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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED DEVELOPMENT POLICY GRANT
IN THE AMOUNT OF SDR 35.8 MILLION
(US\$50 MILLION EQUIVALENT)

TO THE
REPUBLIC OF CHAD
FOR A
FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

November 11, 2015

**Global Practice – Macroeconomics and Fiscal Management
Africa Region**

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THE REPUBLIC OF CHAD - FISCAL YEAR

January 1st – December 31st

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of October 31, 2015)

Currency Unit = CFA Franc (CFAF)

US\$1 = CFAF 597.0363

US\$1 = 0.71588623

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ANIE	National Agency for Investment and Exports (<i>Agence Nationale des Investissements et des Exportations</i>)
BEAC	Bank of Central African States (<i>Banque des Etats d'Afrique Centrale</i>)
BTP	Construction and Public Works (<i>Bâtiments et Travaux Publics</i>)
CEMAC	Economic and Monetary Community of Central Africa (<i>Communauté Economique et Monétaire de l'Afrique Centrale</i>)
CFAA	Country Financial Accountability Assessment
CFAF	Central African CFA Franc (<i>Franc de la Communauté Financière d'Afrique</i>)
CID	Computerized public expenditure chain (<i>Circuit Intégré de la Dépense</i>)
CIT	Corporate Income Tax
CPIA	Country Policies and Institutions Assessment
CPF	Country Partnership Framework
DAO	Extraordinary Spending Procedures (<i>Dépenses Avant Ordonnancement</i>)
DPO	Development Policy Operation
ECF	Extended Credit Facility
EU	European Union
FAD	Fiscal Affairs Department
FCPSG	Fiscal Consolidation Program Support Grant
FEC	Extended Credit Facility (<i>Facilité Elargie de Crédit</i>)
FRPC	Poverty Reduction and Growth Facility - PRGF (<i>Facilité pour la réduction de la pauvreté et pour la croissance</i>)
GDP	Gross Domestic Product
GoC	Government of Chad
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Countries
ICR	Implementation Completion Report
IRSC	Institutional Reform Support Credit
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INSEED	National Institute of Statistics and Economic and Demographic Studies (<i>Institut de la Statistique, de Etudes Economiques et Démographiques</i>)
IPPTE	Heavily Indebted Poor Countries Initiative
JSAN	Joint Staff Advisory Note
LDP	Letter of Development Policy
LIC-DSA	Debt Sustainability Analysis for Low-Income Countries

LOLF	Organic Law Related to Finance Laws (<i>Loi Organique relative aux Lois de Finance</i>)
MDG	Millennium Development Goals
MFB	Ministry of Finance and Budget
MPIC	Ministry of Planning and International Cooperation
NDP	National Development Plan
NOPD	Nonoil Primary Deficit
OCMP	Public Procurement Central Office (<i>Office Central des Marchés Publics</i>)
OHADA	Organization for the Harmonization of Business Law in Africa (<i>Organisation pour l'Harmonisation en Afrique du Droits des Affaires</i>)
OPEC	Organization of the Petroleum Exporting Countries
PAMFIP	Action Plan for the Modernisation of Public Financial Management (<i>Plan d'Action pour la Modernisation de la Gestion des Finances Publiques</i>)
PDO	Program Development Objectives
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PME	Small and Medium Enterprise (<i>Petites et Moyennes Entreprises</i>)
PND	National Development Plan (<i>Plan National de Développement</i>)
PRSP	Poverty Reduction Strategy Paper
PTF	Technical and Financial Partners (<i>Partenaires Techniques et Financiers</i>)
PV	Present Value
ROSC A&A	Reports on the Observance of Standards and Codes on Accounting and Auditing
SCD	Systematic Country Diagnostic
SHT	Chad National Oil Company (<i>Société des Hydrocarbures du Tchad</i>)
SIGASPE	Integrated Human Resource and Payroll Management System
SIGTAS	Standard Integrated Government Tax Administration System
SIRISBEAC	Computerized System for Integrated Risk Management
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SNBG	National Strategy for good governance (<i>Stratégie Nationale de Bonne Gouvernance</i>)
SNPS	National Strategy for Social Safety (<i>Stratégie nationale de protection sociale</i>)
SSA	Sub-Saharan Africa
SYSCOBEAC	BEAC Computerized Accounting System
TFP	Technical and Financial Partners
TIC	Information Technology and Communication
TVA	Value-added Tax (<i>Taxe sur la Valeur Ajoutée</i>)
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
VAT	Value-added Tax
WB	World Bank
WBG	World Bank Group

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REPUBLIC OF CHAD
FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF CHAD

FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT (FCPSG)

Borrower:	Government of Chad.	
Implementing Agency:	Ministry of Budget and Finance (MBF).	
Financing Data:	IDA Grant in the amount of SDR 35.8 million (US\$50 million equivalent) on standard IDA grant terms.	
Operation Type:	Standalone development policy operation consisting of a single tranche to be disbursed upon grant effectiveness.	
Pillars of the Operation and Program Development Objectives	The Program Development Objectives (PDOs) are to help maintain stability on the fiscal and macroeconomic fronts including to protect critical Government's programs and set the basis for medium term reforms. This will be achieved by: (a) broadening the tax base; (b) improving the rationalization of public spending and transparency in public resource management; and (c) improving new business registration.	
Results Indicators:	<u>Objectives, Indicators and Targets</u>	<u>Baseline (2014 unless specified)</u>
	Pillar 1: Broadening the tax base	
	<i>An increase in the number of taxpaying firms recorded in the government's taxpayer database to at least 15,000 by end-December 2017.</i>	11,200
	<i>An increase in the rating of the PEFA Indicator P13-I: Clarity and comprehensiveness of tax liabilities to B by end-December 2017.</i>	D
	Pillar 2: Improving the rationalization of public spending and transparency in public resource management	
	<i>An increase in the rating of the PEFA indicator P18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers to B by end-December 2017.</i>	D
	<i>A reduction in the value of single-source procurement contracts as a share of total contracts to 25 percent by end-December 2017.</i>	33%
	<i>An increase in the proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days to 65 percent by end-December 2017.</i>	55%
	<i>A reduction in the number of months to issue compliance certificates on budget settlement laws to 1 by end-December 2017.</i>	4 (2015)
	Pillar 3: Improving new business registration	
	<i>An increase in the number of newly registered businesses to 5,000 by end-December 2017.</i>	3,959
Overall risk rating:	High	
Climate and disaster risks:	<i>(i) Are there short- and/or long-term climate and disaster risks relevant to the operation (as identified through the SORT environmental and social risk-rating tool)? Yes: No X</i>	
Operation ID:	P155480	

**IDA PROGRAM DOCUMENT FOR A
PROPOSED FISCAL CONSOLIDATION PROGRAM SUPPORT GRANT
TO THE REPUBLIC OF CHAD**

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes a standalone Fiscal Consolidation Program Support Grant (FCPSG) in the amount of SDR 35.8 million (US\$50 million equivalent) to the Government of Chad (GoC).** The operation is designed to assist the authorities in addressing the fiscal and external impacts of large exogenous shocks while continuing to develop and implement critical public financial management (PFM) reforms and improvements in the business climate necessary to bolster the competitiveness of the nonoil economy. This single-tranche development policy operation (DPO) is a key component of the Bank's support to the GoC, as it strives to cope with both a widening fiscal deficit in the context of a continuing decrease in oil revenues as well as ongoing domestic and regional security concerns stemming from the rise of Boko Haram.

1.2. **The proposed operation has three objectives.** First, it provides urgently needed financial assistance to cover the fiscal and external gaps caused by the decline in oil prices to maintain macroeconomic stability as the authorities intensify their fiscal consolidation efforts. Second, it ensures that the progress in macro-fiscal management that allowed Chad to reach the enhanced Heavily Indebted Poor Countries (HIPC) completion point will be maintained and further strengthened to promote continued growth and poverty reduction. Third, reforms included in this operation support increased PFM transparency and the development of the nonoil economy. In addition to the support for fiscal consolidation, this DPO will provide financial resources which contribute to maintain minimum levels of pro-poor expenditures as appropriated in the Finance Laws for 2015 and 2016.

1.3. **This proposed grant represents an important milestone in the World Bank's engagement with Chad, which in April 2015 reached the enhanced HIPC completion point, fourteen years after having reached the decision point.**¹ This achievement reflects Chad's commitment to economic development and poverty reduction following a decade of conflict, which ended with a peace agreement with Sudan in 2010. HIPC debt relief sent a powerful signal to domestic and international creditors and investors that Chad has reasserted control over its public finances and rejoined the community of creditworthy nations. This was a top priority for both the authorities and the Chadian people. The proposed operation will support the country in moving beyond the HIPC agenda by further strengthening macroeconomic stability as the basis for accelerated growth and poverty reduction. This operation will serve as a bridge between current World Bank projects and future operations designed to help the authorities navigate a difficult external context while continuing to implement deep structural and policy reforms. Indeed, while important improvements are being observed in the fiduciary framework, further measures need to be implemented to reinforce budgetary resilience and facilitate the development of the nonoil economy. The proposed operation would be Chad's first DPO in 10 years.

¹ International Development Association and International Monetary Fund (2015), "Republic of Chad: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative," April 9, 2015, Washington D.C.

1.4. **Large exogenous shocks threaten to reverse Chad’s progress in restoring fiscal and debt sustainability, as falling oil prices and regional instability have negatively impacted both the economy and the public finances.** HIPC debt relief will substantially reduce Chad’s external debt burden over the medium term, and the GoC has demonstrated a credible commitment to maintaining macro-fiscal stability. The authorities have made renewed progress key reform areas through the implementation of the National Development Plan 2013-2015.² A new development strategy for 2016-2020 is currently being prepared. The present value (PV) of the debt-to-exports ratio is projected to decrease from 56.2 percent at end-2013 to 34.3 percent at end-2020, and the debt-service-to-revenue ratio is projected to decrease from 32.4 percent in 2014 to an average of 17.2 percent over 2015-2020. However, this medium-term fiscal outlook is jeopardized by two major exogenous shocks that materialized in late 2014 and intensified in 2015. The first is the sudden and sharp decline in global oil prices, and the second is the deterioration of the domestic and regional security situation and the escalation of the conflict with Boko Haram. The decline in oil prices has had a severe impact on the main source of public revenue, oil, while regional instability is increasing security costs and at the detriment of social expenditures and disrupting vital trade flows. The decline in oil export receipts is undermining the balance of payments and has impacted the nonoil economic growth through negative multiplier effects. In addition, ongoing conflict along the Nigerian and Cameroonian borders are seriously disrupting trade flows, as 90 percent of Chad’s imports transit through the Douala – N’Djamena corridor, and oil exports travel via the Doba-Douala pipeline. Livestock, the country’s second-largest export after oil, which transits almost entirely through northern Cameroun and northeastern Nigeria on its way to large urban markets in Nigeria, is also being negatively impacted by this insecurity.

1.5. **In order to address oil revenue shortfalls and close the fiscal and external gaps the authorities have launched an ambitious fiscal consolidation program.** Though the proposed operation contributes to cover part of the financial gap created by the two exogenous shocks, it also supports the government’s efforts to improve overall fiscal policy and mitigate the budget’s vulnerability to shocks. This includes supporting diversification of fiscal revenues to reduce Chad’s dependence on oil and increasing public expenditure efficiency through improved public spending composition and management supported by more competitive public procurement. Particular attention is accorded to policies and actions aimed at broadening the tax base, improving payroll management, strengthening public procurement, reinforcing budget transparency and improving new business registration. These efforts will build upon Chad’s recent achievements in reducing the nonoil primary deficit (NOPD³), computerizing all elements of the expenditure chain, limiting recourse to extraordinary expenditure measures extraordinary budget procedures which represented 13.7 percent of total of domestically financed spending (excluding wages and debt) in 2014, below the target of 17 percent, and enhancing the transparency of public procurement, budget execution and oil-revenue management.⁴ The government’s program is supported by an IMF Extended Credit Facility (ECF) that has been in place since August 2014. It focuses primarily on fiscal policy and public administrative reforms, since as a member of the Central Africa Economic and Monetary Community (*Communauté Économique et Monétaire de l’Afrique Centrale* – CEMAC) Chad’s

² International Development Association and International Monetary Fund (2015), “The Republic of Chad: Joint Staff Advisory Note on the Monitoring Report 2013 of the National Development Plan 2013-15”, April 10, 2015, Washington D.C

³ The NOPD is defined as nonoil revenue minus total expenditures, excluding interest payments and foreign-financed capital expenditures.

⁴ Chad became compliant with the Extractive Industries Transparency Initiative in October 2014.

monetary and exchange-rate policies are managed at the regional level by the Bank of Central Africa States (*Banque des États de l'Afrique Centrale* – BEAC). Given limited domestic and external commercial financing options, as well as the narrow scope for rapidly raising nonoil revenue, the program focuses on public expenditure control in the short term.

1.6. Fiscal stability was assessed in Chad's recent Systematic Country Diagnostic (SCD) and highlighted as a necessary condition for reducing the poverty rate, which was estimated at 47 percent in 2011. In addition, given Chad's structural macroeconomic vulnerabilities, interventions to mitigate investment risks in agriculture through improving land and water management, expanding access to markets and enhanced workforce skills and strengthening socioeconomic resilience through more effective social protection policies, improved access to healthcare in rural areas and fostering stronger local governance were identified as crucial to accelerating poverty reduction. However, the success of these interventions will hinge on the continued maintenance of security and fiscal stability, as seen in the previous decade. Between 2003 and 2011 the national poverty rate declined from 55 to 47 percent, and it is estimated that poverty rates may have continued to fall in recent years as Chad experienced the most stable period in its postcolonial history. However, the ambitious but achievable goal of reducing the total number of the poor to its 2011 level by 2030⁵ could be seriously endangered by rising insecurity or fiscal instability.

1.7. The design of the FCPSG is based on the three overarching themes of the World Bank's Africa Strategy: governance, resilience and employment. The PFM reforms supported by the proposed operation strengthen *governance* by enhancing transparency in management of public resources. Fiscal policy reforms aim to reinforce the *resilience* of the Chadian economy by broadening the tax base, expanding the available fiscal space, and enhancing the quality of public spending. Measures to improve new business registration will facilitate the development of the nonoil economy and promote the growth of *employment*. The FCPSG remains fully consistent with the World Bank Group's twin goals of ending extreme poverty by 2030 and promoting shared prosperity by increasing the income of the poorest 40 percent of the population.

1.8. The proposed operation incorporates the lessons learned from the SCD⁶ and the strategic orientation of the World Bank Group's Country Partnership Framework (CPF) for FY16-20. The 2015 SCD presented a set of opportunities for accelerating the pace of poverty reduction, identified binding constraints to poverty reduction, and assessed these constraints against a number of criteria. The SCD's findings informed the World Bank Group's CPF for FY16-20, which focuses on three themes of engagement: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability. These themes draw on the World Bank Group's comparative advantage in addressing the constraints to poverty reduction highlighted by the SCD and are aligned with the GoC's goals of improving governance and productivity, building human capital and reducing inequality. The proposed DPO advances the objectives of the CPF, and both will be presented to the Board of Directors on December 10, 2015.

⁵ This achievement would correspond to bringing down the poverty rate to below 24 percent given the projected annual population growth rate of 3.5 percent until 2030.

⁶ See Table 2 of the Chad CPF for FY16-20

1.9. **Risks to the proposed operation's outcomes are high.** Major outcome indicators include a threshold for poverty-reducing social spending and the prevention of public expenditure arrears accumulation. Combined, these outcomes would demonstrate the capacity of the GoC to protect the gains achieved under its National Development Plan for 2013-2015 without compromising fiscal sustainability. The proposed operation would directly contribute to a number of other outcome indicators designed to measure the size of the tax base, the competitiveness of procurement practices and the transparency of the budget. Regional insecurity, commodity price volatility and political opposition to the fiscal adjustment could all compromise the achievement of these outcomes.

1.10. **Failing to address Chad's difficult fiscal situation could entail even larger risks, as the reversal of previous gains would have dire implications for Chad's development and could further destabilize the region.** The GoC urgently needs external financing to offset the decline in oil revenues and prevent the accumulation of arrears to suppliers and civil servants, which would negatively impact Chad's economic and social stability. However, the rapid delivery of budget support through the proposed operation could enable the GoC to improve the execution of the 2015 budget and prepare a credible 2016 budget that protects pro-poor expenditures, while also promoting long-term fiscal sustainability by expanding the tax base, limiting the accumulation of arrears and enhancing economic competitiveness.

1.11. **Given the limited availability of Bank IDA resources for Chad in FY16, a stand-alone DPO grant is proposed instead of a programmatic DPO series.** The proposed grant is expected to represent 54.7 percent of the total budget support provided to Chad by its development partners, which include the African Development Bank (AfDB) and the European Union (EU). It will also represent more than the annual IDA allocation for Chad, which is about US\$30 million. Additional financing will be provided by resources from two closed nonperforming projects and a frontloading on the IDA17 country allocation. The World Bank will explore possibilities to mobilize resources and partnerships with other donors in Chad for possible future follow-up DPOs aimed at deepening reforms and at further stabilizing the fiscal situation.

2. THE MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

2.1. **The oil price collapse and the deterioration of the security situation constitute twin exogenous shocks for Chad.** From 2010 until mid-2014, world oil prices had been fairly stable, at around US\$110 a barrel. However, since June 2014, prices have more than halved. Brent crude oil has now dipped below US\$50 a barrel for the first time since May 2009. According to the "*Global Economic Prospects: Having Fiscal Space and Using It - World Bank, January 2015*", there has been a number of long- and short-term drivers behind the recent drop in oil prices: (i) several years of large upward surprises in oil supply; (ii) some downward surprises in demand; (iii) unwinding of some geopolitical risks that had threatened production; (iv) change in the Organization of the Petroleum Exporting Countries (OPEC) policy objectives; and (v) US dollar appreciation. As an oil exporter, Chad has been most adversely affected by this oil prices collapse. In 2013, oil provided 63 percent of total public revenues and accounted 85 percent of exports and 20 percent of GDP. The Chadian economy is deeply affected by the sharp drop in oil revenues which results to lower public demand. The latter is the key driver of the Chadian economy given the low development of the private sector. In addition to the oil prices shock, Chadian economy is being negatively affected by the deterioration of the security situation. Indeed, the progress in the security situation since

2010, is being jeopardized by the regional conflicts linked to Boko Haram. Furthermore, deteriorating security conditions around Lake Chad since 2013 have severely impacted Chad's livestock exports to Nigeria, the second source of foreign revenue after oil, as well as other commercial activities, fishing and agricultural production.

