Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD76

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVLEOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 72.9 MILLION
(US$100.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CHAD

FOR A

SECOND PROGRAMMATIC ECONOMIC RECOVERY AND RESILIENCE DEVELOPMENT POLICY FINANCING

December 16, 2019

Macroeconomics, Trade and Investment Global Practice
Africa Region

THE REPUBLIC OF CHAD - FISCAL YEAR

January 1st – December 31st

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 30, 2019)

Currency Unit = CFA Franc (CFAF)

SDR 1 = CFAF 803.986

US$1= CFAF 582.89

US$1 = SDR 0.72838517

ABBREVIATIONS AND ACRONYMS

ADETIC	Information and Communication Technology Telecom Agency *(Agence de*
AfDB	African Development Bank
ANADER	National Agency for Rural Development
BDEAC	Development Bank of Central African States
BEAC	Bank of Central African States (*Banque des Etats d'Afrique Centrale*)
CAADP	Comprehensive Development Plan for African Agriculture
CCSRP	Oil Revenue Control *(Collège de Contrôle et de Surveillance des Revenus Pétroliers)*
CEMAC	Economic and Monetary Community of Central Africa (*Communauté Economique et Monétaire de l'Afrique Centrale*)
CFAF	Central African CFA Franc *(Franc de la Communauté Financière d'Afrique)*
CFS	Safety Net Unit *(Cellule Filets Sociaux)*
CNPCI	China National Petroleum Corporation International
COTCO	Cameroon Oil Transportation Company
CPF	Country Partnership Framework
DFID	United Kingdom Department for International Development
DPF	Development Policy Financing
DPO	Development Policy Operation
DRMM	Domestic Resource Mobilization
DSA	Debt Sustainability Analysis
EA	Environmental Assessment
ECF	Extended Credit Facility
EFSO	Emergency Fiscal Stabilization Operation
EITI	Extractive Industries Transparency Initiative
EU	European Union
FAO	Food and Agriculture Organization
FCPSG	Fiscal Consolidation Program Support Grant
FDI	Foreign Direct Investment
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GHG	Greenhouse Gas

GoC	Government of Chad
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
HR	Human Resources
ICT	Information and Communication Technology
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPF	Investment Project Financing
LDP	Letter of Development Policy
LIC-DSA	Debt Sustainability Analysis for Low-Income Countries
MTDS	Medium-Term Debt Management Strategy
MEDP	Ministry of Economy and Development Planning
MoA	Ministry of Agriculture
MFB	Ministry of Finance and Budget
MPEM	Ministry of Petroleum, Energy and Mining
MPNTI	Ministry of Post and New Information Technology
NAPA	National Adaptation Program of Action for Climate Change
NDP	National Development Plan *(Plan National de Développement)*
NGO	Non-governmental Organisation
NPL	Non-performing Loan
NSPS	National Social Protection Strategy
ONDR	National Office for Rural Development
OPEC	Organization of the Petroleum Exporting Countries
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PNISR	National Investment Plan for the Rural Sector of Chad
PPG	Public and Publicly Guaranteed
PPP	Public-private Partnership
PV	Present Value
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SHT	Chad National Oil Company (*Société des Hydrocarbures du Tchad*)
SOE	State-owned Enterprise
SSA	Sub-saharan Africa
SSN	Social Safety Net
TA	Technical Assistance
TOTCO	Chad Oil Transportation Company
UNHCR	United Nations High Commissioner for Refugees
USR	Unified Social Registry
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Soukeyna Kane
Regional Director:	Elisabeth Huybens
Practice Manager:	Lars Christian Moller
Task Team Leaders:	Markus Kitzmuller, Silvana Tordo

REPUBLIC OF CHAD

CHAD SECOND PROGRAMMATIC ECONOMIC RECOVERY AND RESILIENCE GRANT

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM 7

1. INTRODUCTION AND COUNTRY CONTEXT 9

2. MACROECONOMIC POLICY FRAMEWORK 11

2.1. RECENT ECONOMIC DEVELOPMENTS 11

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY 15

2.3. IMF RELATIONS 18

3. GOVERNMENT PROGRAM 18

4. PROPOSED OPERATION 19

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION 19

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS 21

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY 35

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS 36

5. OTHER DESIGN AND APPRAISAL ISSUES 37

5.1. POVERTY AND SOCIAL IMPACT 37

5.2. ENVIRONMENTAL ASPECTS 38

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS 40

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY 42

6. SUMMARY OF RISKS AND MITIGATION 42

ANNEX 1: POLICY AND RESULTS MATRIX 45

ANNEX 2: IMF RELATIONS ANNEX 51

IMF Executive Board Completes Fifth Review of the Arrangement under Extended Credit Facility for Chad and Approves US$38.8 Million Disbursement 51

IMF Communications Department 52

ANNEX 3: LETTER OF DEVELOPMENT POLICY 53

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE 64

ANNEX 5: ANALYTICAL UNDERPINNINGS 65

ANNEX 6: ILLUSTRATION OF OIL REVENUE MANAGEMENT..67

This operation was prepared by an IDA team led by Markus Kitzmuller (Senior Economist, EA2M1, TTL) and Silvana Tordo (Lead Economist, GEEX1, Co-TTL) under the overall guidance of Soukeyna Kane (Country Director, AFCW3) and Lars Christian Moller (Practice Manager, EA2M1). The team consists of Diego Rivetti (Senior Debt Specialist, GMTMD), Fabienne Mroczka (Senior Financial Management Specialist, GGOAW), Xavier Decoster (ET Consultant, IDD02), Olanrewaju Kassim (Economist, EA2M1), Benoit Campagne (Economist, EMFMD), Aurelie Rossignol (Environmental Specialist, SAFE1), Ziva Razafintsalama (Senior Agriculture Economist, GFA01), Fulbert Tchana Tchana (Senior Economist, EA2M1), Eric Ranjeva (Finance Officer, WFACS), Aly Sanoh (Senior Economist, GPV07), Giuseppe Zampaglione (Lead Social Protection Specialist, GSP07), Saba Nabeel Gheshan (Counsel, LEGAM), Haoussia Tchaoussala (Senior Procurement Specialist, GGO07), Kandi Magendo (Financial Management Specialist, GGOAW), Micky O. Ananth (Operations Analyst, EA2M1), Rony Djekombe (Operations Analyst, GSP07), Christine Richaud (Lead Economist, EA2M1), and Maude Valembrun (Language Program Assistant, EA2M1). The team appreciates the guidance received from Jehan Arulpragasam (Practice Manager, GSP07), Francois Nankobogo (Country Manager, AFMTD), Jose R. Lopez Calix (Lead Economist, EA2M1), Jean-Pierre Chauffour (Program Leader, AFCW3), Michel Rogy (Practice Manager, IDD02), Christophe Lemiere (Program Leader, AFCW3), and Michael Hamaide (Country Program Coordinator, AFCML). The peer reviewers are Fernando Blanco (Principal Economist, CCER2) and Jose Lopez Calix (Lead Economist, EA2M1).

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P168606	Yes	2nd in a series of 2

Proposed Development Objective(s)

The Program Development Objectives and pillars of the proposed series are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.

Organizations

Borrower:	REPUBLIC OF CHAD
Implementing Agency:	MINISTRY OF FINANCE AND BUDGET

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**100.00**

DETAILS

International Development Association (IDA)	100.00
IDA Grant	100.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

Results

Indicator Name	Baseline	Target
Enhancing fiscal risk management	*2017*	*2021*
1. No increase in the nominal stock of non-concessional external debt.	US$1.4 billion	US$1.4 billion or less
2. Number of conventions associated with the tax exemption anomalies not resolved.	17	0
3. Number of persons on the payroll who are ineligible for salaries.	1,172	0
4. Number of SOE audited financial statements published by the Oversight Unit.	9	>15
Improving oil revenue transparency and management		
5. Balance of the Stabilization Fund (CFAF billion).	0 CFAF billion	>=20 CFAF billion
6. Number of EITI reports documenting the government disclosure policy on petroleum contracts and licenses in compliance with EITI Requirement 2.4.	0	1
7. Information on the cost of oil production activities is available to the MFB, the Ministry of Petrol and Energy, and SHT.	No	Yes
Promoting resilience and economic diversification in key real sectors		
8. Percentage increase in the cultivated land coverage with improved seed).	2 percent of cultivated land (as per National Seeds Policy 2014)	5 percent
9. Decrease in wholesale price of international connectivity (CFAF per Mbps/month).	250,000 (CFAF per Mbps/month)	60,000 (CFAF per Mbps/month)
10. ARCEP (the main ICT sector regulator) and ADETIC (an ICT sectoral agency) fulfil their transparency commitment by publishing annually financial statements (2015-2018).	0	8 financial statements published for 2015 to 2018 (4 for ARCEP and 4 for ADETIC)
Increasing social protection for the poor and vulnerable		
11. Number of agencies[1] that transmitted the data collected through the harmonized questionnaire to the new USR platform.	0	12
12. Number of households in the USR benefitting from government social safety nets (cash transfers/cash-for-work programs).	0	12,200

[1] Such agencies include Government agencies, humanitarian non-governmental organizations (NGOs), and other technical and financial partners.

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes the Second Economic Recovery and Resilience Development Policy Operation (DPO) designed to support the Government of Chad (GoC).** This is the second in a programmatic series of two development policy grants in the amount of SDR 72.9 million (US$100 million equivalent). The Program Development Objectives (PDO) are to enhance fiscal risk management, improve oil revenue transparency and management, promote economic diversification in key real sectors, and increase social protection for the poor and vulnerable.

2. **Chad is gradually recovering from a severe economic and fiscal crisis and has returned to a sustainable debt path.** Fiscal consolidation pressures experienced in the immediate aftermath of the crisis have been easing. In 2016, the authorities introduced cash-based budgeting and adopted an emergency fiscal plan to mitigate the short-term impact of the crisis. Domestically financed investment had dropped from 9.8 to 1.7 percent of non-oil gross domestic product (GDP) between 2014 and 2018. The restructuring of the oil collateralized loan with Glencore in 2018 reduced the debt service-to-revenue ratio, allowing Chad to regain liquidity, reduce the financing gap and return to a sustainable debt path. In 2019, fiscal space is improving and investment expenditure increasing.

3. **The recent fiscal stabilization is gradually translating into economic recovery with growth estimated at 3.0 percent in 2019.** Growth is largely supported by increases in oil production due to the coming on stream of new oilfields. Favorable weather conditions and privatization of the cotton public enterprise improved agricultural production. Industry and services sectors contributed to this rebound owing to a slow rise in capital investment and the clearance of some domestic arrears. In turn, the output gap, which has been widening since the negative oil price shock in 2014, is beginning to close.

4. **The effects of recession and austerity aggravated Chad's humanitarian challenge while constraining poverty reduction.** During the oil boom, poverty rates[2] declined from 52 percent in 2003 to 39 percent in 2011. However, the absolute number of poor people increased from 4.9 million to 5.6 million due to population growth. Despite efforts to protect priority social and productive spending, dwindling fiscal resources and poor social spending execution have disrupted vital public services. Furthermore, insecurity in the sub-region resulted in an inflow of over 450,000 refugees, putting further pressure on tight fiscal balances and strained public service delivery. In the absence of a well-targeted and effective social safety net, the poor and vulnerable people have been deeply affected by the crisis. As a result, poverty is estimated at 41 percent in 2019 affecting 6.4 million people.

5. **This DPO series supports Chad in building resilience and consolidating transition to a sustainable, structural growth path.** It solidifies the World Bank support towards a structural resilience and growth agenda. Four pillars combine structural measures to enhance fiscal risk management with measures aimed at boosting economic diversification and social resilience. Pillars I and II target the improvement of debt management, public financial management, and oil revenue management. Pillar III focuses on increasing seed quality, productivity and climate resilience in agriculture and boosting competitiveness through open-access fiber link and information and communication technology (ICT) services. Finally, Pillar IV delivers a well-targeted and fully operational social protection system.

6. **Significant achievements have already been noted.** Through reforms supported by the DPO series, the Government has increasingly addressed major sources of fiscal, economic and social risk in a structural fashion. The Government refrained from contracting non-concessional external debt, fully consistent with the Medium-

[2] US$1.9 international line (estimated).

Term Debt Strategy adopted in the 2019 Budget Law. Irregularities in tax expenditure are now resolved using an effective process (17 out of 48 tax expenditures were identified as irregular and 10 have been cancelled). The adoption of an oil revenue stabilization mechanism will allow some degree of counter-cyclicality in public expenditure over the medium term, while full disclosure of petroleum contracts and licenses has introduced significant transparency into the oil sector and is expected to further strengthen the integrity of the licensing process.[3] Real sectors are increasingly productive. In 2016, a Seed Law was enacted and implemented, paving the way for better technology and use of certified high-quality and drought resilient seeds for agriculture productivity growth. The establishment of an open access fiber link (public-private partnership - PPP) with Sudan has already reduced wholesale prices of international connectivity by 87 percent. An emerging social safety net designed to boost resilience of the most vulnerable people, has already reached 13500 households who were able to benefit from multiple rounds of well targeted cash transfer programs under a World Bank project (Filets Sociaux).

7. **The macroeconomic policy framework is deemed adequate for this operation.** Medium term economic growth is expected to be solid. Strong oil sector performance will gradually spill over into key non-oil sectors. Agriculture output, notably in cotton, will increasingly contribute to GDP growth. The Government is credibly committed to fiscal discipline and the clearance of external and domestic arrears. The macroeconomic framework is anchored in the International Monetary Fund (IMF) Extended Credit Facility (ECF) arrangement. As a member of Economic and Monetary Community of Central Africa (*Communauté Économique et Monétaire de l'Afrique Centrale,* CEMAC), monetary and exchange rate policy will be well anchored at the regional level. Finally, public debt is sustainable, although the risk of external and overall debt distress remains high.

8. **Downside risks to the macro policy framework and reform implementation are high.** Shocks to oil prices, unexpected oil production shortages or increased insecurity pose significant threats to the economic outlook and could divert resources away from the medium-term structural reform agenda. A further decline in bank liquidity and the potential for additional domestic arrears and non-performing loans (NPLs) could increase financial sector vulnerabilities and undermine the rollover of domestic public debt. Adverse weather conditions may reduce agricultural output while regional conflicts could disrupt trade in non-oil exports. Political and governance risks are also high. Legislative elections are scheduled for the first half of 2020. Associated risks include diversion of resources away from social or pro-growth expenditure, social tensions, and delay of key structural reforms among others.

[3] This represents 100 percent of Chad's hydrocarbon production.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Chad is gradually recovering from a severe recession.** Growth stood at 2.4 percent in 2018 and estimated to reach 3.0 percent in 2019 due to higher oil production and agricultural output. The large negative output gap is beginning to close while inflation increased to 1 percent in 2019. The primary sector (mainly agriculture and the oil sector) remains the main driving force contributing by about two-third of the 2019 growth rate. Contributions of the secondary and tertiary sectors (mainly oil-related services), stood at 0.1 and 0.7 percentage points, respectively. The slight improvement in industry indicates a slow rise in capital investment while services benefit from strong primary sector activity (including related transport services) and the clearance of some domestic arrears.

10. **The external position strengthened on the back of higher oil export earnings.** Chadian oil prices increased from US$49.4/bbl in 2017 to US$58.8/bbl in 2019, while oil production increased by 9 million barrels. Export growth of 5.2 percent in 2019 outpaced import growth of 3.9 percent. The financial account also improved because of lower debt service to Chad's main commercial creditor (Glencore) and a slight increase in foreign direct investment (FDI) flows from 3.6 percent in 2017 to 6.2 percent in 2019. Overall, the external current account deficit declined from 6.6 percent in 2017 to 5.2 percent in 2019.

11. **Regional monetary policy was tightened in recent years to support regional reserve accumulation.** Chad is a member of the CEMAC, with its monetary policy conducted by the regional Bank of Central African States (*Banque des Etats d 'Afrique Centrale,* BEAC). In order to keep the exchange rate parity with the Euro, the BEAC increased its policy rate from 2.95 percent in March 2017 to 3.5 percent in October 2018. As a result, gross reserves reached 2.7 months of imports in 2018 and is projected to reach 3.3 months in 2019. Fiscal consolidation at the regional level also helped support reserves. Nevertheless, the reserves import coverage remains below levels (5 months of imports) that are appropriate for a resource-rich currency union.

12. **The fiscal balance improved due to revenue mobilization and expenditure rationalization.** The overall fiscal balance (including grants, commitment basis) improved from a deficit of 0.9 percent of non-oil GDP in 2017 to a surplus of 1.1 percent of non-oil GDP in 2018. In 2019, however, fiscal surplus is expected to reduce to 0.2 percent of non-oil GDP because of i) lower grants and ii) an increase in the wage bill, election spending (0.6 percent of GDP), and capital investment.

13. **Fiscal revenues improved in 2019 driven by strong oil revenues.** Oil revenues increased from 6.4 percent of non-oil GDP in 2018 to 6.8 percent in 2019, due to higher collection of corporate income tax. Non-oil revenues increased from 8.3 percent of non-oil GDP in 2018 to 8.8 percent in 2019 as a result of two reforms. First, the value-added tax (VAT) threshold for large companies was increased and VAT collection is now handled by a dedicated unit. This measure, together with the introduction of an additional 15 percent non-compliance penalty, has helped the tax authorities to improve the effectiveness of collection and control of compliance. Also, there is an indirect effect as higher VAT thresholds boost SME growth and related revenue flows. Second, taxes are now paid through commercial banks, reducing transaction costs for tax payers.

14. **Public spending remained sustainable in 2019, despite an increase in the wage bill due to higher allowances for state workers.** Overall, total public spending reached 14.9 percent of GDP in 2019, down from 15.0 percent in 2017. In October 2018, the Government agreed to increase bonuses and allowances of state

workers by 15 percentage points following a 5-month strike. This deal took effect on the 1st of January 2019 but included a review of irregularities in the pay-roll system, which has so far resulted in approximately CFAF 18billion of savings corresponding to more than 5 percent of the 2019 wage bill. Overall, the total wage bill (6.8 percent of non-oil GDP) remains below the ceiling recommended in the IMF-ECF program to maintain fiscal sustainability. Also, capital investment increased from 4.4 percent of GDP in 2018 to 4.9 percent in 2019. In addition, rationalization of tax expenditure is estimated to create fiscal savings of around 0.7 percent of 2018 GDP (CFAF42billion) per year.

15. **The 2018 restructuring agreement with an international commercial creditor - Glencore - significantly improved Chad's liquidity position and restored debt sustainability.** The agreement included a significant maturity extension, a large reduction in restructuring fees, and a lower interest rate (from about 6 percent to 2 percent). Debt service payment are now made on a quarterly basis, including additional debt service (amortization and interest) through a so-called 'cash sweep mechanism' which aligns debt services with the oil cycle.[4] Also, there has been lower rollover of treasury bills while government partially paid its domestic arrears. Consequently, public debt dropped from 54.8 percent of GDP in 2016 to 48.3 percent in 2018 and is expected to stand at 44.4 percent at end 2019. In addition, the debt service-to-revenue ratio decreased from 46.5 percent in 2017 to 18.3 in 2018.

16. **The authorities have made considerable progress in clearing external arrears, while domestic arrears are being audited.** In the first two quarters of 2018, misreporting in the debt unit led to temporary accumulation of external arrears. However, in May 2018, Chad signed an agreement in principle with the Libyan Foreign Bank to clear arrears[5] and reschedule repayment including an 18 months grace period. The Government also cleared all arrears to the Islamic Development Bank, reducing outstanding external arrears to US$63 million, with Republic of Congo being the main creditor (US$55 million). Active discussions are underway to address these arrears, including with, Equatorial Guinea, the Republic of Congo, and Mega Bank.

17. **Despite slight improvement in its liquidity position, banking sector vulnerabilities remain elevated due to slow non-oil economic recovery.** By December 2018 deposits had stabilized (y-o-y) following a sharp decline in 2017. Credit slightly increased by 0.6 percent, but overdue loans reached 31.4 percent in August 2018 (against 28 percent in December 2017). Banking sector liquidity is showing some signs of improvement as the BEAC refinancing declined from CFAF 199 billion in December 2017 to CFAF 160 billion in December 2018 and all advances at penalty rate were paid. Initial indications show an increase of deposit and stabilization of credits in the first quarter of 2019. In addition, banks remain adequately capitalized with a capital adequacy ratio of 19.1 percent at end-March 2018.

[4] This mechanism acts as an automatic-stabilizer by reducing the need to cut expenditure to meet debt repayment obligations when the price of oil falls. Also, it partially insures against the risk of debt distress or illiquidity following oil price drops as it allows repayments to be deferred if oil revenues are insufficient to pay mandatory amortization and interest.

