

AFRICAN DEVELOPMENT FUND



AFRICAN DEVELOPMENT BANK



**CHAD : PORTFOLIO IMPROVEMENT PROGRAMME – STRATEGY
NOTE**

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1. INTRODUCTION

As indicated in the portfolio review report at the end of March 2006, the Bank's portfolio in Chad is in a difficult situation with 70% problem projects. The portfolio has deteriorated in comparison to 2002, the date of the last portfolio review. This situation requires immediate bold actions so to alleviate the problems and improve implementation of the portfolio. The objective of this Strategy Note is to inform the Boards on the short-term programme to improve the status of the portfolio. In addition to this introduction, the Note comprises the following three sections: (i) summary of the major results of the portfolio review; (ii) the main reasons for decline in performance, and (iii) the portfolio improvement programme. This Strategy Note is a summary of the report.

2. SUMMARY OF THE KEY RESULTS OF THE PORTFOLIO REVIEW

Portfolio Scope and Trend

2.1 The ongoing portfolio comprises ten (10) operations representing, as at 31 March 2006, net commitments of UA 98.41 million as against nine (9) operations in 2002. The portfolio comprises five (5) projects in the agriculture and rural development sector, four (4) projects in the social sector, and one (1) project in the multi-sector. In addition to these ten (10) projects, the portfolio contains four (4) other operations approved in 2005, which have not yet been implemented. The ADF is the only source of finance, in view of the degree of poverty and indebtedness of the country. The agriculture and rural development sector absorbs 76.57% of the resources, as against 56.7% in 2002. Followed by the social sector with 21.06% of net commitments, as against 27.19% in 2002. These two sectors absorb about 97.64% of ADF resources. Project loans continue to be the key instrument.

2.2 A review of all ongoing operations showed that the overall performance is satisfactory for one (1) project in the agricultural sector (Prefecture du Lac Rural Development Project (PDRLP) (1999-2006) and two (2) social sector projects (Poverty Reduction and Actions in favour of Women (REPA-FEM) (1997-2006) and Education Project V (2001-2007)). On the other hand, for the other projects, the performance is deemed unsatisfactory. The operations concerned are as follows: (i) the Cotton and Food Crop Production Project in the Sudan Zone (PCVZS) (1993-2006); (ii) the Surface Run-off Water Development Project in Batha, Guéra, Ouaddaï and Biltine Prefectures (PVRES) 1998-2006; (iii) the Biltine Department Rural Development Project (PDRDB) (2001-2009); (iv) the Pastoral Livestock System Support Project (PASEP) 2002-2009; (v) the Project to Strengthen the Health System and Support the Control of HIV/AIDS and Epidemic Diseases (Health II) 2001-2006; (vi) the Education Sector Support Project (PASE) 2004-2009; and (vii) the Economic Management Support Project (PAGE) 2003-2006. This situation is due to delays in start-up of operations, as well as inadequacies in the procurement of goods, services and works, in financial management, in activities and implementation, and the limited impact on development. Accordingly, the average age of active portfolio projects has increased since the last portfolio review in 2002 from 4.7 years to 6.3 years, reflecting the old age of 2 projects in the agricultural sector (PCVZS 1993-2006, 13 years and PVERS 1998-2006, 8 years), and one project in the social sector (REPA-FEM 1997-2006, 9 years). The entry of four (4) new operations (PGRN, PARG I, Fisheries Project and PPF PNEAR)¹ approved in 2005 should help to reduce the average age of the portfolio. The ageing of the portfolio is often a reflection of the existence of problems in project implementation. In using the "status" criterion, the portfolio review indicates the existence of 70% problem projects. These projects are the above-mentioned 7 projects with unsatisfactory performance. The PDRPL, Education Project V, and the REPA-FEM project have a

¹ PGRN: Natural resource management Project; PARG I: Policy-Based lending Programme for Governance; PNEAR: National Rural Water Supply and Sanitation Programme.

satisfactory status. Of these 3 projects, which currently have no problems, two (PDRLP and Education Project V) are likely to encounter problems in future because the disbursement rates are below the minimum at their approval and/or effectiveness date.