2.2. These exogenous shocks have severely affected the real sector of the Chadian economy in 2015. Despite an exceptional growth rate of 37.6 percent in the oil sector, Chad's GDP growth rate is expected to slow from 6.9 percent in 2014 to 4.1 percent in 2015, and the nonoil sector is expected to contract by 1.0 percent as reflected in Table 2.2. The growth of the oil sector is driven by production plans that have so far remained largely unaffected by the steep decline in oil prices. While the projected growth rate of agricultural output of around 5 percent is in line with expectations, the construction and service sectors have been severely impacted by the deterioration of security conditions, the sharp public spending adjustment, and the government's accumulation of arrears to domestic suppliers. Agricultural output growth is primarily the result of good weather conditions and continued public sector efforts to promote mechanization, responsible water management, wider distribution of inputs and pesticides, and greater access to credit among cotton producers. According to the second IMF ECF Review (2015), the secondary sector is expected to contract by 2.6 percent in 2015 following an expansion of 21.0 percent in 2013 and 8.0 percent in 2014. This reflects cuts in public investment, which have had an especially adverse effect on the construction sector (-10.1 percent). The tertiary sector also is being negatively impacted (-3.2 percent) by the conflict-related disruption of imports combined with cuts to current spending and the accumulation of domestic arrears.

2.3. The sharp decline of oil revenues has dramatically reduced domestic demand. Since Chadian oil production began in 2013 economic growth has been largely driven by public demand, fueled by oil revenues. As revenues are expected to decrease by 37 percent in 2015, total domestically financed expenditures are projected to fall by 30 percent. Private consumption in rural areas is not expected to be significantly impacted by oil prices, and the increase in cotton production (28.7 percent) and food production (4.8 percent) observed in 2014 have boosted rural incomes⁷. However, livestock producers and pastoralists who cannot export to Nigeria due to the conflict are losing revenue and cutting back on private consumption. Meanwhile, reduced current expenditures and the postponement of public investment projects is causing layoffs in urban areas.

2.4. Despite falling demand, inflationary pressures have continued since the first quarter of 2015. According to the National Institute of Statistics⁸, since March 2015, the average inflation rate has exceeded the 3 percent CEMAC target⁹ due to the increase of prices of imported goods. As of end-August 2015, the average annual inflation rate reached 4 percent, up from just under 1 percent during the same period in the previous year. According to Table 2.2, the annual average inflation rate is expected to reach 4.6 percent in 2015 against 1.7 percent in 2014. Rising inflation

⁷ Source: Direction de la Production Agricole et des Statistiques/Ministère de l'Agriculture et de l'Environnement

⁸ Institut National de Statistique des Etudes Economiques et Démographiques (INSEED), Observation des Prix, Aout 2015.

⁹ The BEAC's monetary policy is designed to maintain the peg with the euro by keeping inflation rates low and ensuring sufficient foreign-exchange reserves. Yet excess liquidity, inefficient liquidity management, and underdeveloped regional interbank and debt undermine the effectiveness of regional monetary policy.

was driven by the depreciation of the Central African CFA Franc against the US dollar, and increased transaction costs of regional trade caused by the conflict.

2.5. Notwithstanding higher oil export volumes and the depreciation of the CFAF against the dollar, the sudden drop in oil prices has radically destabilized the balance of payments for 2015. Chad's current accounts are heavily dependent on oil, which represented 82 percent of total export receipts in 2014.¹⁰ Falling oil prices are widening the current account deficit, which had already increased to 8.9 percent of GDP in 2014 and is projected to reach 11.1 percent in 2015 (Table 2.2). This led to a shortfall of CFAF 50 billion, or 0.7 percent of GDP. International reserves fell to a 4-year low in June 2015 at 1.5 months of imports, down from 2.1 months of imports at end-2014 and just half the international standard of 3 months. At 1.3 percent of GDP in June 2015, public deposits at the BEAC were 15.4 percent lower than at end-2014. The appreciation of the real effective exchange rate, currently estimated to be overvalued by 15-22 percent, is eroding Chad's external competitiveness.¹¹ In 2014, Chad ranked 143th out of 144 countries in the Global Competitiveness Index.¹² Due to the CEMAC monetary union agreement, the GoC has a very limited ability to directly influence the exchange rate. The GoC must maintain external sustainability through a sustained fiscal adjustment coupled with structural reforms to increase competitiveness.

2.6. Chad's relatively shallow banking sector is highly vulnerable to both the government's fiscal position and global commodity prices. After a robust expansion in 2014 spurred by increased construction activity, credit growth to the private sector is expected to slow to just 0.1 percent in 2015, down from 17.3 percent in the previous year. This is due to lower public demand. Furthermore, the economic downturn pushed the share of nonperforming loans from 12.7 to 14.5 percent of total loans over the 12 months leading up to July 2015. In addition, falling revenues have forced the GoC to significantly delay payment of invoices, eroding the quality of bank loans to GoC suppliers. Moreover, Chad's financial sector remains shallow¹³ and heavily dependent on the government, which is the largest source of exposure for Chadian banks. There is a low level of formal financial intermediation, with banks' credit to the economy reaching only about 7 percent of GDP. The financial sector is also exposed to public enterprises that export agricultural products, GoC suppliers or contract holders, and public servants. Consequently, Chadian banks are very sensitive to anything that affects the public finances, including fluctuations in the prices of key exports such as oil and cotton. Broad money grew by 9 percent year-on-year as of end-June, 2015, and its growth is expected to slow to 5.8 percent in 2015 from a remarkable 26.5 percent in 2014 (Table 2.2).

2.7. Declining oil prices and the impact of the regional conflict have weakened the government's fiscal position in 2015, as oil and nonoil revenues fell and security spending increased. The impact on fiscal revenues is higher than initially expected given that oil prices are sharply lower than the previous assumption of US\$61 per barrel used in the 2015 revised budget law. The sharp decrease of Chad oil prices by 54 percent seriously affected the oil revenues which

¹⁰ Other important exports include cotton, live cattle and arabic gum.

¹¹ International Monetary Fund, 2014b.

¹² World Economic Forum, 2015.

¹³ Chad has fewer than 22 depositors, 3 borrowers and 1 commercial bank branch per 1000 adults, compared to a Sub-Saharan African average of 128, 21 and 3.7. Microfinance institutions—a critical source of financing for small enterprises and rural borrowers—still account for a very small proportion of the financial system, representing less than 3 percent of total credit to the economy in 2012.

is expected to drop by 55.5 percent compared to 2014. As end of June, oil revenues stood at CFAF 43.6 billion against an annual forecast of CFAF 633 billion, while non-oil revenues, affected by fiscal adjustments and the drastic reduction in economic activities due to the terrorist attacks, are expected to decrease by 13.7 percent. Finally, total public revenues are expected to fall by 37 percent in 2015 compared to 2014. The impact of exogenous shocks on public revenues have led to an unprecedented fiscal adjustment in 2015. Indeed, total expenditures are expected to be cut by 22 percent in response to lower public revenues. Despite an increase of salaries and wages by 8.5 percent and supplemental allocations for security issues and refugees of CFAF 40 billion, current expenditures are expected to be adjusted by 16.3 percent through cuts of goods and services (54.4 percent) and transfers (27 percent). At the same time, domestically financed investments have been halved. This has resulted to a financing gap of CFAF 919 billion (13.7 percent of GDP). In addition, accumulation of domestic arrears threatens to create a vicious cycle of low growth, financial sector instability, and unsustainable fiscal policy. The stock of arrears estimated at 3.5 percent of GDP at end-June 2015, was up less than 1 percent from end-December 2014. This reflects the underperformance of revenue and delays in issuing debt in the regional market. The overall fiscal deficit (on a cash basis, including grants) is expected to widen from 4.4 percent of GDP in 2014 to 5.6 percent in 2015. Indeed, the revenue shortfall is too large to be substantially offset even by a dramatic 22 percent reduction in total expenditures. The fiscal deficit is being financed primarily through the rescheduling of oil-sales advances from the international commodity firm Glencore, the issuance of treasury bonds in the regional debt market, statutory advances from the BEAC, IMF disbursements and budget support from the World Bank, the AfDB and the EU).

Table 2.1: Financing Requirements and Sources for 2015 (in CFAF billions)

	2015	2016
Financing Gap (-deficit / +surplus)	-919	-511
Overall deficit excluding grants	568	284
External amortization	351	227
Identified Financing Source	919	511
Rescheduling of oil sales advances	232	
Regional capital market	80	60
Commercial banks	60	57
Central bank (BEAC)	180	30
Statutory advances	233	0
Deposit	-53	30
Project loans	70	81
Project grants	136	179
Budget Grants	53	40*
World Bank	29	
European Union	14	
African Development Bank	10	
IMF disbursements	48	34
Debt relief	20	30
Exceptional receipts	40	0
Residual Financing Gap	0	0

Source: IMF and World Bank Staff calculations, September 2015.

*: The country is expecting CFAF 40 billions of budget supports grants from its traditional multilateral development partners.

2.8. **Despite worsening external conditions the GoC has managed to maintain fiscal discipline while protecting pro-poor expenditures.** Chad's fiscal policy is anchored by the continuing decline in the NOPD, an anticipated future decline in oil revenues and the need for a corresponding adjustment. As of end-June 2015 the NOPD had fallen to 3.0 percent of GDP, down from 7.0 percent in the same period of the previous year. The NOPD is expected to drop to 7.6 percent of GDP in 2015, down from 12.2 percent in 2014 and 13.3 percent in 2013. This reflects a combination of expenditures cuts, improved budget management through the computerization of the expenditure chain and less recourse to extraordinary expenditures. Meanwhile, according to Staff calculations, total spending on primary and secondary education, public health, community-based development, water and sanitation, agriculture, and rural development amounted to CFAF 145 billion as of end-June 2015, modestly above its target of CFAF 135 billion.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.9. **Chad's macroeconomic outlook reflects the GoC's commitment to urgently address the drop in oil revenue through fiscal consolidation and an active program of domestic bond issuances in the regional market.** Despite a projected a marginal recovery in oil prices and the expectation of higher oil production, oil revenues are expected to rise by just 0.4 percent of GDP in 2016. Furthermore, despite efforts to widen the tax base, implementation capacity constraint and weak nonoil GDP growth prospects limit the scope for expanding nonoil revenue. Chad's IMF-supported program projects a 20 percent decline in domestically financed investment due to lower oil revenues for 2015. It also anticipates an additional 17 percent reduction in current expenditures in 2016 through the rationalization of transfers and subsidies based on the findings of an audit undertaken in 2015, which aims to provide a comprehensive identification of beneficiaries and assess the policy basis and performance of transfers and subsidies. Real wages and salaries are projected to remain stable in an effort to maintain social stability during the legislative and presidential elections scheduled for April 2016. To address the oil revenue shortfall the GoC is committed to maintaining an active program of domestic bond issuances in the regional market following its success over the past year in issuing both short- and medium-term securities.

2.10. **Chad's macroeconomic outlook hinges on assumptions regarding the ongoing regional conflict, global oil prices and agricultural conditions.** According to the IMF, first, the outlook assumes that the regional security situation will improve in the sense that no larger-than-budgeted security and social expenditures will be required, and that there will be no further trade disruptions affecting economic activities and prices. Second, it assumes that oil companies will stick to the production plans announced in 2015, totaling 150,000 barrels per day, that international oil prices will progressively improve¹⁴ and that the dollar-euro exchange rate will stabilize at US\$1.12 to Euro1. Third, it assumes that Chad's development partners and creditors, both public and private, will honor their pledges of budget support and debt rescheduling. Statutory advances from the BEAC, along with budget support and the rescheduling of oil-revenue advances are expected to yield a total of US\$400 million in 2015, which will be essential to close the fiscal gap and stabilize the GoC's macroeconomic position. Fourth, the outlook assumes normal weather conditions for agriculture. While the agricultural sector is mostly informal and contributes only marginally to public revenue, a poor harvest would necessitate increased social and humanitarian expenditures

¹⁴ World Economic Outlook, October 2015.

and would put upward pressures on prices. Chad's budget support partners, including the World Bank, AfDB, EU and IMF are committed to strengthening their engagement during this period.

2.11. Under these assumptions Chad's economic growth rate is projected to slow to 2.6 percent in 2015. Indeed, according to Table 2.2, oil sector growth is expected to decelerate from an exceptional 37.6 percent in 2015 to 5 percent in 2016, while nonoil GDP growth marginally recovers to 2.1 percent despite a further reduction in public spending. Lower public spending is expected to inhibit the recovery of industry (0.6 percent) and services (2.1 percent). The nonoil primary sector (i.e. agriculture and mining) is projected to grow at a rate of around 5 percent, in line with recent trends. In 2017 oil sector growth rate is expected to accelerate to 15.1 percent as new oilfields become operational. Nonoil GDP growth is expected to accelerate to 4.1 percent in 2017 as the impact of the fiscal adjustment on the secondary and tertiary sector moderates. As declining oil export receipts will only be partially offset by falling imports, the current-account deficit and the overall balance of payments are expected peak at 11.1 percent and 3.6 percent of GDP, respectively, in 2015. The overall fiscal balance will narrow from 5.6 percent in 2015 to around 1.5 percent in 2016 and 2017 due to the continued fiscal adjustment in 2016 and the expected rebound in oil prices in 2017.

2.12. While HIPC debt relief will improve debt sustainability, the risk of external debt distress will remain high, especially in the short term. A joint World Bank-IMF Debt Sustainability Analysis for Low-Income Countries (LIC-DSA) was conducted in early 2015 as part of the HIPC completion point process.¹⁵ Nominal HIPC-related debt relief over the projected period will amount to US\$1.1 billion, of which US\$745 million will come from the Multilateral Debt Relief Initiative. According to the LIC-DSA (Figure 2.1) the debt-service-to-exports ratio will drop from 19 percent at end-2014 to 9 percent at end-2015, then rise to 12.9 percent at end-2017. The downward trend is projected to resume and reach 5.3 percent by the end of the projection period (2034). Similarly, the debt-service-to-revenue ratio will decline from 34.2 percent at end-2014 to 18.6 percent at end-2015 and reach 4.5 percent at the end of the projection period, in 2034. However, Chad remains at high risk of debt distress, as it would breach the debt-service-to-revenue threshold in 2016 in the baseline scenario. Debt sustainability will also remain highly vulnerable to external shocks, making continued fiscal adjustment a necessary but not sufficient condition for minimizing the risk of external debt distress. In a context of volatile oil revenues, fiscal adjustment needs to be complemented by strengthened public financial and debt management, a prudent external borrowing policy, and further progress in diversifying the economy. Chad's ongoing efforts to reschedule advance oil payments beyond 2015, along with its commitment under the IMF program to limit nonconcessional external borrowing and short-term financing by non-financial enterprises, will be critical to this objective.

2.13. Additional external shocks could result in a full-fledged macroeconomic crisis. Chad will continue to be highly exposed to climatic and oil-price shocks, which could force an even sharper fiscal adjustment, a significant investment slowdown, an increase domestic arrears, and unsustainable accumulation of public debt. A rise in arrears to GoC suppliers could destabilize the banking sector, and banks' high level of direct and indirect exposure to the public finances remains a source of substantial risk. Regional insecurity and the ongoing conflict with Boko Haram present

¹⁵ International Development Association and International Monetary Fund (2015), "Republic of Chad: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative", April 9, Washington D.C.

serious exogenous risks, and damages to the Doba – Douala oil pipeline or disruptions in trade along the Douala – N’djamenas corridor represent a serious threat to macroeconomic stability. A worsening in the security situation could negatively affect Chad’s institutional, social and economic development prospects and could precipitate a fiscal, financial or balance-of-payments crisis.

2.14. **However, many of these risks could be mitigated through a combination of responsible domestic policy and active international support.** Chad’s fiscal position remained sound during the global financial crisis, and its membership to CEMAC, along with recent PFM reforms and continued economic and financial oversight via the IMF’s ECF program will help support its continued macroeconomic stability. Despite recent shocks, the second review of the ECF in September 2015 indicated that program’s targets were broadly satisfactory. Risk-mitigating factors include Chad’s active role in the regional money market and its relatively liquid domestic banking sector, which could support the GoC in the event of a liquidity crunch, and pooling CEMAC’s foreign currency reserves could help finance the balance of payments, including debt service. Nevertheless, the use of statutory advances from the BEAC to cover the financing gap could increase regional macroeconomic vulnerabilities over the medium term.

