

AFRICAN DEVELOPMENT BANK GROUP



CHAD

EMERGENCY FISCAL CONSOLIDATION SUPPORT PROGRAMME (PUCB)

RDGC/ECGF/RDTS DEPARTMENTS

November 2017

Translated Document

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CURRENCY EQUIVALENTS

(September 2017)

UA 1	= XAF 784.04
UA 1	= EUR 1.20
UA 1	= USD 1.41
EUR 1	= XAF 655.96
USD 1	= XAF 554.72

FISCAL YEAR

1 January to 31 December

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
ASYCUDA	Automated System for Customs Data
BEAC	Bank of Central African States
CEMAC	Central African Economic and Monetary Community
CFA	African Financial Community
CPA	Pharmaceutical Purchasing Centre
CRBS	Crisis Response Budget Support
DGB	Directorate-General of Budget
DGDDI	Directorate-General of Customs and Indirect Taxes
DGI	Directorate-General of Taxation
DGTCP	Directorate-General of Treasury and Public Accounting
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
EU	European Union
FRA	Fiduciary Risk Assessment
GAP II	Governance and Strategic Framework Action Plan
GDP	Gross Domestic Product
HDI	Human Development Index
HIPCI	Heavily Indebted Poor Countries Initiative
IMF	International Monetary Fund
IRPP	Personal Income Tax
MFB	Ministry of Finance and Budget
MFPTE	Ministry of Civil Service, Labour and Employment
PND	National Development Plan
PACADET	Business Climate Improvement and Economic Diversification Support Project
PAMFIP	Public Finance Modernization Action Plan
PARFIP	Public Finance Reform Support Programme
PBO	Programme-Based Operation
PEFA	Public Expenditure and Financial Accountability

PFM	Public Finance Management
PUCB	Emergency Fiscal Consolidation Support Programme
TFP	Technical and Financial Partners
TSF	Transition Support Facility
UA	Unit of Account
WB	World Bank

GRANT INFORMATION

Client's Information

Donee	:	Republic of Chad
Sector	:	Public Finance
Executing Agency	:	Ministry of Finance and Budget (MFB)
Amount	:	UA 46 million
Modalities	:	A single tranche of UA 46 million to be disbursed in 2017

Financing Plan

Source	Amount	Instrument
TSF Pillar I	UA 46 million	Crisis Response Budget Support

TSF Key Financing Information

Grant Currency	UA
Interest Rate Type	N/A
Base Rate	N/A
Interest Rate Spread	N/A
Funding Margin	N/A
Commitment Fee	None
Other Charges	None
Tenor	N/A
Grace Period	N/A

Timeframe – Main Milestones (expected)

Activities	Dates
Appraisal	August 2017
Negotiation	October 2017
Approval	November 2017
Effectiveness	November 2017
Disbursement	December 2017
Supervision	March 2018 and August 2018
Closure	December 2018
Completion Report	February 2019

