



OFFICIAL USE ONLY

IDA/R2017-0248/1

June 20, 2017

<p>Closing Date: Thursday, June 29, 2017 at 6 p.m.</p>

FROM: Vice President and Corporate Secretary

Chad - Emergency Fiscal Stabilization Development Policy Operation

Program Document

Attached is the Program Document regarding a proposed development policy grant to Chad for an Emergency Fiscal Stabilization Development Policy Operation (IDA/R2017-0248), 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

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

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No. 114931-TD

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED GRANT
IN THE AMOUNT OF SDR 47 MILLION
(US\$65 MILLION EQUIVALENT)
TO
THE REPUBLIC OF CHAD
FOR THE
EMERGENCY FISCAL STABILIZATION DEVELOPMENT POLICY OPERATION

June 19, 2017

Social Protection and Jobs Global Practice
Macroeconomics and Fiscal Management Global Practice
Africa Region

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

THE REPUBLIC OF CHAD - FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 31, 2017)

Currency Unit = CFA Franc (CFAF)

SDR 1.00 = CFAF 809.8911

US\$1.00 = CFAF 585.0462

US\$1.00 = SDR 0.72237633

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ARMP	Procurement Regulatory Agency
BEAC	Bank of Central African States (<i>Banque des Etats d'Afrique Centrale</i>)
BoP	Balance of Payments
CEMAC	Economic and Monetary Community of Central Africa (<i>Communauté Economique et Monétaire de l'Afrique Centrale</i>)
CFAF	Central African CFA Franc (<i>Franc de la Communauté Financière d'Afrique</i>)
CFS	Cellule Filets Sociaux (Safety Net Unit)
CPIA	Country Policies and Institutions Assessment
CPF	Country Partnership Framework
DPF	Development Policy Financing
DPO	Development Policy Operation
ECF	Extended Credit Facility
EFSD	Emergency Fiscal Stabilization Operation
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FRPC	Poverty Reduction and Growth Facility (<i>Facilité pour la réduction de la pauvreté et pour la croissance</i>)
GDP	Gross Domestic Product
GoC	Government of Chad
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LDP	Letter of Development Policy
LIC-DSA	Debt Sustainability Analysis for Low-Income Countries
MDG	Millennium Development Goals
MFB	Ministry of Finance and Budget
MFM	Macroeconomics and Fiscal Management
NDP	National Development Plan
NGO	Non-governmental Organizations
NOPD	Nonoil Primary Deficit

NSPS	National Social Protection Strategy
OPEC	Organization of the Petroleum Exporting Countries
PA	Prior Action
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PND	National Development Plan (<i>Plan National de Développement</i>)
PRGF	Poverty Reduction and Growth Facility
PTF	Technical and Financial Partners (<i>Partenaires Techniques et Financiers</i>)
PV	Present Value
RER	Real Exchange Rate
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SHT	Chad National Oil Company (<i>Société des Hydrocarbures du Tchad</i>)
SOE	State-Owned Enterprise
SNPS	National Strategy for Social Safety (<i>Stratégie nationale de protection sociale</i>)
SP	Social Protection
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
VAT	Value-added Tax
WBG	World Bank Group
WFP	World Food Program

Regional Vice President:	Makhtar Diop
Country Director:	Soukeyna Kane
Senior Global Practice Director SP/MFM:	Michal Rutkowski/Carlos Felipe Jaramillo
Practice Manager:	Stefano Paternostro/Lars Moller
Task Team Leaders:	Giuseppe Zampaglione/Markus Kitzmuller

THE REPUBLIC OF CHAD

EMERGENCY FISCAL STABILIZATION OPERATION

TABLE OF CONTENTS

SUMMARY OF PROPOSED OPERATION	VI
I. INTRODUCTION AND COUNTRY CONTEXT	1
II. THE MACROECONOMIC POLICY FRAMEWORK	3
A. RECENT ECONOMIC DEVELOPMENTS	3
B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY	9
C. IMF RELATIONS.....	16
III. THE GOVERNMENT’S PROGRAM.....	16
IV. THE PROPOSED OPERATION	17
A. LINK TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION.....	17
B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS	20
C. LINK TO THE CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY	30
CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS.....	30
2. OTHER DESIGN AND APPRAISAL ISSUES.....	31
A. POVERTY AND SOCIAL IMPACTS.....	31
B. ENVIRONMENTAL ASPECTS	32
C. PFM, DISBURSEMENT AND AUDITING ASPECTS	33
D. MONITORING, EVALUATION AND ACCOUNTABILITY	36
3. SUMMARY OF RISKS AND MITIGATION	36
ANNEX 1: POLICY AND RESULTS MATRIX.....	39
ANNEX 2: LETTER OF DEVELOPMENT POLICY	40
ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE	49

LIST OF TABLES

Table 2: Central Government Budgetary Operations, 2014-2020.....	9
Table 3: Balance of Payments Financing Requirements and Sources (in US\$ million)	11
Table 4: External debt composition, March 2017	14
Table 5: External Financing Requirement and Sources (2017-2019) US\$ million.....	15
Table 6: EFSO Prior Actions and Analytical Underpinnings.....	28
Table 7: Proposed Operation Risks Ratings	36

LIST OF FIGURES

Figure 1: Chad: Distribution of Government.....	4
Figure 2: Chad: Distribution of Government.....	4

Figure 3: Chad: External Debt Stock and Debt Service	5
Figure 4: Public External Debt Indicators under Alternative Scenarios, 2016-2021 (with debt restructuring).....	14

The proposed Grant was prepared by an IDA team led by Giuseppe Zampaglione (Lead Social Protection Specialist, GSP07) and Markus Kitzmuller (Senior Economist, GMF08) under the guidance of Soukeyna Kane (Country Director, AFCW3), Stefano Paternostro (Practice Manager, GSP07), Lars Christian Moller (Practice Manager, GMF08), Jose R. Lopez Calix (Program Leader, AFCW3), Paola Ridolfi (Country Program Coordinator, AFCML), as well as Adama Coulibaly (Resident Representative, AFMTD). The team consisted of Olivier Beguy (Economist, GMF08), Rafika Chaouali (Lead Financial Management Specialist, GG026), Faly Diallo (Finance Officer, WFALA), Kristen Himelein (Senior Economist, GPV07), Luc Razafimandimby (Senior Economist, GMF08), Christine Richaud (Lead Economist, GMF08), Julie Rieger (Senior Council, LEG), Haoussia Tchaoussala (Senior Procurement Specialist, GGO07), Penny Williams (Senior Social Protection Specialist, GSP07), Toni Koleva (Senior Operations Officer, GSP01), Rony Djekombe (Operations Analyst, GSP07), Lydie Billey (Program Assistant, GSP07), and Maude Valembrum (Language Program Assistant, GMF08). The peer reviewers were Kevin Carey (Lead Economist, GMF07) and Philippe Leite (Senior Social Protection Economist, GSP07)

SUMMARY OF PROPOSED OPERATION
THE REPUBLIC OF CHAD
EMERGENCY FISCAL STABILIZATION DEVELOPMENT POLICY OPERATION

Borrower	Republic of Chad
Implementation Agency	Ministry of Finance and Budget (MFB)
Financing Data	IDA Grant in the amount of SDR 47 million (US\$65 million equivalent) on standard IDA grant terms.
Operation Type	Stand-alone, single tranche development policy financing (DPF) operation
Pillars of the Operation and Program Development Objectives	The primary Program Development Objective (PDO) of the proposed operation is to support immediate fiscal stabilization through expenditure rationalization. A second objective is to establish social protection mechanisms that help mitigate related negative social effects on the poor and vulnerable.
Results Indicators	<ul style="list-style-type: none"> Compound growth in in wage bill vis-à-vis 2015. Baseline 2016: -1.0 percent; Target 2017: -3.0 percent. SOEs submitted financial statements to the Ministry of Finance and Budget. Baseline 2016: 10; Target 2017: 20. New tax exemptions issues per year. Baseline 2016: 0; Target 2017: 0. Single-source procurement contracts' value as a share of total contracts' value. Baseline 2016: 36.7 percent; Target 2017: 30 percent. Identification and targeting strategy has been finalized and at least 4,500 poor and vulnerable households in Logone Occidental have been registered as identified by such strategy. Baseline 2016: No; Target 2017: Yes.
Overall risk	High
Climate and disaster risks	<i>Are there short- and/or long-term climate and disaster risks relevant to the operation (as identified through the SORT environmental and social risk-rating tool. NO</i>
Operation ID	P163968

**IDA PROGRAM DOCUMENT FOR A PROPOSED
EMERGENCY FISCAL STABILIZATION OPERATION (EFSO)
TO THE REPUBLIC OF CHAD**

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This proposed Emergency Fiscal Stabilization Operation (EFSO) is designed to support fiscal stabilization.** The proposed operation is a stand-alone development policy grant in the amount of SDR 47 million (US\$65 million equivalent). The Government of Chad (GoC) remains at a critical juncture to meet the pressing financing needs of the 2017 budget in the aftermath of multiple shocks combining the oil price collapse, terrorist threats and related security costs as well as an ensuing humanitarian crisis. The reform program supports the Government's response to the immediate fiscal crisis and to address some related negative social impacts.

2. **The EFSO is prepared in the context of a more pronounced than expected gross domestic product (GDP) contraction of 6.4 percent in 2016 and the persistence of severe fiscal pressures.** Chad experienced high growth in the recent past thanks to high commodity prices and rising oil production and exports. The country also made progress in the implementation of its National Development Plan (2013-2015), achieved admission into the Extractive Industries Transparency Initiative process and reached the Heavily Indebted Poor Countries (HIPC) Completion Point in June 2015.¹ However, following average growth of +6.3 percent during 2013-2014, the oil price then started collapsing at the end-2014, sending the economy into severe recession with real GDP contracting by an estimated 6.4 percent in 2016, a figure almost twice its end-year official forecast of 3.5 percent. From an average of US\$100 in 2013 and 2014, the price per barrel of Chadian crude oil declined to US\$43 and US\$34 respectively in 2015 and 2016. Oil revenues declined from 11.7 percent of non-oil GDP in 2014 to only 3.8 percent in 2016. Such a dramatic decline in oil receipts has led to large fiscal adjustment and to a significant increase in financing needs². The pressure on expenditures is further aggravated by security outlays emanating from the fight against terrorist groups and from the need to support regional stability. In fact, Chad has played a critical role in the region providing a public good in the form of substantial participation in regional military and stabilization missions. The security threats also have negatively impacted growth, reducing cross border trade activities. Furthermore, the Government continues to host at least 750,000 refugees and returnees scattered along its borders.

3. **The Government is demonstrating strong determination to manage what seems a much deeper and longer fiscal and social crisis than expected.** The Government has functioned on the basis of cash-based budget execution since early 2016, cutting public expenditure by 10.8 percent of non-oil GDP between 2014 and 2016. The Government revised the budget law twice (July and September 2016) to reflect the significant deterioration in liquidity. The first set of revisions included the postponement of all new public investment to the subsequent year. The second revision of the budget went further by excluding from government revenue the proceeds of

¹ International Development Association and International Monetary Fund (2015), "The Republic of Chad: Joint Staff Advisory Note on the Monitoring Report 2013 of the National Development Plan 2013-15", April 10, 2015, Washington D.C

² Fiscal rationing has led to major disruptions of social services delivery arising from an almost complete halt of payments to community teachers, health workers, student scholarships and beneficiaries of social programs, and transfers of inputs to farmers have been delayed or stopped, affecting crops. Short of counterpart funds, all public investment projects have been put on hold, with massive firings of construction workers.

an exceptional receipt from an equity sale in an oil field and by including an emergency action plan with drastic spending cuts aimed at strictly ensuring that the level of spending was consistent with the large drop in oil revenue. These measures remained in place in the Finance Law 2017. Multilateral support will be critical to the Government's fiscal adjustment plan and policy measures are expected to be broadly supported by multilateral financing from the International Monetary Fund (IMF), International Development Association (IDA), African Development Bank (AfDB) as well as the European Union (EU).

4. **Indeed, since the first quarter of 2017 the crisis has aggravated.** First, the deeper than expected economic recession of 2016 seems likely to be followed by anemic growth (around zero) for 2017. Second, the GoC faces a higher than expected financing gap for 2017 of US\$521 million. Third, the renegotiation of Chad's oil revenue collateralized contract with a commercial entity, where currently 3.2 percent of non-oil GDP are due to be paid (amortized) in 2017, is taking longer than expected and this is contributing to increasing financing needs. Fourth, ensuing liquidity constraints have disrupted debt service payments and led to substantial accumulation of external (1 percent of non-oil GDP) and domestic arrears (2.8 percent of non-oil GDP). This might lead the Government, for the first time, not to repay bonds due in the first half of 2017. Any further signal of not rolling over domestic government debt held by commercial banks could have devastating effects in terms of the country's access to borrowing. Lastly, the recent increase in domestic debt has further aggravated Chad's position of being in debt distress (as per the draft 2017 DSA prepared by IMF staff). Under these precarious circumstances, the needed structural reform agenda cannot progress.

5. **Against this background, failure to act in a timely manner is likely to result in a generalized macroeconomic crisis with unpredictable social and security repercussions.** Recent developments suggest an increasing risk of a disorderly fiscal adjustment featuring a more protracted investment slowdown, a further increase in domestic arrears, and an unsustainable accumulation of public debt. Failure to meet the financing needs would bring a balance of payment crisis as external arrears would accumulate in a context of close to nil international foreign exchange reserves. A generalized fiscal, financial and balance of payment crisis could also translate into a broader social, security and humanitarian crisis. And in turn, deteriorating security conditions in Chad could have serious repercussions on the already fragile sub-regional economic and social situation, with potentially very high long term costs. The fiscal crisis might also destabilize the banking sector through two channels: On the one hand, a further rise in arrears to Government suppliers would increase non-performing loans. On the other hand, additional domestic borrowing by the Government would further increase commercial banks' already high levels of direct and indirect exposure to the public finances.

6. **Hence, the supported reforms mainly focus on reversing the fiscal deterioration.** The proposed operation has fiscal stabilization as its primary objective. It supports reforms aimed at rationalizing the public wage bill and tax expenditure, inform State-Owned Enterprise (SOE) management, and enable effective public procurement. As a secondary objective, the proposed operation lays the foundation for a functioning social safety net and transfer system with the objective of targeting the vulnerable and poor and mitigating the negative effects of fiscal rationalization. The reforms pave the way towards more structural measures in a programmatic operation currently under preparation.

II. THE MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

7. **Chad's economy has been hit hard by the significant fall in oil prices and a deterioration in the regional security environment.** Chad is a net oil exporter confronted with severely weakened fiscal and external positions. After international crude oil prices had been fairly stable at around US\$110 per barrel between 2010 and 2014, the oil price boom came to an abrupt end in the second half of 2014. In 2015, Chadian oil prices dropped by 57 percent to US\$40 and dipped further to US\$36 per barrel in 2016. At the same time, regional security challenges also including those linked to Boko Haram and other terrorist groups have put pressure on public finances and led to a humanitarian crisis as the country hosts at least 750,000 refugees and returnees scattered along its borders with the Central African Republic, Sudan, Libya and Nigeria.

8. **These shocks have contributed to the worst recession in Chad since the advent of its oil production.** Real GDP growth decelerated from 6.9 percent in 2014 to 1.8 percent in 2015 and the economy contracted by 6.4 percent in 2016. In 2013, a year before the start of the crisis, oil provided 63 percent of total public revenues, accounted for 85 percent of exports and 20 percent of GDP. By 2016, oil GDP dropped by 8.9 percent as oil-related investment was cut by more than 80 percent and aging oil fields put additional downward pressure on production. Non-oil GDP contracted by 6 percent in 2016, mainly as a result of large reductions in public spending. Deteriorating security conditions around Lake Chad since 2013 have also impacted Chad's livestock exports to Nigeria (the second source of foreign exchange), and trade disruptions have been further aggravated by the depreciation of the Naira³.

9. **The sharp decline of oil revenues has dramatically reduced domestic demand, which is the main non-oil growth driver in Chad, and the fall in consumption has substantially increased social tensions.** Since 2003, growth has been largely driven by public demand, fueled by oil revenues. As revenues decreased to 14.9 percent of non-oil GDP in 2016 from 17.1 percent in 2015, total expenditure dropped from 22.9 percent of non-oil GDP in 2015 to 18.0 percent in 2016. Bankruptcy of several companies, reduced recurrent expenditures and the postponement of public investment projects have caused many layoffs in urban areas, while private consumption in rural areas seems not to have been significantly impacted by oil prices, due to the increase of food production (12 percent) observed in 2015⁴. However, livestock producers and pastoralists unable to trade across the Nigerian border have lost revenue and had to cut back on private consumption.

