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IDA/R2016-0295/1

December 12, 2016

Closing Date: Wednesday, December 21, 2016 at 6 p.m.

FROM: Vice President and Corporate Secretary

Chad - Fiscal Consolidation Support Grant

Supplemental Financing

Supplemental Financing Document

Attached is the Supplemental Financing Document regarding a proposed supplemental grant to Chad for the Fiscal Consolidation Support Grant (IDA/R2016-0295), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA
Secretary, IMF

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The World Bank

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Report No. 110558-TD

INTERNATIONAL DEVELOPMENT ASSOCIATION

SUPPLEMENTAL FINANCING DOCUMENT FOR A PROPOSED SUPPLEMENTAL GRANT

IN THE AMOUNT OF EQUIVALENT TO SDR 53.8 MILLION (US$80 MILLION EQUIVALENT)

FROM THE CRISIS RESPONSE WINDOW

TO THE

REPUBLIC OF CHAD

FOR THE FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT

December 8, 2016

Macroeconomics and Fiscal Management Global Practice
Africa Region

THE REPUBLIC OF CHAD - FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 30, 2016)

Currency Unit = CFA Franc (CFAF)
US$1 = CFAF 597.0363
US$1 = 0.72788150

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ANIE	National Agency for Investment and Exports (*Agence Nationale des Investissements et des Exportations)*
ARMP	Procurement Regulatory Agency
BEAC	Bank of Central African States (*Banque des Etats de l'Afrique Centrale*)
CEMAC	Economic and Monetary Community of Central Africa (*Communauté Economique et Monétaire de l'Afrique Centrale*)
CFAF	Central African CFA Franc *(Franc de la Communauté Financière d'Afrique)*
CNPC	China National Petroleum Corporate
CRW	Crisis Response Window
DAO	Extraordinary Spending Procedures
DGMP	Directorate of Public Procurement
DSA	Debt Sustainability Analysis
DPO	Development Policy Operation
DPF	Development Policy Financing
ECF	Extended Credit Facility
ESPSG	Economic Stabilization and Social Protection Program Support Grant
FCFA	CFA Franc
FCPSG	Fiscal Consolidation Program Support Grant
GDP	Gross Domestic Product
GoC	Government of Chad
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low-Income Countries
NOPD	Non-Oil Primary Deficit
NPL	Non-Performing Loans
NSPS	National Social Protection Strategy
PFM	Public Financial Management
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
UN	United Nations
WEO	World Economic Outlook
WBG	World Bank Group

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REPUBLIC OF CHAD

SUPPLEMENTAL FINANCING FOR THE FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

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REPUBLIC OF CHAD
SUPPLEMENTAL FINANCING FOR THE FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

Borrower:	Government of Chad	
Implementing Agency:	Ministry of Budget and Finance (MBF)	
Operation Type:	Single tranche to be disbursed upon effectiveness	
Financing Data	IDA Grant in the amount of SDR 58.3 million (US$80 million equivalent) from the Crisis Response Window (CRW) on standard IDA grant terms.	
Pillars of the Operation and Program Development Objectives	The Program Development Objectives are to help maintain stability on the fiscal and macroeconomic aspects including protection of critical Government programs and to set the basis for medium-term reforms. This is achieved by: (a) broadening the tax base; (b) improving the rationalization of public spending and transparency in public resource management; and (c) improving new business registration.	
Result Indicators:	***Objectives, Indicators, and Targets***	***Baseline*** *(2014, unless specified otherwise)*
	Pillar 1: Broadening the tax base	
	An increase in the number of taxpaying firms recorded in the government's taxpayer database to be at least 15,000 by end-December 2017.	*11,298 (status 2016)*
	An increase in the rating of the PEFA Indicator 'P13-I: Clarity and Comprehensiveness of Tax Liabilities' to 'B' by end-December 2017.	*D*
	Pillar 2: Improving the rationalization of public spending and transparency in public resource management	
	An increase to 'B' rating in the PEFA indicator 'P18-IV: Existence of Payroll Audits to Identify Control Weaknesses and/or Ghost Workers' by end-December 2017.	*D*
	A 25 percent reduction in the value of single-source procurement contracts as a share in total contracts by end-December 2017.	*33%*
	A 65 percent increase in the proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days by end-December 2017.	*55%*
	A reduction to one in the number of months to issue compliance certificates on budget settlement laws by end-December 2017.	*4 (2015)*
	Pillar 3: Improving new business registration	
	An increase in the number of newly registered businesses to 5,000 by end-December 2017.	*3,959*
Risk and Risk Mitigation	High	
Operation ID:	P162548	

IDA PROGRAM DOCUMENT FOR A PROPOSED
SUPPLEMENTAL FINANCING FOR THE FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

REPUBLIC OF CHAD

I. BACKGROUND

1. **This Project Appraisal Document seeks the approval of the Executive Directors to provide supplemental financing of US$80 million to the Fiscal Consolidation Program Support Grant, approved in December 2015, from the International Development Association (IDA) Crisis Response Window (CRW)[1].** The FCPSG aims to maintain macroeconomic stability, protect critical government programs and set the basis for medium-term reforms in the context of the oil price shock. Chad is currently experiencing a severe fiscal crisis coupled with a deep recession triggered by a complex set of circumstances. This includes a substantial fall in oil revenue as a result of a deep oil price decline, production constraints and unfavorable fiscal management arrangements in the oil sector. Security challenges, the Nigerian recession and a weather shock magnify Chad's economic downturn. Chad's role as a provider of regional public goods by hosting large refugee population and fighting terrorism activities along with the recession in Nigeria, compound the crisis. Due to all these factors, the severity of the crisis is significantly worse than what was projected at the time of the FCPSG approval putting in jeopardy its program development objectives. The proposed supplemental financing aims to address the unanticipated financing gap and support the realization of FCPSG objectives. The FCPSG focuses on two of the four strategic axes of the government's program: Axis 1, the creation of new productive capacities and opportunities for decent jobs, and Axis 4, improved governance.

2. **The economic impact of the crisis is of unprecedented magnitude**. Gross domestic product (GDP) is projected to decline by 3.5 percent in 2016 compared to the contraction of 2 percent for the group of African oil exporters. Chad is projected to experience the sharpest drop in GDP in the region over the 2015-17 period. The severe recession might reverse some of the progress made through previous hard-won and recognized reform efforts. Total revenues have fallen from 23.2 percent of non-oil GDP in 2014 to 13.7 percent in 2016 and public spending has been severely compressed as a result. Although the Government has reaffirmed its commitment to maintaining public spending in critical social sectors, this is proving highly challenging the as the pre-shock budget was already inadequate to meet the needs of these sectors. As a result of the crisis, there are indications of a reversal of some of the poverty gains made in the recent past.

3. **The Government is addressing the fiscal crisis decisively and effectively**. The Government has adopted cash-based budgeting to control budget execution and maintain fiscal discipline. Total spending has been drastically reduced from 29.4 percent of GDP in 2014 to 16.6 percent in 2016. Expenditures have been reduced even further than the drop in revenues by postponing all domestically-financed public investment to 2017 while adopting an emergency stabilization program to curtail recurrent expenditures including transfers and subsidies, civil servant allowances and goods and services. The Government has also rationalized medium-term fiscal management by strengthening procurement, improving

[1] Management informed the Executive Directors of its intention to allocate an indicative amount of US$80 million in support of the Government of Chad in response to the persistent commodity price shock at a technical briefing on October 12, 2016. See the note entitled "IDA Crisis Response Window (CRW) Support for Liberia, Sierra Leone, Guinea, and Chad in Response to the Commodity Price Shock" dated October 5, 2016 for additional information. The full details of the CRW Eligibility Matrix are in Annex 8.

expenditure, and it has taken measures to review and limit tax expenditures. These fiscal management measures have helped support FCPSG program implementation.

4. **The proposed operation meets the key conditions for the use of quick disbursing Supplemental Financing.** The economic and fiscal crisis is exceptional and its magnitude is unexpected. The FCPSG is being implemented in compliance with the provisions of the Financing Agreement and the Government remains on track to comply with the program. Chad has exhausted its statutory and exceptional advances from the regional Bank of Central African States (BEAC), and is unable to obtain sufficient funds from other creditors on reasonable terms and in a reasonable time. The time available is also too limited to prepare a free-standing operation given the urgent need to close the 2016 financing gap.

II. IMPACT OF THE CRISIS

5. **Chad's economy is in recession because of the interaction of several shocks emanating from the oil sector and beyond.** Economic growth declined from 6.9 percent in 2014 to 1.8 percent in 2015 and is projected to contract by 3.5 percent in 2016. Oil sector GDP will contract by a projected 5.9 percent in 2016 as oil-related investment has been cut by more than 80 percent and production has declined. The oil price shock has had dramatic consequence as the economy depends excessively on oil, which accounts for 63 percent of fiscal revenue and 85 percent of exports, and directly contributes to 20 percent of GDP with substantial inter-sectoral linkages. Non-oil GDP is projected to contract by 3 percent in 2016, mainly as a result of large reductions in public spending, which is the main driver of the non-oil economy.

6. **Security challenges, the Nigerian recession and a weather shock magnify Chad's economic downturn.** Chad is a leading African state in the fight against terrorism, a regional powerbroker and valuable counterterrorism player in the region. Armed attacks by Boko Haram continue along the frontier with Cameroon, Nigeria and Niger, prompting the Government to increase security expenditures from 3.1 percent to 3.4 percent of GDP between 2014 and 2016. Chad's role in ensuring regional stability has led to a humanitarian crisis as the country hosts at least 750,000 refugees and returnees scattered along its borders from the Central African Republic, Sudan, Libya and Nigeria. Security challenges have negatively impacted the economy, including livestock, commerce, communication, and cross border trade. Trade activities at the Nigeria border in the agriculture and livestock sectors have largely halted following security concerns and the depreciation of the Naira. Further to this, the 2015/2016 agricultural season was delayed due to insufficient public extension support and poor conditions for early crop development as a result of erratic and insufficient rainfall, leading to a significant agricultural production decline, resulting in 1.6 million of people in severe food scarcity. In 2016, inflation has turned negative as a result of the recession as consumer prices are estimated to fall by 2 percent.

7. **The fiscal crisis is unfolding on account of the impact of combined shocks on public finance.** Oil-related fiscal revenue declined from 11.7 percent to 0.5 percent of non-oil GDP between 2014 and 2016. This dramatic drop was explained by two distinct factors. First, the pronounced decline in oil price from an average of US$100 per barrel in 2013-14 to US$34 in 2016. Second, it was the result of sub-optimal outcomes of an oil-collateralized loan arrangement, the repayment of which absorbed almost two-thirds of the value of oil shipments in 2016[2]. Adding to fiscal woes were the non-materialization of an exceptional

[2] Payments on the oil-collateralized loan of US$1.35 billion contracted in 2014 with Glencore Energy, paid through deductions on the value of oil shipments by the Chad Hydrocarbons Corporation.

receipt (CFA300 billion) which was expected to be generated by an equity sale in an oil field.[3] Moreover, a reduced volume of trade transactions with Nigeria and Chad's support to the regional peacekeeping efforts have resulted in additional fiscal pressure. Increased security expenditure is also linked to the hosting of refugees living in temporary displacement camps or sites. There is no prospect of an immediate return of these refugees to their home countries. The United Nations (UN) has estimated that the annual cost of hosting refugees is around US$282 million (3.5 percent of non-oil GDP).