Disbursement

2.3 The Bank's net commitments, as at 31 March 2006, amount to UA 98.41 million, with a relatively low overall disbursement rate of 40.18%; the disbursement rates for the agricultural and social sectors as well as the multi-sector stand at 45.73% (net commitments of UA 75.36 million), 38.70% (net commitments of UA 20.73 million) and 29.76% (net commitments of UA 2.32 million) respectively. This situation is mainly due to delays in project start-up and implementation, arising mainly from inadequate knowledge of Bank rules and procedures. The mobilization of counterpart funds is low in the three sectors. The Bank's portfolio in Chad contains four (4) other operations approved in 2005, which have not yet received any disbursement because of non-effectiveness (PGRN and PFF PNEAR) and non-fulfilment of conditions precedent to disbursement (Fisheries Project). PARG I is pending disbursement.

Implementation Status of the Last Action Plan

Implementation Status of Action Plan to Alleviate Generic Problems

2.4 The last portfolio review took place in 2002. The implementation status of the action plan, as regards the Government, is unsatisfactory. Indeed, since 2002, there has not been any significant improvement in the management of the start-up phase of projects. There are still long delays in loan effectiveness and fulfilment of conditions precedent to disbursement. With respect to project implementation and monitoring, there have been problems in organization and management, procurement of goods and services, and financial management since 2002. Concerning *organization and management*, it can be noted, to the credit of the Government, that all the managers were recruited after reasoned opinion of the Bank and often through published vacancy notices. Similarly, the instability of project staff has become less chronic. Progress has been noted in the production of project progress reports. As a weak point in the Government's action, there are still inadequacies, the main ones being: *the lack of an annual performance evaluation system for project management staff*, the failure to systematically put in place reliable *accounting systems*, particularly after starting project activities, long delays in the *auditing of project accounts*, and inadequacies in *project monitoring*. Concerning auditing, the accounts of four (4) projects for the 2003 financial year were not audited, seven (7) projects were not audited in 2004, and only two (2) projects were audited in 2005. As regards *procurement of goods and services* and to the credit of the Government, a number of texts were issued to simplify procurement procedures. A new Procurement Code, which generally meets international standards and promotes efficiency and transparency, was adopted in October 2003. However, the provisions of this regulatory framework are difficult to implement. The main problems concern inadequate knowledge of procurement procedures and almost uncontrollable long delays in procurement approval by the competent authorities. The approval procedure includes endorsement by the President of the Republic for contracts of amounts above CFAF 50 million. This further extends delays considerably. At the *purely financial level*, the management of the revolving fund contains records ineligible expenditures, while non-compliance with contract terms often leads to rejection of disbursement documents, and counterpart funds are not paid regularly to the projects. This problem would be solved by the Government's recent decision to pay the funds from oil revenues, at least for priority sector projects. At project completion, funds for recurrent costs to ensure sustainability of project impacts are rarely included in the national budget. As regards the evaluation of outputs and impacts of operations, there are almost no impact assessments at mid-term and project completion. In all, despite some progress made since 2002, the Government's performance in project management remains unsatisfactory. The Government's difficult situation partially accounts for this poor performance.

2.5 As for the Bank, the long delays by Government in project start-up are sometimes due to the complexity of disbursement conditions and delays by the Bank in giving its opinion on effectiveness and fulfillment of conditions. With respect to project implementation and monitoring, and to the credit of the Bank, the frequency of launching and supervision missions on the field has improved, as well as assisted projects in the start-up phase and solved certain implementation difficulties. **The Bank organized a training seminar in January 2005 to acquaint project managers with procedures relating to the procurement of goods and services, disbursement and auditing of Bank projects.** The Bank has since 2005 been strengthening the capacities of the Department of Cooperation and Monitoring of Development Projects and Programmes (DCSPPD) through the PAGE Project, so as to improve the coordination of external aid, the financial and physical monitoring of project implementation, the implementation of the Public Investment Programme (PIP) and the management of recurrent costs. As part of PARG I 2005-2007, which will be implemented in 2006, the Bank will provide support to improve the management of public contracts. As a weak point in the Bank's actions, there are still delays in giving its no-objection opinions or making payments, the poor quality of supervision due to the generally short time for missions, the insufficient skills mix and physical supervision of projects, and the failure to systematically conduct internal Bank audits as well as their limited coverage of portfolio projects. In addition, the Bank Unit in Chad holds quarterly meetings on projects, but has not granted any delegation of authority in the administration of procurements and disbursements. Inadequacies are also noted in arrangements for evaluation of project outputs and impacts at mid-term or at project completion. Most of these problems arise from insufficient human resources and some organizational inadequacies.