[5] This includes repayment of outstanding principal of US$17.3 million in three instalments in 2018, and of interest of US$4.2 million over four installments – one in 2018 and three in 2019

Table 1: Key Macroeconomic Indicators, 2016-2022

	2016	2017	2018(e)	2019(p)	2020(p)	2021(p)	2022(p)
Real Economy			**(annual percentage change unless otherwise specified)**				
Real GDP	-6.3	-2.4	2.4	3.0	5.5	4.8	5.3
Oil GDP	-11.2	-11.6	11.4	3.5	17.5	8.3	10.6
Non-oil GDP	-6.7	-0.9	0.8	2.8	3.1	3.8	4.0
Per Capita GDP (US$)	874.8	821.8	820.4	820.2	845.8	833	839.4
GDP Deflator	-1.2	-0.8	2.3	2.6	2.9	3.0	2.9
Consumer Price Inflation (average)	-1.1	-0.9	4.0	1.0	3.0	3.0	3.0
Oil Prices							
WEO (US$/barrel)	44.0	54.4	71.1	61.8	61.5	60.8	60.4
Chadian Price (US$/barrel)[1]	36.2	49.4	65.1	58.8	58.5	56.8	56.6
Oil Production for export (millions of barrels)	44.4	36.0	42.2	45.2	53.9	58.9	69.1
Fiscal Accounts			**(percentage of non-oil GDP unless otherwise specified)**				
Expenditures (total)	18.0	18.0	17.8	18.7	18.4	18.0	17.4
Revenues and Grants (total)	14.9	17.1	18.9	18.9	20.0	19.7	19.8
General Government Balance (incl. grants, commitment basis)	-3.0	-0.9	1.1	0.2	1.6	1.7	2.4
Overall Balance (including grants, cash basis)	-5.2	-2.5	-0.6	-0.3	0.9	1.0	1.3
Non-oil Primary Balance (commitment basis, excluding grants)	-4.4	-3.8	-3.8	-4.5	-3.7	-3.0	-2.3
Selected Monetary Accounts			**(annual percentage change unless otherwise specified)**				
Base Money	-7.7	-4.3	5.0	…	…	…	…
Credit to the Private Sector	-2.7	-1.7	0.8	…	…	…	…
Interest (BEAC key policy rate)	2.45	2.45	3.50	3.50	3.50	…	…
External Sector							
Exports of goods and services (GNFS)	-3.9	1.3	4.4	5.2	8.9	6.8	7.6
Imports of goods and services (GNFS)	-10.4	-1.3	1.4	3.9	4.0	4.1	4.6
Terms of Trade	-6.9	29.7	21.8	-1.2	-4.2	-3.0	-1.5
				(percentage of GDP unless otherwise specified)			
Current account balance (incl. transfers)	-9.2	-6.6	-4.5	-5.2	-4.4	-5.3	-5.5
Gross Reserves (regional, US$ billions, eop.)	4.9	5.8	6.5	8.3	9.9	12.0	13.6
Gross Reserves (regional, months of imports of goods and services)[2]	2.3	2.4	2.7	3.3	3.9	4.4	5.1
Public Debt	54.8	49.8	48.3	44.4	39.7	35.1	30.9
Exchange Rate (period average)	592.7	580.9	555.2	…	…	…	…
Memorandum Items:							
Nominal Non-oil GDP (CFAF billions)	4,838	4,830	4,995	5,290	5,637	6,035	6,449
Nominal GDP (CFAF billions)	5,984	5,855	6,062	6,514	7,109	7,676	8,319

Sources: World Bank Macro Fiscal Model (MFMOD) and staff calculations, IMF and Chadian Authorities; World Economic Outlook (WEO) oil price projections November 2019.

[1] The Chadian oil price is the Brent price minus a quality discount. [2] Minus intraregional imports.

Table 2: Central Government Key Fiscal Indicators, 2016-2022

	2016	2017	2018 (e)	2019 (p)	2020 (p)	2021 (p)	2022 (p)
			(percent of non-oil GDP unless otherwise specified)				
Overall Balance (including grants, cash basis)	-5.2	-2.5	-0.5	-0.3	0.9	1.0	1.3
Net change in arrears	-2.2	-1.5	-1.6	-0.6	-0.7	-0.7	-1.1
Overall Balance (including grants, commitment)	-3.0	-0.9	1.1	0.2	1.6	1.7	2.4
Non-oil Primary Balance (commitment basis, excluding grants)	-4.4	-3.8	-3.8	-4.5	-3.7	-3.0	-2.3
Total Revenue and Grants	14.9	17.1	18.9	18.9	20.0	19.7	19.8
Revenue	11.9	12.8	14.7	15.6	16.7	16.8	17.0
Oil Revenue	3.5	4.1	6.4	6.8	7.5	7.2	7.1
Non-oil revenue	8.4	8.7	8.3	8.8	9.2	9.6	9.9
Grants	3.0	4.3	4.2	3.3	3.4	2.8	3.8
Expenditures	18.0	18.0	17.8	18.7	18.4	18.0	17.4
Current Expenditures	14.2	13.7	12.3	12.6	12.3	11.7	11.1
Wages and Salaries	7.5	7.8	6.5	6.6	6.3	5.9	5.6
Goods and Services	2.0	1.8	1.7	2.1	2.0	2.0	2.3
Transfers[6]	2.2	2.1	2.2	2.5	2.4	2.4	2.4
Interest	2.5	1.9	1.8	1.5	1.6	1.3	1.1
Domestic	0.2	0.7	0.5	0.4	0.5	0.5	0.4
External	2.3	1.2	1.3	1.0	1.0	0.8	0.7
o/w Glencore after restructuring		1.1	1.0	0.8	0.8	0.7	0.6
Investment Expenditures	3.7	4.4	5.5	6.1	6.1	6.3	6.3
Domestically Financed	1.1	0.7	1.7	2.2	2.2	2.2	2.2
Foreign-Financed	2.7	3.6	3.8	3.9	3.9	4.1	4.0
Financing[7]	5.2	2.5	0.5	0.3	-0.9	-0.9	-1.3
Domestic Financing	6.2	0.9	0.2	0.3	-0.2	-0.1	-0.2
Foreign Financing	-1.0	1.6	0.3	0.1	-0.7	-0.9	-1.1
Loans (Net)	-2.2	0.6	-0.2	-0.4	-1.1	-1.3	-1.5
Disbursements	0.4	3.3	1.7	1.4	1.1	1.2	1.2
Amortization	-2.5	-2.7	-1.9	-1.8	-2.3	-2.5	-2.7
o/w after Glencore restructuring		-1.2	-0.8	-0.7	-1.1	-1.3	-1.4
Debt relief/rescheduling (HIPC)	0.6	0.6	0.5	0.5	0.4	0.4	0.4
External arrears[8]	0.6	0.3	0.0	0.0	0.0	0.0	0.0
Financing Gap		0.0	0.0	0.0	0.0	0.0	0.0

Source: Chadian Authorities, IMF and World Bank (November 2019).

[6] Transfers include social transfers and subsidies to the national electricity company - SNE.
[7] Includes projects financed by the Development Bank of Central African States (BDEAC), but the corresponding loans (in CFAF) are counted as domestic financing.
[8] Twenty-seven billion in 2016 includes arrears to China, cleared through an agreement in April 2017.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **The macroeconomic outlook is cautiously positive and hinges on three main assumptions - solid oil sector performance, favorable agricultural conditions, and a broadly stable security environment.** Over the medium term (2020 – 2022), oil companies are expected to reach their upgraded production target of more than 55million barrels per year while international oil prices are expected to average US$61/bbl. Weather conditions are assumed to favor average agricultural production while the cotton sector – due to the partial privatization of CotonChad - will increasingly contribute to growth. Continued political stability and regional security will reduce the risk of trade disruptions and unplanned security spending.

19. **GDP growth is highly dependent on oil sector performance and expected to reach around 5 percent over the medium term.** Driven by both strong prices and increasing production, oil-GDP growth will accelerate to 17.5 percent in 2020 as new extraction technologies are implemented and new fields start to produce. Faster oil-GDP growth is expected to gradually translate into positive spillover effects to non-oil GDP growth, reaching 3.1 percent in 2020 and 4.0 percent in 2022. Inflation is expected to stabilize at 3 percent over the medium term as the output gap narrows further, adding price stability and thereby supporting economic recovery.

20. **The external current account deficit is projected to narrow over the medium term.** This is due to faster export growth (oil and cotton) and foreign direct investment. Exports will stabilize at about 43.2 percent of GDP over the medium term while imports will reach about 32.9 percent. Broad money supply is expected to increase in tandem with GDP. FDI provides the major source of financing for the current account deficit. It is expected to stabilize at around 6.5 percent of GDP over the medium term. In addition, Grants for capital projects fall under capital transfers and represent another reliable source of finance. Access to external financing and a sustained recovery in global oil prices and oil-related FDI could enable Chad to gradually contribute to rebuilding regional (CEMAC) foreign exchange (FX) reserves.

21. **On the fiscal side, prudent expenditure policy and improved revenue mobilization would create needed space for rising public investment.** The overall fiscal accounts are expected to balance over the medium term. As expenditure is rationalized and oil revenues rise above 7 percent over the medium term, the overall fiscal balance (including grants, cash basis) is projected to reach a surplus of 1.3 percent by 2022. With this, Chad would meet the CEMAC reference fiscal balance[9] target of 0.9 percent for 2022. Meanwhile, a gradual increase in non-oil revenue would improve the fiscal policy anchor - the non-oil primary balance - from -4.5 percent of non-oil GDP deficit in 2019 to -2.3 percent in 2022.

22. **Fiscal revenues in the medium-term will be driven largely by oil revenues and to some extent improved non-oil revenue mobilization.** Oil revenue is projected to reach 6.8 percent in 2019, before stabilizing at around 7.2 percent of non-oil GDP over the medium term. This is due to expected increases in oil production and the payment of profit tax by one of Chad's major oil producers. Similarly, non-oil revenue will increase to 8.8 percent in 2019 due to more efficient tax collection via the tax-through-banks reforms. In addition, there are expected reductions in tax exemption in line with the IMF-ECF, while the World Bank Domestic Resource Mobilization (DRMM, P164529) Project would improve tax administration. These factors will drive non-oil revenue to about 10 percent of non-oil GDP in 2022.

23. **Total public spending would stabilize in the medium term.** The rationalization of salaries, transfers, and subsidies based on the findings of audits currently underway is expected to reduce recurrent spending to about

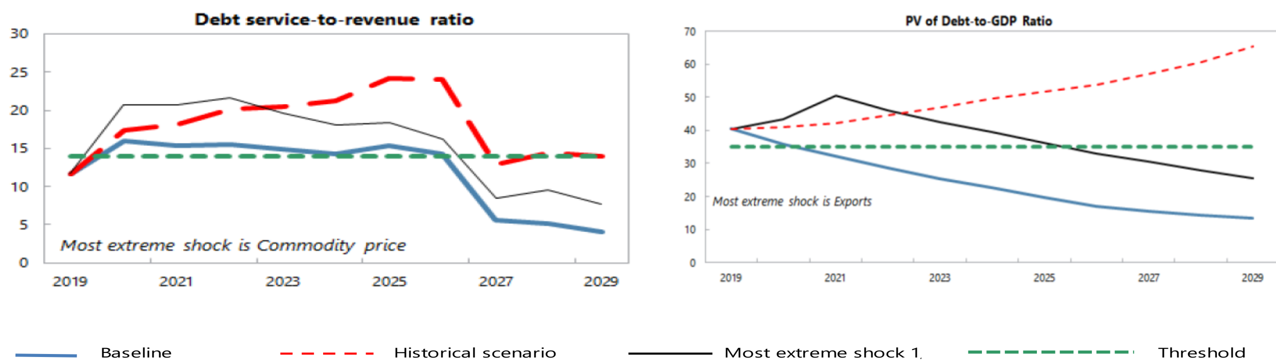
[9] CEMAC reference fiscal balance is defined as the overall budget balance minus 20 percent of oil revenue and minus 80 percent of the oil revenue in excess of the average observed during the three previous years.

11.5 percent over the medium term. It reflects a focus on efficient recurrent spending as supported under Pillar I of this operation and through government efforts, thereby creating space for capital investment to gradually rise from very low levels of 5.5 percent of non-oil GDP in 2018 to over 6 percent by 2022. Overall, total public spending will stabilize at about 18 percent of non-oil GDP over the next three years, largely based on efficiency gains and without negative growth effects. At the same time, public service provision should benefit from more efficient budgeting and in time salary payments.

24. **Some state-owned enterprises (SOEs) remain in financial difficulty and pose significant fiscal risk.** Overall bank credit (public and private) to SOEs declined, partly due to the clearance of arrears of the public cotton company (CFAF 54 billion) by the Government. Nevertheless, others SOEs are facing difficulties: the electricity and sugar enterprises have accumulated large arrears to banks, and these could materialize in the future as liabilities of the government. In addition, solvency concerns in public banks could translate into contingent liabilities in cases where banks require recapitalization.

25. **Public debt is sustainable, but the risk of external and overall debt distress remains high.** Restructured commercial debt and progress made in clearing external arrears contributed to a significant decline in debt vulnerabilities. The June 2019 Joint World Bank Group (WBG)-IMF (LIC) Debt Sustainability Analysis (DSA) shows a gradual decline in public external debt over the forecast horizon under the baseline scenario. In the baseline scenario, the debt service to revenue ratio is expected to drop below its threshold of 14 percent in 2019 (Figure 1) and rise moderately above it over the medium term before dropping significantly as the Glencore debt matures. Consequently, Chad's external debt is assessed to be at high risk of external debt distress. Additionally, the overall risk of debt distress is high based on the breach of an external debt sustainability indicator threshold and total public debt residing above its benchmark level.

Figure 1: External Debt service-to-revenue ratio (left) and present value (PV) of Public Debt-to-GDP Ratio (right)



Source: Joint World Bank IMF and DSA, June 2019; 1/ The most extreme stress test is the test that yields the highest ratio on or before 2027, here a growth shock.

26. **Chad's debt sustainability is less vulnerable to oil price fluctuations than before its debt restructuring.** This reflects contingency mechanisms under the new Glencore debt contract, which allow lower external debt service to Glencore when oil prices are lower. As demonstrated by the recent oil price decline, the impact of a commodity price shock on debt sustainability is now limited. In 2019, external debt service to Glencore is expected to be around 64 percent of what was scheduled before oil prices dipped late last year. Likewise, in a lower oil price scenario that accounts for the contingency mechanisms, the debt service to revenue ratio remains close to the baseline.

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

	2016	2017	2018(e)	2019 (p)	2020 (p)	2021 (p)	2022 (p)
BOP financing requirement and Sources							
Overall Balance	-515	-211	-30	-1	72	91	36
Current account balance (incl. transfers)	-549	-442	-327	-470	-416	-482	-514
Financial and capital account							
FDI	145	211	256	397	453	495	537
Capital transfers	77	100	49	109	117	131	139
Other medium and long-term investment	-131	-71	-30	-31	-95	-80	-93
Short-term capital	-57	-9	22	-5	13	26	-33
Errors and omissions	0	0	0	0	0	0	0
Financing							
Change in reserves (decrease +)	421	-81	-204	-167	-119	-117	-63
HIPC Debt relief	30	30	27	27	26	25	26
IMF ECF (planned) disbursement	37	27	(55)	(73)	(21)	-	(2)
Expected Commercial Debt Restructuring (Glencore) in US$	…	204	333	283	201	179	-
External arrears accumulation	27	17	-3	0	0	0	0
Residual Financing Gap	0	0	0	0	0	0	0

Source: Chadian Authorities, IMF and World Bank.

27. **Beyond commercial debt restructuring, closing the 2019-2021 financing gap requires significant external budget support.** The authorities have financed part of the deficit by rolling over 90 percent of existing bonds in the regional market. However, banks have approached their regulatory limits on Chadian Government securities, constraining the potential for future bond issues. To solidify sustainable debt dynamics, Chad's development partners and creditors will have to continue deep engagement (based on Government performance) going forward. This in turn will require that the Government adheres to the rules and mechanisms as agreed for the restructuring of its commercial debt while further rationalizing public financial management (PFM) and tightening expenditure controls.

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

Year	2017	2018	2019	2020	2021	2022
Financing need	192	361	228	164	65	65
IMF ECF program (160 percent of quota)	49	99	126	39	0	0
Percent of quota	*25*	*50*	*65*	*20*		
Budget support	143	262	102	125	65	65
Financing gap	0	0	0	0	0	0

Sources: Chadian Authorities and IMF Staff.

28. **The authorities are making progress toward addressing the banking system vulnerabilities, strengthening the position of public banks, and improving the ability of the banking sector to contribute effectively to growth.** In June 2019, the authorities reviewed and prepared plans to reorganize the two public banks with difficulties. These plans are expected to be adopted by the relevant decision-making bodies in the two banks soon. In addition, the authorities are committed to address all weaknesses identified and improve the governance structure of the two banks. Besides, the highest priority is to address the high level of NPLs. In

addition to progress in clearing domestic arrears, several actions would help in this regard including: (i) increasing provisioning in banks with high NPLs; and (ii) facilitating extra-judicial resolution of overdue loans.

29. **Downside risks are high.** Growth, external and fiscal balances remain vulnerable to oil price and production shocks. Growth is exposed to weather and climate-related shocks and change, while structural policy necessary to diversify the economy is vulnerable to political change. While CEMAC membership has bolstered macroeconomic stability in the past, low foreign reserves and the constrained fiscal space of its members pose additional downside risks adding to tight monetary policy space. The financial sector remains vulnerable to liquidity shocks and although roll over of short-term government debt has worked well so far, failure to continue doing so in the future may jeopardize fiscal and debt sustainability. Persistent regional insecurity—including the ongoing conflict with Boko Haram—could disrupt bilateral trade and stretch government finances as more refugees arrive from neighboring countries. Lastly, legislative elections tentatively scheduled in the first half of 2020 could delay some policy reforms.

30. **The macroeconomic policy framework is deemed adequate for the purposes of the proposed operation.** Medium term economic growth is expected to be solid. Strong oil sector performance will gradually spill over into key non-oil sectors. At the same time, the Government has demonstrated a credible commitment to fiscal consolidation to be maintained over the medium-term. The macroeconomic framework is anchored in the IMF ECF arrangement. As a member of CEMAC, monetary and exchange rate policy will be well anchored on the regional level.

2.3. IMF RELATIONS

31. **On December 13, 2019 the IMF Board completed the Fifth review of the ECF.** The ECF was approved on June 30, 2017 and grants access to 160 percent of quota or US$310.8 million. Completion of the Fifth review enabled the disbursement of about US$38.6 million, bringing total disbursements under the arrangement to around US$271.7 million. The main elements of the IMF program are improved social spending, gradual fiscal adjustment by maintaining a tight spending envelope, improving the mobilization of non-oil revenue and creating space for domestic arrears clearance. Overall, risks to the program have declined significantly, but the vulnerability of the banking sector requires close attention and prompt action going forward.

3. GOVERNMENT PROGRAM

32. **Chad launched its first long-term development strategy, including the first Five-Year Plan for 2017-2021 of the Vision 2030.** This strategic document, "Vision 2030" (*Vision 2030: le Tchad que Nous Voulons*), aims at enabling Chad an emerging economy by 2030. It comprises four strategic pillars: (i) consolidating national unity; (ii) strengthening good governance and the rule of law; (iii) promoting economic diversification and competitiveness; and (iv) improving the quality of life of the Chadian population. The first medium term five-year plan aims to facilitate structural economic transformation, promote greater private investment in the non-oil sectors, and introduce principles of performance-based management into the public administration.

33. **The overall vision is complemented by specific PFM, agriculture and social protection strategies.** An action plan establishes a framework for monitoring the implementation of PFM reform including tax policy and administration, the public-sector wage bill, and SOEs, as well as the adoption of the CEMAC compatible Integrated Financial Management Information System (IFMIS). In the agricultural sector, the two main programs

include (i) a five-year agricultural development plan (2013-2018) and a National Investment Plan for the Rural Sector of Chad (PNISR 2016-2022). The Action Plan aims (i) to increase agricultural production and productivity on a sustainable climate-resilient basis; (ii) to promote farmers access to agricultural inputs and equipment; (iii) to improve access to food; (iv) to strengthen capacity of farmers' organization and extension services; and (v) to promote value chains. The PNISR is the national translation of the Comprehensive Development Plan for African Agriculture (CAADP). The Government also developed a National Strategy for Social Protection (2014-2018) to establish a comprehensive social protection system.

34. **The Government improved oil sector transparency while implementing its strategy to build a more competitive ICT sector that could help diversify its economy.** The Ministry of Finance and Budget (MFB) is publishing a quarterly oil sector note that describes recent developments including information on production, export, new exploration, government oil revenues, and Glencore debt service. The authorities have also adopted a disclosure policy on oil contracts and licenses, and Chad has now become the 10th country out of 52 Extractive Industries Transparency Initiative (EITI) implementing countries to have publicly disclosed all its petroleum contracts dating back to 1998 with the publication of an on-line and easily accessible mini-cadaster. Further, Ernest and Young has been appointed to oversee the implementation of the restructured 2018 Glencore debt contract. The Government also continued the implementation of its ICT sector strategy envisioned in the NDP 2017-2021. It adopted an ICT policy, strengthening the institutional, technical, and human capacities of the ICT sector, and started to implement ICT infrastructure throughout the country. In this regard, the Government entered a contract with a private company to operate a second optic fiber from N'Djamena to Sudan adhering to open access principles. A third optic fiber from N'Djamena to Niger, which is expected to be jointly financed by the African Development Bank (AfDB) and the European Union (EU), is under consideration.

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

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The proposed operation is the second in a programmatic series of two development policy grants for the period 2017-2020.** The operation is programmed under IDA18 with a total amount of US$100 million equivalent. It follows the First Programmatic Economic Recovery and Resilience DPF (P163424) approved by the Board in September 2018, as well as the 2017 standalone Emergency Fiscal Stabilization Operation (EFSO,

P163968). The latter was conceived as a first stage supporting Chad in its stabilization effort while preparing the ground for structural measures to build resilience and start sustainable recovery.

37. **The objectives and pillars of the proposed operation and the DPO series are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification; and (4) increase the social protection for the poor and vulnerable.** First, this DPO will enhance fiscal risk management through (a) the improvement of debt management; and (b) the rationalization of tax expenditures. Second, the DPO will improve the contribution of the oil sector to fiscal sustainability and economic resilience by strengthening (i) oil revenue management mechanism, (ii) transparency of petroleum contracts; and (iii) control of oil production costs. Third, the DPO will foster economic diversification and resilience of Chad's population in the face of economic and climatic shocks by promoting (a) higher agricultural productivity and (b) greater access, coverage, and quality of ICT services. Fourth, the DPO will strengthen social protection for the poor and most vulnerable groups, including refugees, by developing an effective and well-targeted social safety net (SSN) system and implementing a cash transfer mechanism.