10. **Low oil prices, oil sale advances and protracted insecurity have also dealt a significant blow to the Government's fiscal position.** The estimated fiscal deficit including grants for 2016 amounted to 5.5 percent of non-oil GDP. Notably, oil-related fiscal revenue declined from 11.7 percent to 3.5 percent of non-oil GDP between 2014 and 2016. This dramatic drop was explained by the pronounced decline in oil prices and the repayments of a sub-optimal oil-collateralized loan arrangement absorbing almost two-thirds of the value of oil shipments in 2016 (Box 1). Moreover, the reduced volume of trade transactions with Nigeria and Chad's significant support to the

³ Respectively Nigeria's currency.

⁴ Source: *Direction de la Production Agricole et des Statistiques/Ministère de l'Agriculture et de l'Environnement (Directorate of Agricultural Production and Statistics/Ministry of Agriculture and Environment)*.

regional peacekeeping efforts have resulted in additional fiscal pressures. Increased security expenditure constitutes a burden on public finances that is further aggravated by 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 has estimated that the annual cost of hosting these refugees in Chad is around US\$282 million.

Box 1: The renegotiation of an oil collateralized contract with a commercial entity

An oil-collateralized loan contract signed prior to the oil price shock has significantly aggravated Chad's fiscal situation. In mid-2013, the Government contracted an oil-collateralized loan in the amount of US\$300 million with an international company, which is also in charge of selling Chadian oil on the international market. In mid-2014, Chad borrowed another US\$1.4 billion in a separate agreement to finance its acquisition of Chevron's 25 percent share of the Doba consortium and 21 percent share of two oil pipeline companies. Following the collapse of oil prices, the Government and the commercial entity agreed to reschedule and consolidate the two loan agreements. The combined loan balance was US\$1.45 billion in December 2015.

The repayment of these commercial loans, sourced directly from oil sales, has depleted almost all of Chad's annual oil revenues between 2014 and 2016. The contract is heavily frontloaded. In fact, while its maturity is until 2021, interest payments alone amounted to 1.9 percent of non-oil GDP in 2016 while amortization was barely 0.9 percent. The loan contract specifies the payment priorities to different items (directly using proceeds from government's oil exports). The first cut goes to cover the operating cost associated with the Government stake in the oil consortium, then to servicing the loan, and with the residual going to Treasury. The company, in discussion with Chad National Oil Company (SHT *Société des Hydrocarbures du Tchad*), decides on the final allocation of payments to service the loan per oil shipment. The MFB does not participate in this process and has little a priori information of the final amount paid to Treasury, which varies significantly from transaction to transaction.

Figure 1: Chad: Distribution of Government Oil Sales Revenue in 2015

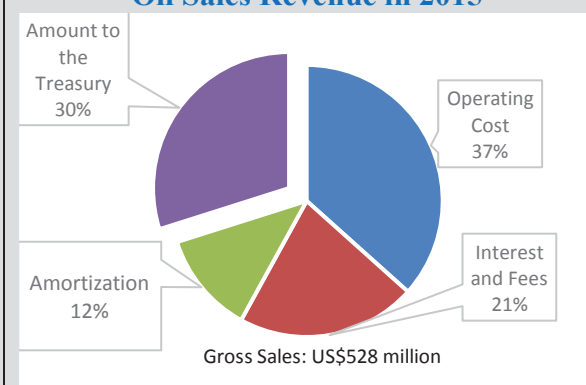
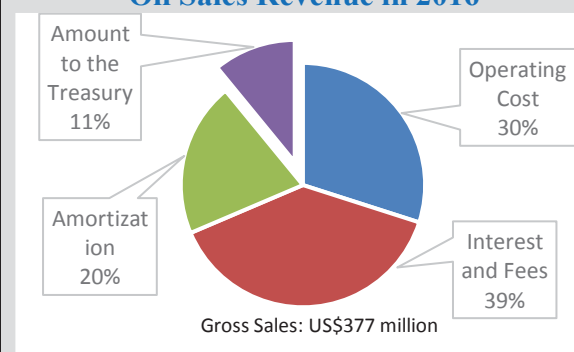
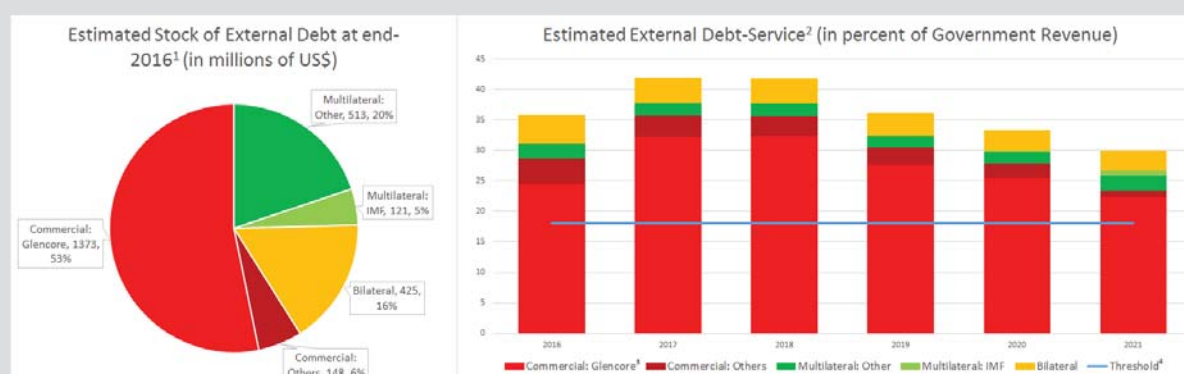


Figure 2: Chad: Distribution of Government Oil Sales Revenue in 2016



A delay in the urgent restructuring of this commercial loan poses a serious risk to debt sustainability, access to the new IMF-ECF and the overall management of the current fiscal and economic crisis. In spite of significant expenditure cuts, Chad finds itself in difficulties to fill its public financing gap, as reflected by accumulation of external arrears, and features a large breach of the Debt Sustainability Analysis for Low-Income Countries (LIC-DSA) debt service to revenue threshold. Therefore, in order to assure debt sustainability and gain access to the IMF's ECF, the Government needs to reduce its burden of debt service. The renegotiation of the commercial loan contract currently underway constitutes the cornerstone of this endeavor, as it amounts to almost all of commercial debt and more than half of public external debt. The restructuring is expected to lead to a significant reduction of debt service in the short run, while avoiding an increase in the present value of external debt.

Figure 3: Chad: External Debt Stock and Debt Service



Source: Chadian authorities; and IMF staff estimates.

¹ The estimated total stock of external debt is about US\$2.6 billion, excluding arrears to external creditors, which is estimated to be about US\$45 million at end-2016.

² The estimated debt-service figures from 2017 to 2021 includes the debt-service to the concessional loan of US\$100 million contracted with Angola in February 2017.

³ The debt-service of the commercial entity from 2017 to 2021 is estimated based on existing contract and assumes no rescheduling takes place.

⁴ The debt-service to government revenue ratio is one of the six indicators for assessing debt sustainability in the LIC DSF. The threshold value is 18 percent for Chad.

11. **Falling domestic demand led to deflation in 2016.** Consumer prices contracted 1.1 percent in 2016. Two key deflationary forces have been at play. First, food prices declined by 4.1 percent on account of strong growth of agriculture output due to favorable weather. Second, the economic recession together with the depreciation of the naira as well trade disruptions have reduced the purchasing power of many households.

12. **Chad's external position is at critical low levels.** Its current account balance depends heavily on oil, which represented 82 percent of total export receipts in 2014.⁵ Falling oil prices had widened the current account deficit to 12.3 percent of GDP in 2015 before hard currency rationing and substantial fiscal consolidation helped reduce the current account deficit to 9.2 percent 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. As a

⁵ Other important exports include cotton, live cattle and Arabic gum.

result, international foreign exchange reserves ended up at an imputed -1 months of import coverage by end 2016 compared to 2.1 at end-2014.

13. **As a member of the currency union, Chad's situation is intrinsically related to that of Economic and Monetary Community of Central Africa (*Communauté Economique et Monétaire de l'Afrique Centrale*) (CEMAC), the economic and monetary union currently in distress.** The oil price shock of 2014-2015 severely affected the external and fiscal balances of all six member states of CEMAC. Recent IMF estimates point to a 1 percent contraction of regional GDP, a primary fiscal deficit of 7 percent of GDP, and a regional debt level of 45 percent of GDP. All countries have had to resort to exceptional financing from Bank of Central African States (*Banque des Etats d'Afrique Centrale*) (BEAC), with four countries breaching the limit of financing allowed. In Chad, BEAC's loose indirect monetary policy raised the ceiling for 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 holdings of government securities, while Chad has already exhausted its statutory and exceptional advances and is expected to start repaying its loans in 2019. Regional reserve coverage (i.e. reserves held by the regional central bank, BEAC) of currently around two months of imports is far below what is considered adequate (five months) for a resource-rich monetary union with a fixed exchange rate. According to the IMF (2017), current policies cause an average reserve loss of about US\$500 million per month and would lead to the near exhaustion of regional reserves latest by end-2017. In most countries, private sector agents are already reporting delays in obtaining foreign currencies. At the same time, covering the financing needs with additional external debt will heighten macroeconomic instability and threaten the sustainability of the region's external debt.

14. **In response to these multiple challenges, the Government has undertaken substantial fiscal consolidation.** It has adopted an Emergency Fiscal Plan aimed at mitigating the short-term impact of the crisis and introduced cash-based budgeting in early 2016. Public spending was compressed from 29.4 percent of non-oil GDP in 2014 to 18 percent in 2016. Both capital and recurrent spending have been cut. Domestically financed public investment declined from 9.8 percent of non-oil GDP in 2014 to 1.1 percent in 2016, while current expenditure dropped from 16.6 percent of non-oil GDP in 2014 to 14.3 percent in 2016. Civil servants experienced a three-month delay in salary payments at the end of 2016. Domestic arrears have increased to about 3 percent of non-oil GDP as of end 2016, however, the stock remained around end-2015 levels of CFAF 200 billion (i.e. the increase is largely due to non-oil GDP contraction).

15. **Although the Government has managed to maintain fiscal discipline, it also relies on external budget support to close its financing gap.** Chad's fiscal policy is anchored by the Non-Oil Primary Deficit (NOPD), in a context of an anticipated future decline in oil revenues. As of end 2016 the NOPD fell to 4.4 percent of non-oil GDP, down from 16.2 percent the previous year. This reflects a combination of expenditures cuts, improved budget management through the computerization of the expenditure chain and less recourse to extraordinary expenditures. This severe fiscal adjustment allowed to contain the overall fiscal deficit (cash basis) at 5.5 percent of non-oil GDP in 2016, increasing only slightly from 4.5 percent in 2015. The deficit has been financed primarily through the issuance of treasury bonds in the regional debt market, IMF disbursement through the three-year Extended Credit Facility (ECF) arrangement and budget support from donors (World Bank, EU, AfDB and France).

16. **A relatively shallow banking sector remains highly exposed to the government's fiscal position and global commodity prices.** The financial sector is intrinsically linked to public finances through direct lending to public enterprises as well as private sector activity related to government spending. Formal financial intermediation is low, with bank credit to the economy representing less than 10 percent of GDP. Chadian banks are very sensitive to public finances, and by the same token to fluctuations in the prices of key exports such as oil. After a robust expansion in 2014 spurred by booming construction activities financed by the windfall in the oil sector, credit growth to the private sector stalled in 2015 and contracted by 2.7 percent in 2016. The recession and ensuing fiscal compression resulted in delays in invoice payments and arrears thereby contributing to the ballooning of nonperforming loans to 23.4 percent of total loans in 2016, up from 13.3 percent in 2014. According to the last Financial System Stability Assessment (2016), recent stress tests show bank vulnerabilities have increased and the solvency and liquidity of the banking sector may deteriorate further in the near future in view of macroeconomic risks. BEAC's accommodative monetary policy stance using direct and indirect monetary tools to support member states, has delayed fiscal consolidation and further added to bank exposure.

Table 1: Key Macroeconomic Indicators, 2014-2020

	2014	2015	2016(p)	2017(p)	2018(p)	2019(p)	2020 (p)
Real Economy	(annual percentage change, unless otherwise specified)						
Real GDP	6.9	1.8	-6.4	0.6	2.4	3.1	3.9
Oil GDP	5.7	32.1	-8.9	3.0	6.1	5.8	5.4
Non-Oil GDP	7.1	-2.9	-6.0	0.1	1.6	2.6	3.6
Per Capita GDP (US\$)	1024.7	775.7	662.3	...	...	...	...
Contribution to GDP							
Consumption	5.1	-3.0	-2.7	0.4			
Investments	3.7	-10.6	-2.0	0.1			
Exports (nets)	-1.9	15.4	-1.7	0.1			
Exports	5.9	29.2	-3.9	1.1	5.7	5.6	5.1
Imports	9.4	-21.7	-10.3	1.8	2.2	3.2	3.7
GDP Deflator	0.8	-8.0	-1.2	0.1	1.7	2.3	3.1
Consumer price inflation (average)	1.7	3.7	-1.1	0.2	1.9	2.4	3.1
Oil Prices							
WEO (US\$/barrel)	96.2	50.8	42.8	55.2	55.1	54.1	54.0
Chadian price (US\$/barrel)¹	94.0	39.9	36.2	50.4	49.9	49.0	48.9
Fiscal Accounts	(percentage of non-oil GDP, unless otherwise specified)						
Expenditures (total)	29.4	22.9	18.0	18.6	18.2	18.5	18.6
Revenues and grants (total)	23.2	17.1	14.9	20.4	19.2	19.2	19.5
General Government Balance (commitment basis)	-6.2	-5.8	-3.1	1.8	1.0	0.7	0.8
Overall Balance (including Grant, Cash)	-4.4	-4.5	-5.5	0.4	0.2	-0.5	0.3
Non-oil Primary Balance (commitment, excl. grants)	-16.2	-9.7	-4.4	-4.8	-4.6	-4.3	-4.0
Selected Monetary Accounts	(annual percentage change, unless otherwise specified)						
Base Money	26.5	-4.7	-7.7	5.3	..		..
Credit to Non-Government	17.8	1.1	-2.7	0.9	..		..
Interest (Key policy Interest rate of BEAC)	2.95	2.45	2.45	2.45	...		...
Balance of Payments	(percentage of GDP, unless otherwise specified)						
Current account balance	-8.9	-12.3	-9.2	-1.5	-2.8	-3.3	-3.4
Exports of goods and services, f.o.b.	28.1	24.0	22.0	30.2	30.7	30.4	30.0
Imports of goods and services, f.o.b.	-25.3	-23.5	-19.8	-21.4	-21.3	-21.0	-20.9
Foreign Direct Investment	-4.8	5.1	2.4	3.2	3.4	3.7	4.0
Gross Reserves (US\$ bn eop)	1.2	0.4	-0.3	0.0	0.1	0.3	0.5
In months of next year's imports	2.1	1.0	-1.0	-0.1	0.4	0.8	1.3
External Debt	29.1	25.0	27.6	27.9	27.0	25.5	23.4
Terms of Trade (percentage change)	-4.8	-47.6	-6.7	25.7	-1.6	-2.4	-0.7
Exchange rate (average)	493.6	591.2	592.7	..	..	...
Memorandum items:							
Nominal non-oil GDP (local currency, billion)	5,179	5,184	4,838	4,843	5,007	5,257	5,616
Nominal GDP (local currency, billion)	6,912	6,474	5,984	6,023	6,271	6,618	7,094

