

CHAD

Economic and Poverty Update

Spring 2020



WORLD BANK GROUP

Chad

*Economic and Poverty Update*¹

Spring 2020

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EXECUTIVE SUMMARY

1. Up to February 2020, Chad's economy continued its gradual, but mild recovery, supported by a substantial increase in oil and agriculture production. Following a severe recession in 2016-17, growth recovered to 2.4 percent in 2018 and 3.2 percent in 2019. This recovery was mainly due to higher oil production and agricultural output (especially cotton as a result of CottonChad's privatization). Non-oil GDP growth also increased from -0.9 percent in 2017 to 2.2 percent in 2019 as the services sector picked up.

2. Successful fiscal consolidation programs improved the fiscal balance and debt sustainability. Following the 2014 oil price shock, the decline in oil revenues and public spending prompted a fiscal consolidation program. The authorities contained the wage bill and strengthened non-oil revenue mobilization efforts. Consequently, the overall fiscal deficit improved from -5.8 percent of non-oil GDP in 2015 to -0.8 percent in 2019. The Government also successfully restructured its debt with Glencore which restored liquidity and debt sustainability. Total public debt decreased from a peak of 54.8 percent of GDP in 2016 to 44.3 percent in 2019; albeit, remaining at high risk of debt distress.

3. Inflation remained volatile under a tightened monetary policy. A tight regional monetary policy since 2018 in support of regional reserve accumulation has contained inflation pressures. Notwithstanding a gradually closing negative output gap, inflation declined to 1 percent in 2019, reflecting subdued food and transportation prices. Despite a slight improvement in its liquidity position, banking sector vulnerabilities remain significant due to high non-performing loans. The policy interest rate remained at 3.50 percent, allowing official regional reserves to reach 3.3 months of imports in 2019.

4. The current account deficit widened due to an increase in FDI-related imports for several oil fields under development. In real terms, export growth reached 6 percent due to increased oil production from the *Chinese National Petroleum Corporation* (CNPC) – Chad's leading oil producer. At the same time, CNPC was developing several oil fields to boost production in the medium-term which increased the importation of materials and other inputs. Consequently, imports accelerated to 4 percent. The deficit was financed by project grants and FDI, which increased to 4.3 percent of GDP in 2019.

5. Since March 2020, like in the rest of the world, the COVID-19 pandemic has dramatically changed Chad's macroeconomic outlook. With still a limited number of COVID-19 cases as of end-April 2020, the adverse effects of the pandemic have not been so much about the direct contagion but about the global economic slowdown and collapse of international oil prices it has triggered. In particular, Chad's oil sector, which represents 90 percent of exports and 40 percent of government revenues, has severely been impacted. Fall in export demand, reduced FDI-inflows, border closures and social distancing measures risk pushing Chad back into a recession in 2020, with the economy projected to contract by 0.2 percent (compared to a pre-COVID-19 4.8 percent growth rate). Current account deficit will widen, fiscal revenues and public spending will fall, while arrears accumulation are expected to increase. Assuming the COVID-19 crisis subsides in the coming months, growth is projected to rebound to 4.7 percent in 2021 as new oil fields accelerate production, oil prices recover, and the domestic lockdown is relaxed.

6. Chad's economic prospects have not only been clouded, but they remain subject to considerable downside risks. First, regional conflicts may strain the government budget as more refugees arrive from neighboring countries.

Second, legislative and presidential elections tentatively scheduled for 2020q4 and 2021q2 could stretch government finances. Lastly, persistence in the COVID-19 outbreak and the plunge in oil prices could cause a severe recession over the medium term, widening fiscal and current account deficits. It could also lead to more accumulation of domestic arrears which increases financial sector vulnerability. Prolonged border closures could decrease the supply of essential goods resulting in high prices that impact the poorest and most vulnerable population. Chad could mitigate these risks by strengthening the health sector to prevent a potential COVID-19 outbreak and improving non-oil revenue mobilization. In the medium term, the government should implement business-friendly policies to foster economic diversification and sustainable growth.

7. Poverty has declined during the last fifteen years but remains high in the country. About 6.5 million of Chadian (42 percent of the population) live below the national poverty line. Poor households have more children, low education, and work in agricultural sector under unfavorable farming conditions. Despite an improvement in non-monetary situation of Chadians, the poor continue to experience deleterious living conditions with low access to basic services such as clean water, improved sanitation and electricity, and have limited access to assets.

8. There is a high disparity in the distribution of poverty across regions with the North experiencing lower poverty compared to the other regions, except the capital city. In addition to poverty, Chadians experience high inequality in welfare distribution with the top 20 percent richest claiming more than 40 percent of the total consumption against 8 percent for the bottom 20 percent of the population. Anti-poverty policies to be implemented should consider investment in basic services. They should also target the informal sector which employs most of the urban poor and address diverse constraints to rural income growth such as infrastructure gap, low human capital, lack of complementary services, gender gap, and shocks and fragility.

9. In the short run, there is an urgent need to support the poorest and vulnerable population that may be disproportionately affected by the current COVID-19 crisis, especially those who highly depend on internal remittances. In order to mitigate the impact of this crisis, the government is encouraged to strength the quality and the access to health services, particularly for poor population. Safety-net transfers targeting the poorest and the vulnerable are also recommended to mitigate the impact of losses in labor and non-labor income as well as the potential price inflations of essentials goods due to market disruptions.

10. To mitigate the negative impact of COVID-19 on Chad, the authorities announced economic and social measures to support households and private companies in recent months. The authorities should continue to strengthen some measures already taken while introducing new measures to protect lives, livelihoods, and the future. To protect lives, they should upgrade their readiness to detect and treat COVID-19 patients and strengthen public awareness. To protect livelihoods, they should lessen the economic impact of a COVID-19 pandemic on household income by guaranteeing payment of wages to civil servants, improving social safety programs, and ensuring food security. To protect the future, they should assess the capacity of SOEs to maintain the continued provision of essential services (especially water and electricity) to citizens during the crisis and keep essential public finance services functional. Besides, they should mitigate the impact of external shocks on Chad's economy by expanding their tax bases, strengthening the collection capacity of tax and customs administrations, and adopting bold business-friendly reforms to accelerate economic diversification.



ECONOMIC UPDATE

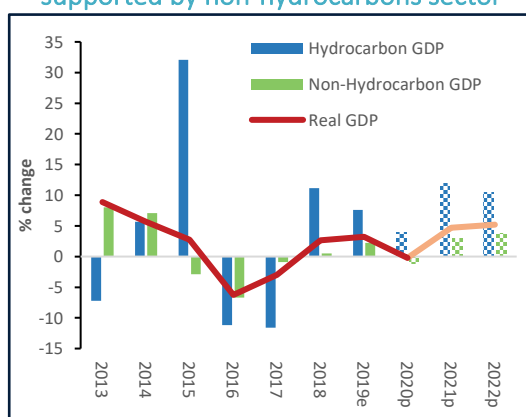
2.1. Recent Economic Developments

2.1.1. Real sector: Chad's economy continued its gradual but mild recovery since 2018

11. The 2014 oil-price shock led to a severe recession in 2016 and 2017. The collapse of Chad's export oil prices from \$98/bbl in 2014 to \$49.4/bbl in 2017 triggered a cumulative 9.5 percent GDP decrease during the period (Figure 1). Oil-related fiscal revenues dropped from 11.7 percent of non-oil GDP in 2014 to 3.5 percent in 2016. The fiscal deficit widened by 3.0 percent of non-oil GDP, notwithstanding a sharp reduction in domestically financed investment (from 9.8 to 1.7 percent of non-oil GDP). The external current account also widened to 9.2 percent of GDP. The recession was aggravated by limited economic diversification, widespread poverty, and security challenges. In 2016, the government of Chad (GoC) launched an emergency fiscal consolidation plan, including cash-based budgeting, which led to a significant improvement in the fiscal balance in 2017. Yet, the economy struggled to recover in 2017 and remained in recession.

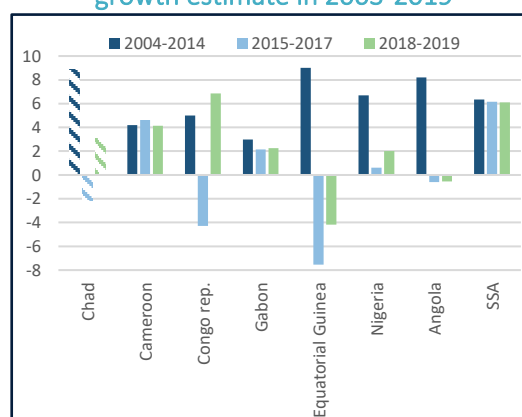
12. Growth recovered to 2.4 percent in 2018 and is estimated at 3.2 percent in 2019. Chad got out of the crisis in 2018 with a sharp recovery in oil production, which increased by 11.1 percent (Figure 1). The positive GDP growth continued in 2019 due to a further increase in oil production and a significant recovery of the non-oil sector. The primary sector (mainly agriculture and oil sub-sectors) remains a major driving force, contributing by about two-thirds of the 2019 growth rate. Contributions of the secondary and tertiary sectors (mainly oil-related services), stood at 0.1 and 0.7 percentage points, respectively. Although the negative output gap is closing, inflation declined from 4.0 percent in 2018 to -1.0 percent in 2019, reflecting subdued transportation and food prices.

Figure 1.: Chad's GDP growth is increasingly supported by non-hydrocarbons sector



Source: Chadian authorities and World Bank staff estimates.

Figure 2.: Selected oil-exporting countries – GDP growth estimate in 2003-2019

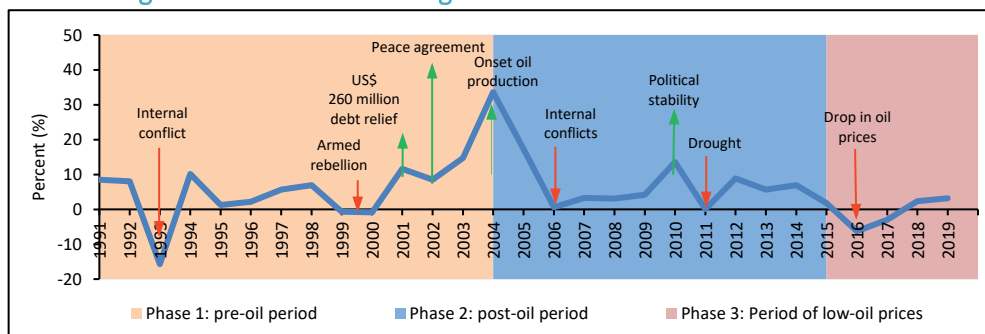


Source: World Bank MPO.

13. In structural terms, the recovery was based on the two main historical drivers of growth in Chad: political stability and strong oil production performance. Growth in the past three decades has been largely defined by oil and insecurity (Figure 3). Between 1990 and 2002 - the year preceding the start of oil production - output grew by an average of 4 percent per year. The oil boom in the early 2000s allowed Chad to boost GDP per capita from US\$220.8 in 2002 to US\$660.2 by 2005, thus rapidly distancing itself from other low-income countries and

reducing the large income gap with average Sub-Saharan Africa. Various bouts of domestic and regional insecurity complemented a broader inability to elevate growth to faster and sustainable levels. Ultimately, continued reliance on oil left the economy less diversified, less competitive and more vulnerable to exogenous shocks.

Figure 3.: Chad – Real GDP growth: 1990-2019 & historical events



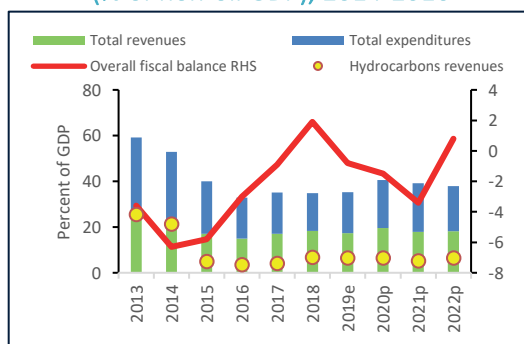
Source: The World Bank.

2.1.2. Public finances: moderate fiscal surpluses and improved fiscal space

14. In 2019, Chad's fiscal consolidation stalled but fiscal balances remained consistent with macroeconomic stability. The overall fiscal balance (including grants) deteriorated from a surplus of 1.9 percent of non-oil GDP in 2018 to a deficit of -0.8 percent in 2019. Total fiscal revenues decreased due to lesser budget grant and lower oil revenues. Total expenditure, on the other hand, increased by almost 2 percent of non-oil GDP mainly due to a 12 percent growth in the wage bill and higher security spending (see Figure 4).

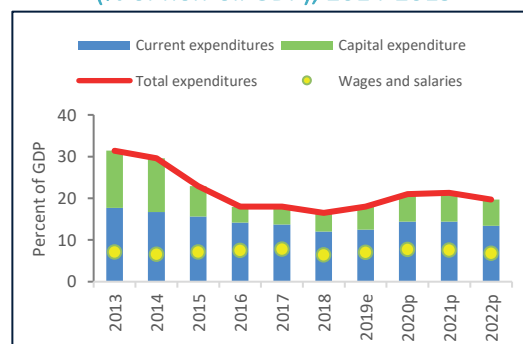
15. Despite a better mobilization of non-oil revenue, fiscal revenues decreased in 2019 due to lower budget grants and oil revenues. Specifically, non-oil revenues increased from 8.1 percent of non-oil GDP in 2018 to about 9.4 percent in 2019 as a result of two reforms. First, the value-added tax (VAT) threshold for large companies was increased, and a dedicated unit now handles VAT collection. This measure, together with the introduction of an additional 15 percent non-compliance penalty, improved tax collection and compliance. Second, taxes are now paid through commercial banks, reducing transaction costs for taxpayers. On the other hand, lower oil prices led to a marginal drop in oil revenues from 6.7 percent of non-oil GDP in 2018 to 6.4 percent in 2019. Budget support also drop by over 2 percentage points due to delayed disbursements from the World Bank and the European Union.

Figure 4.: Chad – Fiscal position (% of non-oil GDP), 2014-2016



Source: Chadian authorities and World Bank staff estimates.

Figure 5.: Chad – Government spending (% of non-oil GDP), 2014-2019



Source: Chadian authorities and World Bank staff estimates.

16. Despite an increase in the wage bill due to higher allowances for state workers, public spending remained contained in 2019. Total public spending increased from 16.5 percent of non-oil GDP in 2018 to 18.0 percent in 2019, mainly driven by the wage bill. In October 2018, the Government agreed to increase bonuses and allowances of state workers by 15 pp following a 5-month strike. This deal took effect in January 2019. In addition, the Government fully restored the allowances of military personnel. Nevertheless, the total wage bill (5.4 percent of GDP) remained within the ceiling recommended in the IMF-ECF program to maintain fiscal sustainability. Besides, capital investment increased from 4.5 percent of non-oil GDP in 2018 to 5.6 percent in 2019 (see Figure 5). Meanwhile, the rationalization of tax expenditure is estimated to create fiscal savings of around 0.7 percent of GDP per year.

Box 1: An Overview of the Oil Revenue Management Mechanism

The objective of the Oil Revenue Management Mechanism (ORMM) is to introduce a countercyclical dimension into oil revenue management to avoid excessive fiscal volatility. For example, an unexpected oil revenue shortfall followed the oil price shock in 2015 and led to the severe fiscal and economic crisis, including illiquidity, debt distress, and severe recession. Without any stabilization mechanism in place, the Government had no choice but to absorb the full extent of the shock through large expenditure cuts and arrears accumulation.