Figure 2.1: Public External Debt Indicators under Alternative Scenarios, 2014-2034

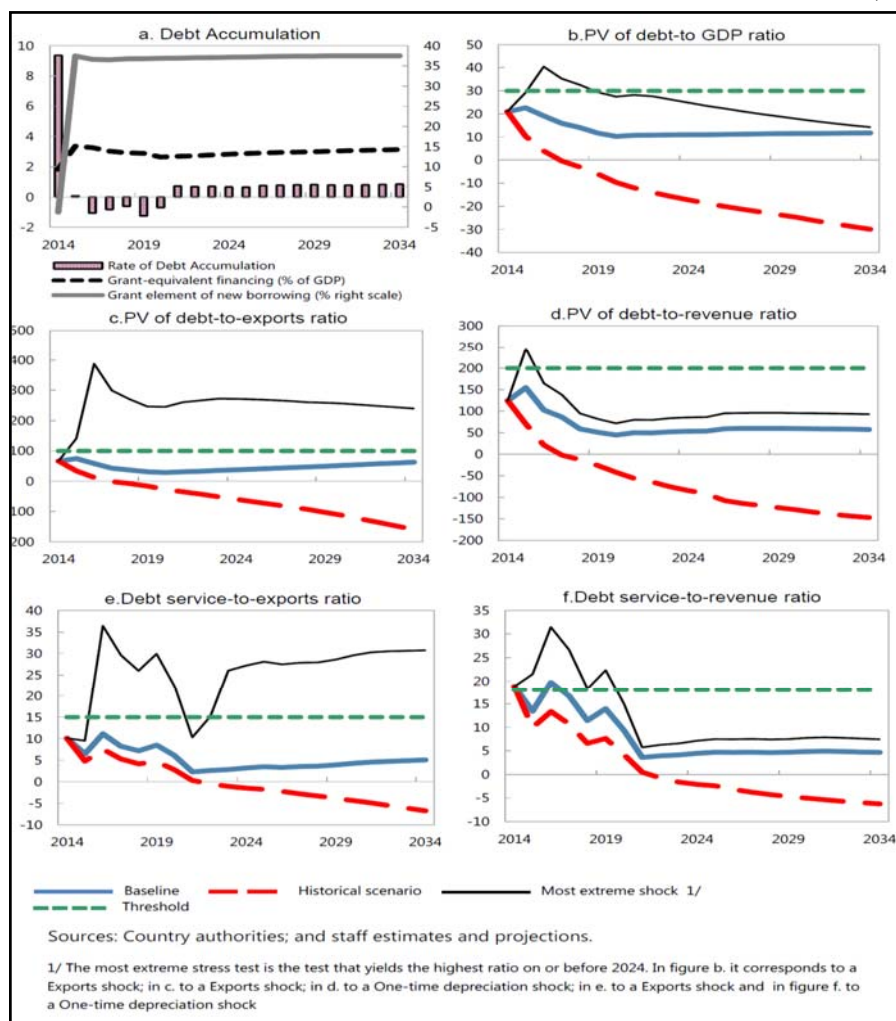


Table 2.2: Selected Economic and Financial Indicators, 2013-2017

	2013	2014	2015	2016	2017
(annual percentage change, unless otherwise specified)					
National income and prices					
Real GDP	5.7	6.9	4.1	2.6	6.1
Oil GDP	-7.1	5.7	37.6	5.0	15.1
Non-Oil GDP	8.0	7.1	-1.0	2.1	4.1
Consumer price inflation (average)	0.2	1.7	4.6	3.3	3.0
Money and Credit					
Credit to government (a/)	10.0	18.0	19.6	-0.5	-4.1
Credit to the private sector (a/)	2.8	17.3	0.1	1.6	4.7
Broad money (M2)	8.6	26.5	5.8	5.3	7.5
(percentage of GDP, unless otherwise specified)					
Central government finance					
Revenue	18.5	15.9	10.3	11.0	12.4
Grants	1.7	1.6	2.9	2.5	2.0
Total expenditure and net lending	22.9	22.1	17.7	14.9	15.8
Non-oil Primary Balance (excl. grants,	-13.3	-12.2	-7.6	-4.2	-4.1
Overall balance (incl. grants,	-2.6	-4.7	-4.5	-1.5	-1.4
Overall balance (incl. grants, cash basis)	-4.8	-4.4	-5.6	-1.5	-1.2
Domestic debt	6.5	5.5	6.7	7.6	7.2
External sector					
Exports of goods and services (annual %)	-13.7	5.6	33.1	10.6	15.4
Imports of goods and services (annual %)	-5.7	9.4	-19.1	0.4	14.6
Overall balance of payments (% of GDP)	-0.2	-1.5	-3.6	-0.4	-0.3
Current external balance (% of GDP)	-9.2	-8.9	-11.1	-8.3	-8.2
External Debt (% of GDP)	21.2	30.8	26.4	24.3	21.1
Memorandum items:					
Nominal GDP (FCFA billion)	6,397	6,883	6,680	7,099	7,903
Nominal non-oil GDP (CFAF billion)	4,661	5,150	5,301	5,582	5,999
Overall balance of payments (CFAF) billion)	-6	-73	-239	-29	26
Gross Int. Reserves (imputed, months of	2.5	2.1	1.5	2.1	2.2
Terms of trade (annual percentage change)	8.1	-4.4	-44.8	-1.9	7.7
Chadian Oil price (US\$ per barrel)	103.9	98.0	44.9	46.6	51.9

Source: IMF and World Bank Staff calculations, September 2015. a/ contribution to money supply growth.

2.15. **Chad's macroeconomic framework is adequate for the purpose of the proposed operation.** While the country's fiscal position will remain exposed to multiple shocks, recent efforts to reduce the NOPD, improve debt sustainability and strengthen budget management underscore the authorities' commitment to maintaining fiscal discipline. The consistency of the policy

framework under the 2014-2017 ECF program and the macroeconomic anchor offered by CEMAC, establish necessary conditions for the proposed operation to achieve its objectives.

Table 2.3: Central Government Budgetary Operations, 2013-2017

	2013	2014	2015	2016	2017
(in percentage of GDP, unless otherwise specified)					
Revenue and Grants	20.3	17.4	13.2	13.5	14.4
Revenue	18.5	15.9	10.3	11.0	12.4
Oil	11.7	8.8	4.0	4.4	5.7
Nonoil	6.8	7.1	6.3	6.6	6.8
Tax	6.6	6.7	6.0	6.2	6.5
Nontax	0.2	0.4	0.3	0.3	0.4
Grants	1.7	1.6	2.9	3.1	2.1
Total Expenditures and Net Lending	22.9	22.1	17.7	14.9	15.8
Current expenditures	12.9	12.5	10.8	9.0	9.3
Wages and salaries	5.2	4.9	5.6	5.2	4.7
Goods and services	2.1	2.1	1.0	0.7	2.0
Transfers and subsidies	5.0	4.8	3.6	2.1	2.2
Interest on debt	0.5	0.7	0.6	1.0	1.1
Capital expenditures	10.0	9.7	6.9	5.9	6.5
Externally financed	2.3	2.2	3.1	3.1	3.8
Domestically financed	7.7	7.4	3.8	2.8	2.7
Nonoil Primary Balance (excl. grants, commitment basis)	-13.3	-12.2	-7.6	-4.2	-4.1
Overall Fiscal Balance (commitment basis)	-2.6	-4.7	-4.5	-1.5	-1.4
Overall Fiscal Balance (cash basis)	-4.8	-4.4	-5.6	-0.9	-1.1
External Financing (net)	3.6	-1.8	-0.5	-1.7	-0.1
Loans (net)	3.1	-1.8	-0.7	-2.0	-0.5
Disbursements	5.3	0.8	1.0	1.2	2.4
Domestic Financing (net)	1.2	6.2	6.1	2.6	1.2

Source: IMF and World Bank Staff calculations, September 2015.

C. IMF RELATIONS

2.16. **The FCPSG has been prepared in close coordination with the IMF.** Since the resumption of dialogue with the GoC in 2010, the IMF and World Bank teams have worked together to respond swiftly and flexibly to the country's evolving macroeconomic circumstances. The standard institutional division of labor between the Bank and the IMF has fostered a common understanding of the country's macroeconomic and debt-sustainability situation, as well as the

status of critical sectors. The IMF and Bank teams are also closely collaborating on PFM issues, and the clear division of labor is reflected in the complementarity between the prior actions supported by the proposed operation and the performance criteria and structural benchmarks used in the ECF, with the latter focusing on the fiscal balance, the prevention of arrears, the protection of poverty-reducing expenditures, the publication of consolidated oil revenues, and the limitation of extraordinary spending.

3. THE GOVERNMENT'S PROGRAM

3.1. **The GoC's program is summarized in the 2013-2015 National Development Plan (NDP) approved in May 2013,¹⁶ which is Chad's third poverty reduction strategy.** The NDP builds on the achievements of the First and Second Poverty Reduction Strategy Papers (PRSP I, 2003-2006, and PRSP II, 2008-2011). Like its predecessors it focuses not only on poverty reduction, but also on the maintenance of a stable security environment. It was developed through a participatory process that included consultations held in all regions of the country. The NDP includes candid assessments of the achievements and shortcomings of the first two strategies and specifically addresses Chad's persistent vulnerability to exogenous shocks, the difficulty of translating oil revenues into development progress, the weak absorptive capacity of investment, and the insufficient attention paid to monitoring and evaluation. The NDP is based on four strategic axes: (i) the creation of new productive capacities and opportunities for decent jobs, (ii) human capital development and the fight against inequality, poverty and social exclusion, (iii) environmental protection and climate-change adaptation, and (iv) improved governance.

3.2. **A joint staff advisory note (JSAN)¹⁷ prepared in June 2013 by the Bank and IMF broadly endorsed the NDP, and a second JSAN prepared in April 2015 determined that the implementation of the strategy had been satisfactory in 2013 and 2014.** This represents a major departure from the first two poverty reduction strategies, which were barely implemented at all. However, a dramatic improvement in security conditions enabled the government to focus more of its attention on development policies, and the strong ownership of the strategy generated by the broadly consultative process reinforced the government's commitment to the NDP. By end-2013 around two-thirds of all strategic indicators and one-half of the intermediary indicators included in the results framework had recorded progress consistent with the achievement of their targets. In addition, the contribution of the 2013 national budget to the NDP's implementation was close to initial plans, reflecting structural progress in budget execution, and the adoption of a robust results framework allowed the authorities to effectively monitor NDP inputs, outputs and outcomes.¹⁸ In a 2015 assessment of the impact of falling oil prices on Chad's capacity to implement the NDP¹⁹ IDA and IMF staff highlighted: (i) the critical importance of expanding nonoil revenue through strengthening tax policies and tax administration; (ii) the need for further support from Chad's development partners to enable the country to obtain the necessary resources to tackle its

¹⁶ See Chad Joint IDA-IMF Staff Advisory Note on the National Development Plan 2013-2015, World Bank and International Monetary Fund, June 2013, Washington D.C.

¹⁷ IDA Report Number 77895-CI.

¹⁸ Preliminary data for 2014 suggest continued progress in the implementation of the NDP, with a budget execution rate of 83 percent for domestically financed NDP expenditure and 76 percent for foreign-financed expenditures.

¹⁹ Chad: Joint Staff Advisory Note on the Monitoring Report 2013 of the National Development Plan 2013-15, World Bank and International Monetary Fund, April 2015, Washington D.C.

development challenges; and (iii) the urgency of protecting priority social spending from an eventual fiscal adjustment, which should focus on rationalization of less productive expenditures such as transfers and subsidies.

3.3. In addition to the governance component of the NDP, the authorities are implementing PFM reforms covering all budget functions (PAMFIP). The Action Plan for Public Financial Management Modernization (*Plan d'Action pour la Modernisation de la Gestion des Finances Publiques* – PAMFIP) is an umbrella GoC program designed to consolidate and deepen ongoing and planned PFM activities. It covers actions aimed at improving the quality of PFM and strengthening institutional capacity in order to leverage the impact of public spending, including oil revenues, to meet the Millennium Development Goals (MDGs). In support of the NDP and as a continuation of the PAMFIP, a 2013-2016 strategy for the development and modernization of public finances was prepared in 2013. Organized around 19 components, its overall objective is to “establish a rigorous, efficient, effective, and transparent public financial management system, which is in conformity with international standards”. The following components of the strategy are closely aligned with the reforms supported by the proposed operation: (i) the adoption and implementation of CEMAC directives related to governance and transparency (Component 1); (ii) the optimization of domestic resource mobilization (Component 4); and (iii) the rationalization of public expenditure management, including the public payroll system, the strengthening of fiscal discipline and the modernization of public procurement systems (Component 9).

4. THE PROPOSED OPERATION

A. LINKS TO THE GOVERNMENT’S PROGRAM AND OPERATIONAL DESCRIPTION

4.1 The proposed FCPSG is a standalone operation designed to support the continued implementation of the 2013-2015 NDP. The operation focuses on two of the four strategic axes of the government’s program: Axis 1, the creation of new productive capacities and opportunities for decent jobs, and Axis 4, improved governance. The Program Development Objectives (PDOs) are to help maintain stability on fiscal and macroeconomic fronts including protecting critical government’s programs and set the basis for medium term reforms. This will be achieved by: (a) broadening the tax base; (b) improving the rationalization of public spending and transparency in public resource management; and (c) improving new business registration. Each of these objectives will contribute, either directly or indirectly, to reducing extreme poverty and promoting shared prosperity.

4.2 The design of the proposed operation draws on lessons learned from the Implementation Completion Report for Chad’s last DPO in 2004-2005.²⁰ The Institutional Reform Support Credit (IRSC) aimed to support the authorities’ efforts to improve governance and ensure strong and sustained growth in the nonoil sector. Its outcome was rated unsatisfactory, which the evaluation attributes to the deterioration of the security situation, the slow development of national capacity, and a weakening GoC commitment to the reform process, which led to poor budget execution and a liquidity crisis. Key lessons learned include the importance of combining policy lending with comprehensive PFM support, and the need to recognize the continued exposure

²⁰ World Bank (2006), “Implementation Completion Report on a Credit in the Amount of US\$25 million to the Republic of Chad for an Institutional Reform Support Credit”, report No. 36604, Washington D.C.

of such operations to security risks that cannot be fully mitigated. Similarly, evaluations of the Country Assistance Strategy for FY04-06 and the Interim Strategy Note for FY10-12 highlight the need to put risk management at the center of bank’s interventions and build flexibility into the design of country programs and implementation mechanisms.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.3 Each of the policy areas covered by the proposed FCPSG is informed by extensive analytical work carried out by the World Bank Group, the IMF, AfDB, EU and other development partners, and the GoC. Recent studies have played an important role in the operation’s design. Table 4.1, below, lists all FCPSG prior actions and summarizes the analytical basis for each.

Table 4.1: FCPSG Prior Actions and Analytical Underpinnings

FCPSG Prior Actions	Analytical Underpinnings
Pillar 1: Broadening the tax base	
1. The Recipient’s Ministry of Finance has adopted the results of the nationwide enterprise census for taxpayer identification and registration purposes, thereby expanding the taxpayer base and increasing non-oil tax revenues.	<p><i>IDA and IMF (2015), “Republic of Chad: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative”, April, Washington DC</i> <i>AfDB, 2013: Tchad – mobilisation des ressources publiques intérieures hors pétrole; IMF, 2010: Évaluation de la fiscalité intérieure (hors secteur pétrolier) et prévision des recettes pétrolières dans le cadre fiscal actuel, PEFA 2009</i></p> <p>Tax reforms could exploit a largely untapped potential nonoil revenue base, improving the mobilization of public revenue while also promoting a more neutral and equitable distribution of taxes. Tax policies should focus on broadening the tax base, minimizing discretionary actions in tax policy design, and simplifying the tax structure.</p>
2. The Recipient’s Council of Ministers has adopted and submitted to parliament for enactment the tax code consolidating all tax related fiscal regulations, leading to a more comprehensive and transparent taxation system.	<p><i>AfDB, 2013: Tchad – mobilisation des ressources publiques intérieures hors pétrole au Tchad; IMF, 2010: Évaluation de la fiscalité intérieure (hors secteur pétrolier) et prévision des recettes pétrolières dans le cadre fiscal actuel, PEFA 2009</i> <i>World Bank Group (2015), “Chad Systematic Country Diagnosis – SCD” – “Country Partnership Framework FY16-FY20”, Washington DC</i></p> <p>Strengthening nonoil revenue requires a complete revision of the General Tax Code. Chad’s tax rates are high by regional and international standards. Even the VAT regime, introduced in 2000, is weakened by numerous exemptions. Moreover, the multiplication of taxes, fees and charges is inefficient and incompatible with a healthy business climate.</p>
Pillar 2: Improving the rationalization of public spending and transparency in public resource management	
3. The Recipient’s Ministry of Finance has validated the data collected through the civil servant biometric census and included such data in the integrated human resource and payroll management system (SIGASPE).	<p><i>PAMFIP, 2013b: Rapports d’assistance technique dans le cadre de missions de renforcement des capacités des structures de contrôle des Finances Publiques</i></p>

FCPSG Prior Actions	Analytical Underpinnings
	<p>5 Civil servant salaries represented 70 percent of nonoil revenues in 2014. Rationalizing public expenditure management, especially the civil servant payroll, requires linking the resource management system and the payroll database.</p>
<p>4. The Recipient’s Council of Ministers has adopted the procurement code which, among other things, separates the procurement regulation function from the control function, leading to a more efficient system.</p>	<p><i>PAMFIP, 2014: rapport sur le code des marches publics; World Bank, 2011, Using Public Resources for Economic Growth and Poverty Reduction; World Bank, 2015, Chad Systematic Country Diagnostic</i></p> <p>In 2012, more than 82 percent of total procurement contracts (by value) were awarded through single-source procurement. According to Bank analytical work, public procurement reform could reduce costs by 10 percent.</p>
<p>5. The Recipient’s Council of Ministers has adopted the public accounting regulation “<i>Reglement General sur la Comptabilite Publique</i>” as part of the strategy to achieve compliance with CEMAC Directives on public finance.</p>	<p><i>International Development Association and International Monetary Fund (2015), The Republic of Chad: Joint Staff Advisory Note on the National Development Plan 2013-15, Report #78692-TD, Washington D.C</i></p> <p>The authorities made significant progress in implementing PFM reforms in 2013. Nevertheless, PFM systems need to be further reinforced to enhance the efficiency of public spending. The authorities have expressed their commitment to additional reforms, including the adoption of all remaining CEMAC directives: Governance and Transparency; General Regulations on Government Accounting; Budgetary Nomenclature; Government Financial Operations; Government Chart of Accounts.</p>
<p>6. The Recipient’s Council of Ministers has appointed members of the Court of Accounts and allocated appropriate budget to ensure the operationalization of the Court of Accounts.</p>	<p><i>PAMFIP, 2013c: Rapports d’assistance technique dans le cadre de missions de renforcement des capacités des structures de contrôle des Finances Publiques; UNDP Report</i></p> <p>The government must further support and improve the legal framework and operational capacity of the Supreme Audit Institution (Court of Accounts). Ensuring the independence of the supreme audit institution, including through adequate funding, should be a top priority.</p>
Pillar 3: Improving new business registration	
<p>7. The Recipient’s Council of Ministers has adopted decrees aimed at: (a) reducing the number of procedures required to legally start and operate a company; b) reducing the paid in minimum capital requirement to start a business; and (c) allowing for the establishment of an online system for publishing registration notice of companies and making the use of notary services for physical publication of a newly created company in Recipient’s gazettes and newspapers optional.</p>	<p><i>Klapper, Leora, and Inessa_Love. 2011. “The Impact of Business Environment Reforms on New Firm Registration.” Policy Research Working Paper 5493, World Bank. 2014. Doing Business 2015: Going Beyond Efficiency. Washington, DC: World Bank</i></p> <p>The ease of registering a business has a major impact on market entry. The time, cost, and number of procedures required to start a business are important predictors of the number of new firm registrations. Furthermore, the 2015 <i>Doing Business</i> report notes that formal registration has substantial benefits for businesses and for the economy as a whole, and as more businesses formalize, the tax base expands.</p>

Pillar 1. Broadening the tax base

Prior Action #1: *The Recipient's Ministry of Finance has adopted the results of the nationwide enterprise census for taxpayer identification and registration purposes, thereby expanding the taxpayer base and increasing non-oil tax revenues.*

Prior Action #2: *The Recipient's Council of Ministers has adopted and submitted to parliament for enactment the tax code consolidating all tax related fiscal regulations, leading to a more comprehensive and transparent taxation system.*

Context and challenges

4.4 **In recent years the government has worked to increase nonoil revenue.** The authorities have developed an action plan for the fight against fraud and pursued capacity building among the major revenue authorities, including the General Directorate of Taxes. These efforts increased nonoil revenue from 8.1 percent of nonoil GDP in 2012 to 9.5 percent in 2014. The authorities have launched a taxpayer identification census to update and expand the tax base. The GoC also launched the Standard Integrated Government Tax Administration System (SIGTAS), a computerized tax administration system. Chad's nonoil corporate income tax (CIT) rate of 40 percent, the highest in the region, was lowered to 35 percent in 2015.