Sources: Chadian authorities, IMF and World Bank staff

¹ Chadian oil price is Brent minus quality discount

Table 1: Central Government Budgetary Operations, 2014-2020

	2014	2015	2016 (p)	2017 (p)	2018 (p)	2019 (p)	2020 (p)
	(In percent of non-oil GDP, unless otherwise specified)						
Overall Balance (including Grant, Cash)	-4.4	-4.5	-5.5	0.4	0.2	-0.5	0.3
Non-Oil Primary Balance	-16.2	-9.7	-4.4	-4.8	-4.6	-4.3	-4.0
Total Revenue and Grants	23.2	17.1	14.9	20.4	19.2	19.2	19.5
Tax Revenue	21.1	13.2	11.9	14.5	14.9	15.1	15.6
Oil revenue	11.7	4.9	3.5	6.4	6.5	6.3	6.2
Non-oil revenue	9.4	8.3	8.4	8.1	8.4	8.8	9.4
Grants	2.1	3.9	3.0	5.9	4.3	4.1	4.1
Expenditure	29.4	22.9	18.0	18.6	18.2	18.5	18.6
Current expenditure	16.6	15.6	14.3	13.5	12.7	12.3	12.3
Wages and salaries	6.6	7.1	7.5	7.0	6.9	6.6	6.3
Goods and services	2.8	1.8	2.0	1.9	1.9	1.9	2.2
Transfers	6.3	4.6	2.2	2.3	2.3	2.3	2.5
Interest	0.9	2.1	2.6	2.4	1.7	1.5	1.3
Domestic	0.5	0.2	0.2	0.8	0.7	0.6	0.6
External	0.4	0.9	2.3	1.6	0.9	0.9	0.7
Investment expenditure	12.8	7.3	3.7	5.1	5.5	6.2	6.3
Domestically financed	9.8	4.4	1.1	1.8	1.9	2.3	2.4
Foreign financed	3.0	2.8	2.7	3.3	3.6	3.9	3.9
Financing	4.4	4.5	5.5	-0.4	-0.2	0.5	-0.3
Domestic financing	7.0	5.1	5.9	-0.3	0.3	1.2	0.3
Foreign financing	-2.6	-0.6	-0.4	-0.1	-0.5	-0.7	-0.6
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Chadian Authorities, IMF and World Bank staff

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Chad's macroeconomic outlook strongly hinges on oil price recovery, favorable weather for agriculture and no further deterioration of the security environment.** First, the outlook assumes that oil companies will stick to the announced production plans totaling around 120,000 barrels per day, that international oil prices will progressively improve and that the dollar-euro exchange rate will stabilize at US\$1.10 to Euro 1. Second, it assumes that normal weather conditions for agriculture are expected. While the agricultural sector is mostly informal and contributes only marginally to public revenue, a poor harvest would necessitate increased social and humanitarian expenditures and would put upward pressures on prices. Third, the regional security situation is expected to improve in the sense that no larger-than-budgeted security and social expenditures will be required, and that there will be no further trade disruptions affecting economic activities and prices. Furthermore, without successful and complete restructuring of the collateralized loan with a commercial entity (Box 1), there will be a 44 percent total financing gap in 2017-2020, debt would remain unsustainable and hence the macro framework would become inadequate.

18. **Chadian oil prices currently are expected to strengthen to an average of US\$50.4 per barrel in 2017, thereby setting the stage for a gradual increase in oil production and investment.** Robust world oil demand and Organization of the Petroleum Exporting Countries (OPEC) supply management are the key drivers. These forces can give rise to a virtuous cycle where higher prices increase production incentives, which in turn attracts further investment. Following a price increase, annual oil production is projected to increase gradually from 44.4 million barrels in 2016 to 52 million by 2020. Accordingly, oil GDP growth would rebound from -8.9 percent to 3 percent growth in 2017 and 6.1 percent in 2018. Related oil revenues are expected to recover from a low 3.5 percent in 2016 and rise to 6.4 percent of non-oil GDP in 2017, staying above 6 percent thereafter. However, the oil price outlook remains subject to significant uncertainty particularly regarding future demand, OPEC supply policy and US shale oil production. Lastly, the US Dollar-Euro exchange rate could further increase demand for oil exports from Chad (appreciation) or dampen this outlook (depreciation).

19. **Even under these favorable assumptions, Chad's real GDP growth rate is expected to reach only 0.6 percent in 2017 followed by a mild recovery to around 2.4 and 3.1 percent in 2018 and 2019.** The oil sector is projected to grow by 3 percent in 2017 while the non-oil sector would grow at 0.1 percent as the impact of fiscal adjustment on the secondary and tertiary sector moderates and growth in agriculture picks up. As new oilfields become operational, the oil sector is expected to recover and oil GDP to grow at 6.1 and 5.8 percent in 2018 and 19 respectively, which would also reinvigorate non-oil GDP growth. The expected recovery would be supported by an increase of inflation to more than 2 percent.

20. **In this best case scenario, financing requirements on the Balance of Payments (BoP) are expected to decrease and reserves to be gradually rebuilt.** On the external front, hard currency rationing will lead the current account deficit to drop to below 2 percent of GDP in 2017. Broad money supply is expected to significantly increase in 2017. At the same time, conditional on external financing and a solid pick up oil exports following increasing oil prices and related (foreign direct) investment, Chad may be able to rebuild its foreign exchange reserve coverage from negative 1 month of import coverage to around plus 1 month by end 2019. The current account deficit is estimated to contract from 9.2 percent of non-oil GDP in 2016 to 1.5 percent in 2017. Foreign Direct Investment (FDI) accordingly would gradually increase to 3.7 percent of non-oil GDP by 2019.

Table 2: Balance of Payments Financing Requirements and Sources (in US\$ million)

	2014	2015	2016 (p)	2017 (p)	2018 (p)	2019 (p)	2020 (p)
BoP financing requirement and Sources							
Financing requirements	1,316.70	1,447.20	1,124.10	420.6	479	581	626.1
Current account deficit	1,248.10	1,346.30	931.7	154.2	291.5	362.9	401.2
Long Term Debt Amortization	362.3	153.3	206.4	266.4	187.5	218.1	224.9
Errors and omissions	293.7	52.4	14	0	0	0	0
Financing Sources	1316.7	1447.2	1124.1	420.6	479	581	626.1
FDI and portfolio investments (net)	-675.54	560	244.9	329.1	355.8	416.3	479.2
Capital transfers	209.9	183.1	129.9	132.13	160.8	184	197.9
Other medium and long term investment	1469.7	97.4	15.1	181.14	70.7	83.5	95.4
Short-term capital	324.3	-91.3	-89.4	-100.31	-74.2	-43.8	-23.6
Change in reserves	-11.7	664.6	772.9	-175.82	-84.3	-108.7	-169.8
IMF credit (net)	18.2	57.4	62.8	95	95	75	38.8
HIPC Debt relief	0	33.4	50.7	54.4	50.2	49.7	47

Source: Chadian Authorities, IMF and World Bank staff

21. Fiscal pressures would ease following continued expenditure rationalization and a pickup in oil revenue. The overall fiscal balance is projected to improve due to increasing oil revenues from a deficit of 5.5 percent of non-oil GDP in 2016 to a slight surplus of 0.4 percent in 2017 and 0.2 percent in 2018. The non-oil primary balance would only gradually improve on the back of slowly improving non-oil revenues. In short, fiscal alleviation will depend on the oil economy in the short term, highlighting the need to diversify the economy in the medium and long term.

22. Expenditures would slightly increase in 2017 due to increasing investment and gradually decrease in the medium term. Conditional on successful implementation of a new ECF, an additional reduction of almost one percentage point of non-oil GDP in current expenditures in 2017 is anticipated through the rationalization of salaries, transfers and subsidies based on the findings of the audits currently at various stages of finalization. While current expenditure would carry the main weight of this contraction, investment expenditure would gradually rise from 3.7 percent of non-oil GDP in 2016 to over 6 percent by 2019.

23. Total revenues would only gradually pickup driven by non-oil tax revenues. Current projections put domestically financed investment at 1.8 percent of non-oil GDP for 2017 due to lower oil revenues. Due to an expected recovery in oil prices, oil revenues would increase by 6.4 percent of non-oil GDP in 2017. Despite efforts to widen the tax base, implementation capacity constraint and weak non-oil GDP growth prospects limit the scope for expanding non-oil revenue.

24. **While the outlook reflects Government commitment to fiscal consolidation, it also depends upon strong external budget support.** The Government is determined to stem part of its financing needs with an active program of debt financing through domestic bonds in the regional market. However, as banks are now approaching their regulatory limits in terms of exposure to Chad government securities, future bond issuance would be limited. Therefore, Chad's development partners and creditors, both public and private, would not only have to honor their past pledges of budget support and debt rescheduling, but also commit to strengthen their engagement further during this period. This can take place only if debt with a commercial entity is successfully restructured and the GoC stays committed to further support fiscal rationalization and to improve in particular public expenditures management.

25. **The Joint World Bank-IMF 2017 Debt Sustainability Analysis (DSA) concludes that Chad's debt is currently in distress and unsustainable without external commercial debt restructuring.** The composition of Chad's public debt has significantly changed towards domestic, regional and commercial creditors. HIPC completion in 2015 enabled at least US\$756 million in debt relief. However, by end 2016, 53 percent of Chad's external debt was commercial in nature. At the same time, in 2016 and early 2017, external payment arrears accumulated towards one percent of GDP by end March 2017 following a liquidity crunch. In 2016, the stock of domestic debt increased to around 24 percent of GDP, but is projected to fall in 2017 for the first time in five years driven by repayment of domestic arrears. Incorporating the baseline assumption of the new ECF program under preparation, notably a gradual increase in oil prices, oil production as well as fiscal stabilization and some recovery in the non-oil economy accompanied by clearance of external arrears, the DSA shows that Chad's debt would remain unsustainable. Without debt restructuring, the debt-service-to-revenue ratio would breach its thresholds significantly over the next four years as projected at about 40 percent in 2017-2018 and at an average above 30 percent between 2019-2021. External commercial debt restructuring is projected to yield a reduction in debt service of an average 48 percent per year between 2017 and 2021, and constitutes a necessary condition to render external debt sustainable. At the same time, stress tests underline Chad's vulnerability to external shocks, where various macroeconomic shocks or a one-time nominal depreciation of 30 percent would force the debt burden indicator to breach its threshold.

26. **A recent increase in domestic debt has further aggravated the risk associated with overall debt sustainability.** With the accumulation of domestic arrears and the increased issuance of debt securities in the regional market, the present value (PV) of debt-to-GDP ratio shows a breach in 2016-2017 under the baseline scenario. However, over time and with the successful implementation of an IMF program, 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 six 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. Stress tests again reveal vulnerability of debt sustainability, particularly a real depreciation shock.

27. **To address debt sustainability, the authorities have taken credible initial steps.** This includes contacting the creditor, publicly announcing the intention to restructure the debt, and appointing financial and debt advisors to achieve the necessary restructuring. Based on this and

the collateralized nature of the debt, staff considers that adequate assurances are in place to restore debt sustainability.

Figure 4: Public External Debt Indicators under Alternative Scenarios, 2016-2021

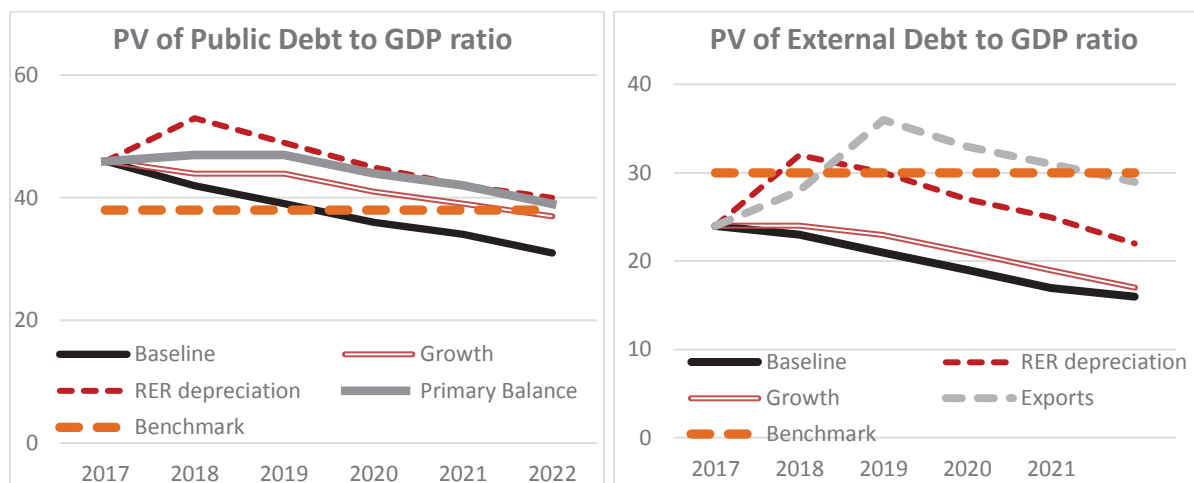


Table 3: External debt composition, March 2017

		US\$ (Billions)	Share of total debt	Percentage of GDP
Multilateral		0.6	23.1	5.9
	IMF	0.1	3.8	1.0
	World Bank/IDA	0.2	7.7	2.0
	African Development Bank	0.1	3.8	1.0
	EB	0.0	0.8	0.2
	Others	0.2	7.7	2.0
Official Bilateral		0.6	23.1	5.9
	Paris Club official debt	0.0	0.8	0.2
	Non-Paris Club official debt	0.6	23.1	5.9
Commercial		1.4	53.8	13.9
TOTAL		2.6	100.0	25.7

Source: World Bank and IMF staff, March 2017

28. **Failure to act could result in a protracted macroeconomic crisis.** Without immediate external financing to close a significant financing gap in 2017, disorderly adjustment would almost certainly follow. Chad continues to be highly exposed to oil-price, security and climatic shocks, which could entail an even sharper fiscal adjustment, a protracted further investment slowdown, an increase in domestic arrears, and unsustainable accumulation of public debt. Fiscal distress could spill over into the banking sector given banks' high level of direct and indirect exposure to the public finances. Regional insecurity and the ongoing conflict with Boko Haram present serious exogenous risks, and any threat to security expenditure could weaken Chad's efforts in this area. Damages to the Doba – Douala oil pipeline or disruptions in trade along the Douala – N'djamena corridor represent another threat to macroeconomic stability. Finally, a worsening security situation could also negatively affect Chad's institutional, social and economic development prospects while precipitating a fiscal, financial or balance-of-payments crisis in addition to a humanitarian emergency.

29. **However, a combination of responsible domestic policy and active international support would be able to help mitigating these risks and the related negative economic and social impact.** Chad's fiscal position remained sound during the global financial crisis, and its membership in CEMAC, along with recent public financial management (PFM) reforms and continued economic and financial oversight via the IMF's ECF program has helped support continued macroeconomic stability. Despite recent shocks, the third and fourth reviews of the ECF in November 2016 indicated that the program's targets were broadly satisfactory. The Government has also announced the plan to reduce the burden of commercial debt through renegotiations of the oil collateralized loan with an international company, a central step towards stability. However, in order to break the vicious cycle of low revenues, low public expenditure and depressed economic activity, international donor support will have to play a central role to build the bridge from short term stabilization to medium term recovery.⁶

30. **The proposed operation will complement other sources of financing and help close the financing gap for the 2017 Budget.** The proposed US\$65 million development policy financing will complement the financing support from other development partners including the AfDB, the EU and France, as well as the three-year IMF ECF arrangement, as illustrated in Table 5.

Table 4: External Financing Requirement and Sources (2017-2019) US\$ million

Year	2017	2018	2019
Financing gap	521	531	431
External debt restructuring	174	249	192
IMF-ECF	95	95	76
Needed budget support	252	187	163

31. **EFSD is addressing immediate financing needs in the context of a severe liquidity crunch.** GoC is facing immediate payment obligations and pressures over the coming months of June to September 2017, ranging from payment of arrears (both external and to banks) to debt repayments in addition to recurrent expenditures. At the same time, debt needs to be restructured, refinanced or rolled over. Immediate domestic debt payment obligations in the form of due securities amount to US\$230 million between June and September 2017, with 84 million due alone in July. This complements another US\$50 million due in the last quarter of 2017.

