CHAD

2021 ECONOMIC UPDATE

RECOVERING FROM SHOCKS:
IMPROVING MACRO-FISCAL SUSTAINABILITY TO
REBUILD BETTER

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RECOVERING FROM SHOCKS: IMPROVING MACRO-FISCAL SUSTAINABILITY TO REBUILD BETTER

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LIST OF ACRONYMS

bbl	Barrel
BDEAC	Central African States Development Bank
BEAC	Bank of Central Africa States
CAD	Current Account Deficit
CAR	Central Africa Republic
CEMAC	Central Africa Economic Community
CID	Circuit Intégré de la Dépense
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECOSIT 4	Chad household survey 2018-19
FDI	Foreign direct investment
G20 CF	G20 Common Framework
GDP	Gross domestic product
HFPS	High-frequency phone survey
HIPC	Heavily indebted poor countries
IMF	International monetary Fund
ISC	High Institution for Public Finance Control
MDRI	Multilateral Debt Relief Initiative
MPO	Macro-Poverty Outlook
OTFiP	Chadian public finances observatory
PIT	Personal income tax
Pp	Percentage point
PPG	Public and publicly guaranteed
SYSGADE	Système informatisé de gestion et d'analyse de la dette
T-bills	Treasury bills
UNESCO	United Nations Educational, Scientific and Cultural Organization
US$	United States dollars
VAT	Value Added Tax
WBG	World Bank Group
WEO	World Economic Outlook
WFP	World Food Programme
XAF	CFA Franc of Central African Countries

EXECUTIVE SUMMARY

The COVID-19 pandemic has significantly disrupted Chad's economic recovery, which started in 2018. GDP contracted by 0.9 percent in 2020. Agriculture and the oil sector remained the main drivers of growth, contributing 1.1 percentage points, while services contracted (contributing -2.0 percent). The impact of containment measures on domestic supply chains pushed up prices, and inflation rose from -1.0 percent in 2019 to 3.5 percent in 2020. Both the fiscal and current account balances deteriorated substantially, and difficulties in financing fiscal deficit may have led to further domestic arrears' buildup.

To tackle this economic recession, the Government adopted an expansionary fiscal policy, and the central bank relaxed the monetary policy. In 2020, despite a significant increase in oil revenue (thanks to a one-year lagged in oil-revenue taxation), Chad posted a fiscal deficit (excluding grants) of 3.7 percent of GDP, as it increased its spending to mitigate the impact of the COVID-19. An increase in grants, which stood at 4.8 percent of GDP, led to an overall fiscal surplus (including grants and a commitment basis) of 1.1 percent of GDP in 2020. However, on a cash basis, the fiscal deficit was 1.3 percent of GDP as the government started to pay some domestic arrears. The regional central bank (BEAC) prudently relaxed the monetary stance by cutting the policy interest rate from 3.5 percent in March to 2.70 percent in July 2020, while the marginal lending facility rate was reduced from 6 to 5 percent. Regional reserves stayed at their 2019 level of 3.5 months of imports in 2020. The relaxation of the macroeconomic stance led to an almost doubling of the current account deficit to 9.3 percent of GDP in 2020, which was financed by a significant increase in external grants and foreign direct investment.

The pandemic has negatively impacted household income, children's education, and increased poverty. The combined effect of the loss of income reduced domestic transfers and remittances. Higher inflation decreased households 'consumption and increased the share of individuals living below the national poverty line (national poverty rate) by 5.5 percentage points in 2020. About 17 percent of unemployed were employed before Covid-19. Also, children's education outcomes have been affected by the school closure as close to 90 percent of students were at home without any engagement with educational activities. School closure is estimated to have increased the dropout rates and gender gap in education. Households 'access to health services has been disrupted, with 8 percent not getting access to health services because of the fear of being infected by the disease.

The economy is projected to gradually recover starting in 2021 with the recovery of global oil markets and extension of the vaccination campaign. In 2021 growth is projected to reach 1 percent. With the rollout of COVID-19 vaccines in the second half of 2021, the recovery is expected to gain momentum in 2022-23, economic growth reaching 2.5 percent and 2.9 percent, respectively, thanks to solid growth in the non-oil sector. Inflation should decelerate to reach the CEMAC convergence criteria of 3.0 percent in 2021 and then remain at that level with the resumption of supply chains, the withdrawal of subsidies, and the convergence of GDP growth towards its potential. Despite the beginning of a fiscal consolidation program, the fiscal balance will continue to deteriorate with the lagged effects on royalties of the sharp oil price drop in 2020. Projected oil price recovery will dampen the current account deficit. Simultaneously, the pursuit of relatively easy monetary conditions by the BEAC will hamper the build-up of regional reserves. The adverse effects of the COVID-19 crisis on poor and vulnerable households are expected to last for several years, with the poverty rate increasing to 42.5 percent by 2023.

COVID-19 has highlighted the economic weaknesses related to the dependency on the oil sector and exposure to multiple risks. The combination of the global recession, disruptions in global and domestic supply chains, measures to flatten the contagion curve, financial disruptions, and investment risk aversion have taken a heavy toll on the economy. The uncertain nature of the depth and duration of the pandemic coupled with fiscal liquidity constraints exacerbate an economic context already witnessing several downside risks. Regional conflicts may further disrupt bilateral trade and stretch government finances as the flow of refugees from neighboring countries increases. Intense socio-political tension following the passing away of president Deby and the takeover of power by the military could cloud economic recovery prospects in 2021.

Chad remains highly dependent on oil revenues, an impediment to diversifying the economy and exploiting other opportunities to create fiscal space. Chad's oil revenue management is inconsistent with fiscal stabilization and sustainability. The lack of an adequate fiscal framework has created a complex system where oil revenue is highly vulnerable to the volatility of oil prices. Moreover, despite recent reforms for the publication of audit reports, there is still limited transparency and public involvement in oil revenue management. Non-oil fiscal revenues have nearly stagnated over the past 4 years, with a slight increase from 7.2 percent of GDP in 2017 to 7.8 percent of GDP in 2020. There is a significant scope to improve mobilization efforts and diversify the fiscal revenue base.

On the expenditure side, current spending puts pressure on capital and social expenditure. Substantial and rigid wage spending puts pressure on capital and social expenditure thanks to long-term structural factors such as insecurity that shape public expenditure decisions. Public investment spending remains insufficient and dependent on external financing, creating significant infrastructure gaps and poor outcomes in social sectors such as health and education. Slight improvement in the budget allocation for investment in social sectors such as health and education hide their growing dependency on external financing.

Chad is currently in debt distress and will need a significant debt restructuring to achieve the moderate risk of debt distress level. Chad's public and publicly guaranteed (PPG) external debt consists of a broadly equal share of multilateral, bilateral, and commercial debt. Public debt reached 47.6 percent of GDP in 2020, of which 29.7 percent of GDP is external. Chad's debt service needs cannot be realistically filled by external financing and the regional financial market. Chad authorities recently requested from its creditors a debt restructuring under the G20 common framework. The Government is also working to reprofile its domestic debt with the support of the BEAC. The Government took action to improve debt transparency in 2020. However, the remaining weaknesses in debt transparency and management should be fixed.

Chad's budget planning and budgeting processes have been inefficient, leading to substantial bottlenecks in the delivery of public services. There is low compliance with budgetary rules and procedures from the budget preparation to its execution, including fund disbursement to the different line ministries. Accurate measure of budget execution performance is limited by the complex budget data structure and inconsistencies across budget data. Existing public expenditure assessments have pointed out to the weak budget execution performance. Besides, the opacity of public procurement systems presents important challenges in terms of transparency, integrity and efficiency.

Given the lack of fiscal space and large financing requirements, bold actions are needed. In this regard, the government could first strengthen economic diversification to enlarge the fiscal base, by removing bottlenecks to livestock exports, adopting business-friendly reform to support the private sector, and strengthening fiscal administration and policy for better revenue collection. Second, the government could improve its spending efficiency to deliver quality service under declining resources by enhancing the selection process, the planning and designing of investment projects, and improving public spending efficiency in health and education. Finally, the government should improve debt sustainability by strengthening its management and transparency.

RECENT ECONOMIC AND POVERTY DEVELOPMENTS, OUTLOOK, AND ASSOCIATED RISKS

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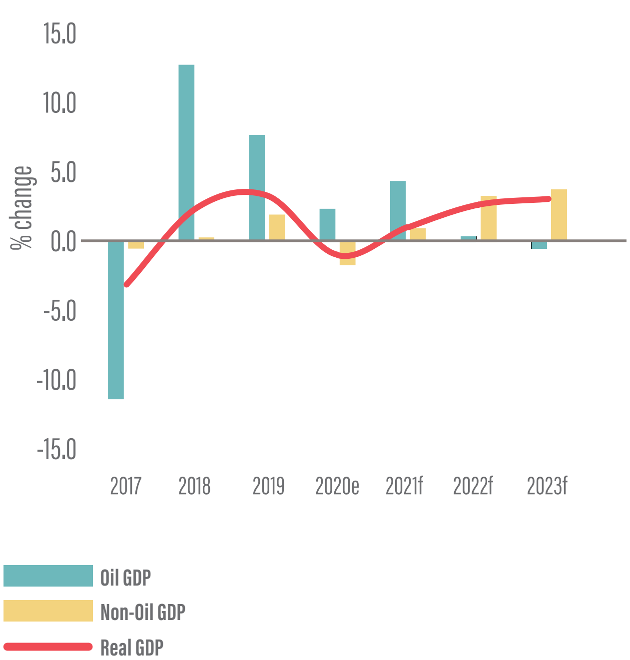
1.1. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1.1. A SECOND ECONOMIC RECESSION IN FIVE YEARS

After a short recovery from the 2015-16 crisis, Chad entered recession in 2020 and is likely to remain in 2021. The oil price shock in 2014/15 led to a recession between 2016 and 2017; the economic recovery started in 2018 and continued in 2019 due to an increase in oil production and a significant recovery of the non-oil sector. But the COVID-19 and related oil price decline changed this trajectory in 2020, the economy contracted by 0.9 percent, see Chart 1.1. The recession was less pronounced in Chad than in other oil-exporting countries in the Gulf of Guinea (See Chart 1.2), thanks to previous investment in the oil sector that led to a high production capacity, to the relatively low health impact of the pandemic, and the large share of the primary sector (less impacted by the pandemic) in Chad.

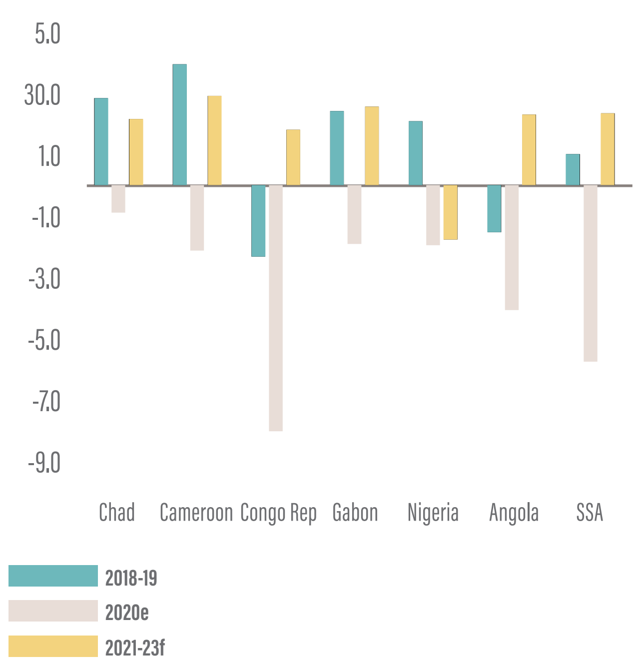
Containment measures worsened the 2020 economic recession, and no recovery is expected in the first half of 2021. The COVID-19 pandemic, with its worldwide containment measures, led to supply and demand shocks of both regional and global scope, which have negatively affected Chad's economy. After relaxing containment measures between August and October 2020, the authorities reintroduced some measures in the last two months of 2020 and January 2021. The economy will remain in recession in the first half of 2021 due to continued containment measures, public finance liquidity constraints (due to lower oil revenues and decreasing grants), and economic disruption resulting from social unrest during the presidential election period.

Chart 1.1. Chad's GDP growth 2017-23



Source: Chadian authorities and World Bank staff estimates

Chart 1.2. Selected oil-exporting countries -- GDP growth estimate in 2018-23



Source: World Bank MPO

Table 1.1. Key macroeconomic indicators

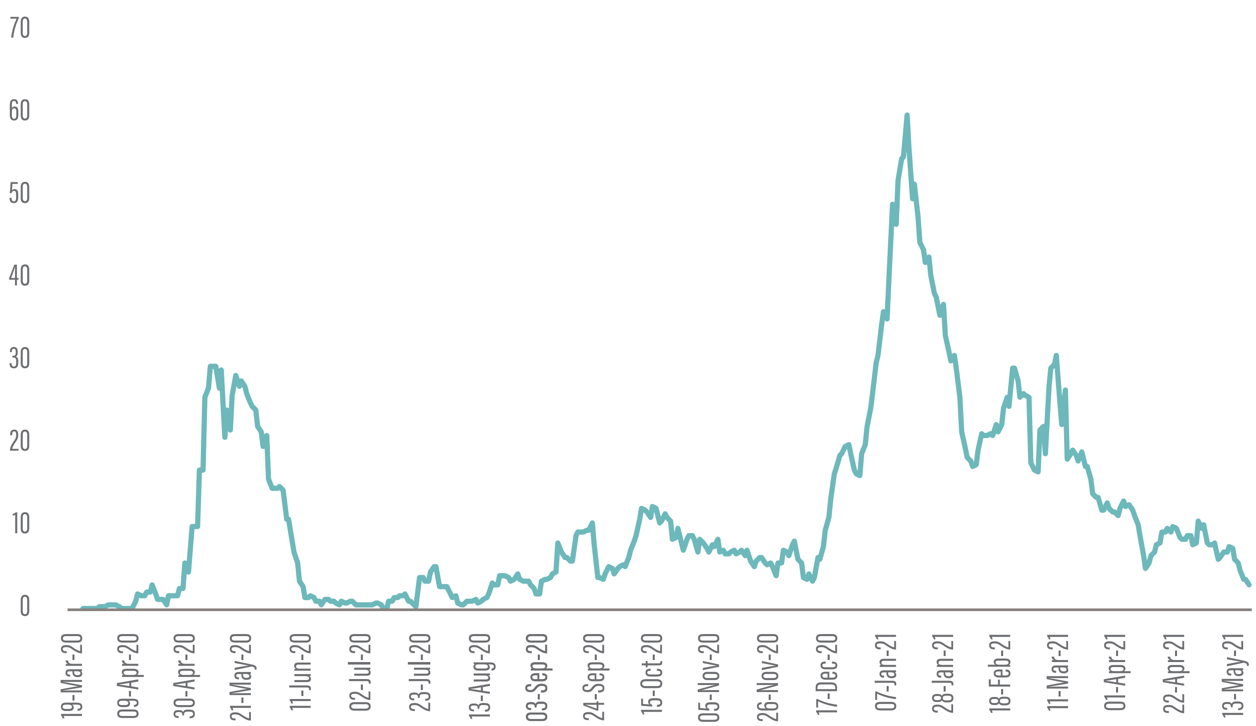
	2018	2019	2020e	2021f	2022f	2023f
Real GDP growth, at constant market prices	**2.4**	**3.2**	**-0.9**	**1.2**	**2.7**	**2.9**
Private Consumption	0.7	1.4	0.3	0.8	2.5	2.5
Government Consumption	-11.8	1.7	18.1	-4.4	3.4	2.8
Gross Fixed Capital Investment	5.4	6.6	-9.8	-0.6	13.3	17.4
Exports, Goods and Services	4.6	6.0	1.1	4.8	0.7	0.4
Imports, Goods and Services	1.4	4.0	2.0	4.0	4.1	4.1
Real GDP growth, at constant factor prices	**2.3**	**3.3**	**-0.9**	**1.0**	**2.4**	**2.8**
Agriculture	4.0	4.6	2.4	5.8	3.2	2.8
Industry	0.6	0.9	-0.2	0.8	1.6	1.6
Services	1.0	2.5	-5.2	-4.8	2.1	3.3
Inflation (Consumer Price Index)	**4.0**	**-1.0**	**3.5**	**3.0**	**3.0**	**3.0**
Current Account Balance (% of GDP)	**-4.7**	**-4.9**	**-9.3**	**-5.9**	**-6.2**	**-7.3**
Fiscal Balance (exc. grants, com. basis, % of GDP)	**-1.3**	**-1.8**	**-3.4**	**-5.2**	**-4.8**	**-4.4**
Fiscal Balance (inc. grants, com. basis, % of GDP)	**1.5**	**-0.6**	**1.1**	**-1.1**	**-0.8**	**2.2**
Fiscal Balance (inc. grants, cash basis, % of GDP)	**0.8**	**-1.2**	**-1.1**	**-2.4**	**-2.1**	**-1.8**
Debt (% of GDP)	**48.3**	**44.4**	**47.3**	**46.9**	**47.0**	**46.9**
Primary Balance (% of GDP)	**3.0**	**1.0**	**2.9**	**0.4**	**0.3**	**3.3**
Oil GDP	12.7	7.6	2.4	4.4	0.4	-0.5
Non-oil GDP	0.3	2.0	-1.7	0.2	3.1	3.8
GDP per capita	**713**	**686**	**644**	**667**	**701**	**733**