The Government established the ORMM with two features. First, it sets aside oil revenues to cushion the fiscal impact of unexpected oil revenue shortfalls. Second, it provides insurance against the risk of unexpected oil revenue shortfalls beyond 10 percent of budgeted oil revenues. Such shortfalls roughly correspond to oil price reductions greater than US\$5/bbl (*ceteris paribus*), an event that occurs with an estimated probability of 19 percent. About half of all oil price reductions historically have been greater than US\$5/bbl.

The ORMM consists of a stabilization fund (SF) with i) a saving rule (inflows); ii) a spending rule (outflows); and iii) a formula for estimating oil revenue in the Budget.

The saving rule:

- An annual amount of CFAF 10 billion shall be paid into the SF - through quarterly payments.
- Besides, if actual exceed budgeted petroleum revenues, 20 percent of this difference would be paid into the SF up to a maximum of CFAF 10 billion. Therefore, the minimum inflow per year is CFAF 10 billion, and the maximum is CFAF 20 billion.
- The maximum balance of the SF is capped at CFAF 40 billion. In the absence of withdrawals, the SF will reach full capacity throughout a minimum of 2 years and a maximum of 4 years.
- The maximum balance of the SF can be increased after two years of implementation by the Minister of Finance.

The spending rule:

- Withdrawals from the SF occur automatically when actual oil revenues fall short from budgeted oil revenues by 10 percent or more.
- Oil revenue shortfalls up to 10 percent of budgeted oil revenues will be accommodated through expenditure adjustment.
- Any shortfall beyond 10 percent of budgeted oil revenues will be compensated subject to the availability of resources in the SF.

- The SF may only be used to finance expenditure budgeted in a given fiscal year. The SF may not be utilized for the satisfaction of any sovereign or commercial debt of the Government, and no legal or beneficial interest in the Fund may be created.

The criteria for estimating oil Revenue in the Budget

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

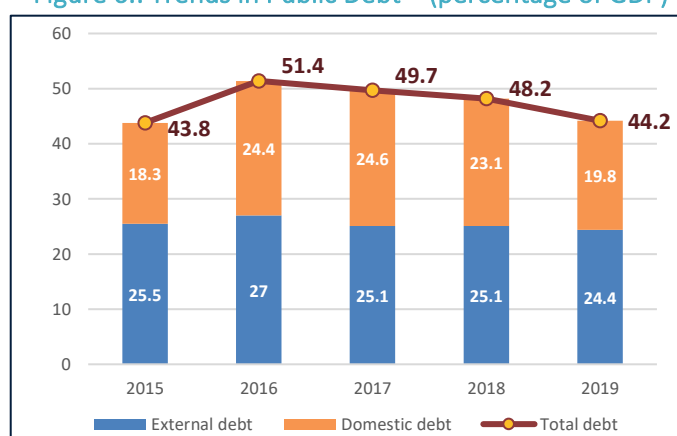
Source: The World Bank 2020

17. The government promulgated an oil revenue management mechanism for fiscal stabilization.² The key objectives of this mechanism are to set aside oil revenues to cushion the fiscal impact of unexpected oil revenue shortfalls and to insure against the risk of unexpected oil revenue shortfalls beyond 10 percent of budgeted oil revenues. Overall, the mechanism consists of a stabilization fund with a saving rule, spending rule, and formula for estimating oil revenue in the Budget.

2.1.3. Focus on debt issues: debt restructuring and improvement in management has reduced the risk of debt distress

18. Chad's public debt has declined in recent years after a decade of considerable increase. The country's debt stock peaked at 51.4 percent of GDP in 2016, following a sharp increase in domestic debt. This has since declined as a percentage of GDP due to significant GDP growth and more prudent fiscal policy (Figure 9). In 2019, total debt stood at an estimated 44.4 percent of GDP. External debt decreased due to the restructured oil-collateralized loan with Glencore while domestic debt decreased as Chad stopped borrowing from the regional central Bank – BEAC - following the restructuring of BEAC advances in 2017.

Figure 6.: Trends in Public Debt – (percentage of GDP)



Source: Chadian authorities, selected creditors, and World Bank and IMF staff estimates.

² Law 0040/PR/2019 on the Smoothing of Petroleum Prices and Production, which incorporates the new oil revenue management mechanism, was enacted on November 27, 2019.

19. Since 2018, the Government has made considerable progress in clearing external arrears, while the audit of domestic arrears was finalized. In the first two quarters of 2018, misreporting in the debt unit led to a temporary accumulation of external arrears. In May 2018, however, Chad signed an agreement in principle with the Libyan Foreign Bank to clear arrears and reschedule repayment, including an 18 months grace period. The Government also cleared all arrears to the Islamic Development Bank, reducing outstanding external arrears to US\$63 million. Active discussions are underway to address these arrears with the Republic of Congo (which is the main creditor with US\$55 million) and Equatorial Guinea and Mega Bank. Outstanding external arrears fell with the signing of a debt agreement with Angola in June 2019.

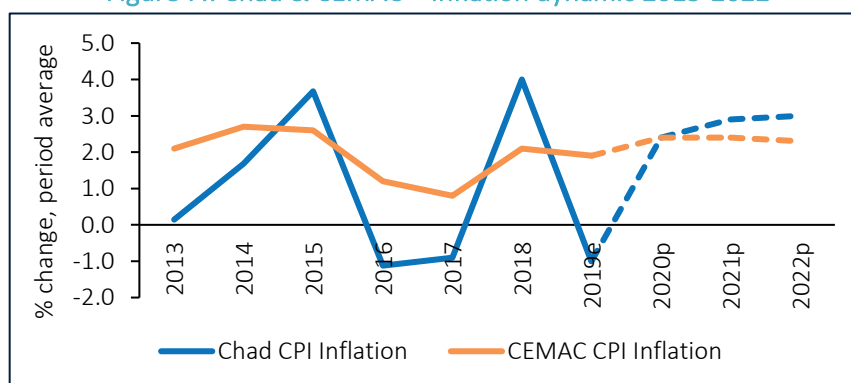
2.1.4. Monetary situation: moderate inflation under tightened monetary policy

20. Regional monetary policy has been tightened in recent years to support regional reserve accumulation. The regional Bank of Central African States (Banque des Etats d'Afrique Centrale, BEAC) maintained its policy rate of 3.5 percent in 2019 after an increase from 2.95 in October 2018. As a result, gross reserves are estimated at 3.3 months in 2019. Fiscal consolidation at the regional level and reserve repatriation policy also helped support reserves accumulation. Nevertheless, the reserves-imports coverage remains below levels (5 months of imports) appropriate for a resource-rich currency union.

21. Inflation has been volatile and sharply declined in the second half of 2019. Consecutive to a severe drop in domestic demand, inflation declined sharply in 2016 and 2017, stabilizing at around -1 percent. Inflation started rising again with economic recovery and stood at 4.0 percent in 2018. However, an inflection of inflation was observed in the second half of 2019 mainly caused by subdued food and transport prices. This stemmed from lower oil prices and costs of production. Hence, annual inflation stood at -1.0 percent in 2019 (Figure 5) which remains below the CEMAC convergence criteria.

22. Despite a slight improvement in its liquidity position, banking sector vulnerabilities remain elevated. Relative to end-2018, banking activity picked up with credits increasing by 4.6 percent and deposits by 25.7 percent in 2019. Nonperforming loans (NPLs) to total loans, while still high, dropped to 27 percent in 2019 from 31.4 percent at end-December 2018. Banking sector liquidity continued to improve and BEAC refinancing declined from CFAF 160.0 billion in December 2018 to CFAF 93.7 billion in 2019.

Figure 7.: Chad & CEMAC – Inflation dynamic 2013-2022



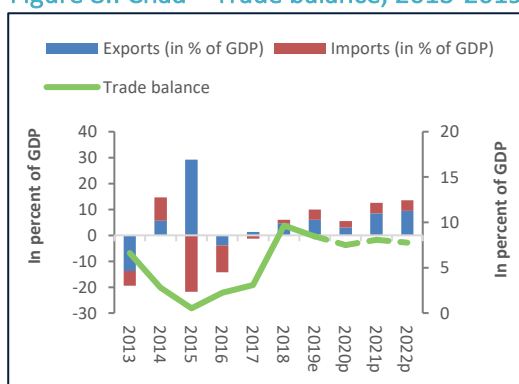
Source: Chadian authorities and World Bank staff estimates.

23. The authorities are making progress toward addressing the banking system vulnerabilities, strengthening the position of public banks, and improving the ability of the banking sector to contribute effectively to growth. In June 2019, the authorities reviewed and prepared plans to reorganize the two public banks with difficulties. The relevant decision-making bodies adopted these plans in December 2019. Besides, the authorities are committed to address all weaknesses identified and to improve the governance structure of these two banks. The highest priority is to address the high level of NPLs.³

2.1.5. External position: reduction of current account deficit thanks to increase in oil export and monetary tightening

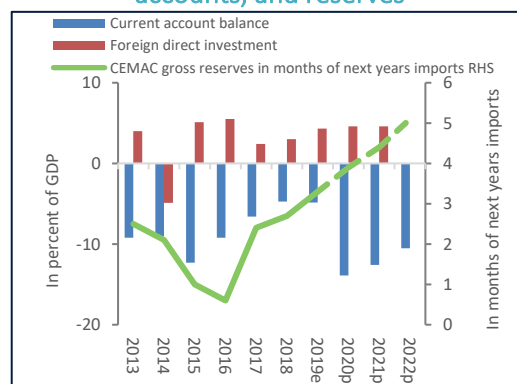
24. The current account deficit slightly widened in 2019, due to an increase in Foreign Direct Investment (FDI)-related imports for several oil fields under development. Exports grew at 6 percent due to increased oil production from CNPC – Chad’s leading oil producer. At the same time, import accelerated to 4 percent as domestic consumption picked up and equipment for the development of new oil fields was purchased. Overall, the current account deficit slightly increased from 4.7 to 4.9 percent; however, remaining a significant improvement from -12.3 percent of GDP in 2015.

Figure 8.: Chad – Trade balance, 2013-2019



Source: Chadian authorities and World Bank staff estimates.

Figure 9.: Chad & CEMAC – Current and financial accounts, and reserves



Source: Chadian authorities and World Bank staff estimates.

25. There was substantial growth in exports and imports in 2019. Real exports grew at 6.0 percent in 2019, outpacing imports growth of 4.0 percent. Chadian oil prices increased from US\$49.4/bbl in 2017 to US\$58.8/bbl in 2019, while oil production increased by 9 million barrels. Besides, the privatization of CottonChad has significantly improved the sub-sector as cotton production increased significantly in 2019. Imports continued to grow mainly to sustain investment in the oil and cotton production sectors and to satisfy a pick-up in domestic consumption as the economy continues to gradually recover. However, trade balance turned slightly negative (see Figure 7) as imports of goods grew stronger than exports in the nominal term.

26. Significant FDI-inflows helped finance the current account deficit. The financial account improved because of lower debt service to Chad’s main commercial creditor (Glencore), and a significant increase in FDI flows from 2.4 percent in 2017 to 4.3 percent in 2019. These inflows were mainly channeled towards the development of new oilfields and rehabilitation of cotton factories. Overall, in 2019, the combination of relatively tight fiscal policy and large non-debt creating inflows contributed to stabilized gross reserves at 3.3 months of imports. This

³ IMF 2019, Chad—Fifth Review Under the Extended Credit Facility Arrangement and Financing Assurances Review, December 2019.

level remains below the threshold (5 months) required for a resource-rich monetary union with a fixed exchange rate.

2.2. Economic Outlook in the Time of COVID-19

27. Up to February 2020, Chad's macroeconomic outlook was broadly positive. Growth was expected above 5 percent over the medium term, mainly driven by oil exports. Besides, the non-oil growth would significantly increase due to clearance of domestic arrears, increase in public investment and strong performance from the cotton sub-sector. The current account deficit was expected to stabilize at around 6 percent of GDP while fiscal balance surplus was projected at about 2 percent over the medium term. However, the COVID-19 pandemic and related oil price plunge has led to a less favorable outlook, see Table 1.

Table 1.: Chad – selected economic indicators pre-COVID-19 and COVID-19 projections

	Pre-COVID projections						COVID-19 projections		
	2017	2018	2019e	2020f	2021f	2022f	2020f	2021f	2022f
<i>Annual Percentage change (unless otherwise stated)</i>									
Real GDP (growth, market prices)	-3.0	2.4	3.2	4.8	5.2	5.4	-0.2	4.7	5.2
Private Consumption	0.2	0.7	1.4	2.6	3.4	3.8	0.5	1.7	2.0
Government Consumption	9.5	-11.8	1.7	3.6	5.9	1.8	4.6	5.4	6.1
Gross Fixed Capital Investment	-24.7	5.4	6.6	3.7	5.5	4.8	-8.1	6.8	4.8
Exports (Goods and Services)	1.3	4.6	6.0	8.2	7.2	7.4	3.0	8.5	9.4
Imports (Goods and Services)	-1.3	1.4	4.0	3.8	4.0	4.1	2.5	4.0	4.1
Real GDP (growth, factor prices)	-3.0	2.4	3.2	4.8	5.2	5.4	-0.2	4.7	5.2
Primary (including oil)	3.1	4.0	4.6	6.6	7.2	7.8	5.0	7.2	7.6
Industry	-1.7	0.6	0.9	1.4	1.6	1.6	-0.2	0.8	1.6
Services	-9.7	1.0	1.9	3.7	4.1	3.7	-6.6	2.8	3.1
Inflation (Consumer Price Index)	-0.9	4.0	-1.0	3.0	3.0	3.0	2.4	2.9	3.0
Current Account Balance (% of GDP)	-6.6	-4.7	-4.9	-5.8	-6.4	-6.4	-13.9	-12.6	-10.5
Fiscal Balance (% of GDP)	-0.8	1.5	-0.6	2.3	1.9	2.3	-1.2	-3.3	0.6
Debt (% of GDP)	49.8	48.3	44.4	39.7	35.1	31.0	47.8	47.1	45.3
Primary Balance (% of GDP)	0.8	3.0	1.0	3.8	3.2	3.3	0.7	-1.7	1.7

Sources: World Bank, *Macroeconomics, Trade and Investment (GTI)*.

Notes: e = estimate, f = forecast.

2.2.1. The outlook hinges on the COVID-19 pandemic and oil price shock

28. The epidemic is at an early stage in Chad and the government has taken important containment measures. As at May 18, 2020, Chad reported 503 cases (53 deaths) of COVID-19 (figure 10) but its evolution seems to be following the typical exponential pattern. Adopted containment measures include health surveillance, temperature monitoring of travelers at the airport, the designation of a place to quarantine suspected/confirmed cases and raising public awareness. Border closures have been implemented with all countries except Cameroon for goods. Moreover, the government closed schools, universities, nightclubs and bars, while introducing a

curfew from 8 pm to 5 am to limit people's movement. Besides, large gatherings (including religious gatherings) of more than fifty people are prohibited. To mitigate the negative impact of the crisis on its economy, Chadian government has solicited financial support from its technical and financial partners.