Reforms and medium-term objectives

4.5 **The proposed operation supports the GoC's efforts to further expand the tax base and improve the tax code, which will enhance transparency and increase fiscal revenue.** The current tax code was adopted in 2006 and is not aligned with the new Organic Finance Law (*Loi Organique relative aux Lois de Finance – LOLF*) enacted in 2014, which is based on CEMAC directives on public finance. Subsequent budget laws have introduced further changes into the tax code and related fiscal procedures, clarifying the rights and obligations of taxpayers, and establishing mechanisms to resolve disputes and redress grievances. Multiple revisions to the legislation have led to confusion and conflicting interpretations, prompting the GoC to comprehensively overhaul the tax code and simplify fiscal procedures in an effort to broaden the tax base. The objective of these measures is to facilitate nondiscriminatory tax enforcement and increase taxpayer compliance.

4.6 **The proposed operation also supports actions undertaken by the GoC to better manage taxpayer information.** Chad has a narrow tax base of about 11,200 firms, of which about 250 are responsible for about half of all nonoil tax revenues. Current policies discourage taxpayer registration. Of the 16,310 individuals who pay the General Withholding Tax, only 5 percent have a Fiscal Identity Number. Other public agencies (procurement, customs, treasury, etc.) are not obliged to use the Fiscal Identity Number, reducing incentives to formalize. According to the 2015 *Doing Business* report the total tax rate on profits was 63.5 percent, or 1.5 times the Sub-Saharan Africa (SSA) average. Since 2014, the government's statistical agency has undertaken a nationwide census of enterprises, to broaden the tax base and increase tax revenue collection. A total of 32,000 enterprises have been recorded thus far, and this data will be made available to the tax administration to identify, locate and register new taxpayers.

Expected results for Prior Actions #1 and Prior Action #2:

(i) An increase in the number of taxpaying firms recorded in the government's taxpayer database from 11,200 in 2014 to at least 15,000 by end-December 2017; (ii) An increase in the rating of the PEFA Indicator P13-I: Clarity and comprehensiveness of tax liabilities from D in 2014 to B by end-December 2017.

Pillar 2. Improving the rationalization of public spending and transparency in public resource management

Prior Action #3: The Recipient's Ministry of Finance has validated the data collected through the civil servant biometric census and included such data in the integrated human resource and payroll management system (SIGASPE).

Context and challenges

4.7 Chad has made significant progress in implementing PFM reforms since 2013. The authorities have achieved concrete results in eight key areas: (i) the establishment of a robust macro-fiscal framework and the development of operating manuals for public expenditure management; (ii) the passage of the Organic Law related to Finance Laws (*Loi Organique relative aux Lois de Finance – LOLF*); (iii) the creation of a computer center within the Ministry of Finance; (iv) the computerization of the public expenditure chain (*Circuit Intégré de la Dépense – CID*), which covers the four phases of the spending cycle, including payments, as well as connecting different units of the Ministry of Finance to six other ministries and the Treasury, and linking the Integrated Financial Management Information System (IFMIS) and the Integrated Human Resource and Payroll Management System (*Système Intégré de Gestion Administrative et Salariale du Personnel de l'Etat – SIGASPE*); (v) the production and publication of quarterly budget execution reports; (vi) the publication of the annual budget; (vii) the establishment of, and general compliance with, a budget preparation calendar, as well as timely approval of the annual budget by Parliament; and (viii) the progressive computerization of the accounting system. The authorities have also improved PFM controls, and in 2014, the GoC submitted Budget Settlement Laws for 2003-2012 to Parliament. The 2013 draft Budget Settlement Law was prepared and submitted to the Court of Accounts in 2015. The recent creation of the Court of Accounts—previously the Chamber of Accounts, an audit section of the Supreme Court—is also expected to improve external PFM control.

4.8 Despite these efforts, PFM systems need to be further reinforced to enhance the effectiveness and the efficiency of public spending. The legal framework for PFM improved with the passage of the LOLF, but the modernization process has yet to be finalized. Budget execution has been hampered by the repeated use of emergency spending procedures, and the volatility of oil revenue and the seasonality of spending have led to difficulties in cash-flow management. The operationalization of the SIGASPE will improve human resource management and could contribute to strengthening control of the public payroll, but it will need to be complemented by the finalization of the civil servant census.

Reforms and medium-term objectives

4.9 The proposed operation supports the authorities' efforts to improve payroll management. Following the implementation of the SIGASPE in 2014, the authorities launched a biometric census of the civil service. This census identified a number of ghost workers, civil servants with jobs in the private sector, and civil servants receiving multiple salaries. Together, these inefficiencies cost the government an estimated FCFA 17 billion in 2014 alone, or 5 percent of the total wage bill. These civil servants were given the opportunity to regularize their situation, and following the completion of this process in 2015, the payroll and human resources database will definitively reflect the findings of the biometric civil servant census.

Expected results for Prior Action #3:

A reduction in the rating of the PEFA indicator P18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers from D in 2014 to B by end-December 2017.

Prior Action #4:

The Recipient's Council of Ministers has adopted the procurement code which, among other things, separates the procurement regulation function from the control function, leading to a more efficient system.

Context and challenges

4.10 The legal, institutional and regulatory framework for public procurement in Chad needs to be modernized. The existing procurement code was adopted in 2003, and it must be updated to incorporate international standards and to better reflect the national context. The existing code contains several flaws that are contributing to inefficiencies in public procurement. These include: (i) the absence of a clear definition of roles for the different actors involved in the procurement process and an overly complex set of procedures; (ii) the lack of an independent institution in charge of the regulation of public procurement and separate from the control of public procurement; (iii) the absence of regional procurement bodies; (iv) the lack of clear and effective provisions for independent audits and public procurement controls; (v) very low procurement thresholds, requiring that even relatively small contracts must be signed by the Head of State; and (vi) the absence of clear rules for when single-source procurement can be used. Consequently, procurement in Chad is highly inefficient, and single-source procurement accounted for 82 percent of total procurement (by value) in 2012.

4.11 The authorities have made efforts to improve the efficiency of public procurement. The government resumed the publication of quarterly and annual public procurement reports in 2012 and has taken steps to reduce the use of single-source procurement. Consequently, the share of single source procurement in total procurement (by value) dropped from 82 percent in 2012 to 43 percent in 2013 and 33 percent in 2014.

Reforms and medium-term objectives

4.12 The proposed operation supports reforms designed to improve public spending by reforming the procurement system. The new procurement code will be based on the principles of equal treatment, nondiscrimination, economy, efficiency and transparency. This new code will

cover the public procurement process from planning to contract award, it will regulate the institutional framework for procurement, define the overall organization of the procurement system and provide adequate provisions for contract implementation. Furthermore, it will establish clear guidelines for the use of single-source procurement in line with international standards.

Expected results for Prior Action #4:

A reduction in the value of single-source procurement contracts as a share of total contracts from 33 percent in 2014 to 25 percent by end-December 2017.

Prior Action #5: *The Recipient's Council of Ministers has adopted the public accounting regulation "Reglement General sur la Comptabilite Publique" as part of the strategy to achieve compliance with CEMAC Directives on public finance.*

Context and challenges

4.13 **The GoC is in the process of further improving its PFM system by gradually aligning it with CEMAC directives.** Ensuring that Chad's PFM system is capable of responding effectively to macroeconomic shocks is a major challenge, and thus the GoC is trying to align its national legislation with CEMAC directives for PFM. These directives aim to: (a) harmonize the rules for budget preparation, presentation, approval, execution, control and reporting in all member states; (b) promote effective and transparent PFM in all member states; and (c) enable comparisons of public finance data between member states. The directives encompass annual budget laws, public accounting regulations, budget classifications, chart of accounts, summary fiscal table and transparency code. These directives incorporate modern PFM concepts and techniques such as program-based budgeting, medium-term budget and expenditure frameworks, accrual accounting, delegation of the Minister of Finance's power to order payments to other ministers, and the treasury single account system. Alignment with the CEMAC directives will ensure that country systems comply with international PFM standards.

Reforms and medium-term objectives

4.14 **The proposed operation will support the GoC's efforts to address the weaknesses identified in the 2009 Public Expenditure and Financial Accountability (PEFA) report, strengthening the government's budget management capacity.** In an increasingly difficult macroeconomic context, Chad will need to improve its ability to cope with negative shocks. Over the medium term, implementing the CEMAC directives will: (i) contribute to more realistic and sustainable budget forecasts, (ii) establish the basis for multi-year budgeting and economic planning, better align the allocation of budgetary resources with policy objectives, and (iii) increase accountability among budget agencies and officials. Specifically, this operation supports the adoption of new general rules public accounting which will be essential in the budget preparation and execution process. Providing greater authority to line ministries may also increase efficiency in a context of program-based budgeting and sound expenditure management. Curtailing the use of emergency spending is a key priority, as is addressing cash-flow management issues that may lead to the accumulation of domestic arrears.

Expected results for Prior Action #5:

An increase in the proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days in 2014 to 65 percent by end-December 2017.

Prior Action #6:

The Recipient's Council of Ministers has appointed members of the Court of Accounts and allocated appropriate budget to ensure operationalization of the Court of Accounts.

Challenges

4.15 In recent years the authorities have improved the quality of budget reporting and external controls. New finance laws were passed 2014 and 2015 that including budget annexes providing detailed revenue and expenditure tables, which were posted on the website of the Ministry of Finance.²¹ Quarterly budget execution reports are also regularly posted, as well as quarterly procurement bulletins. The country also adhered to the African Peer Review Mechanisms in 2013 and achieved compliance with the Extractive Industries Transparency Initiative in October 2014. Lacking adequate human, financial and material resources, the former Court of Accounts was unable of properly oversee the activities of state-owned enterprises (SOEs). Following the recent constitutional amendment, the Chamber of Accounts has been moved out of the Supreme Court and transformed into an autonomous Court of Accounts with its own jurisdiction, in accordance with CEMAC directives. The backlog of Budget Settlements Laws (2003-2012) was audited and submitted to the National Assembly in 2014.

4.16 The establishment of the Court of Accounts created the conditions for an independent evaluation of budget execution. The ability of the Court of Accounts to issue a certificate of conformity presents opportunity to compare the accounts held by the budget administrator (budget execution report – *comptes administratifs*) with those held by the public accountants (accounting statements – *comptes de gestion*). While the Court of Accounts is now functional, it needs to be strengthened and endowed with sufficient resources and capacities to assess central and local GoCs' accounts as well as the SOEs' financial situation. The results and recommendations of various analyses of PFM in Chad (e.g. the CFAA, PEFA, PER, ROSC A&A, etc.) as well as the Court of Accounts assessment completed in March 2015 by the UNDP Growth Pole, emphasize the need to support and improve the legal framework as well as the operational capacity of the Supreme Audit Institution, i.e. the Court of Accounts. They also underscore the importance of having a fully operational Court of Accounts to improve external oversight of the use of public resources.

4.17 More efforts are needed to satisfy the budget reporting and external control requirements set forth in the LOLF and to promote a culture of executive accountability in Chad's fragile context. Article 66 of the LOLF stipulates that the Budget Settlement Law for each year must be submitted to Parliament before the Budget Law of the following year. The GoC has established a dedicated committee to prepare the Budget Settlement Laws and ensure their timely submission. However, this committee's capacity is insufficient to meet this target in the short run, prompting the GoC to reestablish the practice of submitting Budget Settlement Laws to Parliament

²¹ See <http://www.finances.gouv.td/index.php/fr/documents-d-informations-generales/budget-et-loi-de-finances>.

from two year prior to the current Budget Law. The GoC has made important progress by producing and submitting to the National Assembly the draft Budget Settlement Law for 2013.

4.18 The reforms and medium-term objectives supported by the proposed operation are designed to strengthen the legal framework and capacity of the Court of Accounts. This will enable it to carry out its mandate of auditing and reviewing the accounts of the national government, local governments and SOEs in a timely manner. This will ensure greater transparency in the use of public funds, and up-to-date reports will be published regularly on the Court of Accounts' website. The operationalization of the Court of Accounts will support the GoC in meeting its legal obligation to submit budget execution reports and accounting statements.

Expected results for Prior Action #6:

A reduction in the number of months to issue compliance certificates on budget settlement laws from 4 months in 2015 to 1 month by end-December 2017.

Pillar 3. Improving new business registration

Prior Action #7:

The Recipient's Council of Ministers has adopted decrees aimed at: (a) reducing the number of procedures required to legally start and operate a company; b) reducing the paid in minimum capital requirement to start a business; and (c) allowing for the establishment of an online system for publishing registration notice of companies and making the use of notary services for physical publication of a newly created company in Recipient's gazettes and newspapers optional.

Challenges

4.19 Chad's current business environment is not favorable to the development of the nonoil sector. A private-sector-led diversification of the Chadian economy remains critical to reducing oil dependency and building resilience against oil-price shocks. Chad's private sector is underdeveloped and dominated by a few large firms in a limited number of industries (breweries, sugar mills, cigarette manufacturers), and services (construction and public works, financial services and oil). A number of SMEs are active in the agribusiness, construction materials, and handicrafts industries, and a large number of small companies operate in the informal sector in a wide range of activities, including small-scale manufacturing, trade and services. While the private sector should be an engine for growth in the nonoil economy, its development is hampered by an unfavorable business environment. Chad was ranked 185th out of 189 countries in the 2015 *Doing Business* report, illustrating how difficult it is for local entrepreneurs to establish and operate firms while complying with relevant regulations. Private sector organizations cite high administrative costs, cumbersome regulatory burdens and deficiencies in the commercial judicial system as major constraints to doing business.²² Inadequate infrastructure and low levels of human capital present further obstacles to the development of the formal economy, and corruption among public officials may encourage entrepreneurs to remain in the informal sector. About 30 percent of entrepreneurs in the urban informal sector report that formalization is too costly, and that registration procedures

²² Conseil National du Patronat Tchadien, 2011.

(with the tax, business and social security administrations) are too long and complex, while a remarkable 50 percent are apparently unaware that they are required to register their businesses.²³ While informal firms avoid tax and regulatory burdens, they are also exposed to higher risks (including corruption) and tend to have lower investment opportunities.

Reforms and medium-term objectives

4.20 In recent years, the GoC has pursued a number of reforms designed to improve the business climate. The GoC launched an ambitious reform program in 2011 aimed at fostering private sector growth and diversifying the economy. These reforms focused on establishing appropriate frameworks for private sector development, and an action plan adopted in 2012 specified 13 resolutions for improving the business environment. Some progress has been achieved in this agenda, including the establishment of a one-stop shop for business registration, the elimination of the requirement for a medical certificate and a reduction in the property-transfer tax. Access to credit in Chad was improved through amendments to the OHADA Uniform Act on Secured Transactions, which broaden the range of assets that can be used as collateral (including future assets), extended the security interest to the proceeds of the original asset and introduce the possibility of out-of-court enforcement. Chad strengthened minority investor protections by introducing greater requirements for disclosure of related-party transactions to the board of directors and by making it possible for shareholders to inspect all documents pertaining to related-party transactions and to appoint auditors to inspect such transactions. As noted above, the GoC also decreased the income tax rate from 40 percent to 35 percent in 2015 in order to expand the tax base.