EXECUTIVE SUMMARY

Programme Overview	<ul style="list-style-type: none"> ▪ Programme Name: Emergency Fiscal Consolidation Support Programme (PUCB) ▪ Code SAP : P-TD-KA0-007 ▪ Geographic Scope: National Territory of the Republic of Chad ▪ Implementation Period: November 2017-December 2018 ▪ Programme Cost: UA46 million: TSF Pillar I Grant ▪ Financial Instrument: Crisis Response Budget Support (CRBS) ▪ Sector : Public Finance
Programme Outcomes and Beneficiaries	<p>PUCB's objective is to consolidate budget management through the domestic resource mobilization and improved public expenditure management in order to create a conducive fiscal space for economic recovery and safeguard social spending.</p> <p>The expected outcomes of this CRBS are: (i) a tax revenue/non-oil GDP ratio that will rise from 7% in 2016 to 8.2% in 2018; (ii) a wage bill/non-oil GDP ratio, expected to fall from 7.5% in 2016 to 6.9% in 2018; and (iii) a debt service/revenue ratio, expected to fall from 40% in 2016 to less than 35% in 2018.</p> <p>Chad's entire population will benefit from PUCB. This operation will result in the creation of a fiscal space that will encourage economic recovery, safeguard social spending and contribute to the implementation of the 2017-2021 PND, the priorities of which include economic diversification and improvement of the quality of life for the people of Chad. Also as a result of PUCB, the Chadian administration's capacity will be built in three key areas of Public Finance Management (PFM); namely: (i) domestic resource mobilization; (ii) wage bill control; and (iii) public debt management. Furthermore, by addressing the issue of domestic arrears in its sub-component on improving public debt management, PUCB will have a positive impact on private sector enterprises and on the social sectors.</p>
Alignment on Bank Priorities	<p>PUCB, which supports fiscal consolidation measures, is in keeping with the second pillar of the 2015-2020 CSP entitled 'promote good governance to enhance the effectiveness of public actions and the attractiveness of the economic framework'.</p> <p>The programme is also aligned on the Bank Group's 2013-2022 Ten-Year Strategy and its five top operational priorities (High 5s), in particular the fifth: 'improve the quality of life for the people of Africa', necessary for the diversification of the Chadian economy that is highly dependent on oil rents.</p> <p>Moreover, PUCB is consistent with the Bank Group's 2014-2019 Strategy for Addressing Fragility and Building Resilience in Africa. It is closely aligned on the first strategic thrust of this strategy entitled 'build State capacity and support efficient institutions'. This programme will also contribute to the achievement of the objective of the first Pillar of the Bank's 2014-2018 Governance Strategic Framework and Action Plan (GAP II) entitled 'public sector management and economic management'.</p>
Needs Assessment and Justification	<p>As in the case of the majority of the countries of the Central African Economic and Monetary Community, since 2014, the Chadian economy has been severely affected by the drop in oil prices. Oil GDP contracted by 8.4% in 2016, creating a deep crisis particularly with a drastic decline in foreign exchange reserves below the standard of 3 months of imports.</p> <p>Furthermore, because of falling oil revenue, Chad's central government considerably increased its debt. From 2014 to 2016, the domestic debt/GDP ratio more than doubled (it was 24% in 2016) and the stock of domestic arrears was 3.2 times higher. This was compounded by the external debt burden, which is now unsustainable (the debt service/revenue ratio is projected at 40% in 2017). To address this situation, the Chadian Government has made a significant public spending adjustment. Public investment expenditure financed by national resources that drive non-oil GDP growth has fallen sharply. In 2014, it represented 9.9% of non-oil GDP compared to only 1.1% of non-oil GDP in 2016. This significant drop in government-financed investment expenditure from national resources caused a 6% contraction in non-oil GDP in 2016.</p> <p>In addition, the Chadian government has significantly reduced operating expenditure as well as spending on poverty reduction, which dropped by 36.5% between 2014 and 2016, causing a negative social impact on the population. Furthermore, the Chadian economy is negatively affected by the prevailing security situation in the Sahel and in the Lake Chad region. The country has also received over 750,000 refugees, 130,000 displaced people and returnees. This situation has increased pressure on the country's public finances.</p> <p>In 2017, despite a slight improvement in the economic situation following an oil price hike, Chad's economy is still in a very fragile situation and implementation of the 2017-2021 PND, which provides for major investments, is threatened. The Plan focuses mostly on economic diversification in order to considerably reduce Chad's dependency on oil, and on improving the quality of life for the people of Chad, which would help the country to gradually emerge from its situation of fragility.</p>