Figure 10.: Chad- Report on the number of COVID-19 cases

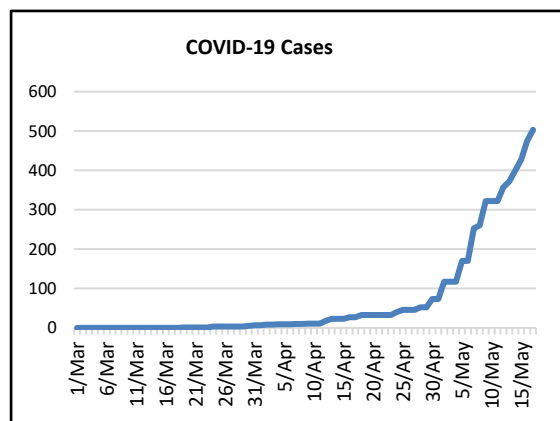
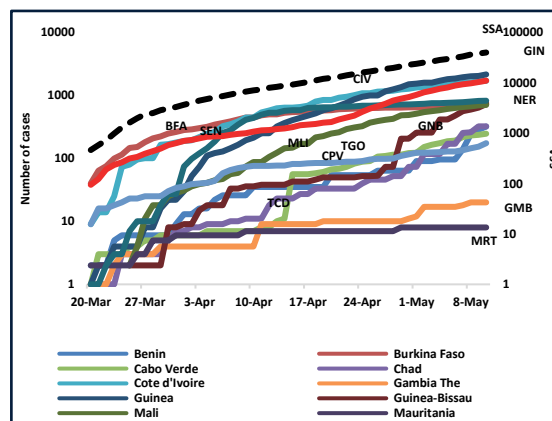


Figure 11.: West-Africa–Report on the number of COVID-19 cases



29. The outlook evaluates the potential economic impact of COVID-19 on Chad under the scenario where oil prices are expected to fall to \$30.3/bbl in 2020 and to \$39.8/bbl in 2021 (see Figure 11). It is also assumed that the government will flatten the pandemic curve so that the economic disruption will be mainly due to preventive measures implemented by the government.

30. The first quarter of 2020 has been dominated by the negative impact of the coronavirus (COVID-19) pandemic on commodity prices, capital flows, trade, and global economic growth. In January, the outbreak of the COVID-19 epidemic led to a shutdown of production and export activities in China. This shutdown led to a fall in the global demand for commodities goods and, specifically, fossil fuels. Low demand, combined with the failure of Russia and OPEC countries to agree on production cuts, led to over 50 percent drop in oil prices (Figure 12a). For oil-exporting countries such as Chad, this oil price shock is jeopardizing their fiscal and external balances. As COVID-19 moved from an epidemic to a major pandemic, growth contraction in other major economies such as the US, the EU, and Japan, dwindled remittances- and FDI-inflows to low-income countries. According to the *Institute of International Finance* (IIF), investors pulled out over \$83 billion in emerging market shares and bonds in March⁴. Social distancing measures will weaken all economic sectors while border closures will strain imports, including of essential goods, which could trigger food insecurity.

31. **COVID-19 and related oil price shocks will affect the Chadian economy through external and domestic factors.** On the external side, the oil price shock will directly reduce export earnings and fiscal revenues and indirectly impact economic growth, public spending and imports. In addition, growth contraction in major economies such as China, EU and the US will reduce global oil demand and FDI-outflows and remittances to developing countries. On the domestic side, restriction of movement and border closures will hinder trade facilitation, trigger food insecurity and increase poverty. Moreover, confinement measures will depress private services and industrial production, which could result in significant unemployment.

⁴ <https://www.nytimes.com/2020/04/01/business/stock-market-recap-coronavirus.html>

32. As of April 20, 2020, the Chadian economy was projected to contract by 0.2 percent in 2020 compared to the growth rate of 3.2 percent in 2019. It is a downward revision of 5.0 percent compared to the 4.8 percent projected before the crisis.⁵ The recession of the Chadian economy is predicated on the following developments: continued low oil prices and production until end-2020, with slower expansion of new oil fields and related FDI; weak performances in the non-oil sector due to border closure and confinement measures, with services sector – hoteling, transport, aviation and restaurant – severely hit; and lower fiscal revenues and a larger fiscal deficit. Services and industrial sectors are projected to contribute a combined negative 2.5 percentage points to economic growth; while the primary sector (the main driver of growth) is projected to contribute a positive 2.3 percentage points. Inflation is expected to increase to 2.2 percent (from -1.0 percent in 2019) but to remain below the CEMAC convergence criteria.

33. Growth is expected to recover in the medium-term. As new oil fields accelerate production, oil prices improve and the COVID-19 pandemic subsides, growth would rebound to 4.7 percent in 2021. In addition, non-oil growth would increase due to the clearance of domestic arrears, increase in transport services and strong performance from the cotton sub-sector. Inflation would remain below 3 percent in line with regional targets as GDP growth converges towards its potential.

34. The fiscal deficit in 2020 and 2021 will widen because of lower oil revenues and higher expenditures. The oil price plunge is expected to decrease oil revenues by 40 percent in 2020 and 56 percent in 2021. However, this decrease will be offset by the structure of production sharing agreement and oil fiscal arrangement with CNPC that allows the company to pay taxes with a one-year delay. For example, in 2020, CNPC will pay taxes based on profits earned in 2019. In other words, there will be lower oil revenues in 2021 due to the price and production shock of 2020. Consequently, the fiscal deficit is expected to stabilize at about 1.5 percent of non-oil GDP in 2020 and to widen to 3.4 percent in 2021. As the government strengthens revenue mobilization efforts, with oil revenue reaching above 6 percent of non-oil GDP, the fiscal deficit will return to a surplus of 0.8 percent in 2022.

35. Public expenditure will increase due to a rise in the wage bill and transfers to the health sector to contain the COVID-19 pandemic. On January 9, 2020, the government agreed to reinstate bonuses and allowances of public service workers to put an end to a two-day strike. These new spending commitments will potentially add an estimated 0.43 percent of GDP (CFAF 31 billion) to the 2020 wage bill. Despite the oil price shock, the deal is expected to be honored to avoid civil unrest. Moreover, over 1500 medical workers will be recruited to strengthen the health systems in mitigating against a COVID-19 outbreak. Subsidies will also be provided to the electricity company as the government will be paying for electricity and water bills for three months.

36. Driven mainly by the fiscal policy stance, the current account deficit would widen in 2020. Oil exports are projected to dropped by almost 50 percent in 2020 and total exports by 34 percent as a result of the impact of COVID-19 on global demand, the oil price shock and border closures. Total imports will not adjust in the same proportion but instead decrease by 2.3 percent. Chad's savings-investment balance will deteriorate and the current account deficit (CAD) will widen to 13.9 percent. This impact is expected to lessen in 2021, with a rebound of both exports and imports by 7 percent and 3.5 percent, respectively, and a narrowing of the CAD to 12.6 percent of GDP. Budget support from donors will provide reliable source of financing as FDI-inflows will slow down due to global growth contraction. CEMAC regional reserves are projected to remain below 5 months of imports by 2022, the threshold required for a resource-rich monetary union with a fixed exchange rate (Figure 11f).

⁵ This estimate is in line with the April 2020 African Pulse, which projected that economic growth in Sub-Saharan Africa would decline from 2.4 percent in 2019 to between -2.1 and -5.1 percent in 2020, the first recession in the region in 25 years.

37. These shocks will open a substantial fiscal gap that needs to be financed by external concessional sources or new domestic sources. Under the baseline scenario, the financing gap is US\$418 million (4.2 percent of GDP) in 2020 and US\$555 million (5 percent of GDP) in 2021. While these gaps will be partially financed by exceptional external support from the IMF, the World Bank and bilateral donors, and domestic support from regional institutions; a significant gap remains both in 2020 and 2021.⁶

38. The BEAC has announced a relaxation of its monetary policy. As of April 15, 2020, the BEAC decided to: i) reduce the open market interest rate (TIAO) by 25 basis points, from 3.50% to 3.25%; ii) revise down the Marginal Loan Facility Rate by 100 basis points, from 6.00% to 5.00%; iii) increase liquidity injections from CFAF 240 billion to CFAF 500 billion; iv) expand the range of private instruments allowed as collateral for monetary policy operations; and v) reduce the levels of applicable discounts on public and private instruments admitted as collateral for refinancing operations at BEAC. Moreover, BEAC will help governments to: i) ease the conditions for issuing treasury securities (time limits and issuance schedules); ii) ensure that banks are supplied with sufficient quantity and quality of official currencies; iii) bring to the competent authorities the proposal to reschedule by one (1) year the repayment of the capital of the Central Bank's consolidated loans to the countries.

39. According to the most recent Debt Sustainability Analysis,⁷ Chad's risks of external and overall debt distress remain high but sustainable despite the impact of the COVID-19 crisis. Under the baseline scenario, public debt will slightly increase from 44.4 percent of GDP in 2019 to 45.3 percent in 2022 due to accumulation of domestic arrears. All but one external debt sustainability indicators will be below their respective thresholds from 2020 onwards. The debt-to-revenue ratio breaches its threshold under the baseline scenario. Overall, total public debt vulnerabilities are elevated, and the pandemic will push the present value (PV) of the public debt-to-GDP ratio above its threshold in 2020 and 2021. It will decline steadily thereafter. The debt sustainability analysis is based on projected continued fiscal prudence and an increase in non-oil revenues after the pandemic crisis abates. Following the restructuring in 2018, the new Glencore debt contract has helped contain the impact of low oil prices on debt sustainability, as it allowed lower debt service to cushion the recent oil price declines.

⁶ Some details in a footnote: IMF, World Bank, AfDB, EU, AFD. Chad could also expect about CFAF 15 billion from the regional development bank, BDEAC which has opened an emergency window of CFAF 90 billion investment projects for the six countries in the CEMAC region.

⁷ IMF and World Bank, 2020, *Debt Sustainability Analysis* (April 2020)

Figure 12.: Economic Developments in Chad under the baseline scenario in six charts

Figure 12.1.: Price dynamics of Chad's main commodities (exports and imports)

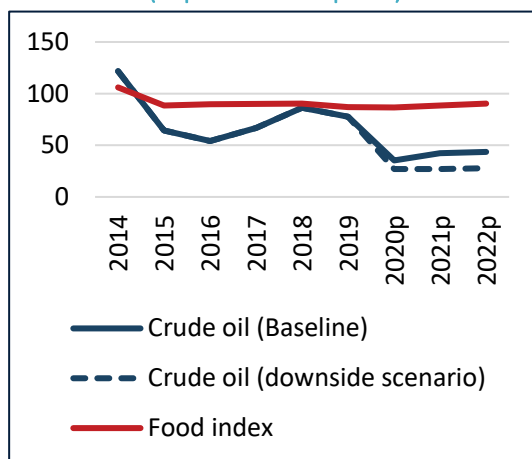


Figure 12.2.: Growth will be affected by COVID-19 outbreak, mainly due oil price decline and confinement measures

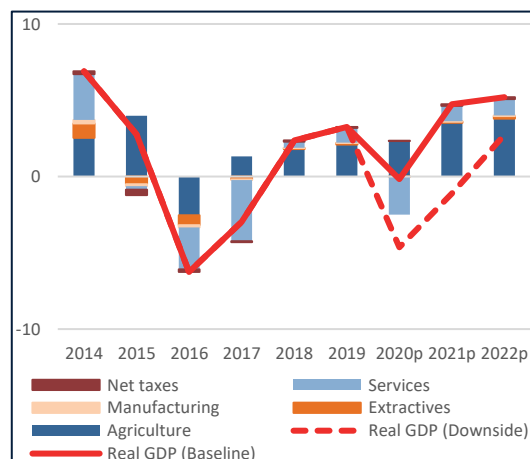


Figure 12.3.: As a result, poverty reduction will be hampered in 2020

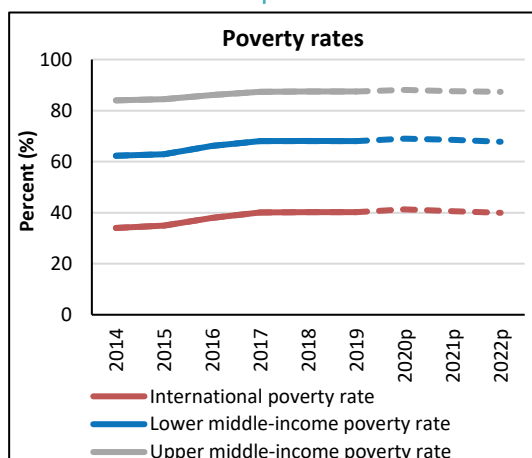


Figure 12.4.: The fiscal deficit will decline in the medium term due to oil revenue decline

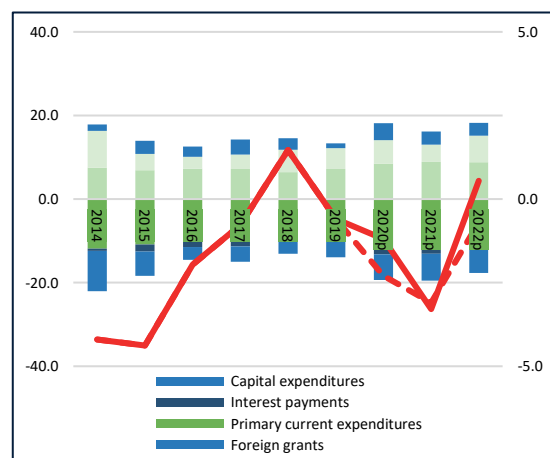


Figure 12.5.: Arrears accumulation will marginally increase

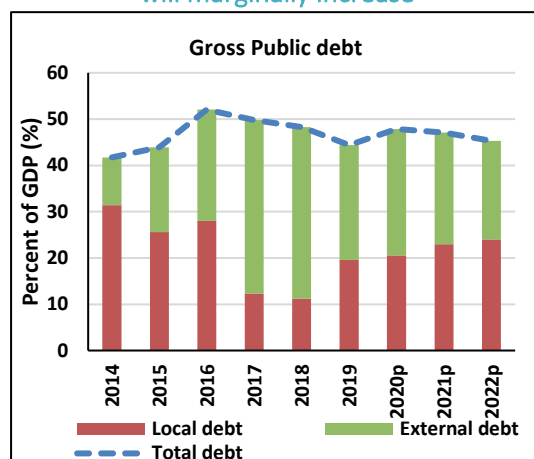
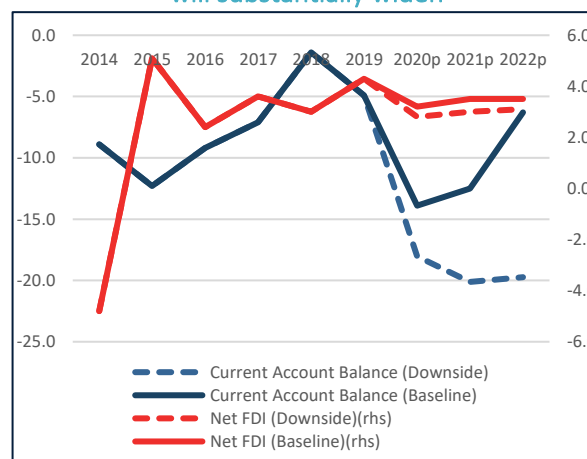


Figure 12.6.: While the external deficit will substantially widen



Source: National authorities, MFMod, World Bank commodity markets and authors' calculations.