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

On top of Covid-19 and its related drop in oil price shock, two other major shocks hit the country in 2020: insecurity; and major floods in Ndjamena and locust invasion. Although the COVID-19 infection rate remains low, the pandemic has significantly affected the Chadian economy. As of March 11, 2021, Chad registered 4231 COVID-19 cases and 149 deaths (Worldometer, March 2021).[1] In 2020, insecurity has been on the rise in the Sahel countries, with a growing number of fatalities and violent events. The situation has deteriorated in Libya, as fighting between the eastern and the western governments increases. Moreover, the ongoing conflict with Boko Haram intensified in early 2020, with almost 100 Chadian soldiers killed in March 2020. Insurgence was restrained following the increased presence of the Chadian army in the region. Nonetheless, insecurity persists, resulting in major population movements. Constant flows of refugees and internally displaced populations are seriously affecting host communities, with over 2,500 new refugees entering Chad from Darfur since July 2020. Natural hazards such as increasingly intense droughts and flooding induced by climate change are exacerbating this situation.

1 After about one year of pandemic, with a peak in November-December 2020, some relaxation of confinement measures from the population could lead to another outbreak prior to the full roll-out of the vaccine.

Chart 1.3. Chad – Daily new confirmed Covid-19 cases.

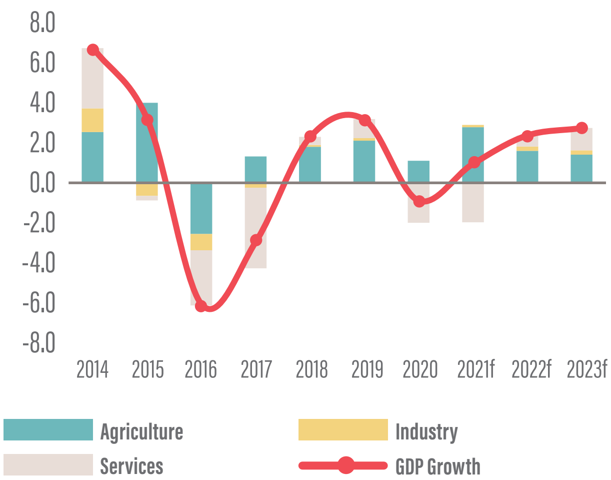


Source: https://ourworldindata.org/coronavirus/country/chad?country=~TCD

The economy is projected to slowly recover, thanks to the global oil market resumption and significant ease of containment measures. The global oil market resumption would boost international trade and bring its positive spillover effect in other sectors of the economy. Oil GDP growth is projected to stand at 4.4 percent in 2021. The end of the presidential election and the beginning of the COVID-19 vaccine rollout will lead to the beginning of the non-oil sector recovery. The recovery in the second half will be strong enough to compensate for the negative non-oil GDP growth of the first semester. As a result, the non-oil GDP would grow by 0.2 percent in 2021. Overall, Chad's GDP growth would reach 1.2 percent in 2021. Chad's modest and gradual economic recovery is consistent with growth projected in regional oil-exporting peers, see Chart 1.2.

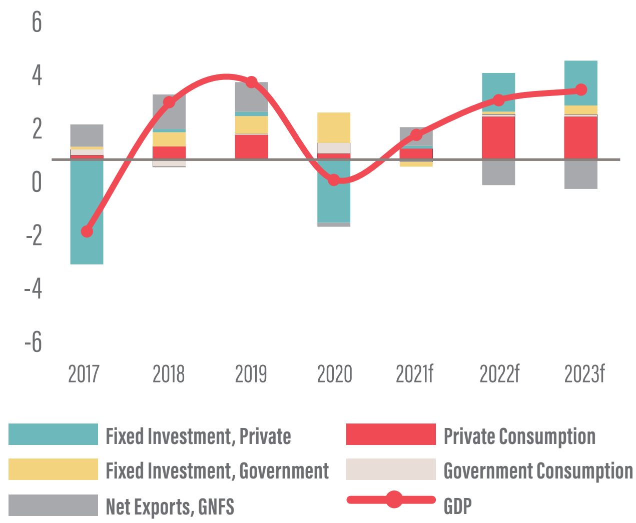
The recovery should gain speed in 2022-23 as structural reforms start bearing fruit as the pandemic phases-out. The non-oil GDP would gradually increase from 0.2 percent in 2021 to 3.8 percent in 2023, thanks to the gradual elimination of the effects of the Covid-19 pandemic and structural reforms. The outlook assumes a gradual revenue-led fiscal consolidation and that spending controls would be maintained. The focus on reforms would be on improving domestic revenue mobilization while containing the increase in current spending. Improving the quality and targeting (particularly spatially) of social spending would help create fiscal space for increasing public investment, which also underpins the outlook. Additional structural reforms in the livestock sector, telecommunications sector, entrepreneurship, and public investment efficiency are expected to buttress non-oil growth.

Chart 1.4. Chad's sector contribution to GDP.



Source: Chadian authorities and World Bank staff estimates

Chart 1.5. Chad's demand component contribution to GDP.



Source: Chadian authorities and World Bank staff estimates

Spurred by the oil sector and investment in productive infrastructure in agriculture, the primary sector will remain the main growth driver. The services and industrial sectors will contribute a combined negative 1.8 percentage points (pp) to growth due to confinement measures in 2021 and a modest 1.0 pp on average in 2022-23. On the other hand, the agriculture and oil subsectors (the main drivers of growth) are projected to contribute a positive 2.8 pp, thanks to an increase in oil production in 2021 and 1.5 pp in 2022-23 thanks to strong growth in agriculture as oil production stagnate, see Chart 1.6.

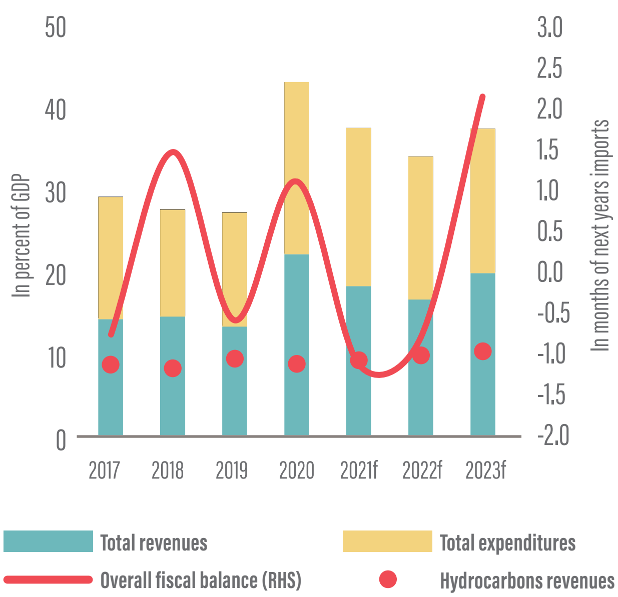
On the demand side, in 2021, the government investment and consumption will contribute negatively to GDP in 2021 but will become positive in 2022-23 as fiscal consolidation is loosening. Net exports will contribute negatively as oil exports stagnate while imports continue to grow due to the lifting of trade restrictions. Overall, private consumption and private investment will be the engine of growth on the demand side (see Chart 1.7).

1.1.2. AN EXPANSIONARY FISCAL POLICY LED TO A NEED OF FISCAL CONSOLIDATION

In 2020, despite a significant increase in oil revenue, Chad posted a fiscal deficit, as it increased its spending to mitigate the impact of the COVID-19 pandemic. The oil revenue increase was due to a one-year lag in oil revenue taxation. An increase in grants, which stood at 4.8 percent of GDP, led to an overall fiscal surplus (including grants and a commitment basis) of 1.1 percent of GDP in 2020. However, on a cash basis, the fiscal deficit was 1.1 percent of GDP. Since 2019, fiscal consolidation efforts stalled, and COVID-19 had exacerbated the trend in 2020. The overall fiscal balance (excluding grants) deteriorated from a deficit of 1.8 percent in 2019 to 3.4 percent in 2020. The expansionary fiscal policy included a rise in transfers to the health sector and wage bills. The government reinstated bonuses and allowances of public service workers to put an end to a two-day strike. It also provided subsidies to the electricity and water companies to pay for the 3-month free electricity and the 6-month free water program. Significantly, about 1652 medical workers were recruited to strengthen the coverage of health systems to mitigate a COVID-19 outbreak, see Box 1.1. This resulted in a permanent increase in current spending of about 0.8 percent of GDP.

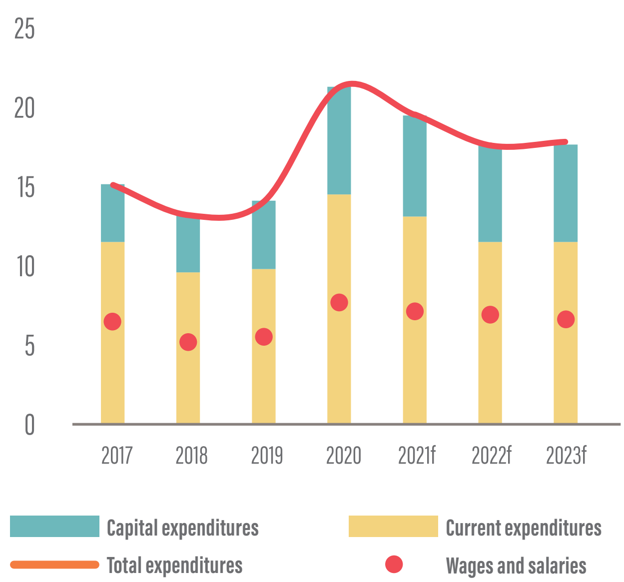
Despite fiscal consolidation driven a sharp decline of government revenues, fiscal deficit will be substantial. The 2021 Budget implies a substantial overall fiscal deficit (excluding grants) of XAF 338 billion (5.6 percent of GDP). The Budget projected XAF 838 billion (15.4 percent of GDP) as total revenue (excluding grants) against XAF 1,010 billion in 2020, a 17-percentage point fall. Revenue includes oil revenue projected at XAF 341 billion in 2021 (a 39 percent fall from the XAF 560 billion of oil revenue estimated in 2020. The sharp drop in oil revenue reflects the negative effect of the COVID-19 pandemic on oil production and the fall in oil price in 2020.[2] A modest fiscal consolidation through government spending will widen the fiscal deficit. Government spending will modestly decline by 3.7 percent. The public expenditure (excluding debt amortization) is projected at XAF 1,176 billion (21.7 percent of GDP) against XAF 1,221 billion in 2020, a 3.7 percent drop. There seems to be no major variation in absolute terms and their composition between the 2020 public expenditure and 2021. The 2021 debt service is projected at XAF 119 billion (2.2 percent of GDP).

Chart 1.6. Chad -- Fiscal position (% of non-oil GDP), 2017-23



Source: Chadian authorities and World Bank staff estimates

Chart 1.7. Chad -- Government spending (% of non-oil GDP), 2017-23



Source: Chadian authorities and World Bank staff estimates

2 This is reflected in 2021 because of the one-year lag embedded in oil revenue tax.

Box 1.1. Government Fiscal and Economic Measures in Response to the COVID-19 Crisis

- Temporary provision of water and electricity to the most vulnerable populations, free of charge, while ensuring a system of transfers to compensate for the induced deficits of the utility companies. For water, the measure was to be applied for six months starting in April; for electricity, the defined period was three months.
- Replenishment of the national food distribution program (Office National de Sécurité Alimentaire, ONASA) in the amount of XAF 25 billion.
- Payment of death benefits due to deceased civil and military agents, indemnities owed to retirees, and medical expenses for civilian agents and defense and security forces in the amount of XAF 5 billion.
- Reduction by 50 percent of the business license tax (patente) and the presumptive income tax for small entities (impôt général liberatoire) for 2020.
- Deferral of all tax verifications by the Department of Taxation for three months.
- Simplification of import processes for selected food and other necessities, as well as medical products and equipment purchased to fight the COVID-19 pandemic, and these items' exemption from customs duties and taxes.
- Payment of XAF 110 billion in domestic arrears owed to suppliers, in accordance with a repayment plan adopted by the government in January 2020.
- Establishment of a Youth Entrepreneurship Fund in partnership with local commercial banks in the amount of XAF 30 billion.
- Hiring of 1,652 additional health workers, particularly in rural and vulnerable areas.
- Establishment of a solidarity fund for the most vulnerable population, amounting to XAF 100 billion.

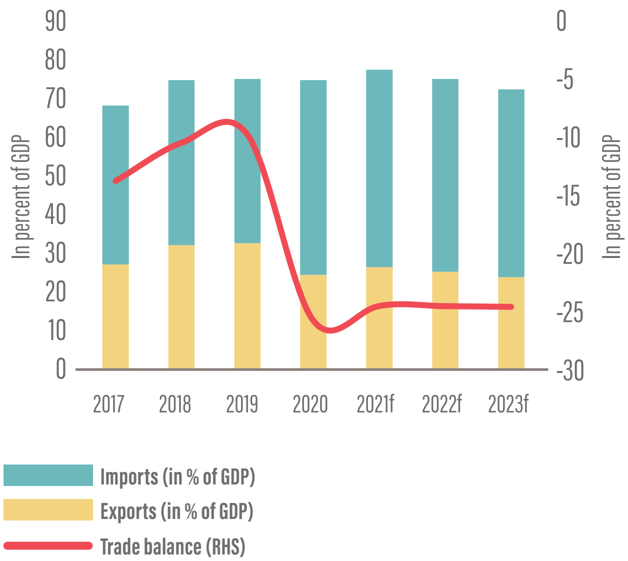
Source: The Ministry of Finance and Budget communicated these items in Circular n°004/PR/MFB/2020

1.1.3. CURRENT ACCOUNT DEFICIT HAS WIDENED

Driven by the trade balance, the current account deficit widened in 2020. In nominal terms, total exports decreased by 21.4 percent in 2020 due to the impact of COVID-19 on global demand, the oil price shock, and border closures. Total imports did not adjust in the same proportion, increasing by 0.2 percent. Chad's savings-investment balance deteriorated, and the current account deficit (CAD) widen to 9.3 percent.