32. **Chad's macroeconomic policy framework is broadly adequate for the purpose of the proposed emergency operation, provided the Government's adjustment program is successfully implemented.** A new three-year ECF will be presented to the IMF Board of Directors on June 30 and could replace the existing IMF program to provide increased access to financing of 160 percent of quota. Although currently under preparation, the new IMF program remains contingent on two key factors to be met: the implementation of prior actions by the authorities (revised 2017 budget, moratorium on tax exemptions, and satisfactory progress on commercial debt restructuring) and program financing. In order to strengthen its negotiating position vis-à-vis

⁶ At the same time, CEMAC member states have recently experienced increasing financial distress, therefore reliance on regional support through institutions (such as BEAC) and associated policy will be limited.

the commercial entity, Chad has hired a financial and legal advisor for the debt restructuring. Together with the fact that the commercial entity has signed a letter confirming its willingness to renegotiate the collateralized loan, this is an important step towards meeting the contingencies of the ECF program. Successful restructuring of this commercial debt would reduce the projected financing gap between 2017-2020 by 44 percent. The consistency of the policy framework under the ECF program would help establish necessary conditions for the proposed operation to achieve its objectives. At the same time, the Government has shown strong commitment to fiscal consolidation and discipline where two thirds of the overall fiscal adjustment in 2015 and 2016 was achieved through consolidation and only one third through financing. Authorities continue implementing austerity measures, reducing the non-oil primary deficit, managing arrears and strengthening budget management. Overall success will hinge on sustaining these efforts, and the mobilization of substantial external support to ease the adjustment path.

C. IMF RELATIONS

33. **The proposed operation has been prepared in close coordination with the IMF.** The authorities have requested to cancel the current ECF arrangement in exchange for a new three-year program to be supported by high access under the ECF. Chad's current three-year ECF arrangement was approved by the Executive Board on August 1, 2014 with access to 57 percent of the quota. The program was designed on the basis of high oil prices, projected to lead to a hump-shaped oil revenue path reflecting a gradual decline in oil production. The objective was to ease the medium to long term adjustment to lower oil revenue and to support the path to the HIPC Completion Point (achieved in April 2015). Due to worsening balance of payment problems, a 19 percent of quota augmentation was approved in the context of the first review, and a second augmentation of 24 percent of quota took place at the time of the combined third and fourth reviews (November 11, 2016). Total disbursements amount to 70.1 percent of quota (SDR 98.34 million). However, the deepening crisis has undermined program performance, making a strong case for program revision towards breaking the vicious cycle between fiscal adjustment - low revenues, low expenditures - and economic recession. Therefore, in contrast to the existing program, the ECF (2017-2020) submitted for discussion at the IMF's Board of Directors on June 30, 2017 envisages more gradual fiscal adjustment relying on non-oil revenue mobilization, external debt restructuring, and significantly lower reliance on domestic financing. In addition to exceptional financing from external debt restructuring, large external financing needs – around 5 percent of GDP per year in 2017 and 2018, 4 percent in 2019, and 3 percent in 2020 – would require exceptional financing from private creditors and strong budget support from bilateral and multilateral partners. IMF financing as requested amounts to access to Poverty Reduction and Growth Facility (PRGF) resources under a three-year ECF of 160 percent of quota or SDR 224.32 million, which would cover about 16 percent of the estimated financing gap for 2017-2020. Together with the amount outstanding from past disbursements, this would bring Chad close to the cumulative access limit of 225 percent of quota. About 40 percent of the financing gap over the next three years will have to be financed by external sources.

III. THE GOVERNMENT'S PROGRAM

34. **For the first time, the Government of Chad has initiated a new roadmap for longer term development planning.** This national prospective exercise aims to articulate medium term development plans in the context of a long-term vision. Thus, the "2030 Vision, Chad we wish" is based on national and regional consultations and the national survey on the perceptions and aspirations of the Chadian people. The 2030 vision comprises four strategic axes: (i) consolidation of national unity; (ii) strengthening of good governance and the rule of law; (iii) promoting diversification and competitiveness and; (iv) improving life quality of the Chadian population. The effective implementation of the 2030 Vision is intended to be integrated into the national development planning for the short, medium and long term. Although overshadowed by the current crisis, its overall objective is to lay the foundations for an emerging Chad in 2030.

35. **The first Five Year Plan (2017-2021) is built on the political and strategic orientations of the 2030 vision.** This Plan which follows the 2030 vision, is considered the main instrument for a dynamic and structural transformation of the Chadian economy through public policies and an active role of the private sector in increasing productive investments in the new non-oil sectors. The prioritization of actions is considered fundamental in a volatile and complex context characterized by the coexistence of several challenges (security, humanitarian, macroeconomic instability). The principle of Performance Based Management is intended to be applied mainly in the public sector during the implementation process.

36. **The authorities have approved a PFM Action Plan accompanying the austerity measures to consolidate the budget.** The 2017-2021 PFM Action Plan represents a main tool to monitor the implementation of the public finance reforms envisaged by the MFB in order to make more efficient the management of public resources. In this action plan, computerization remains a substantial part of the program. The aim is to provide to the MFB an Integrated Financial Management Information System (IFMIS) in order to meet the requirements of the new CEMAC directives related to the efficiency and transparency in the management of public finances. Finally, to tackle the massive impact of exogenous shocks in a sustainable way, the Government has decisively taken austerity measures aimed at reducing public spending and mitigating the short-term impact of the oil crisis. The measures focus essentially on tax revenues and inefficiencies of some current expenditures, especially the wage bill, subsidies and transfers.

IV. THE PROPOSED OPERATION

A. LINK TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

37. **The proposed operation is an emergency grant to be disbursed in July 2017.** The operation is programmed under IDA17 with a total amount of US\$65 million, to be followed by a proposed programmatic development policy operation (DPO) series under IDA18 (currently under preparation), the amounts of which remain to be determined. It follows the US\$50 million Chad Fiscal Consolidation Program Support Grant (FCPSG - P155480) approved by the Board in December 2015 as well as the US\$80 million Supplemental Financing Grant (P162548) to the FCPSG approved by the Board in December 2016. The proposed emergency operation has as its main objective to achieve fiscal consolidation by supporting significant improvements in fiscal management. It supports reforms aimed at rationalizing the public wage bill and tax expenditure, inform SOE management, and enable effective public procurement. Supporting fiscal management

is particularly important in times of fiscal retrenchment and severe pressure on public expenditure. As a secondary objective, in order to mitigate related negative effects for the most vulnerable and poor, the operation aims to lay the foundation for a functioning social safety net and transfer system. The EFSO builds on the reform agenda that was supported by the predecessor operations, particularly as to rationalizing public expenditure and improving the quality of public resource management.

38. The proposed EFSO supports the immediate priority of GoC to address the fiscal crisis as well as to lay the foundations of a safety nets system. It also supports conditions for the launch of a medium term structural reform agenda. While the immediate goal of the operation is to strengthen Chad's fiscal management, it also prepares the necessary environment for a medium term growth and social agenda. With respect to growth, fiscal stabilization and space for public investment are necessary conditions. With respect to poverty, the focus is on building a coping mechanism for the vulnerable population through social protection. Regarding the implementation of the 2016-2020 National Development Plan (NDP), the following areas will benefit indirectly: Pillar 1, the creation of new productive capacities and opportunities for decent jobs, and Pillar 4, improved governance. Each of these objectives will contribute, either directly or indirectly, to reducing extreme poverty and promoting shared prosperity. Support to the governance agenda of the NDP is through improved procurement practice and more transparent management of public assets.

39. The EFSO builds directly on past operations, and integrates key lessons learned. A first lesson from past operations is related to the sequencing and ambitiousness of the reforms. Designing an operation should help not only to manage a crisis but also to lay the foundation for a medium term growth agenda. This requires a direct line of sight from immediate emergency to more ambitious medium term reforms. Hence, EFSO lays out foundations for an ambitious package of reforms including addressing the tax exemptions regime, combining the revamping of the procurement and social protection frameworks to be deepened in a programmatic DPO series currently under preparation. A second lesson singles out institutional capacity of the Government as a major factor in determining the breadth and ambitiousness of the policy reform agenda, which requires that the capacity to implement reforms should be closely supported and monitored. Indeed, in a fragile environment, where capacity is weak, combining policy lending with customized technical assistance support is important. The proposed operation is supported by key technical assistance including: EU support in the analysis for tax expenditures, and audit of payroll; the World Bank's analytical and financial support in Social Protection; as well as AfDB and EU support in PFM and procurement. Finally, due to the emergency nature of this operation, fiscal stabilization should be complemented by some measures in the area of social mitigation, in particular safety nets. This links well to one more key lesson learned⁷: Fiscal stability needs to go hand in hand with greater resilience of the most vulnerable and the poor and ensuring reforms to maximize the capability of the State to target the poorest to deliver services.

⁷ This lesson is derived from the Implementation Completion Report for Chad's DPO in 2004-2005, the predecessor operation approved in 2015, the World Bank Systematic Country Diagnostic, the strategic orientation of the World Bank Group's Country Partnership Framework (CPF) for FY16-20, and other project work and policy dialogue with the Government conducted by the World Bank and other development partners.

40. **The EFSO is complemented by an additional financing operation reducing salary arrears to community teachers.** Salary arrears to community teachers are significant at an estimated CFCA 11.5 billion per year, and constitute a major constraint to the delivery of quality primary education services that have contributed to further aggravating social tensions in past months. The additional financing in the amount of US\$50 million complements an ongoing World Bank Support to Education Sector Project (P132617) to finance payment arrears, current and next school year's subsidies.

41. **This operation is not only an emergency response but also a bridge to a forthcoming, medium term structural DPO program.** The proposed prior actions will pave the way to follow-up reforms in the upcoming programmatic DPO series (currently under preparation) focusing on a transition from fiscal stabilization towards a more permanent, medium term social and structural reform agenda. While substantive fiscal, social and structural reforms take time to be designed, completed and implemented, they also require a certain degree of economic and social stability necessary for effective political decision making.

42. **Prior Actions in the areas of payroll, SOE and tax expenditure management as well as social protection are directly linked to those currently discussed for the programmatic DPO series.** Specifically, the respective studies and audits of key expenditure components – payroll, SOE portfolio and tax expenditure – will directly inform substantial policy reform in fiscal management and contribute to increase efficiency of public spending permanently. Furthermore, the creation of a technical steering committee of the newly created safety nets agency is a necessary condition for the actual setting up of a social safety net and transfer system including identification, registration of beneficiaries, and transfers – as envisioned under the DPO series.

43. **In the context of Chad's challenging and weak capacity policy environment, the proposed actions constitute significant steps towards structural reform and signal government commitment.** The complexity of PFM reforms in a weak capacity environment, high turnover of senior officials, interruptions by exogenous shocks and weak commitment at the political level, compounded by the security challenges of recent years, are among the many challenges faced by the various efforts to improve public financial management and the overall public sector governance. It is in such context that the proposed prior actions constitute a significant departure from past practice. For example, the Government has so far lacked any quantification of fiscal losses, inefficiencies and risks attached to SOE, tax exemptions and the public wage bill. The proposed actions address this challenge directly providing the Government with a first sense of quantity and quality of such inefficiencies. On social protection, the Government has long acknowledged the problem of a system that is uncoordinated, poorly targeted and inefficient. But it is only with prior action 6, that the Government is giving operational credibility to the address these challenges.

44. **Increasing fiscal space will free up much needed resources for investment in the real, productive and social sectors, naturally complemented by structural policy reform as promoted by the programmatic DPO series.** The draft policy matrix of the DPO program currently under preparation identifies four key areas for action: Create permanent fiscal and debt management capacity; move towards a permanent social protection system and improve education; Information and Communication Technologies (ICT) - telecom sector reform as a cross cutting

catalyst for productivity growth; and enhancing agricultural productivity. Potential key actions would involve the permanent creation of debt management and SOE oversight capability within the MFB the permanent resolution of inefficient tax exemptions and payroll irregularities, the streamlining of the regulatory and institutional environment to boost agricultural productivity in the areas of seed and fertilizer management, to reduce international connectivity charges in telecom and create an open and competitive fiber optic backbone for Chad while assuring service delivery also in remote areas through efficient management of the universal service fund. Ultimately, a functioning social transfer system can naturally be expanded as a platform to benefit increasing numbers of poor and vulnerable households. When supported by sound accompanying measures, safety systems can contribute to productivity growth in key sectors such as agriculture.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

45. The EFSO is a single tranche operation supporting the management of fiscal consolidation and the mitigation of related social externalities. The Government is undertaking reforms to sustain fiscal consolidation, including: rationalization of the public payroll system (PA1 and PA2); SOE management (PA3) as well as the tax expenditure and exemption system (PA4). These reforms aim at redressing inefficiencies in PFM and will be complemented by strengthening the public procurement system (PA5) and increase efficiency of expenditures and value for public money. While making fiscal consolidation a priority, the Government also acknowledges that the shock impacts on the poor and vulnerable beyond the immediate short term, therefore requiring a more structured approach to building a social safety net system (PA6).

Fiscal Management

Reducing and streamlining the wage bill (PA1 and PA2)

46. Faced with uncertain future oil prices and severe fiscal consolidation pressures, GoC needs to significantly improve public expenditure efficiency. Past Government finances have been characterized by high expenditures made possible by oil revenue windfalls. But the oil crisis and the sharp reduction in oil revenues changed the Government's perspective and motivated expenditure adjustments as well as an agenda to permanently improve expenditure efficiency. Broadly speaking, the approach consists of combining an immediate stabilization program aimed at curbing expenditures with a more medium-term approach aimed at enhancing the efficiency of public asset and spending management.

47. As a start, the Government revised the 2016 budget twice. In light of the significant shortfall in oil revenues, the Government revised the budget in June 2016 and again in September 2016. The second revision of the 2016 Budget includes a package of austerity measures aimed at reducing public spending and mitigating the short-term impact of the oil crisis on the fiscal front. The identified key measures include the reduction of deconcentrated administrative offices from 550 to 160, the merging of all public agencies in charge of sport and youth, restructuring the National Radio and Television Agency, an audit of the efficiency of large government projects, a revision of criteria for scholarships, and the census of community teachers.⁸

⁸ Source: Revised Finance Law. Government of Chad. September 2016.

48. **Sustaining fiscal consolidation efforts in the short run will prepare for a more fundamental fiscal reform program.** Short term, including exceptional, measures will be crucial to stabilize public finances and support the return to a sustainable fiscal path. Against the backdrop of sustained low oil prices and related revenues, more permanent and structural reforms need to be prepared and implemented. Increasing the efficiency of public expenditure in key areas such as public payroll, SOE transfers and subsidies and tax expenditure requires a solid informational basis. Therefore, the audits and studies in these areas will provide the necessary information to identify and address the most important challenges to effective public spending and revenue generation. In the context of the significant budget cuts adopted by decree in 2016, the Government reduced the allowances for all civil servants by 50 percent. This measure was included in the emergency package adopted in the Revised Finance Law of September 2016 and remains active until further adjustments, which will be informed by the findings and recommendations of the payroll audit. It complements the Government's broader efforts to harmonize the allowance regime for all civil servants.

49. **The streamlining of the oversized payroll system of the central government is a major priority.** From 2007 to 2015, total wages and salaries in the public administration tripled, while the number of civil servants doubled. The Government conducted a biometric census of civil servants in 2015 which updated the database and generated savings estimated at over 17 billion CFAF per year. The census has identified 10,220 ghost workers who represented 12 percent of the total workforce. The payroll management system has also seen 7,975 newly hired civil servants since 2014. Moreover, parallel promotions and reclassifications have also had significant financial implications. Finally, the census performed in 2014 did not cover payroll components such as retirees, scholarships, family allowances and allowances for senior managers which represent 22 percent of the total wages and salaries. Overall, persistent irregularities in the wages and salaries of civil servants are estimated at no less than 7.6 percent of total salaries paid by the Government and equivalent to 0.82 percent of non-oil GDP for 2016.

50. **In view of this objective, the Government has obtained an interim audit report of the public payroll system for the central government to strengthen its effectiveness.** The Government hired an international firm to perform an audit of the public payroll system. It aims to improve the management of the payroll through the achievement of an accounting and organizational audit that will establish a diagnostic of the payroll management and propose recommendations for its improvement. It focuses on its irregularities: (i) identification of ghost workers among newly recruited civil servants after the census; (ii) look at inconsistencies regarding the level of wages of the civil servant; and (iii) verifies non-compliance of salary increases, pensions, scholarships and allowances across the full public payroll.

51. **The information derived from this audit enables the GoC to identify areas for immediate action and structural reform.** Complemented by the reduction in allowances, actionable information from this audit is expected to contribute to a 2017 annual wage bill reduction of 3 percent vis-à-vis its 2015 level, equivalent to a level reduction from CFAF 369 billion in 2015 to CFAF 358 billion in 2017. At the same time, it should help to increase permanently the efficiency of the public payroll system, which covers a significant share of overall recurrent government expenditures (or around 7 percent of non-oil GDP).