8. **The policy response between financing and adjustment has been unbalanced towards a severe fiscal adjustment.** Public expenditures are projected to be compressed from 29.4 percent of non-oil GDP in 2014 to 16.6 percent in 2016. Both capital and recurrent spending have been cut. Domestically financed public investment has declined from 9.9 percent of non-oil GDP in 2014 to 1 percent in 2016. Recurrent spending dropped from 16.6 percent of non-oil GDP in 2014 to 11.7 percent in 2016. The fiscal crisis is so severe that public civil servants are experiencing a two month delay in salary payments. More broadly, domestic arrears have increased to about 3 percent of non-oil GDP as of June 2016 its 2014 level, but compared to end-2015, the stock remains the same at CFA 200 billion. Acute liquidity conditions led to non-observance of the performance criteria of the third and fourth reviews of the International Monetary Fund (IMF) Extended Credit Facility on domestic arrears, although these were recently waived.

9. **The fiscal crisis also has negative spillover effects on the banking sector.** Chad's financial sector is shallow and heavily dependent on central government bonds, which is the largest source of bank exposure. The financial sector is also exposed to public enterprises and the private sector's dependence on government spending, government suppliers or contract holders. As a result, Chadian banks are very sensitive to public finances, and by the same token to fluctuations in the prices of key exports such as oil and cotton. The impact of the economic downturn and ensuing fiscal compression that resulted in public delays in invoice payments and arrears has contributed to an increase in non-performing loans (NPLs) from 11.7 percent of gross banking loans at end-2014 to more than 17 percent as of June 2016. Banks appear generally profitable, and even if liquidity has declined because of the drop in government deposits, bank solvency ratios have remained high. However, vulnerabilities have been increasing.[4] These stem partly from delayed government payments to the private sector, and specifically the construction sector, which is heavily indebted to domestic banks. However, as the oil price shock further spreads to the real economy, bank solvency is expected to deteriorate.

10. **The external reserve position has also weakened.** Hard currency rationing and substantial fiscal consolidation will reduce the external current account deficit from 12.3 percent in 2015 to a projected 7.5 percent of GDP in 2016. A decreasing financial and capital account reflects significantly lower foreign direct investment related to the oil and construction sectors and adverse security conditions. Along with the decrease of oil exports, Chad's international reserves continue to fall, representing barely 0.3 month of imports by end-2016. Currently, regional reserve coverage is far below what is considered adequate (five months) for a resource-rich monetary union with a fixed exchange rate.

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[3] In October 2015, China National Petroleum Corporate (CNPC) agreed with the Government to pay US$400 million and give 10 percent stake in CNPC fields in compensation of an environmental violation. The dispute arose in July 2013 after Chad found out that a large quantity of crude oil was dumped into pits dug. During the preparation of the 2016 budget, the Government has planned to sell this equity. The Government has estimated the amount of this operation at CFAF 300 billion. Two oil companies were interested and visited CNPC in Chad but failed to reach an agreement with Chadian authorities.

[4] IMF Staff Report on 'CEMAC: Common Policies of Member Countries', June 2016.

11. **The regional securities market has reached a limit in terms of absorption of additional Chadian bonds.** The regional central bank (BEAC) has implemented an accommodative monetary policy using direct and indirect monetary tools to support member states, which has delayed fiscal consolidation. The policy raised the ceiling for Chadian commercial bank refinancing, and halved the level of required reserves for the entire banking system in April 2016. Banks are now approaching their regulatory limits in terms of exposure to Chad government securities. Chad has already exhausted its statutory and exceptional advances and is expected to start repaying its loans in 2019. This combined with the declining reserves of the BEAC calls for a concerted action and a regional approach for most affected countries such as Chad. It also calls for measures to bolster the BEAC's balance sheet.

12. **As a member of a regional monetary union, Chad does not have the option of devaluing its currency in response to the oil price shock.** Chad is a member of the Economic and Monetary Community of Central Africa (CEMAC) which uses the CFAF which, in turn, is pegged at a fixed rate to the Euro. Commodity exporters worldwide have used the exchange rate as a first line of defense following the recent decline in commodity prices. Nominal currency devaluation helps preserve the local currency value of oil-related fiscal revenues, and more broadly, supports a necessary real exchange rate adjustment to a new macroeconomic equilibrium. Countries with a fixed exchange rate regime, such as Chad, need to use fiscal consolidation as the main policy instrument of short-term macroeconomic adjustment.

13. **A 2016 Joint World Bank-IMF Debt Sustainability Analysis (DSA) shows that Chad remains at high risk of debt distress.** Despite a baseline macroeconomic scenario consistent with a fiscal and debt sustainability improvement over the medium term, the risk of external debt distress remains high. The external debt ratios have deteriorated and these breaches reflect the significant reduction in government oil revenue and the spike in debt service payments falling due in the next few years for the oil-collateralized loan. Three of the external debt indicators are above their critical thresholds, indicating a high risk of debt distress. The PV of debt-to-revenue ratio and the debt-service-to exports ratio show temporary and small breaches of their indicative thresholds. The debt service-to-revenue ratio exhibits a more protracted and large breach in the 2016-2020 period. Conditional on the assumptions of the baseline scenario (including a sustained fiscal adjustment), the external debt indicators remain well below their indicative thresholds in the medium to long run.

14. **The recent increase in domestic debt has led to an increase in the risk to overall debt sustainability.** With the accumulation of domestic arrears and the increased issuances of debt securities in the regional market, the PV of debt-to-GDP ratio shows a breach in 2016-2017 under the baseline scenario. The domestic debt component would fall from 22 percent of GDP in 2016 to 16 percent of GDP in 2020 and will continue a steady decline until it reaches about 6 percent of GDP in 2036. Altogether, the public debt stock would decrease from 47 percent of GDP in 2016 to 29 percent of GDP in 2020 until it stabilizes around an average of 18 percent of GDP in 2022-2036.

15. The crisis threatens to reverse gains made in the past decade on poverty reduction. The national poverty rate fell from 54.8 percent in 2003 to 46.7 percent in 2011 reflecting the positive impact of the oil price boom on oil- and non-oil-related investment and the influx of rural Chadians to major cities. Urban poverty rates fell from 24.4 to 14.1 percent, while rural poverty rates also fell but more modestly from 58.4 to 50.3 percent. Although no recent data is available, the Government recognizes that the current crisis threatens to reverse poverty gains made in the past. Given that poverty reduction is typically correlated with economic growth both within Chad and across the world, the current economic recession is expected to increase poverty again. To mitigate the impact of the crisis on the poor, the authorities are supporting programs aimed at protecting the poor and vulnerable. The Government is also developing a structured approach to safety nets that will help with proactive transition from an emergency to a long-term approach aimed at building resilience and strengthening livelihoods. The approach builds on the National Social Protection Strategy (NSPS) approved in June 2015 and consists in establishing a more permanent safety net system to identify, register, target and monitor beneficiary households.

III. GOVERNMENT'S RESPONSE TO THE CRISIS

16. **The Government crisis response is three-pronged**: First, the adoption of an Emergency Fiscal Plan aimed at mitigating the short-term impact of the crisis. Second, the implementation of reforms that lay the foundation for improving public resources management and the business environment. These reforms complement the prior actions underpinning the Fiscal Consolidation Program Support Grant (FCSPG) and are expected to strengthen the intended results of the program. Third, by requesting assistance from development partners to meet the emerging financing needs. The crisis response of the Government is explained in more detail below.

17. **The Emergency Fiscal Plan aims at reducing public spending.** The Government has introduced cash-based budgeting since early 2016. A mid-year budget review was conducted in June 2016 and a second budget revision followed in August 2016. The first budget revision pushed planned public investment to 2017 and prudently excluded the prospective oil equity sale as a revenue source. In addition, an emergency action plan was implemented to reduce spending to a level consistent with the large drop in oil revenue. Key measures of the plan include: reduction of senior government staff allowances by 80 percent; the reduction and merging of de-concentrated administrative offices from 550 to 160; merging of all public agencies in charge of sport and youth; restructuring of the National Radio and Television Agency; revision of criteria for scholarships; and the conduction of a census of community teachers.[5] In order to preserve social programs and mitigate the impact of the crisis on poor and vulnerable groups, the Government has also attempted to protect the budget allocation to priority areas including education, health, and social protection. However, budget execution remains to take effect given the extent of the budget cut.[6] Overall, these measures will help prevent the fiscal deficit from increasing between 2014 and 2016.

18. **The Plan includes stepped up efforts aimed at enhancing tax revenue.** Non-oil revenues have stagnated at 8 to 9 percent of non-oil GDP in recent years. Given the magnitude of the crisis on fiscal revenues, the Government has started reviewing its tax expenditure policy with a view of broadening the tax base. Part of this effort is the development of a study on tax expenditures currently underway. The study aims to take stock of existing exemptions, identify the regimes under which they were granted, and provide an estimate of the corresponding foregone revenue. It also aims to clarify the implementation modalities of these exemptions. These modalities include considerations on budget transparency and monitoring evaluation in order to assess their relevance, usefulness, and develop responsive policy recommendations. Importantly, the Government has frozen the granting of new exemptions until the completion of the tax expenditures study. In addition, the Government has launched a series of audits on current exemptions granted to the largest firms in order to learn more from past experience and to take adequate decisions from the recommendations issued by the audit report if there are compliance issues.

[5] Government projections of potential fiscal gains of these measures is estimated at 1.6 percent of non-oil GDP.
[6] Allocation to priority areas (Education, Health, Social protection, Agriculture, Livestock, Environment, Fishery, and Water) has increased from CFAF 260 billion in 2015 to CFAF 294 billion in 2016.

Finally, excise duty was introduced at a rate of 18 percent on the telecommunications sector, new taxes have been imposed on airline tickets, and traffic tax applied on fuel prices.[7]

19. **Measures to strengthen expenditure efficiency are also being adopted.** First, an audit of the Central Government payroll system has been commissioned. The audit is expected to be completed in December 2016 and will help identify ghost workers hired after the 2015 biometric census and identify the following two variables through comparison with administrative records: (i) inconsistencies of the level of wages of civil servants; and (ii) non-compliance with salary increases, pensions, scholarships and allowances. Secondly, the Government is undertaking an audit of all State Owned Enterprises (SOEs). The objective in this regard is to strengthen the monitoring, control, and management of public assets through a deeper financial and accounting diagnosis, thus allowing the determination of fiduciary risk for the state and help develop an efficient portfolio management strategy. Thirdly, in its effort to acknowledge the need for improving public resources management in light of the changing environment, the Government is auditing large investment projects and re-visiting its investment portfolio with the view of identifying and removing inefficient investment projects. This also includes rationalizing the investment policy and prioritization. The objective is to improve the quality of spending, preserve priority social spending (e.g., education, health) and complete infrastructure projects, which are well advanced and have been demonstrated to support development. The potential efficiency savings from these initiatives will be clarified once these studies are completed.