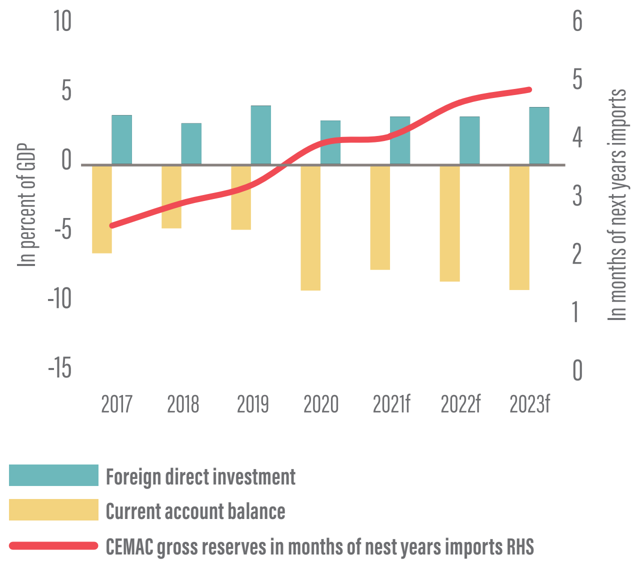
Before the COVID-19 pandemic, Chad's current account deficit, which had worsened after the 2014-15 crisis, was slowly narrowing down. Real exports grew by 6.0 percent in 2019, outpacing import growth of 4.0 percent. Chadian oil prices rose from US$49.4/barrel (bbl) in 2017 to US$61/bbl in 2019, while oil production increased by 11 million barrels as a result of investments in enhanced recovery and production additions. Imports continued to grow mainly due to investments in the oil and cotton production sectors and to satisfy a pick-up in domestic consumption, as the economy continued to recover gradually. The deficit was financed by significant FDI inflows, which increased from 3.0 percent of GDP in 2018 to 4.3 percent in 2019.

Chart 1.8. Chad -- Trade balance, 2017-2023



Source: Chadian authorities and World Bank staff estimates

Chart 1.9. Chad & CEMAC -- Current and financial accounts, and reserves



Source: Chadian authorities and World Bank staff estimates

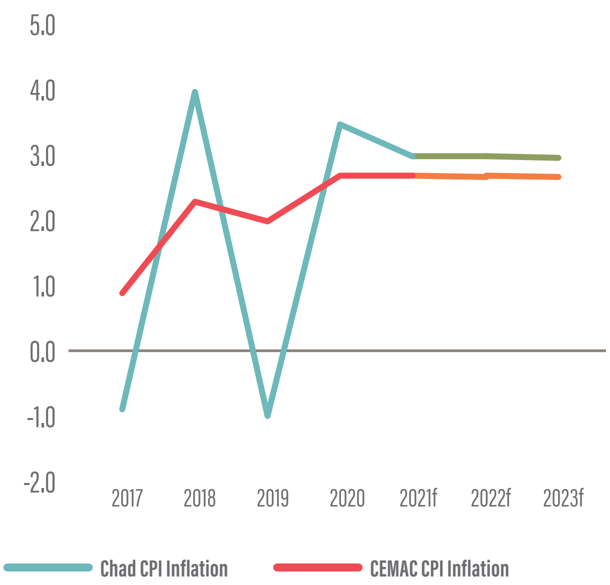
The current account deficit is projected to decrease slightly in 2021-24, with oil exports picking up. The Covid-19 impact is expected to lessen in 2021, with a rebound of exports and imports by 13.1 percent and 5.5 percent, respectively, and a narrowing of the CAD to 5.9 percent of GDP. Budget support from donors will provide a reliable source of financing as FDI inflows will slow down due to global growth contraction.

CEMAC has progressively managed to rebuild its regional external reserves, but they remained below 5 months of imports in 2020. CEMAC regional external reserves are projected to broadly stabilize after their sharp decline in 2020 Q3 at the equivalent of 3.5 months of imports at the end-2020, well below the pre-COVID projections. With oil prices lower than pre-COVID over the medium term, reserves are projected to be rebuilt at a slower pace but should not reach the equivalent of 5 months of imports by 2025. There is a large external financing need for the CEMAC region as a whole (US$7.9 billion over 2021-23). Chad accounted for about 10 percent of the BEAC foreign reserves in 2020. However, Chad's reserves declined by about XAF 82 billion (30 percent of its 2019 value) in 2020 and are projected to decline in 2021 and 2022, thereby contributing negatively to the regional reserves in the coming years.

1.1.4. RELAXATION OF MONETARY POLICIES TO MITIGATE THE IMPACT OF COVID-19

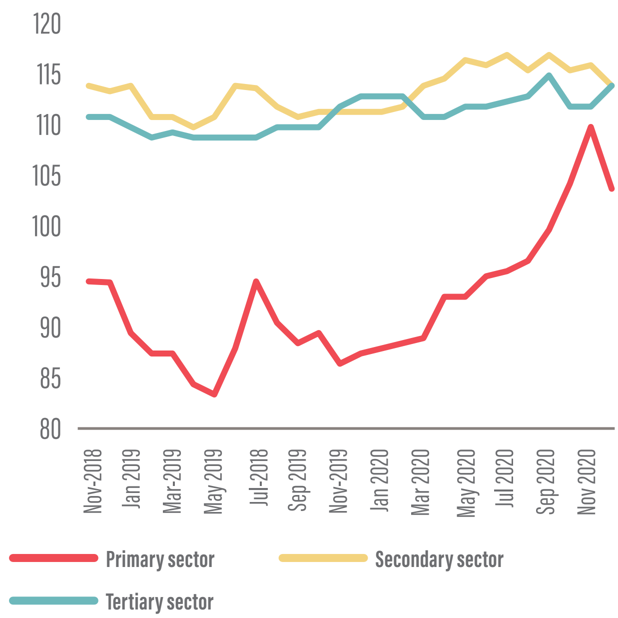
The regional Bank of Central African States (BEAC) has relaxed its monetary stance by cutting interest rates to cushion the pandemic's impact. Since March 2020, the BEAC has been injecting liquidity into the banking system by buying public securities issued on the secondary market and has lowered the policy rate to 3.25 percent in March 2020 and then to 2.70 percent in July 2020. This was a departure from the regional monetary policy tightening in 2017-19 to support regional reserve accumulation. The relaxation of the monetary policy led the change in the real exchange rate to contract by 1 percent in 2020, from 3.9 percent in 2019. Inflation has significantly increased from -1.0 in 2019 to 3.5 in 2020 and is expected to remain around 3.0 in 2021-23, Chart 1.10. The consumer price index (CPI) decreased by 1.3 percent in December 2020 (compared to November) due to the decline in the price level of food products and non-alcoholic drinks, furniture, household items, routine household maintenance, and restaurant hotel services.

Chart 1.10. Chad & CEMAC – Inflation dynamic 2017-2023



Source: Chadian authorities and World Bank staff estimates

Chart 1.11. Monthly CPI variation by sector of production



Source: Chadian authorities and World Bank staff estimates

Although there has been a sharp increase in the issuance of long-term securities in the BEAC debt market in Q2-2020, Chad has kept its preference for short-term bonds. The COVID-19 pandemic has prompted CEMAC countries to raise XAF 849.5 billion on the BEAC debt market in Q2-2020, with long-term securities accounting for 53.6 percent of overall issuance. However, unlike its CEMAC counterparts, Chad approached the market more cautiously by issuing 26-week bonds for a total value of XAF 125.9 billion in Q2-2020. The weighted average of interest rates for the 26-week bonds issued by adjudication range from 5.75 to 6.10 percent.

The Central African States Development Bank (BDEAC) launched a bond loan operation for Chad. This operation called for public savings on the CEMAC financial market. This involves mobilizing XAF 100 billion per year for three years from households, private or public companies, and institutional investors to finance integrative projects in CEMAC (Chad could obtain up to 1/5 of this amount). The subscription period was scheduled from December 21-29, 2020. Bonds issued by BDEAC bear interest at 5.45 percent. The term of the loan is seven years, at the rate of XAF 10,000, the nominal value of a security. As of January 5th, 2021, the BDEAC had raised nearly XAF 107 billion for the whole of CEMAC.

COVID-19–related shocks significantly reduced commercial activities and led to a decline in banking sector activities and performance. Credit to the economy declined by 0.8 percent. The 2020 budget allocated XAF 3 billion to recapitalize one of the two banks and XAF 9 billion to repay outstanding credit to both. The ability of the remaining banks (four subsidiaries of global and regional banking groups and one local bank) to absorb losses will be contingent on shareholders' ability and willingness to support their continuity and inject capital.

1.2. RISKS ASSOCIATED WITH THE OUTLOOK

Chad's projected 2021-23 economic growth, fiscal and external balances, and its financial sector's soundness are vulnerable to several downside risks. These risks include unfavorable weather conditions: debt is unsustainable, worsening of the security situation, a COVID-19 outbreak, and prolonged border closures and confinement measures.

Delay in Debt restructuring could jeopardize its sustainability, exacerbate liquidity constraint, and lead to disorderly fiscal consolidation. In January 2021, the Government requested a debt restructuring with its creditors under the G20 common framework. A draft preliminary DSA is being finalized as a critical input of the creditor's committee meeting on Chad which is expected to take place in the second half of March. Successful debt restructuring both from bilateral and commercial creditors is a necessary condition for significant donors' engagement to close the substantial financing gap. Failure to complete this restructuring in the next six months would delay donors' commitment to budget support and could lead to the building-up of domestic arrears and substantial cuts in critical social spending at a time where they are more than needed to mitigate the impact of Covid-19 on poverty.

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 weather's main characteristics. Although the rainy season was good in 2020, in recent years, the rainy season has been shorter than expected, and rainfall irregular or falling at inappropriate timing in the crops cycle. This could hamper agriculture production, increase poverty, and ultimately, economic growth.

Persistent regional insecurity and electoral cycle tension could disrupt bilateral trade and stretch government finances. Insecurity has been on the rise in the Sahel countries, with an increasing number of fatalities. The ongoing conflict with Boko Haram in the Lake region remains active. Conflicts have also resumed in Central Africa Republique. In addition, social tension is building up as the country enters two important election contexts: The Presidential election in April 2021 and the legislative elections in October 2021. These situations could induce economic disruption, stretch the government budget and favor the arrival of more refugees from neighboring countries.

A major wave of the COVID-19 pandemic related to the new COVID-19 variants could lead to longer and more constraining containment measures. Many African countries are currently experiencing a new wave of COVID-19, which seems more severe than the previous waves. This wave is arriving in the context of COVID-19 fatigue within the population. If this were to happen for Chad, it would lead to longer and severe economic disruption.

Under a downside scenario, the recovery will be sluggish. The economy would not grow at all in 2021. The economy would recover in 2022 thanks to the vaccine rollout and the end of the electoral cycle. The fiscal deficit will widen significantly, creating a significant 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.

Intense socio-political tension following the passing away of president Deby could cloud economic growth prospects in 2021. The military took over power in Ndjamena on April 20 following President Deby's passing. The President was wounded while leading his army against a rebellion in the Kanem region. He subsequently passed away only one day after he was declared winner of the April 11 presidential election. This extraordinary circumstance adds to pre-election socio-political tensions to create high uncertainty that could cloud economic growth prospects in 2021.

1.3. POVERTY AND SOCIO-ECONOMIC IMPACT OF COVID-19

1.3.1. COVID-19 DAMPENED CHAD'S HOUSEHOLD INCOME AND REVERSED GAIN IN POVERTY REDUCTION

The Covid-19 pandemic has negatively impacted household income. Data from a high-frequency phone survey (HFPS) implemented in July-August to better monitor the pandemic's effects on the Chadian population show that seven out of ten households experienced a decline in their total income since the outbreak (Chart 1.13). The pandemic and the collapse of global oil prices have contributed to a recession, which has primarily affected households with members working in the rural agricultural sector (48 percent) and the urban informal sector, including trade (18 percent), services (6 percent), and transportation (7 percent). In fact, almost 17 percent of respondents who did not work during the last 7 days had a job before Covid-19, with 20 percent of them stopping working because of the pandemic, and 34 percent of female heads of household have stopped working, compared to 18 percent of male heads of household. According to Chart 1.14, job loss affects mostly the sectors of agriculture (17 percent), personal services (17 percent), and retail trade (15.7 percent), which are the main source of Chadian households' income, as shown above. In Chad, many informal workers are day laborers with highly uncertain income streams. The pandemic has also contributed to declining remittances, with 57 percent and 61 percent of transfer receivers reporting a decline in the amount and the frequency of transfers, respectively.

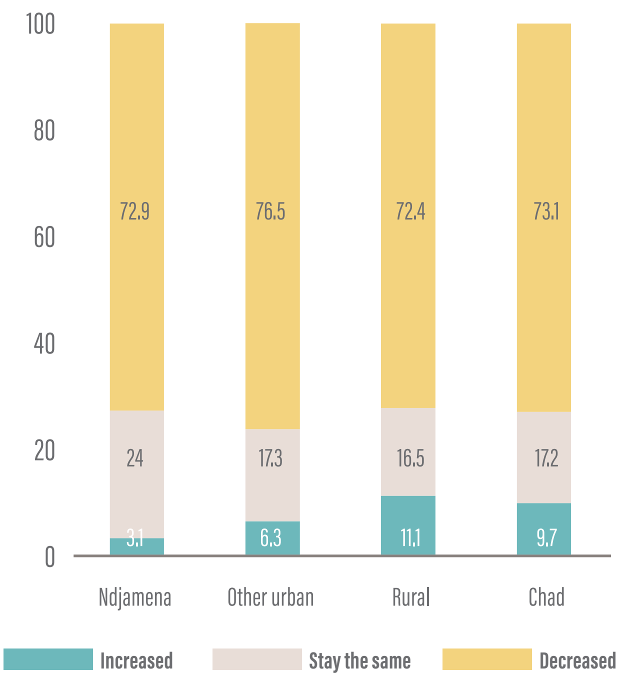
The decline in household income due to the Covid-19 caused the headcount poverty rate to rise by 5.5 percentage points (Chart 1.15) in 2020. This increase reflects 0.85 million people falling below the poverty line due to the cumulative effect of the loss of income, the decline in remittances, and the increase in prices associated with the pandemic. Household consumption has dropped by an average of 10 percent nationally and by more than 20 percent in N'Djamena, increasing the poverty rate in the capital by 11 percent. Moreover, the intensity of poverty among the poorest households has increased, and many households in the intermediate decile of the distribution of consumption fell in poverty (Chart 1.16).

Box 1. 2. Household Income

Agriculture, including livestock, is the primary source of income of households in Chad. The sector represents 54.3 percent of household total income, with 48.8 percent for agriculture and 5.5 percent for livestock. In rural areas, the share of agriculture's income in household income is 65.1 percent, close to the sub-Saharan African average of 68 percent of rural income. However, agriculture's contribution to rural income is much higher for the bottom 40 percent of the consumption distribution, 71 percent of the total income against 61 percent for the top 60 percent of the consumption distribution. The family enterprise is the second main source of household income, with nearly 25 percent of the total income coming from this source. The sector covers transport, retail trade, personal services, construction and contributes to almost 40 percent of the total income urban households against 20 percent for rural households.