	<p>Therefore, it is urgent to assist Chad financially and support it in its fiscal consolidation efforts in order to create a space that will initially foster economic recovery and safeguard social spending, followed with the implementation of the 2017-2021 PND, which is essential for the success of Chad's economic diversification process. PUCB is consistent with this objective and is a coordinated operation displaying synergies and complementarities with the support operations of Chad's other TFPs, in particular IMF, whose new ECF financed programme is mainly focused on the restoration of macroeconomic stability. More tangibly, PUCB will contribute to achievement by the Chadian government of several quantitative targets of the programme financed by the IMF's ECF, in particular, those concerning the nominal protection of social spending and the reduction of the stock of domestic arrears.</p>
Harmonization	<p>PUCB was designed in the context of the Technical and Financial Partners Framework and the macroeconomic and public finance management thematic group. This operation is in synergy with the three-year programme financed by the IMF's ECF, approved in June 2017. The aim of this IMF programme is to help Chad to restore macroeconomic stability. More specifically, PUCB will contribute to the achievement of several quantitative targets of the IMF-financed programme. In particular, these concern quantitative targets related to nominal protection of social spending and the non-accrual of domestic arrears. Having financed an emergency budget support operation focused on fiscal stabilization, in 2017, the World Bank will end-2017 finance a second budget support operation focused mainly on: (i) fiscal consolidation; (ii) recovery of the productive sectors; and (iii) the establishment of social safety nets. PUCB will complement and have synergies with this World Bank operation. Moreover, PUCB will complement and have synergies with the budget support operations planned at the end of 2017 by French Cooperation and the European Union Commission. The French Cooperation operations will focus on the health sector and the payment of salaries, pensions and retirees. The European Union Commission's operations will focus on the social sectors, agriculture and public finances.</p>
Bank's Added Value	<p>For many years, the Bank has supported Chad in implementing reforms aimed at improving public finance management. In particular, it actively supported Chad to enable it to reach the HIPCI completion point in 2015. Furthermore, since the drop in oil prices in 2014, the Bank scaled up its technical and financial support to Chad in the area of PFM mainly through two budget support programmes implemented in 2015 and 2016. However, given the exceptional situation Chad is currently experiencing, hit by several violent external shocks, this support must be intensified. In this regard, the Bank will, among others, capitalize on its position as a preferred partner to implement reforms aimed at improving PFM.</p>
Contributions to Gender Equality and Women's Empowerment.	<p>The reforms supported by PUCB will have a positive impact on women. It will create a positive fiscal space to safeguard social spending, which has been threatened by the drop in oil revenue since 2014. Therefore, it will release resources to finance the priority thrusts of the national gender policy adopted in 2011. In particular, it is necessary to close the gender gap in education and mainstream gender in the national budget. Furthermore, PUCB will help to create appropriate fiscal conditions for the implementation of the national health policy adopted in 2016, and whose objective is to provide the population of Chad with universal access to high quality health care. In addition, the gradual economic recovery expected following implementation of PUCB will contribute to job creation, particularly for women.</p>
Policy dialogue and related technical assistance	<p>Under PUCB, policy dialogue will focus on fiscal consolidation. During PUCB, policy dialogue between the Chadian government, the other TFPs and the Bank will mainly focus on the fiscal consolidation reforms to be implemented in order to revive the Chadian economy and create favourable conditions for executing Chad's economic diversification programme. This dialogue will be held in the overall context of the TFP Committee and the specific framework of the 'macroeconomic and public finance' thematic group, of which the Bank is a very active member. The Bank's country office in Chad will play a major role in this dialogue, which will also draw on the institution building financed by the Bank in support of activities linked to PUCB's operational priorities (improved domestic resource mobilization and more effective public expenditure management).</p>

Results-Based Logical Framework

Country and Programme Name: CHAD: Emergency Fiscal Consolidation Support Programme (PUCB)

Project Goal: Contribute to economic recovery and safeguard social spending through fiscal consolidation

