public procurement. Particular attention is accorded to policies and actions aimed at broadening the tax base, improving payroll management, strengthening public procurement, reinforcing budget transparency and improving the overall business climate. These efforts will build upon Chad's recent achievements in reducing the nonoil primary deficit (NOPD[2]), computerizing all elements of the expenditure chain, limiting recourse to extraordinary expenditure measures, and enhancing the transparency of public procurement, budget execution and oil-revenue management.[3] The government's program is supported by an IMF Extended Credit Facility (ECF) that has been in place since August 2014. It focuses primarily on fiscal policy and public administrative reforms, since as a

[1] International Development Association and International Monetary Fund (2015), "The Republic of Chad: Joint Staff Advisory Note on the Monitoring Report 2013 of the National Development Plan 2013-15", April 6, Washington D.C

[2] The NOPD is defined as nonoil revenue minus total expenditures, excluding interest payments and foreign-financed capital expenditures.

[3] Chad became compliant with the Extractive Industries Transparency Initiative in October 2014.

member of the Central Africa Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale* – CEMAC) Chad's monetary and exchange-rate policies are managed at the regional level by the Bank of Central Africa States (*Banque des États de l'Afrique Centrale* – BEAC). Given limited domestic and external commercial financing options, as well as a narrow scope for rapidly raising nonoil revenue, the program focuses on short-run on public expenditure control, targeting a maximum level of 6.6 percent of nonoil GDP in 2015.

This stand-alone single tranche operation supports authorities' efforts to address the fiscal and external impacts of large exogenous shocks and protect the development objectives set forth in the National Development Plan 2013-15. High order outcomes indicators to which the operation would indirectly contribute include a threshold on poverty reducing social spending and the non-accumulation of public expenditure arrears, which once combined, would demonstrate the capacity of the Government to protect its National Development Plan 2013-15 principal objectives without compromising fiscal sustainability. Outcome indicators to which the proposed operation would directly contribute include higher number of tax payers, more competitive procurement and greater budget transparency. In the face of it, there are high risks that increased regional insecurity, continued high volatility in commodity prices, and political opposition to fiscal adjustment, could all compromise these outcomes. At the same time, not addressing Chad's current fiscal issues could entail even larger risks of seeing it fall back into a profound fragility trap, costly to redress and with large negative implications for the region's stability and prosperity. The Government is in very urgent need of external financing in order to avoid accumulation of arrears to suppliers and civil servants, which would have a negative impact on Chadian economy and jobs. However, a rapid delivery of budget support through this proposed could enable the Government to improve the 2015 budget execution and to prepare a credible budget for 2016, while setting a solid base to achieve some tangible results such as expanding the tax base, limiting the accumulation of arrears to private sector and making easier to start a business.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		50
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	**50**

V. Institutional and Implementation Arrangements

The Ministry of Finance and Budget (MFB) and the Ministry of Planning and International Cooperation (MPIC) will be responsible for coordinating the supervision and monitoring of the reform program supported by the proposed series. The GoC will establish an inter-ministerial committee for monitoring the program, co-chaired by the MFB and the MPIC. The participating ministries, departments and agencies will furnish relevant information and documentation on the status of their respective programs to the committee, which will monitor progress against program objectives. The MFB and the MPIC have experience in collaborating with the IMF and World Bank, as demonstrated by the successful achievement of HIPC completion. A results framework will provide concrete indicators and empirical benchmarks to monitor progress and facilitate ex-post evaluation following the end of the program in June 2017.

VI. Risks and Risk Mitigation

The overall risk rating for the proposed operation is high. In particular, political, and macroeconomic risks could jeopardize the expected outcomes of the operation.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Measures supported by the proposed operation are expected to have a significant positive and direct effect on poverty reduction. Most if not all poor derive their incomes from the informal sector, and should thus not be directly impacted by measures to broaden the tax base, the more so given the progressive nature of Chad's tax system. Measures to enhance public financial management systems, improve accountability and transparency and the business climate are expected to generate efficiency gains and additional fiscal space with a view to protect poverty reducing expenditure in a context of strong fiscal consolidation. Measures supported by the operation are not meant to address any gender gap and are not either expected to have any gender impact.

Environment Aspects

Measures supported by the proposed operation are not expected to have any negative impact on the environment. None of the measures supported by the operation are expected to specifically encourage any action from the public or private sector that could degrade the environment.

VIII. Contact point

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