4.21 The GoC is continuing to implement regulatory reforms to make it easier to start a business. Despite recent efforts to streamline registration processes, according to *Doing Business*, in 2015, starting a business in Chad requires 9 procedures, takes 60 days, costs 165.6 percent of annual income per capita and requires paid-in minimum capital equal to 201.7 percent of income per capita. These costs constitute a serious barrier to entrepreneurship. Reforms facilitating business startup are associated with higher rates of firm creation,²⁴ which in turn is strongly associated with job creation and economic growth, especially for SMEs. Encouraging formalization can also expand the tax base, mitigating the impact of oil-price shocks on public revenues. The proposed operation aims to support the GoC to streamline business registration by reducing the procedural requirements to establish and operate a firm, reducing the paid-in minimum capital requirement to start a business, and adopting the Competition Act, which aims to curb anticompetitive practices. The Competition Act will complement the new procurement code. Due to the large impact of public procurement on Chad's private markets, more competitive procurement systems will increase competition throughout the economy. All of these reforms aim to promote formalization and encourage entrepreneurship, thereby broadening the tax base. However, further reforms will be required to address all major obstacles to formalization.

²³ INSEED 2013c. One could infer that such unawareness is a reflection of the complexity of the system, exposing firms to arbitrary enforcement. One could further infer that if they were aware of their obligations, previously unaware firms would make the same choice as 60 percent of aware firms, which is to stay informal.

²⁴ Klapper, Leora, and Inessa Love. 2011. "The Impact of Business Environment Reforms on New Firm Registration." Policy Research Working Paper 5493, World Bank, Washington, DC.

Expected results for Prior Action #7:

An increase in the number of newly registered businesses from 3,959 in 2014 to 5,000 by end-December 2017.

Table 4.2: Implementation Status of Prior Actions

Prior Actions	Implementation Status/Evidence
1. The Recipient's Ministry of Finance has adopted the results of the nationwide enterprise census for taxpayer identification and registration purposes, thereby expanding the taxpayer base and increasing non-oil tax revenues.	Implemented <u>Evidence:</u> A letter from the Ministry of Finance endorsing the final report of the nationwide enterprise census and the report itself.
2. The Recipient's Council of Ministers has adopted and submitted to the National Assembly for enactment the general tax code consolidating all tax related fiscal regulations, leading to a more comprehensive and transparent taxation system.	Implemented <u>Evidence:</u> The Draft law related to the general tax code adopted by Recipient's Council of Ministers on September 11, 2015. A communiqué from Council of Ministers dated September 11, 2015 confirming the adoption of the draft law.
3. The Recipient's Ministry of Finance has validated the data collected through the civil servant biometric census and included such data in the integrated human resource and payroll management system (SIGASPE).	Implemented <u>Evidence:</u> A letter from the Recipient's Minister of Finance describing the main conclusions of the final report of the civil servant biometric census and acknowledging their integration in SIGASPE. Monthly wage-bill statements from SIGASPE by ministry and civil servant category from end-December 2014 to June 2015.
4. The Recipient's Council of Ministers has adopted the procurement code which, among other things, separates the procurement regulation function from the control function, leading to a more efficient system.	Implemented <u>Evidence:</u> A decree on the new Procurement Code, adopted by the Council of Ministers on September 11, 2015. A communiqué from the Recipient's Council of Ministers dated September 11, 2015 confirming the adoption of the code.
5. The Recipient's Council of Ministers has adopted the public accounting regulation " <i>Reglement General sur la Comptabilite Publique</i> " as part of the strategy to achieve compliance with CEMAC Directives on public finance.	Implemented <u>Evidence:</u> The Decree related to the public accounting regulation " <i>Reglement General sur la Comptabilite Publique</i> " adopted by the Recipient's Council of Ministers in April 2015.
6. The Recipient's Council of Ministers has appointed members of the Court of Accounts and allocated appropriate budget to ensure the operationalization of the Court of Accounts.	Implemented <u>Evidence:</u> The decrees appointing the members of the Court of Accounts; Budget lines in the 2015 Budget Law.
7. The Recipient's Council of Ministers has adopted decrees aimed at: (a) reducing the number of procedures required to legally start and operate a company; (b) reducing the paid in minimum capital requirement to start a business; and (c) allowing for the establishment of an online system for publishing registration notice of companies and making the use of notary services for physical publication of a newly created company in Recipient's gazettes and newspapers optional.	Implemented <u>Evidence:</u> (i) A decree adopted on May 28, 2015 reducing the number of procedures required to legally establish and operate a firm. (ii) A decree adopted on May 28, 2015 reducing the minimum capital requirement to start a business. (iii) A ministerial decree signed by the Prime Minister in May 2015 authorizing the use of an online system for publishing registration notices and making the notarization and physical publication of these notices optional.

C. LINKS TO THE CPF AND OTHER BANK OPERATIONS

4.22 **Links to the Country Partnership Framework.** The CPF for FY16-20 will be discussed at the Board on December 10, 2015 along this operation, as a successor of the interim strategy note for FY10-12. The CPF has three themes of engagement: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability. The proposed operation is identified in the CPF as a major contributor to the first pillar through the improvement of the public resources management.

4.23 **The proposed operation is part of a larger effort to strengthen Chad's PFM systems and enhance its business climate.** Following the Bank's approval of US\$10 million additional financing of the Public Financial Management Capacity Building Project in 2014, total support to GoC now amounts to US\$20 million. The original financing package was instrumental in establishing the computerized financial management system and in preparing the Organic Law related to Finance Laws (*Loi Organique relative aux Lois de Finance – LOLF*). Structured around two components, the additional financing of the Public Financial Management Capacity Building Project provides technical assistance, training and capacity building to support implementation of the LOLF and CEMAC directives. Additional support is being provided to design sector strategies and a medium-term budget framework for selected ministries. Public investment management and debt management capacity is also being strengthened. The additional financing of the Public Financial Management Capacity Building Project will support the consolidation and expansion of IFMIS to incorporate 23 additional ministries and public agencies, as well as upgrades to comply with the requirements of the LOLF.

D. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

4.24 **Consultations.** The proposed operation supports the objectives of the NDP, which was developed through an inclusive participatory process. The authorities consulted extensively with a wide range of stakeholders to ensure the broadest possible buy-in during the preparation of the NDP. Consultations held in 2012 and early 2013 involved Members of Parliament, local government officials, and representatives of civil society, the private sector, and Chad's development partners. A similar participatory process was undertaken in 2014 and 2015 during the preparation of the NDP's annual monitoring and evaluation reports. In designing the proposed operation, Bank staff took advantage of the consultative process and undertook several substantive discussions with stakeholders involved in defining the reform agenda, especially regarding PFM.

4.25 **Collaboration with Development Partners.** The proposed operation was prepared in close collaboration with the IMF, EU and AfDB. At the request of the authorities a joint identification mission was organized in June 2015 to discuss prior actions and establish a common calendar for monitoring progress. A follow-up preparation mission was closely coordinated with the EU, AfDB and IMF staff also participated in the mission in order to ensure maximum synergy with the ongoing ECF program. During the preparation of the proposed operation the Bank team consulted with a broad set of development partners through a macroeconomic and budget sector working group, building on the forums developed during the HIPC process. Close coordination with development partners was also instrumental in developing the schedule for Board presentation, prospective approval and disbursement by December 2015.

5. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

5.1 **The proposed operation is expected to have a broadly positive impact on poverty reduction.** The proposed operation is expected to contain the negative impact on poverty and the urban poor in particular, through a number of channels. First, it would reduce the severity of the fiscal adjustment by providing budget support at a critical juncture. Second, it would reduce the risks of unordered adjustment that could take the form of massive arrears accumulation and severely disrupt the functioning of the urban economy. Third, the proposed operation would indirectly contribute to maintain minimum levels of security and pro-poor expenditures as budgeted in Finance laws 2015 and 2016, thus reducing risks of increased fragility and disruption in basic service delivery. In the longer run, measures supported by the operation are also expected to generate efficiency gains and fiscal space that could be used to strengthen the resilience of the economy against shocks and finance larger pro-poor interventions in public health, education, social protection and agriculture. Given the progressive nature of the tax system, the broadening of the tax base is expected to primarily target large entrepreneurs currently evading their tax obligations and is not expected to affect the poor entrepreneurs. Its simplification through the adoption of the general tax code should also protect entrepreneurs against abusive taxation, while the reduction of the number of administrative steps to register a business would provide informal entrepreneurs the opportunity to access finance and insurance to grow and better protect their businesses against shocks. The adoption of a modern procurement code is also expected to improve the value for money of public expenditures, including pro-poor expenditures.

5.2 **The reforms which are included in this operation are expected to have a positive impact on gender equality.** Like in most of African countries, in Chad, some gender issues are partially driven by an insufficient allocation of resources to key services. The proposed DPO aims at supporting the rationalization of public spending while protecting pro-poor expenditures includes measures to promote improved public finance management. These measures will contribute to gradually correct gender disparities through better resource allocation in education and in health that can ease girls' and women's access to basic social services.

B. ENVIRONMENTAL ASPECTS

5.3 **The measures supported by the proposed operation are not expected to have any negative impact on the environment.** None of the measures supported by the operation are expected to affect the quality of Chad's forests, fisheries, water supplies or other environmental resources. However, the operation's focus on ensuring adequate fiscal space to preserve pro-poor spending and maintain the government's capacity for effective social protection policy could indirectly support environmental objectives by mitigating the need for rural households to resort to environmentally unsustainable practices in the event of a natural disaster or a shock to agricultural production.

5.4 **The GoC's reform agenda encompasses a robust institutional framework for environmental protection.** The NDP includes a pillar dedicated to environmental protection and adaptation to climate change built on four key elements: (i) the protection of Lake Chad and other critical ecosystems; (ii) improved land management in rural and urban areas; (iii) the mitigation of

risks related to natural disasters; and (iv) the fight against desertification and the conservation of biodiversity. The 1998 Environmental Code was augmented in 2009 by a decree on pollution and environmental damage. The use of charcoal is officially forbidden in Ndjamena to minimize indoor air pollution, and the country is promoting the use of improved cooking stoves. Nevertheless, indoor air pollution remains a major health risk, and access to clean fuels is limited. The Environmental Code also defines principles for solid and hazardous waste management, though these are poorly enforced. The GoC promulgated a Forestry Law in 2008 that clearly distinguishes between conservation and production activities.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.5 Chad's PFM systems have improved significantly and are now adequate to support development policy operations. Over the last three years the GoC has demonstrated a credible commitment to effective PFM. Its resolve has been illustrated in the collaboration with development partners to support of the implementation of PFM reforms both during and after the HIPC completion process. Key improvements over the past three years have been made in the areas of budgeting, information management, financial reporting and external controls. The budget system is better linked to policy priorities and uses a revised nomenclature that facilitates inter-sectoral collaboration and enables the functional classification of NDP investments. The introduction of payroll management software linked with IFMIS generated a savings of about CFAF 17 billion in 2014 alone. The use of new computerized payment systems (SYSTAC and SYGMA) have improved the Treasury's performance by reducing payment delays and enabling better recordkeeping. Fiscal reporting and external controls have also been improved and made more transparent through the regular publication of budget documents and annual reports. Finally, the Court of Accounts established in 2013 is currently being operationalized with support from Chad's development partners. The implementation of the action plan for operationalizing the Court of Accounts will enhance the effectiveness and efficiency of the country's supreme audit institution. As a result of these efforts, on the CPIA, Chad's rating on Question 13 (quality of budget and financial management) increased from 2.5 in 2013 to 3.0 in 2014, confirming the important progress made in strengthening PFM.

5.6 Although there is cause for cautious optimism, it will take time for many of these reforms to yield substantial improvements in PFM performance. As indicated in the 2012 Debt Management Performance Assessment and other diagnostic studies,²⁵ Chad's PFM system still faces a number of challenges, including: (i) the poor performance of the current computerized accounting systems, which are not yet linked to the computerized expenditure chain. Thus, this is negatively impacting the quality and timeliness of financial statements; (ii) the inadequate quality of information on the central government's budget and financial activities during the course of the fiscal year; (iii) the need to directly involve sector ministries and civil society organizations in the budget formulation process, which will be addressed through the recently launched "citizens budget"; (iv) incomplete budget execution reports, including for donor-financed operations; and (v) weak internal and external controls. With the support of the Bank's PARCAFIP project (P090265), the government will conduct a PEFA by end of calendar year 2015 based on the new methodology

²⁵ These diagnostics include the report on Strengthening the Chain of Expenditure (*Professionnaliser la gestion pour préparer le budget programme*), Département des Finances Publiques (FAD) FMI- Septembre 2014.

developed in January 2015. This assessment will provide detailed information on the current status of the country's PFM systems.

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

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

5.9 Disbursement and Accounting. The Recipient is the Republic of Chad, represented by the Ministry of Finance and Budget. The grant will be released in a single tranche of SDR 35.8 million (US\$50 million equivalent) upon effectiveness and provided that IDA is satisfied (i) with the program being carried out by the Recipient and (ii) with the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow IDA's standard disbursement procedures for development policy operations. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated account of the GoC for budget support at the central bank (the BEAC), which will form part of the country's foreign-exchange reserves. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement. The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system in a manner acceptable to the Bank. Based on previous experience, the

execution of such transactions between the BEAC and the Ministry of Finance and Budget do not require more than four (4) days. The Recipient will report to the Bank on the amounts deposited in the foreign-currency account and credited in local currency (CFAF) to the budget management system. If the withdrawal request is in foreign currency, the equivalent amount in CFAF reported in the budgetary system will be based on the market rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty (30) days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to the World Bank. If, after being deposited in this the account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the Bank upon such a request will be canceled.

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

D. MONITORING AND EVALUATION

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

5.12 Grievance Redress. Communities and individuals who believe that they have been 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 World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank's 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, 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 RISK MITIGATION

6.1 The overall risk rating for the proposed operation is high. Political and governance, macroeconomic as well as institutional capacity for implementation and sustainability risks are of particular concern and could jeopardize the expected outcomes of the operation.

Table 6.1: Proposed Operation Risks Ratings

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

6.2 Political, Governance and Security Risks. Increased insecurity along the borders with Nigeria and Cameroon caused by Boko Haram compound an already fragile situation at the borders with Libya, Central African Republic and, to a lesser extent, Sudan. These issues, in addition to domestic security concerns, could divert scarce institutional and financial resources away from the reform program. Insecurity and conflict could destabilize the public finances, narrow the resource envelope for pro-poor spending and increase the risk of arrears accumulation. A combination of fiscal adjustment and the impact of regional conflicts²⁶ could also undermine political stability in the run-up to the presidential elections scheduled for April 2016, which may further intensify pressure to relax fiscal discipline.

6.3 Macroeconomic risks. Continued oil-price volatility, exogenous shocks in the agricultural sector, an unexpected disruption in the debt relief and rescheduling process, or an underestimation of the adverse impact of fiscal consolidation could compromise the government’s ability to finance its planned expenditures. In addition, the expenditure demands of addressing a macroeconomic disruption could divert resources away from priority social programs and institutional capacity-building efforts. Chad’s limited fiscal buffers and the expectation of a continued slump in global oil prices heighten macroeconomic risks.

6.4 Institutional capacity for implementation and sustainability risks: Risks related to technical design and implementation capacity are high. Technical assistance in PFM from Chad’s development partners, including the IMF and CEMAC, may partially mitigate this risk. Environmental, social and gender-related risks are low, given the nature of the reform program.

6.5 Fiduciary risks. Fiduciary risks are rated substantial, as described in the section on PFM, Disbursement and Auditing Aspects.

6.6 Stakeholder risks: The vested interests of various groups involved in the oil sector and in the public procurement process could impede the implementation of the reforms supported by the proposed operation. The authorities have taken initial steps to mitigate this risk. Measures are

²⁶ Of the more than 700,000 displaced people currently living in Chad, there are 463,000 refugees (including 366,000 from Sudan, 93,000 from the Central African Republic, and 2,000 from Nigeria), 230,000 returnees (of which 130,000 are from the Central African Republic and are 100,000 from Libya), and 70,000 long-term internally displaced persons from the 2007 conflict and subsequent cross-border attacks from Darfur. The number of refugees is equivalent to over 3.5 percent of the population, the third-highest level in the world according to UNHCR. See: WBG CPF FY16-FY20.

already in place to ensure greater transparency in the management of oil revenue, as confirmed by Chad's compliance with the standards of the Extractive Industries Transparency Initiative. In addition, the new procurement code is consistent with international standards and, if implemented in full, could greatly reduce the number of single-source public procurement contracts.

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

Annex 1: FCPSG Policy and Results Matrix

Prior Actions	Results Framework: Indicators		Responsible Agency
	Baseline (year)	Target (December 2017)	
Pillar 1: Broadening the tax base			
The Recipient's Ministry of Finance has adopted the results of the nationwide enterprise census for taxpayer identification and registration purposes, thereby expanding the taxpayer base and increasing non-oil tax revenues.	An increase in the number of taxpaying firms recorded in the government's taxpayer database.		Ministry of Finance and Budget
	11,200 (2014)	15,000	
The Recipient's Council of Ministers has adopted and submitted to the National Assembly for enactment the general tax code consolidating all tax related fiscal regulations, leading to a more comprehensive and transparent taxation system.	PEFA Indicator P13-I: Clarity and comprehensiveness of tax liabilities (*)		Ministry of Finance and Budget
	D (2014)	B	
Pillar 2: Improving the rationalization of public spending and transparency in public resource management			
The Recipient's Ministry of Finance has validated the data collected through the civil servant biometric census and included such data in the integrated human resource and payroll management system (SIGASPE).	PEFA indicator P18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers (*)		Ministry of Finance and Budget
	D (2014)	B	
The Recipient's Council of Ministers has adopted the procurement code which, among other things, separates the procurement regulation function from the control function, leading to a more efficient system.	A reduction in the value of single-source procurement contracts as a share of total contracts.		Ministry of Finance and Budget
	33% (2014)	<25%	
The Recipient's Council of Ministers has adopted the public accounting regulation "Reglement General sur la Comptabilite Publique" as part of the strategy to achieve compliance with CEMAC Directives on public finance.	The proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days		Ministry of Finance and Budget
	55% (2014)	65%	
The Recipient's Council of Ministers has appointed members of the Court of Accounts and allocated appropriate budget to ensure the operationalization of the Court of Accounts.	Number of months to issue compliance certificates on budget settlement laws		Ministry of Finance and Budget
	4 (2015)	≤ 1	
Pillar 3: Improving new business registration			
The Recipient's Council of Ministers has adopted decrees aimed at: (a) reducing the number of procedures required to legally start and operate a company; b) reducing the paid in minimum capital requirement to start a business; and (c) allowing for the establishment of an online system for publishing registration notice of companies and making the use of notary services for physical publication of a newly created company in Recipient's gazettes and newspapers optional.	Number of newly registered businesses		Ministry of Economy, Trade and Tourism Development
	3,959 (2014)	5,000	

(*): The indicator will be informed by an overall PEFA report, planned to be produced in 2016. In its absence a partial assessment of the indicator based on PEFA methodology could also be conducted by World Bank Staff.

