

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

09/21/2015

100068

Report No.:

Operation Name	Fiscal Consolidation Program Support Grant
Region	AFRICA
Country	Chad
Sector	Central government administration (100%)
Operation ID	P155480
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Chad
Implementing Agency	Ministry of Budget and Finances
Date PID Prepared	September 15, 2015
Estimated Date of Appraisal	October 28, 2015
Estimated Date of Board Approval	December 8, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

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

Nonetheless, large exogenous shocks are now threatening to reverse Chad's ongoing efforts to restore fiscal and debt sustainability. The attainment of the HIPC completion point will reduce Chad's external debt burden significantly over the medium term. The Present Value (PV) of debt to exports ratio is projected to decrease from 56.2 percent end 2013 to 34.3 percent at end 2020, and the debt service-to-revenue ratio is projected to decrease from 32.4 percent in 2014 to an average of 17.2 percent in 2015-2020. But this medium term fiscal outlook is challenged by two important exogenous shocks faced by Chad since late 2014 and further amplified in 2015: (i) the sudden and sharp decline in oil prices; and (ii) the increased regional insecurity at Chad's borders with the escalation of the conflict with the fundamentalist sect Boko Haram. The decline in oil prices has severe consequences on the Government's main source of revenue, while the regional instability entails higher security and social expenditure and a severe disruption of major trade flows. The decline in oil export receipts also generates large balance of payments needs, and impacts non-oil GDP growth through negative multiplier effects.

In order to address the oil revenue shortfalls and close the fiscal and external gaps, authorities have started to implement a strong fiscal consolidation program. The program is supported by the International Monetary Fund (IMF) since August 2014 through its Extended Credit Facility (ECF). It relies mostly on fiscal measures and reforms, given Chad's inability to resort to monetary or exchange rate policy instruments as being a member of the CEMAC monetary union. Given limited domestic and external market financing options, as well as limited scope for rapidly raising non-oil revenue, the program focuses in the short run on public expenditure containment (a 6.6 percent of non-oil GDP adjustment in 2015), while counting on the rebound in oil revenues from 2016, as new fields become operational and petroleum prices slightly increase.

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

II. Proposed Objective(s)

While the proposed operation would translate primarily into funding the NDP implementation, particular attention is given to policies and actions aimed at Increasing fiscal space, improving accountability and transparency and making easy to start a business to develop non-oil economy.

Budget stability was considered in Chad's recent Systematic Country Diagnostic (SCD) as a necessary condition to the attainment of poverty reduction objectives. In Chad's fragile context, interventions to address high investment risks in agriculture (through improved land and water management, access to markets and the supply of post-basic skills) and strengthen resilience (social protection, access to health in rural areas, local governance) were selected as most binding constraint to poverty reduction before 2030. The success of these interventions will nevertheless be conditioned on the continued maintenance of security and budget stability. Between 2003 and 2011, the national poverty rate declined from 55 to 47 percent, and it is estimated that poverty rates may have further declined since, benefiting from Chad's most stable

period in its post-colonial history. However, the likely prospect to stabilize the number of poor in 2030 at its level of 2011 under general conditions of security and budget stability could be seriously endangered in the absence of both. Indeed, increased insecurity would entail less resources available for pro-poor public interventions, and budget instability would reduce the efficiency of such interventions.

III. Preliminary Description

The proposed operation is a single tranche, stand-alone Development Policy Operation. The proposed operation is fully aligned with the World Bank (WB) Group’s Country Partnership Framework for FY16-20, and shares the objectives of the World Bank’s Strategy for Africa and its foundation on governance and resilience.

The Program Development Objectives (PDOs) are (i) to strengthen Government’s ability to create the fiscal space needed for a basic public service provision in response to the recent security crisis and to the collapse of oil revenues, and (ii) to reduce oil dependency. This will be achieved by: (i) Increasing fiscal space (Pillar 1); (ii) Improving accountability and transparency in public resource management (Pillar 2) and; (iii) Supporting the development of the non-oil economy by an improved business climate (Pillar 3)

IV. Poverty and Social Impacts and Environment Aspects

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

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

V. Tentative financing

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

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