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
			Baseline Situation	Target		
IMPACT	Economic growth revived and made more inclusive	Non-oil GDP growth rate	-6% (2016)	2.7% (2019)	MFB and IMF	<p>Risk 1: Political and security risk</p> <p>Mitigation Measure: Establishment of a national policy dialogue framework and regional and international cooperation in the fight against terrorism</p> <p>Risk 2: Risk linked to macroeconomic instability</p> <p>Mitigation Measure: Coordinated technical and financial support of TFPs for Chad's fiscal consolidation efforts as well as for its economic diversification plan</p> <p>Risk 3: Weak institutional capacity and limited commitment to the implementation of reforms.</p> <p>Mitigation Measure: Coordinated support of TFPs for institutional capacity building for the Chadian administration and Government commitment to implement reforms strengthened following preparation of the 2017-2021 PND</p> <p>Risk 4: Fiduciary Risk: Through the 2017-2021 PAMFIP Action Plan and TFP support for the improvement of PFM, the fiduciary risk should be gradually mitigated.</p>
		Social expenditure/GDP ratio	3.2% (2016)	3.7 (2019)	MFB and IMF	
OUTCOMES	Outcome 1: Improved domestic resource mobilizations	Tax revenue/non-oil GDP ratio	7% (2016)	8.2% (2018)	MFB and IMF	
	Outcome 2: More effective public expenditure management	Wage bill/non-oil GDP ratio	7.5% (2016)	6.9% (2018)	MFB and IMF	
		Debt service/revenue ratio	40% (2016)	< 35% 2018	MFB, IMF and WB	
OUTPUTS	Component I : Improvement of Domestic Resource Mobilization					
	I.1 Simplification of taxation and improvement of its efficiency	Study on tax expenditure and IRPP reform	Absence of a comprehensive analysis of tax expenditure and efficiency of IRPP	Study on tax expenditure and IRPP reform conducted and adopted (2017)	MFB/DGI/DGDDI	
		New simplified IRPP regime	Existing IRPP regime complex	2018 Budget Bill adopted, including new simplified IRPP regime (2017)	MFB/DGI	
	I.2 Improvement of the organizational and operational framework of tax administration	Tax revenue mobilization plan	Absence of a tax revenue mobilization plan	Tax revenue mobilization plan prepared and adopted (2017)	MFB/DGI	
Memorandum of Understanding between the Directorate-General of Taxations and the Directorate-General of Customs and Indirect Taxes		Considerable room for improvement in collaboration between the Directorate-General of Taxation and the Directorate-General of Customs and Indirect Taxes	Memorandum of Understanding between the Directorate-General of Taxations and the Directorate-General of Customs and Indirect Taxes signed and applied (2017)	MFB/DGI/DGDDI		
	New Organization Chart of the Directorate-General of Taxation	Weaknesses in the organization of tax inspection and tax recovery activities	New Organization Chart of the Directorate-General of Taxation	MFB/DGI		

	Performance contract of the Directorate-General of Taxation	Non-existence of efficient monitoring of the performance of Directorate-General of Taxation	adopted and implemented (2018) Performance contract by the Director-General of Taxation (2018)	MFB/DGI	
Component II : Improvement of Public Expenditure Management					
II.1 Improvement of wage bill control	Report on implementation of recommendations following audit of the civil service payroll Audit of civil servants' qualifications and related action plan	Audit of civil service payroll conducted in 2017 Performance of an audit of qualifications of civil servants recommended by the audit of the civil service payroll	Report on implementation of recommendations following audit of civil service payroll prepared (2017); Budget Bill for 2018 adopted, including the application of recommendations following the audit of the civil service payroll (2017) Report on audit of civil servants' qualifications prepared and validated (2018); Action Plan following the audit of the qualifications of civil servants prepared, validated and applied (2018)	MFB/DGB MFPTE and MFB/DGB	
II.2 Improvement of public debt management	Medium-term debt management strategy SYGADE 6 Public Debt Management software Audit of domestic arrears and domestic arrears clearance plan	Non-existence of a medium-term debt management strategy SYGADE 5.3 public debt management software installed Exact amount of domestic arrears rising and uncontrolled	Medium-term debt management strategy prepared and adopted (2018) SYGADE 6 Public Debt Management software operational (2018) Report of audit of domestic arrears prepared and validated (2018); domestic arrears clearance plan (2018)	MFB/DGTCP MFB/DGTCP MFB/DGB/DGTCP	
RESOURCES : UA 46 million Grant (TSF Pillar I)					