52. The prior actions on reducing and streamlining the wage bill will be strengthened and consolidated under the DPO programmatic series. Prior actions of the first programmatic DPO scheduled by end of 2017, may include the full endorsement by the Government of the audit report of the public payroll system and the introduction of specific regulation to control, avoid and redress internal irregularities in public payroll management.

Improving SOE oversight (PA3)

53. A second reform improves SOE oversight and reduces fiscal risks. The Government has provided the framework needed for an audit of its SOE portfolio to be successfully completed. Given the large information asymmetries characterizing the financial relations between Chad's central government and the SOEs, the Government has (i) completed a preliminary inventory of its SOE portfolio; (ii) initiated an audit of its SOE portfolio; and (iii) put in place a mechanism to ensure that latest financial statements are made available to the MFB by all SOEs.

54. Chad's SOE sector is in a dire state and constitutes a substantial risk to fiscal sustainability. The SOE portfolio in Chad is estimated at about 30 entities in which the GoC has an equity state, including: SOEs, parastatal companies, and private companies. In addition to significant uncertainty as to the exact list and number of SOEs, SOE creation, their legal status as well as operations and activities remain unregulated. There is a significant fiduciary risk for the state to the extent that the financial situation of some companies does not allow them to meet their salary and tax obligations, as well as other financial charges. Financial balance of many public enterprises is achieved only through direct subsidies from the Government operating budget, while other remain loss making even after accounting for subsidies. Preliminary estimates suggest that subsidies to SOEs rose from 3.4 percent of non-oil GDP in 2011 to 4.8 percent of non-oil GDP in 2014. In addition to the traditional recipients of subsidies, such as the electricity and water companies or the cotton parastatal (Cotton Chad), the list of subsidized enterprises includes also new companies such as the cement plant, the oil refinery, the tractor assembly plant, and the fruit juice company. All these companies sell their products and services at prices significantly below cost recovery levels and constitute monopolies.

55. While the audit of a subset of the SOE portfolio has reached draft stage in April 2017, strong incentives to strengthen its coverage and access to key information are needed. The audit of the SOEs has been commissioned by the Government in an effort to assess the financial position of these entities and the related implications on fiscal sustainability. The audit's main objectives are to: (i) establish an inventory of SOEs in Chad; (ii) undertake a financial, organizational and institutional diagnosis and propose corrective actions of the list of SOEs identified; (iii) make policy and strategy recommendations for the management of the portfolio of state-owned enterprises, and government shareholdings activities; and (iv) make recommendations for the strengthening of the organizational and institutional capacity of the oversight entity/structure in the MFB responsible for managing the SOEs, including recommendations on the needed control and the monitoring of the SOEs. Necessary conditions for an effective and successful completion of the audit include a comprehensive inventory of SOEs as well as assurance that the MFB is provided with full and most up to date financial statements and related data.

56. **The SOE portfolio audit may provide valuable insights to increase efficiency in SOE management.** Specifically, information about the financial performance of its SOEs will allow the Government to alleviate the drain on its budget through reducing transfers and subsidies and reach an overall reduction in transfers and subsidies to SOEs. A first inventory of major SOEs paired with an obligation to transmit financial statement for the last three years extended to all SOEs in Chad starts a serious effort to assess Government exposure to fiscal risk inherent in its SOE portfolio.

Summary and preliminary findings of the interim report of the SOE portfolio:

The interim report includes two parts. Part one covers the conclusion of the main findings of the review, and part two covers the financial analysis of the SOEs. Preliminary findings include: (i) a lack of clarity on the exact list and number of SOEs and on their financial health; (ii) SOEs are not clearly regulated and/or created by legal texts; (iii) Their operations and activities are not clearly regulated either; (iv) there is clearly an absence of a legal and regulatory framework for the SOEs sector in the country. Out of an estimated total of 30 SOEs, the auditors are only able to identify a “provisional list” of 19 SOEs that could be covered by the audit review.

The financial review was only possible covering 10 out of 19 SOEs identified, as only the 10 SOEs reviewed provided minimum documents and financial information. The 10 SOEs were classified by the interim report into three categories:

- A. Five SOEs that require government subsidies;
- B. Four SOEs that generate revenues to cover their operational costs but not investments related costs;
- C. One SOE, is a profitable Bank covering its operational and financial expenses and distributes dividends to its shareholders.

The initial results of the SOE audit, though not complete and/or comprehensive, reveal major challenges:

- The financial performance of the SOEs in Chad does not correspond to the level of investment and subsidies provided to them by the GoC; some receive annual subsidies from the Government that are many times their capital;
- Nine out of the ten SOEs reviewed are making losses and the exact amounts of these losses remain unknown as they are not disclosed;
- Seven of the SOEs reviewed receive annual subsidies that amount to between 6.55 and 7.4 percent of the non-oil GDP for the period under review (2010-2013);
- During the period reviewed (2010-2013), the average amount of subsidies paid by the GoC to seven SOEs only amounted to CFAF 3.167 billion.

57. **Such effort will be consolidated under the programmatic series.** Preliminary discussions with GoC aim at having the Government establish, capacitate and finance an SOE oversight unit within the MFB. Among others, such unit will have the task to make publicly available all audited financial statements received by the MFB as a result of the progress made under the emergency DPO, in particular with the signing of a decree ensuring that all SOE provide necessary and most up to date financial data to the Government.

58. **The rationalization of tax expenditure is another central priority.** Tax exemptions led to an estimated loss in revenue to the Government of 50 percent of total non-oil revenues in 2014 and this ratio has likely increased. Given the magnitude of the impact of the crisis on revenue, the GoC decided to undertake ambitious reforms on tax expenditures. Since September 2016, the Government has frozen new tax exemptions, except those falling under the Vienna convention or pertaining to relations with technical and financial partners, until the completion of a study on tax expenditure; and received a draft of the tax expenditure study. The study performs a census of existing exemptions, analyzing the regimes under which they were granted and estimating their size. It carries out an inventory of tax exemptions granted, assesses the revenue losses caused by these exemptions (total cost of tax expenditures) compared to their impact on investment and economic and social development. In addition, the study clarifies the implementation modalities including in terms of budget transparency and monitoring evaluation in order to draw conclusions on their relevance, usefulness and develop recommendations which could be used to redefine the policy on tax exemptions. The study is a collaborative effort between the Government and the EU and its validation is forthcoming. In addition, the Government has launched a series of audits on current exemptions granted to the largest firms in order to assess the fiscal losses embedded in their Tax Exoneration Agreements and to correct irregularities arising from its findings. In effect, as of May 19, 2017, 24 such entities have been audited, revealing a total fiscal loss of around US\$277 million worth of tax exemptions granted in 2015 and multiple anomalies.

59. **Beyond reducing tax expenditure, a comprehensive tax policy and administration reform will be essential to increase fiscal space.** Revenues remain at great risk due to lack of diversification and strong dependence on the oil sector. While many reforms aimed at fiscal consolidation have been agreed to by the GoC as a result of the successive fiscal crises through dialogue with the World Bank, the IMF and other development partners, these are largely incomplete and/or have not moved to implementation and thus results and achievements are yet to materialize. The efforts of the recent years by the GoC to increase the tax base and diversify revenue have remained limited. Progress in strengthening the tax administration through developing an action plan to fight fraud and strengthen capacity of major revenue authorities as well as to launch the Standard Integrated Government Tax Administration System remain incomplete. Similarly progress towards widening the tax base, through in particular: strengthening tax administration and tax collection of 32,000 enterprises and reducing tax exemptions are also incomplete. Currently Chad has a narrow tax base of around 11,200 firms, of which, approximately 250 are responsible for about half of all non-oil tax revenues.

60. **As previous PA, also measures to rationalize tax expenditures will find a natural continuation with PA being discussed under the upcoming DPO programmatic series.** In particular, the Government has shown commitment to bring forward the rationalization of tax expenditures and to end those exemptions that are deemed to be unjustifiable under existing regulations or in the context of Chad very constrained fiscal situation. The Government is also committed to ensure the maximum transparency on the current regime of fiscal exonerations.

Strengthening public procurement (PA5)

61. **Lastly, the Government has established the framework for a functional Procurement Regulatory Agency (ARMP).** The Government allocated a budget line to the Agency and appointed the president as well as the members of the National Council of Regulation through a decree. Next steps to strengthen the operational capacities of all stakeholders involved in the procurement chain as well as contract management will include the development of tools needed to guide the activities of procurement of goods and services. This refers to standard bidding documents including especially the General Conditions. The new procurement code has been enacted since December 2015 and created the ARMP to regulate the sector. A functional Procurement Agency is expected to increase efficiency in the use of public funds and overall transparency.

62. **The public procurement framework was updated in 2015 with a revision of the 2003 Procurement Code as it contained several flaws contributing to inefficiencies in public procurement.** However, the revised version remains to be operationalized in order to generate much needed improvements in procurement practices. With the support of partners, the GoC initiated the revision of the procurement code which has been adopted by the Council of Ministers on September 11, 2015. Improvements include: (i) a clear definition of roles for the different actors involved in the procurement process and an overly complex set of procedures; (ii) the creation of an independent institution in charge of the regulation of public procurement and separate from the control of public procurement; (iii) clear and effective provisions for independent audits and public procurement controls; (iv) increased procurement thresholds; and (v) clear rules for when single-source procurement can be used in line with international standards. The new procurement code covers the public procurement process from planning to contract award, regulates the institutional framework for procurement, defines the overall organization of the procurement system and provides adequate provisions for contract implementation.

Prior Actions for the proposed operation:

Prior Action 1. Government has reduced the allowances for civil servants by 50 percent effective November 2016 through adoption of decree.

Prior Action 2. Government has commissioned and received an audit report for the public payroll system of the central government.

Prior Action 3. Government has: (i) completed an initial inventory of at least nineteen (19) SOEs with full or partial government ownership; (ii) commissioned an independent audit of its SOE portfolio; and (iii) issued a decree to ensure that all SOEs provide 2014, 2015 and 2016 financial statements to Ministry of Finance and Budget.

Prior Action 4. Government has: (i) issued a decree freezing tax exemptions, (except those falling under the Vienna convention and those envisaged under agreements with financial and technical partners as set forth in said decree); and (ii) commissioned and received a tax expenditure study.

Prior Action 5. Government has: (i) appointed the president of ARMP and members of its Council of Regulation; and (ii) allocated a regular budget line to the ARMP in the annex to the 2017 budget law.

Expected results for prior actions 1-5:

Indicator 1 and 2: Compound growth in wage bill vis-à-vis 2015 (percent). Baseline 2016: -1.0 percent; Target 2017: -3.0 percent

Indicator 3: SOEs submitting financial statements to the Ministry of Finance and Budget (number).

Baseline 2016=10; Target: 2017=20

Indicator 4: New tax exemptions issued per year (number). Baseline 2016=0; Target 2017=0

Indicator 5: Single-source procurement contracts' value as a share of total contracts' value. Baseline 2016=36.7 percent; Target 2017=30 percent

Social protection for poor and vulnerable groups

63. **Chadian households have very limited access to formal social protection and the public provision of basic services is inadequate.** The safety net system in place to help poor households out of their chronic poverty is very limited and unable to reduce their vulnerabilities or enable them to cope with covariate risks. Despite a reduction in poverty rates (from 53 percent in 2003 to 47 percent in 2011), the absolute number of people living in various degrees of poverty has increased due to population growth. Between 2003 and 2011, the number of food poor has risen from 2.7 million to 2.9 million; the number of poor from 4.1 million to 4.7 million; and the number of people living on less than US\$2 per day from 5.7 million to 6.8 million.

64. **Most spending on safety nets is crisis response or subsidies.** According to recent estimates, in 2014 about US\$109 million was spent to finance different types of safety nets in Chad, i.e. 0.8 percent of national GDP. This is below the Sub-Saharan average but it still represents a significant amount of resources. These resources serve mainly as an emergency response tool, particularly to food crises. Much of the social safety net system is funded by development partners (74 percent), while only 26 percent of total safety net spending in 2014 was funded by the Government. Safety nets, as provided by the Government, are limited to subsidies to children, either as in-kind support in education and nutrition, or as free access to healthcare services. Other support is provided in the form of exemptions from health costs expenditures. However, such exemptions are universal in nature, and not targeted. Given that access in poor rural areas is very limited compared to better off urban areas, such exemptions tend to be intrinsically regressive. Moreover, support provided by Development Partners is mostly to vulnerable households who experience transient shocks (typically of a seasonal nature) and the assistance provided is often in-kind. Safety nets for the chronic poor constitute only about 20 percent of total safety net spending. Aspects of the current system that constrain a long-term and sustainable approach to fighting poverty and vulnerability include: unpredictability of the interventions and their humanitarian nature which is short term focused; the lack of long term access to safety nets; and the limited ability to track beneficiary households and monitor changes in their consumption levels, human development achievements, and livelihoods. Insufficient financial resources are also a constraint.

65. **In July 2015, the GoC approved a National Social Protection Strategy (NSPS) based on a more systematic and structured approach to safety nets.** This new approach includes the establishment of systems to identify, register, target, support, and monitor beneficiary households. Such a framework is intended to help the Government and its partners to transition from an emergency approach to vulnerabilities to a longer-term approach aimed at building resilience and

strengthening livelihoods proactively. With the introduction of the NSPS, the Government is looking to establish a more permanent safety nets system that in the long term may become the key platform to deliver direct support to chronic and transient poor in Chad. The proposed direct support comes in a combination of cash support and training, which has been proven to help the ultra-poor and vulnerable groups escape extreme poverty, support them in time of crisis and graduate in much more sustainable ways than households receiving just cash or just training and inputs. It has been demonstrated that such an approach is also relevant in post conflict and fragile contexts. The NSPS was prepared under the leadership of the Ministry of Planning and Prospective and of the Ministry of Women, Social Action and National Solidarity and with support from major partners, including UNICEF, World Food Program (WFP), the World Bank, the Food and Agriculture Organization (FAO) and national and international non-governmental organizations (NGOs).

Building a safety net system (PA6)

66. **Following the NSPS, a Safety Nets Unit (CFS – *Cellule Filets Sociaux*) was established to implement a pilot Social Protection Project.** In March 20016, the Government established a Social Safety Nets Unit to implement a World Bank/UK-DFID Adaptive Social Protection Pilot Project of US\$10million. The Government is completing the competitive recruitment process of key staff of the CFS and the pilot is being launched in the regions of Bar-el-Gazal, Logone Occidental, and Ndjamen. When at full speed, the pilot will support more than 15,000 poor and vulnerable households with cash transfers, cash-for work activities and accompanying measures.

67. **As part of the arrangements to build a national safety nets system, the Government has issued a decree creating the Steering Committee of the Safety Nets program.** Following the establishment of the CFS, the Government has agreed to establish a Steering committee to provide strategic guidance to the pilot Project implementation, and inputs to the broader agenda on social protection and safety nets in Chad. The Steering committee includes key economic and social ministries, and representatives of civil society. These measures lay the foundations for effective implementation of the new safety net system, and next steps will require further development and support for the preparation of specific tools including for identification, targeting, registry of beneficiary households and transfer of cash and delivery of accompanying measures).

68. **As CFS operations are starting up, it is expected that by the end of 2017, the Social Safety Nets Unit has prepared a sound strategy to identify and target the poorest and most vulnerable households in Chad.** Seventeen thousand households in Logone Occidental will be surveyed and 4,500 poor and vulnerable households registered to benefit from cash transfers as identified by this strategy. This approach will ensure objectivity and transparency in the process, and specify the criteria to select geographical areas; particular categorical groups required for project eligibility; the method that will be used to identify poor households within the areas selected, and among the categorical groups defined. This result will be a key building block of the social safety net system in Chad, on which the Government and partners shall continue providing support, including through the forthcoming DPO programmatic series under preparation. Importantly, by targeting households with pregnant women, with under 12 youth, and by

transferring benefits directly to female heads of households, the safety net system being developed in Chad addresses some structural gender constraints.

69. **Reform actions in the area of social protection and safety nets will be consolidated under the DPO programmatic series.** The PA under this emergency DPO will be followed up by substantive measures to reform the sector, along the lines of its much needed transformation and move from an uncoordinated, poorly targeted, and expensive social protection system to a safety nets system based on efficient and transparent mechanisms to identify, target, and support poor and vulnerable households. Among such measures, discussions on the programmatic series include the introduction of a harmonized questionnaire to identify potential beneficiaries and to be used by all Government and non-governmental agencies as well as international partners. Another measure than may be part of the PA under the programmatic series is the establishment of a national social registry putting in common all available information on poor and vulnerable households and use it to improve targeting by reducing inclusion and exclusion errors, enhance resource allocation, and avoid duplication of benefits.