ANNEX 2: LETTER OF DEVELOPMENT POLICY (TO BE ADDED)

REPUBLIQUE DU TCHAD

PRESIDENCE DE LA REPUBLIQUE

PRIMATURE

MINISTERE DU PLAN ET DE LA COOPERATION

INTERNATIONALE

N° 2340-/MPCI/15



UNITE-TRAVAIL-PROGRES

N° Djamena, 04 NOV 2015

Madame la Ministre

A

Monsieur Jim Yong Kim

Président du Groupe de la Banque mondiale

WASHINGTON, DC

Objet : Lettre de Politique de Développement

Monsieur le Président,

1. La présente Lettre de Politique de Développement (LPD) décrit d'une part, le contexte socioéconomique du Tchad, les stratégies nationales de développement ainsi que les évolutions économiques récentes en 2015, et d'autre part, présente les perspectives économiques et les réformes pour 2016. Elle retrace l'ensemble des politiques publiques et sectorielles prioritaires mises en œuvre par le Gouvernement pour réduire substantiellement la pauvreté au Tchad. Elle indique en même temps les mesures de réformes prioritaires urgentes nécessaires pour faire face aux effets des deux chocs majeurs liés à la chute continue des cours du pétrole et à l'insécurité grandissante induite par les attaques terroristes de mouvements islamistes. Cette LDP fournit les grandes lignes du programme de réformes à court et moyen termes.

2. En vue de soutenir son programme, le Gouvernement du Tchad sollicite la Banque mondiale à travers le Programme d'Appui à la Consolidation Budgétaire, un montant équivalant à cinquante (50) millions de dollars des Etats-Unis, sous forme de Don d'appui budgétaire.

I. CONTEXTE

3. Le Tchad n'a pas eu depuis 2005 un appui budgétaire de la Banque mondiale après avoir bénéficié de plusieurs crédits d'ajustement (cinq au total) de 1995 à 2003. Ceci fait suite à l'expiration en mai 2008 du dernier programme triennal soutenu par la facilité pour la réduction de la pauvreté et pour la croissance (FRPC) approuvé en février en 2005 par le Conseil d'administration du Fonds Monétaire International (FMI). Plusieurs facteurs exogènes défavorables avaient empêché la bonne exécution de ce programme parmi lesquels les multiples attaques rebelles d'avril 2006 et celle de février 2008. Depuis la restauration de la paix en 2009 par le régime de Son Excellence Monsieur Idriss Deby Itno, Président de la République, Chef de l'Etat, la qualité du dialogue et plusieurs renégociations ont permis de conclure d'abord un programme de référence en 2013. La bonne exécution de ce programme a permis de négocier un programme formel soutenu par la Facilité Elargie de Crédit (FEC 2014-2017) au printemps 2014 et conclu en août 2014. L'exécution satisfaisante de ce dernier programme a débouché sur l'atteinte du point d'achèvement de l'Initiative renforcé d'allègement de la dette en faveur des Pays Pauvres Très Endettés (IPPTE) consacrée par les décisions des conseils d'Administration du Fonds Monétaire International, le 27 avril 2015, et de la Banque mondiale, le 28 avril 2015. Ces programmes conduit à de renforcer et parachever les actions entreprises et de réaliser des progrès importants dans la stabilisation macroéconomique et financière et les réformes structurelles.

4. Deux stratégies de lutte contre la pauvreté ont été élaborées, adoptées et mises en œuvre par le Gouvernement respectivement en 2003 et 2008. Celle de 2008-2011 a été remplacée par le Plan National de Développement (PND 2013-2015). Le processus d'élaboration du PND a été participatif, régi par la recherche d'un consensus fort autour des grandes orientations pour garantir l'appropriation par l'ensemble des acteurs afin de faciliter sa mise en œuvre. Il a, ainsi, offert une nouvelle occasion de renforcer le dialogue sur les politiques et stratégies sectorielles à mener entre l'administration, la société civile et les Partenaires Techniques et Financiers (PTFs). Aussi le PND constitue-t-il le cadre unique de concertation et d'assistance à moyen en matière de développement économique et social, pour le Gouvernement et pour les PTFs. Ce document expirera au 31 décembre 2015 et sera relayé par le plan quinquennal 2016-2020 en préparation.

5. Depuis le second semestre 2014 à nos jours, deux facteurs exogènes aux effets induits pervers ont quasiment annihilé les progrès réalisés durant les six dernières années en matière de collecte des recettes et de maîtrise des dépenses. Il s'agit de la chute continue des prix du pétrole et des attaques répétées de la secte terroriste Boko haram dans le bassin du lac Tchad et à N'Djamena ayant inversé la trajectoire

ascendante de la collecte des recettes pétrolières et mettant en péril le développement du commerce intra-régional. Pour consolider la stabilité macroéconomique et les différents programmes sectoriels décrits dans le PND 2013-2015, les autorités souhaitent poursuivre et renforcer les différents programmes de réformes par la mise en place d'une feuille de route afin de bénéficier d'appuis budgétaires des PTFs. L'objectif principal de cette feuille de route gouvernementale assortie d'un plan d'actions à court, moyen et long terme est de: (i) mobiliser les ressources hors pétrole et de maîtriser les dépenses publiques afin de financer le gap résiduel et d'équilibrer le budget de 2015 et celui de 2016; ii) renforcer la bonne gouvernance et la transparence par la mise en œuvre de la Stratégie Nationale de Bonne Gouvernance (SNBG) relayée par le PND 2013-2015 à travers l'accès de la population à l'information publique, et la mise en place d'un système judiciaire plus efficace ainsi que de la lutte contre la corruption et le contrôle indépendant de l'utilisation des ressources publiques; (iii) assurer une gestion budgétaire efficace et transparente dans l'optique de réduction de la pauvreté à travers la poursuite de la réforme du cycle budgétaire, le renforcement du cadre réglementaire et institutionnel pour la passation des marchés publics; iv) la poursuite de la réforme de la Fonction publique par l'informatisation de la paie, le recrutement compétitif et la promotion sélective au mérite; v) assurer une croissance économique forte, soutenue et inclusive à travers la production rurale et la protection de l'environnement.

II. PLAN NATIONAL DE DEVELOPPEMENT 2013-2015 ET SA MISE EN ŒUVRE

6. Le PND. 2013-2015 a identifié également huit (8) domaines prioritaires que sont (i) la croissance soutenue, (ii) la sécurité alimentaire, (iii) la création et l'accès à l'emploi, (iv) le développement du capital humain, (v) le développement du secteur privé, (vi) le développement des Technologies de l'Information et de la Communication (TICs), (vii) la protection de l'environnement et l'adaptation aux changements climatiques, (viii) l'amélioration de la gouvernance.

7. Pour atteindre les objectifs ci-dessus et compte tenu du fait que les domaines d'intervention se recoupent, les axes stratégiques d'intervention et de programmation sont regroupés de façon suivante en 4 axes, à savoir: *Axe 1: Le Développement de l'offre de production et des opportunités d'emplois décentés; Axe 2: La Mobilisation et valorisation du capital humain et lutte contre Les inégalités, La pauvreté et l'exclusion sociales; Axe 3: La Protection de L'environnement et lutte contre Les changements climatiques; et Axe 4: L'Amélioration de La gouvernance.*

8. De manière générale, la programmation budgétaire pluriannuelle, dont la tranche annuelle correspondant à la Loi des finances 2014, a été cohérente à 83% avec le plan d'actions prioritaires (PAP) 2014 du PND 2013-2015. Sur les 390 programmes et projets de développement programmés, 255 ont pu être mis en œuvre en 2014, soit 65% probablement et ce, en dépit des divers chocs exogènes ci-dessus évoqués.

9. L'analyse de la performance dans la mise en œuvre du PND en 2014 fait ressortir encore un bilan relativement positif comme celui de 2013. En effet, sur les 89 indicateurs retenus (stratégiques et intermédiaires), 70 ont été renseignés dont 58, soit 84% d'indicateurs en progression, étant entendu que les 19 indicateurs non renseignés, sont des indicateurs d'impact nécessitant des enquêtes d'envergure nationale.

10. Globalement, beaucoup d'efforts ont été faits dans tous les secteurs publics en matière d'offres de services socio-économiques et de réformes administratives, bien qu'il en reste encore afin d'atteindre les résultats escomptés. Il apparaît clairement que sur les 70 indicateurs renseignés, onze (11) ont déjà atteint la cible de 2015, soit 16%.

11. L'analyse de l'exécution financière par axes stratégiques fait apparaître un taux d'exécution moyen de 77% et par axe un taux satisfaisant pour l'axe II (92%) et des taux relativement satisfaisants pour les axes 1, 3 et 4 (respectivement 70%, 64% et 76%).

12. **A travers, le PND, il convient de noter également que depuis 2013, beaucoup d'efforts ont été faits pour la Gestion des Finances Publiques (GFP) au Tchad.** Des progrès sont obtenus dans des domaines clés: (i) la mise en place d'un cadre macro-budgétaire robuste et l'élaboration de manuels de fonctionnement pour la gestion des dépenses publiques; (ii) l'adoption des directives de la Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) relatives à la Loi Organique relative aux Lois des Finances (LOLF) en remplacement du régime financier de 1962 et au Règlement Général sur la Comptabilité Publique (RGCP); (iii) l'informatisation de la chaîne de la dépense publique (Circuit Intégré de la Dépense - CID); (iv) la production et la publication de rapports trimestriels d'exécution du budget; (v) la publication du budget annuel; (vi) la mise en place et le respect général avec un calendrier de préparation du budget, ainsi que l'approbation en temps opportun du budget annuel par l'Assemblée Nationale; (vii) l'informatisation progressive du système de comptabilité; (viii) l'assainissement du fichier de la solde des fonctionnaires de l'Etat; et (ix) l'amélioration du cadre réglementaire de la gestion de la dette. Les autorités ont également amélioré les contrôles de la GFP, et en 2014 le gouvernement

a soumis les lois de règlement de 2003-12 à l'Assemblée Nationale. Le projet de budget 2015 et la loi de règlement 2013 ont été préparés et soumis à la Cour des comptes. La création récente de la Cour des comptes (précédemment la Chambre des Comptes, une section de l'audit de la Cour suprême) contribue à améliorer le contrôle externe de la GFP.

13. Au cours des dernières années, le gouvernement du Tchad a poursuivi un certain nombre de réformes visant à améliorer le climat des affaires. Le gouvernement du Tchad a lancé un ambitieux programme de réformes en 2011 visant à favoriser la croissance du secteur privé et la diversification de l'économie. Ces réformes axées sur l'établissement de cadres appropriés pour le développement du secteur privé, et un plan d'action adopté en 2012 ont spécifié 13 résolutions pour améliorer l'environnement des affaires. Certains progrès ont été réalisés dans ce programme, y compris la mise en place d'un guichet unique pour l'enregistrement des entreprises, l'élimination de l'exigence d'un certificat médical et une réduction de la taxe sur le transfert de propriété. L'accès au crédit a été amélioré par des amendements de l'Acte Uniforme de l'Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA) sur les garanties. Le Tchad a renforcé la protection des investisseurs en introduisant plus d'exigences de divulgation des transactions entre parties liées au conseil d'administration et en rendant possible pour les actionnaires d'inspecter tous les documents relatifs aux transactions entre parties liées et de nommer les vérificateurs pour inspecter ces transactions. En outre, le gouvernement a également diminué le taux d'impôt sur les sociétés de 40% à 35% en 2015.

III. PERSPECTIVES MACRÉCONOMIQUES 2015-2016

14. Les activités économiques et financières sont fortement affectées par les deux chocs exogènes ci-dessus évoqués (baisse du prix du pétrole et l'insécurité sous régionale) en raison de l'interdépendance des économies. Même si le secteur primaire (agriculture et élevage notamment) garde un niveau de croissance conforme aux attentes, les autres secteurs sont affectés par différents facteurs, tels qu'une diminution de la commande publique (du fait des fortes coupes budgétaires mises en œuvre), les perturbations du commerce avec le Nigeria ou le Cameroun compte tenu de l'insécurité. Au total, le PIB hors pétrole pourrait se contracter d'environ 1 point en 2015 (contre +7,1% en 2014). Le secteur pétrolier a pour sa part été soutenu par la récente mise en production de nouveaux gisements, ce qui permet au PIB total de maintenir une croissance positive, de l'ordre de 5,2% en 2015, contre 7 % en 2014.

15. L'insécurité avec les perturbations induites aux frontières avec le Cameroun et le Nigeria ont rendu l'inflation plus volatile. Fin août

2015, la hausse de l'indice des prix à la consommation s'établissait à 4 % en moyenne annuelle, contre 1,7 % fin 2014.

16. Les recettes budgétaires, (pétrolières et non-pétrolières,) sont en baisse. Les recettes budgétaires totales atteignaient 261 milliards de francs CFA à la fin du mois de juin, soit 28 % de moins que les 366 milliards de francs CFA attendus. Cette baisse est majoritairement due à la chute des recettes pétrolières (-49% par rapport aux prévisions pour le premier semestre 2015), mais elle traduit aussi une performance mitigée pour les recettes non-pétrolières (-18 % par rapport aux prévisions).

17. La croissance de la masse monétaire et du crédit au secteur privé est en phase de ralentissement. Après une forte expansion en 2014 (26,5 et 37,8 % respectivement), la masse monétaire a augmenté de 9 % en glissement annuel à fin juin, et le crédit au secteur privé de 10,3 pour cent sur la même période, soutenu notamment par les prêts aux secteurs du coton, du transport et du bâtiment.

18. Le secteur bancaire fait face aux conséquences du ralentissement économique. A la fin juillet 2015, l'actif total des banques s'établissait à 824 milliards de francs CFA, en hausse de 6,8% en un an. Sur la même période, les dépôts étaient aussi en hausse de 6%. Toutefois, le portefeuille de crédit subit les conséquences du ralentissement économique, avec une augmentation des créances en souffrance, qui atteignaient 14,2% des crédits bruts à fin juillet 2015, contre 12,7% un an plus tôt.

19. Les réserves internationales s'affichaient à 608 millions de dollars E.U. à la fin juin 2015, contre 1,08 milliard de dollars E.U. en fin 2014, en ligne avec la baisse des devises issues des exportations pétrolières qui pèse sur le déficit du compte courant de la balance des paiements. À 93 milliards de francs CFA fin juin, les dépôts du gouvernement auprès de la Banque des Etats de l'Afrique Centrale (BEAC) étaient de 17 milliards de francs CFA (environ 30 millions de dollars E.U.) inférieurs à leur niveau de la fin 2014.

20. Nonobstant les défis majeurs engendrés par les chocs externes, le Gouvernement a tout mis en œuvre pour tenir les objectifs du programme économique soutenu par la FEC 2014-2017. L'ensemble des critères de performances quantitatifs ont été respectés, à l'exception d'un seul, celui relatif à la non accumulation d'arriérés de paiement intérieurs (183 milliards de F CFA contre l'objectif de 52 milliards de F CFA. Ainsi: i) le solde primaire de base hors pétrole s'est fixé à -223 milliards de FCFA contre un objectif du programme de -248 milliards de FCFA; ii) le plafond du financement intérieur net de l'Etat a été

respecté (109 milliards contre l'objectif ajusté de 213 milliards de FCFA; iii) le gouvernement n'a pas accumulé d'arriérés de paiement extérieurs; iv) Aucune nouvelle dette extérieure a été contractée ou garantie par l'Etat et v) le plancher de dépenses de réduction de pauvreté de 149 milliards de FCFA contre l'objectif de 135 milliards à fin juin 2015 a été respecté. Le Gouvernement s'engage pour le reste de l'année 2015 à poursuivre les efforts en vue, d'une part, d'améliorer les recettes et d'autre part, de maîtriser les dépenses et respecter le solde primaire hors pétrole à fin décembre 2015 à travers la mise en œuvre des mesures à court terme de la feuille de route du séminaire gouvernemental organisé les 6 et 7 octobre 2015. En outre, le Gouvernement compte bénéficier de l'appui budgétaire de la Banque Mondiale d'un montant équivalent à cinquante (50) millions de dollars des Etats-Unis pour financer l'écart de financement de son budget avant fin décembre 2015.

21. S'agissant du budget 2016, il est bâti sur des hypothèses macroéconomiques prudentes marquées par le contexte économique international plutôt morose du fait de la baisse du prix du pétrole, de l'appréciation du dollar par rapport au franc CFA et un environnement national marqué par les problèmes sécuritaires. Sur la base des hypothèses retenues ci-dessus, les principaux résultats du cadrage macroéconomique pour le Projet de Loi des Finances Initiale 2016 sont les suivants: l'économie nationale devrait enregistrer une croissance de 3,4% au lieu de 7,3% initialement prévue. Cette croissance serait tirée par le secteur primaire (5,9%) à travers les branches d'activités « agriculture, élevage, sylviculture et pêche » et les branches de services qui connaîtraient une croissance de 2,0%. Le secteur secondaire pourrait connaître une faible croissance de l'ordre de 1,0% en raison de baisse d'activité dans les BTP (-8,4%).