MANAGEMENT'S REPORT AND RECOMMENDATION TO THE BOARDS OF DIRECTORS ON A PROPOSAL TO AWARD A GRANT OF 46 MILLION UNITS OF ACCOUNT FROM THE RESOURCES OF THE TRANSITION SUPPORT FACILITY TO THE REPUBLIC OF CHAD TO FINANCE THE EMERGENCY FISCAL CONSOLIDATION SUPPORT PROGRAMME

I. THE PROPOSAL

1.1. This proposal, which is submitted for approval by the Boards, concerns a grant of UA 46 million from Pillar 1 of the Transition Support Facility (TSF) to the Republic of Chad to finance the Emergency Fiscal Consolidation Support Programme (PUCB). Chad meets the conditions of eligibility for TSF Pillar I because of its situation of fragility¹.

1.2. PUCB is in keeping with the overall framework of concerted, coordinated and complementary interventions of the Technical and Financial Partners (TFP) in order to urgently revive economic growth and safeguard social spending in the countries of the Economic and Monetary Community of Central Africa (CEMAC), including Chad². Since 2014, most CEMAC countries have been severely affected by the sharp drop in oil prices, which led to economic recession and a deterioration of the fiscal situation (economic growth in CEMAC was -0.9% in 2016)³. Specifically concerning Chad, in the overall context of TFP support to CEMAC countries, it has, since 2017, benefited from a new three-year programme financed by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF). The total amount of this programme, which mainly aims to restore macroeconomic stability, is USD 312.1 million. In 2017, Chad also benefited from a World Bank (WB) Emergency Budget Support Programme for USD 65 million aimed at achieving fiscal stability. Moreover, in view of Chad's serious economic and budgetary difficulties, the WB is planning to finance another budget support programme by end-2017. This operation will be focused on: (i) fiscal consolidation; (ii) recovery of the productive sectors; and (iii) establishment of social safety nets (minimum amount: USD 50 million). Furthermore, by end-2017, French Cooperation will finance budget support to the tune of EUR 50 million. This operation will be focused on the health sector and the payment of salaries, pensions and retirement payments. Furthermore, under the budget support programme financed by the European Union Commission (EU) and focused on: (a) public finance; (b) the social sectors; and (c) agriculture, Chad will receive assistance amounting to EUR 39 million by end-2017.

1.3. PUCB is the Bank's contribution to the concerted and coordinated support of TFPs to back Chad, which is experiencing a worsening and prolonged economic and fiscal crisis, and is now facing macroeconomic instability. Chad's gross domestic product (GDP) growth rate was -6.4% in 2016, compared to 1.8% and 6.9% in 2015 and 2014, respectively. Moreover, between 2014 and 2016, government revenue fell by 47.3%.

1.4. PUCB is a Crisis Response Budget Support (CRBS)⁴ operation aimed at supporting the Chadian Government in its efforts to urgently stabilize and revive the economy, as well as safeguard social expenditure through fiscal consolidation (an

¹ See the Assessment of Chad's eligibility for Pillar 1 of the TSF carried out during the 2015-2020 CSP and Technical Annex 2.

² In addition to Chad, the CEMAC comprises Cameroon, Congo, the Central African Republic, Gabon and Equatorial Guinea. With the exception of the Central African Republic, all CEMAC countries are oil exporters. Currently, CEMAC's economic growth rate is the lowest for 20 years.

³ Cameroon, Congo, the Central African Republic and Chad are affected by security problems.