Prior Action for the proposed operation:

Prior Action 6. Government has: (i) issued a decree setting up the Steering Committee for safety net program; (ii) completed the competitive recruitment of the key staff of the safety net unit; and (iii) conducted a census of at least 17,000 households in Logone Occidental.

Indicator 6: Identification and targeting strategy finalized and at least 4,500 poor and vulnerable households in Logone Occidental are registered as identified by such strategy (Yes/No); Baseline = No; Target = Yes

70. **Each of the policy areas covered by the proposed EFSO is informed by analytical work carried out by the World Bank Group, the IMF, AfDB, EU and other development partners, and the GoC.** Recent studies have played an important role in the operation's design. Table 6 below, lists all EFSO prior actions and summarizes the analytical basis for each.

Table 5: EFSO Prior Actions and Analytical Underpinnings

EFSO Prior Actions	Analytical Underpinnings
Prior Action 1. Government has reduced the allowances for civil servants by 50 percent effective November 2016 through adoption of decree.	<p>International Monetary Fund (2016), “Chad – Third and fourth reviews under the Extended Credit Facility”, November, Washington D.C.</p> <p>In response to the impacts of the exogenous shocks, the Government has undertaken the implementation of an emergency economic program. In 2016, the Government has shown a strong determination for addressing this long lasting crisis. Following a move to a cash-based execution of the budget earlier in the year, the authorities put in place an emergency action plan in August. The plan entails significant spending cuts aimed at ensuring that the level of spending is consistent with the large drop in oil revenue. With these cuts, the expenditure envelop has become very tight which has recently led to an increase in social tensions.</p>
Prior Action 2. Government has commissioned and received an audit report for the public payroll system of the central government.	<p>Ernst and Young (2017) : Rapport provisoire de l’audit comptable et organisationnel de la solde du personnel civil de l’Etat du Tchad</p> <p>The effective control of the Chadian public payroll has a definite impact on the effective management of the Government public finances. Indeed,</p>

EFSO Prior Actions	Analytical Underpinnings
	<p>the payroll has tripled in less than ten years combined with a doubling of the civil servant over the same period. This increase was much faster than the total public expenditure, which increased by about 50 percent over the period before falling in 2014 following the oil price crisis.</p> <p>The preliminary results have identified a possible total fiscal saving of CFAF 39.990 billion over the period from January 2014 to September 2016. This saving represents annually CFAF 14.5 billion or 4.3 percent of the projected total wage bill in 2017.</p>
<p>Prior Action 3. Government has: (i) completed an initial inventory of 19 SOEs with full or partial government ownership; (ii) commissioned an independent audit of its SOE portfolio; and (iii) issued a decree to ensure that all SOEs provide 2014, 2015 and 2016 financial statements to Ministry of Finance and Budget.</p>	<p>Preliminary results of the SOE audit commissioned by the GoC show that out of 10 SOEs reviewed for which partial financial information could be obtained, nine consistently incurred losses. The one that reported profits, still benefited from Government subsidies. Besides the subsidies, it was reported that of the 10 SOEs, seven alone received government subsidies during 2010-2013 that reached 6.55 to 7.4 percent of non-oil GDP on average per year.</p> <p>Most SOEs are financially bankrupt and receive subsidies that are multiples of their capital each year.</p>
<p>Prior Action 4. Government has: (i) issued a decree freezing tax exemptions, (except those falling under the Vienna convention and those envisaged under agreements with financial and technical partners as set forth in the said decree); and (ii) commissioned and received a tax expenditure study.</p>	<p>IMF (2016), “Réforme de la fiscalité intérieure dans un contexte de choc”, April, Washington DC</p> <p>The proliferation of tax exemptions is incompatible with the application of a taxation system which should meet the best practices. Experience shows that it is even less easy to reduce the scope of the exemptions in the absence of precise evaluation, their drawbacks are underestimated and their benefits are overestimated. To overcome this difficulty, after South Africa, Morocco, Senegal, more recently a growing number of countries are engaged in assessments of tax expenditures.</p>
<p>Prior Action 5. Government has: (i) appointed the president of ARMP and the members of its Council of Regulation; and (ii) allocated a regular budget line to the ARMP in the annex to the 2017 budget law.</p>	<p>The World Bank (2015), <i>The Republic of Chad: Priorities for Ending Poverty and Boosting Shared Prosperity-Systematic Country Diagnostic</i>, Washington DC.</p> <p>In Chad, unit costs are extremely high and heterogeneous, reflecting severe shortcomings and discretion in public procurement. Single sourcing in public procurement is the norm, especially for projects funded under the Presidential budget (almost one third of total public investments): in 2013, more than 70 percent of total publicly-procured works (in amount) were awarded with a single source method of procurement.</p>
<p>Prior Action 6. Government has: (i) issued a decree setting up the Steering Committee for safety net program; (ii) completed the competitive recruitment of the key staff of the safety net unit; and (iii) conducted a census of at least 17,000 households in Logone Occidental.</p>	<p>The World Bank (2016): <i>The Republic of Chad: Shaping Adaptive Safety Nets to Address Vulnerability</i>, Report # 103560 -TD, Washington D.C</p> <p>The absolute number of people living in various degrees of poverty has increased and according to recent estimates, in 2014 about US\$109 million was spent to finance different types of safety nets in Chad, i.e. 0.8 percent of national GDP. This is below the Sub-Saharan average.</p> <p>Moreover, the vast majority of such expenditures were financed by development partners (more than 70 percent).</p>

C. LINK TO THE CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

71. **Links to the Country Partnership Framework (CPF).** The CPF for FY16-20 was discussed at the Board on December 10, 2015⁹ as a successor of the interim strategy note for FY10-12¹⁰. The CPF has three themes of engagement: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability. The proposed operation is identified in the CPF as a contributor to the first pillar through the improvement of the public resources management while it is also well aligned to the two others pillars by aiming to increase agricultural yields, and protect most vulnerable populations against the current exogenous shocks related to the oil price collapse and deterioration of the security situation.

72. **The proposed operation is part of a larger effort to tackle the impact of the exogenous shocks.** In December 2015, the Board approved the Fiscal Consolidation Program Support Grant (FCPSG) (P155480) which was Chad's first DPO in ten years. This operation aimed to help maintain macroeconomic stability, protect critical government's programs and set the basis for medium term reforms through: (a) broadening the tax base; (b) improving the rationalization of public spending and transparency in public resource management; and (c) improving new business registration. However, given the long lasting impact of the exogenous shocks, the Additional Financing of this operation was approved by the Board in December 2016 thanks to the Crisis Response Window allocating US\$80 million. The implementation of the reform program is broadly on track. Progress has been noted regarding the increase of the number of taxpaying firms and newly registered businesses even with the long lasting exogenous shocks. Some results are lagging, including procurement and extraordinary spending procedures. Results in procurement are expected to improve with the implementation of the new procurement code. The percentage of Extraordinary Spending Procedures regularized after payment within 60 days is also lagging but the cash-based budget and the tight fiscal consolidation would help reduce it. Regarding the others prior actions with Public Expenditure and Financial Accountability (PEFA) indicators, a new PEFA is expected to be completed in 2017.

CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

73. **The proposed operation was developed with the Chadian authorities and through consultations with civil society stakeholders and development partners.** Beyond intensive dialogue with Authorities, consultations on the reform agenda included a broad spectrum of civil society and the private sector. Various Members of Parliament and of the administration also participated in the discussions through different workshops on tax expenditures, PFM, and social protection. For the austerity measures, the Government has consulted with different partners including Unions, civil society and private sectors. Furthermore, separate consultations were held with development partners and the private sector.

74. **Collaboration with Development Partners.** The proposed operation was prepared in close collaboration with the IMF, EU and AfDB which are also providing budget support to Chad. During the preparation of the proposed operation the World Bank team consulted with a broad set

⁹ Report number: 95277-TD

¹⁰ Report number 54335-TD

of development partners through a macroeconomic and budget sector working group, building on the forums developed during the HIPC process. Close coordination with the IMF was also instrumental in assessing the macroeconomic framework and the extent of the exogenous shock on the sustainability of the Chadian economy. Consultations on social protection policy and operations involved key partners including the WFP, UNICEF, FAO and national and international NGOs.

2. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

74. Failure to act may lead Chad into a prolonged crisis with severe negative impacts on poverty and social welfare. In order to stay afloat during the current economic and fiscal crisis, Chad not only needs determined fiscal adjustment and expenditure rationalization but also depends on external financing to close its large financing gap of around five percent of non-oil GDP in 2017 and 2018. This painful yet orderly process of stabilization may entail pressure on pro-poor and social spending in the short term and should be mitigated to the extent possible. However, refraining from action at this stage would push Chad into immediate disorderly adjustment, with eventual repercussions ranging from government default and financial sector collapse to social tensions, increased insecurity, disruptions of economic activity, supply shortages and aggravation of an already existing humanitarian crisis. Rather than preparing the ground for a medium term structural policy and social protection agenda through current engagement, non-action may entail medium term insecurity, instability and potentially a permanent rolling back of human development and poverty achievements, with negative externalities well beyond Chad and towards CEMAC and the region.

75. The proposed operation will help avoid such a dire scenario and is expected to have a broadly positive impact on poverty reduction in the medium term. Poverty is expected to decrease in the medium term, mainly through the expansion of the national social safety net system as well as increasing fiscal space for pro-poor and social spending. There may however be some upward pressures on poverty in the short term, stemming from fiscal rationing and stabilization policies entailing potential public sector job losses or a decreases in public services. The audits of the SOEs may result in an action plan to reduce their size and employment termination, and the rationalization of the public payroll system may lead to a decrease in salaries and wages, in which case there will be social costs.

76. In the medium term, the fiscal measures supported by the operation are expected to generate efficiency gains and fiscal space. Revenue measures aimed at widening the tax base, PFM measures to improve the efficiency of public funds, and the implementation of a modern procurement code are expected to improve the value for money of public expenditures, including pro-poor expenditures in public health, education, and agriculture. In addition, a properly targeted expansion of the social safety net system has the potential to have a significant positive impact allowing households to move out of poverty and strengthen household resilience to shocks. The overall impact on poverty therefore is expected to be slightly detrimental in the short term under the proposed operation, but is expected to be positive and more substantial in the medium and long term.

77. **However, negative short-term effects in terms of higher poverty will likely be unavoidable.** Short term increases in poverty are most likely to materialize through cuts in services such as education, health, provision of agricultural inputs, and through the generally subdued economic environment caused by continued austerity. Poor and near-poor households have few options beyond public services and their disruption would have negative consequences, though the impact is difficult to quantify. The prior actions related to cuts in allowances target civil servants, who are less vulnerable.¹¹

78. **The expected medium term impact of the reforms included in this operation on gender equity is positive.** Similar to poverty, in the short term, reductions in public services may be detrimental to women. In the longer term, however, increased government resources directed to health, education, and social safety nets would have positive impacts. Increased spending for health, for example, could improve maternal mortality, which at 856 deaths per 100,000 women, placing Chad at the bottom of international rankings, above only CAR and Sierra Leone.¹² In addition, increased funding for education and social safety nets could increase school attendance for girls, as families with limited resources often prioritize the education of sons. Though there have been recent improvements, the 2014/15 Demographic and Health Survey shows that 44 percent of girls aged 15 to 19 have never attended school, compared to 30 percent of boys in the same age group. The implementation of the NSPS clearly identifies women as most vulnerable and aims to help them primarily through cash transfers and cash for works programs by making them the primary recipient of the benefit of the programs.

B. ENVIRONMENTAL ASPECTS

79. **The World Bank has determined that the measures supported by the proposed operation are not expected to have substantial negative impact on Chad's Environmental, Forests and Natural Resources.** Although some cash for work under the social protection programs could be expected to have some small physical footprint, the Government will finance significant capacity-building activities including environmental and social safeguards through the new national institution in charge of coordinating and managing safety nets programs, the Cellule Filet Social (CFS) established on March 10, 2016. In conjunction with the Ministry of Environment and Fisheries in charge of environmental and natural resource management, the CFS will play a key role in minimizing any environmental and social adverse impacts and enhancing the positive ones derived from social protection programs. The World Bank has a long history of supporting the Chad Government in its effort to protect the environment. Recently in April 2015 and May 2017, World Bank funded projects participated in the World Bank Environmental

¹¹ Public administration and state-owned/parastatal enterprise comprise three percent and less than one percent of the total active labor force, respectively (ECOSIT 3, 2011). According to household survey data from 2011, the poverty rate among households with a member working in one of these sectors is 16 percent compared with 48 percent nationally. Per capita annual household consumption is also 67 percent higher, and more than double the national poverty line, in these households. In addition, more than 32 percent of these household heads have completed secondary education or higher, compared to five percent in the population overall, indicating that they will likely be able to transition into other well-paid employment relatively quickly. Therefore, the direct impact on these households from the expected job losses is likely to be negligible, though there may be more diffuse effects if these households were providing transfers to other poorer households.

¹² World Health Statistics 2016, World Health Organization.

Safeguard training held in Ndjamena. As a result, the Government's institutions including the Direction of Environmental Assessment, Control and Pollution Control and National Development projects are now more knowledgeable and capable to implement World Bank environmental and social safeguard policies. 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.

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

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

81. Chad's PFM systems have improved in many ways. Over the last three years the GoC has demonstrated a credible commitment to effective PFM. Its resolve has been illustrated in the collaboration with development partners to support of the implementation of PFM reforms both during and after the HIPC completion process and during the implementation of the predecessor operation. Key improvements over the past three years have been made in the areas of budgeting, information management, financial reporting and external controls. In September 2016 Chad adopted the "Citizen Budget", which consists in making the national budget made available to the public in printed form or on an external website. The budget system is better linked to policy priorities and uses a revised nomenclature that facilitates inter-sectoral collaboration and enables the functional classification of NDP investments. The introduction of payroll management software linked with IFMIS generated a savings of about CFAF 17 billion in 2014 alone, and the payroll system is still being strengthened. The use of new computerized payment systems (SYSTAC and SYGMA) has improved the Treasury's performance by reducing payment delays and enabling better recordkeeping. Fiscal reporting and external controls have also been improved and made more transparent though the regular publication of budget documents and annual reports. Finally, the Court of Accounts established in 2013 is currently being operationalized with support from Chad's development partners. The implementation of the action plan for operationalizing the Court of Accounts will enhance the effectiveness and efficiency of the country's supreme audit institution.

82. Although there is cause for cautious optimism, it will take time for many of these reforms to yield substantial improvements in PFM performance. As indicated in the 2012 Debt

Management Performance Assessment and other diagnostic studies,¹³ Chad's PFM system still faces a number of challenges, including: (i) the poor performance of the current computerized accounting systems, which are not yet linked to the computerized expenditure chain, negatively impacting the quality and timeliness of financial statements; (ii) the inadequate quality of information on the central government's budget and financial activities during the course of the fiscal year; (iii) the need to directly involve sector ministries and civil society organizations in the budget formulation process, which will be addressed through the recently launched "citizens budget"; (iv) incomplete budget execution reports, including for donor-financed operations; and (v) weak internal and external controls. With the support of the World Bank's PARCAFIP Project (P090265), the Government will conduct a PEFA in 2017 based on the new methodology developed in January 2015. This assessment will provide detailed information on the current status of the country's PFM systems. Finally, a few months ago, the Government adopted a 2017-2021 Blueprint for PFM computerization. The public expenditure chain (*Circuit Intégré de la Dépense – CID*) and the efforts of the GoC to connect different units of the MFB to other ministries and the Treasury, and linking the IFMIS and the Integrated Human Resource and Payroll Management System (*Système Intégré de Gestion Administrative et Salariale du Personnel de l'Etat – SIGASPE*) will impact significantly the quality and timeliness of budget execution report and financial statements in the coming years. The *Agence Française de Développement* is about to prepare a new project to support Chad's PFM reforms including the implementation of the Strategic Plan for PFM computerization.