2.2.2. Risks associated with the outlook

40. Chad's projected economic growth, fiscal and external balances, and the soundness of its financial sector remain vulnerable to several downside risks. External risks include lower than projected oil prices, substantial slowdown in FDI-inflows and unfavorable weather conditions. Domestic risks include worsening of the security situation, a COVID-19 outbreak and prolonged border closures and confinement measures.

41. Lower oil prices will affect oil exploration while severe global contraction will reduce FDI-inflows. Disruptions in oil production are expected since crew changes and materials are being impaired by travel bans and border closures. Industry sources (Platts) suggest that Glencore is considering a temporary shutdown of its production in Chad, currently around 14,000 b/d (10 percent of the country's total production). Meanwhile, severe recession in developed countries will significantly constrain FDI-inflows.

42. Unfavorable weather conditions could hamper agriculture production. Chad's agriculture tremendously depends on good weather. Like any Sahel country, a short raining season and water scarcity are the main characteristics of its weather. In recent years, the raining season has been shorter than expected and rainfall irregular or falling at inappropriate timing in crops cycle. This could hamper agriculture production, increase poverty and ultimately, economic growth.

43. Persistent regional insecurity could disrupt bilateral trade and stretch government finances. In recent months, insecurity has been on the rise in the Sahel countries with an increasing number of fatalities. The situation has deteriorated in Libya with increased fighting between the Eastern and the Western government. Finally, the ongoing conflict with Boko Haram has resumed with almost 100 Chadian soldiers killed in March 2020. In fact, the President just finished leading a counter-offensive against the Jihadist fighters. This situation will stretch the government budget, in addition to the arrival of more refugees arriving from neighboring countries.

44. Under a downside scenario, the recession will be severe and last longer.⁸ The economy will contract 2.5 in 2020 and a further 0.6 percent in 2021 (Figure 12b). As international economic disruption will be longer than expected, it will reduce demand for crude oil and cattle, the two main Chad exports. Under the assumption that COVID-19 will lead to a medium-size epidemic in Chad, economic activities (especially in the services and informal sectors) will be severely disrupted. Private consumption will fall due to loss of income from unemployment and disruption of supply food chains. Industrial activities will collapse due to fall in imported inputs arising from Border closures. Health issues and lack of private sector investment will cause a demand and shock of labor input.

Box 2: Chad – Regional Security Issues

Chad currently enjoys relative stability after decades of civil wars and armed conflicts; however, the security situation remains fragile. This stems from the conflicts in Libya, Sudan, Central African Republic and the Boko Haram insurgency in Nigeria. This situation has had important consequences on the population living in the border regions: thousands of people have been forcibly displaced; agro-pastoral activities, trade and food supplies have been disrupted; while traditional authorities have been challenged by armed groups. The country is also experiencing inter-communal tensions, particularly over the management and control of resources and power sharing in different regions. In the Lake Chad region for example, these tensions erupt in violence that undermine social cohesion and destabilize economic activities. They are also exploited by armed terrorist groups like Boko Haram to expand their area of influence. Comparative data for the Sahel on violent events from January 2019 to January 2020 indicate that the main conflict risk areas in Chad are situated along the Western and Eastern borders, with medium intensity conflicts in the Lake Chad and ‘Grand Ouaddai’ areas.

The drivers of fragility, conflict and violence are multiform. As documented in the recent Sahel Regional Risk and Resilience Assessment, a combination of global, regional, national and local drivers explains the Sahel FCV situation. They include: (i) dynamics of exclusion and perceived or real injustice; (ii) the existence of a crisis of confidence in state institutions, especially on the part of groups that feel marginalized; and (iii) increased competition around natural resource, aggravated by climate change and population growth. An hybridization of different types of violence is currently being observed, with increasingly blurred boundaries between violent extremism, insurgency and community self-defense. In a context of rising insecurity (domestically and regionally), Chad’s fiscal costs of insecurity have been reduced since 2009 and is currently below the average of G5 Sahel countries and relatively low compared to selected countries ranging from stability to conflict. During the last cycle of civil war between 2005 and 2009, military expenditure in the government budget increased from 0.8 percent of GDP in 2005 to 8 percent of GDP in 2009. Since 2009, Chad’s military expenditures have significantly lowered and stood at 2.2 percent of GDP, compared to the G5 Sahel countries average of 2.4 percent of GDP. The same year, military related expenditures in Algeria and Republic of Congo were respectively 6 and 2.7 percent of GDP while in Pakistan and Iraq they were respectively 4 and 3.5 percent of GDP. Hence, Chad’s security sector expenditures in 2019 were lower than in other countries experiencing conflict and at lower levels to countries not experiencing conflict. Lastly, over the past 25 years, Chad has welcomed refugees due to the recurring conflicts at its eastern, western, and southern borders. By end-2019, Chad was hosting more than 450,000 refugees, primarily in the east, south and west, making Chad the 5th largest receiving country in the world in relative terms. This situation further puts a strain on the government budget.

⁸ This downside scenario assumes a more severe drop in oil price at \$ 20/bbl both in 2020 and 2021. Besides, we assume a COVID-19 outbreak in Chad leading to loss of lives and overstretched health systems.

Table 2.: Military Expenditure as a percentage of GDP (Percentage)

	2009	2013	2019
Burkina Faso	1.4	1.4	2.4
Chad	8	5.6	2.2
Mali	1.4	1.2	2.7
Mauritania	3.1	2.6	2.8
Niger	1.0	1.4	1.8
Average G5 Sahel countries	2.9	2.4	2.4

Source: Stockholm International Peace Research Institute.

45. Fiscal and current account deficits will widen while debt accumulation will increase. Oil revenues will fall due to lower oil prices while border closures (customs) and lack of economic activities (VAT and CIT) will affect non-oil revenues. The fiscal deficit will widen significantly, creating a massive financing gap. A subsequent rise in arrears accumulation will heighten vulnerabilities in the banking sector. Export growth will decline faster than import growth causing a substantial increase in current account deficits. Regional reserves could also fall below the 3.3 months of imports seen in 2019.

46. As a result of this challenging macroeconomic outlook and the associated risk, the poverty rate over the short term will increase by nearly 1 percentage points. Under the baseline scenario, the poverty rate ((using the international poverty line of US\$1.9 a day, (PPP terms) will increase from 40.2 percent in 2019 to 41.3 in 2020 due to the COVID-19 crisis (Figure 12b) and the situation will be worse under the downside scenario. In fact, COVID-19 and related crises will hurt economic growth and increase inequality. Specifically, i) oil price decline that could reduce fiscal revenue and lead to lack of public service delivery; ii) border closures that could lead to decrease in supply of essential goods; iii) FDI decline that could increase unemployment in the private sector is high will all lead to a reduction of household income and of services to poor, increase therefore non-monetary as well as monetary poverty. This crisis will impact disproportionately the poorest and vulnerable in Chad. Nevertheless, poverty rate is expected to decrease to 40.0 percent in 2022 as economy recover. The absolute number of the poor will increase to about 6.9 million in 2022, up from 6.2 million in 2018.

47. Section III below, presents a poverty update based on the most recent household survey data of 2019 and provides a detailed analysis of the COVID-19's impact on poverty dynamics.

POVERTY UPDATE

3.1. Recent poverty developments

3.1.1. How poor are Chadians?

48. Over six million Chadians are poor. According to the latest Household Consumption and Informal Sector Survey (2018-2019), about 42 percent of Chadians, representing an absolute number of 6.5 million individuals, including 3.4 million of women and 3.1 million of ssssmen, were living below the national poverty line of 242,094 FCFA per year or 663 FCFA per day.⁹ Approximately 15 percent of the population (or 2.4 million people) are extreme poor – that is, cannot meet the basic nutritional requirement of 2300 kilocalories. Using the international poverty line of US\$1.9 per day (at the 2011 Purchasing Power Parity), the data show that 33.7 percent of the population are extreme poor.

Figure 13.: Breakdown of national poverty rate by area of residence

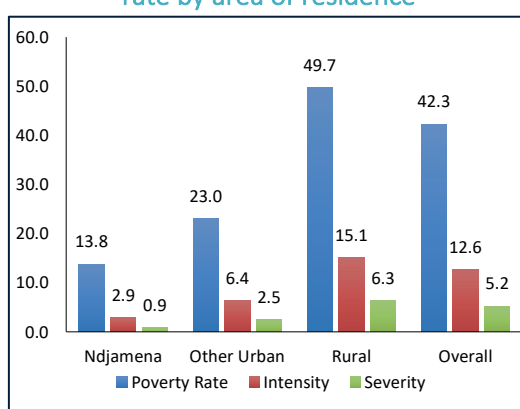
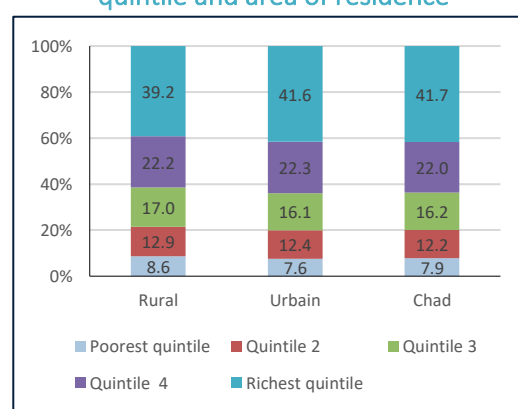


Figure 14.: Share of total consumption by quintile and area of residence



Source: World Bank staff calculation using data from ECOSIT 4.

49. Inequality remains pervasive in the country with a Gini index of 33.4. The consumption gap between the top 20 percent of the distribution and the bottom 20 percent is enormous. According to Figure 12, the richest Chadian claim about 42 percent of total consumption while the bottom 20 percent claim only 8 percent. At the same time, the data shows that the Inter-decile ratio p90/p10 is 4.3, meaning that the consumption of the top 10 percent of households in Chad is more than 4 times greater than that of the bottom 10 percent. Income inequality varied substantially across regions with the highest value of 36.1 in Logone Oriental and the lowest value of 27.2 in Hadjer-Lamis. Inequality in Ndjamen (33.6) is similar to that of the national level.

50. In general, poverty and inequality are relatively low in Chad compared to the other countries in Sahel region. For example, there is 1 percentage point difference between poverty rate in Chad and in Mali while both countries experience the same level of inequality. At the same time, Burkina Faso and Chad have the same poverty rate but inequality is higher in Burkina Faso than in Chad with a difference of almost 9 percentage points. On average, the richest 10 percent Chadians consume 4 times more than the poorest 10 percent. This is relatively the same in Mali while in Burkina Faso, the richest 10 percent consume 6 times more than the poorest 10 percent in Burkina Faso.

⁹ This corresponds to US\$1.2

Table 3.: Comparison of poverty estimates across Sahelian countries

Country	Normalized per capita expenditure	National poverty line	Incidence of Poverty – National	Incidence of Poverty – Urban	Incidence of Poverty – Rural	Gini Index	Inequality index P90/P10
Burkina Faso	341,034	203,360	42.4	13.0	52.6	0.425	6.314
Mali	382,041	275,049	43.3	19.6	51.6	0.335	4.386
Chad	332,618	242,094	42.3	19.4	49.7	0.336	4.420

Source: World Bank staff calculation using data from ECOSIT4 (Chad) and EHCVM 2018/19 (Burkina Faso, and Mali).

51. Many non-monetary indicators confirm the poor living conditions of the Chadians population. According to the 2019 human development report, Chad ranks at the 187 position among 189 countries, with an index of 0.40. Life expectancy at birth in the country of 52.8 years is one of the lowest in the world. Education outcomes remain low with an average number of years of schooling of 2.4 years. In 2018/2019, only 48 percent of kids between 6 and 11 years old were enrolled in primary education among whom three out of 4 will not complete primary education. Concerning health indicators, the maternal mortality rate of 860 deaths per 100,000 live births is one of the highest in the world. Under five mortality rate remains also high in the country (130 deaths per 1,000 live births). The nutritional situation of children under five is also a concern with 40 percent of children stunted, 29 percent underweighted and 13 percent wasted.

3.1.2. Who are the poor in Chad?

52. Poverty is associated with high number of children, low education and volatile farming conditions. First, the average number of children below 17 years living in poor households is 1.5 higher than the average number of those living in non-poor households. This can partially be explained by the fact that the heads of poor households are more likely to be polygamous compared to those of non-poor households and, therefore, are more likely to have more children. Second, education and health outcomes of Chadian are too low to allow them to have access to good productive economic activities and high-paying job opportunities. According to the latest Human Capital Index, Chad is at the bottom of the ranking of countries with a human capital index of 0.29. This means that youth in Chad can expect to achieve only 29 percent of what their potential would be under ideal conditions. Statistics from the household survey shows that about 53 percent and 55 percent of people living in households whose head has primary uncompleted education and primary completed education, respectively, are poor (Figure 15). Third, farmers in Chad face many challenges including low mechanization, low use of improved seed and fertilizer, climate change and low rainfall. These constraints have negative impacts on the productivity of farmers, and therefore their income. As a result, their likelihood to fall in poverty is high. Figure 16 indicates that 52 percent of people living in a household whose head is a farmer are poor.

Table 4.: Some socio-demographics characteristics of poor

	Chad	Non poor	Poor	Ndjamena	Other Urban	Urban	Rural
Household size	5.3	4.6	6.5	8.0	6.5	6.9	6.5
Children <5 years	1.1	0.9	1.5	1.6	1.4	1.5	1.5
Children between 5-17 years	2.0	1.6	2.7	3.7	2.8	3.0	2.7
Adult 18-64 years	2.0	2.0	2.1	2.6	2.2	2.3	2.1
Elders >64 years	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Dependency Ratio	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Age of Household Head	42.6	42.4	42.9	47.9	43.9	44.9	42.7
Household head is male	75.9	75.6	76.5	73.1	68.3	69.5	77.3
Household head is polygamous	14.5	12.8	17.5	18.8	9.0	11.0	18.2

Source: World Bank staff calculation using data from ECOSIT 4.

Figure 15.: Breakdown of poverty rate by education of Household head (percentage individuals)

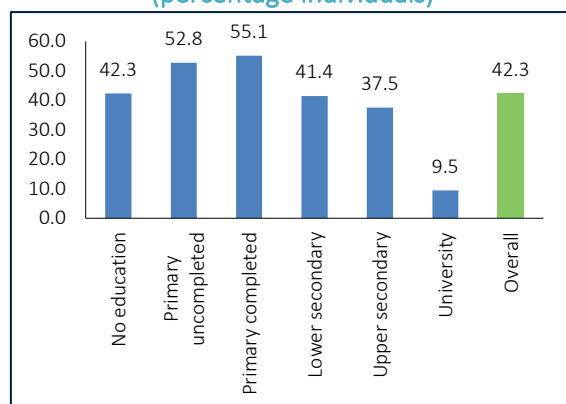
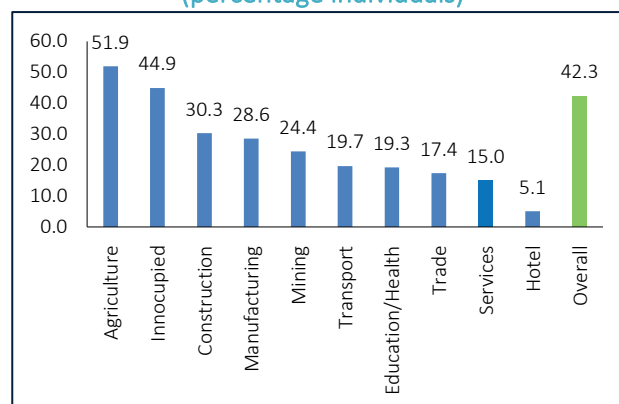


Figure 16.: Breakdown of poverty rate by sector of activity of Household head (percentage individuals)



Source: World Bank staff calculation using data from ECOSIT 4.