38. **The proposed operation is well aligned with the strategic objectives of the 2017-2021 National Development Plan (NDP).** It focuses on three of the four strategic pillars of the government's program, including Pillar II, strengthening good governance and the rule of law, Pillar III, development of a robust and competitive economy, and Pillar IV, improving the quality of life of the Chadian population.

39. **This DPO series also helps to catalyze private investment through improving fiscal sustainability, the investment climate and creating opportunities in key sectors of the economy.** Maximizing the impact of development financing is a central medium-term objective. The importance of concessional finance in supporting inclusive economic growth should be gradually reduced and compensated by private sector activity and investment: 1) Improved debt management and SOE oversight will reduce fiscal risk and create fiscal space for effective public investment able to crowd in private investment; 2) at the same time, enabling competitive input markets in agriculture (through effective agricultural extension services and high-quality climate-resilient seeds) and telecommunication (through a competitive, open access fiber optics infrastructure) will not only break power of inefficient SOEs, but lower entry and business costs across the economy. In the medium-term, it will create permanent opportunity for competition and innovation as well as significant consumer welfare gains.

40. **The operation integrates key lessons learned from past operations.** A first major lesson is related to the inherent limitations of emergency operations and the need for proper complementarity and sequencing with a medium-term growth agenda. This requires a direct line of sight from immediate emergency responses to more ambitious growth enhancing reforms which target a sustainable solution to the crisis. A second lesson concerns the country's modest reform track-record which points to the need to be realistic about what can be achieved in terms of reform implementation and results in a two-year period. A third lesson singles out institutional capacity of the Government as a major factor in determining the breadth of the policy reform agenda, which requires accompanying technical capacity to implement reforms while properly monitored. Indeed, in a fragile environment, where capacity is weak, combining policy lending with customized technical assistance (TA) support is critical. The proposed operation is therefore complemented by key TA and investment projects in each

area.[10] Finally, a fourth lesson is the need for fiscal stabilization to be complemented by reforms aimed at improving the capability of the State to protect the poorest in an efficient and sustainable way.[11]

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar I – Enhancing Fiscal Risk Management

I.1. Strengthening the Management of Public and Publicly Guaranteed (PPG) Debt

41. **Despite benefiting from heavily indebted poor countries (HIPC) debt relief in 2015, Chad recently experienced a short period of external debt distress**. Following the HIPC completion point in April 2015, Chad secure at least US$756 million in debt relief. However, repaying the external commercial and oil collateralized loan with Glencore had a significant negative effect on the flow of oil revenues to the budget and rendered Chad illiquid. Therefore, the country entered a period of external debt distress that came to an end in June 2018 with the final agreement to restructure the commercial loan with Glencore.

42. **Significant weakness in debt management has contributed to the problem.** First, several entities are involved in the signing of external debt agreements undermining the ability of the Government to manage its debt portfolio effectively. SOE non-concessional external debt (for example the oil revenue collateralized commercial loans contracted by Chad National Oil Company (*Société des Hydrocarbures du Tchad,* SHT)) weighed heavily on debt sustainability. There is also a lack of a comprehensive database of debt contracts, resulting in technical delays in servicing the debt (as witnessed in the temporary accumulation of external arrears in 2018 H1) and accurately and consistently calculating the stock of debt. Public debt management is split between two ministries (Economy and Development Planning as well as MFB), with improving coordination, both in terms of new contracts and disbursements.

43. **To improve debt management the Government undertook several measures under DPO1.** The MFB has started to publish a debt statistical bulletin on a semi-annual basis. The Government has also suspended all external borrowing and guarantees to SOEs on non-concessional terms[12], and has prepared and published a report on the PPG debt situation at end-2016 as required by DPO1.

44. **With the support of this second programmatic DPO, the Ministry of MFB has further strengthened its debt management capacity.** The MFB has increased financial resource allocation to the Debt Directorate from CFAF 3.7 million in 2018 to CFAF 13.7 million in 2019, translating into improvements in human capital and technical equipment. In addition, the Debt Directorate has finalized a Medium-Term Debt Management Strategy (MTDS), which was adopted through publication as an annex in the 2019 Budget law. To this end, the MFB

[10] These include notably: IMF and WBG TA on debt management, EU support in the analysis of tax expenditures, and audit of payroll; the World Bank's analytical and financial support on revenue mobilization, [SOE reforms], [ICT], agriculture, and social protection; as well as AfDB and EU support in PFM.
[11] 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 WBG 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.
[12] This applies to all external debt contracted by the Government and non–financial public enterprises, with a maturity of more than one year.

received TA from the World Bank, IMF and the Regional Technical Assistance center for Africa (AFRITAC). Ultimately, the continued suspension of non-concessional external borrowing and improvement in debt management is expected to contribute to easing liquidity pressures significantly. As a result, the nominal stock of external commercial debt is expected to diminish. As of end 2018, the stock is estimated at around US$1.25 billion, well below target. If the Government can maintain this going forward, it would have achieved the target.

45. **Chad has also taken initial steps towards improving its public debt transparency.** The MTDS exercise has involved a thorough validation of the central government debt database, and the publication of the debt strategy within the budget has strengthened accountability by disclosing the authorities' borrowing preferences. As for the way forward, the production of a debt bulletin in line with international best practices should be envisaged, possibly expanding its scope to the total public sector debt. To this end, the DPO targets an increase in the budget allocated to the debt management unit, to provide it with the necessary resources, in terms of staff and debt management systems.

DPO2 Prior Action 1: To strengthen debt management, the MFB has (a) adopted, through the 2019 Budget Law, a Medium-Term Debt Management Strategy; and (b) strengthened the institutional capacity of the debt management unit through appointing relevant staff pursuant to Decisions number 86, 76, 69 and 150 MFB/SE/DGM/DGSTCP/DHM/2019 of the Director General of Treasury Services and Public Accounting.
Results Indicator 1: No increase in the nominal stock of non-concessional external debt. Baseline 2017: US$1.4 billion; Status October 2019: US$1.25 billion; Target 2021: US$1.4 billion or less.

I.2. Rationalizing Tax Expenditures

46. **The rationalization of tax expenditures remains a priority for managing tight fiscal space, increasing government revenue and progressively rebuilding fiscal buffers.** Tax expenditures led to an estimated loss in fiscal revenue to the government of 50 percent of non-oil revenues (or 4.7 percent of non-oil GDP) in 2014. More recent approximations based on a subset of 24 conventions suggest an annual revenue foregone of over US$270 million or around 2.7 percent of GDP.

47. **The Government with the support of the World Bank, has embarked on a reform path to permanently streamline tax expenditures.** A recent tax expenditure study in collaboration with the EU has identified 48 exemptions[13] and listed 17 irregular exemptions (expired, lack of proper documentation, violation of convention, etc.). With the support of DPO1, the Government has issued regulations requiring that any new eligible tax exemption be approved by the MFB. This put a halt to uncontrolled accumulation of exemptions and afforded the MFB time to take stock of and regain control of the process granting tax exemptions. As per end 2017 and the completion of the tax expenditure study, the freeze on new exemptions has been repealed and new exemptions have since been approved by the MFB.

48. **The Government also committed to complete and validate the ongoing review of the Conventions and apply the recommendations of the study of tax expenditures.** This has paved the way for adopting measures under this second operation for completing the suspension, termination, and review of *Conventions* and other tax exemptions that present irregularities or are not consistent with CEMAC regulations.

[13] It is important to note that the study only identifies exemptions which have obtained approval from the MFB and does not identify exemptions which may be in effect but have not been approved by the MFB.

49. **With the support of the second operation, the Government created the necessary institutional framework to streamline tax expenditure and effectively eliminate identified irregularities.** The Government put in place a Review Committee in charge of reviewing tax exemptions (decree N. N. 1607/PR/MFB/2019). As a result, 17 out of 48 reviewed exemptions had been identified for cancellation as of October 2019. Out of these 17 conventions, 10 are de facto cancelled (after second and final review), 5 have been reinstated (considered lawful after second review), and 2 remain pending cancelation. The Government has also enhanced transparency by issuing an inventory of tax exemptions and derogations through publication in the 2019 Budget Law. In addition, the Government is putting in place a procedure within MFB and the Ministry of Commerce to evaluate the fiscal and economic impact of new exemptions. This is expected to contribute to streamlined exemptions based on a better-informed assessment of their costs and benefits. Thus, the development policy financing (DPF) series has contributed to a reduction in conventions associated with tax exemption anomalies from 17 in 2017 to two in 2019.

50. **In parallel, the World Bank DRMM (P164529) provides technical support to reforms supported under DPO2 around tax expenditures.** Efforts in recent years by the Government to broaden the tax base and diversify revenue have remained limited. Progress towards strengthening tax administration, collection and reducing tax exemptions remains slow. 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.

DPO2 Prior Action 2: To rationalize tax expenditure, the MFB has (a) established a technical committee in charge of reviewing tax exemptions pursuant to Decree 1607/PR/MFB/2019; and (b) published an inventory of existing tax exemptions through the 2019 Budget Law.
Results Indicator 2: Number of conventions associated with tax exemption anomalies not resolved. Baseline 2017: 17; Status October 2019: 2; Target 2021: 0.

I.3. Reducing Inefficiencies and Fiscal Risks from the Wage Bill and SOEs

51. **First, streamlining the oversized payroll of the central government remains a major priority.** Wages and salaries accounted for 7.1 percent of nonoil GDP in 2018. From 2007 to 2015, total wages and salaries in the public administration tripled, while the number of civil servants doubled. In 2015, the Government conducted a biometric census of civil servants which generated savings estimated at over 17 billion CFAF per year. The census identified 10,220 ghost workers who represented 12 percent of the total workforce. However, the census did not cover payroll components such as retirees, scholarships, family allowances and allowances for senior managers which represented 22 percent of the total wages and salaries.

52. **Under DPO1 and supported by continued policy dialogue, the Government undertook important steps to address payroll inefficiencies.** After validating an audit of the public payroll system – the Government with the support of DPO1 has taken immediate action to address identified irregularities, such as ghost workers, under-aged workers, and active retirees. Specifically, the Government implemented the results of the audit through elimination of workers from payroll as reflected in the revised 2017 Budget Law and the suspension of 1,172 workers as of October 2018. By the end of October 2019, 923 payroll irregularities had been reviewed, and 818 workers reinstated. Review of 249 irregularities (non-active minors) remains to be completed. Further, following an audit of diplomas in March 2019, 1,665 agents have been suspended, resulting in saving of CFAF 405 million on the wage bill. A General Comptrollers audit in September 2019 enabled further savings. Overall, the MFB reported suspension of 8,487 agents across all government ministries and agencies, providing total savings on the 2019 wage bill of CFAF 2.26 billion. In addition, measures have been taken by the MFB to clarify the

procedures and responsibilities for handling human resources (HR) actions related to hiring, promotions, and exit from the civil service workforce through the adoption of a detailed manual, so that prompt action can be taken to reflect these actions in terms of changes or cessations of salary payments.

53. **Second, Chad's SOE sector is in a dire state, lacks transparency, and constitutes a substantial fiscal risk**. The SOE portfolio in Chad is estimated at about 30 entities in which the Government has an equity state, however, there is significant uncertainty as to the full universe of SOEs. They represent a significant fiduciary and fiscal risk for the State. In several cases, SOEs rely entirely on direct subsidies or unbudgeted financial support from the Government to achieve financial viability, while other SOEs incur losses even after accounting for these subsidies. Subsidies to SOEs rose from 3.4 percent of non-oil GDP in 2011 to 4.8 percent of non-oil GDP in 2014. Many SOEs sell their products and services at prices significantly below cost recovery and constitute monopolies.

54. **Supported by DPO1 and continued policy dialogue, the Government has revived SOE oversight to improve the management of fiscal risks.** First, an audit (supported under EFSO) of a subset of the SOE portfolio was completed. Second, with the support of DPO1, the Government started to revive its dormant SOE oversight Division within MFB. While the Ministry of Industry and Commerce is tasked with managing the Government SOE reform agenda, with a specific unit mandated to prepare and accompany privatization, restructuring and liquidation of SOEs, the MFB's financial oversight unit in the treasury did not focus on SOEs. Therefore, MFB identified an adequate oversight body within its organizational chart, defined its responsibilities through the adoption of terms of reference and allocated initial human and financial resources (CFAF 110 million), as well as tools and procedures. An updated inventory of SOEs was prepared which includes 21 SOEs and will serve as basis for the publication of SOE audited financial statement going forward. As of October 2019, 25 financial statements (covering 12 SOEs) have been received and published.

Pillar II: Improving Oil Revenue Transparency and Management

55. **Procyclical fiscal policy and the absence of a structural oil revenue management mechanism has left Chad vulnerable to volatility and exogenous shocks.** Many resource rich economies in Sub-saharan Africa (SSA) have used resource revenues to boost procyclical spending, particularly during the oil price boom. Chad has been no exception. Given the significant role of oil in GDP and government revenues, and the absence of a functional fiscal rule or stabilization fund, no fiscal buffers were available when oil prices plunged in end 2014. The resulting recession and shortfall in revenues put severe strains on public finances, ultimately rendering the government illiquid and public debt unsustainable. Therefore, Chad would strongly benefit from a mechanism that allows to save part of oil revenues in the good days and to draw on them in difficult times (countercyclicality). Overall, stability could enable the strategic conversion of Chad's oil resources into human capital and infrastructure, two key structural drivers of long-term growth[14].

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

56. **Past attempts at managing oil revenues could not achieve a fiscal stabilization function.** At the outset of the Chad-Cameroon pipeline project, an oil revenue management law (Law 001/PR/1999) was designed. The independent oil revenue control (*Collège de Contrôle et Surveillance des Revenus Petroliers,* CCSRP) was tasked with monitoring of expenditures financed by oil revenues. The mechanism was built around expected direct oil revenue, namely royalties from the sale of oil, and dividends from the government's participation in the two

[14] World Bank. 2018. ESCAPING CHAD'S GROWTH LABYRINTH.

transportation companies (Chad Oil Transportation Company - TOTCO and Cameroon Oil Transportation Company - COTCO) that own and manage the Chad-Cameroun pipeline. In 2007, indirect oil revenue from resource rent tax and corporate rent tax were added to the scope of application of the oil revenue management law and the role of the CCSRP was expanded accordingly. In 2014, triggered by the tightening fiscal space, a new revenue management law was promulgated (Law 002/PR/2014). But without any stabilization or saving function, the Law 002 simply became an earmarking mechanism to channel oil revenue to a list of priority sectors. In September 2018, the CCRSP was dissolved.

57. **The objective of the newly adopted oil revenue management framework is to support countercyclical expenditure policies in the face of oil price and production volatility.** Through the adoption of the new oil revenue management mechanism, the Government has embraced the concept of setting aside oil revenues to smooth unexpected future revenue shortfalls. This function is achieved through the automatic and transparent feeding of a stabilization fund and a well-defined rule to draw upon resources in the fund in times of significant oil revenue shortfalls (see Box 1 for a detailed description). The fully endowed stabilization fund will require the use of expenditure cuts to offset oil revenue shortfalls up to 10 percent of budgeted oil revenues. But it will provide coverage for revenue shortfalls beyond 10 percent of anticipated oil revenues. The mechanism is fully integrated with the budget process and the medium-term fiscal framework, as well as compatible with CEMAC's convergence rules.

58. **With the support of DPO1, the institutional framework for developing an oil revenue management mechanism has been created.** The Minister of MFB and the Minister of Petroleum and Energy have taken three important steps: First, by establishing a Coordination Committee, with representation from the Minister of Finance and Budget and the Minister of Petroleum and Energy, and the SHT. Second, The Committee has been given a mandate to: (a) forecast and analyze petroleum revenues; (b) assess the effectiveness of the petroleum revenue management mechanism provided under the Law 002/PR/2014; and (c) design a new mechanism for the management of petroleum revenue aimed at supporting macro-fiscal stability. In line with the Government's commitment to transparent management of public resources, the MFB begun to publish quarterly petroleum sector updates starting with 2017Q3.

59. **With the support of DPO2, the Government has established an oil revenue management mechanism for fiscal stabilization.** The Government has designed, and Parliament has enacted the legal framework for the new revenue management mechanism. Economic and fiscal modeling has informed the determination of fiscal policy objectives, a comparison of different fiscal rules and scenarios as well as the fiscal performance of the selected mechanism in a medium term macro-fiscal framework. The key objectives are: (i) Setting aside oil revenues to cushion the fiscal impact of unexpected oil revenue shortfalls. (ii) Insurance against the risk of unexpected oil revenue shortfalls beyond 10 percent of budgeted oil revenues. Overall, the mechanism consists of a stabilization fund with (a) a saving rule; (b) a spending rule; (c) a formula for estimating oil revenue in the Budget (see Box 1 for details). Law 0040/PR/2019 on the Smoothing of Petroleum Prices and Production, which incorporate the new oil revenue management mechanism, was enacted on November 27, 2019.

DPO2 Prior Action 3: To improve oil revenue management, the Recipient has enacted Law 0040/PR/2019 on oil revenue management incorporating a fiscal stabilization function.
Results Indicator 5: Balance of the Stabilization Fund (CFAF billion). Baseline 2017: 0 CFAF billion; Status October 2019: 0 CFAF billion; Target 2021: >=20 CFAF billion.

Box 1: An Overview of the Oil Revenue Management Mechanism:

Unexpected oil revenue shortfalls following the oil price shock in 2015 have led Chad into severe fiscal and economic crisis, including illiquidity, debt distress, and severe recession. Without any oil revenue management mechanism for stabilization in place, the Government had no choice but to absorb the full extent of the shock through large expenditure cuts and arrears accumulation. To avoid such costly adjustment and manage oil price and production volatility more efficiently, the key objective for oil revenue management was to introduce a countercyclical dimension into oil revenue management.

To identify and calibrate an adequate and effective oil revenue management mechanism in Chad, a macro structural model provided the framework for the Government to explore various options to stabilize public expenditure in face of oil revenue volatility and shocks. Key dimensions considered were feasibility considering Chad's immediate economic and social needs, consistency with the existing CEMAC framework and the IMF Medium Term Fiscal Framework (MTFF), as well as performance vis-à-vis well-defined objectives (capacity to absorb different types/sizes of shock).

The GoC has established an Oil Revenue Management Mechanism with the following objectives: (i) Setting aside oil revenues to cushion the fiscal impact of unexpected oil revenue shortfalls. (ii) Insurance against the risk of unexpected oil revenue shortfalls beyond 10 percent of budgeted oil revenues. Based on historic distribution of oil prices, such shortfalls roughly correspond to oil price reductions greater than US$5/bbl (ceteris paribus), an event that occurs with an estimated probability of 19 percent. About half of all oil price reductions historically have been greater than US$5/bbl.

The mechanism consists of a stabilization fund with (a) a saving rule; (b) a spending rule; (c) a formula for estimating oil revenue in the Budget. The details are laid out below:

(a) Stabilization Fund: Saving Rule (inflows)

1. An annual amount of CFAF10 billion shall be paid into the Stabilization Fund – through quarterly payments.
2. In addition, if actual exceed budgeted petroleum revenues, 20 percent of this difference would be paid into the Stabilization Fund up to a maximum of CFAF 10 billion. *Therefore, the minimum inflow per year is CFAF 10 billion and the maximum is CFAF 20 billion.*
3. The maximum balance of the Stabilization Fund is capped at CFAF 40 billion. *In absence of withdrawals, the Fund will reach full capacity over a period of minimum two years and maximum four years.*
4. The maximum balance of the Stabilization Fund can be increased after two years of implementation by the Minister of MFB.

(b) Stabilization Fund: Spending Rule (outflows)

1. Withdrawals from the Fund occur automatically when actual oil revenues fall short from budgeted oil revenues by 10 percent or more.
2. Oil revenue shortfalls up to 10 percent of budgeted oil revenues will be accommodated through expenditure adjustment.
3. Any shortfall beyond 10 percent of budgeted oil revenues will be compensated subject to availability of resources in the Fund.
4. The Stabilization Fund may only be used to finance expenditure budgeted in a given fiscal year. The Fund

may not be utilized for the satisfaction of any sovereign or commercial debt of the Government, and no legal or beneficial interest in the Fund may be created.

(c) Criteria for Estimating Oil Revenue in the Budget:

1. Budgeted oil revenue is to be estimated using conservative assumptions: Oil prices will be estimated at least US$3/barrel below the price for crude oil published in the World Economic Outlook by the IMF. The volume of production will be set at least 10 percent below the production volumes estimated by petroleum companies operating in Chad).

An illustration of the functioning of this oil revenue management mechanism is provided in Annex 6.

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

60. **Chad became EITI compliant in May 2013, but key shortcomings prevail.** Currently, evaluation of reports under the 2016 Standard needs to assess the extent to which disclosure is more relevant to citizens and local communities.[15] While Chad EITI implementation is compliant with respect to the 2011 EITI Standard, a self-assessment conducted by Chad's National Permanent Secretariat for EITI identified several implementation shortcomings vis-à-vis the 2016 EITI Standard. One of the most relevant shortcomings is the absence of an explicit government policy on the disclosure of contacts and licenses that govern the exploration and exploitation of oil, gas and minerals, which makes EITI implementation in Chad non-compliant with EITI standard 2.4. To respond to EITI requirements and to comply with Law n° 018/PR/2016, the Government, through the MPE, has adopted decree 1838/PR/MPME/2019 on the disclosure of petroleum contract and licenses. To underscore its commitment to transparency, the Government has also made publicly available on the EITI website as well as the website of the Observatory of Public Finances, all existing petroleum contracts and licenses, making Chad one of the 10 countries that currently disclose such information out of the 52 EITI implementing countries.