83. **In 2013 IMF staff carried out an on-site safeguards assessment of the BEAC.** This assessment, conducted during a period of significant change at the institution, found that progress had been made in strengthening the regional central bank's safeguards framework since 2009, when the previous safeguard assessment was undertaken. The assessment concluded that the BEAC's reserves appeared to be broadly adequate, although it noted the need for a more active reserves-management strategy. The 2013 assessment also confirmed that the "major shortcomings relating to foreign-exchange operations through the Paris office have been addressed." The BEAC has initiated measures aimed at reinforcing its governance and control environment. In addition to the 2010 appointment of a new governor and replacement of five members of the senior management team, the status of the Audit Committee was strengthened. Furthermore, a new organizational structure was established for the Internal Audit Department. A risk-based auditing approach was implemented, and the scope of the external audit was widened to include the activities of the National Directorates and other agencies. The BEAC now publishes a full set of audited financial statements. The external auditors expressed unqualified ("clean") opinions on the 2012, 2013 and 2014 financial statements. The reviews of the audit reports and the IMF 2013 quadrennial safeguards assessment report found that since 2013 the BEAC has launched a series of reforms to enhance the capacity of its accounting system, including: (i) upgrading its practices to conform with international financial reporting standards; (ii) strengthening its computerized accounting system to improve information management; and (iii) implementing a computerized system for integrated risk management to better manage risks arising from the diversification of its activities and the integration of new technology. The recommendations of the 2013 assessment included revising the BEAC Charter, accelerating the implementation of the reform and modernization plan, and strengthening safeguards in accounting, information technology, reserves

¹³ These diagnostics include the report on Strengthening the Chain of Expenditure (*Professionnaliser la gestion pour préparer le budget programme*), Département des Finances Publiques (FAD) FMI- Septembre 2014.

management and currency operations. The implementation of these recommendations is being monitored by the IMF.

84. **The shortening the Budget Settlement process is underway.** By law, the Government is required to submit to the Court of Auditors (CoA) the draft budget settlement law of each fiscal year by August 12 of the subsequent year. For 2015, the Government submitted with delay and only in November 2016. At the same time the CoA takes an average of four months to issue the compliance certificate of budget, so that the overall turnaround time is very high. However, to address the issue of accuracy and delays in the submission of financial statements, the GoC has established, a dedicated committee to prepare the Budget Settlement Laws and ensure their timely submission. Moreover, through strengthening of the capacity of Court of Auditors the preparation of the CoA compliance certificate could be reduced.

85. **Overall, the fiduciary risk of the proposed operation is rated substantial.** This rating is based on the current status of Chad's PFM system and the BEAC safeguards framework, accounting systems and auditing arrangements. However, the GoC has made critical progress in strengthening multiple aspects of public financial and budgetary management since 2006, and its continuing efforts are supported by the World Bank, the AfDB and the EU.

86. **Disbursement and Accounting.** The Recipient is the Republic of Chad, represented by the MFB. The grant will be released in a single tranche of SDR 47 million (US\$65 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 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 MFB 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. The World Bank reserves the right to seek an audit of the dedicated account of the GoC for budget purposes by independent auditors acceptable to the World Bank.

87. The closing date for the operation is December 31, 2017.

D. MONITORING, EVALUATION AND ACCOUNTABILITY

88. **The Negotiation Committee under the MFB is responsible for coordinating the supervision and monitoring of the reform program supported by the proposed operation.** The Government has an inter-ministerial committee, called Negotiation Committee in charge of the coordinating the preparation of the proposed operation and for monitoring the program, chaired by the MFB. The participating ministries, departments and agencies will furnish relevant information and documentation on the status of their respective programs to the committee, which will monitor progress against program objectives. The Committee has experience in collaborating with the IMF and World Bank, as demonstrated by the successful achievement of HIPC completion and the 2015 standalone DPO. A results framework will provide concrete indicators and empirical benchmarks to monitor progress and facilitate ex-post evaluation following the end of the program.

89. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

3. SUMMARY OF RISKS AND MITIGATION

90. **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.

Table 6: Proposed Operation Risks Ratings

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

91. **Political and Governance Risks are high.** Increased insecurity along the borders with Nigeria and Cameroon caused by Boko Haram compound an already fragile situation at the borders with Libya, Central African Republic and, to a lesser extent, Sudan. These issues, in addition to domestic security concerns, could divert scarce institutional and financial resources away from the reform program. Insecurity and conflict could destabilize the public finances, narrow the resource envelope for pro-poor spending and increase the risk of arrears accumulation. A combination of fiscal adjustment and the impact of regional conflicts¹⁴ could also undermine political stability. Moreover, the persisting weak governance environment presents additional challenges and inherent risks to implementation and sustainability of actions. Measures to improve public procurement regulations and practices will contribute to mitigating some of these risks. In addition, measures to contain the growth of the wage bill through the reduction of allowances as well as measures to redress dubious practices with respect the payroll may be politically challenging.

92. **Macroeconomic risks are also high.** Failure to restructure commercial debt or a protracted or partial restructuring, pose the most immediate and severe risk to Chad's fiscal and debt sustainability. Risks also stem from additional domestic debt and arrears that may be off the books but remain to be identified through increased monitoring efforts, including planned audits in 2017. Uncertainty around future oil prices and security drives macroeconomic risks. A further fall in oil prices would put additional pressure on fiscal accounts and compromise the Government's ability to finance its planned expenditure and debt. In addition, unexpected security costs and increased expenditure demands of addressing economic disruptions could divert resources away from priority social and structural programs as well as institutional capacity-building. Furthermore, the materialization of these risks would dampen any recovery and medium term growth prospects, particularly given Chad's fiscal and economic oil dependence. At the same time, a negative climatic shock would affect the prospects for agricultural growth and significantly reduce GDP growth. However, the GoC has demonstrated strong commitment to fiscal discipline and its ability to maintain a sound fiscal stance during the oncoming crisis. While CEMAC membership and PFM reforms have added stability in recent years, CEMAC's current vulnerability (with very low foreign exchange reserves and lacking broad fiscal space across members) poses additional downside risk to Chad's current situation. However, the consistency of the policy framework under the proposed IMF 2017-2020 ECF and the macroeconomic anchor offered by CEMAC, would establish necessary conditions for sound macroeconomic policy.

93. **High institutional capacity for implementation and sustainability risks can be mitigated.** Given the low institutional capacity in Chad, a satisfactory implementation of the major reforms such as the containing of the wage growth as well as transfers and subsidies to SOEs, may not be completed without impediments. Similarly, the clear identification of tax expenditures undertaken by the Government and which would help to create fiscal space could be slowed down if there is no adequate support. Technical assistance in PFM from Chad's development partners, including France, the AfDB, EU, IMF and CEMAC, as well as a World Bank operation in FY18 may mitigate this risk. Environmental, social and gender-related risks are low, given the nature of the reform program.

¹⁴ Of the more than 750,000 displaced people currently living in Chad, there are 463,000 refugees (including 366,000 from Sudan, 93,000 from the Central African Republic, and 2,000 from Nigeria), 230,000 returnees (of which 130,000 are from the Central African Republic and are 100,000 from Libya), and 70,000 long-term internally displaced persons from the 2007 conflict and subsequent cross-border attacks from Darfur. The number of refugees is equivalent to over 3.5 percent of the population, the third-highest level in the world according to UNHCR. See: WBG CPF FY16-FY20.

94. **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", the adoption of a new PFM Action Plan, and the measures under this operation contribute to mitigating these risks.

95. **Stakeholder risks are substantial.** The vested interests of various groups involved in the management of public resources could impede the implementation of the reforms supported by the proposed operation especially the rationalization of tax exemptions, the implementation of the new procurement code and the audit of payroll and the SOE portfolio. The authorities have taken initial steps to mitigate this risk. Measures are already in place to ensure greater transparency in the management of oil revenue, as confirmed by Chad's compliance with the standards of the Extractive Industries Transparency Initiative and the adoption of code of transparency and Good Governance in Public Financial Management. In addition, the new procurement code is consistent with international standards and, if implemented in full, could greatly reduce the number of single-source public procurement contracts.

96. **Other mitigating factors.** Many of the risks listed above cannot be mitigated by the proposed operation. Nevertheless, supporting the authorities' efforts to rationalize expenditures, expand the revenue base and to improve the quality of PFM will reinforce macro-fiscal stability, which will be essential to managing the impact of economic, political or security-related shocks. Improving financial management systems and strengthening public procurement regulations will directly reduce fiduciary risks. The progress noted following the latest IMF Safeguards Assessment of the BEAC will also contribute to mitigate these fiduciary risks. Finally, the World Bank team's close collaboration with the IMF and its active role in macroeconomic surveillance will enable the authorities to better anticipate and address emerging fiscal and external imbalances. Furthermore, failure to act at this critical juncture will have dramatic consequences.

ANNEX 1: POLICY AND RESULTS MATRIX
CHAD – EMERGENCY FISCAL STABILIZATION OPERATION

Prior Actions	Expected Results as per December 31, 2017
Prior Action 1. Government has reduced the allowances for civil servants by 50 percent effective November 2016 through adoption of decree.	Compound growth in wage bill vis-à-vis 2015 (percent). Baseline 2016: -1.0 percent; Target 2017: -3.0 percent
Prior Action 2. Government has commissioned and received an audit report for the public payroll system of the central government.	
Prior Action 3. Government: (i) has completed an initial inventory of at least nineteen (19) SOEs with full or partial government ownership; (ii) commissioned an independent audit of its SOE portfolio; and (iii) issued a decree to ensure that all SOEs provide financial statements for 2014, 2015 and 2016 to Ministry of Finance and Budget.	
Prior Action 4. Government has: (i) issued a decree freezing tax exemptions, (except those falling under the Vienna convention and those envisaged under agreements with financial and technical partners as set forth in said decree); and (ii) commissioned and received a tax expenditure study.	New tax exemptions issued per year (number). Baseline 2016=0; Target 2017=0
Prior Action 5. Government has: (i) appointed the president of ARMP and the members of its Council of Regulation (ii) and allocated a regular budget line to the ARMP in the annex to the 2017 budget law.	Single-source procurement contracts' value as a share of total contracts' value. Baseline 2016=36.7 percent; Target 2017=30 percent
Prior Action 6. Government has: (i) issued a decree setting up the Steering Committee for safety net program; (ii) completed the competitive recruitment of the key staff of the safety net unit; and (iii) conducted a census of at least 17,000 households in Logone Occidental.	Identification and Targeting strategy finalized and at least 4,500 poor and vulnerable households in Logone Occidental are registered as identified by such strategy (Yes/No) Baseline = No; Target = Yes

ANNEX 2: LETTER OF DEVELOPMENT POLICY

B.M. N'DJAMÉNA
Arrivée le 07 JUN 2017
Registre N° 617
Classement
Copie @

REPUBLICQUE DU TCHAD

PRESIDENCE DE LA REPUBLIQUE

PRIMATURE

MINISTERE DE L'ECONOMIE
ET DE LA PLANIFICATION DU DEVELOPPEMENT

N° 0523 /MEPD/17

UNITE-TRAVAIL-PROGRES

N'Djamena, le 07 JUIN 2017

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

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement (LPD) décrit d'une part, le contexte socioéconomique du Tchad, les stratégies nationales de développement ainsi que les évolutions économiques récentes et d'autre part, présente les perspectives économiques et les réformes pour 2017. Elle retrace l'ensemble des politiques publiques et sectorielles prioritaires mises en œuvre par le Gouvernement pour stabiliser la situation macroéconomique et fiscale au Tchad.
2. La LPD indique également les mesures de réformes prioritaires urgentes nécessaires pour faire face aux effets des trois chocs majeurs liés : (i) à la chute continue des cours du pétrole et le remboursement de la dette envers la société Glencore; (ii) aux tensions sécuritaires au Tchad et dans la région qui continuent de peser lourdement sur le budget et, de manière générale, sur l'économie ; et (iii) à l'accueil et la prise en charge continus plus de 750.000 réfugiés, personnes déplacées et rapatriées, le long de la frontière avec les pays voisins. Cette LPD fournit les grandes lignes du programme de réformes à court et moyen termes.
3. En vue de soutenir son programme d'urgence, le Gouvernement du Tchad sollicite de la Banque Mondiale un montant équivalent de 65 millions de dollars américains, sous forme de Don d'Appui Budgétaire. Cet appui permettra de stabiliser la difficile situation fiscale et macroéconomique affecte massivement le pays et contribuera à la mise en place des bases à plus longs termes de redressement des finances publiques, de stabilisation macroéconomique et de la relance de la croissance.

I. Contexte

4. Depuis la restauration de la paix en 2009, la qualité du dialogue et plusieurs renégociations ont permis de renouer le dialogue avec la Banque mondiale et de conclure avec le FMI un programme de référence en 2013. Depuis août 2014, le Gouvernement du Tchad prend des mesures courageuses pour mettre efficacement en œuvre son programme économique et financier à moyen terme. La mise en œuvre de ce programme a permis d'atteindre le point d'achèvement au titre de l'Initiative en faveur des Pays Pauvres Très Endettés (PPTTE) en avril 2015, qui a été un important tournant pour le Tchad.
5. Grâce aux décaissements d'appui budgétaire du FMI, de la Banque mondiale, de l'Union européenne, de la Banque africaine de développement, et plus récemment de la France, les autorités ont pu financer les déficits causés par les chocs exogènes et la faiblesse des recettes hors pétrole et assurer ainsi la stabilité macroéconomique. Cela a également permis de réaliser des progrès importants en matière de réformes structurelles, conformément aux objectifs du programme et ce, en dépit du contexte particulièrement difficile en 2016.
6. Le Gouvernement a élaboré et mis en œuvre avec succès le Plan National de Développement (PND) couvrant la période 2013 à 2015 qui sera relayé par le Plan National de Développement (PND 2017-2021) en cours d'adoption. En effet, ce premier plan est issu de la « Vision 2030, le Tchad que nous voulons » sur les quinze prochaines années. Le processus d'élaboration de la Vision 2030 et du PND a été encore plus participatif et inclusif que par le passé. En effet, il a recueilli les aspirations de toutes les couches de la population au niveau national et a été régi par la recherche d'un consensus fort autour des grandes orientations pour garantir l'appropriation par l'ensemble des acteurs et en conséquence faciliter sa mise en œuvre. Ainsi, il a offert une nouvelle occasion de renforcer le dialogue sur les politiques et stratégies sectorielles à mener entre l'administration, la société civile, les confessions religieuses, le parlement et les Partenaires Techniques et Financiers (PTFs). Aussi, le PND 2017-2021 constituera-t-il le cadre unique de concertation et d'assistance à moyen terme en matière de développement économique et social pour le Gouvernement et pour les PTFs.
7. Les chocs exogènes auxquels le Tchad est confronté depuis le milieu de l'année 2014 continuent de peser sur la situation économique, financière et sociale :
 - Malgré une légère hausse et une stabilisation des cours mondiaux du pétrole dans la deuxième partie de l'année 2016, le prix du pétrole tchadien est demeuré en 2016 en moyenne inférieur à celui de 2015, et son niveau actuel ne

représente toujours qu'environ la moitié du prix moyen de 2014. En raison de ce niveau de prix, conjugué à la lourde charge de rembourser un emprunt de la société Glencore garanti par le pétrole qui se levait à la fin de 2016 à environ 1,37 milliard de dollars américains, les recettes pétrolières versées au Trésor ont considérablement diminué. Le Gouvernement a dû effectuer des coupes dans les dépenses d'investissement et malgré cela, éprouve encore des difficultés pour assurer le paiement des salaires. Cela contribue malheureusement à renforcer les tensions sociales.

- Les forces sécuritaires tchadiennes restent très fortement impliquées dans les efforts de maintien de la paix, en particulier dans le bassin du Lac Tchad. Ces efforts sont primordiaux pour maintenir la sécurité régionale, mais le stationnement des personnels militaires, notamment au Cameroun, au Mali, au Nigéria, au Niger, ainsi qu'à la frontière avec le Soudan et la Libye grève considérablement le budget de l'Etat et altère la mise en œuvre du programme de développement économique et social du Gouvernement. La situation sécuritaire continue donc de perturber les échanges transfrontaliers et les activités économiques essentielles, notamment dans les secteurs de l'élevage et de l'agriculture.
- La crise humanitaire dans la région est aussi une source importante de difficultés pour le Tchad qui accueille plus de 750.000 réfugiés, personnes déplacées et rapatriées. Même s'il est difficile de mesurer le coût budgétaire direct, les autorités aident les réfugiés à accéder à la terre et aux services communautaires de base, et à s'installer dans les communautés hôtes.