⁴ According to the Bank's policy on Programme-Based Operations (PBO), one of the criteria for implementing a general budget support is economic stability. Otherwise, only a CRBS may be undertaken to help mitigate the impacts of a crisis. In the case of Chad, this is an economic crisis (see ADF/BD/WP/2011/38).

improvement in domestic resource mobilization combined with more effective public resource management). This approach will lead to the creation of a fiscal space that will encourage the financing of investments necessary to achieve economic recovery and ensure smooth implementation of the 2017-2021 National Development Plan (PNDD) 2017-2021, a priority thrust of which is economic diversification. Therefore, this will help to mitigate one of Chad's main drivers of fragility, namely its heavy dependence on oil revenue, whose sharp slump since 2014 has resulted in a severe deterioration in the economic fundamentals and fiscal aggregates, particularly with the resurgence of debt distress in a regional context marked by security crises in the Sahel and the Lake Chad basin. This deterioration of the economic and fiscal situation has led to major cutbacks in social spending, with a very negative impact on the most vulnerable segments of Chad's population. Social spending fell by 36.5% between 2014 and 2016. By supporting the fiscal consolidation measures, PUCB will also contribute to the creation of an appropriate space for the protection of social sector expenditure. This is necessary to ensure national cohesion and improve the quality of life for the people of Chad, who, in general, live in precarious situations (according to the 2016 Human Development Index, Chad was ranked 186th out of 188 countries).

1.5. In addition, PUCB will deepen the fiscal consolidation-related reforms initiated under the previous two budget support programmes financed by the Bank for Chad. In the prevailing unfavourable context, the Bank approved the Public Finance Reform Support Programmes (PARFIP), Phase I and II in 2015 and 2016, aimed, among others, at improving domestic resource mobilization and public expenditure management. PUCB will deepen the previous reforms by focusing in particular on increasing tax revenue, controlling the wage bill and improving public debt management. This will create an appropriate fiscal space for the protection of pro-poor spending and financing public investment that will revive economic growth, contributing to the economic diversification process and gradual emergence from the situation of fragility.

II. COUNTRY CONTEXT

2.1. Political Situation and Governance Context

2.1.1. Chad's relative political stability since 2010 began to show signs of strain from 2016. Since the signing of a Peace Agreement with Sudan in January 2010, the political situation has been relatively stable in Chad. However, since the Presidential election in 2016, the political climate has become more tense due to the ongoing challenge of the election results by the opposition parties and the announcement by the national authorities of the indefinite postponement of legislative elections without prior consultation. This situation has been exacerbated by the regional security and humanitarian crises linked to terrorism in the Sahel and Lake Chad regions.

2.1.2. Chad is exposed to several drivers of fragility, which impede its socio-economic development⁵. Political, security, economic, social and environmental drivers of fragility have slowed down Chad's socio-economic development. From a political standpoint, the drivers of fragility are, in particular, linked to political governance characterized by many changes to decision-making positions and the absence of a critical mass of high quality human resources. In the field of security, the main drivers of fragility are linked to Chad's external military interventions (especially in Mali and Nigeria), and the terrorist threat in the Lake Chad Region and on the country's borders. The economic drivers of fragility are mainly linked to the

⁵ Technical Annex 2 presents a detailed analysis of Chad's drivers of fragility.

country’s weak economic diversification and dependency on oil rent (PUCB will weaken this driver of fragility by creating a favourable fiscal space for financing the country’s economic diversification process). As regards social issues, the drivers of fragility are mainly linked to the country’s poverty level⁶, social inequalities and poor access to basic social services (PUCB will help to mitigate this driver of fragility by creating a conducive fiscal space for the protection of pro-poor spending in an adverse economic context). From an environmental standpoint the main drivers of fragility relate to recurrent droughts that affect the country, thus causing a reduction in the amount of arable land suitable for agriculture.