IV. LES PROGRAMMES DE RÉFORMES

22. La gouvernance démocratique, la réforme du secteur public et la lutte contre la corruption demeurent des axes aussi importants de la politique de développement du pays. Le Gouvernement du Tchad est en train de mettre en œuvre de nouvelles orientations stratégiques à l'horizon 2030 ainsi qu'un nouveau plan d'action en matière de gouvernance qui lui permettront d'accroître son efficacité dans la promotion de la culture et de la pratique de la bonne gouvernance. La nouvelle approche se focalise sur le renforcement de la transparence et de l'obligation de rendre compte dans la gestion des ressources publiques aux niveaux central, déconcentré et décentralisé, ainsi que dans les secteurs stratégiques. Une attention particulière est accordée aux institutions de contrôle budgétaire et aux systèmes de

responsabilisation financière mais aussi et surtout à la restauration d'un véritable Etat de droit.

23. Les programmes de reformes appuyés par les différents Partenaires Techniques et Financiers seront basés sur la mise en œuvre de la feuille de route conjointe et des recommandations du récent séminaire gouvernemental sur la stratégie de mobilisation des ressources et la maîtrise des dépenses publiques assorties d'un plan d'actions décliné comme suit:

- **Consolidation des finances publiques pour faire face aux chocs exogènes:** Pour augmenter l'assiette fiscale, un recensement général des entreprises a été conduit et a permis d'identifier plus de 30.000 contribuables potentiels. En outre, le Gouvernement a adopté et soumis à l'assemblée nationale un nouveau code général des impôts et les procédures fiscales en remplacement du code de 2006. Enfin, à court terme, des mesures suivantes ont été appliquées: i) suspension ou réduction des exonérations; ii) traitement diligent des dossiers contentieux dans un bref délai en vue d'accroître les recettes; iii) redéploiement des agents dans les régies financières pour augmenter les recettes fiscales et administratives ainsi que le remplacement des agents comptables ayant passé trois ans dans leur poste d'affectation; iv) recouvrement de la Taxe sur la Valeur Ajoutée (TVA par des contrôles ciblés à travers le Circuit Intégré de la Dépense (CID) et le Trésor; v) relèvement des fonctionnaires mutés et suppression de leurs indemnités; vi) Réduction des frais de mission;
- **Promotion de la transparence et de la traçabilité des dépenses publiques:** Le Gouvernement a adopté un décret portant nouveau code des passations de marché et créant l'autorité de régulation. Le nouveau code des marchés publics est fondé sur les principes d'égalité, de non-discrimination, d'efficacité et de transparence. En outre la pleine opérationnalisation de la cour des comptes créée en 2014, est sensée apporter des conditions pour une évaluation indépendante de la gestion des finances publiques;
- **Développement du secteur privé et amélioration du climat des affaires:** Le Gouvernement reste très engagé sur les réformes visant à faciliter la création d'entreprise en vue de créer à terme plus d'emplois productifs à travers les Petites et Moyennes Entreprises (PME) et de soutenir la croissance économique. Encourager la formalisation peut également élargir l'assiette fiscale, l'atténuation de l'impact des chocs des prix du pétrole sur les recettes publiques. Ainsi, le gouvernement a adopté un décret portant sur la réduction du nombre de procédures pour la création d'entreprises, et un autre sur la réduction du capital minimum pour la constitution des Sociétés Anonymes à Responsabilité

Limitée (SARL). En outre, le Premier Ministre a signé un arrêté portant sur l'Habilitation du site web de l'Agence Nationale des Investissements et des Exportations (ANIE) pour la publication des annonces légales.

- **La protection sociale des couches vulnérables malgré le contexte de la consolidation fiscale:** Le Gouvernement a adopté récemment une Stratégie nationale de protection sociale (SNPS) à l'horizon 2020, soulignant la haute priorité accordée aux politiques de protection sociale des couches vulnérables. Cette stratégie a été élaborée à travers un processus de consultation, avec l'appui des bailleurs de fonds actif, et appelle à la création d'un Conseil National de Protection Sociale (CNPS) présidé par le Premier Ministre afin de coordonner les politiques et les programmes, fournir une orientation stratégique globale et d'assurer le suivi-évaluation de la mise en œuvre. En droite ligne avec cette stratégie, les salaires n'ont pas été affectés par les coupes budgétaires en 2015 et dans le projet de budget 2016. En outre les secteurs sociaux (Education, Santé et action sociale) et du développement rural (Agriculture, Elevage, Environnement, Eau) demeurent prioritaires dans les allocations budgétaires.

24. **A moyen terme, compte tenu de l'ampleur des chocs exogènes évoqués ci-haut, le Gouvernement est conscient que les efforts en matière de réformes ne doivent pas être lâchés.** C'est ainsi que plusieurs chantiers de réformes ont été identifiés pour la consolidation des finances publiques et une gestion saine et transparente des ressources de l'Etat.

- **L'amélioration de la transparence des recettes pétrolières est cruciale et sera poursuivie.** En effet, le Gouvernement estime que la transparence des recettes pétrolières est importante non seulement en termes de bonne gouvernance, mais aussi pour l'amélioration de la fiabilité des prévisions budgétaires et l'exhaustivité du budget.
- **La professionnalisation de la gestion des finances publiques se poursuit,** en s'appuyant sur les recommandations de plusieurs rapports d'assistance technique, dont celui préparé fin 2014 par le Département des Finances Publiques du FMI. Parmi les principales recommandations retenues, le Gouvernement souhaite notamment poursuivre ses efforts pour améliorer le circuit de gestion des dépenses et mettre progressivement en place un système de gestion prévisionnelle de trésorerie.
- **La rationalisation des dépenses publiques reste primordiale pour le Gouvernement:** Le Système Intégré de Gestion Administrative et Salariale du Personnel de l'Etat (SIGASPE), qui permet d'assurer le paiement des fonctionnaires, est désormais pleinement utilisé.

Il assure la maîtrise de la masse salariale et du nombre de fonctionnaires au Tchad et continue de générer des économies, au-delà de celle engrangée d'environ 17 milliards de F CFA avec la découverte de travailleurs fantômes lors de sa mise en place. Un audit des transferts et subventions aux entreprises publiques et parapubliques est en cours. Il s'agit de recenser exhaustivement toutes les entités bénéficiaires et d'évaluer la justification et le rendement des transferts et subventions. Cela permettra d'éliminer un certain nombre de subventions non prioritaires ou injustifiées. Les premiers résultats de cet audit sont attendus au premier trimestre 2016. Enfin, l'actualisation en cours de la base de données sur la dette et l'utilisation et l'entretien du système SYGADE (Système de Gestion et d'analyse de la dette) devra permettre la production de rapports annuels sur la gestion de la dette. Un premier rapport annuel sera produit au premier semestre 2016 (repère structurel pour fin juin 2016)

- **Dans un contexte économique très difficile, l'amélioration de la collecte fiscale est une priorité.** Cette priorité est reflétée au plus haut niveau de l'Etat, puisque les Ministres et leurs équipes sont réunis chaque semaine par le Président de la République pour faire un point précis sur l'évolution des recettes. Des réformes concrètes ont été annoncées, notamment dans le cadre du plan d'urgence. Par exemple, tous les propriétaires de terrains ont été appelés à régulariser leur situation fiscale auprès du guichet unique. Pour 2016, la collecte de l'impôt foncier, quasiment inexistante à ce stade, sera systématisée via une collection assurée par les municipalités.

V. SUIVI DU PROGRAMME

25. L'appui budgétaire des PTF qui soutient le Programme triennal de Facilité Elargie de Crédit FEC 2014-2017 continuera d'être mis en œuvre sous la supervision du Comité de négociations au sein du Ministère des Finances et du budget. Cette dernière continuera à assurer la préparation de rapports trimestriels d'avancement du Programme en collaboration avec les différents secteurs concernés et s'efforcera de rassembler toute information pertinente pour un meilleur suivi du programme. Toutes les structures concernées par le programme s'activeront pour assurer une meilleure coordination entre les différents programmes afin de garantir leurs succès, de consolider la stabilité sociale et le cadre macro-économique et de soutenir une croissance économique nécessaire à la réduction significative et durable de la pauvreté au Tchad.

26. Vous renouvelant la gratitude du Gouvernement et du peuple tchadien, je vous prie de croire, Monsieur le Président, en l'assurance de ma considération distinguée.

Le Ministre du Plan et de la
Coopération Internationale



LETTER OF DEVELOPMENT POLICY (Unofficial Translation)



REPUBLIC OF CHAD

PRESIDENCY OF THE REPUBLIC

OFFICE OF THE PRIME MINISTER

MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

N°-----/MPCI/15

**Mr. Jim Yong Kim
President of the World Bank Group
WASHINGTON, DC**

Subject: Letter of Development Policy

Mr. President,

1. This Letter of Development Policy (LDP) describes Chad's socioeconomic context, its development strategies and the recent economic developments taking place over the course of the year 2015. It also outlines the economic outlook and reforms envisaged for 2016. The letter further enumerates all of the public and sectoral policies implemented by the Government as a matter of priority, to substantially reduce poverty in Chad. At the same time, it indicates the priority reform measures that must be urgently undertaken to counter the effects of the two major economic shocks arising from the continued fall in oil prices and the increased insecurity caused by terrorist attacks by Islamist groups. This Letter of Development Policy provides an overview of the reform program to be implemented in the short and medium terms.
2. The Government of Chad is seeking a Budgetary Support Loan of US\$50 million from the World Bank Budget Support Program to finance its efforts to enact reforms.

I. THE CONTEXT

3. Since 2005, Chad has received no budgetary support from the World Bank, after having been the beneficiary of a number of adjustment loans (five in all), from 1995 to 2003. In May 2008, the last triennial program supported by the Poverty Reduction and Growth Facility (PRGF) approved in February 2005 by the Executive Board of the International Monetary Fund (IMF) came to an end. A number of unfavorable external factors had prevented the effective implementation of this program, including the multiple attacks by rebels in April 2006 and February 2008. Since peace was restored in 2009, under the presidency of His Excellency Idriss Deby Itno, President of the Republic and Head of State, the nature of the dialogue and the series of negotiations undertaken led first to the establishment of a benchmark program, which concluded in 2013. The program was efficiently executed, resulting in further negotiations for an official program, with support from the Extended Credit Facility (ECF 2014-2017). The program was launched in the spring of 2014 and ended in August of the same year. Following its successful implementation, Chad passed the completion point of the Enhanced Debt Relief Initiative for Heavily Indebted Poor Countries (HIPC), approved by the decisions of the Executive Board of the International Monetary Fund on April 27, 2015 and the Board of Directors of the World Bank on April 28, 2015. These programs have helped to reinforce and complement actions undertaken to achieve macroeconomic and financial stability, as well as structural reforms.

4. Two anti-poverty strategies were developed, adopted and implemented by the Government in 2003 and 2008, respectively. The 2008-2011 strategy was replaced by the National Development Plan (NDP 2013-2015). The NDP was developed through a participatory process, characterized by the search for a robust consensus around broad policy lines, in order to ensure buy-in by all stakeholders, thus facilitating its implementation. The National Development Plan has, in this way, provided a fresh opportunity to strengthen the dialogue around sectoral policies and strategies to be undertaken by the administration, civil society and the Technical and Financial Partners (TFPs). The NDP also provides the Government and the TFPs with a unique forum for coordination and assistance on economic and social development issues. The Plan will come to an end on December 31, 2015, to be replaced by the 2016-2020 five-year plan, which is currently being prepared.

5. From the second half of 2014 to the present, two exogenous factors have had the pernicious effect of annihilating almost all the progress made over the past six years, in terms of revenue collection and expenditure control. These external factors have been the sustained fall in oil prices and repeated attacks by the Boko Haram terrorist group in the Lake Chad Basin and in N'Djamena. These factors have reversed the upward trend in the collection of oil revenues and seriously hampered the development of intra-regional trade. In a bid to strengthen macroeconomic stability and consolidate the various sectoral programs described in the 2013-2015 NDP, the authorities are seeking to continue and bolster the various reform programs by launching a roadmap, to receive budgetary support from the TFPs. The main aim of the Government's roadmap with its accompanying short-, medium- and long-term plan of action is to (i) mobilize non-oil resources and control public spending, in order to finance the residual gap and to balance the budget for the years 2015 and 2016; and (ii) strengthen good governance and transparency through the implementation of the National Good Governance Strategy (NGGS), which is part of the 2013-2015 NDP. This strategy allows citizens to have access to public information and provides for the implementation of a more effective judicial system. It also promotes the fight against corruption and independent oversight of the use of public resources;

(iii) ensures efficient and transparent budgetary management, in order to reduce poverty through the reform of the budgetary cycle, the strengthening of the regulatory and institutional framework for the awarding of public contracts; (iv) reforms the public administration system through the computerization of the payroll, competitive recruitment processes and merit-based promotion; and (v) ensures robust, sustainable and inclusive economic growth based on rural production and the protection of the environment.

II. THE 2013-2015 NATIONAL DEVELOPMENT PLAN AND ITS IMPLEMENTATION

6. Under the 2013-2015 NDP, eight priority areas have been identified. They are (i) sustained growth, (ii) food security, (iii) job creation and access to employment, (iv) the development of human capital, (v) the development of the private sector, (vi) the development of Information and Communication Technologies (ICTs), (vii) protection of the environment and climate change adaptation, and (viii) improved governance.

7. In order to achieve these objectives and in view of the fact that the areas of intervention are overlapping, the strategic pillars of intervention and programming have been grouped around the following four pillars: *Pillar 1: the development of productivity and opportunities for decent work; Pillar 2: mobilization and development of human capital, the fight against inequality, poverty and social exclusion; Pillar 3: protecting the environment and combating climate change; Pillar 4: improving governance.*

8. Overall, the multi-year budget programming, the annual allocation of which is provided for under the 2014 Finance Law, was 83 percent consistent with the 2014 Priority Action Plan (PAP) of the 2013-2015 NDP. Of the 390 planned development programs and projects, 255 (approximately 65 percent) were implemented in 2014, despite the external shocks mentioned above.

9. The implementation of the NDP in 2014 was analyzed and once again revealed a relatively positive outcome, as was the case in 2013. In fact, of the 89 approved indicators (strategic and intermediate), 70 were analyzed, of which 58, or 84 percent, represent ongoing indicators. The 19 indicators not covered are impact indicators requiring review and analysis on a national scale.

10. In general, significant efforts have been made to improve socioeconomic service delivery and administrative service reforms across the entire public sector. Nevertheless, there is still work to be done in order to achieve the desired results. It is clear that out of the 70 indicators analyzed, eleven (16 percent) have already met the 2015 target.

11. An assessment of the financial performance for each strategic pillar reveals an average execution rate of 77 percent. The execution rate in respect of Pillar II was satisfactory (92 percent), while relatively satisfactory rates were recorded for pillars one, three and four (70 percent, 64 percent and 76 percent, respectively).

12. **In the context of the NDP, it should also be noted that since 2013, significant efforts have been made to improve the management of public finances (MPF) in Chad.** Progress has been made in some key areas: (i) the implementation of a robust macro-budgetary framework and

the development of operational manuals for managing public expenditure; (ii) the adoption of the guidelines of the Central African Economic and Monetary Community (CEMAC) on the Organic Finance Laws, replacing the 1962 financial regime and the General Public Accounting Law (RGCP); (iii) the computerization of the public expenditure chain (*Circuit Intégré de la Dépense* CID); (iv) the production and publication of quarterly budget execution reports; (v) the publication of the annual budget; (vi) the implementation of and general adherence to a budget preparation schedule, as well as the timely approval of the annual budget by the National Assembly; (vii) the ongoing computerization of accounting systems; (viii) the cleaning up of the State employees' payroll; and (ix) improvement in the regulatory framework for debt management. The authorities have also improved the management of public finances and in 2014, the Government tabled the regulatory laws for 2003 to 2012 before the National Assembly. The 2015 draft budget and the 2013 Regulatory Law were prepared and submitted to the Court of Accounts. The recent establishment of the Court of Accounts (formerly the Audit Office, an audit unit of the Supreme Court), helps to improve external oversight of the management of public finances.

13. In recent years, the Government of Chad has undertaken a number of reforms aimed at improving the business climate. In 2011, the Government launched an ambitious program of reforms to promote the growth of the private sector and diversify the economy. These reforms were based on the roll-out of appropriate frameworks for the development of the private sector. Furthermore, an action plan adopted in 2012 outlined 13 measures to improve the business climate. Some progress has been made under this program, including the establishment of a single window for registering companies, the elimination of the requirement of a medical certificate and a reduction of the tax on property transfers. Access to credit has been improved as a result of amendments to the provisions regarding guarantees in the Uniform Act of the Organization for the Harmonization of Business Law in Africa (OHADA). Chad has stepped up investor protection by instituting additional requirements for divulging transactions between parties linked to the board of directors. The Government has also made it possible for shareholders to inspect all documents pertaining to transactions between interested parties and to appoint auditors to verify these transactions. In addition, the Government has reduced the company tax from 40 percent to 35 percent in 2015.

III. 2015-2016 MACROECONOMIC OUTLOOK

14. Economic and financial activities are significantly affected by the two external shocks mentioned above (drop in oil prices and insecurity in the sub-region), as a result of the high level of economic interdependence. While the primary sector (mainly agriculture and livestock) registered growth in accordance with expectations, the other sectors were affected by other factors, including a decrease in public procurement (due to stringent budget cuts), disruption in trade with Nigeria and Cameroon as a result of insecurity. In total, non-oil GDP could fall by around 1 percentage point in 2015 (as against an increase of 7.1 percent in 2014). The oil sector has, for its part, been buoyed by the recent commissioning into production of new deposits, thus allowing total GDP to register positive growth of around 5.2 percent in 2015, compared to 7 percent in 2014.

15. The climate of insecurity associated with the disturbances at the borders with Cameroon and Nigeria have heightened the volatility of inflation. At the end of August 2015,

the consumer price index recorded an average annual increase of 4 percent, up from 1.7 percent at the end of 2014.