61. **In the context of DPO1, the Ministry of Petroleum and Energy has announced the principles of the government disclosure policy applicable to petroleum contracts and licenses and started publishing such contracts and licenses**. In detail, the MPE (a) (i) issued a communiqué announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector; and (ii) published such communique on the MFB; and (b) published contracts and licenses (as such term is defined under EITI Requirement 2.4 of EITI Standard 2016) representing at least 50 percent of hydrocarbon production in 2015 on the website of the MFB.

62. **With DPO2, the Government has consolidated the disclosure policy by securing its principles in the legal framework and underscored such policy by completing the disclosure of petroleum contracts.** To this end, a decree of implementation of Law n° 018/PR/2016 mandating the publication of petroleum contracts was adopted on November 8, 2019 (Decree N. 1838/PR/MPME/2019). In addition, the Ministry of Petroleum, Energy and Mining (MPEM), through the EITI Permanent Technical Secretariat, has established an on-line, publicly accessible and easily searchable mini cadaster, which contains an up-to-date list of all contracts, licenses, and related amendments as well as documentary evidence. The mini-cadaster has also been published on the website of the

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

Observatory of Public Finances, curated by the MFB. In addition to improving the transparency of the oil sector, the public disclosure of oil contracts is expected to strengthen the integrity of the licensing process.

DPO2 Prior Action 4: To improve governance in the petroleum sector, the MPEM has, through Decree 1838/PR/MPME/2019, put in place a disclosure policy for petroleum contracts mandating their publication.
Results Indicator 6: Number of EITI reports documenting the government disclosure policy on petroleum contacts and licenses and Chad's contract disclosure practice as compliant with EITI Requirement 2.4. Baseline 2017: 0; Status October 2019: 0; Target 2021: 1.

63. **Notwithstanding its critical position in Chad's oil sector, audits of oil companies are not common practice**. Yet the efficiency of oil production varies widely across operators, raising questions about costs beyond obvious factors such as scale, technology, and reservoir complexity. Transactions associated with the oil sector are large and technically complex. Weak oversight capacity, weak authorizing environment, and lack of coordination among government institutions increases the risk of malpractice or lack of compliance. It further prevents strategic planning to develop the sector or ensure its sustainability. To ensure integrity, the Government has the legal and contractual right to carry out financial audits of oil companies on a routine basis. In addition, it may request special audits. As a critical actor in the oil sector, the national oil company – SHT – is the commercial arm of the Government in the oil sector and participates in oil exploration and production in association with other oil companies. As non-operating partner, the SHT has the right of audit of the joint accounts held by the operator on behalf of the partnership.

64. **Cost audits are a critical tool for ascertaining the accuracy of the cost information provided by companies.** Excessive costs lead to understatement of profits or lower share of profit oil (depending on the type of contract) and subsidize inefficiency in oil operations. However, a cost audit requires deep technical expertise, and access to comparator data with which to challenge costs of specific equipment, services, and material submitted by the operator. If costs are abnormally high, and if the transaction took place between related parties, abusive transfer pricing or profit shifting may be at play. It could also be an indicator of inefficient production processes and inappropriate decision making. The participation of the SHT as equity holder can serve as an incentive to efficiency, but only if the company itself is experienced and efficient and is able to exercise effective oversight of its participations.

65. **With the support of DPO1, the Government has started to promote increased transparency and efficiency in oil operations through SHT.** To this end, the SHT has prepared and published quarterly reports summarizing oil revenues that it receives as equity participant, and as agent of the Government covering the period 2015-2016. It also published certified and verified annual financial reports for the same period, for SHT holding and its subsidiaries. This measure sheds some light on SHT's financial performance and sets the stage for benchmarking and public oversight.

66. **DPO2 further expands the focus on cost efficiency of petroleum operations.** To this end, the SHT has realized the audit of joint accounts of two oil companies operating in Chad – namely PetroChad Mangara and OPIC (both of significant strategic importance to SHT). In a departure from earlier practice, the SHT has pursued detailed discussion with its partners on the discrepancies identified by the auditor and has reached agreement on corrective actions. Most of the identified discrepancies arise from the interpretation of the joint operating agreement, as well as the failure to comply with the accounting procedure and system required under the joint operating agreement. To resolve these discrepancies, and as part of the corrective measures agreed with the operators, a contract addendum was signed in March 2019 and a deadline for the adoption of the relevant

accounting procedures has been agreed. The adequate oversight by the SHT of its equity participations is expected to lead to improved understanding and control of production costs across operators. This measure will be complemented by the audit of operations of the main concession holders – Esso Tchad and CNPCI - to be carried out by the MPE with financing from the DRMM project. Together these audits will inform the preparation of cost comparators to be used by the Government for oversight and revenue forecast purposes and provide a basis to assess the need for future institutional and regulatory reforms going forward.

DPO2 Prior Action 5: To improve cost control, the Recipient's National Oil Company (SHT) has completed the audit of joint accounts of two operators and corrective measures have been agreed with said operators.
Results Indicator 7: Information on the cost of oil production activities is available to the MFB, the Ministry of Petroleum and Energy and the SHT. Baseline 2017: No; Status June 2019: Audits performed; Target 2021: Yes.

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

Contributing to Enhanced Agriculture Productivity.

67. **Chad has large agricultural potential which remains untapped.** It is endowed with a total agricultural land of over 49 million hectares (ha), but only 6 percent is currently cultivated and less than 1 percent is under irrigation. Chad is one of the main livestock-producing countries in the Sahel. Agriculture (dominated by subsistence farming, livestock and fisheries) constitutes around 25 percent of GDP in 2016 and contributes around 0.4 percent to GDP growth and exports earnings. It is the main source of employment in Chad for around 80 percent of the population. The Systematic Country Diagnostic (SCD) of 2015[16] identified the need to boost agricultural productivity as a key theme for reducing poverty and promoting growth. It also identifies the need to intensify agriculture, and the importance of improved governance of input supply systems such as for fertilizer and seeds.

68. **Agriculture is largely extensive and unproductive.** Agriculture (including livestock) relies mostly on traditional techniques with an extremely low use of improved technologies. Farmers do not have reasonable access to improved agricultural technologies and less than 5 percent of crop farmers use improved seeds. Farming practices are extensive (compared to intensification using more inputs and improved seeds) creating conflict due to constrained access to degrading and shrinking natural resources such as land. Weak extension services and institutional capacity significantly hinder the adaptation, testing, and dissemination of new agricultural technologies in the country. In response, the Government created the National Agency for Rural Development (ANADER), however budget allocation for extension services, allocation procedures, and focus on results delivery remain poor.

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

70. **The seed varieties currently under cultivation in Chad are typically saved from previous harvests and often are of low quality and low productivity**. Although agriculture research in Central and West Africa has

[16] Report No. 96537-TD (September 2, 2015).

developed high yielding and locally adapted varieties, their adoption by farmers in Chad is still not in evidence. Effective scaling-up of seed production, marketing and quality control are constrained by a weak institutional framework for extension services to farmers, including missing regulations. The policy reforms will pave the way for greater private sector involvement in seed production and marketing. The reforms will also contribute to develop the seed market in Chad and ultimately to quickly increase agriculture productivity for all the crop.

71. **With the support of DPO1, the Government has implemented the 2016 Seed Law through:** (i) the adoption and publication of an inter-ministerial order on technical regulation of seed production, control and certification; (ii) the adoption and publication of the ministerial order on specific technical regulations for seed production for various species of vegetables and cereals; and (iii) the issuance of a ministerial order setting up the implementation of the seed control and certification function within the Ministry of Agriculture (MoA).

72. **Under DPO2, the Government created conditions for modernizing and enhancing extension services to farmers**[17]. This has been achieved through the adoption of an agriculture extension strategy involving the piloting of new performing agricultural technology packages in high potential agriculture regions (case of Mandoul, Moyen Chari and Salamat) through a MoA ministerial order. To assure effective implementation of the strategy, a performance contract between the MoA and ANADER has been signed. Furthermore, the mechanism for community-based seed production – notably through approval of the pricing system for certification and operationalization of the Federation of Seed Producers - has been set up. Ultimately, these actions will lead to an increase in the adoption of improved technologies; and to an increase in the surface coverage with improved seeds. The new extension strategy for high potential agriculture regions will also serve as a basis for the formulation of the national agricultural extension strategy.

73. **Specifically, the following actions have been realized by the government:** As for the modernization of the agriculture extension services to farmers: (i) a new agricultural extension strategy for high potential zones has been adopted by the MoA (Arrete N143/PR/MPIEA/DGM/2019). A performance contract was signed between the MoA and ANADER on June 11, 2019. The new strategy is presently under implementation by ANADER in the provinces of Mandoul, Moyen-Chari and Salamat and complements a World Bank-funded project to develop an innovative e-extension approach using new technologies such as tablets and call centers to address the shortage of extension agents. As for the implementation of the 2016 Seed Law: (i) a ministerial order approving the pricing system for seed certification was issued on March 18, 2019; and (ii) a ministerial order registering the National Federation of Seed Producers (FENOPSE) to operate was issued on September 07, 2018. Thanks to these measures the seed industry is set to grow. A seed distribution initiative through an e-voucher system involving the private sector is underway. These actions are expected to result in significantly improvement in agriculture productivity and agricultural production in Chad because they are upstream of the agricultural value chain and have always been considered as critical missing links.

74. **Effective implementation of the 2016 Seed Law and agriculture service delivery will boost productivity and promote greater private sector involvement.** This will not only increase income and resilience of Chadian farmers already using improved seed, but also promote scaling up of good practice. Providing improved seeds for use and increasing their impact through better extension services will have a major positive impact in the medium-term, potentially adding some 330,000 tons or some 11 percent of total 2016 agricultural output per year by 2020. Assuming improved quality seeds will be sown on 211,000 hectares that are currently cultivated

[17] The proposed reforms boost the effectiveness of investments planned under the World Bank's "Climate Resilient Agriculture and Productivity Enhancement Project" (P162956), which is effective.

but not covered by improved seeds (or about 5 percent of cultivated land in 2020), the production of crops including sorghum, millet, irrigated rice, and maize are projected to increase from 2,874,000 tons in 2016 to 3,200,000 tons in 2020. Expected productivity increases for rainfed cereals are: Sorghum from 750kg/ha to 1.2tons/ha; millet from 500kg/ha to 750kg/ha; and maize from 900kg/ha to 2.5tons/ha.

75. **The implementation of the 2016 Seed Law also supports farmers' access to climate resilient seeds.** Notably, the improved seeds are drought resistant. The MoA through the department of seeds and crops has listed seeds for seven crop varieties such as sorghum, millet, maize, cassava, rice, groundnuts, and sesame that have proven to be successful in water scarce conditions. More specifically, the 2016 Seed Law (Chap II Art.3) required the publication of a catalogue for specific varieties of vegetables and cereals including a list of drought-resistant seeds, thus addressing climate change risks. Under Prior Action 3 of DPO1, the Government has adopted detailed technical regulations for seed production of specific varieties of vegetables and cereals. FENOPSE (the association of national seed producers) is set to play an important role in boosting climate-smart agriculture: with 9,000 members, FENOPSE has given priority to drought tolerant seeds to be produced and multiplied to generate income for seed producers and make the improved seeds available for thousands of farmers to increase yields. FENOPSE obtains the drought-tolerant seeds from ITRAD (the national research institute) which works in close collaborations with international research institutes (IITA, ICRISAT, IRRI, etc.) to improve drought tolerance in crop-variety plant. FENOPSE defends the interests of its members at the national level and provide technical services, drought-resistant seeds and equipment to members to ensure that quality seeds are produced and distributed nationally. FENOPSE also work closely with ITRAD and other international development organizations (IFAD, Swiss Cooperation and GIZ) to select, test and certify seed varieties.

76. **The newly adopted extension strategy will induce farmers to adopt climate-smart technologies and/or practices designed to reduce GHG emissions or improve soil fertility.** Notably, the new strategy promotes technologies with proven track records for promoting sustainable productivity of production systems including: (i) improved, high-yielding varieties and breeds for the main targeted commodities, adapted to local conditions, and resilient to climate variability/change and other stresses; (ii) sustainable soil and water management practices, especially for increasing soil organic matter, prevention of soil erosion, use of crop rotations and associations, improved fallowing, integration of crop-livestock, water harvesting techniques, agro-forestry practices, etc.; (iii) integrated management of pests and weeds; and (iv) improved harvest practices and reduction of post-harvest losses and organized marketing. The strategy promotes the development of farmer-oriented agro-climatic services by the National Agro Meteorological Agency with the help of ICT (mobile phone, community-based radios) to provide informed and timely advice to farmers. In addition, it supports the acquisition of reliable weather data at high spatial and temporal resolution for farmers use. To increase adaptation to climate change, the strategy recommends the updating and dissemination of cropping calendars and crop variety maps to farmers.

DPO2 Prior Action 6: To modernize and enhance agricultural extension services to farmers, the MOA has adopted an agriculture extension strategy to pilot new performing agricultural technology packages in High Agriculture Potential Zones through Arrêté 143/PR/MPIEA/DGM/2019.
DPO2 Prior Action 7: To improve the efficiency of agricultural inputs, the MOA has published the pricing system for seed certification through Arrêté 32/PR/MPIEA/DGM/DSCP/2019, and (b) registered the National Federation of Seed Producers and published the registration in the Official Gazette of September 2018.
Results Indicator 8: Percentage increase in the cultivated land coverage with improved seed: Baseline: 2 percent of cultivated land as per National Seeds Policy 2014; Status in October 2019: 2.8 percent of cultivated land; Target 2021: 5 percent of cultivated land.

Strengthening the Contribution of the Digital Economy (ICT) Sector to Inclusive Growth

77. **The performance of the ICT sector in Chad is among the poorest in the world.** At least 15 percent of the population are not covered by any mobile signal, 65 percent are not covered by mobile broadband, and the mobile penetration rate is around 46 percent at the end of 2018[18] (less than 10 percent for mobile broadband)[19]. There is marginal competition on the fixed internet segment (which is mainly narrowband internet). Mobile services dominate the ICT sector, but prices remain high and the quality of service is poor, especially for mobile broadband services. This poor performance can be largely explained by two major constraints: (i) limited international connectivity; and (ii) weak enabling environment with high sectoral regulatory fees and lack of transparency from sectoral agencies.

78. **First, limited international internet connectivity hampers the development of the sector.** For years Chad has relied on a single fiber backbone linking the capital to the submarine cable SAT-3 via Cameroon. In Cameroon, the incumbent operator (*Cameroon Telecommunications,* CAMTEL) occupies a monopoly position, enforcing excessive wholesale prices that adversely impact the emergence of competitive retail prices. In Chad, the Sotel is the sole operator of the fiber backbone linking N'Djamena to Cameroon (Camtel). As of 2018, the total available capacity for Chad is estimated to be around 4Gbps, compared to 55Gbps for Benin, 199Gbps for Senegal, and 265Gbps for Côte d'Ivoire. In 2014, the Government initiated an investment project to deploy a second fiber to Sudan[20]. The Sudan fiber was commissioned to the Chinese company Huawei and was supposed to be finished in 8 months but was eventually completed in August 2018. To operationalize the governmental fiber to Sudan, the GoC has entered into and approved a concession agreement[21] with a private partner (the company SUDACHAD[22]) that incorporates the international best practices of open access; the open access principles are detailed by the Ministry of ICT in a ministerial communiqué.

79. **With the support of the DPO series, the Government has increased international wholesale capacity, lowered the cost and sets the stage for improving the reliability of international connectivity.**

- Under DPO1, to set up the framework for the PPP, the Ministry of Post and New Information Technology (MPNTI) has detailed the PPP principles to be implemented and the timetable of the actions to be taken by publishing a ministerial communiqué published on its institutional website.[23] The *communiqué* emphasizes the importance of following the international best practice of "open access" for the management of the fiber, which is characterized by five principles: wholesale, transparent, non-discriminatory, fair and reasonable, and effective access to the infrastructure for all market players.
- Under DPO2, the Government has subsequently entered into and approved a concession agreement with a private partner (SUDACHAD) that incorporates the international best practices of open access.

[18] ARCEP, Observatoire du marché des télécommunications 2018 (*online link*).
[19] World Bank, Note de politique sectorielle TICs au Tchad (P168380), May 2019.
[20] The sector regulator OTRT (now ARCEP) contracted a CFAF 6 billion loan (to Ecobank) to finance the project and must repay the loan.
[21] The concession model in the ICT sector is defined in Law 14/PR/2014 on electronic communications (Art. 12-15).
[22] SUDACHAD is a joint-venture between two private Sudanese and Chadian companies (who own 90 percent) and the GoC (who owns the remaining 10 percent), with the technical involvement of SUDATEL – the Sudanese telecom operator – and LIQUID TELECOM – an international pan-African operator specialized in managing fiber optics backbones.
[23] Communiqué portant sur les Options de gestion des infrastructures en fibres optiques en République du Tchad, du 26 septembre 2017.

- Through this series, the GoC ultimately: (i) enforced the legal and transparency environment conducive to the liberalization of the international connectivity market; and (ii) establishes a PPP concession model with a private operator that disrupts the previous situation (where the Government entrusts control of the public fiber to the SOE); and (iii) this PPP model can be extended to third fiber optic to Niger financed by the AfDB and the EU (as the adoption of a PPP model is a disbursement condition). As a result, the effective implementation of the concession PPP significantly decreased international wholesale tariffs for the benefit of fixed and mobile operators, and *in fine* individual and business consumers. As of October 2019, wholesale prices of international bandwidth have already decreased to US$55 (CFAF 32,569) per Mega Byte per second (Mbps)/month – offered by SUDACHAD and well below the target of US$ 101 (CFAF 60,000 equivalent)[24]. This constitutes a wholesale price drop of 87 percent vis-à-vis 2017.

80. **Second, supported by DPO1 and through continued policy dialogue, the Government increased the transparency in the management of fiscal resources by the two main sectoral agencies ARCEP and ADETIC.** The enabling environment for the sector is weak with high sectoral regulatory fees and a lack of transparency from sectoral agencies. A tax increase in 2018 is mainly explained by a 2-percentage point increase in sectoral regulatory fees from 7 to 9 percent of mobile sales revenues, with 2.5 percent for the sectoral regulatory agency ARCEP and 1.5 percent for the digital development agency ADETIC (the rest going to other agencies or the national treasury). At the same time: the ARCEP had stopped publishing ICT data since December 2015 in its ICT market observatory, which hinders sound sectoral policies; and ADETIC spent several CFAF billion on numerous projects, but very limited resources have been dedicated to universal service and the increase in rural connectivity, with the deployment of only two mobile sites in rural areas.[25]

- Under DPO1, the Government has: (i) ensured the publication by ADETIC of its financial statement for the years 2015 and 2016; and (ii) has clarified by decree the percentage of ADETIC resources specifically dedicated to Universal Service projects[26].
- Continued efforts by the Government to foster the transparency of its sectoral agencies led to the online publication by ADETIC of its 2017 financial statements, the online publication by ARCEP of its 2015 to 2017 financial statements, and the resumption of the online publication of its ICT market data observatory[27].
- Ultimately, the GoC has increased the transparency of the collection, management, and use of funds by ARCEP and ADETIC. It is now able to identify areas of improvement to increase efficiency and synergy with ongoing TA by the World Bank (through the DRMM Investment Project Financing). Moreover, the resumption of the online publication of up-to-date ICT market data will inform the decision makers on the latest evolution of the sector and the impact of past (fiscal policy) decisions.

DPO2 Prior Action 8: To reduce the cost of international connectivity, the MPNTI has entered into and approved a concession agreement, incorporating international best practices of open access principles, through Décret 457/PR/MPNTIC/2019.

[24] Also, prices offered by SOTEL and CAMTEL have significantly dropped to US$250 and US$100 per Mbps/month, respectively. However, quality of service remains to be improved.
[25] ADETIC (ICT Telecom Agency (*Agence de Développement des Technologies de l'Information*)) only finances the electrification of these two sites, the rest of the infrastructure is financed by Chadian operators
[26] Décret n°1112/PR/PM/MPNTI/2017, juillet 2017.
[27] Now published on the ARCEP website, at the "Tableaux de bord" section (*online link*).

Results Indicator 9: Decrease in wholesale price of international connectivity (CFAF per Mbps/month). Baseline 2017: CFAF 250,000/Mbps/month; Status October 2019: CFAF 32,569/Mbps/month; Target mid 2021: CFAF 60,000/Mbps/month).

Pillar IV: Increasing Social Protection for the Poor and Vulnerable

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

81. **Chadian households have very limited access to formal social protection and the public provision of basic services is inadequate.** The existing safety net system is limited and unable to reduce household vulnerabilities. In 2014, an estimated US$109 million (0.8 percent of GDP) was spent to finance different types of safety nets in Chad. This is below the Sub-Saharan average, but it still represents a significant amount of resources. These resources serve mainly as an emergency response tool, particularly to food crises. Much of the SSN system is funded by development partners (74 percent), while only 26 percent of total safety net spending is funded by the Government (as of 2014). Safety nets, as provided by the government, are limited to subsidies to children, either as in-kind support in education and nutrition, or as free access to healthcare services. Other support is provided in the form of untargeted, intrinsically regressive exemptions from health cost expenditures.

82. **SSNs 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.

83. **Following the National Social Protection Strategy (NSPS), a Safety Nets Unit (CFS – *Cellule Filets Sociaux*) and Steering Committee were established to guide and implement a pilot Social Protection Project.** In July 2015, the Government approved the NSPS based on a more systematic and structured approach to safety nets. In March 2016, the Government established a SSNs Unit to implement a World Bank/United Kingdom Department for International Development (DFID) Adaptive Social Protection Pilot Project of US$10 million, the Chad Safety Nets Project (P156479). With the support of the EFSO, the Government has completed the recruitment process of key staff of the CFS and the pilot has been launched in the regions of Bahr El Gazel, Logone Occidental and Ndjamena. Furthermore, the Government agreed to establish a Steering committee to provide strategic guidance to the pilot Project implementation, and inputs to the broader agenda on social protection and safety nets in Chad.