20. **Chad is deepening fiscal management reforms aimed at enhancing budget transparency.** In 2016, the Council of Ministers adopted the implementation decrees of the Organic Law on the Framework of Financial Operations, the Budget Nomenclature and the Chart of Accounting in compliance with CEMAC directives. These efforts are part of a rigorous process aimed at enhancing the efficiency and transparency of public financial management and to facilitate collection of comparable data for multilateral surveillance of national fiscal policies by the CEMAC authorities. As part of the process, the harmonization of the legal, accounting, and statistical framework of public finances collectively seeks to produce a set of consistent rules. These rules help towards the preparation, submission, approval, execution, and monitoring of the budget. The reforms also include public access to budget information, parliamentary pre-budget debate, multi-year budgeting, results-oriented management, more decentralized budget preparation, and a new accounting and financial monitoring framework.

21. **A strategy for clearing domestic arrears is also under preparation.** The Government has commissioned an audit of the arrears with the objective of validating the level of stock and designing an arrears repayment plan in 2017. This pace of the execution of the repayment plan will take into consideration the tight fiscal situation. In this regard, the trade-off facing the Government under the repayment plan is between ensuring budget execution versus clearing selective repayments that are a burden for the private sector creditors.

22. **The authorities are strengthening the procurement system.** To implement the revised procurement code adopted by the Government in 2015, the Government adopted an operational manual, the general conditions and the standard bidding documents. These tools will guide the actors involved in procurement of goods and services whilst strengthening operational capacities. The Government also operationalized the Procurement Regulatory Agency (ARMP) by allocating a budget line to the Agency and appointing the President and others members through a decree.

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[7] The projected increase in revenue from these initiatives remain to be determined.

23. **Moreover, acknowledging the critical role of the private sector, the Government is deepening reforms aimed at improving the business environment**. Registering business in Chad still takes today on average twice the time to register business in the rest of the region (two months). The Government has improved business registration procedures by operationalizing a one-stop shop business registration.

24. **To complement the reform efforts and close the financing gap, the Government has mobilized additional grants and concessional lending.** Additional financing needs have arisen in the context of the 2016 budget implementation. The Government has requested emergency assistance from the World Bank and other development partners to address the fiscal impact of the exogenous shocks that exceeds by far the financial capacity of the Government. In this vein, external concessional financing will help ease the burden of the adjustment efforts and is much needed. Unless it is forthcoming, the financing gap would lead to increased domestic arrears or domestic debt, in addition to the high levels recorded in 2015, and more pronounced expenditure cuts.

IV. WORLD BANK'S RESPONSE AND STRATEGY

25. **The proposed operation will complement other sources of financing and help close the financing gap for the 2016 Budget.** The proposed US$80 million supplemental financing will complement the financing support from the EU and the African Development Bank (AfDB) as well as the three-year IMF Extended Credit Facility (ECF) arrangement, as illustrated in Table 1.

Table 1: External Financing Requirement and Sources (2016)

	US$ million	% of non-oil GDP
Overall balance, excluding grants	-542	-6.5
Total net financing, excluding budget support	292	3.5
Financing gap	250	3.0
Budget Support	250	3.0
African Development Bank	85	1.1
World Bank	80	0.9
European Union	25	0.3
IMF ECF	60	0.7

Source: Chadian authorities, WB, IMF staff calculations

26. The proposed operation complements previous World Bank crises support consisting in consolidating the International Development Association (IDA) portfolio and pipeline. At the end of FY15, the World Bank cancelled uncommitted IDA funds to facilitate the preparation of the FCPSG. The World Bank also included a US$5 million safety net investment operation in the Country Partnership Framework (FY16-FY20), (Report Number 95277), which was approved by the Executive Directors in 2015, in response to the social impact of the crisis and committed US$10 million to the regional Sahel Irrigation Initiative.

27. **Going forward, the World Bank will deepen its engagement in a policy dialogue that addresses Chad's development challenges.** A number of underlying factors have magnified Chad's vulnerability to the shocks, leading to the severe fiscal crisis and deep recession. The lack of diversification affects not

only growth but also revenue generation as evidenced by the current situation. Furthermore, sectoral policies to address specific sector issues would need to be deepened to support the diversification agenda. Governance and public finance management agenda also needs to be strengthened in order to optimize public resources management efficiency. In the preparation of future development policy operations, the World Bank will make sure that it supports a substantive reform program that addresses Chad's long-term development challenges in terms of fiscal sustainability, productivity and diversification.

V. THE REFORM PROGRAM SUPPORTED THROUGH THE FCPSG: AN UPDATE

A. ECONOMIC PERFORMANCE SINCE APPROVAL OF THE FCPSG

28. **Chad's macroeconomic situation during 2016 has significantly deteriorated compared to the projections at the time of FCPSG preparation.** The recent economic performance was discussed in detail in previous sections. This section compares FCPSG projections at the time of project preparation (November 2015) with current estimates (November 2016). As summarized in Table 2, growth and fiscal outcomes for 2016 are far worse than what was projected under the FCPSG. The economy was expected to grow by 2.6 percent in 2016, but is now projected to contract by 3.5 percent. Fiscal revenues for 2016 were projected at 17.4 percent of non-oil GDP but are now projected to be only 13.7 percent. Public spending was projected at 23.4 percent of non-oil GDP but will now reach only 16.6 percent. The fiscal deficit is less than what was projected but at the cost of dramatic cuts in expenditures as mentioned previously.

Table 2: Selected Economic Indicators

	2014	2015	2016 Previous	2016 Estimate	2017 (p)	2018 (p)	2019 (p)
Real Economy		(annual percentage change, unless otherwise specified)					
Real GDP	6.9	1.8	2.6	-3.5	-0.3	4.7	6.3
Oil GDP	5.7	32.2	5.0	-5.9	-4.5	16.0	19.6
Non-Oil GDP	7.1	-2.9	2.1	-3.0	0.6	2.6	3.5
Fiscal Accounts		(percent of non-oil GDP, unless otherwise specified)					
Expenditures	29.4	21.2	18.9	16.6	16.7	17.2	18.1
Current expenditure	16.6	14.0	9.0	11.7	11.1	11.3	11.8
Investment expenditure	12.8	7.3	5.9	4.9	5.6	5.8	6.4
Revenues and Grants	23.2	14.7	17.4	13.7	13.4	16.0	17.5
Oil revenue	11.7	2.6	4.5	0.5	0.8	2.8	4.4
Non-oil revenue	9.4	8.3	8.6	8.2	8.5	9.2	9.3
Grants	**2.1**	**3.9**	4.3	5.0	4.1	4.1	3.8
Gen. Gov. Balance (com. basis)	-6.2	-6.5	-1.9	-2.9	-3.3	-1.2	-0.6
Over. Balance (incl. Grant, Cash)	-4.4	-5.2	-1.9	-4.2	-2.5	-1.6	-1.1
Balance of Payments		(percent of GDP, unless otherwise specified)					
Current account	-8.9	-12.3	-8.3	-7.5	-6.8	-6.4	-5.7
Gross off. reserves (in months of imports of goods and services)	2.1	1.0	2.1	0.3	0.3	0.8	1.3
External Debt	29.1	25	24.3	24.7	21.7	18.8	15.7

Source: Chadian Authorities, IMF and World Bank staff. November 2016

29. **The recession is expected to continue in 2017.** Negative growth is expected to last until 2017 provided that international oil prices recover as projected and new oil fields in Chad become operational. Growth would contract by 0.3 percent in 2017 as oil GDP would continue falling by 4.5 percent. Fiscal consolidation will hold back growth of the non-oil sector which would expand modestly by 0.6 percent. The growth trajectory is projected to reverse as new oil fields in Badila and Mangara are expected to become operational. Oil prices are also expected to pick up from 2018 onwards, in line with IMF World Economic Outlook (WEO) forecasts. The fiscal deficit would reduce further and continue decreasing from 4.2 percent of non-oil GDP in 2016 to 1.1 percent in 2019. Oil revenue would increase gradually to reach 4.4 percent of non-oil GDP in 2019. The fiscal consolidation would be sustained and supported by continued the cash-based execution through 2017 and the measures on non-oil taxes. The Government would increase public spending only to the extent that domestic resources and financing permit. This trajectory will allow an increase in domestic investment spending. The external position is projected to gradually improve but will remain weak and vulnerable to further oil price shocks. The external current account deficit would decrease from 7.5 percent of GDP in 2016 to 5.7 percent in 2019 on the back of improved oil exports. As a result, the gross financing requirements would gradually decline over the medium term from US$1 billion in 2016 to US$759 million by 2019.

30. **Chad's macroeconomic policy framework is deemed adequate for the purpose of the proposed operation, but remains very fragile to downside risks.** Substantial fiscal consolidation,[8] the consistency of the policy framework under the IMF 2014-2017 ECF program and the macroeconomic anchor offered by CEMAC establish an adequate framework for the program to achieve its objectives.[9] However, downside risks predominate, including the absence of fiscal buffers and persistent low global oil prices which would heighten macroeconomic risks. In case of a further decline in oil prices, the Government's ability to finance its planned expenditures would be compromised. Equally, a further deterioration of the security conditions would impact negatively on the budget if security spending were to increase, and may divert additional fiscal resources away from priority social and economic programs.[10]

B. REFORM PROGRESS SINCE APPROVAL OF THE FCPSG

31. **All prior actions included in the FCPSG had been met prior to Board approval and there were no indicative triggers given that it is a standalone operation**. Moreover, there have been no policy reversals on these prior actions. As discussed in Section 3 and detailed below, since its approval, the Government has implemented a number of actions to strengthen and complement the reforms supported by the FCPSG. As such, there is an active, ongoing and effective policy dialogue between the World Bank, other partners and the authorities on these reforms.

32. **Continued reform commitment of the Government is expected to help the program move towards achieving its objectives despite the ongoing crisis.** Table 3 provides an overview of the seven results indicators and the associated prior actions of the FCPSG operation. It should be noted that the

[8] The authorities rely on the implementation of the measures of their emergency action plan, and on the continuation of a cash-based execution of the budget. Fiscal deficit (including grants, on cash basis) is projected to decrease from 4.2 percent of non-oil GDP in 2016 to 1.1 percent in 2019. Currently and investment expenditures will remain below their 2015 level, and decrease through 2019.

[9] The third and fourth Review of the IMF ECF Program was concluded satisfactorily on November 11, 2016 and the program was extended to end-November 2017.