16. **Budget revenues (oil and non-oil) are on the decline.** Total budget revenues reached CFAF 261 billion at the end of June or 28 percent less than the projected intake of CFAF 366 billion. This decrease is primarily due to the fall in oil revenues (49 percent down from projections for the first half of 2015). However, this is also the result of the rather disappointing performance of non-oil revenues (down 18 percent from projections).

17. **Growth in the supply of money and credit to the private sector has slowed.** Following robust growth in 2014 (26.5 and 37.8 percent respectively), the monetary stock grew by 9 percent on an annualized basis up to the end of June. Private sector credit grew by 10.3 percent over the same period, bolstered by credits to the cotton, transport and construction sectors.

18. **The banking sector is confronted with the consequences of the economic slow-down.** At the end of July 2015, total bank assets registered CFAF 824 billion, an increase of 6.8 percent in one year. Deposits were also up by 6 percent over the same period. Nevertheless, the consequences of the economic downturn are being felt in the credit portfolio. Non-performing loans totaled 14.2 percent of gross credits at the end of July 2015, as against 12.7 percent the previous year.

19. **International reserves amounted to US\$608 million at the end of June 2015, compared to US\$ 1.08 billion at the end of 2014.** This is consistent with the drop in foreign exchange inflows from oil exports, which weighs on the balance of payment current account deficit. With a total of CFAF 93 billion at the end of June, Government deposits in the Bank of Central African States (BCAS) was CFAF 17 billion (approximately US\$30 million), lower than the level recorded at the end of 2014.

20. **Notwithstanding the major challenges precipitated by exogenous shocks, the Government has spared no efforts to meet the targets of the economic program supported by the 2014-2017 Extended Credit Facility.** All quantitative performance criteria have been met, with one exception – that of the non-accumulation of domestic payment arrears (CFAF 183 billion, as opposed to the target of CFAF 52 billion). In addition, (i) the non-oil primary balance totaled -CFAF 223 billion, as against a target of -CFAF 248 billion; (ii) the net domestic financing ceiling of the State was met (CFAF 109 billion, as against the adjusted target of CFAF 213 billion); (iii) the Government has not accumulated external payment arrears; (iv) neither has the State incurred or secured any new debt and; (v) the minimum level of expenditure (CFAF 149 billion) for poverty reduction has been achieved, as against the target of CFAF 135 billion at the end of June 2015. The Government has committed to continuing its efforts for the remainder of the year 2015, to improve revenue, control expenditure and meet the non-oil primary balance up until the end of December 2015, by implementing the short-term measures recommended by the government seminar held October 6-7, 2015. In addition, the Government expects to receive budgetary support from the World Bank in an amount equivalent to US\$50 million to compensate for the financing gap of the budget, before the end of December 2015.

21. The 2016 budget has been built around cautious macroeconomic assumptions, influenced by a rather gloomy international economic context, characterized by the drop in oil prices, the rise of the dollar vis-à-vis the CFA franc and security concerns on the domestic front. On the

basis of the above assumptions, the main outcomes of the macroeconomic framework underpinning the Draft Initial Law on Finance 2016 are as follows: Chad's economy should grow by 3.4 percent, instead of 7.3 percent as originally forecast. This growth will be led by the primary sector (5.9 percent) namely the "agriculture, livestock, forestry and fisheries" sector and the branches of the service sector, which will see 2 percent growth. There may be weak growth, in the order of 1 percent in the secondary sector, due to a fall-off in the activities of the building and public works sector (-8.4 percent).

IV. REFORM PROGRAMS

22. Democratic governance, public sector reform and the fight against corruption remain important pillars of the country's development policy. The Government of Chad is currently developing new strategic guidelines for the year 2030, together with a new plan for improved governance, in order to more effectively promote the culture and practice of good governance. This new approach focuses on enhancing transparency and ensuring accountability in the management of public resources at the central and decentralized levels, as well as within strategic sectors. Special attention is being given to budgetary control institutions and systems of financial accountability, but also and especially to the task of rebuilding a State truly founded on the rule of law.

23. The reform programs to be supported by the various Technical and Financial Partners (TFPs) will be based on the implementation of the joint roadmap and the recommendations arising from the recent government seminar on strategic resource mobilization and public expenditure controls, together with an action plan comprised of the following objectives:

- **The strengthening of public finances to cushion the effects of external shocks:** In a bid to increase the tax base, a general survey of businesses was conducted, to identify more than 30,000 potential taxpayers. In addition, the Government has adopted and submitted to the National Assembly a new General Tax Code, together with fiscal procedures, to replace the code of 2006. Finally, the following short-term measures have been implemented: (i) suspension or reduction of tax waivers; (ii) efficient and expeditious processing of contentious dossiers, with a view to increasing revenue; (iii) redeployment of tax agents in revenue-collection departments, in order to increase fiscal and administrative revenue and to replace those public accounting officers who have remained at their duty stations for more than three years; (iv) collection of Value-Added Tax (VAT) through targeted controls of the public expenditure chain and the treasury; (v) replacing tax officials who have been re-assigned and eliminating their indemnities; (vi) reduction of mission payments.
- **Promoting transparency and traceability of public expenditure:** The Government has adopted a decree establishing a new public procurement code and creating a regulatory authority. The new procurement code is founded on the principles of equality, non-discrimination, efficiency and transparency. Furthermore, the full operationalization of the Court of Accounts, created in 2014, should make it possible to conduct an independent evaluation of the management of public funds.
- **Development of the private sector and improvement of the business climate:** The Government remains very committed to reforms aimed at facilitating the establishment of businesses. Its intention is to create, over time, more productive jobs by setting up Small

and Medium Enterprises (SMEs), and thus bolster economic growth. The promotion of formalization can help to expand the tax base and cushion the impact of the shock of the fall in oil prices on public revenues. The government has therefore passed one decree for reducing the formalities required for setting up a business and another to cut the minimum capital required for establishing Limited Liability Companies (LLCs). Furthermore, the Prime Minister has signed an order for the website of the National Agency of Investment and Export (ANIE), to be used for posting legal notices.

- **Providing social protection for vulnerable groups, despite the context of fiscal consolidation:** The Government recently adopted a National Social Protection Strategy (SNPS) for the period between now and the year 2020, thus underscoring the high priority given to policies for the social protection of vulnerable groups. This strategy was developed following a consultation process, with support from active donors. It involves the creation of a National Social Protection Council (CNPS), chaired by the Prime Minister, to coordinate policies and programs, provide broad strategic guidelines and ensure monitoring and evaluation of implementation. Consistent with this strategy, salaries have not been affected by budget cuts in 2015 nor are budget cuts reflected in the 2016 draft budget. Moreover, social sectors (Education, Health and Social Welfare) and rural development sectors (Agriculture, Livestock, Environment and Water) continue to receive priority budgetary allocations.

24. **The Government is aware that in the medium term and in view of the magnitude of the exogenous shocks mentioned above, it cannot relax its efforts to enact reforms.** A raft of reforms has therefore been identified for strengthening public finances and ensuring sound management of State resources.

- **Efforts to improve transparency in the management of oil revenues are crucial and will be continued.** The Government understands that the transparent management of oil revenues is vital not only for good governance, but also for improving the reliability of budgetary forecasts and the comprehensiveness of the budget.
- **Efforts are continuing towards the professionalization of public financial management,** based on the recommendations emanating from a number of technical assistance reports, including that produced at the end of 2014 by the Public Finances Department of the IMF. As part of the main recommendations adopted, the Government hopes to continue improving the public expenditure chain and to set up a system for cash flow management and forecasting.
- **The Government considers that the rationalization of public expenditure is still of paramount importance:** The Integrated Administrative and Payroll Management System for State employees (SIGASPE), which is responsible for the remuneration of State employees, is now fully up and running. It monitors the payroll and the number of public employees in Chad and continues to generate savings, quite apart from the approximately CFAF 17 billion saved following the discovery of ghost workers on the payroll when the System was first rolled out. An audit is currently being conducted to monitor transfers of funds and subsidies to State and parastatal enterprises. It involves an exhaustive survey of all beneficiary entities and an assessment of the justification for and the outcome of such transfers and subsidies. This will help to eliminate a number of non-priority or unjustified subsidies. Preliminary results of this audit are expected to be released during

the first quarter of 2016. Finally, the ongoing process of updating the database on debt and the use and maintenance of the SYGADE system (Debt Management and Analysis System) should make it possible to produce reports on debt management. The first annual report will be produced in the first half of 2016 (the structural benchmark should be ready by end-June 2016).

- **In a very difficult economic context, the improvement of tax collection is a priority.** The importance accorded to this issue may be seen at the highest level of the State as the Ministers, together with their teams, meet with the President on a weekly basis to hold detailed discussions on the progression of actual revenue. Concrete reforms have been announced as part of the emergency plan. For example, all owners of land are required to use the single window to regularize their tax situation. For 2016, collection of land tax, which is now virtually inexistent, will become systematic, with municipalities being made responsible for the collection of land taxes.

V. MONITORING OF THE PROGRAM

25. Budgetary assistance from TFPs that support the Triennial Program of the Extended Credit Facility 2014-2017 will continue under the supervision of the Negotiations Committee of the Ministry of Finance and Budget. The Committee will continue to prepare quarterly progress reports on the Program, in conjunction with the various sectors involved and will gather all relevant information to ensure more effective oversight of the Program. All the entities involved will work to ensure more effective coordination between the various programs, in order to guarantee their success, consolidate social stability and the macroeconomic framework and promote the economic growth needed to significantly and sustainably reduce poverty in Chad.

26. I would like to once again express the gratitude of the Government and people of Chad. Please accept, Mr. President, the assurances of my highest consideration.

Mrs. MARIAM MAHAMAT NOUR

Minister of Planning and International Cooperation

ANNEX 3: IMF RELATIONS NOTE

Chad—Assessment Letter for Development Partners

November 5, 2015

Given the intensification of adverse exogenous shocks affecting Chad since the most recent IMF Staff Report,¹ this letter provides an updated IMF staff assessment on Chad's recent economic developments and outlook based on information through end-October 2015. An IMF team visited N'Djamena during September 16-24 to discuss the Second Review under the three-year arrangement under the Extended Credit Facility (ECF). It is expected that the IMF's Executive Board will consider Chad's request for completion of the review in December 2015.

Recent Economic Developments

1. **The sharp and persistent decline in the international oil price and elevated regional security threats are having a significant adverse effect on the economy.** As oil is the main source of export and fiscal receipts, the current account has moved into a large deficit and fiscal revenues have fallen dramatically causing a sharp contraction in fiscal spending. Chad is also facing a security shock (caused by the fight against the terrorist group Boko Haram in the Lake Chad Basin) and the associated inflows of refugees, “retournés”, and internally displaced populations. For 2015, non-oil GDP is now projected to fall by 1.4 percent on account of sizable contractions in construction and commerce activities, though overall GDP is projected to increase by 3.8 percent thanks to a significant expansion in oil production. As a result of security-related disruptions, 12-month inflation averaged 4.3 percent during the first nine months of the year and is forecast to remain above the CEMAC's 3 percent target.

2. **Despite the weaker economy, the authorities have kept economic policies in line with the undertakings under the ECF arrangement, and all but one performance criteria were met as of end-June.** The authorities have responded decisively to the worsening of the macroeconomic outlook, including by undertaking a sizable fiscal adjustment under a revised 2015 budget, while protecting poverty-reducing spending. The performance criterion on the accumulation of domestic payment arrears at end-June 2015 was missed by a substantial margin (CFAF 185 billion or 3.5 percent of non-oil GDP) on account of a shortfall in fiscal (oil and non-oil) revenue and some delays in the mobilization of domestic financing. The incurrence of arrears has impacted the health of the banking system, with non-performing loans rising from 12.7 to 14.5 percent of total loans over the 12 months up to July 2015.

¹ IMF Country Report No. 15/123 Chad: First Review Under the Extended Credit Facility Arrangement, Request for Waivers of Nonobservance of Performance Criteria, and Request for Modification of Performance Criteria, and Augmentation of Access.

3. **The structural reform agenda continues to be implemented in line with the ECF-supported program.** Action has been taken toward facilitating the monitoring and forecasting of oil revenue given the increased complexity of the oil sector (and the latest quarterly budget execution report includes some detailed information on the composition of oil revenue). Spending control has also been tightened, with the share of domestically financed expenditures (excluding salaries, debt and security spending) financed through extraordinary budgetary procedures limited to 5.5 percent of annual domestically financed expenditures for the first six months of 2015. In recent months the government has also implemented structural reforms agreed with other development partners, including the adoption of a new procurement code and of a revised general code of taxes and tax procedures, validation of the census on companies conducted by the statistical agency, and adoption of regulations to improve the business climate.

Outlook and Economic Challenges

4. **The near-term economic outlook is weaker than earlier envisaged, due to further weaknesses in oil prices and the impact of the deterioration in security.** Non-oil GDP is projected to grow at just 1.3 percent in 2016, reflecting a modest rebound in the secondary sector and a stagnation in the tertiary sector caused by reduced government spending and disruptions to cross-border flows. Inflation is projected to return below the CEMAC convergence criterion of 3 percent. The external current account deficit is projected to shrink from 11 to around 9.5 percent of GDP in 2016 due to lower oil and non-oil imports. The authorities' policy response is based on a strong fiscal adjustment together with the mobilization of domestic financing to smooth the reduction in spending. The non-oil primary deficit is projected to fall from 16.3 percent of non-oil GDP in 2014 to 10.3 percent of non-oil GDP in 2016.

5. **The economic outlook is expected to improve significantly over the medium-term as fiscal revenues rebound due to a gradual recovery in oil revenues and the expiration of tax breaks on new oil fields.** Based on the latest WEO assumptions for oil prices and increases in oil production, fiscal oil revenues would increase from an average of about 6 percent of non-oil GDP over 2015-17 to 12 percent on average over 2018-22 as income taxes from the newer oil fields start to flow in. This would permit some relaxation in the non-oil primary deficit implying space to expand priority spending, consistent with fiscal and debt sustainability, while allowing for the accumulation of some fiscal buffers and improved reserve coverage ratios. The risk of debt distress will remain high over coming years, but could fall as oil revenue recovers. However, projected fiscal non-oil revenue collections over the medium-term have been revised downward, more than 1.5 percent of non-oil GDP lower than 2013-14 levels. Projected oil production and export volumes have also been reduced as oil companies have put on hold their investment plans and drilling activities.

6. **The authorities expect to cover a large financing gap for 2015, which includes the clearance of all accrued domestic arrears, through a mix of financing and additional spending cuts.** Shortfalls in budgetary revenues and increases in security spending translate into a financing gap of CFAF 313 billion (5.9 percent of non-oil GDP) relative to projections at the time of the First Review and after taking into account the formalization of a rescheduling agreement with Glencore (*de facto* implemented in the meantime). To close the gap, the authorities have identified additional spending cuts of CFAF50 billion net of increases in security spending (leading to a 30 percent total reduction relative to the 2014 spending level) focused on transfers and subsidies (and eventually on investment) and in line with execution rates so far this year. In terms of financing, the regional Central Bank (Banque des États de l'Afrique Centrale, BEAC) provided CFAF93 billion in statutory advances in early September, and on September 28 approved an additional exceptional advance of CFAF 140 billion for Chad in response to the security-related challenges. These advances have a 10-year maturity, including a 3-year grace period, a profile that synchronizes with the projected recovery in oil revenue. Timely disbursement of pledged budget support by other partners remains critical, however.

7. **The draft 2016 budget targets a slight increase in the non-oil primary deficit of about 0.6 percent of non-oil GDP, largely due to one-off election-related and security spending.** The draft budget provides for the cost of the 2016 presidential and parliamentary elections (about 0.8 percent of non-oil GDP) and about 1.1 percent in transfers aimed at bolstering Chad's military infrastructure. Abstracting from these one-off items, the underlying NOPD is expected to decline from 9.7 percent to 8.3 percent of non-oil GDP. This adjustment is primarily based on the rationalization of transfers (informed by an AfDB-supported audit) and on limiting the start of new investment projects, while protecting allocations to priority social sectors and security. The main financing source to cover the overall deficit is extraordinary receipts expected from the sale of a 10 percent government stake in one of the oil companies (CNPC), which the authorities expect to bring about 5.5 percent of non-oil GDP in revenue, for which negotiations have started. Part of those receipts is envisaged to be saved. The 2016 budget also assumes that donors will continue to provide budget support.

8. **To deepen support for the needed adjustment measures over 2015-16, the government organized in early October a high-level seminar, which included the participation of key spending units, parliamentarians, representatives of trade unions and of the private sector, and international partners.** The seminar also helped to identify short- and medium-term revenue measures (e.g., streamlining tax exemptions and incentives, reforming and simplifying real estate taxation, streamlining tax and customs administrations' procedures).

9. **The structural reform agenda will support the implementation of the large fiscal adjustment.** Structural conditionality under the ECF arrangement for 2016 will focus on strengthening oil revenue transparency, treasury and debt management. Those areas are

critical to facilitate budget management and avoid the emergence of arrears. In addition, spending controls should be further enhanced by continuing to limit the use of emergency spending procedures, enhancing the automatization of payroll management and budget reporting and accounting, and improving investment planning and budgeting. Technical assistance from the Fund is envisaged in some of those areas in coming months.

Risks

10. **The outlook is subject to significant risks.** Volatile international oil prices and the regional security situation remain the key external sources of risk for the program. In addition, there are domestic risks associated with the implementation of large spending cuts, a further fall in non-oil revenue, and the potential accumulation of domestic payment arrears.

Fund Relations

11. **The IMF will continue its close engagement with Chad, in the form of the current program, policy advice, and technical assistance.** The First Review under the ECF arrangement was concluded on April 27, 2015 and the Second Review is expected to be considered by the Executive Board in December. Reflecting the large balance of payments need arising from the twin external exogenous shocks, access under the ECF arrangement was augmented by 40 percent of quota at the completion of the first review.

ANNEX 4: COUNTRY MAP

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