II. Bilan succinct du Plan National de Développement (PND 2013-2015)

8. Le PND 2013-2015 a identifié huit (8) domaines prioritaires que sont (i) la croissance soutenue ; (ii) la sécurité alimentaire ; (iii) la création et l'accès à l'emploi ; (iv) le développement du capital humain ; (v) le développement du secteur privé ; (vi) le développement des Technologies de l'Information et de la Communication (TICs) ; (vii) la protection de l'environnement et l'adaptation aux changements climatiques ; et (viii) l'amélioration de la gouvernance.
9. Pour atteindre les objectifs ci-dessus, quatre (4) axes stratégiques d'intervention et de programmation ont été identifiés : (i) le Développement de l'offre de production et des opportunités d'emplois décents ; (ii) la Mobilisation et valorisation du capital humain et la lutte contre les inégalités, la réduction de pauvreté et l'exclusion sociale ; (iii) la Protection de l'environnement et la lutte contre les changements climatiques ; et (iv) l'Amélioration de la gouvernance.
10. De manière générale, la programmation budgétaire triennale du plan d'actions prioritaires (PAP 2013-2015) était en cohérence avec les tranches annuelles des

Lois des finances (2013-2015), et ce, en dépit des divers chocs exogènes ci-dessus évoqués.

11. L'analyse de la performance dans la mise en œuvre du PND sur la période sous revue fait ressortir un bilan globalement positif. En effet, sur les 94 indicateurs retenus (stratégiques et intermédiaires), 29 indicateurs ont dépassé les cibles fixées, soit 32% ; 2 indicateurs ont atteint leurs cibles ; 35 indicateurs sont en nette progression, soit 37%; et 28 indicateurs ont des résultats mitigés, soit 30%.
12. L'analyse de la performance par axe stratégique révèle ce qui suit : i) au niveau de l'Axe I relatif au Développement de l'offre de production et des opportunités d'emplois décents, sur 27 indicateurs, 10 ont atteint et même dépassé leurs cibles de 2015 ; 5 sont en net progression tandis que 12 ont des résultats mitigés ; ii) au niveau de l'Axe II concernant la Mobilitation et valorisation du capital humain et la lutte contre les inégalités, la réduction de pauvreté et l'exclusion sociale, sur 47 indicateurs, 15 ont atteint et même dépassé leurs cibles de 2015, 24 sont en progression et 8 évoluent en dent de scie ; iii) au niveau de l'Axe III concernant la Protection de l'environnement et la lutte contre les changements climatiques, sur les 6 indicateurs, seul celui du schéma national de l'aménagement du territoire est atteint et le taux annuel de déboisement forestier est en nette progression (d'une valeur de référence de 2,5% en 2012, ce taux s'établit à 0,7% en 2015 contre la cible de 0,5%); et iv) dans l'Axe IV relatif à l'Amélioration de la gouvernance, sur 14 indicateurs, 4 sont atteints voire en dépassement de leurs cibles, l'indicateur concernant la publication des bulletins trimestriels a atteint sa cible, 3 sont en nette progression tandis que 6 évoluent en dent de scie.
13. L'analyse de l'exécution financière sur toute la période 2013-2015 fait apparaître un taux d'exécution moyen satisfaisant de 85% pour les financements intérieurs et 91,5% pour les financements extérieurs. Néanmoins, des efforts restent à fournir pour améliorer davantage les objectifs relatifs à ces quatre axes stratégiques, notamment en matière d'offres de services socio-économiques et de réformes administratives.

III. Situation macroéconomique en 2016 et Perspectives 2017

14. La situation économique et financière a continué de se détériorer en 2016, avec une forte contraction de l'activité économique. Des coupes budgétaires drastiques, conjuguées à la réduction des investissements des sociétés pétrolières entraînant de nombreux licenciements dans ces sociétés et même chez les sous-traitants, ont eu des effets induits sur le reste de l'économie. Les entreprises du secteur privé non pétrolier ont également freiné leurs activités, en particulier dans le secteur de la construction, source importante d'emplois. En

conséquence, l'activité économique s'est contractée en 2016 pour la deuxième année consécutive, de façon encore plus marquée qu'en 2015 et le pays est tombée dans une profonde récession avec une contraction du PIB du 6.4 pourcent. La faiblesse de la demande intérieure, ainsi que les perturbations qui continuent dans les échanges transfrontaliers, ont abouti en 2016 à une déflation de 1,1 pourcent.

15. Les difficultés budgétaires ont continué à s'aggraver tout au long de 2016. Les recettes à la fois pétrolières et non pétrolières ont été nettement moins performantes, et de graves problèmes de liquidité ont persisté sur toute l'année 2016. En particulier, les recettes pétrolières ont chuté à environ un tiers de leur niveau de 2014. En réaction, les autorités ont exécuté le budget sur base caisse, en accordant la priorité aux dépenses essentielles que sont les dépenses sécuritaires, le paiement des salaires, le service de la dette, et certaines dépenses sociales. Depuis le milieu de l'année, les autorités ont pris des mesures courageuses telles que la réduction des primes pour contenir la masse salariale, la réduction drastique des dépenses d'investissement à 1 % du PIB hors pétrole contre 8 % en moyenne entre 2006 et 2015 et une baisse significative des transferts et subventions pour équilibrer le budget. Toutefois, ces mesures se sont avérées insuffisantes pour enrayer les problèmes de liquidité. Les tensions de trésorerie se sont davantage intensifiées au cours du deuxième semestre de 2016 en grande partie en raison de la sous-performance des recettes pétrolières, et ont provoqué des retards dans le paiement des traitements et salaires ainsi qu'une accumulation d'un certain nombre d'arriérés envers les créanciers intérieurs et extérieurs.
16. Le ralentissement économique et la crise de liquidité à laquelle fait face le Gouvernement ont lourdement affecté les banques. Les créances douteuses auprès des banques commerciales ont significativement augmentées en raison de l'accumulation des arriérés intérieurs du Gouvernement envers les sociétés du secteur privé, qui, à leur tour ne pouvaient pas payer leurs dettes aux banques. Cette situation a été exacerbée par la baisse de la valeur des marchés publics, dont le secteur privé dépend fortement. Cette situation, conjuguée à la forte augmentation de l'exposition directe aux titres publics a entraîné le secteur bancaire à atteindre le seuil de refinancement à la BEAC et créant ainsi de sérieux problèmes de liquidité pour le système financier tchadien soit public ou privé. De même, le Gouvernement est confronté à des difficultés pour émettre de nouveaux titres de dettes et pour assurer le roll-over de la dette existante.
17. Le Gouvernement a élaboré un vaste plan stratégique pour faire face aux défis auxquels le pays est confronté, le ramener sur un chemin de croissance durable et améliorer les conditions socio-économiques de la population. Dans cette perspective, le Gouvernement a introduit des requêtes d'appuis auprès des

agences et organismes internationaux et notamment auprès du FMI pour un nouvel Accord triennal au titre de la FEC pour appuyer ses politiques économiques et financières.

IV. Les programmes de réformes

18. La gouvernance démocratique et la réforme du secteur public demeurent des axes aussi importants de la politique de développement du pays. Un consensus s'est dégagé à l'échelle nationale quant à la nécessité de diversifier l'économie en dehors du secteur pétrolier. Le Gouvernement et d'autres parties prenantes au niveau national reconnaissent que le choc des cours du brut persiste et qu'il est important de réduire la dépendance à l'égard du secteur pétrolier comme moteur de croissance. Le Gouvernement est convaincu que l'amélioration du climat des affaires est un des moyens nécessaires pour attirer des investissements étrangers en dehors du secteur pétrolier.
19. Le nouveau Plan National de Développement (PND 2017-2021) en cours d'adoption par le Conseil des Ministres, comporte quatre axes stratégiques, à savoir : i) Renforcer l'unité nationale ; ii) Renforcer la bonne gouvernance et l'État de droit ; iii) Développer une économie diversifiée et compétitive ; et iv) assurer une meilleure qualité de vie à la population (protection sociale). Ce plan a été établi à la suite d'une large consultation nationale. Le projet final a été examiné avec toutes les parties prenantes internes lors d'un atelier organisé les 06 et 07 octobre 2016 et soumis au Comité de Pilotage, présidé par SEM le Premier Ministre, Chef du Gouvernement. Un Comité Technique Multi-sectoriel et Multi-bailleurs de relecture a été créé en fin février 2017 et a produit les versions finales ainsi que neuf (9) Notes thématiques et/ou sectorielles qui seront soumises au Conseil de Ministres pour adoption et enfin seront transmises à l'Assemblée nationale pour information. En septembre 2017, le Gouvernement a prévu d'organiser une table ronde à Paris avec tous ses partenaires techniques et financiers, afin de mobiliser des financements pour les grandes priorités du Plan National de Développement 2017-2021.
20. Dans le cadre de la mise en œuvre du PND 2017-2021, le Gouvernement maintiendra sa politique de diversification économique en soutenant la promotion des filières porteuses, des produits forestiers non ligneux et des chaînes de valeur dans le développement rural (gomme arabique, arachide, riz, maïs, karité, miel, néré, sésame, spiruline, datte, pêche, viande, lait, etc.). Cela se fera notamment à travers des actions ciblées sur l'encadrement des producteurs, le commerce intracommunautaire, et l'opérationnalité des stratégies intégrées de développement industriel et de promotion des exportations.

21. Pour atténuer les effets pervers des trois chocs précités, les autorités souhaitent poursuivre et renforcer les différents programmes de réformes qui seront appuyés par les différents Partenaires Techniques et Financiers à travers les piliers de la consolidation budgétaire et de la transparence; la protection des couches vulnérables et l'amélioration du climat des affaires; contenus dans une matrice de réformes à court, moyen et long terme et assortis des mesures d'urgences d'austérité, l'objectif principal étant d'amortir les effets de la crise par des mesures de consolidation budgétaire, de soutenir efficacement la relance de l'économie tchadienne et d'améliorer les conditions socio-économiques de la population en protégeant les couches vulnérables. A cette fin le Gouvernement a identifié les activités prioritaires suivantes :
22. **Gestion de la masse salariale :** Le Gouvernement a entrepris activement une profonde réflexion sur l'amélioration de la gestion des ressources publiques étant donné la nature et l'impact des chocs exogènes. En ce qui concerne la gestion des dépenses, l'approche du Gouvernement consiste à combiner un programme de stabilisation visant à limiter les dépenses avec une approche à moyen terme consistant à améliorer l'efficacité de la gestion des dépenses publiques. C'est ainsi que le Gouvernement a adopté une deuxième révision du Budget 2016 comprenant les mesures d'austérité dont **la réduction de 50% des indemnités des autorités publiques ainsi que dans la Loi de Finances Initiale 2017. En outre le Gouvernement a réalisé un rapport d'audit comptable et organisationnel de la solde du personnel civil de l'État du Tchad.**
23. **Transparence et gouvernance de l'ensemble des entreprises publiques.** A ce sujet, le Gouvernement est en train de préparer une **liste provisoire des entreprises publiques** et entreprises de droit privé avec une participation de l'Etat, a réalisé une **évaluation d'un portefeuille de 10 grandes entreprises publiques** parmi celle de la liste, et a émis un **arrêté demandant** à toute entreprise publique et entreprise de droit privé avec une participation de **l'Etat de transmettre les états financiers des années 2014, 2015 et 2016.** C'est dans ce cadre que le Gouvernement s'engage à mettre à disposition du public toutes les informations concernant son portefeuille des entreprises publiques et de communiquer en temps opportun les informations financières et les passifs éventuels.
24. **Dépenses fiscales et exonérations.** Compte tenu de l'ampleur de l'impact de la crise sur les recettes, le Gouvernement a décidé d'entreprendre des réformes sur les dépenses fiscales. **Une étude sur les dépenses fiscales a été réalisée** en vue de faire un recensement des exonérations existantes, en

analysant les régimes sous lesquels ils ont été accordés et l'estimation de leur taille globale. Entre temps, le Gouvernement a décidé **de geler l'octroi de toutes nouvelles exonérations.**

25. **Marchés publics.** Les autorités ont révisé en 2015 le code des marchés publics pour améliorer son efficacité. Avec l'appui des partenaires, le Gouvernement a lancé la révision du code des marchés publics qui a été adopté par le Conseil des Ministres le 11 septembre 2015. Pour la mise en œuvre du Décret relatif à l'organisation et au fonctionnement de l'Agence de Régularisation de Marchés Publics (ARMP), **le Gouvernement a : (i) doté l'Agence d'une ligne budgétaire ; et (ii) nommé par Décret le Président et les membres.**

26. **La protection des couches vulnérables :** Le Gouvernement a approuvé en juillet 2015, une Stratégie Nationale de Protection Sociale (SNPS) basée sur une approche plus systématique et structurée pour les filets sociaux. Cette nouvelle approche comprend la mise en place des systèmes pour identifier, enregistrer, cibler, soutenir, et suivre les ménages bénéficiaires. Cette approche vise à encourager ses partenaires à passer d'une approche d'urgence aux vulnérabilités à une approche à plus long terme visant à renforcer la résilience et les moyens de subsistance de manière proactive. Conformément à cette stratégie, le Gouvernement, est en train d'exécuter un Projet pilote de Filets Sociaux depuis décembre 2016 dans trois régions. **Le Gouvernement est aussi en train d'achever le processus pour le recrutement du personnel clé de la Cellule Filets Sociaux, a émis un arrêté instituant le Comité de Pilotage du programme de filets sociaux et est en train de réaliser le recensement d'au moins 17,000 ménages potentiellement bénéficiaires du programme au Logone Occidental.**

27. Le Gouvernement reconnaît qu'afin de relancer la croissance économique, un programme de réformes structurelles et crédibles est nécessaire. À cette fin et en accord avec la Banque mondiale et autres partenaires au développement, le Gouvernement s'engage à faire face aux contraintes de productivité dans les secteurs réels et en particulier dans l'agriculture, à moderniser et à rendre plus compétitif le secteur des télécommunications et à améliorer l'accès des ménages pauvres et vulnérables à la protection sociale et à l'enseignement primaire. En outre, le Gouvernement s'engage à continuer son soutien aux principales réformes en matière de finances publiques et de gestion de la dette et d'améliorer la transparence dans les comptes publics et les marchés publics.

V. Suivi du programme

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

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


NGUETO TIRAINA YAMBAYE

ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
<i>Pillar 1 – Fiscal Rationalization and Strengthening of Social Safety Nets system</i>		
Prior Action 1. Government has reduced the allowances for civil servants by 50 percent effective November 2016 through adoption of decree.	No	Yes. This action would affect revenues of the high officials but the impact on poverty could not be substantial given that they are not considered as poor. At the same time, it would generate fiscal space for the Government allowing to allocate more resources to most vulnerable populations.
Prior Action 2. Government has commissioned and received an audit report for the public payroll system of the central government.		
Prior Action 3. Government has: (i) completed an initial inventory of at least nineteen (19) SOEs with full or partial government ownership; (ii) commissioned an independent audit of its SOE portfolio; and (iii) issued a decree to ensure that all SOEs provide 2014, 2015 and 2016 financial statements to Ministry of Finance and Budget		
Prior Action 4. Government has: (i) issued a decree freezing tax exemptions, (except those falling under the Vienna convention and those envisaged under agreements with financial and technical partners as set forth in said decree); and (ii) commissioned and received a tax expenditure study.	No	Yes. This reform would provide more fiscal space to mitigate the impact of exogenous shocks and their effect on poor through expenditure cuts.

<p>Prior Action 5. Government has: (i) appointed the president of ARMP and the members of its Council of Regulation; and (ii) allocated a regular budget line to the ARMP in the annex to the 2017 budget law.</p>	<p>No</p>	<p>Yes. The implementation of a modern procurement code is also expected to improve the value for money of public expenditures, including pro-poor expenditures.</p>
<p>Prior Action 6. Government has (i) issued a decree setting up the Steering Committee for safety net program; (ii) completed the competitive recruitment of the key staff of the safety net unit; and (iii) conducted a census of at least 17,000 households in Logone Occidental.</p>	<p>Yes. Some cash for work under the social protection programs could be expected to have some environment effects which are not significant. Though such negative impacts are expected to be small in scale, minimal to negligible, and mostly site specific because of the small footprint of project interventions, typical of this type operations. Measures are taken to adequately avoid and mitigate any of such negative impacts while scaling up the positive ones.</p>	<p>Yes. This reform would have a positive impact on poverty by tackling vulnerabilities through cash transfers and cash for work.</p>