[10] The floor for poverty reducing spending as of end-June 2016 in the Quantitative Performance Criteria (QPC) and Indicative targets (IT) under the ECF arrangement (Dec 15 – June 2016) was met.

FCPSG will close in June 2017 and that there are data gaps at this point in time, however, it is possible to take stock of progress to-date. Overall progress has been mixed, though this is partly related to the crisis. There have been positive improvements in the business environment, as indicator #7 has already exceeded the target ahead of time. The Government has also taken actions that would potentially lead to progress on transparency in tax legislation (#2) and payroll management (#3), although quantitative data is not available to verify these results. Ongoing technical assistance on external control (#6) is also likely to result in progress on the relevant indicator, although data limitations inhibit quantification of progress. Slow progress has been made on expanding the tax base (#1) although fiscal rationing is partly to blame. The latest data in 2015 on extraordinary spending procedures (#5) and procurement (#4) shows deterioration against target. However, recent and ongoing reforms are expected to lead to improvement. As discussed next, the Government has implemented a series of reforms to complement the FCPSG prior actions.

Table 3: **FCPSG Policy and Results Matrix and Status**

Prior Actions	Results Framework: Indicators		Comments
	Baseline (2014)	Latest status vs. Target 2017	
Pillar 1: Broadening the tax base			
Prior Action 1: The Recipient's Ministry of Finance has adopted the results of the nationwide enterprise census for taxpayer identification and registration purposes, thereby expanding the taxpayer base and increasing non-oil tax revenues. **Indicator 1**: An increase in the number of taxpaying firms recorded in the Government's taxpayer database.	11,200 (2014)	Status 2016: 11,298 Target 2017: 15,000	**Slow progress towards target**. As of March 2016, an additional 23 large enterprises and 75 Small and medium enterprises (SME) have been included in the database. To speed up the implementation of this task, a coordination committee including representatives of the INSEED and the tax directorate is being created to design an action plan.
Prior Action 2: The Recipient's Council of Ministers has adopted and submitted to the National Assembly for enactment the general tax code consolidating all tax related fiscal regulations, leading to a more comprehensive and transparent taxation system. **Indicator 2**: An increase in the PEFA Indicator P13-I: Clarity and comprehensiveness of tax liabilities. (*)	D (2014)	Status 2016: N/A Target 2017: B	**Actions have been taken to support progress towards target.** A new tax code was approved by the Parliament in June 2016. It consolidates all tax related fiscal regulations and makes tax legislation more transparent. A PEFA assessment will be completed in 2017.
Pillar 2: Improving the rationalization of public spending and transparency in public resource management			
Prior Action 3: The Recipient's Ministry of Finance has validated the data collected through the civil servant biometric census and included such data in the integrated human resource and payroll management system (SIGASPE).	D (2014)	Status 2016: N/A Target 2017: B	**Actions have been taken to support progress towards target.** The Government has launched a new audit of the

Prior Actions	Results Framework: Indicators		Comments
	Baseline (2014)	Latest status vs. Target 2017	
Indicator 3: An increase in the PEFA indicator P18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers. (*)			payroll system in October 2016 to identify control weaknesses and/or ghost workers. A PEFA assessment will be completed in 2017.
Prior Action 4: The Recipient's Council of Ministers has adopted the procurement code which, among other things, separates the procurement regulation function from the control function, leading to a more efficient system. **Indicator 4**: A reduction in the value of single-source procurement contracts as a share of total contracts.	33% (2014)	Status 2015: 36% Target 2017: <25%	**Lagging implementation. Reforms are expected help reverse trends.** While a new procurement Code was adopted under the FCPSG in end-2015, the share of single-source contracts stood at 36 percent from 33 percent in 2014. It remains to be assessed or 2016. Key measures have been adopted in 2016. A Regulatory body (ARMP) has been operationalized and tools have been developed to ensure good procurement practice. An AfDB TA supports ex-ante control by the directorate of procurement (DGMP) and ex post control by the ARMP. Achieving this objective would require continuing capacity strengthening at the level of line ministries.
Prior Action 5: The Recipient's Council of Ministers has adopted the public accounting regulation "*Reglement General sur la Comptabilite Publique*" as part of the strategy to achieve compliance with CEMAC Directives on public finance.	55% (2014)	Status 2015: 43% Target 2017: 65%	**Lagging implementation. Reforms are expected to help reverse trends.** The liquidity

Prior Actions	Results Framework: Indicators		Comments
	Baseline (2014)	Latest status vs. Target 2017	
Indicator 5: An increase in the proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days.			constraints starting in 2015 increased the amount of DAO, making regularization within 60 days difficult. The proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days, decreased from 55 percent in 2014 to 43 percent in 2015. The adoption of the CEMAC directives in General Accounting rules, Budget nomenclatures and Chart of Account is expected to improve this indicator. In addition, a committee comprising representatives of the Budget Directorate, the financial controllers and the Treasury, was created on November 11, 2016 to expedite the regularization of DAO.
Prior Action 6: The Recipient's Council of Ministers has appointed members of the Court of Accounts and allocated appropriate budget to ensure the operationalization of the Court of Accounts. **Indicator 6**: A decrease in the number of months to issue compliance certificates on budget settlement laws.	4 (2015)	Status 2016: N/A Target 2017: ≤ 1	**Target expected to be achieved.** Recent progress has been made with the operationalization of the Court of Accounts. The Ministry of Finance also submitted to the Court of Accounts the 2014 budget settlement on November 8, 2016. There is a substantial

Prior Actions	Results Framework: Indicators		Comments
	Baseline (2014)	Latest status vs. Target 2017	
			amount of TA supporting the Court of Accounts to ensure completion of this task.
Pillar 3: Improving new business registration			
Prior Action 7: The Recipient's Council of Ministers has adopted decrees aimed at: (a) reducing the number of procedures required to legally start and operate a company; b) reducing the paid in minimum capital requirement to start a business; and (c) allowing for the establishment of an online system for publishing registration notice of companies and making the use of notary services for physical publication of a newly created company in Recipient's gazettes and newspapers optional. **Indicator 7**: Number of newly registered businesses.	3,959 (2014)	Status 2016: 5,107 Target 2017: 5,000	**Target has already been met and exceeded.** As of March 2016, 1,148 new firms have been registered.

(*): The indicator will be informed by an overall PEFA report, planned to be finalized in 2017. In its absence a partial assessment of the indicator based on PEFA methodology could also be conducted by World Bank Staff.

BROADENING THE TAX BASE

33. **Slow progress has been made in increasing the number of taxpaying firms recorded in the Government's taxpayer database (Indicator 1), and achieving the target would require additional efforts and resources.** During the early periods of 2016, following the completion of the enterprise census for taxpayer identification and registration purposes, the taxpayer database has been transmitted to the tax directorate to identify, locate and register new taxpayers. The census of the statistical office identified 30,761 potential firms to be added to the 2015 database which contains 11,200 firms. Thus far, only 23 new large enterprises and 75 small and medium enterprises (SME) have been included in the database following the preliminary matching exercise undertaken in the first quarter of 2016. The delay is caused the lack of resources to overcome the technical challenges related to the data matching exercise. The methodologies used by the INSEED and the tax directorate to categorize enterprises size are different and technical assistance is needed to resolve this issue. Progress was also hampered by high staff turnover as there have been four different general managers and technical directors in charge of this task at the tax directorate during 2016. Furthermore, a lack of resources to implement the data matching activity was also a concern. A coordination committee including representatives of the INSEED and the tax directorate is being created to propose to the Government an action plan aimed at resolving the technical challenges and speed up the implementation of this task. The Government is expected to share the timeframe for this action by the end of the 2017 calendar year.

34. **Satisfactory progress has been made in enhancing transparency in tax legislation (Indicator 2).** The Parliament has approved a new tax code in 2016. The new code consolidates all tax related fiscal regulations leading to a more comprehensive and transparent taxation system. This has been complemented by efforts to rationalize tax exemptions including undertaking a tax expenditure study, which will establish clear rules about exemptions management. It is expected that these reforms would improve the "clarity and comprehensiveness of tax liabilities", to be assessed by the upcoming PEFA exercise. Transparency of tax liabilities is assessed by the clarity of legislation and administrative procedures. This contributes to the access to information for most, but not necessarily for all, major taxes. The new tax code addresses these considerations and would be enhanced by the policy to be derived from the tax expenditure study.

IMPROVING THE RATIONALIZATION OF PUBLIC SPENDING AND TRANSPARENCY IN PUBLIC RESOURCE MANAGEMENT

35. **Satisfactory progress has been made in enhancing the control of the payroll system (Indicator 3).** Under the FCPSG, the authorities have completed the biometric census of the civil service, which identified a number of ghost workers, civil servants with jobs in the private sector, and civil servants receiving multiple salaries. However, the payroll management system has not been fully checked to allow it to operate efficiently, and the Government has hired 7,975 civil servants since 2014.[11] The new audit commissioned by the Government will further enhance the control on the payroll system. The results and recommendations of this audit would help achieve the target related to the existence of payroll audits to identify control weaknesses and/or ghost workers which will be assessed by the upcoming PEFA exercise.

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[11] The census performed in 2015 did not include components of the payroll such as retirees, scholarships, family allowances and allowances for senior managers which represent 22 percent of the total wages and salaries. The newly recruited civil servants are part of the recruitment process. Of the 10220 ghost workers identified by the census, who represented 12 percent of the total workforce, only 327 civil servants have been able to regularize their situation by presenting required evidence.

This study will be finalized by the end of the 2017 calendar year and is expected to help assess the expected impact of this initiative on the budget.

36. **The Government has adopted key reforms to reduce the rate of single sourcing in public procurement (Indicator 4).** Under the FCPSG, the Council of Ministers adopted a new procurement code that covers the public procurement process from planning to contract award, regulates the institutional framework for procurement, and defines the overall organization while providing adequate provisions for contract implementation. Furthermore, it establishes clear guidelines for the use of single-source procurement in line with international standards. As of December 2015, the available indicator on single-source procurement shows that the rate of sole source has increased from 33 percent in 2014 to 36 percent in 2015. However, an improvement in this indicator is expected with the strengthening of the ex-ante control by the Directorate of Public Procurement (DGMP), the operationalization of the new code and the ARMP in 2016, and the development of key tools needed to guide the activities of procurement of goods and services. The operational manuals to define the operating rules of the procurement units and the standard bidding documents including especially the General Conditions have been distributed to relevant entities. The AfDB has provided support for the revision of the code and continues assisting for its implementation, including support to line the DGMP and the ARMP. These measures need to be complemented by capacity strengthening at the level of line ministries and other public entities to ensure compliance with the code and reduce single sources.