3.1.3. Where do the poor live in Chad?

53. Poverty is concentrated in rural areas with high regional disparities. Nine out of ten of poor live in villages and countryside and work essentially in the agricultural sector with low productivity. Regions which share border with Central Africa Republic, Sudan and Nigeria are home to thousands of refugees from these countries and experience fragility and conflict. The spatial distribution of poverty shows that these regions also experience high poverty. In cotton-growing areas such as Tandjile, Logone and Sila, the drop in the price of cotton has severely affected households' income leading to high poverty rates in these regions (up to 60 percent in Tandjile). During the crop year 2017-2018, the Sahelian area experienced late raining season combined with low rainfall. As a consequence, agricultural production has decreased with a decline of more than 20 percent in some regions such as Kanem, Wadi Fira and Barh El Ghazal. This has increased the vulnerability of households who earn the bulk of their income from agriculture and livestock and, therefore, contributed to higher poverty rates in these regions.

Figure 17.: Poverty by area of residence

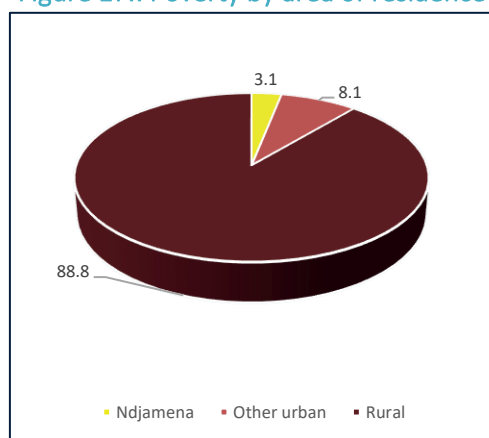
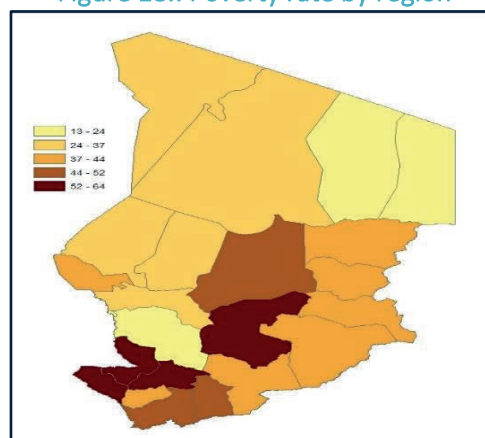


Figure 18.: Poverty rate by region

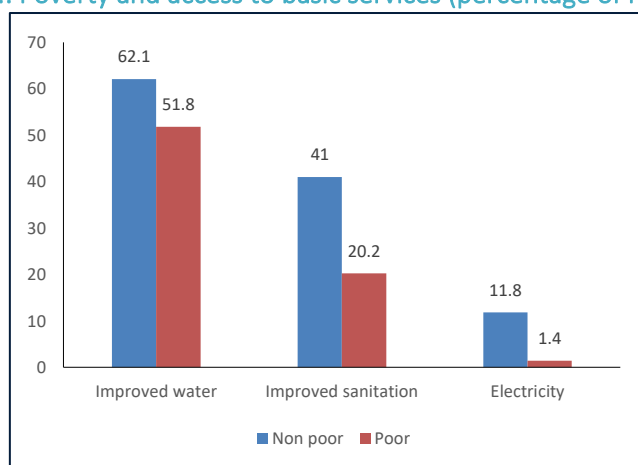


Source: World Bank staff calculation using data from ECOSIT4.

3.1.4. Do the poor have access to basic services in Chad?

54. Access to basic public services such as clean water, improved sanitation and electricity is a challenge for all households. About 48 percent of poor households do not have access to clean water with many of them drinking surface water. This exposes them to risk of water related diseases. The lack of access to clean water is serious in the Saharan and Sahelian zones where households often travel great distances and spend a significant amount of time to fetch water. Access to sanitation is also associated with the poverty status of households as only 20 percent of poor households have access to improved sanitation (as compared to 41 percent of non-poor households). In general, electricity is one of the main challenges faced by Chad in its development process. Currently, only 1.5 percent of poor households have access to electricity, while the national average is 8 percent and the access of non-poor households is almost 114 percent. This limits opportunities for income generating activities and improvement in living conditions, as discussed in section 3.2.

Figure 19.: Poverty and access to basic services (percentage of households)



Source: World Bank staff calculation using data from ECOSIT 4.

55. The Poor live in inadequate dwelling and have limited assets. Only 2 percent of poor households live in a house with improved floor while up to 10 percent of non-poor households have improved floor in their house. In general, Household asset ownership has improved over the years particularly phone ownership.

Figure 20.: Access to improved housing conditions (percentage of households)

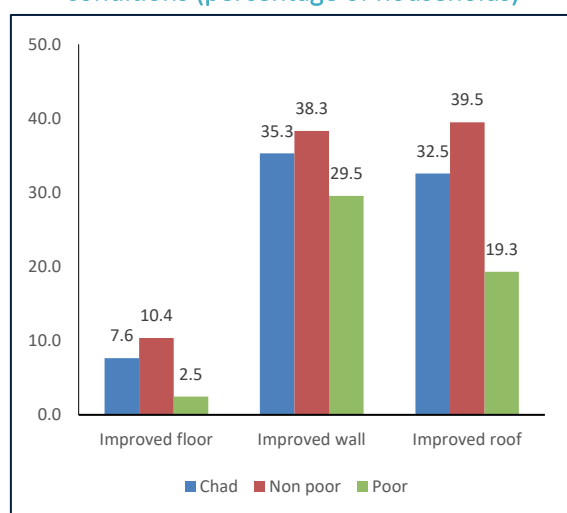
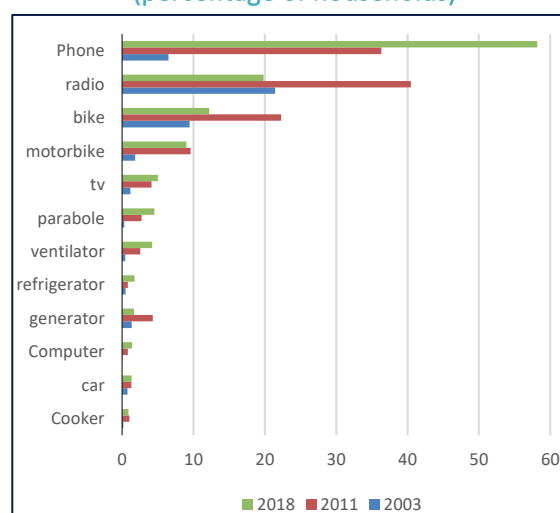


Figure 21.: Asset ownership (percentage of households)



Source: World Bank staff calculation using data from ECOSIT 4.

3.1.5. Is poverty decreasing in Chad?

56. The trend of monetary poverty will be assessed through the international poverty line of \$ 1.9 per capita per day (2011 Purchasing Power Parity (PPP)). This is because the 2018-2019 survey is not fully comparable to the 2011 survey. The Box 3 shortly present a methodological adjustment that can be done to assess the trend of monetary poverty using these two surveys.

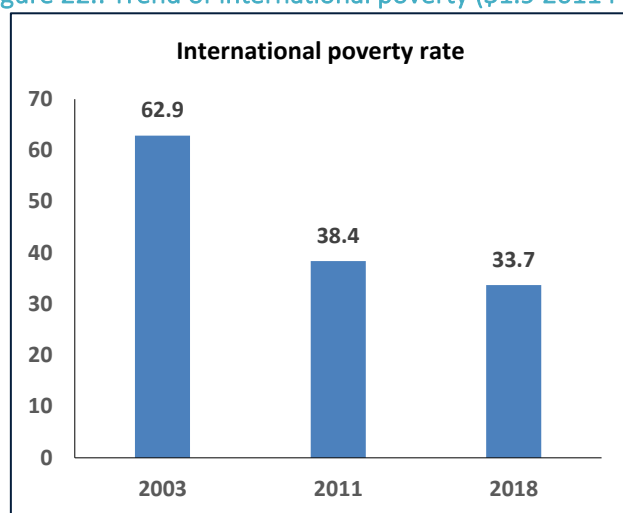
Box 3: Surveys-to-survey imputation

A deep understanding of the dynamic of poverty requires an analysis of both monetary and non-monetary dimensions of poverty. However, while the current survey is fully comparable to the previous in term of non-monetary poverty, an improvement in the measurement of household consumption make the 2018-2019 survey non-comparable to the 2011 one. Therefore, a methodological adjustment is needed to be able to compare the trend of monetary poverty between these two surveys. This will be done through survey-to-survey imputation. It will consist in estimating a consumption model using common variables (household demographic, economic and asset ownership) to the two survey as regressors. The results of the estimation will be used to predict household consumption in the second survey, and therefore to project poverty rate.

Source: World Bank

57. Poverty measured by the international poverty line has declined between 2003 and 2018 (Figure 22). Since 2011, the poverty rate has decreased by 4.6 percentage points to reach 33.7 percent in 2018. However, with the demographic dynamics, the absolute number of poor has risen from 4.7 million in 2011 to 5 million of people in 2018 and the urban/rural divide has remained striking. While the international poverty rate remained high in rural areas at 41 percent, it fell to 2 percent Ndjama.

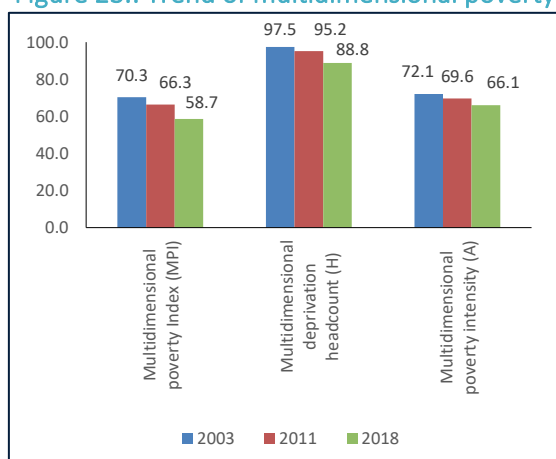
Figure 22.: Trend of international poverty (\$1.9 2011 PPP)



Source: World Bank staff calculation using data from ECOSIT 4 and WDI.

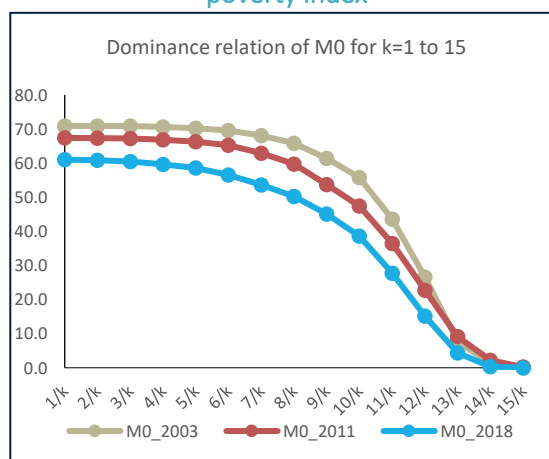
58. Multidimensional poverty has decreased in Chad during the last fifteen years. The index is based on six dimensions including education (years of schooling and literacy), health (access to affordable health care, access to health specialist, domestic waste evacuation) childhood and youth (child school attendance, children behind grade, child labor), access to basic services (use of improved cooking, clean water, Improved toilet, electricity), housing conditions (improved floor, improved wall, improved roof, number of household member per room), and assets. A person is considered as multidimensionally poor if she/he suffers from deprivations in at least a third of these 6 indicators of well-being. In 2018, about 59 percent of Chadians suffered from deprivations in at least one-third of the six dimensions of well-being compared to 66 percent in 2011 and 70 percent in 2003. This corresponds to a decline of 11 percentage points over the last fifteen years. Figure 23 shows that multidimensional poverty has been decreasing between 2003 and 2018 regardless of the cutoffs used to identify multidimensional poor.

Figure 23.: Trend of multidimensional poverty



Source: World Bank staff calculation using data from ECOSIT 4, ECOSIT 3 and ECOSIT 2.

Figure 24.: Stochastic dominance of multidimensional poverty index

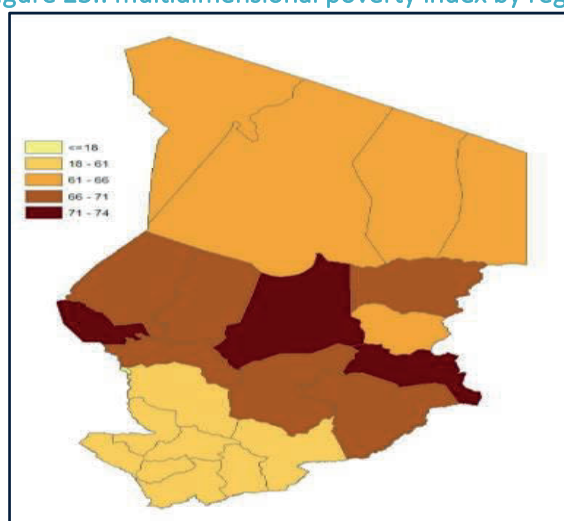


59. The decline in multidimensional poverty occurred in all the regions of Chad. In line with monetary indicators, the region of the capital city, Ndjamena, has experienced the highest decline of 23 percentage points during the 15 years. In contrast, the regions of Guera and Salamat have experienced the lowest reduction with only 3 percentage points decrease. For each of the three periods (i.e., 2003, 2011, and 2018), non-monetary poverty presents a wide regional disparity. Figure 23 shows that in 2018, the Sahelian region had the highest non-monetary poverty rate, especially in the regions of Batha, Sila and Lac, where at least 7 out of 10 people are non-monetary poor. The high non-monetary poverty observed in the country during the three years is essentially due to lack of access to education, electricity, and improved dwelling. The deprivation rate for these indicators are higher than 70 percent for each of the three years.

Rural income

60. The rural population represents 89 percent of the poor. Rapid urbanization provides opportunities for agricultural transformation, value added growth and off-farm income opportunities. Yet, urbanization rates in Chad are very low relative to the SSA standard and have remained stagnant between 1990 and 2017. It is therefore crucial to understand how to foster rural income growth to reduce poverty and achieve shared prosperity. This part of the report examines sources of rural incomes and identifies constraints to the growth of these incomes. To account for context heterogeneity the analysis explores differences by agro-ecological zones (AEZs) to reflect diversities in livelihoods. Chad has three AEZs – Saharan, Sahelian, and Soudanian. Both the Sahelian and Soudanian AEZs presents within zonal variation between the north and the south. Therefore, a total of five AEZs are considered: Saharan, north Sahelian, south Sahelian, north Soudanian, and south Soudanian.