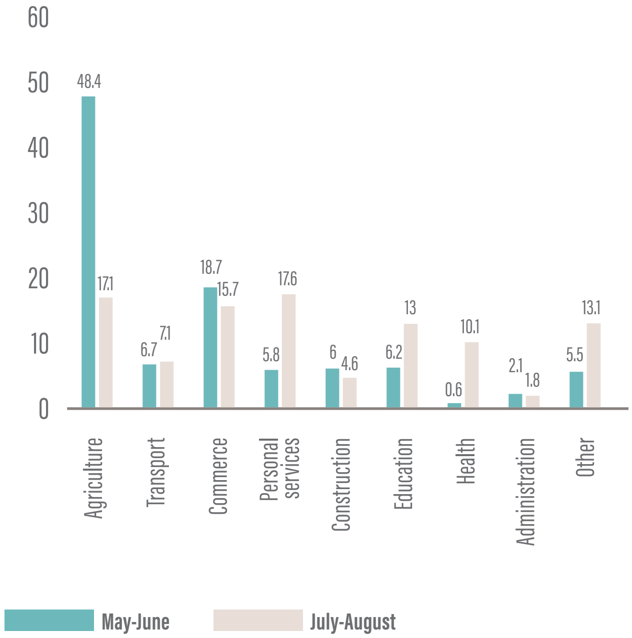
Source: World Bank staff

Chart 1.12. Impact of Covid-19 on Households' total income



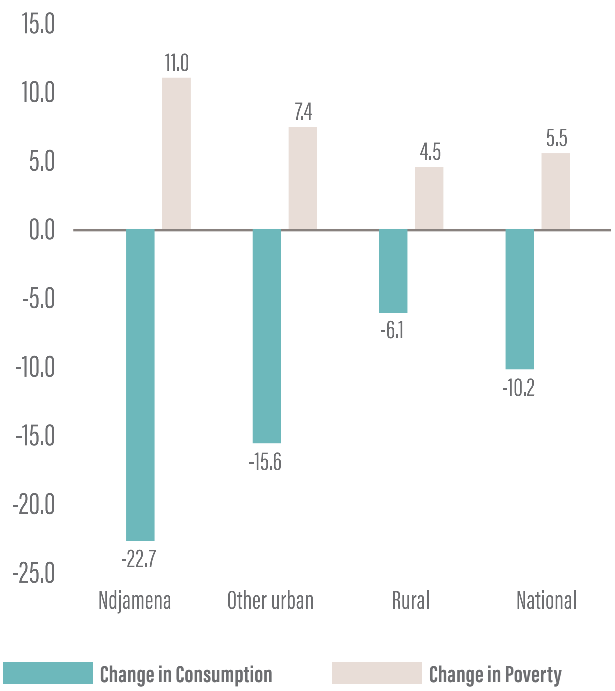
Source: World Bank staff calculation using data from HFPS (July-August 2020)

Chart 1.13. Sector of activity of employed respondent who lose their job since the outbreak



Source: World Bank staff calculation using data from HFPS (July-August 2020)

Chart 1.14. Impact of Covid-19 on consumption and poverty



Source: World Bank staff calculation using data from ECOSIT 4 and HFPS (2020)

Chart 1.15. Distribution of the increase in the poor population caused by COVID-19

Source: World Bank staff calculation using data from ECOSIT 4 and HFPS (2020)

The effect of the pandemic on consumption and poverty depends on the transmission channel (Table 1.2). The decline in labor income alone caused the poverty rate to increase by 4.4 percentage points. Two-thirds of the newly poor live in rural areas, where households have experienced a 4 percent decline in total consumption. The loss of household income has been especially significant in N'Djamena, where the poverty rate rose by 9.6 percentage points as 0.14 million people fell below the poverty line. Many vulnerable households in the capital city earn their livelihood from the informal sector, which has been disproportionately affected by the pandemic. Informal workers are especially vulnerable to poverty due to their lack of job security and limited savings. In 2018, remittances averaged XAF 37,122 for non-poor households and XAF 14,516 for poor households. While they represent a mere 5 percent of the income of poor households in Chad, the decline in remittances has led to a 1.4 percent decline in total consumption and a 0.8 increase in the poverty rate. The third channel of transmission of the impact of Covid-19 is the market disruption. Government measures to limit the spread of the virus have led to shortages of essential goods and contributed to the increase in prices, negatively impacting poor and vulnerable households. This factor alone resulted in a 0.65 percentage point increase in the poverty rate.

Table 1.2. Simulated Impact of COVID-19 at the Household Level

	Percentage Change in Consumption	Percentage Change in Poverty	Nominal Increase in the Poor Population
Impact of decline in household income			
Ndjamena	-18.9	9.63	143,321
Other urban	-10.1	4.89	112,134
Rural	-4.2	3.76	440,739
Chad	-7.3	4.41	683,690
Impact of decline in domestic remittances			
Ndjamena	-2.31	1.14	16,966
Other urban	-3.94	2.66	60,997
Rural	-0.32	0.48	56,265
Chad	-1.37	0.88	136,428
Impact of consumer price inflation			
Ndjamena	N/A	0.23	3,423
Other urban	N/A	0.43	9,860
Rural	N/A	0.74	86,741
Chad	N/A	0.65	100,771
Response for households to the combine impact of decline in income, reduction in remittances and increase in prices			
Ndjamena	-22.7	11.00	163,710
Other urban	-15.6	7.40	169,691
Rural	-6.1	4.50	527,480
National	-10.2	5.48	849,574

Source: World Bank staff calculation using data from ECOSIT 4

The Covid-19 pandemic will cause an increase in inequality. Data from the first round (May-June 2020) and the third round (January-February 2021) of the HFPS show that during the six months period, the share of households from the lowest quintile which lost a part of their total income increased by 10 percentage point against a 3 percentage points increase for households in the highest quintile. This decline in households' total income is partly due to a reduction in the frequency and amount of remittances, particularly for households in the poorest quintile. As a result, the disparity in incomes between the rich and poor households will continue to widen, and therefore inequality will increase.

The adverse effects of the COVID-19 crisis on the poor are expected to last for several years. The international poverty rate is projected to increase to 42.5 percent by 2023 that is a 0.8 percentage point increase compared to 2020. Indeed, the absence/weakness of redistribution programs or structural economic transformation limits the space for poverty reduction. In particular, poor/vulnerable households who earn a part of their livelihood from transfers and family enterprises that have been closed because of the pandemic are at risk of remaining/falling into poverty.

Box 1.3. Definition of Shocks in the HFPS

During the HFPS, respondents were asked the following question: "Has your household been negatively affected by one of the following issues since the beginning of the COVID-19 pandemic?". The following list of idiosyncratic and covariate shocks was created to allow the data from the HFPS to be compared with the data from the ECOSIT 4 survey discussed in the section above.

Table 1. 3. Types of Covariate and Idiosyncratic Shocks in the HFPS

Idiosyncratic Shocks		Covariate Shocks	
Demographic	Death or disability of an active adult household member Death of an individual who sends money to the household Illness of an income earner in the household	**Natural**	Locusts or other pests
Economic	Loss of an important acquaintance Loss of wage employment Bankruptcy of nonfarm enterprise Theft of money, assets, production, or other goods Bad harvest owing to lack of labor	**Economic**	Important output price drop High input prices High food prices

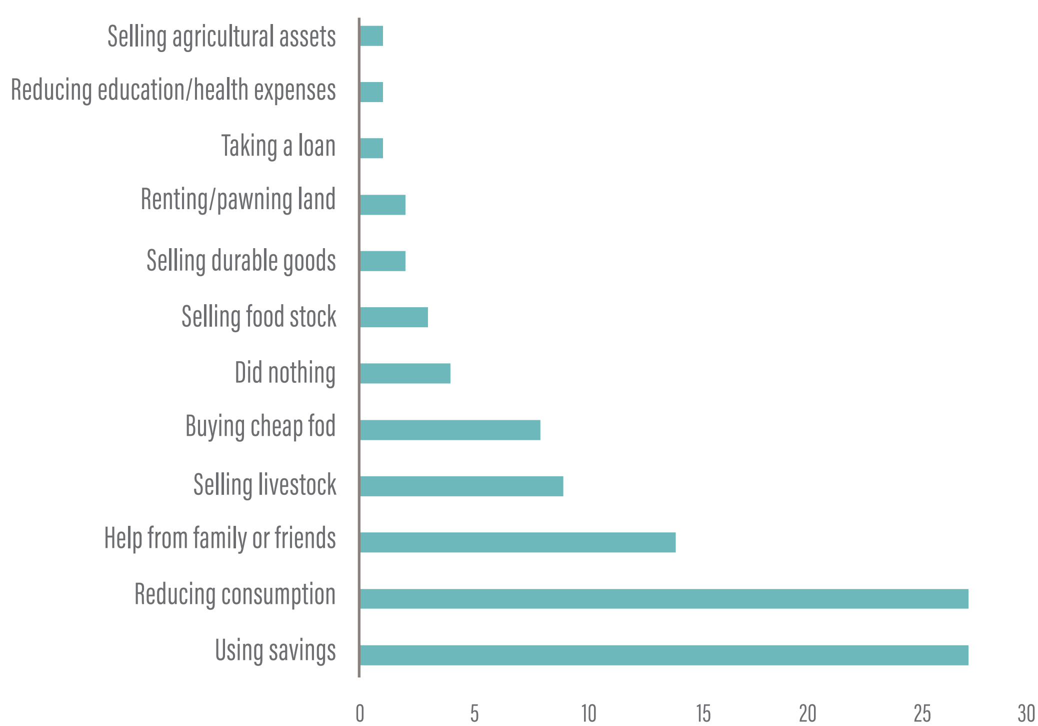
Source: World Bank staff

1.3.2. COVID-19 INCREASED HOUSEHOLD VULNERABILITY TO SHOCKS

The pandemic has increased the rate of economic covariate shocks compared to the pre-Covid-19 period, particularly in rural areas. Between 2014 and 2017, nearly 90 percent of the households had experienced a shock, with rural residents being slightly more exposed than their urban counterparts (89 percent versus 86 percent). The share of households that have been affected by covariate and idiosyncratic shocks were 63 percent and 64 percent, respectively. But the pandemic has exacerbated households 'vulnerability to shock, with about 92 percent of households reported experiencing a shock during the pandemic, and rural households have been especially affected. An estimated 69 percent of households have been affected by covariate shocks and 45 percent by idiosyncratic shocks. All covariate shocks have been economic, and rural households (75 percent) have been more affected than their urban counterparts (52 percent). Meanwhile, urban residents have been more affected by economic idiosyncratic shocks (39 percent) than rural residents (25 percent). These shocks are likely due to lockdown measures implemented by the government since March 19, 2020, to contain the spread of COVID-19.

Economic covariate shocks have had a significant impact on female-headed and poor households. Although the outbreak does not appear to have had differentiated effects on the likelihood of exposure to most shocks across gender lines and households' poverty status, economic covariate shocks have disproportionately impacted female-headed and poor households. Approximately 49 percent of poor households have experienced economic covariate shocks during the pandemic, compared to 42 percent of nonpoor households. Similarly, 54 percent of households headed by women have reported being exposed to this type of shock, compared to 44 percent of men. Additionally, the spike in food prices has affected poor households (73 percent) more than their nonpoor counterparts (66 percent).

Chart 1.16. Households coping strategies to mitigate the effects of the pandemic.



Source: World Bank staff calculation using data from HFPS (2020)

Reducing consumption and using savings have been the main coping strategies adopted during the pandemic. Rural households have been more likely than their urban counterparts to adopt negative coping strategies. Approximately 27 percent of all households have reduced their consumption and used their savings to mitigate the effects of the current crisis (Chart 1.17). Also, 14 percent of households have received help from family or friends, and 9 percent sold their livestock. There has, however, been a clear difference in the proportions of rural and urban households that adopted these strategies. While 43 percent of urban residents used their savings, the same was true for only 22 percent of rural residents, and 30 percent of rural households reduced their consumption, much higher than 18 percent of urban households. Moreover, a greater share of rural households (11 percent) sold their livestock than their urban peers (2 percent). This suggests that rural households have been more likely to adopt harmful coping strategies. Less than 1 percent of all households have received assistance in food or cash transfers from the government, non-governmental organizations, or other groups.

Households' ability to rely on family or friends has been diminished in the current crisis. While the ECOSIT 4 recorded that 63 percent of households relied on family or friends in the event of a shock, this share has plummeted to 27 percent during the COVID-19 crisis. This is not surprising because covariate shocks like pandemics have a generalized impact on households and affect informal safety nets. Nevertheless, a smaller share of households has resorted to selling their livestock during the pandemic (9 percent) than what was recorded in the ECOSIT 4 (17 percent). The use of negative coping strategies, such as reducing consumption, can have long-term detrimental effects on the welfare of household members, especially children. A positive observation is that female-headed households have reduced their consumption at a lower rate (18 percent) than male-headed households (29 percent). They have relied more on family or friends. There are no great differences in coping strategies that poor and nonpoor households have adopted.

1.3.3. COVID-19 DISRUPTED SCHOOL SERVICES, EXACERBATED HEALTH CARE NEED, GENDER GAP, AND FOOD INSECURITY

Amid the COVID-19 pandemic the Government adopted various containment measures including school closures.[3] Schools often constitute both learning and a safe place for students. Additionally, the halt of school feeding programs threatens the food security status of many children. In a country already experiencing challenges on education indicators, COVID-19 threatens some of the gains in the sector. As of August 2020, 132,357 children were missing out on meals on school meals (40 percent of girls) (WFP, 2020b). An e-learning platform available for secondary school children was set up in April and televised broadcasts in French and Arabic (UNESCO, 2020). On June 25th, schools were allowed to reopen under the conditions that they respect COVID-19 prevention measures.[4]

School closures at the height of the COVID-19 pandemic left many students without alternative learning options at home. Two months after school closures, close to 90 percent of students were at home without engaging in educational activities. Rural students (92 percent) were more affected by school closures, with a greater share not engaging in any educational activities compared to their urban peers (72 percent). Among those who were able to continue learning during school closures, the forms of learning included home lessons with parents or private teachers or classes delivered on television or radio. These mostly benefited urban learners. There was very little online learning, even in urban areas.