37. **Improvement in the regularization of exceptional use of budget is expected from 2016 onwards (Indicator 5).** The FCPSG supported the adoption of public accounting regulation "*Reglement General sur la Comptabilite Publique*" as part of the strategy to achieve compliance with CEMAC Directives on public finance. This regulation introduces the obligation to regularize emergency spending within 60 days. The proportion of regularization to be done within 60 days after payment stood at 43 percent in 2015, at the time of the FCPSG, while the target is established at 65 percent. This was mainly due to the revenue shortfall and the severe liquidity constraints. In 2016, the Government adopted additional directives including the budget nomenclature and the chart of accounting in 2016 that made the public accounting regulation fully effective. Further to this, on November 11, 2016, the Government adopted a ministerial decree (128/MFB/SG/2016) creating a Committee comprising representatives of the Budget Directorate, the financial controllers and the Treasury to expedite the regularization of pending emergency spending.

38. **The institutional framework for external control system has been strengthened and the time for the Court of Accounts to issue compliance certificates on budget settlement laws is expected to be shortened as planned (Indicator 6).** Following the 2013 constitutional amendment, the Court of Accounts has had its own jurisdiction, in accordance with the CEMAC directives. The establishment of the Court of Accounts created the conditions for an independent evaluation of budget execution. The ability of the Court of Accounts to issue a certificate of conformity presents opportunity to compare the accounts held by the budget administrator (budget execution report – *comptes administratifs*) with those held by the public accountants (accounting statements – *comptes de gestion*). Under the FCPSG, the members of the Court of Accounts were appointed and the Government allocated budget to this entity to ensure its operationalization. The UNDP, the French Embassy and the EU are providing technical assistance to the Court of Account. In 2015, the Government made important progress to obtain the certificate of conformity of the 2013 Budget Settlement Law from the Court of Accounts. The Ministry of Finance completed the draft 2014 budget settlement Law with a 12-months lag in August 2016 due to a high turn-over at the Ministry of Finance. It was submitted to the Court of Account in mid-November 2016.

IMPROVING NEW BUSINESS REGISTRATION

39. **The Government has deepened efforts to improve regulatory reforms for business registration with satisfactory results.** Under the FCPSG, the Government has streamlined business registration by reducing the procedural requirements to establish a firm including reducing the paid-in minimum capital requirement to start a business, allowing for the establishment of an online system for publishing registration notice of companies, and the use of notary services for physical publication of a newly created company in Recipient's Gazettes and Newspapers as optional. In 2016, the Government has deepened reforms aimed at improving business registration procedures. The authorities have operationalized a one-stop shop business registration. Steps previously taken under different structures are now housed under one entity, significantly speeding up the registration process. Available standard company statutes, including new ones can also be easily accessed in electronic form. According to Government, the number of newly registered firms in the first quarter of 2016 has been estimated at 1148. As a result, that the FCPSG target of 5,000 registered firms has been exceeded. According to the 2017 World Bank Doing Business Report, these reforms helped improve Chad's ranking 186 to 182 out of 189 countries in terms of 'Starting a Business'.

C. POVERTY AND SOCIAL IMPACT ASSESSMENT

40. **Previous assessments remains valid**. **The measures supported by the FCPSG are not expected to have a negative impact on poverty but rather to mitigate the adverse impact of the crisis on poverty.** There are several ramifications in this regard. First, this operation would reduce the severity of the fiscal adjustment by providing budget support at a critical juncture. Second, it would reduce the risks of un-ordered adjustment that could take the form of additional arrears accumulation. Third, the proposed operation is expected to support the maintenance of minimum levels of security and pro-poor expenditures as budgeted in the revised 2016 Finance Law, thus reducing risks of increased fragility and disruption in basic service delivery. While the level of pro- poor expenditures has decreased in terms of absolute levels, it has increased in terms of the share of the budget when comparing the 2016 initial budget to the revised finance Law.[12] In the long-run, measures supported by the operation are still expected to generate efficiency gains and fiscal space that could be used to strengthen the resilience of the economy against shocks and finance larger pro-poor interventions in public health, education, social protection and agriculture.

41. **The Government has also established a social safety net unit to create coping mechanisms for the poor**. This is a pilot activity that would be scaled-up in the future. The objective is to lay the foundations of a new safety net system in order to provide cash transfers and cash for work to poor households in both Southern Sudanian and Sahel regions, urban and peri-urban areas of N'Djamena, and in the most disadvantaged areas of the country where chronic poverty and malnutrition are the highest. The transfers will be made giving priority to the oldest woman of the household.

D. ENVIRONMENTAL ASPECTS

42. **Previous assessment remains valid. The 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 affect the quality of Chad's forests, fisheries, water supplies or other

[12] The share of pro poor expenditures increased from 29 percent in the 2016 initial budget to 39 percent of total expenditures in the revised finance Law. Budget execution remains to be assessed.

environmental resources. However, 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.

VI. RATIONALE FOR PROPOSED SUPPLEMENTAL FINANCING

43. The rationale for the proposed supplemental financing to the FCPSG satisfies the operational requirements for a supplemental development policy operation. The proposed Supplemental Financing meets World Bank requirements for Supplemental Financing under OP 8.60 as follows:

44. **The impact of the combined shocks affecting Chad is unprecedented, beyond the control of the authorities, and threatens the original program objectives of the FCPSG without a supplemental source of financing.** While the oil shock started at end-2014 and has intensified in 2015 and 2016 while oil production declined. Reinforcing factors included the evaporation of net revenues due to the fiscal regime in the oil sector and advance sales of oil. Furthermore, deteriorating security conditions have led to increasing security cost while also impacting trade flows and economic activity in general, and lastly, the depreciation of the Nigerian Naira has disrupted trade flows. These shocks lead to an unprecedented magnitude of revenue shortfall with an urgent and unanticipated financing gap in 2016. They also substantially impacted economic growth leading to a severe recession thus jeopardizing the Government's reform and development spending program.

45. **The program is currently being implemented in compliance with the provisions of the Financing Agreement:** Chad is implementing the FCPSG in full compliance with all covenants embedded in the Legal Agreement for the financing of the FCPSG (Financing Agreement Number D0970-TD between the Association and Chad dated November 2, 2015).

46. **The borrower is unable to obtain sufficient funds from other creditors on reasonable terms and in a reasonable time.** The funding for the 2016 budget already includes contributions from the AfDB, the EU and under the IMF ECF. The Supplemental Financing is therefore critical to reduce the unanticipated fiscal gap caused by lower than expected revenues. No other concessional resources are available as Chad has already exhausted its statutory and exceptional loans with the BEAC.

47. **The time available is too short to prepare a free-standing operation.** Under the difficult economic downturn affecting Chad, World Bank assistance should be channeled as soon as possible, and time available is too short to prepare a self-standing program, even an emergency operation. Given the urgency, the proposed supplemental financing allows the World Bank to provide support in a timely manner so that the Government can deal rapidly with the fiscal and social impact of the shock, while also ensuring that the FCPSG-supported reforms continue to be implemented.

48. **The reform program, supported by the FCPSG remains on track.** The Government and key implementing agencies remain committed to the reform program with the World Bank in continued dialogue but also with the IMF under the ECF program and others partners (EU, AfDB) providing technical assistance supporting reform implementation. Rapid delivery of World Bank support, therefore, is essential to sustain the on-going reform program and domestic demand to avoid lack of tax revenues substituted by arrears or unsustainable rundown in foreign exchange reserves.

49. **Failure to address Chad's difficult fiscal challenges raised by the crisis could entail large risks, as deeper reversal of previous gains would have dire implications for Chad's development and could further destabilize the region.** The Government urgently needs external financing to help offset the decline in oil revenues, and to prevent continued accumulation of arrears to suppliers and civil servants. The rapid delivery of budget support through the proposed operation helps execute the 2016 budget and implement the 2017 budget that protects pro-poor expenditures.[13] World Bank budget support will cover a financing shortfall of 1.0 percent of non-oil GDP.

VII. IMPLEMENTATION ARRANGEMENTS

TERMS OF THE SUPPLEMENTAL FINANCING

50. **The conditions of effectiveness are unchanged from the FCPSG.** As with any DPO, the World Bank requires several conditions including the provision of a legal opinion, the achievement of satisfactory progress in carrying out of the reform program, and maintenance of a macroeconomic framework satisfactory to the World Bank in order to declare effectiveness.

51. **The closing date for the Supplemental Financing is December 31, 2017.**

FUNDS FLOW AND AUDITING REQUIREMENTS FOR THE SUPPLEMENTAL FINANCING

52. Disbursement and Accounting. The Recipient is the Republic of Chad, represented by the Ministry of Finance and Budget. The grant will be released in a single tranche of SDR 58.3 million (US$80 million equivalent) upon effectiveness and provided that IDA is satisfied (i) with the program being carried out by the Recipient; and (ii) with the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow IDA's standard disbursement procedures for development policy operations. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated account of the Government of Chad (GoC) for budget support at the central bank (the BEAC), which will form part of the country's foreign-exchange 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 Ministry of Finance and Budget 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 budgetary system will be based on the market 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.

[13] The 2017 budget was submitted to Parliament. Allocation to priority expenditures in the 2017 budget remains at the 2016 level, at 31 percent of total budget, and is higher than the 2015 allocation of 19 percent.

A. BENEFITS

53. **The proposed Supplemental Financing will be an important source of resources for the Government**. It will provide critical resources at a time when there is an urgent need for financing unmet government expenditures, including pro-poor expenditures. The proposed Supplemental Financing is quick disbursing and timely program support will assist the Government in minimizing the risks to the overall reform program that is being supported through the current FCPSG. It will also maintain the integrity of the transition to a new reform program planned for implementation over the next fiscal year.

B. RISKS

54. **The risk assessment made for the FCPSG remains valid and the overall risk rating for the proposed operation is high.** Political, governance, macroeconomic, as well as institutional capacity for implementation and sustainability risks are of particular concern for the proposed operation.

Table 4: Proposed Operation Risks Ratings

Risk Categories	Rating
Political and governance	High
Macroeconomic	High
Institutional capacity for implementation and sustainability	High
Fiduciary	Substantial
Stakeholders	Substantial
Overall	High

55. **Political and governance risks are high.** Emergency fiscal measures adopted to contain the growth of the wage bill through the reduction of allowances of senior government staff, the audit of all SOES are all measures aimed at redressing dubious practices and may be politically challenging and face resistance. The Government's commitment to reforms has been demonstrated with the adoption of additional reforms in revenue mobilization, expenditure management and procurement, and the strong fiscal discipline it has shown. In addition, the commitment of development partners to supporting Chad's reform agenda has helped mitigate further economic downturn and fiscal rationing. However, political risk remains high.