Figure 25.: multidimensional poverty index by region



Source: World Bank staff calculation using data from ECOSIT 4.

3.1.6. How do the poor earn their income?

61. Agriculture is the primary economic activity in rural Chad, covering more than 85 percent of the rural population where about 88 and 62 percent of them engage in crop and livestock production, respectively. Geographic analysis by AEZ reveals important spatial heterogeneity when comparing the Saharan AEZ to the rest of the country. Cultivated plots are under 1 hectare and most households claim ownership of their plots (86 percent of the plots) though more than 97 percent of those plots have no formal documents.

Figure 26.: Income composition (% of income)

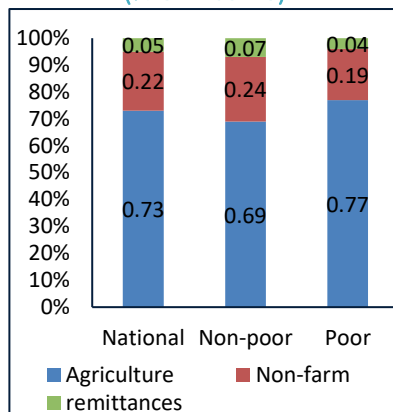


Figure 27.: Share of land cultivated to main crops

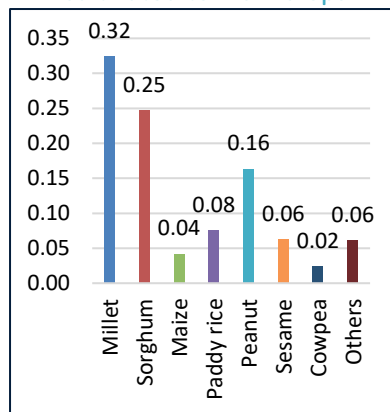
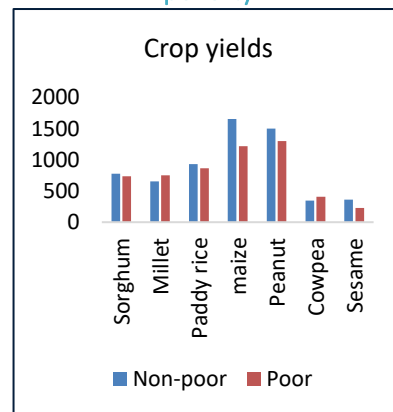


Figure 28.: Crop yields by poverty



Source: World Bank staff calculation using data from EHCVM 2018/19.

62. Farmland allocation is consistent with ensuring food security, as farmers devote a much larger share of their land to cereal production (Figure 27). Land allocation by crop type across the poor and the non-poor tends to be similar, except in the Soudanian AEZ where the poor are less likely to grow high-value cereal crops (i.e., rice and maize), which limits the ability of the later to derive cash income from crop production. Crop production is characterized by low rates of mechanization and input use. Less than 0.5 percent of household's report ownership of a tractor and less than 5 percent apply fertilizer. The rudimentary nature of the agriculture sector confines it to low yields, with the poor performing relatively worse across all crops except in millet and cowpea (Figure 28).

63. The livestock sector mainly consists of small holdings with a national average of 2.4 Tropical Livestock Units (TLU), but herd sizes in the Saharan AEZ where pastoralism is the main livelihood activity are much larger, nearing 19 units on average. Most of these holdings are in the form of medium-sized livestock (mainly goats and sheep) across all regions. The poor and the non-poor equally participate in livestock production and hold similar herd sizes. However, there is a strong gender inequality in livestock holdings where herd size for male-headed households is approximately 3.3 times larger than that of female-headed households. Like crop production, livestock activities are highly traditional. Feeding and drinking highly depend on natural resources whose availability varies across time and agro-ecological regions. Drinking sources are highly vulnerable to drought, and the limited availability of water restricts access to pasture, especially in the dry season. Cross-border transhumance to Central African Republic is practiced to meet the feeding requirements during the dry season, though this practice is increasingly constrained by mounting insecurity.¹⁰ The use of veterinary services is very low regardless of poverty status with only about 15 and 25 percent of households using deworming and vaccination services, respectively.

64. About 36 percent and 56 percent of households in rural areas and urban areas, respectively, own and operate at least one nonfarm enterprise (NFE). These enterprises are mainly informal with less than 6 percent of them having a formal registration nationwide. Households headed by an educated member present a higher propensity to own a NFE, while no differences are observed by the gender of the head. The nonfarm sector can be classified as a dual economy, as only about 10 percent of NFEs employ hired labor (7 and 16 percent for rural

¹⁰ FAO (2020). <https://reliefweb.int/report/chad/strengthening-social-cohesion-among-communities-central-african-republic-and-chad>

and urban areas, respectively). There is also a high sectoral concentration of activities, the most common in rural areas being in the food sector followed by retail trade and the carpentry and sewing sectors (Figure 29).

Figure 29.: Distribution of sectoral activities

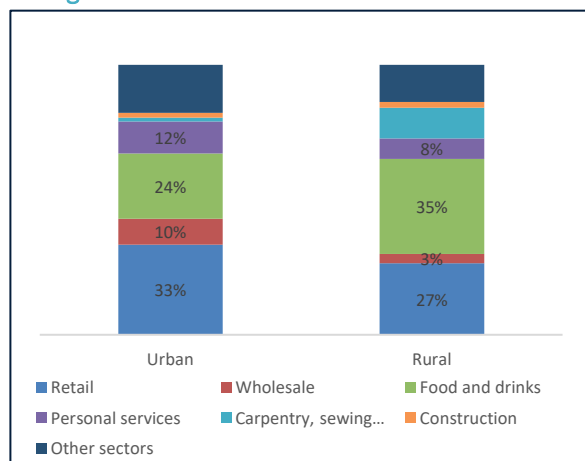
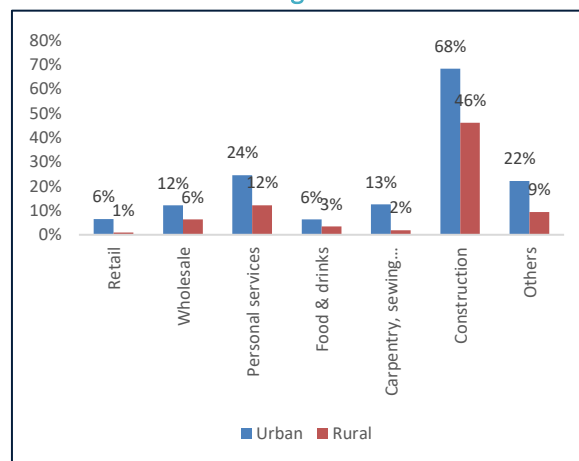


Figure 30.: Sectors with formal registration / hiring labor



Source: World Bank staff calculation using data from EHCVM 2018/19.

65. Transfers, whether domestic or international play a limited role in rural income. The share of domestic transfers in total income in rural areas in 2018 was 3 percent and 5.6 percent, respectively, for the poor and the non-poor. While net migration is much higher compared to the SSA standard and has remained almost constant over time¹¹, the stock of Chadian migrants compares very low to its peers.¹² As a result, unlike in other Sahelian countries (e.g., Mali and Senegal) where international transfers constitute an important share of rural income, their role in rural Chad is limited (1 percent for the poor and 1.4 for the non-poor compared to 3.4 and 9.9 percent in Mali).

3.1.7. Multiple prospects to increase rural income exist

66. Increasing productivity in staple crops would ensure food security and generate surpluses to increase commercialization. For example, the poor crop yield performance indicates a considerable opportunity to increase rural income by improving yields in these crops. Current yields can be significantly increased by improving soil quality through the adoption of yield enhancing technologies such as water management and soil conservation techniques, and by increasing labor productivity through increased knowledge in the use of complementary inputs and climate-smart agriculture technologies. Taking advantage of these sources of productivity improvement can lead to the marketing of surplus staple crops, which in turn would encourage diversification into cash crops. Opportunities to increase rural income in the nonfarm sector by supporting rural NFEs also exist. Other sources of income growth to be explored include support to small-scale artisanal mining, fishing, and forest income, especially for women.

¹¹ United Nations Population Division. World Population Prospects: 2019 Revision

¹² KNOMAD 2019

3.1.8. Constraints to rural income growth

67. As discussed above, opportunities to increase rural income exist, but myriad constraints stand in the way of taking advantage of these opportunities. Among them, the following key constraints stand out: (i) an infrastructure gap, (ii) low human capital, (iii), lack of complementary services, (iv) gender gap, and (vi) shocks and fragility.

Infrastructure gap

68. **Poor infrastructure limits connectivity to output markets and makes commercialization uncertain, which reduces incentives for private investment.** Chad is sparsely populated due its large size with an estimated population density of only 12 people per square kilometer in 2018 (compared to 18 and 72 in Niger and Burkina Faso, respectively). This low population density, which is more pronounced in rural areas limits market opportunities in both the agriculture and non-agriculture sectors, as demand for goods and services is low. In addition, lack of access to electricity leads to most crop and livestock products being sold with low or no value added due to limited processing and storage capacity. Statistics from the household survey show that among households who hold livestock, 25 percent derive cash income from selling live livestock while the corresponding figure for meat is less than 3 percent.

69. **Connecting farmers to urban and peri-urban markets through integrated input-output markets has the potential to reduce these constraints and to provide incentives for technology adoption.**¹³ However, value chains often include contract farming requirements and risk bearing for farmers related to the practice, which may constrain participation of the poor in such schemes. Poor technical knowledge also increases the likelihood of failure to comply with quality requirements. Furthermore, the dispersion of farmers due to remoteness increases search costs and requires strong organizational capacity and solid support from multiple stakeholders for successful value chain development, which may be challenging to meet in a low capacity environment.

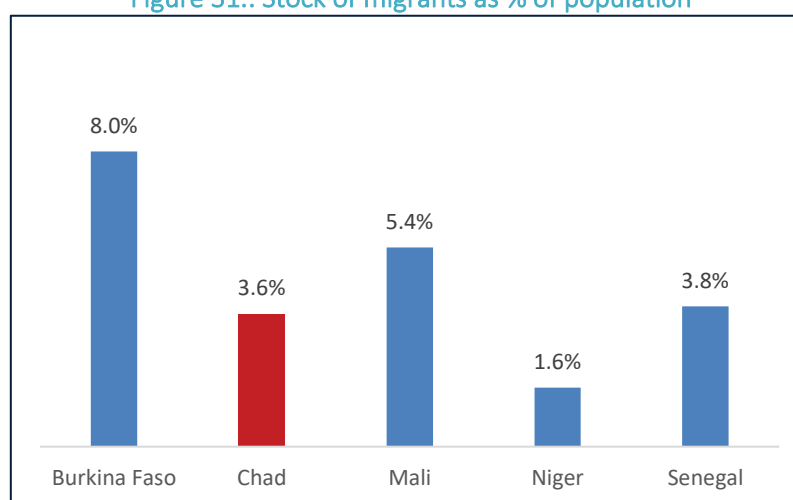
Low human capital

70. **Lack of technical knowledge due to poor educational attainment and low skills can deter the adoption of technologies or may constrain the proper use of complementary agricultural inputs and investment.**¹⁴ Statistics from the most recent household data show that approximately 57 percent and 81 percent of male- and female-plot managers, respectively, have no formal education and less than 2 percent of all plot-managers have educational attainment above primary level. These poor educational outcomes lead to poor technical knowledge and, consequently, undermines diversification into high value crops such as fruits and vegetables, which can be highly vulnerable to weather shocks compared to traditional crops. The use of extension agents has been perceived as the most suitable tool to disseminate agricultural knowledge to increase adoption. However, lack of good communication mechanisms between farmers and extension agents weakens the effectiveness of such services. Furthermore, recommendations provided to farmers tend to be a “one-size fits all” without taking into account the context specificities (e.g., different types of soils for same fertilizer application recommendation) and not always targeted to farmers’ need (utility maximization versus profit maximization).

¹³ (Ton et al., 2017) – provide complete reference and give example of an empirical evidence

¹⁴ Results from a random field experiment in Niger shows that training farmers in water management and soil conservation techniques increased uptake by up to 60 percentage points

Figure 31.: Stock of migrants as % of population



Source: a: United Nations Population Division. *World Population Prospects: 2019 Revision*; b: KNOMAD 2019.

71. Furthermore, low human capital constrains strong farmers' organization – a key factor for successful value chains – and limits the use of digital and financial systems, which are important tools to increase connectivity between farmers and markets. Low human capital also limits earnings from nonfarm activities due to limited start-up skills confining households to low return activities and constrains returns to migration. Indeed, although Chad and Senegal have similar proportion of migrants relative to their total population, (Figure 31), the share of remittances in income in Senegal is 27 percent while the corresponding share in Chad is only 5 percent.

72. Idiosyncratic health shocks combined with poor health care make farmers vulnerable to productivity shocks. The poor highly depend on the public sector for healthcare, which performs very poorly both in terms of accessibility and quality. The situation is much worse for the rural population, especially those in remote areas. The poor healthcare conditions combined with inability to hire labor due to liquidity constraint put the rural poor at a great risk for labor income losses when facing health shocks. According to the household survey, up to 50 percent of rural households reported having a sick member who did not seek medical services, although the sickness prevented him/her from working.

Weak complementary services

73. Poor public investment in ICT infrastructure, missing insurance markets and weak land rights inter alia impede the ability of the rural population to take advantage of market opportunities and undertake productive investments. Evidence on the effect of mobile telecommunication in rural areas in low and lower-middle income countries suggests that the extension of mobile coverage significantly reduces transaction costs for farmers, as well as price dispersion.¹⁵ Yet, just about 46 percent of the poor in Chad own a cellphone (58 percent nationwide). In addition, while mobile money can play an important role in fragile and conflict-affected states like Chad, the penetration rate of mobile money in the country is only 16 percent compared to 24 and 33 percent in Mali and Burkina Faso, respectively.¹⁶ As in many low-income countries, wide access to crop and livestock insurance in

¹⁵ Aker, J. C. (2010). Information from markets near and far: Mobile phones and agricultural markets in Niger. *American Economic Journal: Applied Economics*, 2(3), 46-59.

¹⁶ Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar, and Jake Hess. 2018. *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1259-0. License: Creative Commons Attribution CC BY 3.0 IGO

Chad is yet to be developed and, as a result, high crop and livestock production uncertainty due to weather shocks can deter farmers from making productive investment. There is also suggestive evidence that shows positive impacts of increased tenure security on long-term investment.¹⁷ However, pluralism and overlapping land rights, weak tenure security, and costly land certification procedures limit access to formal land rights in Chad. Statistics from the latest household survey reveal that less than 3 percent of the cultivated plots had formal titles.

Gender norms

74. Without addressing the gender gap, it would be difficult to grow rural income where women make up a large share of the population. Social and cultural norms hinder women's access to human capital and productive assets. While this issue is common across all the four subgroup Sahel countries (Burkina Faso, Chad, Mali, and Niger), Chad performs the poorest with a gender inequality index of 0.701 in 2018.¹⁸ Norms keep girls out of school, leading to early marriage. This is a significant driver of high fertility rates leading to poor health conditions due to the burden of childbearing. In addition, high fertility rates place a caretaking burden on women, limiting their ability to earn income, which can limit income growth opportunities for women and result in a poverty trap. Socially accepted norms limit the physical mobility of women, which also constrains access to economic opportunities.