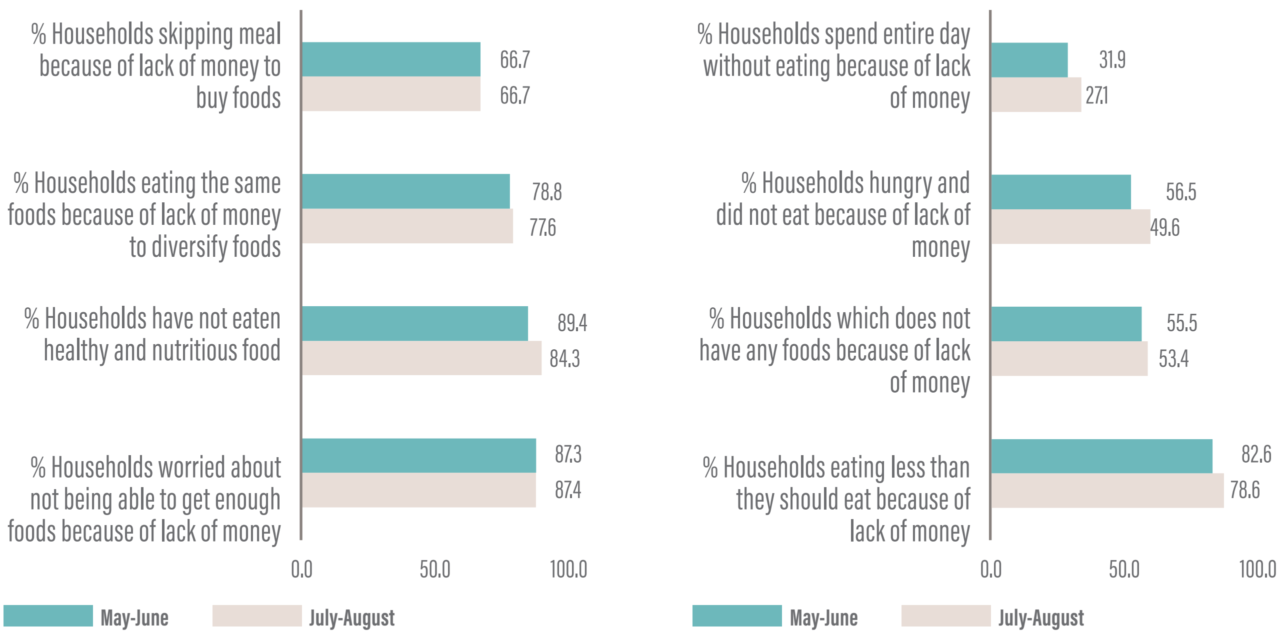
The Covid-19 will significantly impact girls' and women's health conditions in general and their reproductive health situation. The need for the Government to reallocate public health services resources to take into account the new Covid-related challenges in the sector will probably cause disruptions to key health services for women and girls, such as reproductive health services. Indeed, evidence from previous health crises has shown increases in adolescent pregnancy for out-of-school girls

3 https://www.presidence.td/fr-synth-1111-Vendredi_le_20_mars_2020.html
4 https://reliefweb.int/report/chad/chad-emergency-update-external-23-june-2020

and in maternal mortality due to lack of funding for these services. More recently, the reallocation of resources as a response to the Ebola crisis in West Africa has caused a decline in the funding of women's reproductive health, leading to a 70 percent increase in the number of women who died in childbirth (Smith, 2019). While digital technologies and educational radio programs during school closures link children to education services, persisting gender inequalities in access to digital resources in the country may hinder girls from accessing these useful. In the current context of Covid-19, in July 2020, only 8 percent of households having children attending school before Covid-19 continue to provide education/remote learning activity to their children, according to the results of the high-frequency survey.

The pandemic further highlighted the precarity of the food security status of households. Many households experienced difficulties in satisfying their food need, with more than eight out of ten households not eating healthy and nutritious food or worrying about not getting enough food because of lack of money. More worrisome, one out of four households spent an entire day without eating, and a half of households did not have any food because of lack of money.[5] This exposes children to severe malnutrition with a potential negative impact on their early development and health situation.

Chart 1.17. Share of households having difficulties experiencing difficulty to satisfy food need



Source: World Bank staff calculation using data from HFPS

5 The HFPS included a Food Insecurity Experience Scale (FIES) module in each round, capturing households' experiences over the previous month. It should be noted that the recall period differs between ECOSIT 4 (last 12 months) and the HFPS (last 30 days). However, a comparison nevertheless provides some useful guidance on the potential impacts of the pandemic.

In the months following the onset of the pandemic, poorer households were more likely to attribute food insecurity to the crisis. Two months into the containment measures, almost 95 percent of households in the lowest wealth quintile felt that their food insecurity was due to the crisis. This was about 25 pp higher than the percentage of households in the highest wealth quintile who felt the same. By July 2020, most of the poorest households continued to attribute their food insecurity to COVID-19, as reported by close to 90 percent of them. But, fewer households in the highest wealth quintiles attributed their food insecurity to COVID-19, indicating that their situation improved at a marginally faster rate.

The pandemic affected households' ability to access medical treatment through its impact on incomes. Across the two rounds of the HFPS, between 80 percent and 85 percent of households reported not being able to access medical treatment due to lack of money. Covid-19 itself was not a major deterrent for accessing medical treatment. In May 2020, about 8 percent of households did not access medical treatment because they feared Covid-19. By July 2020, no household reported that COVID-19 negatively impacted their access to medical treatment. Across quintiles, households in the lower wealth quintiles were more likely to attribute their inability to meet their basic health needs to Covid-19. Households in the higher wealth quintiles also felt that Covid-19 negatively affected their ability to attend to their basic health needs but not the same extent as the poorer ones.

CHAD FISCAL MANAGEMENT FOR DEBT SUSTAINABILITY IN THE TIME OF COVID-19

2

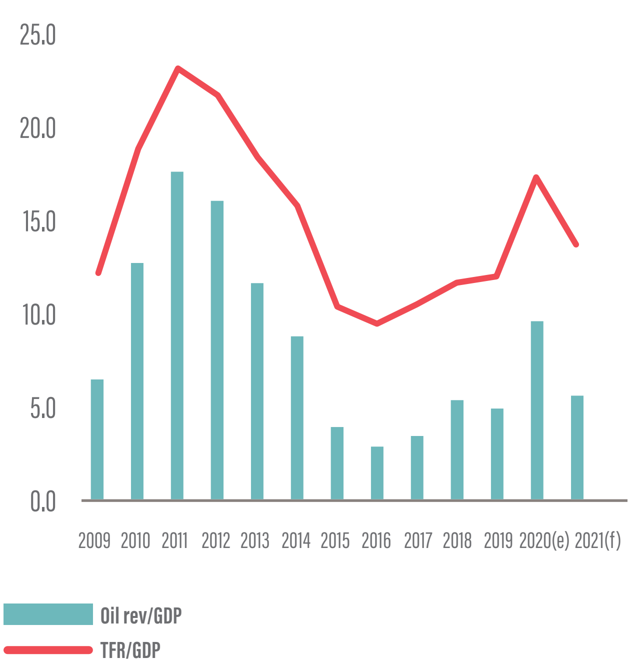
2.1. FISCAL SPACE ANALYSIS

2.1.1. STRUCTURAL LOW NON-OIL REVENUES THREATENED FISCAL SUSTAINABILITY

Chad's total fiscal revenue is highly dependent on oil revenues and very sensitive to oil price volatility. Since the onset of oil production and exports in 2003, oil revenues steadily grew to become the most significant share of total revenues, reaching almost 80 percent in 2011. The total fiscal revenue to GDP ratio peaked at about 23 percent in the same year, with oil revenues contributing almost 18 percent of GDP (Chart 2.1). While oil revenues are easy to mobilize, over-reliance on them constitutes a significant downside risk due to oil price volatility and their high sensitivity to global market shocks. Consequently, the dual COVID-19 pandemic and oil price plummeting shocks are projected to substantially decrease fiscal revenue in 2021, which will very likely lead to significant liquidity challenges. Due to the recent shocks, the total fiscal revenue is projected to drop by 3.6 percent of GDP between 2020 and 2021, while oil revenues will decrease from 9.6 to 5.6 percent of GDP (Chart 2.2). Also, external debt is likely becoming unsustainable as Chad will struggle to meet its debt obligations.

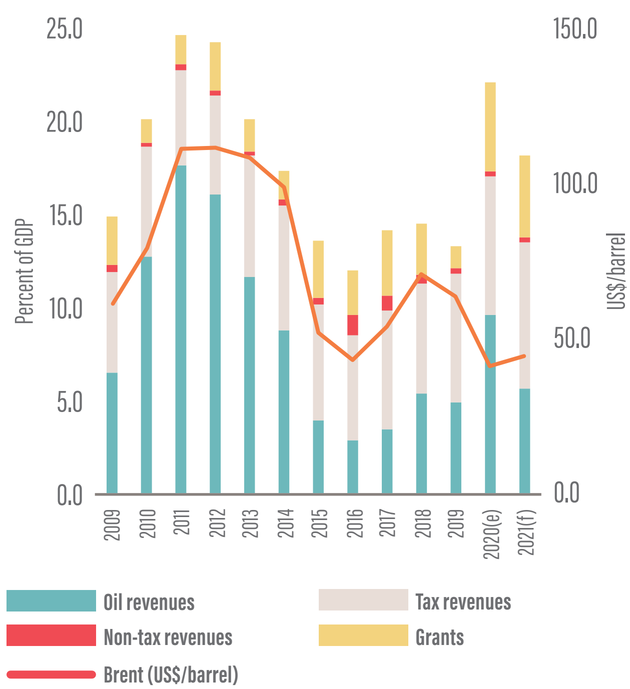
Non-oil revenue mobilization remains weak, with Chad having one of the lowest revenue collection rates among its structural peers. The country could mobilize more non-oil revenue by improving the personal income tax (PIT) and Value Added Tax (VAT). In October 2020, the Minister of Finance officially launched an initiative to increase digital payment platforms for tax revenue collection, intending to prevent losses and fraud. Although the reforms were undertaken in recent years to improve non-oil revenue collection, their implementation has been weak due to

Chart 2.1. Total fiscal revenues (excluding grants) and oil revenues, 2009-20



Source: Chadian authorities and World Bank staff estimates

Chart 2.2. Revenues, 2009-20

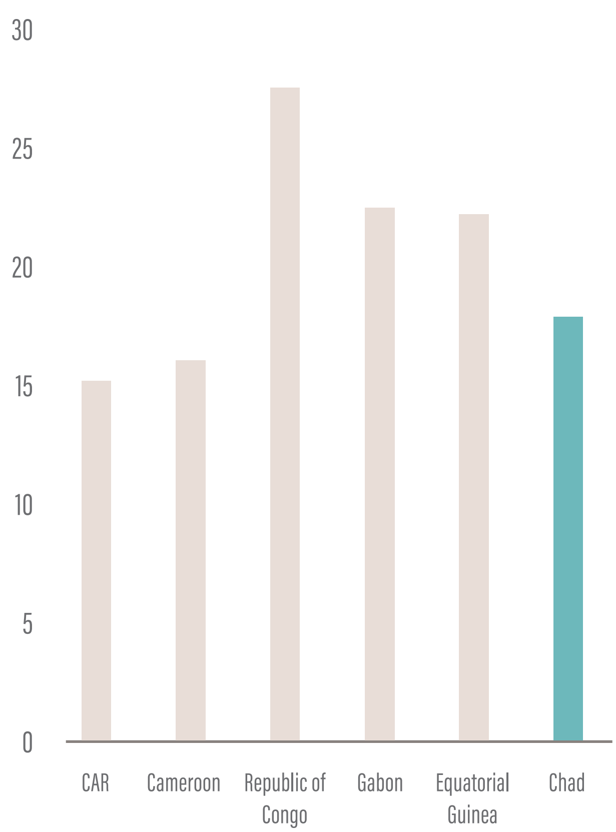


Source: Chadian authorities and World Bank staff estimates capacity constraints and frequent civil servant strikes. Therefore, such efforts are needed to overcome the current liquidity challenges. Moreover, Chad's non-oil revenue mobilization efforts have not been sufficient to catch up with its structural peers. Between 2011 and 2020, total fiscal revenues averaged about 17.9 percent of GDP while the average for other CEMAC countries stood at 20.7 percent (Chart 2.3).

Limited effectiveness of tax policy and weak tax and customs administration contribute to low domestic revenue mobilization. The tax base is narrow and has many exemptions that are not properly monitored. Distortionary taxes are the dominant source of revenue, and taxes with low collection potential still unnecessarily complicate the tax system and administration. Furthermore, tax and customs administration capacity remain weak. Manual procedures are the norm since the tax administration does not have a functioning computerized tax system, and not all branches and border crossing are equipped with the customs tax system. This creates opportunities for irregular procedures.

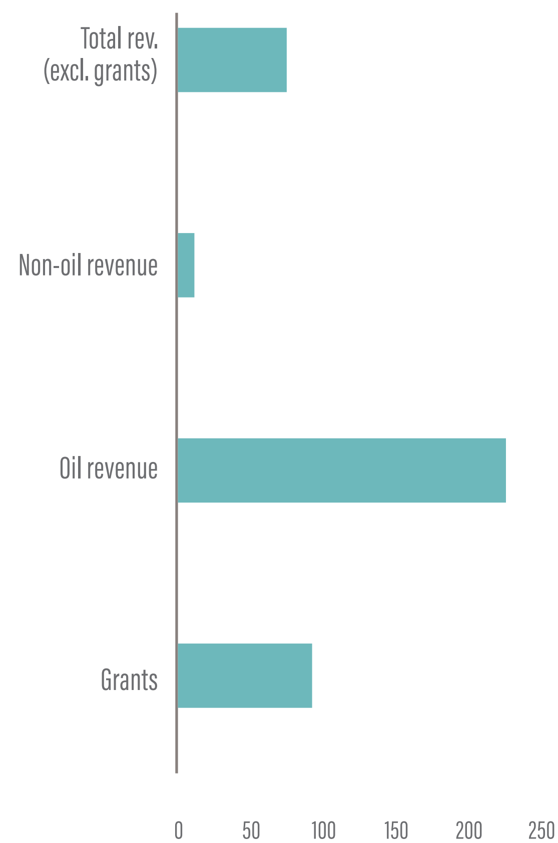
Chad has been slow in addressing the main issues that create bottlenecks to its fiscal management and sustainability while strengthening its dependency on grants. Chad's fiscal framework sustainability requires urgently addressing the main fiscal challenges, which involves implementing an efficient system that is resilient to shocks, non-oil revenue mobilization, more budgetary discipline, improved public finance management. Without these efforts, the country will continue to rely on grants (about 20 percent of total fiscal revenue over 2016-20) for its fiscal revenue. So, running the risk of a potential crowd-out effect of non-oil mobilization incentives.

Chart 2.3. Average total revenue/GDP ratio (2011 -2020) in the CEMAC region.



Source: Chadian authorities and World Bank staff estimates

Chart 2.4. Percentage change in revenues (2016 - 2020)



Source: Chadian authorities and World Bank staff estimates

Chad's transparency and governance in fiscal management have been inconsistent and inadequate with fiscal sustainability goals. In recent years, the Government has implemented several measures and reforms to improve transparency and governance in fiscal management. The latest reforms include the installation and operationalization of one of the four mobile scanners at the NGueli office for the inspection of containers and vehicles in October 2020; the digital platform for payment of customs duties and taxies by mobile money in October 2020; public disclosure of all petroleum contracts since November 2019; quarterly publication of oil revenue reports since 2018.

In the medium term, economic diversification will be needed to create more fiscal space with non-oil revenue mobilization. The current liquidity challenges have highlighted the risks associated with Chad's oil dependence and the importance of exploiting alternative opportunities for more fiscal space. Therefore, economic diversification could create more fiscal space with non-oil revenue mobilization. The low non-resource revenue tax collection also represents an opportunity for strengthening mobilization efforts while moving away from the oil dependence path. Moreover, the oil revenue dividend of the 2000s did not translate into diversification and structural growth drivers. Hence, an efficient oil revenue management strategy could be a prerequisite to effective economic diversification.

2.1.2. WEAK MANAGEMENT OF OIL REVENUES VOLATILITY HAMPERS BUDGET EXECUTION

The management of oil resource revenue is complex and presents numerous challenges involving oil price and production. Given the significant role of oil in GDP and government revenues, Chad has used oil revenues to boost procyclical spending, particularly during periods of oil price boom. In the absence of a functional fiscal rule or stabilization fund, no fiscal buffers were available when oil prices plunged at the end of 2014, which led the country into recession. It's only in November 2019 that the government adopted a revenue-smoothing mechanism to mitigate oil price volatility's negative impact. As of February 2021, the stabilization account had received its first three deposits, accounting for a total of XAF 10 billion; but this is insufficient to act as an effective buffer in the face of all challenges triggered by the current crisis.