56. **Macroeconomic risks are high**. The macroeconomic risk raised in the FCPSG has materialized with the persisting low oil prices and insecurity along the borders with Nigeria and Cameroon caused by Boko Haram, including the need for Chad to support affected neighboring countries such as Niger and hosting refugees. A prolonged low level or fall in oil prices would deepen the already negative impact of the crisis on the fiscal accounts and compromise the Government's ability to finance its planned expenditures in the coming years. This would also aggravate the recession given the strong dependence of the economy on oil. Given Chad's absence of fiscal buffers, a continued slump in global oil prices would heighten macroeconomic risks. A negative climatic shock would affect the prospects for agricultural growth and significantly reduce GDP growth. However, the Government has demonstrated strong commitment to fiscal discipline and ability to maintain sound fiscal stance during the crisis. It is expected to continue as such given the stabilizing effect of CEMAC membership and PFM reforms undertaken in recent years. The

consistency of the policy framework under the IMF 2014-2017 ECF program and the macroeconomic anchor offered by CEMAC, establish necessary conditions for mitigating macroeconomic risks.

57. **Institutional capacity for implementation and sustainability risks are high**. The risk has materialized in light of the slow progress made so far in achieving some of FCPSG objectives given the low institutional capacity in Chad as discussed in the document. A satisfactory implementation of the major reforms in procurement and PFM remains challenging. Financing support and technical assistance from Chad's development partners, including the AfDB, EU, IMF and CEMAC, is expected to partially mitigate this risk.

58. **Overall, the fiduciary risk of the proposed operation is rated substantial**. Notwithstanding progress over the recent past, Chad's PFM system still faces a number of challenges related to the quality and timeliness of financial statements and the weak involvement of sector ministries and civil society organizations in the budget formulation process. The budget execution reports are still incomplete and control systems, both internal and external, are still weak. Recent initiatives such as the "Citizen Budget" and the measures under this operation contribute to mitigating these risks.

59. **Stakeholder risk is substantial.** Resistance from various groups that capture rents from public resources use could slow down the implementation of the reforms supported by the FCPSG operation. The deepening of the reforms adopted under the FCPSG help mitigate these risks. The study on tax expenditures, the audit of SOEs and payroll management are positive steps toward enhanced transparency and potential fiscal space. The new procurement code, if implemented in full, will help increase the value for money, and greatly reduce dubious practice in public resources management.

60. **The proposed operation will not fully mitigate the risks identified above.** However, the provision of the CRW resources, and the expected impact of the FCSPSG related reforms to improve public resources management reinforce macro-fiscal stability, which is essential to managing the impact of economic, political or security-related shocks. The progress noted following the latest IMF Safeguards Assessment of the BEAC also contributes to mitigate the fiduciary risks. Finally, donors' coordination and active macroeconomic monitoring and dialogue are helping better anticipate and address severe fiscal and external imbalances.

Annex 1: Key Macroeconomic Indicators, 2013-2019

	2013	2014	2015	2016	2017	2018	2019
Real Economy	(annual percentage change, unless otherwise specified)						
Real GDP	5.7	6.9	1.8	-3.5	-0.3	4.7	6.3
Oil GDP	-7.1	5.7	32.2	-5.9	-4.5	16.0	19.6
Non-Oil GDP	8.0	7.1	-2.9	-3.0	0.6	2.6	3.5
Per Capita GDP (US$)	974.2	1012.8	745.0	716.7			
Contribution							
Consumption	6.7	5.1	-3.0	-1.6			
Investments	0.1	3.7	-10.6	-1.0			
Exports (nets)	-1.1	-1.9	15.4	-0.9			
Exports	-13.3	5.7	27.5	-7.3	4.5	16.5	10.4
Imports	-5.3	9.9	-21.4	-13.7	7.2	6.4	9.2
GDP Deflator	-4.2	0.8	-8.0	-3.3	9.0	1.6	4.1
Consumer price inflation (average)	0.2	1.7	3.7	-2.0	0.1	3.0	3.0
Fiscal Accounts	(percentage of non-oil GDP, unless otherwise specified)						
Expenditures	31.3	29.4	21.2	16.6	16.7	17.2	18.1
Revenues	27.6	23.2	14.7	13.7	13.4	16.0	17.5
General Government Balance (commitment basis)	-3.7	-6.2	-6.5	-2.9	-3.3	-1.2	-0.6
Overall Balance (including Grant, Cash)	-6.6	-4.4	-5.2	-4.2	-2.5	-1.6	-1.1
Selected Monetary Accounts	(annual percentage change, unless otherwise specified)						
Base Money	8.6	26.5	-4.7	-1.1	4.2	..	..
Credit to Non-Government	2.8	17.3	0.3	-2.9	-1.0	..	..
Interest (Key policy Interest rate of BEAC)	3.25	2.95	2.45	2.45	…	…	…
Balance of Payments	(percentage of GDP, unless otherwise specified)						
Current account balance	-9.1	-8.9	-12.3	-7.5	-6.8	-6.4	-5.7
Exports of goods and services, f.o.b.	30.0	28.1	24.0	21.1	23.2	26.5	29.6
Imports of goods and services, f.o.b.	-23.4	-25.3	-23.5	-19.5	-19.8	-19.5	-19.2
Foreign Direct Investment	4.0	-4.8	5.1	2.5	3.5	4.1	3.9
Gross Reserves (US$ bn eop)	1.2	1.2	0.4	0.1	0.1	0.3	0.6
In months of next year's imports	2.5	2.1	1.0	0.3	0.3	0.8	1.3
External Debt	21.2	29.1	25.0	24.7	21.7	18.8	15.7
Terms of Trade (percentage change)	8.3	-4.0	-46.7	-8.3	12.7	2.4	9.8
Exchange rate (average)	493.9	493.6	591.2	..	..	..	…
Memorandum items:							
Nominal non-oil GDP (local currency, billion)	4,662	5,179	5,184	5,039	5,337	5,486	5,884
Nominal GDP (local currency, billion)	6,418	6,912	6,474	6,038	6563	6,986	7,734

Sources: Chadian authorities, IMF and World Bank staff. November 2016

Annex 2: Chad: Real GDP per sector, 2014–2016

	2014	2015	2016
	(Annual percentage change, unless otherwise indicated)		
Primary sector	6.4	10.1	-1.0
Agriculture	7.9	-3.3	2.0
Food crops	8.0	-4.0	2.0
Industrial crops	7.1	8.0	2.0
Livestock, Forestry and Fishing	3.0	0.5	1.2
Mining and Quarrying	10.3	5.2	-7.0
Oil and Gas Extraction	6.0	36.3	-3.8
Secondary sector	8.1	-4.4	-5.9
Manufacturing (non petroleum)	13.2	-2.5	-3.0
Handicrafts	11.5	2.0	1.0
Utilities	4.6	3.5	-2.0
Construction	4.0	-12.6	-16.5
Of which: oil related	4.5	0.4	-48.0
Tertiary sector	7.1	-3.3	-5.4
Commerce, transport, and communication	4.9	-3.8	-4.2
Commerce	4.5	-4.5	-4.2
Transport and communication	8.0	1.0	-4.0
General government	4.2	-12.5	-12.0
Other	12.0	1.0	-5.0
Duties and taxes on imports	5.0	-4.6	-2.5
Total GDP (market prices)	6.9	1.8	-3.5
Oil GDP (including investment)	5.7	32.2	-5.9
Non-oil GDP	7.1	-2.9	-3.0

Sources: Chadian authorities; IMF and World Bank staff estimates and projections. November 2016

Annex 3: Central Government Budgetary Operations, 2013-2017

	2013	2014	2015	2016	2017	2018	2019
	(In percent of non-oil GDP, unless otherwise specified)						
Overall Balance (including Grant, Cash)	-6.6	-4.4	-5.2	-4.2	-2.5	-1.6	-1.1
Non-Oil Primary Balance	-18.1	-16.2	-9.7	-3.7	-3.6	-3.0	-3.8
Total Revenue and Grants	27.6	23.2	14.7	13.7	13.4	16.0	17.5
Tax Revenue	25.2	21.1	10.8	8.7	9.3	11.9	13.7
Oil revenue	16.1	11.7	2.6	0.5	0.8	2.8	4.4
Non-oil revenue	9.2	9.4	8.3	8.2	8.5	9.2	9.3
Grants	2.4	2.1	3.9	5.0	4.1	4.1	3.8
Expenditure	31.3	29.4	21.2	16.6	16.7	17.2	18.1
Current expenditure	17.6	16.6	14.0	11.7	11.1	11.3	11.8
Wages and salaries	7.1	6.6	7.1	7.3	7.1	7.0	6.7
Goods and services	2.9	2.8	1.8	1.4	1.2	1.2	1.4
Transfers	6.8	6.3	4.6	2.3	2.2	2.3	2.8
Interest	0.7	0.9	0.4	0.8	0.6	0.8	0.8
Domestic	0.2	0.5	0.2	0.4	0.4	0.4	0.4
External	0.5	0.4	0.3	0.3	0.2	0.7	0.6
Investment expenditure	13.7	12.8	7.3	4.9	5.6	5.8	6.4
Domestically financed	10.5	9.9	4.4	1.0	1.6	1.6	2.1
Foreign financed	3.2	3.0	2.8	3.9	4.0	4.2	4.3
Financing	6.6	4.4	5.2	4.2	2.5	1.6	1.1
Domestic financing	1.7	7.0	5.1	4.1	1.2	0.5	0.0
Foreign financing	4.9	-2.6	0.1	0.1	1.3	1.0	1.1