84. **With the support of DPO1, the Government required all partners to use a harmonized questionnaire.** In September 2017, with the aim at putting together social data collected by all partners involved in social protection, the Government requested all partners to use the same questionnaire when surveying households in need of support. Collected information is accessible only to the stakeholders, per clearly defined security and confidentiality clauses. A manual has been elaborated to explain the use of the information, with details on how to request and protect privacy of these data.

85. **Under DPO2, the Government has set up a Unified Social Registry (USR) for social protection programs in Chad.** As a prior action, a unit has been created by decree for hosting the USR under the institutional

supervision of the Ministry of Economy and Development Planning (MEDP) and allowing the collection and management of the data assembled through the harmonized questionnaire. The USR is a dynamic, institutionalized database that will contain socio-economic information for a significant proportion of the country's low-income population especially potential beneficiaries of social protection programs. The database is expected to be used by several actors[28] that implement social protection programs in the country, but do not necessarily follow the same eligibility criteria. This database represents the main tool to identify, determine eligibility of the target and track beneficiaries according to the objectives of the respective programs. The USR will: (i) minimize the costs of collecting data since the same data can be used by different partners with a harmonized methodology; (ii) facilitate coordination of interventions between different partners and reduce the multiple targeting of beneficiaries; (iii) allow for better responses to crises because programs can be scaled up faster on the basis of the existing registry; and (iv) facilitate the monitoring and evaluation of the entire NSPS.

86. **Significant progress has been made, and the number of institutions using the USR as well as the number of households selected through the USR have surpassed their respective targets.** With the support of the DPO series and in line with objectives stated in the Letter of Development Policy (LDP), the Government through the SSNs Unit has already selected and paid 6,200 cash transfer program beneficiary households in Logone Occidental and Bahr El Gazel Regions and is implementing cash for work activities with about 5,600 poor beneficiaries participating in the program in Ndjamena. The selection and payments were made based on a survey of approximately 32,000 poor and vulnerable households in the three regions using a well-tested methodology based on poverty and vulnerability criteria and clear criteria for payments of beneficiaries. The number of institutions using the USR as of October 2019 is 12 (target has been reached), while the number of households in the USR benefitting from Government cash transfers is 13,500, above the original target of 12,200 by 2021.

Prior Action 9: To enhance implementation of cash transfer programs, the MEDP has established a unit in charge of managing the Unified Social Register (USR) under its institutional supervision through Arrêté 0010/PR/MEPD/SE/DG/INSEED/2019.
Results Indicator 11: Number of agencies[29] that transmitted the data collected through the harmonized questionnaire to the new USR. Baseline 2017: 0; Status October 2019: 12 Target mid 2020: 12 **Results Indicator 12:** Number of households in the USR benefitting from government SSNs (cash transfers/cash-for-work programs). Baseline 2017: 0; Status October 2019: 13,500 Target 2021: 12,200.

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

87. **The proposed program is closely aligned with the Country Partnership Framework (CPF[30] FY16-FY2020), discussed at the Board on December 10, 2015,** and supports the three engagement themes: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability. The Performance and Learning Review (PLR) was passed by the Board on July 18, 2019.

88. **DPO2 builds on a larger World Bank effort to help Chad cope with the impact of multiple exogenous shocks and lay the foundation for sustained economic recovery and social inclusion.** Considering the country's

[28] Such institutions include Government agencies, humanitarian NGOs, and other technical and financial partners.
[29] Such agencies include Government agencies, humanitarian non-governmental organizations (NGOs), and other technical and financial partners.
[30] Ref: IDA/R2015-0288; IFC/R2015-0312; MIGA/R2015-0090.

dire macro-fiscal situation, the World Bank provided a US$71 million emergency DPF operation - the EFSO – in June 2017, helped the Government meet urgent financing needs while laying the groundwork for more substantive reforms. With the First Programmatic Economic Recovery and Resilience DPO in this series, WBG engagement solidly moved into medium term, structural reform territory. Policy reforms attempt to boost fiscal and real economy resilience on the macro level, complemented by developing a social safety net for vulnerable households.

89. **The proposed operation has been designed to leverage and complement ongoing and planned World Bank projects and TA activities across the four pillars, in the areas of resources mobilization and SOE management, agriculture, and social protection.** The proposed second DPO has been prepared and implemented in parallel with a DRMM Project targeting improved PFM in the areas of tax policy and administration, PFM and SOE oversight. TA provided by the World Bank and the IMF in continuously supported the strengthening of debt management.

90. **The series was supported by an oil sector capacity building grant, aimed at improving technical and financial knowledge of the MPEM to strengthen its oversight capacity.** The series was also supported by a grant financed oil sector diagnostics aimed at updating the understanding of the sector, recent dynamics and regulatory and institutional measures. An oil sector value chains study is envisaged to assess the potential for economic linkages and in-country value creation. These activities would also lay the foundations for a more effective and strategic re-engagement of the World Bank in the petroleum sector.

91. **The DPO series complements two World Bank agricultural IPFs in Chad.** The prior action on agricultural seeds and triggers on fertilizer supply chain reforms, agricultural extension strategy, and implementation plans for the new ANADER institution will enhance the outcomes of the World Bank-funded Value Chain Support Project (P133021) and the Climate Resilience Agriculture and Productivity Enhancement Project (P162956). The proposed measures will contribute to ensuring that farmers supported by these two projects will have access to high quality seeds, fertilizers and relevant extension services for sustainable productivity improvement. The series will also build on ongoing TA (Western Africa: ICT Policies and Support (P164504)) in the ICT sector.

92. **DPO2 also leverages and complements a pilot Safety Nets Project (P156479) financed by the World Bank and by the DFID.** The project is currently under implementation. In the amount of US$10 million, the pilot project will operate in three regions, with the expectation that it will later be expanded to the rest of the country. World Bank contributions to the program are broadened through the Refugees and Host Communities Project (P164748).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

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

94. **The proposed DPO2 has been prepared in collaboration with the IMF, EU, and AfDB, which are also providing support to Chad, as well as other partners and civil society.** During the preparation of the proposed operation the World Bank team has consulted with a range of development partners through a macroeconomic and public finance working group. Coordination with the IMF has been instrumental to the assessment of Chad's macroeconomic framework and projections of the macro-fiscal impact of exogenous shocks. Also, various technical workshops on oil revenue management have been organized with the IMF. Consultations on poverty reduction and social-protection policies have involved multiple UN agencies and both national and international NGOs.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

95. **The proposed series is expected to have a positive impact on poverty reduction in the medium- and long- term.** The proposed operation is expected to help decrease poverty in the medium- and long-term through the promotion of inclusive growth in agriculture, and the development of more affordable ICT services and broader coverage in underserved areas. In addition, a properly targeted expansion of the SSN system has the potential to have a significant impact on allowing households to move out of poverty and strengthen household resilience to shocks. The overall impact on poverty therefore is expected to be positive in the medium- and long-term.

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

97. **Pillar II reforms in the oil sector are expected to lead to better transparency and to free-up resources that can benefit the poor**. The establishment of an oil revenue management mechanism will cushion the effect of revenue volatility, thus supporting the stability and predictability of pro-poor expenditure. The opportunity cost of the current opaque system is high for the poor as there is no way to envisage alternative use of public resources that are likely to be pro-poor. Improved oversight of petroleum operations cost will contribute to increased mobilization of resources, which in turn will expand the fiscal space for social and investment expenditures as envisaged under the NDP.

98. **The proposed reforms under Pillar III, in agriculture and ICT may lead to a more resilient and diversified economy and improved public services.** As around 80 percent of Chad's labor force is active in agriculture, productivity gains stemming from enhanced dissemination and adoption of agricultural technology and more effective input supply chains is bound to result in broad positive effects for vulnerable and poor households. Higher yields resulting from better seeds will improve food security and reduce economic vulnerability of the poor. The development of more affordable ICT technologies is also expected to contribute directly, over the medium-term, to the provision of better public services. This would benefit the poor who tend to rely disproportionately on public services. Cheaper, more effective ICT services in Chad, may also contribute directly to inclusive growth in agriculture by facilitating extension services, but also have cross cutting positive spillover effects for most sectors using ICT as an input. Ultimately, effective ICT is also expected to support faster and more efficient implementation of SSNs and related transfer and social protection systems nationwide. Communication cost represent 3 to 5 percent of total consumption for the average household in Chad. The value of input subsidies represents 1.5 to 3 percent of total consumption. With well targeted input subsidies, the combined effect on poverty is a reduction 2.5 to 4 percent given the large number of poor households around the national poverty line.

99. **The expected medium-term impact of the reforms included in this operation on gender equity is positive.** Some gender issues are driven by an insufficient allocation of resources to key services. In the medium- to longer-term, expected increase fiscal space for social services would have positive impacts on services benefitting women. For example, Increased spending for health may contribute to decrease very high maternal mortality rates. In addition, increased funding for education and SSNs may support improved school attendance for girls. Families with limited resources often prioritize the education of sons, and, despite recent improvements, the 2014/15 Demographic and Health Survey shows that 44 percent of girls aged 15 to 19 have never attended school, compared to 30 percent of boys in the same age group. To help address this, under Pillar IV, the implementation of the NSPS clearly identifies women as the most vulnerable population and targets them specifically as the primary recipients of cash transfers and cash for works programs. Additionally, by targeting refugees and host communities, Pillar IV will improve living conditions by women and children who represent most of the forced displaced population.

5.2. ENVIRONMENTAL ASPECTS

100. **The reforms and policy actions supported by the proposed operation are unlikely to have negative effects on the country's environment, forests and other natural resources.** Environmental Assessment (EA) is a legal requirement in Chad and is widely applied to all developmental projects. The EA process is based on Presidential Decree No. 630/PR/PM/MEERH/2010 on EA regulations and the ministerial decision No. 039/PR/PM/MERH/SG/DGE/DEELCPN/2012 with respect to the general guidelines and procedures for EA. The department of EA and pollution control in the Ministry of Environment and Fisheries is institutionally saddled with reviewing and clearing environmental impact assessment (EIA) documents.

101. **As per the World Bank *Policy on DPF*, the World Bank assessed whether specific country policies supported by the DPF series are likely to cause significant effects on the country's environment, forests, and other natural resources.** The assessment concluded that the policies supported by the proposed DPF are not likely to have negative impacts on the country 's natural assets. All the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. The assessment of potential impacts

related to actions supported by the DPF will rely on the existing national legal and regulatory framework and will be monitored and addressed through the national procedures in place in Chad.

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

103. **Prior actions designed for increasing social protection for the poor and vulnerable are also largely environmental neutral.** Although some cash for work under the social protection programs could be expected to have some small physical footprint, the Government will finance significant capacity-building activities including environmental and social safeguards through the CFS established on March 10, 2016. In conjunction with department of EA and pollution control, the CFS will play a key role in minimizing any environmental and social adverse impacts and enhancing the positive ones derived from social protection programs. Further, the operation's focus on ensuring adequate fiscal space to preserve pro-poor spending and maintain the government's capacity for effective social protection policy could indirectly support environmental objectives by mitigating the need for rural households to resort to environmentally unsustainable practices in the event of a natural disaster or a shock to agricultural production.

104. **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.

105. **Climate Co-Benefits: Potential contributions of agriculture reform supported by this series to climate change adaptation and mitigation have been identified.** As outlined under Pillar III, the new agriculture extension strategy will induce farmers to adopt climate-smart technologies and/or practices designed to reduce GHG emissions or improve soil fertility, while the 2016 Seed Law will bring more climate resilient (drought resistant) seeds to farmers. The strategy also promotes the development of farmer-oriented agro-climatic services by the National Agro Meteorological Agency with the help of ICT (mobile phone, community-based radios) to provide informed and timely advice to farmers. The program will also support the acquisition of reliable weather data at high spatial and temporal resolution for farmers use. Further, to increase adaptation to climate change, the strategy recommends the updating and dissemination of cropping calendars and crop variety maps to farmers. See also Annex 4.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

106. **Over the past few years, the Government has demonstrated a credible commitment to PFM reform.** The authorities have worked closely with the World Bank and other development partners to enhance the national PFM system both during and after the HIPC process, as well as during and after the implementation of Fiscal Consolidation Program Support Grant (FCPSG, P155480). The Government has made important progress in improving the budget process, information management and financial reporting. In September 2016, Chad began publishing a "citizen's budget," both in print and online, to make fiscal policy more accessible to the public. The national budget system now uses a revised classification system to facilitate inter-sectoral collaboration and enhance the monitoring of the national investment plan. The introduction of IFMIS-linked payroll-management software yielded savings of about CFAF 17 billion in 2014 alone, and the authorities are pursuing further measures to strengthen the payroll system. The implementation of the SYSTAC and SYGMA computerized payment systems has reduced payment delays and improved recordkeeping. Finally, the regular publication of budget documents has enhanced transparency.

107. **Nonetheless, Chad's PFM system still faces several pressing challenges, as evidenced in the 2017 Public Expenditure and Financial Accountability (PEFA) published in 2018.** These challenges include : (i) a top-down budgetary approach with no multi-year perspective; (ii) the limited participation of sector ministries in the budget process; (iii) a weak accounting system stemming from manual book keeping and accounting procedures; (iv) poor quality and inadequate timeliness of financial statements produced by the current accounting system; (v) extensive use of emergency spending procedures; (vi) a public investment management system affected by structural weaknesses; (vii) the production of incomplete budget-execution reports, including for donor-financed operations; (viii) inadequate supervision and monitoring of SOEs; and (vii) weak internal and external controls.

108. **The results of the PEFA suggests the need for bolder reforms and systems overhaul.** It is in this context that the World Bank and the IMF is working closely with the Government to update the 2013 PFM reform. The GoC has also recently sought the support from the Rwanda Cooperation Initiative to accelerate PFM systems reforms and computerization.

109. **In addition, the GoC is benefiting from technical and financial assistance from various development partners.** Through the Domestic Revenue Mobilization Project (P164529) the World Bank is providing technical and financial assistance to the Government to modernize tax administration and Customs and improve the transparency of the petroleum sector management. Since 2019, the World Bank is also providing TA aiming at straightening the SOE Oversight Unit. The EU is supporting the Government in various areas of PFM, including oil revenue management transparency and tax policy. The French Development Agency (*Agence Française de Développement*, AFD) assists in the field of informatization of the Treasury and improved payroll-management through SIGASPE. The AfDB has financed the audit of domestic arrears.

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

111. **The BEAC has taken important steps to strengthen its governance and control environment.** Since 2010, the BEAC has appointed a new governor, replaced five members of the senior management team, enhanced the role of the Audit Committee, established a new organizational structure for the Internal Audit Department, implemented a risk-based auditing approach, and broadened the scope of external audits to include the activities of the National Directorates and other agencies. The BEAC now publishes a full set of audited financial statements, and external auditors expressed unqualified ("clean") opinions on the 2012 to 2016 Financial statements[31]. A review of the audit reports and the IMF safeguards assessment found that since 2013 the BEAC has begun: (i) upgrading its practices to conform with international financial reporting standards; (ii) strengthening its computerized accounting system to improve information management; and (iii) implementing a computerized system for integrated risk management to hedge against risks arising from the diversification of its activities and the integration of new technology. The safeguards assessment recommended revising the BEAC charter, accelerating the implementation of existing reform plans, and strengthening safeguards related to accounting, information technology, reserves management, and currency operations. The IMF is monitoring the implementation of these recommendations. An update of the safeguard assessment completed in June 2016 confirmed the adequate implementation of the BEAC institutional reform and modernization plan.

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

113. ***Disbursement and Auditing.*** The Recipient is the Republic of Chad, represented by the MFB. The grant will be released in a single tranche of SDR 72.9 million (US$100 million equivalent) upon effectiveness and if IDA is satisfied with (i) the program being carried out by the Recipient and (ii) the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow IDA's standard disbursement procedures for DPOs. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated government account for budget support at the regional central bank (the BEAC), which will form part of the country's FX reserves. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement. The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system in a manner acceptable to the World Bank. Based on previous experience, the execution of such transactions between the BEAC and the 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 budget management system will be based on the market exchange rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty (30) days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to the

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

World Bank. If, after being deposited in this the account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be canceled. The Association will reserve the right to seek an audit of the deposit account by independent auditors acceptable to the Association. If an audit is requested, the Recipient would: (i) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and (ii) furnish to the Association such other information concerning the Dedicated Accounts and their audit as the Association shall reasonably request.

114. The planned closing date for the operation is January 15, 2021.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

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

116. **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."

6. SUMMARY OF RISKS AND MITIGATION

117. The **overall risk rating for the proposed operation is high.** Political and governance risks, macroeconomic risks, and risks related to technical design, institutional capacity for implementation and sustainability, as well as stakeholders' risks are rated high.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	High
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	High
9. Other	
Overall	High

118. **Political and governance risks are high.** Ongoing violence by Boko Haram has increased insecurity along Chad's borders with Nigeria and Cameroon, compounding an already fragile situation at the borders with Libya, Central African Republic and, to a lesser extent, Sudan. These issues, as well as domestic security concerns, could divert scarce institutional and financial resources away from the reform program. Insecurity and conflict could destabilize the public finances, narrow the resource envelope for pro-poor spending, and increase the risk of arrears accumulation. The fiscal adjustment process intensifies the risk that domestic or regional conflicts could undermine political stability. In addition, the program targets structural reforms in sensitive areas which may encounter political resistance, notably around tax expenditures and payroll rationalization, SOE oversight and controls, the liberalization of inputs markets in the agricultural sector, and the reforms in the ICT sector. Despite a cabinet change in late December 2017, and various ministerial changes during 2018, the Government has underscored its commitment to the reforms, which are critical for promoting growth in the non-oil sector and enhancing inclusiveness. However, risks of the reforms being delayed because of political resistance cannot be fully mitigated and remain high. Furthermore, general legislative elections have been announced for 2020 an may slow down reform efforts.

119. **Macroeconomic risks are also high**. Agreement on external commercial debt restructuring has significantly reduced the risk of debt distress and improved macroeconomic stability, but public debt vulnerabilities remain elevated. Also, uncertainty regarding future oil prices and oil production[32] as well as the

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

volatile security situation add major sources of macroeconomic risk jeopardizing progress along the structural reform path. A decline in oil prices or production shortfalls would put additional pressure on fiscal accounts, compromising the government's ability to maintain a tight fiscal stance and commit to structural fiscal risk and oil revenue management. However, the new oil revenue management mechanism will partially mitigate this risk. Furthermore, unpredictable security costs and potential economic disruptions could divert resources away from priority social programs including those supported under Pillar IV, structural reforms (including in agriculture and ICT telecom), and institutional capacity-building as supported by this operation. As commercial banks are highly exposed to the public finances, and despite recent arrears clearance[33], the ensuing fiscal distress might spill over into the banking sector and subdue credit to the private sector. While CEMAC membership has bolstered macroeconomic stability in recent years, low FX reserves and the constrained fiscal space of its members pose additional downside risks.

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

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

122. **Stakeholder risks are high.** The vested interests of various groups that benefit from the current distribution of public resources could impede the implementation of reforms supported by the proposed operation. Stakeholder risks are significant in areas critical for fiscal sustainability and unleashing Chad's growth potential, particularly the rationalization of tax exemptions and the public payroll, the oversight and enhanced financial transparency of SOEs, the liberalization of the input markets in agriculture, the definition of the open access PPP model for the governmental fiber optics, and the enhanced transparency in the use funds by the ICT sectoral agencies ADETIC and ARCEP. These risks will be mitigated by significantly increased transparency (e.g. publication of tax exemptions, SOE financial statements or ICT sector financial statements and an updated market observatory), enabling public scrutiny and institutional oversight. A variety of institutional enhancements (strengthening debt management and SOE oversight) in the MFB as well as the agriculture sector brings more effective oversight through increased capacity and incentives (e.g. the Performance Contract between the MoA and ANADER). Ultimately, market forces will bring efficiency and sustainability of reform, e.g. in the ICT sector as witnessed by significant price drops of international connectivity.