75. Women face gender-based inequality in access to important productive resources such as large livestock and land. For example, statistics indicate that livestock holding for women is less than one-third of that of men. Intra-household gender gap is even much larger, where the share for women is only 13 percent of the total household's holding. The predominance of male extension agents and the selection of men as lead farmers also increases information frictions with women.¹⁹ Women are often left out of knowledge diffusion programs, even when some of these programs are purposely designed to include them. Chad also presents strong gender norms in terms of access to ICT and financial services (Figure 32). While constraints to credit access are high in general, they are much more stringent for women, as only 1 percent of women were able to borrow to start, operate or expand a business or farm compared to 4 percent for men.²⁰

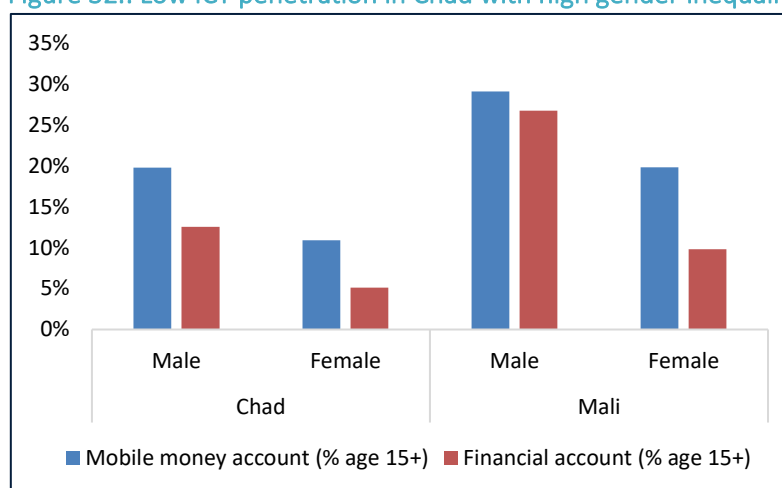
¹⁷ Goldstein, M., Hounbedji, K., Kondylis, F., O'Sullivan, M., & Selod, H. (2018). Formalization without certification? experimental evidence on property rights and investment. *Journal of Development Economics*, 132, 57-74.

¹⁸ Human Development Index (2018)

¹⁹ Kondylis et al. (2016) and Cohen and Lemma (2011).

²⁰ FINDEX (2017)

Figure 32.: Low ICT penetration in Chad with high gender inequality



Source: FINDEX 2017.

Shocks and fragility

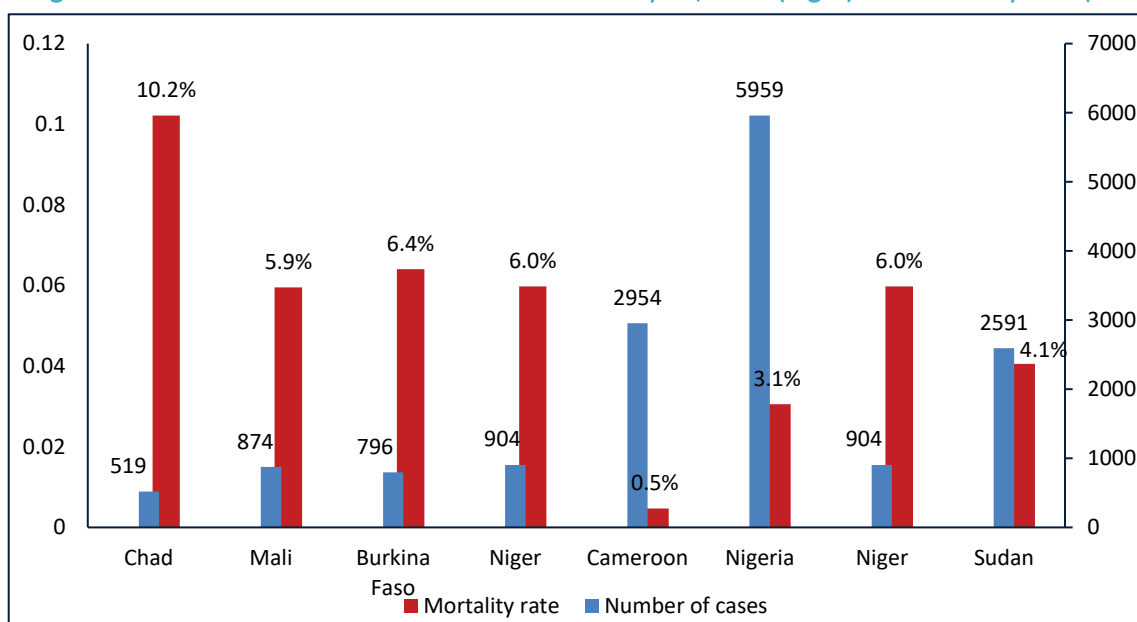
76. Neighboring countries provides economic opportunities. However, Chad is located in a challenging region. Nigeria's border closure, since August 2019 constitutes a negative shock for the local economy. The country is a major destination for both import and export goods for Chad, as it is for many West African Countries. The closure of its border with Chad has already caused a reduction of output and input market opportunities, leading to a decrease in output prices for farmers while increasing input prices. While this affects the whole country overall, the effects are particularly more dire for the population along the Lake Chad region (Lac and Hadjer Lami). The market disruption has negative impacts on rural income both in the agricultural and nonfarm income, as the Lake Chad region also provides opportunities for off-farm employment such as fishing and trade. For example, the Recovery and Peacebuilding Assessment has reported a slowdown in business activities in the area due to reduced purchasing power and a reduction in the business clientele.²¹ Furthermore, widespread and repeated conflicts with the Boko Haram insurgency in the Lake Chad region led to forced displacement and significant losses in crops, livestock, and fishing, limiting the ability of the affected population to generate income.

3.2. Poverty Outlook in the Time of COVID-19

77. As in other countries of the world, Chad is affected by the COVID-19 pandemic. The number of cases registered in Chad passed from 33 on April 23rd to 519 on May 19th, 2020. In addition to this alarming jump in the spread of the disease, Chad records the highest COVID-19 mortality rate (Figure 33). This rapid unfolding of the pandemic will affect the government spending power as the government strives to contain the spread of the disease with export revenues already reduced due to a large decline in oil price following the outbreak. Current macroeconomic projection suggests that the country will experience an economic recession with significant external and fiscal balances. This will probably have enormous economic and social impacts with unknown duration depending on the persistence of the pandemic.

²¹ FAO (2017). Mitigating the impact of the crisis and strengthening the resilience and food security of conflict-affected communities. <http://www.fao.org/3/a-bs126e.pdf>

Figure 33.: Number of confirmed COVID-19 as of May 18, 2020 (Right) and mortality rate (Left)



Source: [WHO situation reports](#); and [John Hopkins University \(JHU\)](#).

78. The government has already taken some measures to prevent the spread of the COVID-19 pandemic. In addition to measures that limit mobility, social and religious gathering, the government has created a fund called “FS Covid-19” with the aim to reinforce medical infrastructures and their functionalities to enable rapid responses to the needs of health facilities to be covered in an emergency. The measures taken also include social protection services consisting of the distribution of basic food items, hand cleaning kits, and masks. Furthermore, financial support has been undertaken to assist vulnerable households in the payment of their utility bills by the government for three months of electricity and six months for water.

79. The effectiveness of the measures taken to fight the spread of COVID-19 and its distributional impacts on poverty depends on the extent they consider the channels of transmission of such impacts. We consider the four main channels of transmission shown by the diagram representation in Figure 34 and these are: labor income, non-labor income, market disruptions (prices/quantities), and public services.

80. While the actual impact of the COVID-19 pandemic on poverty cannot be fully predicted, simulation results in Table 5 provide insights on what the impact might look like over the span of the coming year. The results with an optimistic scenario indicate that the pandemic will push 192,688 additional people into poverty, affecting the rural and urban population in the same way without distinction of the gender of the household head. The simulated impact under a more pessimistic scenario will be much worse with the predicted number of people falling under the poverty line reaching 553,504. People in rural areas and those from female-headed households will be relatively more affected with a percentage point difference of one. An implication of these results is that the COVID-19 pandemic will likely widen the existing income inequality across the rural and urban areas.

Figure 34.: COVID-19 Transmission channels on household welfare

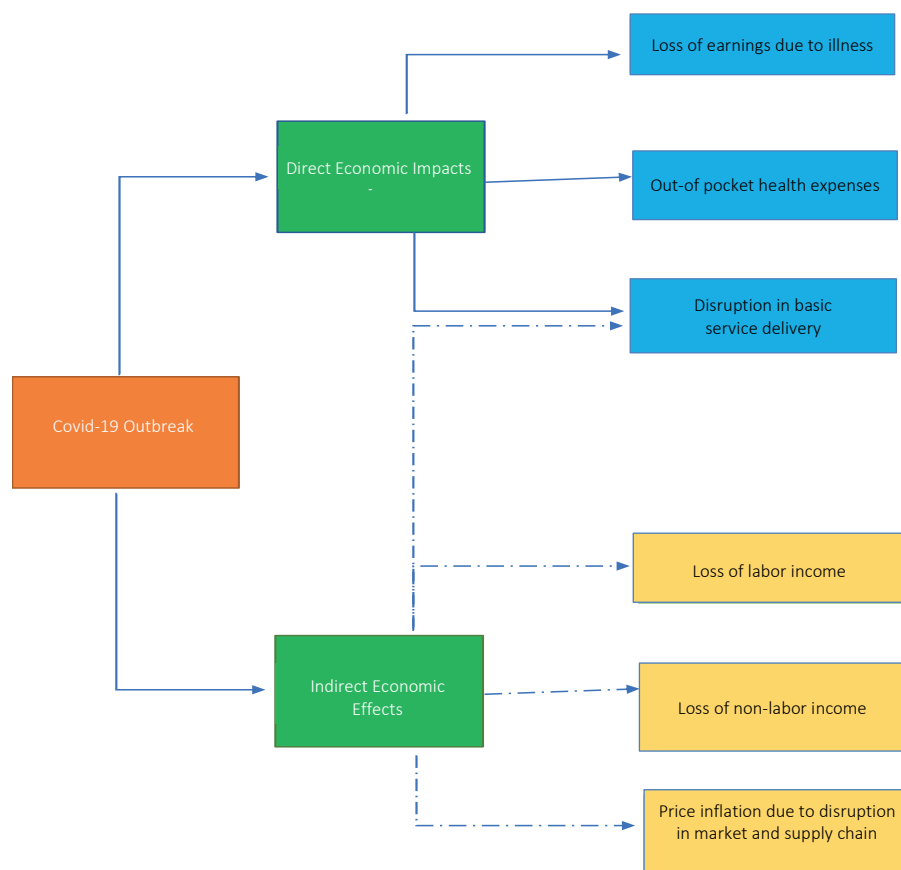


Table 5.: Simulation of the impact of COVID-19 on household welfare

	Optimistic scenario				Pessimistic scenario			
	Baseline	COVID-19	Percentage change in poverty	Additional poor	Baseline	COVID-19	Percentage change in poverty	Additional poor
National	0.42	0.43	0.01	192,688	0.42	0.46	0.04	553,504
FHHs	0.42	0.43	0.01	42,872	0.42	0.46	0.04	119,736
MHHs	0.42	0.43	0.01	149,814	0.42	0.45	0.03	433,763
Urban	0.20	0.21	0.01	35,589	0.20	0.22	0.02	86,486
Rural	0.49	0.50	0.01	156,521	0.49	0.53	0.04	465,615

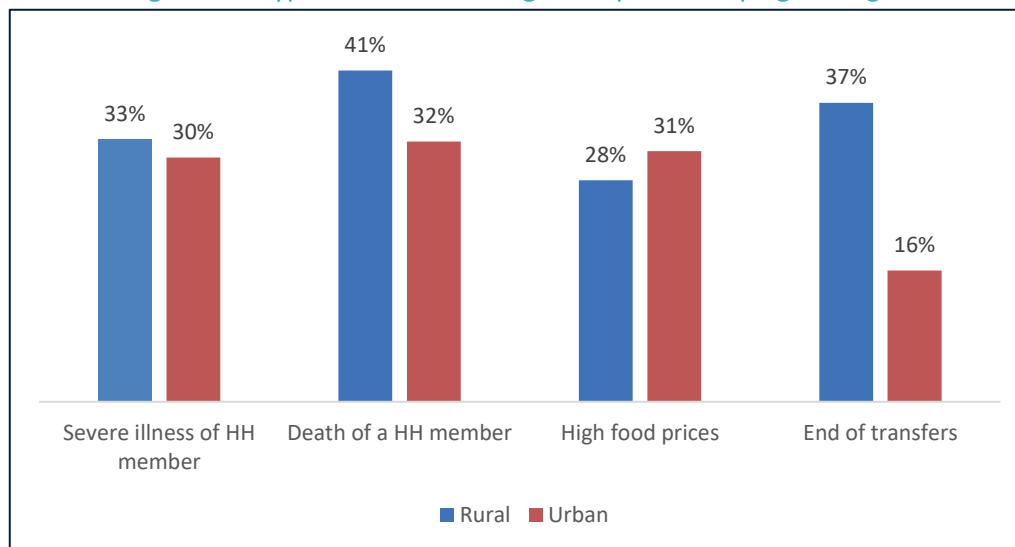
Source: World Bank staff calculation using data from ECOSIT 4.

Note: FHHs and MHHs stand for female-headed households and male-headed households, respectively

3.2.1. Impact on labor income

81. The COVID-19 pandemic will negatively impact the informal private sector and, therefore, Chadians who earn their income from this sector. The informal private sector will disproportionately suffer from the recession caused by the combined effect of the pandemic and the plunge in oil price. This will have significant impact on the population as 96 percent of workers in Chad are in the informal private sector. Thus, the risk of massive jobs destruction is high. This is amplified with the closure of the border and markets, which will cause a slowdown in economic activities in the trade sector.

Figure 35.: Types of shocks leading to irreparable coping strategies



Source: World Bank staff calculation using data from ECOSIT 4

82. The risk of loss of labor income as a consequence of interruption or loss of jobs due to infection with COVID-19 is relatively high. In Chad, about 46 percent of workers are self-employed and do not have any social security insurance. This fragile working situation makes them highly vulnerable to loss of labor income in case of idiosyncratic shocks such as illness. In particular, many of these people are casual workers whose income relies on daily earnings. They are generally poor without any savings to be used or safety net system to rely on in case of inactivity or loss of jobs due to illness and, therefore, they will be less likely to overcome a severe shock like COVID-19.

3.2.2. Non-labor income

83. The share of Chadian households who received transfers in 2018 was 20 and 4 percent for domestic and international transfers, respectively. The yearly amount of total transfers received was on average 37,122 CFAF for the non-poor and 14,516 CFAF for the poor. While the share of these transfers in total income is relatively low compared to peer countries (e.g., Mali and Senegal where share is 10 and 27 percent, respectively, compared to 5 percent in Chad), their reduction due to the COVID-19 outbreak, could inflict an economic hardship to their recipients. Indeed, 37 percent of urban households and 16 percent of rural households considered the end of transfers as one of the most severe shocks that leads to irreparable coping strategies (Figure 33). The negative effects of the COVID-19 pandemic through transfers are likely to be stronger for female-headed households, a larger proportion of whom receive transfers compared to male-headed households (34 percent and 18 percent, respectively).