Implementation Status of Action Plan to Alleviate Specific Problems of Projects

2.6 In 2002, project implementation needed to be accelerated, particular for projects which were old and near completion; furthermore, audits had to be conducted, and implementation of approved projects initiated. Implementation of the plan led to completion of four (4) old operations, namely: the Mamdi Project 1993-2004, the study on fisheries and fish farming sub-sector 1999-2004, Education Project IV 1991-2002, the Primary Health Care Strengthening Project 1993-2002, and SAP III 2002-2003. Projects with delays in start-up have been implemented, namely: the Biltine Project 2001-2009, Education Project V 2001-2007, and Health Project II 2001-2006. As noted previously, the implementation of Education Project V 2001-2007 is satisfactory, unlike the others. Delays in auditing have not been absorbed.

3. MAIN REASONS FOR RECENT DECLINE IN PERFORMANCE

Summary of Constraints (Country and Bank)

The Country

3.1 The economic and socio-political context of the country has deteriorated since 2002. Chad, a fragile State, remains one of the poorest countries in sub-Saharan Africa despite its recent status of new oil-producing country. It faces economic, structural and social constraints, which impede development that the Government is trying to promote by implementing a National Poverty Reduction Strategy (SNRP) adopted in 2003. The overall macro-economic situation has improved, with an average growth in real terms of 10% from 2001 to 2005 driven by oil activities (80% of exports). However, the financial situation of the country, particularly in 2004 and 2005, has remained difficult. In 2005, the situation worsened as a result of the decline of oil revenue and low mobilization of external resources due to dissensions between the Government and the major donors on the amendment of the law on the management of oil revenue. This led to a huge accumulation of external and domestic arrears. The Bank has, on several occasions, placed the country under sanctions because of arrears. This has hampered the funding of projects. At the social level, the increase in per capital income due to the oil boom benefitted only certain populations in urban areas, and was of very little for the rural populations (75% of the

population). The socio-political, humanitarian and security context is difficult, with the resurgence of political and military conflicts, the Darfour conflict and the multiple labour strikes, which reflect a high social demand for the oil revenue. The situation of recurrent conflicts has weighed heavily on the public administration's economic management capacity. The governance profile for Chad in 2004 revealed inadequacies in accountability and transparency in public finance management, participation, fight against corruption, as well as deficiencies in the legal and judicial system. This overall difficult context, which is common in fragile States, played a key role in the poor performance of the portfolio. This explains, to a certain extent, the inertia in the management of the economy in general, and of the portfolio, in particular.

The Bank

3.2 The organizational weaknesses of the Bank amply account for the situation of the portfolio in Chad. These weaknesses, identified in several documents on the ongoing institutional reform, are mainly: deficiencies in the organizational structure of the Operations Complex and the limited focus on countries, the insufficient staff assigned to operations, the low project operations ratio, the emphasis on loan activities rather than on quality at entry, project implementation and supervision, the inadequate support staff in relation to professionals in the operations and country economists, and deficiencies in decentralization.

Supervision Process (Frequency, Quality, Office)

3.3 Bank performance in terms of frequency of supervision missions for ongoing projects is generally satisfactory. On the other hand, performance as regards the quality of supervision is not satisfactory, because of inadequate staff, the generally short time for missions, as well as insufficient skills mix. The problems of security in the country make it difficult to ensure systematic physical supervision of sector projects scattered in the different regions of this large country. The landlocked nature of the country increases the time for access to project sites. All these problems have a negative effect on the relevance of the recommendations of these missions, and the monitoring of their implementation.

3.4 The Country Programme Office (CPO), in accordance with its terms of reference on project management, conducts a quarterly evaluation of the status of operations with the Authorities and project coordinators. The quarterly reports present the status of projects and programmes, laying emphasis on implementation of the recommendations made by supervision missions, and suggesting recommendations for the Bank and the Government to improve the portfolio. Sometimes, the Office conducts physical supervision missions to the project sites. The largely inadequate staff of the CPO (a programme manager, a secretary and a driver) and the limited financial and material resources made it difficult for the Office to effectively play its role in supervision.