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

ANNEX 1: POLICY AND RESULTS MATRIX

Pillar I - Enhancing Fiscal Risk Management			
OBJECTIVES	**DPO1 PRIOR ACTIONS**	**DPO2 PRIOR ACTIONS**	**RESULT INDICATORS**
	Strengthening the Management of PPG Debt		
I.1. Strengthening the management of PPG debt	1. (i) The Minister of Finance and Budget and the Minister of Economy and Development Planning have issued an inter-ministerial regulation *Arrêté* suspending the use of non-concessional external debt contracted or guaranteed by the Government and non–financial public enterprises, with a maturity of more than one year (except for short-term commercial loans and re-scheduling of debt contracted before June 30, 2017); and (ii) the MFB has published a report on the PPG debt situation at end-2016.	1. To strengthen debt management, the MFB has (a) adopted through the 2019 Budget Law, a medium-term debt management strategy; and (b) strengthened the institutional capacity of the debt management unit through appointing relevant staff pursuant to Decisions number 86, 76, 69 and 150 MFB/SE/DGM/DGSTCP/DHM/2019 of the Director General of Treasury Services and Public Accounting.	1. No increase in the nominal stock of non-concessional external debt. Baseline 2017: US$1.4 billon Status October 2019: US$1.25 billion Target 2021: US$1.4 billion or less
	Rationalizing Tax Expenditures		
I.2. Rationalizing tax expenditures	2. The Government has (i) completed and validated a review of its known tax exoneration agreements *(Conventions d'Etablissement)* and a study of tax expenditures; and (ii) issued and implemented regulations stating that all new tax exemptions require a prior written approval by the Minister of Finance and Budget.	2. To rationalize tax expenditure, the MFB has: (a) established a technical committee in charge of reviewing tax exemptions pursuant to Decree 1607/PR/MFB/2019; and (b) published an inventory of existing tax exemptions through the 2019 Budget Law.	2. Number of conventions associated with tax exemption anomalies not resolved: Baseline 2017: 17 Status October 2019: 2 Target 2021: 0
I.3. Improving the efficiency of the public wage bill	3. The Government has (i) eliminated identified ghost and under-age workers from the payroll; and (ii) issued a "circular" announcing measures planned to phase out all payments to ineligible recipients as per the audit.		3. Number of persons on the payroll who are ineligible for salaries. Baseline 2017: 1,172 ineligibles per the HR audit Status October 2019: 249 Target 2021: 0
I.4. Improving SOE transparency and oversight	4. The Minister of Finance and Budget has (i) identified an Oversight Body in its organizational chart to oversee and monitor SOEs and defined		4. Number of SOE audited financial statements published by the Oversight Unit: Baseline 2017: 9

	such body's responsibilities through the adoption of ToR and (ii) has published the most recent audited (certified) financial statements of nine identified SOEs on the Minister of Finance and Budget website.		Status October 2019: 25 Target 2021: >15
Pillar II - Improving Oil Revenue Transparency and Management			
Improving the Transparency and Efficiency of the Oil Revenue Management Mechanism			
II.1. Improving the transparency and efficiency of the oil revenue management mechanism	5. The Minister of Finance and Budget and the Minister of Petroleum and Energy have (i) established, by inter-ministerial decision (Arrêté), a coordination body, with representation from the MFB, the Ministry of Petroleum, and the SHT; (ii) tasked such body with (a) forecasting and analyzing petroleum revenues; (b) assessing the effectiveness of the petroleum revenue management mechanism provided under Law 002/PR/2014; and (c) designing a new mechanism for the management of petroleum revenue aimed at supporting fiscal policy, the allocation of resources to support priority programs, and macro-fiscal policy, the allocation of resources to support priority programs, and macro-fiscal stability; and (iii) published, through the MFB, quarterly petroleum sector updates for the last two quarters of calendar year 2017 and the first quarter of calendar year 2018.	3. To improve oil revenue management, the Recipient has enacted Law 0040/PR/19 on the oil revenue management incorporating a fiscal stabilization function.	5. Balance of the Stabilization Account (CFAF billion): Baseline 2017: 0 CFAF billion Status October 2019: 0 CFAF billion Target 2021: >=20 CFAF billion
Improving Transparency and Oversight in the Oil Sector			
II.2. Improving transparency and oversight in the oil sector	6. The Ministry of Petroleum and Energy has: (a) (i) issued a communiqué announcing its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector; and (ii) published such communique on its website and that of the Ministry of Finance and Budge; and (b) published contracts and licenses (as such term is defined under EITI Requirement	4. To improve governance in the petroleum sector, the MPEM has, through Decree 1838/PR/MPME/2019, put in place a disclosure policy for petroleum contracts mandating their publication.	6. Number of EITI reports documenting the government disclosure policy on petroleum contacts and licenses and Chad's contract disclosure practice as compliant with EITI requirement 2.4. Baseline 2017: 0 Status October 2019: 0 Target 2021: 1

	2.4 of EITI Standard 2016) representing at least 50 percent of hydrocarbon production in 2015 on the website of the MFB.		
	7. The SHT has published certified/validated financial statements for the period 2017 on its website.	5. To improve cost control, the National Oil Company (SHT) has completed the audit of joint accounts of two operators and agreed on corrective measures with said operators.	7. Information on the cost of oil production activities is available to the MFB, Ministry of Petroleum and Energy, and SHT. Baseline 2017: No Status June 2019: Audits performed Target 2021: Yes
Pillar III - Promoting Resilience and Economic Diversification in Key Real Sectors			
Contributing to Enhanced Agriculture Productivity			
III.1. Enhancing dissemination and adoption of agricultural technologies and good practices		6. To modernize and enhance agricultural extension services to farmers, the MOA has adopted an agriculture extension strategy to pilot new performing agricultural technology packages in High Agriculture Potential Zones through Arrêté 143/PR/MPIEA/DGM/2019.	8. Percentage increase in the cultivated land coverage with improved seed. Baseline: 2 percent of cultivated land (as per National Seeds Policy 2014) Status in October 2019: 2.8 percent of cultivated land Target 2021: 5 percent of cultivated land
III.2. Improving the efficiency of agricultural inputs supply chains (seeds)	8. The MoA has implemented a Seed Law through: (i) the adoption and publication of the inter-ministerial *Arrêté* on seed production, control and certification regulations; (ii) the adoption and publication of an *Arrêté* on specific technical regulations for seed production of specific varieties of vegetables and cereals; and (iii) the issuance of an *Arrêté* setting up the implementation of the seed control and certification function within the MoA.	7. To improve efficiency of agricultural inputs, the MOA has: (a) published the pricing system for seed certification through Arrêté 32/PR/MPIEA/DGM/DSCP/2019, and (b) registered the National Federation of Seed Producers in the Official Gazette of September 2018.	
Strengthening the Contribution of the Digital Economy (ICT) Sector to Inclusive Growth			
III.3. Lowering the cost of international connectivity	9. The Government has continued the set-up of the open access wholesale PPP for the governmental fiber optic network (to Cameroon and Sudan, and upcoming to Niger) with communication by the Minister of ICT dated September 26, 2017, published on the Ministry of	8. To reduce the cost of international connectivity, the MPNIT has entered into and approved a concession agreement, incorporating international best practices of open access principles, through Décret 457/PR/MPNTIC/2019.	9. Decrease in wholesale price of international connectivity (CFAF per Mbps/month): Baseline 2017: CFAF 250,000/Mbps/month Status October 2019: 32,569/Mbps/month Target 2021: CFAF 60,000/Mbps/month

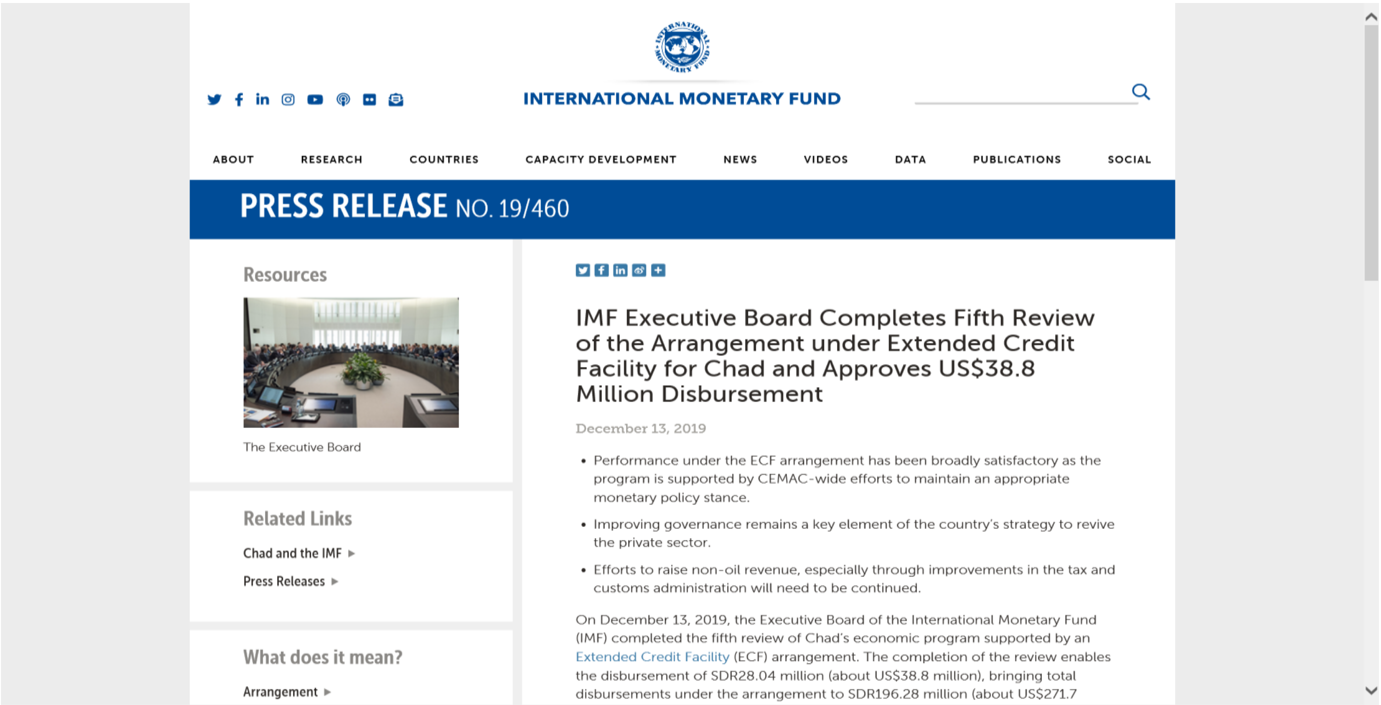
	ICT website, detailing the open access wholesale principles for the PPP.		
III.4. Fostering a transparent and efficient enabling environment for the provision of ICT services	10. The Government has increased the transparency of FSUCE through: (i) the online publication by ADETIC of its 2015 and 2016 financial statements; and (ii) the clarification by Decree of the percentage of FSUCE resources dedicated specifically to the funding of the universal service/access to ICT services (Universal Service Fund).		10. ARCEP (the main ICT sector regulator) and ADETIC (an ICT sectoral agency) fulfil their transparency commitment by publishing annually their financial statements 2015-2018). Baseline 2017: 0 financial statements published Status October 2019: 2 Target 2021: 8 financial statements published for 2015 to 2018 (4 for ARCEP and 4 for ADETIC)
Pillar IV- Increasing Social Protection for the Poor and Vulnerable			
Implementing Cash-transfers and Cash-for-work Programs based on a Unified Social Registry			
IV.1. Implementing cash transfers based on a Unified Social Register (USR)	11. The Ministry of Economy and Development Planning has issued an *Arrêté* requesting all national and international stakeholders involved in the collection of data on social protection to: (i) use a harmonized questionnaire for data collection; and (ii) make all data available to Government through the CFS.	9. To enhance implementation of cash transfer programs, the MEDP has established a unit in charge of managing the Unified Social Register (USR) under its institutional supervision through Arrêté 0010/PR/MEPD/SE/DG/INSEED/2019.	11. Number of agencies[34] that transmitted the data collected through the harmonized questionnaire to the new USR platform. Baseline 2017: 0 Status October 2019: 12 Target 2021: 12 12. Number of households in the USR benefitting from government SSNs (cash transfers/cash-for-work programs). Baseline 2017: 0 Status October 2019: 13,500 Target 2021: 12,200

[34] Such agencies include Government agencies, humanitarian non-governmental organizations (NGOs), and other technical and financial partners.

Table 1.1: Changes Made to the DPO1 Triggers		
	Indicative Trigger DPO1	**Prior Action DPO2**
I.1. Strengthening the management of PPG debt	The MFB (i) has strengthened the debt management unit with (a) adequate staffing, (b) material and (c) an improved debt recording system; and (ii) a draft MTDS report has been prepared.	To strengthen debt management, the MFB has (a) adopted through the 2019 Budget Law, a medium-term debt management strategy; and (b) strengthened the institutional capacity of the debt management unit through appointing relevant staff pursuant to Decisions number 86, 76, 69 and 150 MFB/SE/DGM/DGSTCP/DHM/2019 of the Director General of Treasury Services and Public Accounting. *Wording revised to strengthen language.*
I.2. Rationalizing tax expenditures	The Government has: (i) implemented measures needed to eliminate the irregularities identified in the review of the Conventions and the exemptions that are inconsistent with the CEMAC list of exceptions; and (ii) published an inventory of tax exemptions and derogations in an Annex to the Finance Law (LOF 2020).	To rationalize tax expenditure, the MFB has: (a) established a technical committee in charge of reviewing tax exemptions pursuant to Decree 1607/PR/MFB/2019; and (b) published an inventory of existing tax exemptions through the 2019 Budget Law. *Wording revised for clarity.*
I.3. Improving the efficiency of the public wage bill	The Government has (i) implemented through the Law of Finance (LOF) 2018 the measures needed to address the remaining irregularities observed in the payroll audit; and (ii) published an implementation completion report of recommendations of the payroll audit.	*Dropped.*
I.4. Improving SOE transparency and oversight	The MFB has (i) allocated adequate financial resources in its Budget Law 2019 to the SOE Oversight Division and (ii) completed the inventory of SOEs.	*Dropped.*
II.1. Improving the transparency and efficiency of the oil revenue management mechanism	The Government has submitted to parliament for approval the legal framework for the new oil revenue management incorporating the stabilization of budget expenditure.	To improve oil revenue management, the Recipient has enacted Law 0040/PR/19 on the oil revenue management incorporating a fiscal stabilization function. *Revised to reflect the achievement of not only submission but approval of the law by Parliament.*
II.2. Improving transparency and oversight in the oil sector	The Government has adopted the disclosure policy for petroleum contracts mandating their publication, and all petroleum contracts and licenses are publicly accessible, including through the EITI website and/or a government website.	To improve governance in the petroleum sector, the MPEM has, through Decree 1838/PR/MPME/2019, put in place a disclosure policy for petroleum contracts mandating their publication. *Wording revised to strengthen language and for clarity.*
	The SHT, has ensured completion of audits of two oil companies, and started the implementation of the audit's recommendations.	To improve cost control, the National Oil Company (SHT) has completed the audit of joint accounts of two operators and agreed on corrective measures with said operators. *Wording revised to strengthen language and for clarity.*

III.1. Enhancing dissemination and adoption of agricultural technologies and good practices	The Government has started to modernize agricultural extension services to farmers through: (i) the publication of a new agriculture extension strategy by *Arrêté*, (ii) the adoption of a five-year action plan for the newly created agency of rural development (ANADER) by *Arrêté*; and (iii) the signature of a performance contract between the MoA and ANADER.	To modernize and enhance agricultural extension services to farmers, the MOA has adopted an agriculture extension strategy to pilot new performing agricultural technology packages in High Agriculture Potential Zones through Arrêté 143/PR/MPIEA/DGM/2019. *Revised to strengthen language and for clarity.*
III.2. Improving the efficiency of agricultural inputs supply chains (seeds)	The Minister of Agriculture has issued an *Arrêté* approving the mechanisms for community- based seed production and started its implementation.	To improve efficiency of agricultural inputs, the MOA has: (a) published the pricing system for seed certification through Arrêté 32/PR/MPIEA/DGM/DSCP/2019, and (b) registered the National Federation of Seed Producers in the Official Gazette of September 2018. *Revised to increase scope and ambition of this prior action.*
III.3. Lowering the cost of international connectivity	The Government has issued an *Arrêté* for the Ownership and Management model, defining the open access wholesale PPP model for the governmental fiber optics (Cameroon, Sudan, and Niger).	To reduce the cost of international connectivity, the MPNIT has entered into and approved a concession agreement, incorporating international best practices of open access principles, through Décret 457/PR/MPNTIC/2019. *Revised to increase focus and precision of this prior action following.*
III.4. Fostering a transparent and efficient enabling environment for the provision of ICT services	The Government has further enhanced the transparency of the sectoral agencies with the online publication by ARCEP and ADETIC of their 2017 financial statements and the online publication of the ICT market data observatory with up-to-date data.	*Dropped.*
IV.1. Implementing cash transfer and cash-for-work programs based on a USR	The MEDP has issued and implemented an *Arrêté* creating a platform for hosting the USR, under its institutional tutelage, and for managing the data collected through the Unified Questionnaire.	To enhance implementation of cash transfer programs, the MEDP has established a unit in charge of managing the Unified Social Register (USR) under its institutional supervision through Arrêté 0010/PR/MEPD/SE/DG/INSEED/2019. *Wording revised to strengthen language and for clarity.*

ANNEX 2: IMF RELATIONS ANNEX



https://www.imf.org/en/News/Articles/2019/12/13/pr19460-chad-imf-executive-board-completes-review-arrange-ecf-for-chad-and-approves-disbursement

IMF Executive Board Completes Fifth Review of the Arrangement under Extended Credit Facility for Chad and Approves US$38.8 Million Disbursement

December 13, 2019

- Performance under the ECF arrangement has been broadly satisfactory as the program is supported by CEMAC-wide efforts to maintain an appropriate monetary policy stance.
- Improving governance remains a key element of the country's strategy to revive the private sector.
- Efforts to raise non-oil revenue, especially through improvements in the tax and customs administration will need to be continued.

On December 13, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Chad's economic program supported by an Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of SDR28.04 million (about US$38.8 million), bringing total disbursements under the arrangement to SDR196.28 million (about US$271.7 million).

Chad's ECF arrangement was originally approved by the Executive Board on June 30, 2017 (see Press Release No. 17/257) for SDR 224.32 million (about US$310.5 million or 160 percent of Chad's quota). The ECF-arrangement aims at stabilizing the economy and supporting the resumption of growth, especially in the non-oil sector, lay the foundation for robust and inclusive growth, and contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

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

"Chad's performance under the Fund's ECF-supported program has been broadly satisfactory, reflecting strong commitment by the authorities despite a challenging environment, including security concerns and a tense social situation. Good progress on the structural reform agenda has been made, despite some delays. Looking ahead, it is essential that the authorities continue to pursue prudent fiscal policy, particularly in the run up to the upcoming elections, create sufficient fiscal space for increased social and development spending, and pay down domestic debt and arrears.

"Fiscal consolidation efforts should give emphasis to strengthening domestic revenue mobilization, particularly by reducing exemptions and improving VAT collection, controlling the wage bill, and strengthening public financial management. Effort to contain public debt vulnerabilities should be sustained by reducing domestic debt and strictly adhering to the zero limit on non-concessional borrowing.

"Accelerating the implementation of structural reforms to enhance the business climate and improve governance is necessary to boost economic recovery. In addition, developing and implementing a clearance strategy for domestic arrears and addressing public banks vulnerabilities is also essential.

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

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: LUCIE MBOTO FOUDA

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

@IMFSpokesperson

ANNEX 3: LETTER OF DEVELOPMENT POLICY

REPUBLIQUE DU TCHAD
****
PRESIDENCE DE LA REPUBLIQUE
****
MINISTERE DE L'ECONOMIE ET DE LA PLANIFICATION DU DEVELOPPEMENT
****
SECRETARIAT D'ETAT
****
DIRECTION GENERALE DU MINISTRE
****
DIRECTION GENERALE DES SERVICES DES ETUDES ET DE LA PLANIFICATION
****

N°0173PR/MEPD/SE/DGM/DGEP/2019

UNITE-TRAVAIL-PROGRES
****

N'Djaména, le 05 DEC 2019

Fiche
A
Monsieur le Président du Groupe de la Banque Mondiale
Washington, D.C

Objet : Lettre de Politique de Développement.

La présente Lettre de politique de développement (LPD) décrit d'une part, le contexte socio-économique du Tchad, les stratégies de développement, ainsi que les évolutions économiques récentes et les projets de réformes à moyen terme, d'autre part, elle retrace l'ensemble des politiques publiques et sectorielles prioritaires mises en œuvre par le Gouvernement pour pallier aux difficultés provoquées par le récent choc pétrolier, stabiliser le cadre macroéconomique, relancer la croissance et créer des conditions propices à la diversification de l'économie tchadienne. Enfin, elle présente quelques domaines visés par le prochain programme de réforme.

La LPD identifie les réformes majeures visant à renforcer la résilience et à atténuer les effets des chocs critiques liés : (i) à la volatilité des revenus pétroliers, (ii) aux changements climatiques et (iii) aux tensions nationales et régionales en matière de sécurité qui pèsent lourdement sur les finances publiques, la réduction de la pauvreté et la bonne croissance de l'économie.

En vue de soutenir son programme de résilience et de relance économique, le Gouvernement du Tchad sollicite du Groupe de la Banque mondiale, sous la forme d'une opération de financement de la politique de développement programmatique d'un montant de 100 millions USD. Il s'agit de la deuxième d'une série de deux opérations, axée sur les réformes politiques destinées à accroître la résilience budgétaire, économique et sociale, et, en fin de compte, la croissance inclusive.

I. Contexte

Depuis août 2014, les pouvoirs publics ont pris des mesures radicales en vue de mettre en œuvre leur programme économique et budgétaire à moyen terme, qui a permis au pays d'atteindre le point d'achèvement de l'Initiative en faveur des Pays pauvres très endettés (PPTE) en avril 2015.

Grâce à l'appui budgétaire du FMI, de la Banque mondiale, de l'Union européenne, de la Banque africaine de développement et de la France, les autorités sont parvenues à combler les déficits budgétaires consécutifs aux chocs exogènes (à savoir la faiblesse persistante des prix du pétrole et l'augmentation des dépenses consacrées à la sécurité nationale et régionale) et la faiblesse des revenus non pétroliers, garantissant ainsi la stabilité macroéconomique. Ces appuis budgétaires ont permis de réaliser des avancées significatives dans la mise en oeuvre des programmes de réformes structurelles, malgré un contexte difficile en 2016 et 2017.

Le gouvernement a adopté et met actuellement en œuvre le Plan National de Développement (PND) 2017-2021, tout en sécurisant progressivement son financement. À cette fin, les pouvoirs publics ont tenu une table ronde des donateurs en septembre 2017 à Paris en France, et un forum du monde arabe en juin 2019. Le PND s'appuie sur la stratégie des pouvoirs publics énoncée dans la « Vision 2030, le Tchad que nous voulons », qui, comme le PND 2017-2021, a été développée par le biais d'un processus participatif et inclusif. Le PND 2017-2021 constitue donc le cadre adapté au soutien à moyen terme en faveur du développement économique et social des pouvoirs publics et des Partenaires techniques et financiers (PTF).