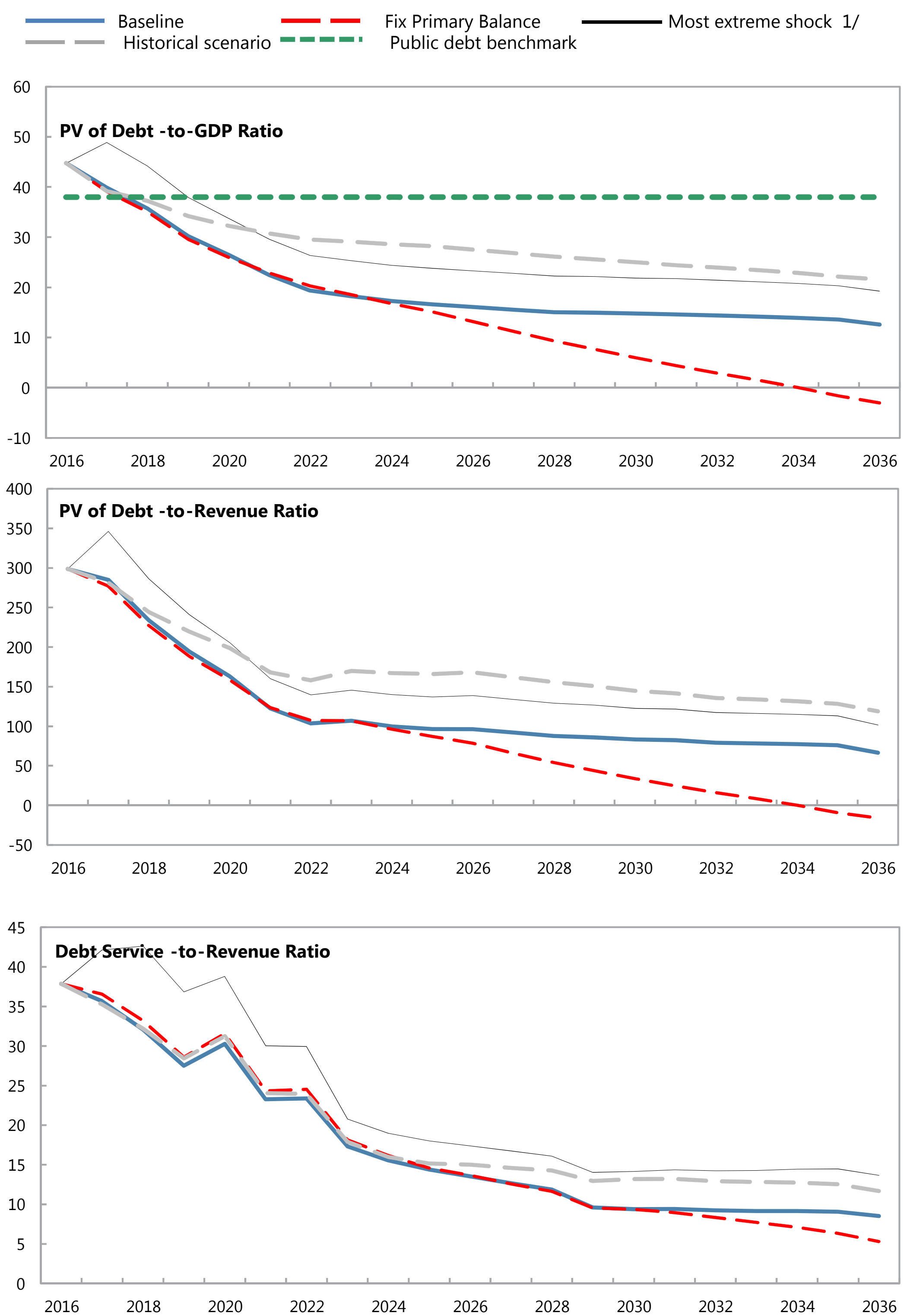
Source: Chadian Authorities, IMF and World Bank staff. November 2016

Annex 4: Balance of Payments Financing Requirements and Sources (in US$ million)

	2013	2014	2015	2016	2017	2018	2019
BOP financing requirement and Sources							
Financing requirements (US$)	-1,451.8	-975.9	-1,481.0	-1,070.5	-869.4	-810.1	-759.5
Current account deficit	-1,188.50	-1,250.70	-1,347.00	-770.2	-759.1	-753.1	-744.8
Long Term Debt Amortization	-283.5	-362.6	-94.7	-242.4	-67.8	-67.8	-67.7
Other short term capital outflows	20.2	637.4	-39.3	-57.9	-42.5	10.8	53.0
Financing Sources	1451.8	975.9	1481.0	1070.5	869.4	810.1	759.5
FDI and portfolio investments (net)	520.4	676.7	383.55	156.8	294.2	482.9	466.0
Capital grants	228.8	216.8	341.7	425.4	336.69	376.3	379.7
Long term debt disbursements	684.3	93.2	57.5	86.7	132.2	95.6	128.8
Change in reserves	18.3	-10.8	664.9	350.9	54.9	-191.8	-261.5
HIPC Debt relief	0.0	0.0	33.4	50.7	51.4	47.2	46.4

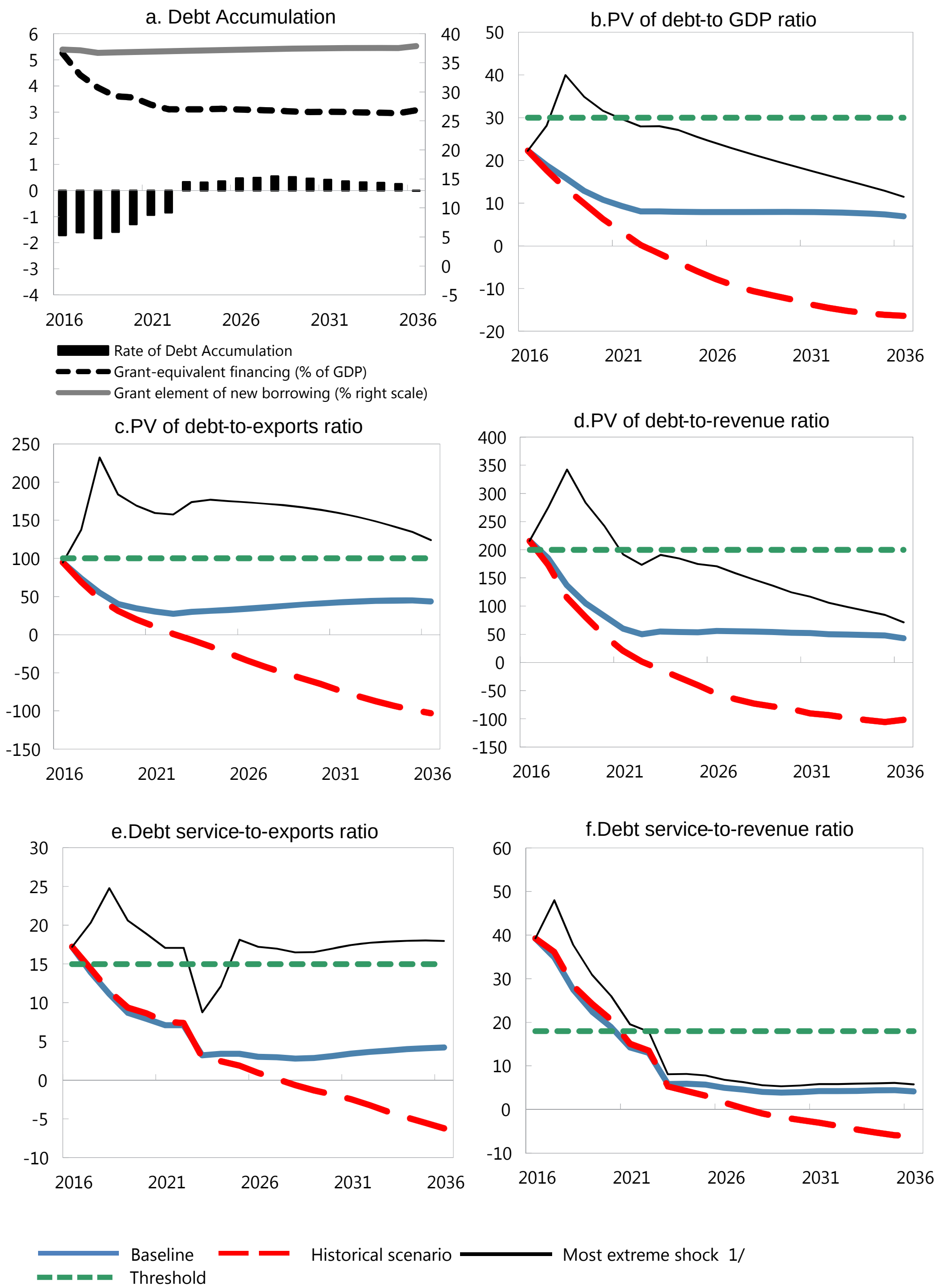
Source: Chadian Authorities, IMF and World Bank staff. November 2016

Annex 5: Chad Indicators of Public Debt Under Alternative Scenario 2016-2036



Sources: Country authorities; and WB and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Annex 6: Chad: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenario 2016-2036



Sources: Country authorities; WB and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Annex 7: IMF Relations Note

IMF Executive Board Completes Third and Fourth ECF Reviews for Chad, Increases Access, Extends the Arrangement, and Approves US$61 Million Disbursement

November 11, 2016

The Executive Board of the International Monetary Fund (IMF) completed the third and fourth reviews of Chad's economic performance under the program supported by an Extended Credit Facility (ECF) [1] arrangement. Completion of these reviews enables the immediate disbursement of SDR 44.41 million (about US$61 million). This brings total disbursements under the arrangement to SDR 98.34million (about US $135 million).

The Board also approved the authorities' request to waive the non-observance of the continuous performance criterion on the non-accumulation of new external payments arrears and the end-December 2015 and end-June 2016 performance criteria on the non-accumulation of domestic payment arrears. It also approved requests to augment access under the program for SDR 33.64 million or 24 percent of quota (about US$46.2 million) and to extend the arrangement until end-November 2017, as well as a rephrasing of the planned disbursements.

Chad's ECF arrangement was originally approved by the Executive Board on August 1, 2014 (see Press Release No. 14/381) for SDR 79.92 million (about US$109.7 million). Additional access of 40 percent of Chad's quota at the time was approved by the Executive Board in April 2015, bringing Chad's access under the ECF arrangement to SDR 106.56 million (about US$146.3 million) at that time.

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

"Performance under the ECF-supported program has been broadly satisfactory in spite of intensifying pressures from the oil shock and the tense regional security situation. The authorities have taken determined steps to address the fiscal imbalances that emerged earlier this year, by moving to cash-based execution of the budget and implementing large spending cuts. Progress has also been made in implementing the structural reform agenda.

Moving forward, the second revised 2016 budget that was approved by the National Assembly and the draft 2017 budget that has been submitted to the National Assembly aim to preserve the significant adjustments made. While the budgets are based on conservative revenue assumptions, the authorities are committed to protect social spending, and will continue to seek additional donor support to ease the fiscal constraints. The augmentation of access under the ECF arrangement will help in this regard. For the medium term, the spending envelope should remain in line with available revenues and financing.

The structural reform agenda remains focused on improving public financial management, including further enhancing oil sector transparency and budget implementation. The authorities are determined to implement a comprehensive strategy for the settlement of domestic expenditure arrears and will soon launch an audit of existing arrears to support this effort. The medium-term fiscal strategy is complemented by measures aimed at increasing non-oil revenue collections.

A new National Development Plan is at an advanced stage of preparation. A key objective should be to identify measures to diversify the economy and improve the climate for private sector activity. Bold structural reforms are necessary for Chad’s development efforts, especially given oil revenue volatility.”