3.2.3. Market disruptions (prices/quantities)

84. Disruptions in the functioning of markets will occur due to the closure of the border decided by the government of Chad. This will lead to a decline in the importation of essential goods leading to high prices, especially in urban areas. In addition, the limitation of economic activities as part of the coronavirus spread prevention measures taken by the government will lead to a shortage in supply of essential goods and increase in prices. While this limitation will not affect food and other essential products, the sector will be affected because of its interconnexion with other sectors such as transportation. The risk of increases in production costs for enterprises as a consequence of increase in the cost of inputs is also high. This will lead to an increase in prices of goods and, therefore, negatively impact Chadian population, especially poor households.

Impact on public services

85. The health sector is one of the most directly and indirectly impacted by COVID-19. The government of Chad considers healthcare quality as a top priority to promote poverty reduction. However, access to health services remains very low in the country. In addition, the resources of the health sector are also unequally distributed across regions. Only national and specialized hospitals have currently the capacity to detect and treat COVID-19. However, they are located in the Capital City, N'djamena, and major cities (such as Moundou) and are not accessible to the poorest and vulnerable population who live in rural areas. In addition, limited road infrastructure and low population density, especially in the central and northern parts of the countries makes it difficult to transfer patients to areas with better health infrastructure.

86. With poor healthcare access and services, one of the direct consequences of the COVID-19 pandemic is income and earning losses due to illness, especially for households headed by a member who is 65-year old or more, as those in this demographic group are the most vulnerable to the illness. While income loss from this channel has the largest negative impact on annual aggregate consumption (varying from -8.21 to -16.42 percent depending on the scenario), its impact on poverty is small (Table 2, Panel E). This is likely due to the fact that only a small proportion of households are headed by a member aged 65 or more, given the low life expectancy, which was estimated at only 54 years in 2017. Nevertheless, it is important to note that the immediate welfare impact is somehow large. Precisely, there will be 38,166 additional poor in the current quarter if household heads aged 65 or older who are the only breadwinners were to stop working for this quarter.

ECONOMIC POLICIES TO MITIGATE STRUCTURAL RISKS AND THE IMPACT OF COVID-19

87. The authorities announced economic and social measures to support households and private companies. These measures will cost CFAF 943 billion, of which more than 200 billion can be immediately mobilized by restructuring the 2020 budget. The support includes food emergency aid to households, CFAF 25 billion to strengthen the stocks of the National Food Security Office, and CFAF 100 billion to strengthen social safety nets throughout the country, especially in provinces not covered by current ongoing projects. The government will pay water (six months) and electricity (three months) bills for poor households. Tax reduction and tax breaks will be provided to companies to avoid massive bankruptcy, while domestic arrears to state suppliers will be paid.

88. The government should continue to strengthen some measures already taken. First, measures to mitigate the spread of COVID-19, while preparing a contingency plan to strengthen the health sector. For example, the designation of a place to quarantine suspected/confirmed cases, raising public awareness, the ban of large gatherings of more than fifty people, closure of universities, nightclubs, and border closures with infected countries. Second, the implementation of the COVID-19 contingency plan to prevent any potential pandemic. Third, the establishment food emergency aid to households and payment of domestic arrears to private firms.

89. The authorities should assess the efficiency and effectiveness of measures taken. The assessment should be related to containing the spread of the virus and its overall impact on the population's wellbeing. First, restrictions on some activities will lead to a decline in supply and demand of goods, and this could harm disproportionately the poor, leading to social unrest if the right incentives are not provided. Second, border with Cameroon could be assessed to make sure that essential goods and drugs are not affected. The government should accommodate relevant sectors for the well-functioning of the economy.

4.1. *Protecting lives*

90. The government should strengthen public awareness and upgrade their readiness to detect and treat COVID-19 patients. Accurate information on the status of the pandemic should reach all sectors of the population.²² An appropriate social media initiative could be considered. On the readiness to detect and treat patients, policies to consider include: (i) providing logistics for the rapid deployment of health workers and to evacuate suspected cases, (ii) increasing laboratory capacity in key regional hubs and strengthen epidemiological surveillance; (iii) strengthening surveillance at points of entry, including the training of staff and the distribution of adequate equipment (including thermal scans and thermo-flashes); (iv) protecting health professionals from getting infected by ensuring the availability of essential Protective Personal Equipment; and (v) revise the 2020 budget to prioritize health spending to contain COVID-19.

91. Specifically, authorities should ensure an equitable spatial allocation of the services of the new health response strategy (e.g., testing, masks and sanitizer distribution, health workers...) to covert households in remote areas and most vulnerable subgroups of people (e.g., the poor, those with disability, women...).

²² People in rural areas, illiterates, people that don't speak Arabic or French, people living in refugee camps, the youth, etc.



4.2. Protecting livelihoods

92. The Government should consider policy options to lessen the economic impact of a COVID-19 pandemic. Specifically, in the medium term: (i) pay domestic arrears to enhance private sector activities; (ii) adopt a business-friendly policy to diversify the economy; (iii) support the informal sector and local small enterprises to minimize the impact on the economy once the recovery starts; iv) mobilize donor grants to improve fiscal space for priority reforms, and iv) guarantees for bank loans to some MSMEs affected by the crisis. Such guarantees should provide temporary financial assistance to affected firms with two objectives – retaining employment and sustaining business operations²³ Banks must have full confidence in a guarantee funds' ability to meet its obligations when losses occur; given the recent negative experience with sovereign debt repayment, this aspect should be given particular attention; e.g., through IFI participation and ringfencing funds.

93. Besides, the Government could guarantee payment of wages to civil servants, while enabling staff to work remotely and securely. The Government could establish interim HR policies that include aspects related to alternative work modalities, as well as leave and sick policies. In order to secure the continuity of public administration, senior management should identify critical activities and ensure that the needed digital tools to perform these activities remotely are in place. Clear decision-making procedures and delegation mechanisms in cases of absences of high-level decision makers should also be defined. Special consideration should be given to workers in the frontline: they could be properly compensated (special incentives or compensation for overtime) and measures that guarantee their safety should be strictly implemented.

94. Social safety net: Since Chad records one of the lowest social registry coverages in the world (less than 2 percent), it will be important for the country to leverage the existing social safety programs to ensure a more effective targeting of the most vulnerable in the feeding program that the strategy plans to implement. It is also important to ensure that the social services being provided correspond to the need of the poor. For example, the free provision of water and electricity by government may not necessarily include the poor, especially those in rural areas given their low access to these services, which may increase inequality across rural and urban households.

95. Gender norms: The lower educational level among women limit their access to information and given the high likelihood of frictions in information diffusion across men and women, the health comity should include women leaders to ensure that women are well educated about the disease and aware of the available related services. Furthermore, there is high risk of permanent dropouts following the closure of schools, especially for girls, which will widen the existing gender gap in human capital. As a result, measures such as sensitization campaigns to ensure the return of girls to school. It is also imperative to sensitize the population in avoiding gender-based negative coping strategies such as early child marriage for girls.

96. Agriculture: The measures related to agriculture should include actions to assist farmers to access labor-saving technologies in order to avoid labor bottleneck in the upcoming agricultural season. It would also be important to secure market access through innovative value chain development and monitor food prices to ensure food availability in areas disproportionately stricken by low productivity as a result of the pandemic.

²³ Support should be channeled to commercially viable firms which have been profitable prior to the crisis, and the risk coverage, albeit higher than conventional credit guarantees to compensate for higher risks, should remain partial (to ensure that banks continue to have skin in the game), but greater coverage of the guarantee fund (e.g. up to 85 percent).

4.3. Protecting the future

97. The Government should assess the capacity of SOEs to maintain the continued provision of essential services (especially water and electricity) to citizens during the crisis. Crisis management and business continuity plans should be prepared. Subsequently, the Government could decide to waive user fees and tariffs during the emergency to avoid suspension of service delivery in case of late payment. These measures, however, if not adequately implemented, will inevitably lead to financial distress for SOEs. For this reason, their implementation should go hand in hand with a review of the subsidy programs for SOEs.

98. The tax system must play two critical roles during the crisis: i) continue to mobilize revenues with minimal disruptions to fund essential public service delivery and, ii) contain the repercussions of a slowing economy by easing the cash burden of the most severely affected businesses. In this regard, tax services should adopt online tools and introduce digital channels for tax payments when possible. They should cut the volume of tax inspections to limit physical interactions and consider implementing simplified import procedures for COVID-19 related goods. To ease the cash burden of small and medium enterprises, the Government could consider suspending penalties of late payment or filing, reducing rates for severely affected businesses, and defer social contribution payments for firms. Support for businesses operating in the informal sector could be accompanied by their formalization. To this end, the authorities might adopt simplified procedures, requiring limited physical contact, for issuing a Tax Identification Number.

99. The Government should adapt its Public Financial Management processes, procedures, and control mechanisms to better respond to the crisis. Simplified emergency procurement procedures and procedures for priority disbursement of emergency response expenditures should be implemented. To facilitate tracking of emergency relief funds, all budgetary resources deployed for emergency response should flow through dedicated budget lines and frequent reports on the use of funds should be published. Finally, ex-ante controls functions should only focus on areas of high spending volume and high fiduciary risk, while ex-post controls should be strengthened. These measures will allow for timely budget releases and processing of claims while ensuring efficiency, accountability, and transparency of the use of public funds.

100. Mitigating the impact of external shocks on Chad's economy. The authorities should mitigate the impact of low oil prices and therefore revenue and slowdown in FDI-inflows. In the short run, the government should improve non-oil revenue mobilization by expanding their tax bases and strengthening the collection capacity of tax and custom administrations. On tax base, VAT exemptions should be rationalized while property tax should be reformed. On the efficiency of tax and customs administration, digitalization of all tax related operations would help achieve greater tax collection. In the long-run the government should adopt bold business-friendly reforms to improve doing business in Chad and accelerate economic diversification. A business-friendly environment will help attract FDI while a strong private sector development will provide additional non-oil revenues to the government.

4.4. Supporting the Recovery

101. The World Bank could support the Government to fight COVID-19 through several instruments. The financial needs of the health sector would be addressed by the emergency USD 16.9 million COVID-19 IPF, a total amount of USD 27 million (0.2 percent of GDP) is needed. The financial needs for social protection and education, could be addressed by additional financing of their respective IPFs. Preparing new IPF to support the subsistence of firms adversely affected by COVID-19 with a focus on preserving/protecting employment. The WBG (IFC/MIGA)

could set-up guarantee product to provide temporary financial assistance to firms affected by COVID-19 with two major objectives – retain employment and liquidity support to sustain continued operation and set a regional facility led/housed at the COBAC in order to accelerate disbursement/issuance of guarantees. An emergency DPF could also help to swiftly address the financing gap. Moreover, a debt service rescheduling will help close the financial gap.



ANNEX

Table 6.: Containment and Mitigation Measures

Containment	Yes/No	Brief Description of Measures Taken
Quarantine/Self-quarantine	Partial	Quarantine is mandatory for all people coming by air (with special facilities/hotels financed by the GoC).
Travel Restrictions/Border Closure	Y	All borders are closed except Cameroon which is strictly used for the movement of goods. Public transportation: Car – maximum of three passengers.
Mitigation		
Cancellation of Public Gatherings	Y	Gathering (social, political and religious) of more than 50 people is prohibited.
Closing of Schools/Universities	Y	Closed till further notice.
Shelter in Place/Lockdown	Partial	Introduction of curfew from 8pm to 5am.
Remote Work	Y	Not in place. This is very difficult to enforce due to limited internet connectivity and access to electricity.

Table 7.: Selected economic indicators under Baseline and Downside Scenarios

Variable	Unit	Historical				Projections (baseline scenario)				Projections (downside scenario)		
		2015	2016	2017	2018	2019	2020p	2021p	2022p	2020p	2021p	2022p
Nominal GDP	LCU billion	6474000	5984000	5806797	6242756	6629554	5749980	6082893	6488572	5887958	5596720	6245517
Exchange rate	LCU/\$	591.2	592.6	580.7	555.5	586.0	..	..	..	..	..	..
Inflation (CPI)	%	3.7	-1.1	-0.9	4.0	-1.0	2.2	2.9	3.0	2.2	2.9	3.0
Inflation (Deflator)	%	-8.5	-1.4	0.0	5.0	2.9	-15.5	2.9	3.7	-13.4	-5.6	-0.3
Real GDP growth, <i>out of which</i>	%	2.8	-6.3	-3.0	2.4	3.2	-0.2	4.7	5.2	-4.6	-1.1	2.7
Agriculture	%	4.0	-2.5	1.3	1.8	2.1	2.3	3.5	3.8	0.4	0.4	0.9
Industry	%	-0.6	-0.8	-0.2	0.1	0.1	0.0	0.1	0.2	-1.7	-0.8	0.7
Extractives	%	-0.5	-0.6	-0.2	0.1	0.1	0.0	0.1	0.2	-1.4	-1.0	0.3
Manufacturing	%	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.3	0.4
Services	%	-0.2	-2.7	-4.0	0.4	1.0	-2.5	1.0	1.1	-3.2	-0.9	1.0
Net taxes	%	-0.4	-0.2	-0.1	0.1	0.1	0.0	0.1	0.1	-0.2	0.1	0.1
Government revenues	% of non-oil GDP	17.1	14.9	17.1	18.3	17.3	19.5	17.9	18.2	19.2	19.0	20.8
Government expenditures	% of non-oil GDP	22.9	18.0	18.0	16.5	18.0	21.0	21.3	19.7	24.4	25.1	23.1
Fiscal balance	% of non-oil GDP	-5.8	-3.0	-0.9	1.9	-0.8	-1.5	-3.4	0.4	-5.0	-6.0	-2.2
Primary fiscal balance	% of GDP	-2.7	0.1	0.8	3.0	1.0	0.7	-1.7	1.7	-2.3	-3.1	-0.7
Gross Public Debt	% of GDP	43.9	52.0	49.8	48.3	44.4	47.8	47.1	45.3	49.7	52.2	49.1
Current account balance	% of GDP	-12.3	-9.2	-7.1	-1.4	-4.9	-13.9	-12.5	-6.3	-18.0	-20.1	-19.7
Net FDI	% of GDP	5.1	2.4	3.6	3.0	4.3	3.2	3.5	3.5	2.8	3.0	3.1
Net Portfolio investment	% of GDP	..	..	..	..	..	..	..	..	..	..	..
International poverty rate ^{/1}	%	34.9	37.9	40.1	40.2	40.2	41.3	40.6	40.0	42.1	41.6	40.3
Lower middle-income poverty rate ^{/1}	%	62.9	66.1	68.0	68.1	68.0	69.0	68.6	67.8	69.8	69.1	68.3
Upper middle-income poverty rate ^{/1}	%	84.5	86.1	87.4	87.5	87.5	88.1	87.6	87.4	88.4	88.1	87.5

Source: National authorities, MFMod, World Bank commodity markets and authors' calculations.

^{/1} International poverty rate refers to \$1.9 in 2011 PPP; Lower middle-income poverty rate refers to \$3.2 in 2011 PPP; Upper middle-income poverty rate refers to \$5.5 in 2011 PPP.