II. La Vision 2030 et le Plan national de développement 2017-2021

La dimension sociétale incarnée dans la « Vision 2030 » de **Son Excellence Monsieur Idriss Deby Itno**, Président de la République, le Tchad que nous voulons » reflète l'ambition et l'engagement des autorités à faire du Tchad une puissance régionale émergente à l'horizon 2030. La Vision 2030 pour le Tchad s'inscrit dans une démarche de cohésion nationale et de diversification des sources durables de croissance économique, de création d'emplois durables et de qualité, et d'accès équitable aux services sociaux essentiels pour chaque habitant du pays. La stratégie sera mise en œuvre dans le cadre de trois plans nationaux de développement, dont le PND 2017-2021, qui est axé sur l'accélération de la transformation structurelle du cadre social, de gouvernance, juridique et réglementaire, de la stabilité macroéconomique et du climat des affaires. Le PND 2017-2021 jettera les bases de l'émergence économique du Tchad et comprend : (i) l'action en faveur d'un Tchad pacifique, respecté et impliqué dans l'environnement régional et international, (ii) la possibilité pour chaque citoyen d'accéder à l'eau et aux systèmes de santé, au logement, à l'énergie et à la mobilité, et (iii) la construction d'un Tchad dynamique, économique et écologique.

Selon l'administration publique, les besoins de financement du Programme d'action prioritaire (PAP) du PND s'élèvent à 5491,8 milliards XAF pour la période 2017-2021, dont 618,5 milliards XAF provenant de ressources publiques (11,3 % du coût total du PAP) et un financement de 1208,9 milliards XAF (22 %) déjà acquis. Les projets et programmes de développement financés par le secteur privé représentent 1629,4 milliards XAF, soit 29,7 % du coût total. Le reste (37 %) devrait être financé par des donateurs tels que (i) la table ronde des donateurs de Paris et (ii) le forum du monde arabe de N'Djamena.

III. Situation macroéconomique en 2019 et perspectives à l'horizon 2020-2022

L'économie tchadienne se relève actuellement d'une grave récession, avec une croissance estimée à 3,0 % en 2019. À la suite du choc pétrolier mondial, la croissance a chuté de 6,9 % en 2014 à -6,3 % en 2016. La hausse des prix et de la production de pétrole, associée à la hausse de la production agricole, permet à l'économie de se relever progressivement. La croissance devrait atteindre 5,3 % en 2020-2022, principalement en raison de la hausse de la production pétrolière et de perspectives stables en matière de prix du pétrole.

En 2019, la position extérieure du Tchad s'est renforcée grâce à l'augmentation des recettes d'exportation de pétrole et devrait rester stable pendant la période de projection. Le déficit de la balance courante est passé de 13.0 % du PIB en 2016 à 5.2 % en 2019 et devrait s'établir à 5.0 % en 2020-2021. En 2019, les prix du pétrole et la croissance de la production ont porté les exportations à 5,4 %. Les importations ont augmenté de 3,9 % sous l'effet de la reprise de la consommation privée et des investissements en capital. Le resserrement de la politique monétaire a contribué à reconstituer progressivement les réserves régionales de change. Par conséquent, les réserves régionales ont atteint trois (3) mois d'importations fin 2019 et devraient atteindre le seuil de cinq (5) mois d'ici la fin de la période.

Le solde budgétaire global est passé d'un déficit réduit (0,8 % du PIB en 2017) à un excédent (0,9 % en 2018 et 0,2 % en 2019) sans renversement prévu, grâce à une meilleure mobilisation des recettes et rationalisation des dépenses. Les recettes totales sont passées de 11,9 % du PIB non pétrolier en 2016 à 15,6 % en 2019 grâce au recouvrement de l'impôt sur les sociétés des exploitants pétroliers. Les dépenses publiques stagnent à 18,7 % du PIB non pétrolier en 2019, soutenues par une légère hausse des salaires et les investissements en capital prioritaires.

Également, l'accord de restructuration conclu en 2018 avec un créancier commercial international, Glencore, a considérablement amélioré la situation des liquidités du Tchad et restauré la viabilité de la dette. Par conséquent, la dette publique est passée de 54,8 % du PIB en 2016 à 49,8 % en 2018. Le ratio service de la dette/recettes du Tchad a également baissé, de 42,2 % du PIB à 19,3 % en 2018. En ce qui concerne les arriérés, l'administration publique (i) a fait des progrès considérables pour apurer les arriérés extérieurs ; (ii) vérifie les arriérés intérieurs, et (iii) a pris des mesures concrètes pour empêcher la poursuite de l'accumulation d'arriérés.

IV. Le programme de réformes

Un consensus national existe sur le besoin de diversifier l'économie en dehors du secteur pétrolier. Les pouvoirs publics reconnaissent la nécessité de réduire la dépendance vis-à-vis du secteur pétrolier considéré comme moteur de croissance et source de recettes budgétaires. Selon les pouvoirs publics, l'amélioration du climat des entreprises est l'un des moyens d'attirer les investissements étrangers dans d'autres secteurs que le secteur pétrolier, ainsi que de garantir la concurrence en matière d'investissement dans le secteur pétrolier.

Parmi les mesures envisagées dans le cadre du PND 2017-2021 en ce qui concerne la viabilité et d'amélioration des moyens de subsistance dans les communautés rurales, les pouvoirs publics poursuivront leur politique de diversification économique en soutenant la promotion des produits forestiers non ligneux et des chaînes de valeur dans le développement rural.

De manière générale, l'administration publique vise à renforcer la résilience et à relancer la croissance économique à travers un programme de réformes structurelles crédibles. Ainsi, les programmes de réforme soutenus par les différents PTF seront renforcés, en se concentrant sur les quatre (4) axes suivants : (i) l'amélioration de la gestion des risques budgétaires et de la dette ; (ii) l'amélioration de la transparence du secteur pétrolier et sa contribution à la diversification économique et à la croissance durable ; (iii) la promotion de la diversification économique à travers l'amélioration de la résilience et des performances des secteurs critiques ; et (iv) l'amélioration de la protection sociale des personnes pauvres et vulnérables, des réfugiés et des communautés d'accueil.

V. Pour parvenir à cet objectif, les pouvoirs publics mettent en œuvre les mesures suivantes :

Renforcer la gestion de la dette publique et à garantie publique. Pour améliorer la gestion de la dette, l'administration publique a pris plusieurs mesures, notamment la suspension des dettes extérieures, et les garanties accordées aux entreprises publiques à des conditions non concessionnelles, ainsi que la publication du rapport annuel sur la dette. Cela a ouvert la voie à la préparation d'une Stratégie de gestion de la dette à moyen terme (SDMT), publication comprise. Afin de garantir une mise en œuvre efficiente de la SDMT, l'administration publique a renforcé la gestion de la dette et les institutions à l'aide des ressources humaines et financières nécessaires.

Rationaliser les dépenses fiscales. Pour assurer la proportionnalité des exonérations fiscales par rapport aux avantages attendus et aux secteurs stratégiques visés, les pouvoirs publics ont engagé des réformes institutionnelles de grande ampleur assurant la coordination interministérielle et renforçant les processus de décision. Parallèlement, ils ont imposé le gel des nouvelles exonérations, et mettent en œuvre des mesures de lutte contre les irrégularités identifiées. La loi de 2019 sur le budget prévoit un inventaire des exonérations et dérogations fiscales actuelles.

Améliorer l'efficience de la gestion des salaires. Les pouvoirs publics mettent en œuvre des réformes visant à améliorer la gestion des ressources humaines. À cette fin, une série d'audits a été menée pour identifier les irrégularités à travers tous les ministères, et lutter contre les « travailleurs fantômes », les travailleurs mineurs, le manque de qualifications appropriées et les fausses identités, et permet, progressivement mais rapidement, de trouver des solutions face à ces irrégularités en retirant les travailleurs non éligibles de la masse salariale. De plus, le ministère des Finances et du Budget a adopté un manuel clarifiant les procédures et les responsabilités pour la gestion des actions de ressources humaines et des dépenses de salaires.

Améliorer la supervision et la transparence des entreprises publiques et parapubliques (entreprises publiques). L'administration publique a entrepris un audit du portefeuille de l'État afin d'évaluer la situation financière de ces entités et les conséquences des risques financiers et budgétaires qui en découlent. En 2018, elle a établi une unité dédiée au sein du ministère des Finances et du Budget chargée de la supervision des performances budgétaires, et a muni cette unité des ressources financières adéquates en vue d'entreprendre sa mission (loi de 2019 sur le budget). Un inventaire des entreprises publiques a été effectué et a permis d'identifier 21 entités publiques et parapubliques, et les états financiers vérifiés de 15 entreprises d'État les plus récents ont été publiés afin d'améliorer leur transparence et leur responsabilité envers le public.

Améliorer la transparence et la gestion des revenus pétroliers. Les pouvoirs publics reconnaissent que la mise en place d'un cadre adapté à la gestion des revenus pétroliers constitue un élément essentiel de la viabilité/stabilité budgétaire et de la résilience économique. Cela est encore plus pertinent si l'on tient compte de la hausse prévue de la production pétrolière à court et moyen termes, qui, si elle n'est pas gérée correctement, favorisera la hausse de la proportion des recettes publiques exposées au risque de la volatilité des prix des produits de base. Ainsi, en 2018, le gouvernement a mis en place un comité interministériel chargé, entre autres, de la prévision et de la supervision des revenus pétroliers, de l'évaluation de l'efficacité de la loi 002/PR/2014 sur la gestion des revenus pétroliers, et de la conception d'un nouveau mécanisme de gestion des revenus pétroliers. En 2019, les pouvoirs publics ont mis en place plusieurs règles claires en matière de gestion de la volatilité des revenus pétroliers en adoptant une loi sur la gestion des revenus intégrant un mécanisme de stabilisation fonctionnel. Cette loi sur la gestion des revenus pétroliers devrait être promulguée par le Parlement d'ici à la fin du mois de novembre 2019. Afin de contrôler les coûts des opérations pétrolières, la compagnie pétrolière nationale (la SHT) a achevé l'audit des comptes conjoints de deux de ses entreprises participantes, et des mesures correctives ont été convenues avec les exploitants concernés pour corriger les lacunes identifiées dans l'audit. Afin de promouvoir la transparence et la responsabilité, les pouvoirs publics ont adopté une politique de divulgation prévoyant la publication de tous les contrats et licences pétroliers, conformément à leur engagement de mettre en œuvre les normes ITIE. Tous les contrats et licences actuels sont publiés dans un « mini-cadastre » hébergé sur les sites Internet du ministère des Finances et du Budget et de l'ITIE.

Accroître la productivité agricole et sa résilience face aux changements climatiques. L'agriculture (y compris l'élevage) est la principale source de revenus de plus de 85 % des Tchadiens. Cependant, les pratiques agricoles restent rudimentaires et la faible productivité affecte négativement la croissance et les revenus des agriculteurs et leur résilience face aux changements climatiques. De plus, l'agriculture extensive de subsistance et la gestion traditionnelle du bétail sont de plus en plus difficiles à mettre en œuvre car les ressources naturelles (en particulier les terres fertiles) se font de plus en plus rares. On remarque une utilisation limitée des semences améliorées à haute productivité et résilientes face au climat, un manque d'intrants (engrais, pesticides) et un manque de technologie adaptée. En 2016, pour faire face à ces problèmes, les pouvoirs publics ont promulgué la loi sur les semences (loi n° 16/PR/2016), dont la mise en œuvre est assurée par l'adoption d'un nouveau système de facturation par arrêté ministériel. En 2019, ils ont adopté une nouvelle stratégie de déploiement agricole nécessitant le pilotage de nouveaux systèmes performants de technologies agricoles dans des zones agricoles à fort potentiel (Mandoul, Moyen Chari et Salamat). Pour mettre en œuvre la stratégie, le ministère de l'Agriculture et l'ANADER ont conclu un contrat de performance pour mettre en œuvre la nouvelle stratégie pour les zones agricoles à fort potentiel.

Renforcer la contribution du secteur des technologies de l'information et de la communication (TIC) à la croissance inclusive. Les performances du secteur des TIC au Tchad reste assez limitée, avec une seule liaison fibrée opérationnelle reliant le Tchad au câble sous-marin via le Cameroun. Pour mettre fin à ce monopole, en 2018, les pouvoirs publics ont réduit le coût de la connectivité internationale grâce à la mise en place d'un réseau à libre accès de gros (PPP) du système de fibre optique gouvernemental (axes comprenant le Soudan, le Cameroun et bientôt le Niger). En 2019, l'administration publique (i) a adopté un décret précisant l'accord de concession de PPP « à libre accès » pour gérer la liaison fibrée avec le Soudan ainsi que la publication du cahier des charges et (ii) a amélioré la transparence de ses agences sectorielles. De plus, afin d'accroître la transparence dans les agences TIC, les pouvoirs publics ont publié les états financiers de l'ADETIC et de l'ARCEP et ont mis en place un observatoire actualisé des données du marché des TIC.

Protéger les personnes pauvres et vulnérables, les réfugiés et les communautés d'accueil. En juillet 2015, la stratégie nationale de protection sociale fondée sur une approche plus systématique et structurée des filets sociaux a été approuvée. Cette nouvelle approche comprend la mise en place de systèmes permettant d'identifier, d'enregistrer, de cibler, de soutenir et de surveiller les ménages bénéficiaires. Cette approche vise à encourager les partenaires à passer d'une approche ciblée sur l'urgence des vulnérabilités à une approche à plus long terme pour renforcer de manière proactive la résilience et les moyens de subsistance. Par le biais de cette stratégie, l'administration fiscale est en train de mettre en œuvre un projet pilote de filets sociaux, actif depuis décembre 2016 dans trois régions. En 2018, l'administration publique a publié un arrêté ministériel ordonnant à tous les partenaires nationaux et internationaux impliqués dans la protection sociale : (i) de faire appel à un questionnaire harmonisé pour leurs opérations de collecte des données ; et (ii) de mettre à la disposition des pouvoirs publics les données recueillies par l'intermédiaire de la *Cellule Filets Sociaux (CFS).* En 2019, les pouvoirs publics ont créé une plateforme destinée à héberger le registre social unifié pour la gestion des données collectées à l'aide du questionnaire harmonisé.

VI. Préparer un nouveau programme de réforme

Cette intervention d'appui budgétaire conclut avec succès une série de réformes structurelles de grande ampleur soutenues par la Banque mondiale. Les pouvoirs publics s'engagent à consolider davantage et à exploiter cette réussite, et demandent un autre financement de la politique de développement en vue de soutenir la mise en œuvre du plan de développement national 2017-2021 et jeter les bases du prochain plan de développement national. Plusieurs domaines d'intervention sont envisagés dans le cadre d'un nouveau programme de financement de la politique de développement, notamment les suivants :

- La poursuite du renforcement de la gestion de la dette et des finances publiques afin d'améliorer la marge de manœuvre budgétaire pour les investissements en faveur des populations pauvres et du climat ;

- La promotion du capital humain par des réformes visant à promouvoir l'égalité des chances pour les femmes et à améliorer la qualité des institutions pour une société inclusive et des administrations publiques efficaces ;
- La promotion d'une infrastructure et d'une économie numériques pour stimuler la concurrence, la productivité, la transparence et la responsabilité des institutions publiques ;
- Renforcer la mobilisation et l'efficacité des ressources dans les secteurs moteurs de l'économie tchadienne et renforcer leur contribution à la création de valeur locale, à la diversification économique et à la croissance verte.

Les pouvoirs publics se sont engagés à collaborer avec la Banque mondiale en vue de convenir d'un programme de réformes destiné à permettre au Tchad de réaliser son objectif de croissance inclusive et viable.

Tout en vous renouvelant la gratitude des pouvoirs public et du peuple tchadiens, je vous prie de recevoir, Monsieur le Président, l'expression de ma parfaite considération.

le Ministre de l'Économie et de la Planification du Développement

Dr. Issa DOUBRAGNE

Unofficial English translation of the Letter of Development Policy:

Mister President,

This Development Policy Letter (LPD) describes the socio-economic context of Chad, its development strategies, its recent economic development and prospects and its medium-term reform projects. It summarizes the priority public and sectoral policies launched by the public authorities to alleviate the difficulties caused by the recent oil shock, stabilize the macroeconomic framework, boost growth and create conditions conducive to the diversification of the Chadian economy. Finally, it presents some areas targeted by the next reform program.

This LPD identifies major reforms aimed at strengthening resilience and mitigating the effects of critical shocks linked to: (i) volatility in oil revenues, (ii) climate change and (iii) national and regional tensions in terms of security that weigh heavily on public finances, poverty reduction and good economic growth.

To support its resilience and economic recovery program, the government of Chad has requested assistance from the World Bank, in the form of a program development policy financing operation in the amount of USD 100 million. This is the second in a series of two operations, focused on political reforms aimed at increasing fiscal, economic and social resilience, and, ultimately, inclusive growth.

Context

Since August 2014, the government has taken radical steps to implement its medium-term economic and budgetary program, which has enabled the country to reach the completion point of the Country Initiative on heavily indebted poor (HIPC) in April 2015.

With budget support from the IMF, the World Bank, the European Union, the African Development Bank and France, the authorities have managed to fill the gaps caused by exogenous shocks (i.e. persistent weakness oil prices and increased spending on national and regional security) and low non-oil revenues, thereby ensuring macroeconomic stability. This budget support has allowed significant progress in the structural reform program, despite a difficult context in 2016 and 2017.

The government has adopted and is currently implementing the National Development Plan (PND) 2017-2021, while gradually securing its funding. To this end, the government held a donor roundtable in September 2017 and a pan-Arab conference in June 2019. The PND builds on the government strategy set out in “Vision 2030, Chad we want”, which, like the 2017-2021 PND, was developed through a participatory and inclusive process. The 2017-2021 PND therefore constitutes the appropriate framework for medium-term support for the economic and social development of public authorities and technical and financial partners (TFP).

Vision 2030 and the National Development Plan 2017-2021

The societal dimension embodied in "Vision 2030, the Chad we want" reflects the ambition and commitment of the authorities to make Chad an emerging regional power by 2030. Vision 2030 for Chad is part of an approach of national cohesion and diversification of sustainable sources of economic growth, creation of sustainable and quality jobs, and equitable access to essential social services for each inhabitant of the country. The strategy will be implemented within the framework of three national development plans, including the 2017-2021 PND, which will focus on accelerating the structural transformation of the social, governance, legal and regulatory framework, macroeconomic stability and of the business climate. The 2017-2021 PND will lay the foundations for the economic emergence of Chad and includes: (i) action in favor of a peaceful Chad, respected and involved in the regional and international environment, (ii) the possibility for each citizen to access water and health systems, housing, energy and mobility, and (iii) the construction of a dynamic, economic and ecological Chad.

According to the public administration, the financing needs of the PND's Priority Action Program (PAP) amount to XAF 5,491.8 billion for the period 2017-2021, of which XAF 618.5 billion comes from public resources (11.3% of the total cost of the PAP) and funding of XAF 1208.9 billion (22%) already acquired. Development projects and programs funded by the private sector represent XAF 1,629.4 billion, or 29.7% of the total cost. The rest (37%) is expected to be funded by donors such as (i) the Paris Donors' Roundtable and (ii) the Pan Arab Forum of N'Djamena.

Macroeconomic situation in 2019 and outlook for 2020-2022

The Chadian economy is currently recovering from a severe recession, with growth estimated at 3.0% in 2019. Following the global oil price shock, growth fell by 6.9% in 2014 to -6,3% in 2016. The rise in oil prices and production, associated with the rise in agricultural production, allows the economy to recover gradually. Growth is expected to reach 5.3% in 2020-2022, mainly due to the increase in oil production and the stable outlook for oil prices.

In 2019, Chad's external position has been strengthened by the increase in oil export earnings and is expected to remain stable over the projection period. The current account deficit fell from 13.0% of GDP in 2016 to 5.2% in 2019 and is expected to settle at 5.0% in 2020-2021. In 2019, oil prices and production growth brought exports to 5.4%. Imports increased 3.9% as a result of the recovery in private consumption and capital investment. The tightening of monetary policy has helped to gradually replenish regional foreign exchange reserves. Consequently, the regional reserves reached three (3) months of imports at the end of 2019 and should reach the threshold of five (5) months by the end of the period.

The overall budgetary balance went from a reduced deficit (0.8% of GDP in 2017) to a surplus (0.9% in 2018 and 0.2% in 2019) without expected reversal, thanks to better mobilization revenue and rationalization of expenditure. Total revenues increased from 11.9% of non-oil GDP in 2016 to 15.6% in 2019 thanks to the recovery of corporate tax from oil operators. Public spending stagnated at 18.7% of non-oil GDP in 2019, supported by a slight increase in wages and priority capital investments.

Also, the 2018 restructuring agreement with an international commercial creditor, Glencore, has significantly improved Chad’s liquidity situation and restored debt sustainability. As a result, public debt fell from 54.8% of GDP in 2016 to 49.8% in 2018. The debt service to revenue ratio of Chad also declined, from 42.2% of GDP to 19.3 % in 2018. With regard to arrears, the public administration (i) has made considerable progress in clearing external arrears; (ii) to verify domestic arrears; and (iii) has taken concrete measures to prevent further accumulation of arrears.

The reform program

There is a national consensus on the need to diversify the economy outside the oil sector. The public authorities recognize the need to reduce dependence on the petroleum sector, which is seen as an engine of growth and a source of budgetary revenue. According to the government, improving the business climate is one of the ways to attract foreign investment in sectors other than the oil sector, as well as ensuring competition for investment in the oil sector.