Annex 8: Chad Crisis Response Window Eligibility Matrix[14]

CRW Eligibility Requirements	Considerations
1. Review available impact data to inform early assessment of need to access CRW resources.	• Chad is currently experiencing a severe fiscal crisis coupled with a deep recession triggered by a complex set of circumstances. Since June 2014, oil prices have decreased by more than 75 percent, falling from US$100 per barrel on average in 2014 to US$33 in 2016. As an oil exporter, Chad has been most adversely affected by the oil price collapse given its low level of export and revenue diversification. In 2013 the last full year before the declining trend, oil provided 63 percent of total public revenues and accounted 85 percent of exports. The decline in oil prices is compounded by a set of factors, including (i) production constraints, and (ii) unfavorable fiscal arrangements in the oil sector which is the sub-optimal outcome of an oil-collateralized loan arrangement, the repayment of which absorbed almost two-thirds of the value of oil shipments in 2016. Chad's role as a provider of regional public goods by hosting large refugee population and financing anti-terrorism activities along with the recession in Nigeria, compound the crisis. • The economy is entering a severe recession, with real GDP projected to decrease to -3.5 percent in 2016. Despite the revenue shock, a strong fiscal discipline, mainly through draconian spending cuts, has prevented the fiscal deficit from increasing. Over a two-year period, the Government is set to have cut spending by almost half in nominal terms. This was achieved through a move in early 2016 to a cash-based execution of the budget and the passing of two revised budgets in May and September 2016. The first revision postponed most public investment to 2017 and the second enacted an emergency stabilization package. The external position is projected to remain weak**,** with a current account deficit at around 6-7 percent of GDP in coming years. International reserves will remain low, representing 0.3 month of imports by end-2016. • Domestic arrears have increased to about 3 percent of non-oil GDP as of June 2016 compared to its 2014 level, but compared to end-2015, the stock remains the same at CFA 200 billion, thanks to the strong fiscal consolidation stance and a repayment of CFA65 billion during 2016. A 2016 Joint World Bank-IMF Debt Sustainability Analysis (DSA) finds that the external debt ratios have deteriorated in the near term on account of the persistent decline in oil prices, the accumulation of domestic arrears and the increased issuance of debt securities in the regional market.
2. Assessment may also take into account whether the country has:	• On February 8, 2016, the GoC has requested emergency assistance from the World Bank to address the impact of the oil price collapse, rainfall deficit, hosting of refugees and security deterioration. The same request was also sent to others donors (EU, AfDB, IMF).

[14] This is an update of the original CRW matrix in "IDA crisis response window support for Liberia, Sierra Leone, Guinea and Chad in response to the commodity price shock. IDA Resource Mobilization Department (DFIRM)" - October 12, 2016.

• **Issued a declaration of emergency;** • **Requested CRW resources.**	
3. Assessment of World Bank capacity to respond without accessing CRW.	• The scope for reallocation of IDA resources within the existing portfolio is limited. Proactive restructuring of the portfolio was completed in FY14 with early cancellations totaling US$29 million undisbursed proceeds under two operations in Agriculture and Urban Water, immediately reallocated to the Emergency Food and Livestock Crisis Response prepared at the request of the Authorities to support refugees and returnees from CAR and delivered in September 2014. The ongoing portfolio is managed proactively and further restructuring would affect development outcomes. • The majority of IDA investments with a significant undisbursed IDA balance are heavily committed to critical sectors such as Health, Education and Value Chain Support Project (P133021) which aims to improve: (i) targeted aspects of the business environment; and (ii) the performance of agro-pastoral value chains. • Given the low CPIA (2.7), the resources available to Chad from IDA17 are equivalent of US$123 million. Half of this amount was already disbursed in December 2015 through the standalone Fiscal Consolidation Program Support Grant (FCPSG). The operation was designed to assist the authorities in addressing the fiscal and external impacts of large exogenous shocks while continuing to develop and implement critical public financial management (PFM) reforms and improvements in the business climate necessary to bolster the competitiveness of the nonoil economy. • A Social Safety Net Project (P156479) funded through an IDA grant (US$5 million) and a DFID Sahel Adaptive Social Protection Grant US$5 million), is under preparation and aims to pilot adaptive safety net interventions for extremely poor households and lay the foundations of a social protection system. The remainder has been allocated to regional projects which are the active Regional Sahel Pastoralism Support Project (P147674) and the under preparation Sahel Irrigation Initiative Support Project (P154482). These regional projects are critical to boost the competitiveness of agriculture and could contribute to diversifying the economy and exit from oil dependency. For these reasons, it will be difficult to reallocate any funds from existing projects. • CRW funding is thus being requested to finance additional financing needs that could not otherwise have been supported.
4. Outline cooperation with other development partners.	• The World Bank liaises with the IMF on a continued basis to continue monitoring the crisis on the Chadian economy. The IMF concluded the 3rd and 4th reviews of the ECF arrangements in November 2016, which resulted in the disbursement of an amount equivalent to SDR 44.41 million.

	• Staff from the AfDB and the EU are also involved and have provided their share of financing support. • The World Bank's proposed operation will complement the financing support from the EU and the AfDB as well as the three-year IMF ECF arrangement.
5. Validation of initial impact data and other information to calculate final allocation.	• Management is proposing to allocate US$80 million in CRW resources to Chad to finance the crisis response. These resources would allow one IDA operation to respond to the aftermath of the oil price collapse. • Consistent with the IDA CRW framework, formal Executive Directors approval for the provision of CRW support and the projects financed with its resources will be sought as part of the documents for the projects financed by the CRW. The IDA operation is a supplemental financing to the Fiscal Consolidation Program Support Grant (FCPSG) approved by the Board in December 2015 (US$80 million to be financed from the CRW, and scheduled for Board presentation on December 21, 2016), to help the Government with costs incurred in responding to the exogenous shocks. • The proposed operation meets the key conditions for the use of quick disbursing Supplemental Financing. The economic and fiscal crisis is exceptional and its magnitude is unexpected. The FCPSG is being implemented in compliance with the provisions of the Financing Agreement and the Government remains on track to comply with the program. Chad has exhausted its statutory and exceptional advances from the regional World Bank of Central African States (BEAC), and is unable to obtain sufficient funds from other creditors on reasonable terms and in a reasonable time. The time available is also too limited to prepare a free-standing operation given the urgent need to reduce the 2016 financing gap.
6. Preliminary information on factors to be taken into account for final decision: **6 (a). Severity of crisis and costs of recovery.**	• Oil revenue decreased from 11.7 percent of non-oil GDP in 2014 to 0.5 percent in 2016. In 2014-15, the authorities' response to those shocks included a massive fiscal adjustment (with a 30 percent reduction in domestically financed spending) and the mobilization of additional financing from the Central Bank, the World Bank, European Commission and African Development Bank. In 2016 expenditures cuts of 6 percent have already been planned in the original budget. However, additional financing needs have arisen in the context of the 2016 budget implementation, leading to a financing gap of 3.0 percent of non-oil GDP. If not covered, it is expected to lead mostly to increased domestic arrears. Chad has already exhausted its statutory and exceptional loans with the BEAC advance and as of November 2016, the fiscal crisis is so severe that public civil servants are experiencing a two-month delay in salary payments. • In addition to the higher level of fiscal adjustment in 2015, the Government has included in the 2016 budget a reduction of current expenditures in education and health by 50 percent, and in agriculture sector by 80 percent. Given the low level of human development in Chad (185 out of 188 countries in the UN's Human Development Index (HDI) ranking) and the humanitarian crisis, further

	expenditure adjustments to the persistent oil price collapse would create unprecedented damages. • According to the World Bank, the severity of the impact of the crisis would impact negatively the poverty reduction trend in Chad. The recent figures indicate that the poverty rate (US$1.5/day), for the first time since 2009, would increase from 34.8 percent in 2014 to 35.4 percent in 2016 following the drastic reduction in public expenditures started since 2015. • Management proposes to use US$80 million (equivalent) from the CRW to support FCPSG program objectives and assist with financing needs. • The size of the CRW allocation reflects Chad's need to maintain macro and fiscal stability and supports the recovery of the secondary and tertiary sectors. IDA's grant terms are consistent with Chad's Debt Management Strategy.
6 (b). Number of affected persons.	• As indicated above, continuing fiscal adjustment in response to lower public revenues would increase the number of poor in Chad by 84,000. • Despite the sharp reduction of the fiscal space, Chad is facing a humanitarian crisis by hosting more than 750,000 refugees coming from neighboring countries. It also faces a significant decrease of agriculture production as a result of El Niño. • According to WFP, the people in need of food assistance would increase by 43 percent during the 2016 lean season with 1 million people in a crisis situation and 1.6 million people in severe food insecurity according to WFP.
6 (c). Estimates of GDP and fiscal impact.	• The oil price collapse is expected to reduce output growth, to -3.5 percent in 2016, more than 3 percentage points below the baseline for 2016 prepared about a year ago. • In 2016, inflation has turned negative as a result of the recession as consumer prices are estimated to fall by 2 percent. • The fiscal deficit is projected to be 4.2 percent of non-oil GDP in 2016 from a baseline of 1.9 percent in the initial budget and 5.2 percent in 2015. • The current account deficit in 2016 is expected to narrow to 7.5 percent of GDP from a pre-crisis of 8.9 percent of GDP in 2014 as imports suffered from the weak demand in general and the oil sector in particular. The official gross reserves are projected to drop to less than 1 month of imports from its pre-crisis level of 2.1 months.
6 (d). Availability of resources to respond to crisis from:	**IDA Resources** • The current IDA portfolio of US$163.45 million (in grant terms) has been restructured in FY15, with proactive early cancellations on non-performing operations. The program includes eight operations in Governance, Health, Education and Trade and Competitiveness. A regional program includes Sahel

(i) IDA portfolio; **(ii) Domestic resources;** **(iii) Other external financing.**	Initiative activities covering support to Livestock and Pastoralism, Women Empowerment, and a planned operation in Irrigation. **Domestic Resources** • Government's commitment to sound fiscal management has been recently demonstrated. A large expenditure compression took place in 2014-2015 combined with the mobilization of more domestic and external (concessional) financing to smooth the adjustment and limit adverse effects on non–oil economic activity, although there was a shortfall in net domestic financing (aside from BEAC financing). **Other External Financing** • The main source of other external financing will continue to come from FDI in the oil sector, which has decreased by half compared to 2015. An exceptional receipt from an expected equity sale in the oil field representing CFA300 billion has not materialized. The financial and capital account evolution also reflects significantly lower than anticipated foreign direct investment, due to the halt in investments in the oil sector and other sectors like construction. In recent years, capital transfers in the form of debt relief and investment grants also helped to finance the current account deficit.
6 (e). Absorptive capacity.	• Chad could effectively absorb an additional US$80 million in IDA resources, equivalent to about 0.9 percent of non-oil GDP. Overall implementation capacity is constrained in Chad but the Government has demonstrated its commitment to fiscal discipline. The Government specifically requested additional finance for the 2016 Development Policy Operation as well as a focus on using the existing platforms of the Portfolio. Specifically, CRW resources would support emergency recovery activities programmed through additional financing to the 2016 budget. The front loading of IDA 2015-2017 resources was critically needed to respond to the 2015 fiscal shock. • Chad is currently at 'high' risk of debt distress under the IMF/World Bank debt sustainability framework. Additional grant to finance 2016 fiscal gap, including through the proposed CRW resources under this proposal, will not have a significant impact on debt sustainability or lead to any reclassification of Chad debt distress rating.
6 (f). Country size.	• Chad is a country, with a population of around 14 million. Chad now hosts around 550,000 refugees including those from Sudan, CAR and Nigeria. This is equivalent to almost 4 percent of the population, the third highest level in the world according to UNHCR. In addition, around 90,000 people are still internally displaced from the conflict in 2007 and subsequent cross-border attacks from Darfur.