Furthermore, the weak capacity of the public administration; insufficient regulation, planning, and budgeting; and the prevalence of corruption in the public sector have led to inefficient use of oil revenue and thus slowed progress toward the country's development objectives. Several existing gaps associated with institutional capacity and inter-ministerial cooperation need to be addressed despite some recent improvements. Notwithstanding Chad's geological potential, its mineral resources are under-explored. The opacity of the oil sector associated with the inefficient management of oil revenues are severely harming oil revenue collection and fomenting economic volatility

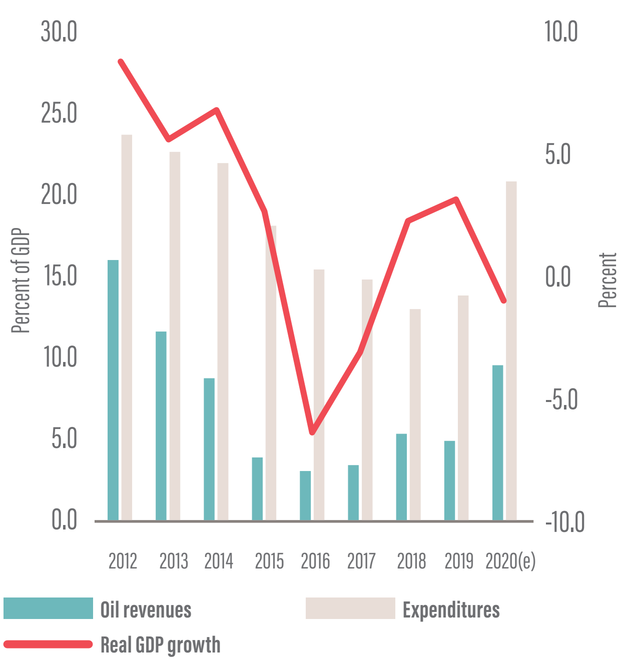
2.2. PUBLIC EXPENDITURE ANALYSIS

2.2.1. PUBLIC EXPENDITURE HAS BEEN PRO-CYCLICAL DURING THE LAST DECADE

Public spending, especially public investment, is pro-cyclical in oil prices, thereby undermining sustainable and resilient economic growth. The 2014/15 oil price shock and subsequent decrease in total revenues depressed domestic demand by the public and private sectors. Indeed, the bankruptcy of several companies and the postponement of public investment projects led to many layoffs in urban areas, contributing to the contraction of consumption and investment between 2014 and 2016. The economy slowly started recovering in 2018, but the fall of oil price coupled with the containment measures to curb the spread of the COVID-19 has contracted public and private gross fixed investment by 9.8 percent in 2020 and is projected to decrease public expenditure by 4.2 in 2021 (Chart 2.6).

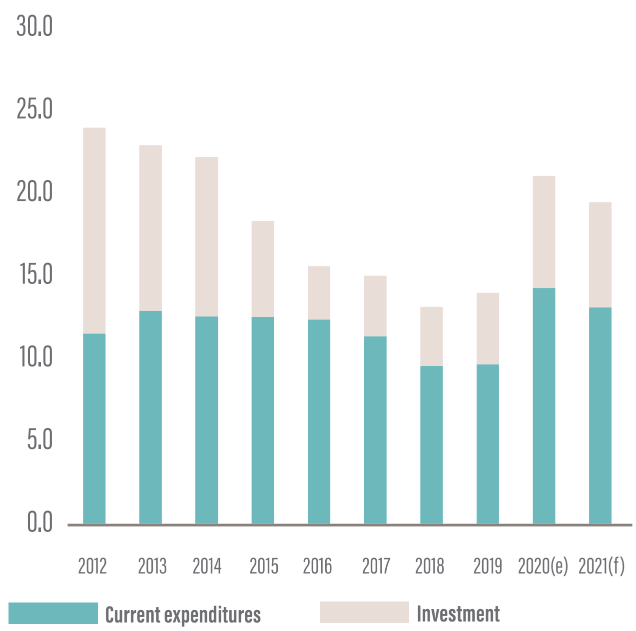
The oil price shock has led to deterioration in Chad's public spending, which is now lower than its oil exporting and fragile peer. Between 2010 and 2019, public spending in Chad declined from 24.4 to 13.4 percent of GDP due to a significant oil revenue shortfall. Most of the adjustment was made through a drastic reduction in public investment, which declined from 10.0 to 4.9 percent of GDP between 2013 and 2020 (Chart 2.6). Over the past 3 years, Chad's spending averaged 16.1 percent of GDP while structural and aspirational peers spent on average 22.6 and 30.6 percent of GDP, respectively (Chart 2.7). Despite a sharp increase in public spending due to the coronavirus crisis, Chad's public spending still lag behind its structural and aspirational peers[6].

Chart 2.5. Oil Revenue, Expenditure and real GDP 2012-20



Source: Chadian authorities and World Bank staff estimates

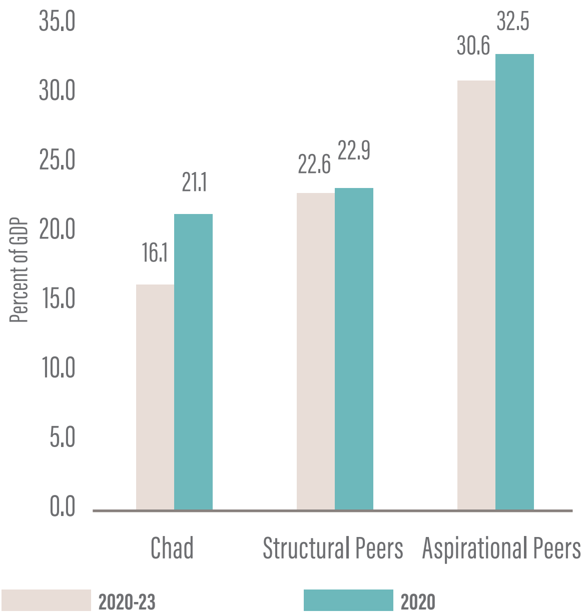
Chart 2.6. Chad's Public Spending 2012-21



Source: Chadian authorities and World Bank staff estimates

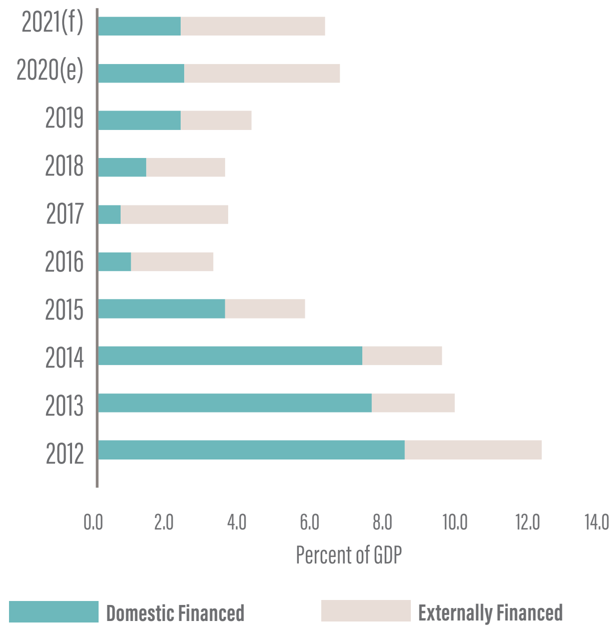
6 Chad's structural peers include DRC and South Sudan, while aspirational peers include Cameroon, Colombia, Kazakhstan, Angola, Suriname, Algeria, Republic of Congo, Azerbaijan, Ecuador, Iraq, Timor-Leste, and Nigeria.

Chart 2.7. Public spending in 2020 and in the past 3 years (average)



Source: Chadian authorities and World Bank staff estimates

Chart 2.8. Source of financing of Public investment



Source: Chadian authorities and World Bank staff estimates

The recent crisis also exacerbated Chad's dependency on external support to finance investment projects. As the coronavirus pandemic and subsequent fall of oil price severely have negatively impacted domestic resources, public investment will strongly rely on external financing. Indeed, in 2020, about 65 percent of total investment was financed by external support, while in 2021 it is projected to account for 59.0 percent of capital spending (21 percent of total spending in 2020 and 2021) (Chart 2.8).

2.2.2. COMPOSITION OF PUBLIC EXPENDITURE AND SOURCE OF FISCAL PRESSURE

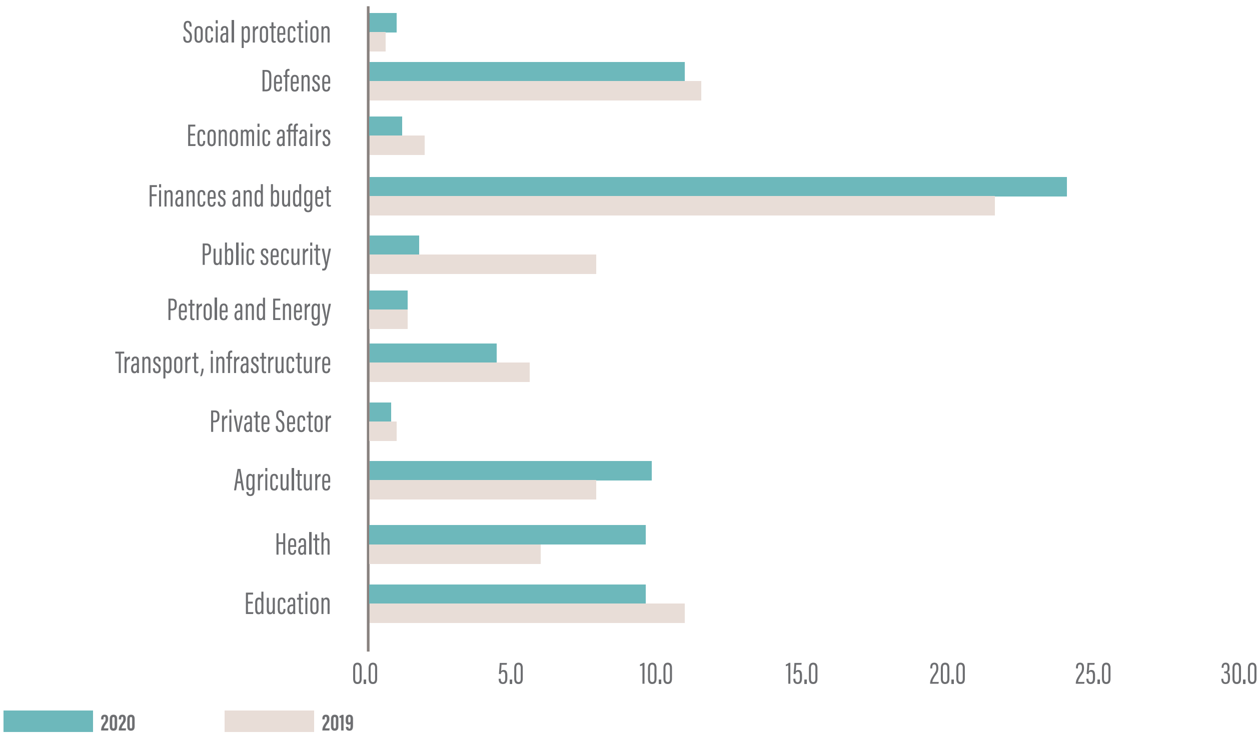
Budget allocation increasingly dominated by current and security spending

Since 2014, wages have rapidly increased to become the main component of public spending, first due to increasing security demands, and more recently, to higher pressure from the health sector. Wages expanded from 5.0 to 7.5 percent of GDP between 2014 and 2020. It has become the main component of spending, accounting for about 36 percent of total spending in 2020 (compared to 23 percent in 2014). Also, wages have accounted for about half of current expenditures between 2014 and 2020. In 2021, wages' weight in total spending is projected to be maintained at a constant level of 36 percent of total expenditure relative to 2020, while wages share in current expenditure will slightly increase to 54 percent.

Goods and services expenditure dropped from 2.1 in 2014 to 1.3 percent of GDP in 2019, then increased to 1.9 in 2020, raising sustainability concerns. Despite the high pressure for COVID-19-related health service delivery in 2020, public spending on goods and services represented only 9.0 percent of total spending. This figure is projected to drop to 8.5 percent in 2021. Spending patterns in goods and services seem linked to increasing insecurity, as witnessed by the peak at 2.1 percent of GDP in 2014 to recruit militaries and a subsequent decrease to 1.4 percent of GDP in 2015.

Interest payments also rapidly increased due to the build-up of debt stock. As the external debt stock almost doubled (from 10.3 to 26.5 percent of GDP) between 2014 and 2020, interest payments on external debt expanded from 0.3 to 0.6 percent of GDP in the same period. They accounted for 3.3 percent of total expenses in 2020, compared to only 1.4 percent in 2014.

Chart 2.9. Budget Allocation by sector as percentage of Total Budget



Source: Chadian authorities and World Bank staff estimates

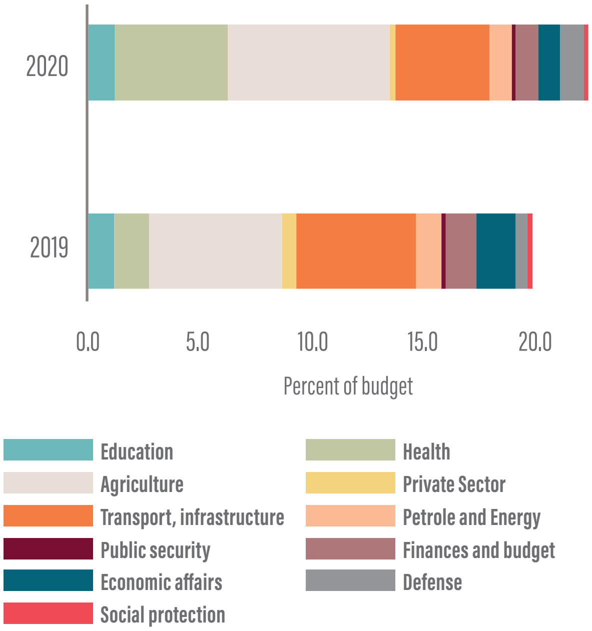
As security is critical for the Sahelian region, Chad dedicates an important share of total spending to defense, although the trend has decreased over the past years. Over the past 10 years, Chad military's expenditure climbed from 23.9 percent of total spending in 2007, peaked at 33 percent in 2009, to gradually decrease to 11.4 percent in 2019 and then 10.8 percent in 2020. Nevertheless, the cost of security is mainly financed by domestic resources, creating a significant economic cost for Chad as those resources are not allocated to social sectors, which would allow the country to unleash its growth potential. Corse social spending (education, health, and social protection) accounted for about 17.8 percent in 2019 and 20.1 percent in 2020.

Public investment is procyclical, inefficient, and mainly funded by donors

Chad's public investment spending and transfers strongly rely on external financing. In 2020, public investment has increased to 6.8 percent of GDP from its 2019 value of 4.3 percent of GDP. It will fairly remain stable in 2021 at 6.4 percent of GDP. However, unlike in 2019 where about half of these investments was externally financed, the 2020 public investment has mobilized about 65 percent of external financing, accounting for 4.4 percent of GDP. In 2021, external financing is projected to account for 63 percent of public investment or 4.0 percent of GDP. With increasing pressure for investing in key sectors such as health and the slow recovery of oil price, foreign financing needs will become more and more pressing.