Among the measures envisaged under the 2017-2021 PND regarding the viability and improvement of livelihoods in rural communities, the public authorities will pursue their policy of economic diversification by supporting the promotion of non-forest products, timber and value chains in rural development.

In general, the public administration aims to build resilience and boost economic growth through a program of credible structural reforms. Thus, the reform programs supported by the various TFPs will be strengthened, focusing on the following four (4) axes: (i) improving the management of budgetary risks and debt; (ii) improving the transparency of the oil sector and its contribution to economic diversification and sustainable growth; (iii) promoting economic diversification by improving the resilience and performance of critical sectors; and (iv) improving social protection for the poor and vulnerable, refugees and host communities.

<u>To achieve this objective, the public authorities are implementing the following measures:</u>

- *Strengthen the management of public and publicly guaranteed debt.* To improve debt management, the public administration has taken several measures, including the suspension of external debts, and guarantees given to state-owned enterprises on non-concessional terms, as well as the publication of the annual debt report. This paved the way for the preparation of a Medium-Term Debt Management Strategy (MTDS), including publication. To ensure efficient implementation of the MTDS, the public administration has strengthened debt management and institutions with the necessary human and financial resources.

- *Streamline tax expenditures.* To ensure the proportionality of tax exemptions in relation to the expected benefits and the strategic sectors targeted, the public authorities have undertaken wide-ranging institutional reforms ensuring inter-ministerial coordination and strengthening decision-making processes. At the same time, they imposed the freeze on the new exemptions, and are implementing measures to combat the irregularities identified. The 2019 Budget Law provides for an inventory of current tax exemptions and derogations.

- *Improve the efficiency of salary management.* The public authorities are implementing reforms aimed at improving the management of human resources. To this end, a series of audits has been carried out to identify irregularities across all ministries, and to combat "ghost workers", underage workers, lack of appropriate skills and false identities, and gradually, but quickly find solutions to these irregularities by removing ineligible workers from the wage bill. In addition, the Ministry of Finance and Budget adopted a manual clarifying the procedures and responsibilities for the management of human resources actions and salary expenses.

- *Improve the supervision and transparency of public and para-public enterprises* (public enterprises). The public administration has undertaken an audit of the state portfolio in order to assess the financial situation of these entities and the consequences of the financial and budgetary risks which result from them. In 2018, it established a dedicated unit within the Ministry of Finance and the Budget responsible for overseeing budget performance and provided this unit with adequate financial resources to undertake its mission (Budget Act 2019). An inventory of state-owned enterprises was carried out, identifying 21 public and para-public entities, and the audited financial statements of 15 of the most recent state-owned enterprises were released to improve their transparency and accountability to the public.

- *Improve transparency and management of oil revenues.* Governments recognize that establishing an appropriate framework for the management of oil revenues is an essential element of fiscal sustainability / stability and economic resilience. This is even more relevant when one takes into account the increase in projected oil production in the short and medium term, which, if not managed properly, will encourage an increase in the proportion of government revenue exposed to the risk of volatility in commodity prices. Thus, in 2018, the government set up an inter-ministerial committee responsible, among other things, for forecasting and supervising oil revenues, evaluating the effectiveness of Law 002 / PR / 2014 on the management of oil revenues, and the design of a new oil revenue management mechanism. In 2019, the Government adopted clear rules for managing the volatility of oil revenues by promulgating Law 0040 / PR / 2019 on revenue management incorporating a functional stabilization mechanism. In order to control the costs of petroleum operations, the national petroleum company (SHT) has completed the audit of the joint accounts of two of its participating companies, and corrective measures have been agreed with the operators concerned to correct the shortcomings identified in the 'audit. In order to promote transparency and accountability, the government has adopted a disclosure policy providing for the publication of all petroleum contracts and licenses, in accordance with their commitment to implement the EITI standards. All current contracts and licenses are published in a "mini-cadaster" hosted on the websites of the Ministry of Finance and Budget and the EITI.

- *Increase agricultural productivity and its resilience to climate change*. Agriculture (including livestock) is the main source of income for more than 85% of Chadians. However, agricultural practices remain rudimentary and low productivity negatively affects farmers' growth and incomes and their resilience to climate change. In addition, extensive subsistence farming and traditional livestock management are increasingly difficult to implement as natural resources (especially fertile land) are becoming scarce. We note a limited use of improved seeds with high productivity and resilience to the climate, a lack of inputs (fertilizers, pesticides) and a lack of suitable technology. In 2016, to face these problems, the public authorities promulgated the law on seeds (Law No. 16 / PR / 2016), the implementation of which is ensured by the adoption of a new billing system by decree. Ministerial. In 2019, they adopted a new agricultural deployment strategy requiring the piloting of new efficient systems of agricultural technologies in agricultural areas with high potential (Mandoul, Moyen Chari and Salamat). To implement the strategy, the Ministry of Agriculture and ANADER signed a performance contract to implement the new strategy for high-potential agricultural areas.

- *Strengthen the contribution of the information and communication technology (ICT) sector to inclusive growth.* The performance of the ICT sector in Chad remains quite limited, with a single operational fiber link connecting Chad to the submarine cable via Cameroon. To end this monopoly, in 2018, the government reduced the cost of international connectivity through the establishment of a free wholesale access network (PPP) of the government's optical fiber system (axes including Sudan, Cameroon and soon Niger). In 2019, the public administration (i) adopted a decree specifying the “open access” PPP concession agreement to manage the fiber link with Sudan as well as the publication of specifications and (ii) improved the transparency of its sectoral agencies. In addition, in order to increase transparency in ICT agencies, the public authorities published the financial statements of ADETIC and ARCEP and set up an updated observatory of ICT market data.

- *Protect the poor and vulnerable, refugees and host communities.* In July 2015, the national social protection strategy based on a more systematic and structured approach to social safety nets was approved. This new approach includes the establishment of systems to identify, record, target, support and monitor beneficiary households. This approach aims to encourage partners to move from a targeted approach to the emergency of vulnerabilities to a longer-term approach to proactively build resilience and livelihoods. Through this strategy, the tax administration is implementing a social safety nets pilot project, active since December 2016 in three regions. In 2018, the public administration published a ministerial decree ordering all national and international partners involved in social protection: (i) to use a harmonized questionnaire for their data collection operations; and (ii) make available to public authorities the data collected through the Social Safety Unit (CFS). In 2019, the public authorities created a platform to host the unified social register for the management of data collected using the harmonized questionnaire.

Prepare a new reform program

This budget support operation successfully concludes a series of far-reaching structural reforms supported by the World Bank. The government pledges to further consolidate and build on this success and calls for further development policy funding to support the implementation of the 2017-2021 national development plan and lay the foundation for the next development plan national. Several areas of intervention are envisaged within the framework of a new financing program for development policy, in particular the following:

• Continued strengthening of debt management and public finances in order to improve the fiscal space for investments in favor of the poor and the climate;
• Promotion of human capital through reforms aimed at promoting equal opportunities for women

and improving the quality of institutions for an inclusive society and efficient public administration;
• Promotion of a digital infrastructure and economy to stimulate competition, productivity, transparency and the accountability of public institutions;
• Strengthen the mobilization and efficiency of resources in the driving sectors of the Chadian economy and strengthen their contribution to the creation of local value, economic diversification and green growth.

The government has committed to working with the World Bank to agree on a reform agenda to help Chad achieve its goal of inclusive and sustainable growth. Renewing the gratitude of the Chadian authorities and people, please accept, Mr. President, the expression of my most distinguished feelings.

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

Dr. Issa Doubragne

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar I. Enhancing fiscal risk management		
Prior Action 1. To strengthen debt management, the MFB (a) has adopted through the 2019 Budget Law, a medium-term debt management strategy, and (b) strengthened the institutional capacity of the debt management unit through appointing relevant staff pursuant to Decisions number 86, 76, 69 and 150 MFB/SE/DGM/DGSTCP/DHM/2019 of the Director General of Treasury Services and Public Accounting.	No	Yes - Positive
Prior Action 2. To rationalize tax expenditure, the MFB has: (a) established a technical committee in charge of reviewing tax exemptions pursuant to Decree 1607/PR/MFB/2019; and (b) published an inventory of existing tax exemptions through the 2019 Budget Law.	No	Yes- Positive
Pillar II. Improving oil revenue transparency and management		
Prior Action 3. To improve oil revenue management, the Recipient' has enacted Law 0040/PR/2019 on oil revenue management incorporating a fiscal stabilization function.	No	Yes - Positive
Prior Action 4. To improve governance in the petroleum sector, the MPEM has, through Decree 1838/PR/MPME/2019, put in place a disclosure policy for petroleum contracts mandating their publication.	No	Yes - Positive
Prior Action 5. To improve cost control, the Recipient's National Oil Company (SHT) has completed the audit of joint accounts of two of its operators and corrective measures have been agreed with said operators.	No	Yes - Positive
Pillar III. Promoting resilience and economic diversification in key real sectors		
Prior Action 6. To modernize agricultural extension services to farmers, the MOA has adopted an agriculture extension strategy to pilot new performing agricultural technology packages in High Agriculture Potential Zones through Arrêté 143/PR/MPIEA/DGM/2019.	Yes-Positive	Yes - Positive
Prior Action 7. To improve efficiency of agricultural inputs, the MOA has: (a) published the pricing system for seed certification through Arrêté 32/PR/MPIEA/DGM/DSCP/2019, and (b) registered the National Federation of Seed Producers in the Official Gazette of September 2018.	Yes-Positive	Yes – Positive
Prior Action 8. To reduce the cost of international connectivity, the MPNIT has entered into and approved a concession agreement, incorporating international best practices of open access principles, through Arrêté 457/PR/MPNTIC/2019.	No	Yes – Positive
Pillar IV. Increasing social protection for the poor and vulnerable		
Prior Action 9. To enhance implementation of cash transfer programs, the MEDP has established a unit in charge of managing the Unified Social Register (USR) under its institutional supervision through Arrêté 0010/PR/MEPD/SE/DG/INSEED/2019.	No	Yes - Positive

ANNEX 5: ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Pillar I: Enhancing fiscal risk management	
Debt management (Prior Action 1)	*IMF (2016), "Chad – Third and fourth reviews under the ECF", November, Washington D.C. and (draft) Debt Sustainability Analysis (June 2018)* The IMF assessment points to the urgent need for improved debt management, and the most recent joint WBG IMF DSA (June 2018) concludes that Chad is at high risk of debt distress after the agreement in principle to restructure the Glencore Loan has been implemented. This step reduces the risk of debt distress from actual distress to a high-risk rating as vulnerabilities persist and further arrears clearance remains necessary.
Tax expenditures (Prior Action 2)	*IMF (2016), " Réforme de la fiscalité intérieure dans un contexte de choc*", April, Washington DC ; EU (2017, draft) *Orientations Après l'Atelier National sur l'évaluation des dépenses fiscales et la réforme de l'IRPP (G. Chambas and JF. Brun).* The proliferation of tax exemptions is incompatible with the application of an efficient tax system.
Wage bill	*Ernst and Young (2017) : Rapport provisoire de l'audit comptable et organisationnel de la solde du personnel civil de l'Etat du Tchad* The effective control of the Chadian public payroll has a definite impact on the effective management of the government public finances. The payroll has tripled in less than ten years combined with a doubling of the civil servant over the same period. about 50 percent over the period before falling in 2014 following the oil price crisis. The preliminary results have identified potential fiscal saving of CFAF 40 billion over the period from January 2014 to September 2016. This saving represents annually CFAF 14.5 billion or 4.3 percent of the projected total wage bill in 2017.
SOEs	*Evaluation du portefeuille des entreprises publiques et parapubliques, des organismes ainsi que des participations de l'Etat* (draft), KPMG, 2017 Preliminary results of the SOE audit commissioned by the Government show that out of 10 SOEs reviewed for which partial financial information could be obtained, nine consistently incurred losses. The one that reported profits, still benefited from government subsidies. Besides the subsidies, it was reported that of the 10 SOEs, seven alone received government subsidies during 2010-2013 that reached 6.55 to 7.4 percent of non-oil GDP on average per year. Most SOEs are financially bankrupt and receive subsidies that are multiples of their capital each year.
Pillar II: Improving oil revenue transparency and management	
Oil Sector (Prior Actions 3, 4, 5)	The World Bank (2011); *National Oil Companies and Value Creation; Working Paper.* The World Bank (2014); *Sovereign Wealth Funds for Long-term Development Finance, Policy Research Paper* The World Bank (2016) *Strategic Investment Funds: Opportunities and Challenges. Policy Research Paper.* The World Bank (2019*); Chad Sector Diagnostics and Value Chain Analysis.* Alstine (2017), *Critical reflections on 15 years of the Extractive Industries Transparency Initiative (EITI)*. The Extractive Industries and Society 4 (2017) 766–770. Elsevier IMF (2017). Central African Economic and Monetary Community. Country Report No. 17/393. IMF (2018). Gestion des reserves inter-nationales de la CEMAC. Une Nouvelle Approache a Moyen Terme.
Pillar III: Promoting resilience and economic diversification in key real sectors	
Agricultural productivity (Prior Actions 6,7)	*The World Bank (2015), The Republic of Chad: Priorities for Ending Poverty and Boosting Shared Prosperity-SCD*, Washington D.C. *Agriculture Sector Review* (2017), a European Commission funded study carried out with TA from Food and Agriculture Organization (FAO) as an input to the elaboration of a new Governmental framework law for the agricultural sector (*loi d'orientaiton agro-sylvo-pastoral et halieutique)*: The study identifies and analyzes the major issues for agriculture development. It also formulates priority development options related to agriculture (crops, livestock and fisheries) that will guide future investment efforts to improve the living conditions of the Chadian population in general and rural areas in particular.
ICT (Prior Action 8)	*The World Bank (2016), World Development Report – Digital Dividends.* In many instances, digital technologies have boosted growth, expanded opportunities, and improved service delivery. Yet their aggregate impact has fallen short and is unevenly distributed. For digital technologies to benefit everyone everywhere requires closing the remaining digital divide, especially in internet access.

	The World Bank (2017), AFCW3 Economic Update, Enabling the Digital Revolution in SSA: What Rolef For Policy Reforms? A report on the economies of countries in Africa's Sahel focuses on a lack of access to information and communications technology and proposes options to address this issue.
Pillar IV: Increasing social protection for the poor and vulnerable	
Social safety nets (Prior Action 9)	*Shaping Adaptive Safety Nets to Address Vulnerability (2016); Small area poverty estimation (2016); Developing an Identity Management Framework in Support of Social Protection in Chad (2016); Evaluation de la situation nutritionnelle et de mortalité dans les régions de la bande sahélienne du Tchad (2014). Tchad : Profilage socioéconomique des refugies soudanais, centrafricains et nigérians. United Nations High Commissioner for Refugees (UNHCR)-WFP, Septembre 2017.* The first two reports conclude that the absolute number of people living in various degrees of poverty has increased. According to recent estimates, in 2014 about US$109 million was spent to finance different types of safety nets in Chad, i.e. 0.8 percent of national GDP. This is below the Sub-Saharan average. Moreover, the majority of such expenditures were financed by development partners (more than 70 percent). Key conclusions include (i) Building a SSN system is a priority for Chad; (ii) This should build on a national social registry with adequate targeting methods. The last report is based on a census of refugees in 19 camps and provides a detailed outlook on their demographics, vulnerability, economic situation, assets and consumption levels.

ANNEX 6: ILLUSTRATION OF OIL REVENUE MANAGEMENT.

1. The baseline scenario assumes a constant oil price of oil of US$60. The Figures below illustrate how the oil revenue management mechanism for stabilization works under three alternative scenarios: Scenario 1 corresponds to a fall in the price of oil of US$10 for one year. Scenario 2 corresponds to a US$20 fall for one year. Scenario 3 entails a US$10 increase in the price of oil. Note that the revenue shortfalls under Scenarios 1 and 2 occur immediately, i.e. in year 1 and with a Fund balance of only CFAF 10 billion.

Figure 6.1: Price of oil (US$/bbl.)

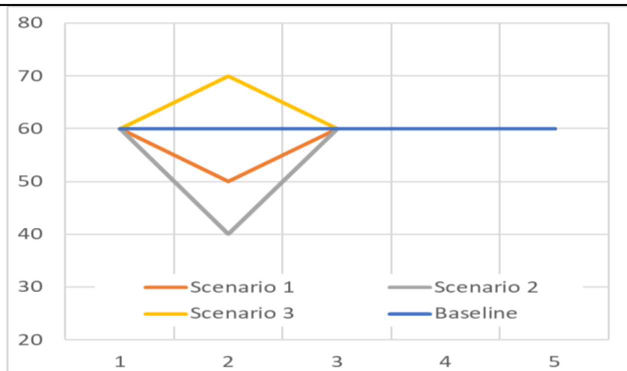


Figure 6.2: Savings into the account (billion of CFAF)

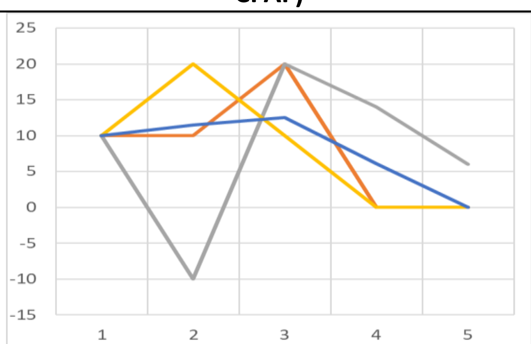


Figure 6.3: End-of-year value of the stabilization account (billion of CFAF)

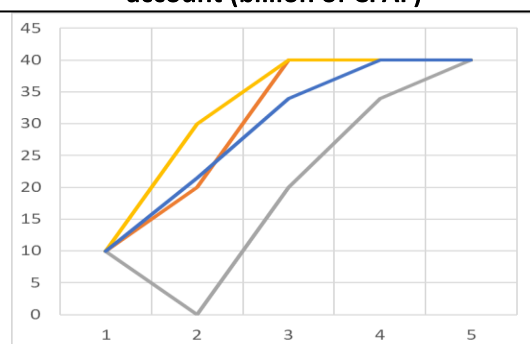


Figure 6.4: Budgeted oil revenues (billion of CFAF)

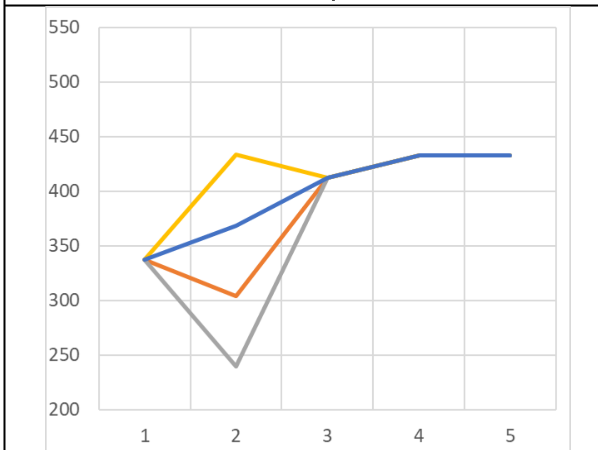
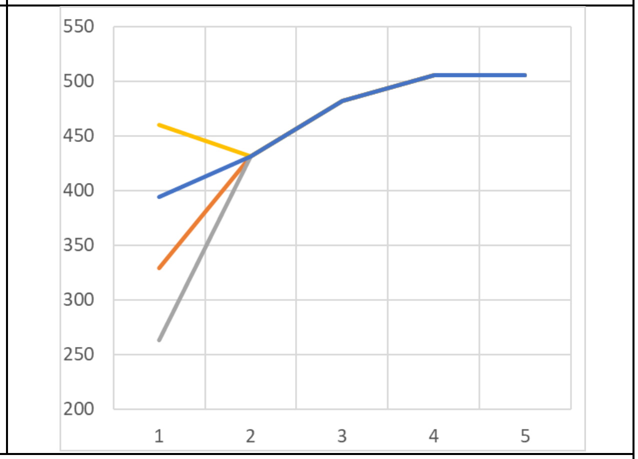


Figure 6.5: Actual oil revenues (billion of CFAF)



Source: World Bank staff calculations.

2. Under the baseline, if the price of oil stays at US$60, the stabilization account is expected to be filled by the end of the fourth year with an average savings flow of 10 to CFAF 13 billion during the first three years.

3. In Scenario 1, in the case of a fall in the oil price by US$10 during the first year, the shortfall in revenues (actual revenues – budgeted revenues) is expected to be 8 bn CFAF. This represents less than 10 percent of the budgeted revenues of CFAF 337 billion. As such, dissaving from the account is not activated and the transfer into the account is set at its minimum value of CFAF 10 billion for this year.

4. In Scenario 2, the fall in the oil price in the first year generates a shortfall in oil revenues of CFAF 74 billion, enough to trigger dissaving from the account. In this case, expected revenues were CFAF 33 billion so that only CFAF 40 billion can be dissaved from the account (a 74 billion shortfall minus 10 percent of budgeted oil revenues, i.e. 34 billion). As the value of the account is insufficient to withdraw 40 billion, 10 billion is withdrawn and the account is fully depleted at the end of the year. Of course, if the oil revenue shortfall occurred after 4 years, the fund would be at full capacity (CFAF 40 billion) and able to accommodate the full amount under the mechanism (in this scenario exactly CFAF 40 billion).

5. Finally, in Scenario 3, the increase in the price of oil generates an acceleration in the ramp up of the fund. As actual oil revenues are of CFAF 460 billion, this corresponds to excess revenues of CFAF 123 billion. 20 percent of this amount corresponds to CFAF 25 billion and therefore exceeds the minimum threshold for savings of CFAF 10 billion. It also exceeds the maximum flow of CFAF 20 billion so that the savings for this year is set to the maximum of CFAF 20 billion. In this scenario the account reaches full capacity by the end of the third year.