4. PORFOLIO IMPROVEMENT PROGRAMME

Prerequisites for Portfolio Improvement

4.1 Improvement of the portfolio in Chad requires, first of all, **improvement of the socio-political context** of the country. The Chadian President, who has been in power since 1990, was recently re-elected for five years. With the support of some bilateral partners, the security situation in Chad has returned to normal. The Government should be encouraged to reinforce security and strengthen political consensus.

4.2 Improvement of the portfolio in Chad also requires **implementation of the new organizational structure of the Bank and the institutional reforms accompanying it**. It will be recalled that the new organizational structure aims at strengthening the skills and response capacities

of the Operations Complex. It also aims at enhancing country focus, creating a single focal point for RMCs, and increasing sector capacities by regrouping technical expertise. The portfolio management should also be improved by enhancing the review process and the procurement and disbursement procedures, and by improving project supervision with the opening of field offices, including **the Country Office in Chad in 2006**². These actions should, in the short term, have a positive impact on the portfolio in Chad. This impact will be limited in 2006.

Actions for Specific Problems

Actions for Problem Projects

4.3 It will be recalled that problem projects account for 70% of the portfolio. These projects are as follows: (i) the PCVZS 1993-2006, (ii) the PVRES 1998-2006, (iii) the PDRDB 2001-2009, (iv) the PASEP 2002-2009, (v) Health Project II 2001-2006, (vi) the PASE 2004-2009, and (vii) the PAGE 2003-2006. **Action plans will be prepared (see Annex VI of the report) for all these projects so as to improve their implementation and impact on development.** The problems to be solved include the important problem of auditing of accounts³ so as to avoid the risk of witnessing ADF financing stopped. The 2003 audit reports were not sent to the Bank for 3 projects, namely: (i) the PDRB, (ii) the PCVSZ, and (iii) the PASEP. The 2004 audit reports were not sent to the Bank for 5 projects, namely: (i) the PVERS; (ii) Health Project II, (iii) the PDRB, (iv) the PCVSZ, and (v) the PAGE. None of the six (6) projects has initiated the 2005 audit. **A letter has been sent to the Government for the audits to be conducted, and for the reports to be sent to the Bank not later than 31 August 2006. A meeting will be held in September 2006 to review the results of the audits.** Furthermore, ADF financing for some projects (PCVSZ, PVERS, PAGE and Health Project II) could stop at the end of December 2006 (deadline for last disbursement), whereas there are still important activities to be carried out. **The need to extend the deadlines for the last disbursement for these projects will be considered after review of the results of the audits in September 2006.** The solutions for generic problems (see page 6) and the overall urgent measures to be taken (see page 9) should have a positive impact on the status of these projects.

Actions for potentially problem projects

4.4 The potentially problem projects, which account for 20% of the portfolio, are the Prefecture du Lac Rural Development Project (PDRLP) 1999-2006) and Education Project V 2001-2007. **Action plans will be prepared (see Annex VI of the report) for these projects so as to improve their implementation and impact on development by the end of 2006.** The audit reports for 2003 and 2004 have been sent to the Bank. The Bank is waiting for the report for 2005, whose deadline is set for 30 June 2006. **A letter has been sent to the Government for the audits to be conducted, and for the reports to be sent to the Bank not later than 31 August 2006. A meeting will be held in September 2006 to review the results of the audits.** Furthermore, ADF financing for the PDRPL Project could stop at the end of December 2006 (deadline for last disbursement), whereas there are still important activities to be carried out. **The need to extend the deadline for the last disbursement for this project will be considered after review of the results of the audits in September 2006.** The solutions for generic problems (see page 6) and the overall urgent measures to be taken (see page 9) should have a positive impact on the status of these projects.

² Premises have been found for the Office and a leasing contract is being signed.

³ The PASE Project received the first disbursement only in May 2005. Health project II and the PAGE Project received their first disbursement only in May 2005.