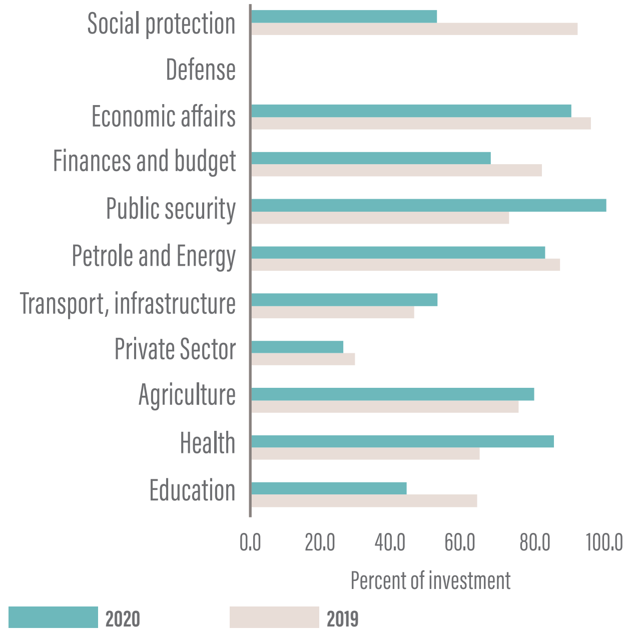
Over the past couple of years, the overall budget allocation for public investment was concentrated in transport and infrastructure, agriculture and health, with social sectors investment mainly dependent on external financing. In 2019 the share of public investment in the total budget allocated to the Ministry of transport and infrastructure and to the Ministries of Agriculture and Livestock were respectively 5.3 and 5.9 percent. Whereas, the budget share of public investment in the main social sectors, education, health and social protection averaged 1 percent. However, in terms of investment composition, social protection, agriculture, health and education were mostly externally financed for around 92 percent, 75 percent, 64 percent and 63 percent of each sector public investment respectively, while external financing accounted for 46 percent of investment in transport and infrastructure.

Chart 2.10. Budget Allocation for public Investment by sector



Source: Chadian authorities and World Bank staff estimates

Chart 2.11. Investment financed by external sources by sector



Source: Chadian authorities and World Bank staff estimates

In 2020 also, an important share of the budget has been allocation to public investment in the Ministry of transport and infrastructure and to the Ministries of Agriculture and Livestock, for 4.2 percent and 7.2 percent respectively. Each of these two sectors mainly relied on external financing, which accounted for respectively 52 percent and 80 percent of sector investment. The demand for more investment in the health sector is evidenced by the sharp increase in the share of health sector investment in the budget from 1.5 percent to 5.0 percent between 2019 to 2020. The need for external funding in the health sector investment also grew considerably 64.3 percent in 2019 to 85.3 percent in 2020. Other social sectors did not experience any change in their budget allocation for investment.

Despite recent improvement, significant efforts still need to be made regarding technical and allocative efficiency of public spending. Spending on social sectors is among the lowest, while security spending ranks among the highest compared to oil and fragile peer countries. In 2020, resources allocated to the Ministry of Defense accounted for 10.8 percent of the total budget, while allocations to the Ministries of Health and Education represented 9.5 percent, respectively. Chad dedicated about 1.1 percent of its budget allocation to Social protection in 2020. However, spending on education remains concentrated on wages and significantly lower than its peers (2.4 percent of GDP for Chad compared to 3.9 percent of GDP for aspirational peers). As a result, Chad is lagging regarding education and health outcomes. Thus, it is essential to rethink the current allocation of public resources to increase spending in social sectors. The overall public finance management (PFM) systems (budget preparation, execution, and control) remain weak, contributing to poor budget execution aggravating inefficiencies of public spending.

Public spending cuts have constrained investment. Public investment spending remains insufficient and dependent on external financing, creating significant infrastructure gaps and poor outcomes in health and education, particularly in rural areas. Furthermore, Chad will need more investment in electricity, water, and telecommunication as they are key ingredients of any steps in the industrialization and modernization of its economy. Therefore, substantial reforms of the public investment system are needed, including planning, budgeting, and implementation.

Financing a significant fiscal deficit is the main challenge to the 2021 budget.

Chad faces liquidity challenges in the first half of 2021 as the main oil taxes will be paid in May-June 2021. Moreover, the government exhausted the oil revenue of 2020 to mitigate the impact of COVID-19 on the population. These liquidity challenges have already been illustrated by the growth of new payment arrears, leading to a civil servants' general strike that began on January 11th – which was temporarily suspended until February 28th following religious leaders' mediation – to ask the Government to honor its commitments to pay suspended wage benefits. Substantial fiscal financing requirements should be met. The 2021 unidentified financing requirement is projected at XAF 70 billion (1.1 percent of GDP). Chad plans to finance this by issuing about XAF 45 billion in treasury bonds on the CEMAC market (65 percent of the need) and to garner the remaining from debt restructuring.

The Government recently took action to improve governance and transparency of public finance. The Chamber of Accounts validated a new strategic plan for communication in September 2020, aiming to improve the High Institution for Public Finance Control (ISC) visibility and performance. A National Solidarity Fund for the most vulnerable victims of disasters has been created, with a total allocation of XAF 100 billion. These reforms strengthen reforms adopted since 2017, such as the law to design and implement a mechanism to smooth the volatility of oil revenue enacted in November 2019. Moreover, budget documents such as annual and quarterly budget execution reports are not audited and published promptly. This creates significant challenges in terms of the quality and timeliness of these reports. Besides, given the extremely summarized nature of the reports, their usefulness is minimal.

It also increased its digital payment platforms for revenue collection, intending to prevent losses and frauds. In partnership with Airtel Money, the Government is increasing its digital payment offices by three folds from six to 18 offices by the end of this year. The Minister of Finance officially launched this initiative on October 21st, 2020. Taxpayers would now pay their customs duties and taxes via the Airtel Money service. This innovation will also prevent the physical transportation of tax revenue from one locality to another and help save tax recipes and tax collectors' lives. This digitalization will be accounted for in 2021. Digitalization will modernize the government payment system, reduce revenue losses, and improve financial inclusion.

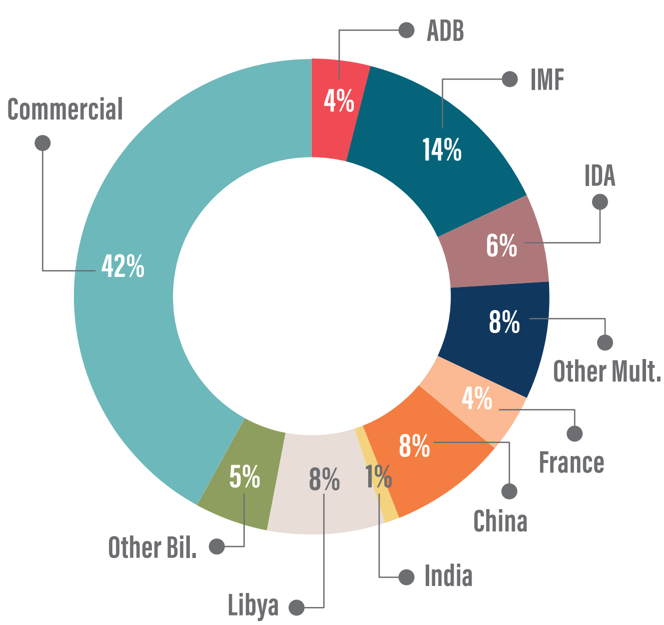
2.3. SIGNIFICANT DEBT SERVICE THREATENS DEBT SUSTAINABILITY

Chad's public and publicly guaranteed (PPG) external debt consists of a broadly equal share of multilateral, bilateral, and commercial debt. In 2020-21, external debt was dominated by commercial debt, mostly owed to Glencore, followed by multilateral and official bilateral, the bulk of which is owed to non-Paris club official creditors, notably China and Libya, see Chart 2. 13.

Public debt reached 47.6 percent of GDP in 2020, of which 29.7 percent of GDP is external. Following a sustained decline from 49.8 percent of GDP in 2017 to 44.4 percent in 2019, it rebounds back in 2020 at 47.3 percent (see Chart 2. 14), mainly due to new loans from the IMF and a drop in nominal GDP. Although public debt will remain at around 47 percent of GDP in 2021-22, difficulties paying debt service led the country in debt distress, despite Chad's participation in the Debt Service Suspension Initiative (DSSI), which benefitted Chad with US$13 million in debt service relief in 2020 with an additional US$8.4 million available in the first half of 2021.

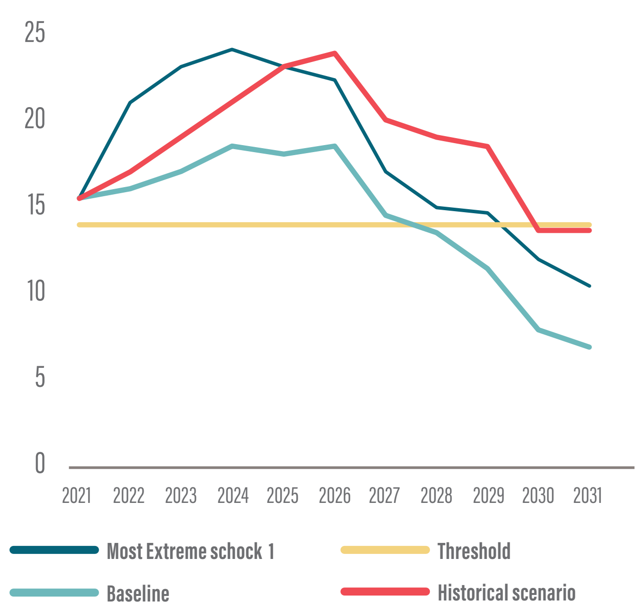
A debt restructuring will be needed as Chad's debt service needs cannot be realistically filled by external financing and the regional financial market. Chad's debt service-to-revenue ratio rises above 14 percent starting in 2021 due to lower revenue and associated higher borrowing in response to the pandemic. However, it stays below 18 percent, the target level for the 2018 Glencore debt renegotiation. The ratio is not expected to drop below its threshold of 14 percent until 2027 when the Glencore debt matures. This highlights the importance that discussions around the implementation of the Common Framework would address debt treatment parameters and creditors' commitment to providing sound financing packages.

Chart 2.12. Composition of external debt 2020



Source: Public debt statistics bulletin Q1, October 2020

Chart 2.13. Debt Service (percentage of total revenue)



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

Box 2.1. Debt Restructuring under the G20 Common Framework

The Common Framework is an agreement between the G20 and Paris Club creditors. It aims to address sovereign debt challenges and ensure broad participation of creditors with fair burden sharing. It facilitates coordination of debt treatments tailored to the specific situation of the debtor country. It requires that participating debtor countries seek treatment on comparable or better terms from other creditors, including the private sector. The participation of the private sector ensures fairer burden sharing and is essential to unlock support for deeper debt relief by bilateral official creditors. The coordination of debt treatments by official and private creditors through the framework will enable more comprehensive and timely debt resolutions.

The process is initiated at the request of a debtor country. The need for debt treatment, and the restructuring envelope that is required, will be based on a joint WB-IMF Debt Sustainability Analysis (DSA) and the participating official creditors' collective assessment. Debt eligible to the treatment will include all public and publicly guaranteed debts which have an original maturity of more than one year. The debtor country requesting a debt treatment will provide to the IMF, the WBG as well as creditors participating in the debt treatment, the necessary information regarding all public sector financial commitments (debt), while respecting commercially sensitive information. All official bilateral creditors with claims on a debtor country will participate in the debt treatment of that country. All G20 and Paris Club creditors with claims on the debtor country, as well as any other willing official bilateral creditor with claims on the country, will coordinate their engagement with the debtor country and finalize jointly the key parameters of the debt treatment, consistent with their national laws and internal procedures. The joint creditors negotiation shall be held in an open and transparent manner and before finalization of the key parameters, due consideration shall be given to the specific concerns, if any, of all participant creditors and the debtor country.

The key parameters will include at least: i) the changes in nominal debt service over the next ten-year period; ii) the debt reduction in net present value terms; and iii) the extension of the duration of the treated claims. In principle, debt treatments will not be conducted in the form of debt write-off or cancellation. If, in the most difficult cases, debt write-off or cancellation is considered necessary and the participating official creditors' collective assessment, specific consideration will be given to the fact that each participating creditor shall fulfill its domestic approval procedures in a timely manner while keeping other creditors informed of progress.

Source: Statement -- Extraordinary G20 Finance Ministers and Central Bank Governors' Meeting November 13, 2020

Chad has benefitted from several debt restructuring in recent years. Debt stock was reduced in 2015 in the context of the HIPC Completion Point and a total nominal debt service relief of US$1,024 million in total HIPC and MDRI Assistance. In late 2015, the authorities signed a rescheduling agreement with Glencore to consolidate the oil sale advances and extend their maturities. However, while the rescheduling agreement provided some flow relief, it led to an increase in the present value of the debt. In February 2018, the authorities reached an agreement in principle with Glencore for a deeper restructuring which helped to improve debt sustainability temporarily.

In January 2021, Chad authorities requested from its creditors a debt restructuring under the G20 common framework; as such, Chad became the first country to do so. The Creditor committee is expected to take place in April. The restructuring process is expected to be fully completed in the coming months with the participation of all bilateral and commercial creditors.

The Government is looking into reprofiling domestic debt with the support of the BEAC. Chad has discontinued the issuance of bonds since 2018, given the lack of demand for securities with a maturity longer than 1 year, and has focused on the roll-over of the existing stock of T-bills. The current yield on T-bills (6.5 percent p.a.) is high compared to regional peers; yet, it does not fully reflect actual risks, as creditors (two-thirds domestic banks and one-third of Cameroon's banks) have to roll over their existing holdings at a price determined by the Treasury.

The Government took action to improve debt transparency in 2020. The April 2020 WB's Debt Reporting heatmap showed a very poor performance under all dimensions of debt management and transparency. Since then, the Chadian public finances observatory (OTFiP) published the public debt bulletin for the first trimester of 2020 in October, for the first time since 2016. The continued publication of debt bulletins will significantly improve debt transparency.

However, weaknesses remain in debt transparency and management. First, due to weak governance and capacity, debt-management decisions are heavily influenced by political considerations. Second, several ministries are involved in the management of Chad's public debt. Weak coordination between them undermines the Government's ability to manage its debt portfolio effectively. Third, capacity is very limited, and the operational debt management framework is poor, resulting in technical delays in servicing the debt or providing accurate data to stakeholders.

2.4. ASSESSMENT OF THE PUBLIC FINANCE MANAGEMENT SYSTEM

2.4.1. WEAK CONNECTION BETWEEN PLANNING AND BUDGETING IS A SOURCE OF INEFFICIENCY

Chad's budget planning process has been inefficient, with an inadequate connection between planning and budgeting. This is partly due to low compliance with budgetary rules and procedures, which presents risks to the sustainability of the fiscal framework. Moreover, there are significant delays in the budget preparation at the various ministries. The letter outlining the framework for budget preparation often reaches the ministries in September or October. With such short notice, the different departments don't always have enough time to prepare their budget and negotiate the proposed amount. There are also substantial delays with the availability of the credit lines once the budget is approved, as they may be available in March or April at the earliest. Hence, some public institutions will rely on donors' funding during the months where the budget is unavailability.

Forward estimates of fiscal aggregate are prepared for some ministries, but they are not used in annual budget formulation. Line ministries are required to submit their revenue and expenditures forecasts to allow the Ministry of Finance and Budget to prepare the overall medium-term expenditure framework. However, given that the budget preparation and discussions focus on the fiscal and macroeconomic for next year and no discussions on the N + 2 and N + 3 envelopes occur, budget envelopes for N+2 and N+3 are provided for information only.

The lack of fiscal decentralization undermines the autonomy and accountability of the different ministries. The Minister of Finance is the only authorizing officer in charge of the public expenditure circuit - from commitment to pay. Such monopoly does not allow other ministries/institutions to move towards relative autonomy at a level required for the accountability of decision-makers. In other words, it is difficult to hold managers or decision-makers accountable for their performance/results when they have no control over a large part of their resources.