Solution for Generic Problems

Project Start-up/Fulfilment of Conditions

4.5 There are still delays in project start-up because of long delays in preparing and approving decrees for the ratification of agreements and in giving the National Assembly's legal opinions, as well as because of difficulties encountered by the administration and executing agencies in fulfilling some conditions precedent to disbursement. The Bank will request the Government to find a statutory solution for the ratification of loan agreements, and to obtain legal opinions within a maximum period of 3 months following the signing of loan agreements. Since grants become effective at the time they are signed, the eligibility of Chad henceforth for only ADF grants should help to reduce the time for start-up of operations. The long delays observed by the Government in disbursements are sometimes due to the complexity of conditions precedent to disbursement and delays by the Bank in giving its no-objection opinions. As for the Bank, it will comply with the project processing cycle, as well as seek efficiency in the formulation of terms and conditions, and adapt them to the capacities of the country. The Bank will make launching missions for operations systematic and increase the human resources for operations. Lastly, the Bank will seek, at project preparation, to implement the measures usually mentioned as conditions precedent to disbursement. The use of PPF, which has proved its effectiveness in facilitating project start-up, will be made systematic.

Financial Management/Auditing

4.6 The failure to put in place an accounting system acceptable to the Bank is often the main cause for poor financial management of projects. The projects have put in place acceptable accounting systems, even though with delays in some cases. The Bank will more closely monitor the quarterly submission of financial accounts. For future projects, the use of PPF will be made systematic so as to solve this problem. As indicated earlier, long delays were noted in the conduct of the 2003, 2004 and 2005 audits. The Government has been requested to take appropriate measures to offset such delays and submit the reports to the Bank not later than 31 August 2006, or run the risk of suspension of ADF financing. The results of the audits will be reviewed in a meeting in September 2006, and decisions will be taken on a case-by-case basis in accordance with the relevant Bank rules of procedure. It is recommended that proven cases of embezzlement should lead to cancellation of the projects in question. The results of the Bank's decisions will be communicated to the Government.

Disbursement

4.7 The average disbursement rate of 40.18% for projects, with an average age of 6.3 years, is low. This situation is mainly due to delays in project start-up and implementation, limited knowledge of Bank rules of procedure, problems of transfer of funds between the intermediary bank and the beneficiary banks, delays in the Bank in the processing of files. Specific action plans (see Annex VI of the report), solutions for the other generic problems, and implementation of urgent measures (see page 9) will help to accelerate implementation of operations. Enhancing the monitoring of transfers of funds will help to solve the problem of delays. Efforts will be made to process disbursement documents with diligence; the solution for this problem lies in implementing institutional reform and increasing staff strength in the operations. The proposed training activities will contribute to better knowledge of Bank rules of procedure.

Counterpart Funds

4.8 The difficult financial situation of the Government could lead to non-payment of the counterpart funds. This problem causes delays in the implementation of a number of projects. The financial situation of the country was extremely difficult in 2005 because of the decline in oil revenues and limited mobilization of external resources as a result of dissensions between the Government and the major

donors on the amendment of the law relating to the management of oil revenue adopted at the end of 2005. This led to huge accumulation of external and domestic arrears, and low payment of counterpart funds. The dissensions were settled recently, and cooperation with the major partners has resumed. The country benefitted from huge indirect oil revenue in the first half of 2006. The indirect revenue expected in 2007 will stand at more than CFAF 500 billion. The financing of counterpart funds from oil revenue for projects in priority sectors is the solution that had been envisaged, but which is difficult to implement systematically. The solution has been applied to the health sector. A letter will be sent to the Government in June 2006 to officially confirm this option for the agriculture and education sectors, which are of priority.

Procurements

4.9 The different consultations held with the Government during the last multi-donor mission in March 2006 showed that the main causes⁴ of procurement problems are: (i) limited knowledge of procurement procedures by the Bid Opening and Evaluation Committee (COJO) and their Technical Bid Evaluation Sub-Committees (SCTE); and (ii) the almost uncontrollable delays in contract approval by the competent authorities. The Bank will in 2007 organize a training course on procurement procedures after the special supervision mission in November 2006 (see page 10). The activities will also focus on the country's procurement system. These will include revision of the Procurement Code following the analytical review (CPAR) scheduled for 2006, and for the Government, implementation of the emergency measures adopted during the multi-donor mission in March 2006 to improve the efficiency of procurement by significantly reducing procurement time frames. The following activities will be carried out:

- i. Finalizing the establishment of a Public Procurement Institutional Framework, particularly by issuing a decree on the creation, responsibilities, composition and functioning of Procurement Services (SPM), so as to allow for smooth functioning of the public procurement system;
- ii. Improving current texts that define the functioning of major structures of the institutional framework so as to guarantee stability of staff assigned to the said structures, and thereby ensure greater effectiveness of capacity building activities;
- iii. Preparing and disseminating the Public Procurement Handbook (MPMP) so as to propose a correct and proper interpretation of the provisions of the Code and its implementing texts, and specify the roles, responsibilities and intervention period of the different structures involved in the award and approval of public contracts. To that end, MPMP will draw on the reference framework for responsibilities and time frames of the different procurement stages defined in collaboration with the Government;
- iv. Conducting a detailed study on the efficiency of the public contracts award process, in particular the key actors namely COJO, SCT, SPM, the Committee for the Control and Supervision of Oil Revenue (CCSRP), and the Approval Authorities, so as to identify overlapping and bottlenecks, and propose appropriate solutions to eliminate them;
- v. Optimizing the use of SPM human and material resources, taking into account existing procurement skills in projects, so as to rationalize the use of staff and facilitate coordination of procurement activities in sector ministries; and
- vi. Building capacities in OCMP, COJO and SPM through (a) technical assistance to OCMP to monitor and evaluate the performance of the system, and (b) the training of trainers in OCMP and SPM and providing them with equipment, and (c) the training of officials in COJO and

⁴ The delays, linked to OCMP and CCSR review, are often marginal since these entities are guided in their activities by duly established time frames.

CCSRP, to enable them to effectively play their respective roles in the public procurement chain.

4.10 The implementation of these measures is supported in part by the Bank through the Governance Reform Support Programme (PARG I 2005-2007). This operation, which includes a vast support programme for the modernization of public finance (PAMFIP) in Chad that was initiated by the World Bank and is under appraisal, comprises institutional support aimed at improving the management of public contracts. The multi-donor mission proposed to the Government a reference framework for responsibilities and time frames for the different stages of the procurement process within the context of projects financed by the national budget (see Annex VII of the report).

Capacity Building

4.11 The special supervision mission of October 2006 (see page 9) will help to define capacity building requirements. However, in view of the difficulties encountered by the Department of Cooperation and Monitoring of Development Projects and Programmes (DCSPPD) in playing its role, the Bank has, since August 2005, been supporting capacity building in this institution through the PAGE Project. This support, which should accelerate after approval of the revised list of goods and services, should, in the second half of 2006, enable DCSPPD to improve coordination of external aid, financial and physical monitoring of project implementation, implementation of the Public Investment Programme (PIP), and management of recurrent costs. Under the PARG I 2005-2007, which will be implemented in 2006, the Bank intends to support improvement of procurement management through three actions: (i) decentralization of public purchases; (ii) enhanced efficiency and transparency of public contracts; and (iii) reinforced control of public procurement.

Improvement of Quality at Entry

4.12 Quality assurance of projects at entry is required for proper project implementation and achievement of set objectives. Project performance, as regards quality assurance at entry, is mixed. In Chad, progress has been made in paying attention to poverty, gender and the environment in projects. Performance is also mixed for the following aspects: “approach, objectives and design” and “technical, economic and financial aspects”. The weak points remain the fiduciary and institutional aspects, implementation arrangements, the assessment of risks, and consideration of the project by the Bank (see Table 5 of the report). Efforts should cover the nine aspects of improvement of quality at entry. Reinforcement of the Operations Complex under the reform, and the opening of the country office in Chad, will be required to achieve this objective.

Assessment of Impacts on Development

4.13 Results-based management of projects requires good assessment of impacts at mid-term and at project completion to measure the achievement of objectives defined in the logical framework matrices and impacts on development. For ongoing projects, it will be necessary for the Bank to use the special funds at its disposal to conduct impact assessments or request projects to revise lists of goods and services so as to obtain financing for this type of assessment. For new projects with results-based logical framework matrices, the Bank will ensure that appropriate measures are defined during project formulation for results evaluation, and that budgetary lines are provided for assessment of impacts at mid-term and at project completion.

Overall Emergency Measures

4.14 In addition to the aforementioned actions, other emergency measures will be implemented:

- i) A **special supervision mission** will go to Chad in **October 2006**. The objectives of this mission will be as follows: (i) conduct a detailed diagnosis of the status of the portfolio, (ii) define key actions to be taken to improve portfolio management, and (iii) **provide for an institutional framework and targeted key indicators for monitoring the portfolio with greater involvement of the supervisory ministries**. In the agricultural sector in which the rate of problem projects is high, the rural development sector monitoring mechanism, created in April 2005, will be used and could be supported. This mission will have a pluri-disciplinary team, including a Training Expert for projects. The Bank will use the special funds at its disposal to finance the assistance requirements;
- ii) Based on this diagnosis, a **targeted training programme** will be implemented in the **first half of 2007**. A request will be sent to PDRE for the programming and budgeting;
- iii) After the opening of the country office and implementation of institutional reform, a **Bank-Government workshop** will be organized one year after the special supervision mission in **October 2007**. The workshop will, in light of the status of the portfolio, take decisions regarding actions to be undertaken, namely: restructuring of the portfolio, and cancellation or closing of some operations.

4.15 The Bank will make optimum use of information technologies for project monitoring. Accordingly, video-conferencing will be organized every four (4) months. The first will take place in September 2006 during review of the audit results.

5. CONCLUSION AND RECOMMENDATIONS

5.1 The Bank's portfolio in Chad, based on the diagnosis of the situation conducted at the end of March 2006, has deteriorated in comparison to 2002, the date of the last portfolio review. Hence the urgent need for a portfolio improvement programme. The difficult socio-political context and the weak economic management capacities common in fragile States, as well as organizational deficiencies in the Bank as regards project management, contributed to the deterioration of the portfolio.

5.2 In view of the situation, this Note indicates that the prerequisites for a sound portfolio are: (i) improvement of the country's socio-political context, and (ii) implementation of the new organizational structure of the Bank and the accompanying institutional reforms, including the opening of a country office (scheduled for 2006) with autonomy and the required human and material resources. It also identifies, under the portfolio improvement programme, immediate actions for the specific situation of problem projects (70% of portfolio) and potentially problem projects (20% of portfolio). It proposes a series of emergency solutions for generic problems, and overall emergency measures, including the conduct of project audits by the end of 2006, a meeting on the results of the audits to take decisions consistent with Bank rules of procedures, a special supervision mission in October 2006, a targeted training programme to be organized in the beginning of 2007, and a Bank-Government workshop in October 2007 after the opening of the country office to decide on far-reaching actions to be taken, depending on the status of the portfolio (restructuring, closing, or cancellation). These actions are summarized in the road map in the Annex.

5.3 The Boards are invited to take note of the conclusions of the Bank's portfolio improvement programme in Chad, and adopt the above recommendations.

ROAD MAP FOR IMPROVING THE PORTFOLIO IN CHAD

Problems	Actions to be Undertaken	Deadlines	Responsible
Difficult socio-political and security context	Reinforce security, political consensus and participation.	Permanent	Government/Bilateral Partners
Organizational structure of the Bank not sufficiently oriented towards project management	1. Complete structural reform and reinforce the Operations Complex.	End 2007	Bank
	2. Open the country office, and grant it autonomy and the required human and material resources.	End 2006	Bank
Poor performance of portfolio	Implement specific and generic action plans.	End 2006	Bank/Government
Limited disbursement of counterpart funds	Request the Government to implement the decision taken to finance the counterpart contribution with oil revenue for the agricultural and education sectors, as is the case for health.	End July 2006	Government
Delays in the conduct of project audits	Offset delays in 2003, 2004 and 2005 audits, and submit the reports to the Bank	End August 2006	Government
Status of audits not known	1. Video-conference meeting on the results of audits 2. Decisions taken in line with Bank rules	End September 2006	Bank
Deadline for last disbursement for five (5) projects at the end of December 2006, whereas the implementation rates are low	Decide on need to extend these dates based on results of the audits.	End September 2006	Bank
Need to know status of portfolio after the review	Special pluri-disciplinary supervision mission, including definition of assistance requirements.	End October 2006	Bank
Poor mastery of Bank rules	2. Transmit training request to PDRE	End June 2006	Bank
	1. Targeted training programme organized by PDRE	End June 2007	
If problems persist in the portfolio	With the opening of the Office, organize a Bank-Government workshop to decide on far-reaching measures: restructuring of portfolio, cancellation and/or closing of projects	End October 2007	Bank