Budget formulation is limited to administrative and economic classifications. In 2016, the Government implemented the CEMAC directive related to the budgetary nomenclature. Under this directive, Chad committed to adopting the mandatory classification by nature and source of financing for revenue and administrative, economic, programmatic, functional, and by the source of funding for expenditures. However, in practice, budget formulation, execution, and presentation are still limited to administrative and economic classifications, with very few reports being extracted. This impedes any optimal analysis of resource allocations at the strategic level.

2.4.2. PUBLIC FINANCIAL MANAGEMENT CHARACTERIZED BY POOR BUDGET EXECUTION WEAK EXPENDITURE CONTROLS

Inconsistencies across budget data represent a serious constraint to measure budget execution performance and shed light on inefficiencies associated with budget reporting. As the 2017 PEFA report pointed out, the Circuit Intégré de la Dépense (CID) does not include all effective spending as a large part is executed by extra-budgetary funds. For instance, the CID does not include externally financed spending. In addition, the budget allocation reported by the CID does not match with the budget allocation in the Finance Law. Over the 2013-2018 period, budget allocation inputted in the CID system was on average 10 percent lower than the budget allocation from the Finance Law. The difference between the two allocations was noticeable in 2015 and 2016 since the budget allocation reported only 76.7 and 53.6 percent of the budget allocation from the Finance Law. Although the exact percentage cannot be determined, the level of unreported extra-budgetary expenditure for 2020 would likely constitute a significant portion of total expenditures.

The CID data reveals that Chad's budget execution performance is poor and has deteriorated during the oil and security crisis. Budget execution in Chad significantly decreased from 107.1 to 14.1 percent between 2013 and 2018, reaching its lowest point in 2018. However, the difference between paid and committed severely highlights the building of arrears as only 20 percent of committed spending is paid to the provider. Wages execution is very poor as less than 5 percent of the wages budgeted is effectively committed. Except in 2014, wages execution increased to 55 percent as the government recruited additional military to face the Boko Haram insurgency. Budget execution for investment was heavily affected by the oil crisis as it declined from 68.4 to 7.2 percent between 2014 and 2016. Both transfers and spending on goods and services have a higher execution rate (about 90 percent on average between 2013 and 2018). The dual COVID-19 and fall of oil price has forced the government to revise the 2020 budget in August 2020 and will likely hamper budget execution in various areas.

Poor budget execution is partly explained by poor budget planning combined with the lack of internal and external controls. The 2017 PEFA report pointed out several issues regarding the management of public finances in Chad, among which: (i) weak budget planning as sectorial ministries are little involved in the budget planning process; (ii) poor reporting tools and practices as budget allocation from the Finance are not reported correctly, and the reporting tools used by the Treasury do not include all spending; and (iii) lack of internal and external audits. Also, many payments (40 percent in 2016) are not complying with the standard or simplified procedures. As a result, the weak financial management of public finances contributed to the build-up of arrears.

Chad would benefit from strengthening institutions related to public investment management. The transparency of budget execution, the openness of the procurement process, and cash management efficiency are critical to the stability and predictability of investment and to reduce opportunities for rent-seeking. In 2017, Chad ranked among the 10th percentile of worst performers in terms of government efficiency and control of corruption. Finally, greater transparency and accountability regarding project management, monitoring, and evaluation would be needed to strengthen incentives to deliver projects on time and budget and ensure value for money and integrity in the use of public resources.

2.4.3. PUBLIC PROCUREMENT SYSTEM IS BEING RENOVATED TO IMPROVE ITS EFFICIENCY

Chad's public procurement system faces many challenges in terms of transparency, integrity, and efficiency. Weak governance, driven by political rents, impedes the functioning of procurement systems. Direct contracting or single-source contracts remains the main way to award contracts. The lack of strong accountability systems has led to opaque public procurement systems. Therefore, significant progress towards integrity and transparency in the management of public resources is necessary for the efficient execution of public procurement functions. Moreover, the review and approval process, regardless of the procurement methods, is time-consuming and cumbersome. The public procurement process takes an average duration of more than one year. This is mainly because any project above XAF 10 million (US$ 17,000) requires the approval of the Presidency. Late payments and arrears are such that they cause distortions, jeopardizing public works companies and local banks. Indeed, Chad is still facing substantial delays in the country's procurement system, which impedes the delivery of key public services and the effectiveness of projects.

However, in recent years, Chad has taken relevant steps towards improving public procurement system efficiency. In 2015, the Government adopted a new Public Procurement Code, which, among other things, separates the regulation, control, and execution of public procurement functions. The Code was updated in 2020 to raise contract approval thresholds and ensure gender promotion. The implementing texts for the new provisions have not yet been published. To improve the procurement of medical supplies and mitigate the effect of the COVID-19 health crisis, the Government adopted in May 2020 temporarily derogations to the procurement Code. These emergency procedures have helped expedite the procurement of goods and services for the COVID-19 emergency response. Through the General Directorate of Public Procurement Control, the Government is also creating a website to improve transparency, equity, and integrity in public procurement. While these measures are important, they are not sufficient to significantly improve integrity and efficiency in managing public resources.

POLICY PRIORITIES

Given the lack of fiscal space and large financing requirements, bold actions are needed to increase, improve, and diversify chad's sources of revenue.

3

3.1. STRENGTHENING ECONOMIC DIVERSIFICATION TO ENLARGE THE FISCAL BASE

Agriculture, including livestock, could drive export diversification. Specifically, reducing the bottlenecks to livestock exports by aligning Chad with CEMAC regulations and expediting customs paperwork would enable herders to exploit the sector's greater potential. A well-functioning internal market could help establish value chains, such as integrating the livestock market with light manufacturing in meat and leather (shoes and bag) processing. An export diversification strategy may expand the tax base with a larger menu of goods and services, with growth-accelerating and job-creation potential.

Expanding the formalizing the economy. Informality remains pervasive in agriculture and services, despite employing the largest share of Chadians (over 90 percent). The Government should design and implement programs for capacity building in these sectors. Moreover, these programs could benefit from a collaborative component that would enhance the synergies between actors from Agriculture and livestock sectors, thus implicitly help to address existing operational conflicts between the two groups.

Achieving regional integration and a business-friendly environment would help improve competitiveness. Chad is part of the CEMAC, one of Africa's least integrated regions. Chad should work with other CEMAC countries to improve infrastructure, logistics, and regulation along the main regional corridors to remove major bottlenecks such as illegal taxation, poor road quality, and inefficient post logistics. Regional integration should also be pursued with Lake Chad's neighboring countries to create an internal market in Northern Nigeria, Northern Cameroon, Niger, and Chad. Moreover, the government should continue reforms (streamlining administrative processes, strengthening the rule of law, modernizing the tax administration, facilitating access to finance) to render the business environment more friendly to initiate the takeoff of the formal private sector.

Improving road, electricity, and digital infrastructure will help to mitigate the current and future impact of the frequent shocks on Chad's economy. Chad should undertake reforms to expand infrastructure networks and increase access to services. These services and infrastructure are essential for income-generating activities of households and business owners who mainly operate in the informal sector and whose activities have been disrupted by the current crisis. Therefore, reforms to improve access to electricity, road, and digital infrastructure would boost productivity and help reducing poverty. Reform should seek that infrastructure adapts to the increasing challenges of climate change. For example, the greater use of technology can help deliver better services to people, from direct payments of social security payments to VAT refunds or early warning systems for natural disasters. More distributed electricity networks might help to deliver power to remote communities etc.

Strengthening the collection of existing taxes. The Government could mobilize more non-oil revenue by improving the personal income tax (PIT) and Value Added Tax (VAT) policies and administration. It could also ensure that more revenues are extracted from the oil industry by strengthening transparency and management of oil contracts. Oil proceeds will remain the main source of government revenue in the foreseeable future.

3.2. IMPROVING SPENDING EFFICIENCY TO DELIVERY MORE SERVICE WITH DECLINING RESOURCES

Improving public spending efficiency in health and education to achieve higher outcomes. Although there has been a sharp increase in health-related expenditures to address the COVID-19 pandemic, this increase hides Chad's health system challenges. The population suffers from acute epidemics but receives poor health care due to government underinvestment and heavy dependence on external financing. Meanwhile, most of the education budget is allocated to wages. To improve access to health and education, Chad would need to: i) reform the education budgetary system with a public expenditure strategy that goes beyond wages to ensure that services are delivered to populations more evenly across the country, and ii) enhance efforts to increase domestic health care coverage and its capacity to fight pandemics.

Enhancing the selection process and improving the planning and coordination of investment projects are required to raise public investment efficiency. Substantial reforms of the public investment system are needed, including planning, budgeting, implementation, and transparency. The Government has taken considerable steps towards improving the efficiency and effectiveness of public investment management, creating the Public Investment Management National Commission, and improving investment projects' selection process. However, further efforts are required to implement this reform successfully.

3.3. IMPROVING DEBT AND FINANCIAL SUSTAINABILITY

Improving debt sustainability, management, and transparency would help to create fiscal space. The rationalization of public spending, mainly through prudent increases in current expenditures and improvements in public investment efficiency and debt management, will help to reduce the risk of debt distress. Significant weaknesses remain in debt transparency and management, despite improvements through reforms implemented in 2020. Hence, the Government should: i) create a consolidated and comprehensive database of debt contracts, for better debt service monitoring and accurate and consistent numbers on debt stock; ii) update and frequently maintain the current debt reporting system SYSGADE (Système informatisé de Gestion et d'analyse de la Dette) for timely provision of relevant reporting documents.

ANNEX: SELECTED ECONOMIC AND FINANCIAL INDICATORS

Table A.1. Chad – Key Macroeconomic Indicators, 2017–23

	2017	2018	2019	2020(e)	2021(p)	2022(p)	2023(p)
Income and Economic Growth	**(annual percentage change unless otherwise specified)**						
Real GDP	-3.0	2.4	3.2	-0.9	1.2	2.7	2.9
GDP per capita- nominal (US$)	665.9	726.1	709.5	603.6	610.7	642.5	681.9
Private Consumption (% of GDP)	73.5	72.3	71.0	71.9	71.6	71.6	71.3
Gross Fixed Investment (% of GDP)	13.6	14.0	14.4	13.1	12.9	14.3	16.1
Gross Fixed Investment – Private (% of GDP)	11.1	11.0	10.9	8.2	8.3	9.7	11.2
Gross Fixed Investment – Public (% of GDP)	2.4	2.9	3.6	4.9	4.6	4.6	4.8
Fiscal Accounts	**(percentage of non-oil GDP unless otherwise specified)**						
Overall Fiscal Balance- incl. grants, commitment (% of GDP)	-0.8	1.5	-0.6	1.1	-1.1	-0.5	2.2
Primary Fiscal Balance (% of GDP)	0.8	3.0	1.0	2.9	0.4	0.3	3.3
Total Public Debt (% of GDP)	49.8	48.3	44.4	47.3	46.9	47.0	47.0
External Public Debt (% of GDP)	37.5	37.1	24.8	26.5	23.5	22.9	20.2
Money and Prices	**(annual percentage change unless otherwise specified)**						
Inflation, consumer prices (annual %, end of year)	-0.9	4	-1	3.5	3.0	3.0	3.0
Nominal Exchange Rate (Period average)	580.7	555.5	586.0	586.0	586.0	586.0	586.0
Real Exchange Rate Index (2005=100)	98.6	93.5	97.2	96.2	95.3	93.0	90.8
External accounts	**(percentage of GDP unless otherwise specified)**						
Export Growth (%, yoy)	1.3	4.6	6.0	1.1	4.8	0.7	0.4
Import Growth (%, yoy)	-1.3	1.4	4.0	2.0	4.0	4.1	4.1
Merchandise exports (current US$ millions)	2465.8	3324.3	3349.8	2406.6	2899.8	4390.7	6648.1
Merchandise imports (current US$ millions)	2161.4	2471.3	2594.4	2599.6	2742.6	2860.5	3046.4
Current account balance (BoP, including current transfers, current US$ millions)	-659.3	-533.3	-550.2	-926.3	-805.9	-970.7	-1135.9
Current account balance (including current transfer, % of GDP)	-6.6	-4.7	-4.9	-9.3	-5.9	-6.2	-7.3
External debt, total (% of GDP)	37.5	37.1	24.8	26.5	23.5	22.9	20.2
Population, Employment and Poverty							

	2017	2018	2019	2020(e)	2021(p)	2022(p)	2023(p)
Population, total (millions)	15.0	15.5	15.9	16.4	16.9	17.4	17.9
Poverty headcount ratio at national poverty line (% of population)	39.9	40.1	40.1	41.4	41.8	41.6	41.6
Population Growth (annual %)	3.1	3.1	3.0	3.0	3.0	3.0	2.9
Life Expectancy							
Memo							
GDP (current LCU, billions)	5,807	6,243	6,630	5,809	6,053	6,556	7,160
GDP (current US$, billions)	10.0	11.2	11.3	9.9	10.3	11.2	12.2

Source: Chadian authorities; IMF and Bank staff estimations and projections

Table A.2. Chad – Fiscal operations of the central government, 2017–23

	2017	2018	2019	2020(e)	2021(p)	2022(p)	2023(p)
Income and Economic Growth	**(in percent of GDP unless otherwise specified)**						
Total Revenues and Grants	14.2	14.6	13.3	22.2	18.3	16.7	19.9
Tax Revenues	6.4	6.0	6.9	7.5	7.9	8.2	8.5
Non-Tax Revenues	0.8	0.5	0.3	0.3	0.3	0.3	0.3
Commodity Revenues	3.4	5.4	4.9	9.6	5.6	4.7	4.4
Grants	3.5	2.8	1.2	4.8	4.4	3.4	3.4
Other revenues	0.0	0.0	0.0	0.0	0.0	0.0	3.3
Expenditures	15.0	13.1	13.9	21.1	19.4	17.5	17.7
Wages and Compensation	6.5	5.1	5.4	7.6	7.0	6.8	6.5
Goods and Services	1.5	1.6	1.3	1.8	1.6	1.6	1.5
Interest Payments	1.6	1.5	1.6	1.8	1.6	1.1	1.1
Current Transfers	1.8	1.7	2.0	3.9	3.4	2.9	2.7
Capital Expenditures	3.6	3.6	4.3	6.8	6.4	6.1	6.2
Other Expenditures	0.0	-0.4	-0.6	-0.7	-0.6	-1.0	-0.4
Overall balance (incl. grants, commitment)	-0.8	1.5	-0.6	1.1	-1.1	-0.8	2.2
Overall balance (excl. grants, commitment)	-4.3	-1.3	-1.8	-3.7	-5.6	-4.2	-1.2
Primary Balance, LCU	0.8	3.0	1.0	2.9	0.4	0.3	3.3
Financing Requirement	0.8	-1.5	0.6	-1.1	1.1	0.8	-2.2
Total Financing (External and Domestic)	1.9	1.7	1.7	1.1	-0.7	-2.2	-2.2
External Financing (Net)	1.4	1.3	1.2	-0.3	-0.4	-0.5	-0.6
Amortization	2.2	2.0	1.9	1.8	2.0	2.1	2.1
Disbursement	2.8	2.5	2.4	1.0	1.2	1.2	1.2
Other External Financing	0.8	0.7	0.7	0.4	0.4	0.5	0.4
Domestic Financing (Net)	0.5	0.5	0.5	1.4	-0.3	-1.7	-1.6
Financing Gap	-1.1	-3.2	-1.1	-2.2	1.8	3.0	0.1
Total Public Debt	49.8	48.3	44.4	47.3	46.9	47.0	47.0
External Debt	37.5	37.1	24.8	26.5	23.5	22.9	20.2
Domestic Debt	12.3	11.2	19.6	20.8	23.4	24.2	26.8

Source: Chadian authorities; IMF and Bank staff estimations and projections

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