2.1.3. Chad’s governance performance remains weak despite some significant progress.

According to Transparency International’s Corruptions Perceptions Index for 2016, Chad was ranked 159th out of 176 countries with a score of 20/100, compared to 147th out of 167 countries with a score of 22/100 in the 2015 ranking. Furthermore, according to the Ibrahim Index for African Governance, Chad was ranked 48th out of 54 countries in 2015 with a score of 34.8/100, i.e. exactly the same ranking as in 2014 but with a score that rose by 0.9. This poor performance indicates that Chad will have to make considerable efforts to significantly improve the country’s governance, essential for its gradual emergence from its situation of fragility. However, Chad, which is an oil exporter, made significant progress to become a compliant country under the Extractive Industries Transparency Initiative (EITI) in 2014. Also in 2016, it adopted a citizen’s budget to strengthen financial and fiscal governance.

Table1 : Key Macroeconomic Indicators: 2015-2019					
(As a percentage of GDP, unless otherwise indicated)	2015	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.
Annual GDP growth	1.8	-6.4	0.6	2.4	3.1
Inflation Rate (annual average)	6.8	-1.1	0.2	1.9	2.4
Overall fiscal deficit – cash basis (including grants)	-4.5	-4.9	0.1	0.0	-0.4
Tax Revenue	7.8	7.0	7.3	7.9	8.3
Public Expenditure	22.9	18.0	18.8	18.5	18.7
<i>Of which: capital expenditure</i>	7.3	3.7	4.7	5.3	6.0
Current account balance	-12.3	-9.2	-2.2	-3.2	-3.5
International reserves (in months of imports)	1.0	-1.0	-0.1	0.4	0.8
Source : IMF (June 2017)					

2.2. Recent Economic Developments, Macroeconomic and Fiscal Analysis

2.2.1. Since 2014, the Chadian economy has been adversely affected by the effects of violent external shocks and the country now faces macroeconomic instability. The Chadian economy has been highly dependent on oil rent since production started in 2003. In 2013, oil revenue represented 63% of central government revenue, 85% of the country’s exports and 20% of its GDP whose growth was 5.7% in that year⁷. In the wake of the drop in oil prices in 2014, the country’s economic performance deteriorated sharply. In 2016, GDP growth was negative at -6.4% (GDP is projected to grow to 0.6%⁸ 2017). The fall in central government revenue following the drop in oil prices led to a slump in public investments, which have largely driven non-oil economic growth since 2003. As an example, public investments financed from national resources in 2017 are expected to represent 1.4% of non-oil GDP compared to 9.9% in 2014. Moreover, economic growth is negatively impacted by security and terrorism-related problems that prevail in the Sahel, within Chad and its frontiers. These have a negative impact on cattle trading, the country’s second main source of foreign exchange. Furthermore, the presence of over 750,000 refugees on Chadian soil and over 130,000 displaced people and returnees has increased the vulnerability of the country’s economy and public finances. Inflation is expected

⁶ 46% of Chad’s population lives below the monetary poverty threshold.
⁷ On average, over the 2004-2008 and 2009-2014 periods, Chad’s GDP growth rates were 9.7% and 6.7% respectively.
⁸ In 2017 overall oil prices rose slightly compared to their 2016 level. However, they remain far below their 2013 level.

to be 0.7% at the end of 2017⁹, mainly as a result of a contraction in domestic demand, linked to declining public procurement

2.2.2. The fiscal situation in Chad has seriously deteriorated. Since 2014, Chad's oil revenue has sharply declined from CFAF 607 billion in 2014 to 171 billion in 2016, and is estimated at CFAF 311 billion in 2017. Therefore, the 2017 level of oil revenue is expected to be 51.2% of the 2014 level. To address this situation and in view of the low level of tax revenue that traditionally has represented less than 10% of non-oil GDP, the Chadian government has made a significant adjustment to its expenditure. It has taken austerity measures such as a 50% reduction in civil servants' allowances in order to reduce operating expenditure. In 2017, public spending is expected to represent 18.8% of non-oil GDP compared to 29.4% in 2014. In addition, public spending in 2017 is expected to represent 59.6% of the 2014 level. Public investment-related expenditure, which is essential for Chad's economic growth has also been affected by the fiscal adjustment made by the national authorities. In 2017, public investment expenditure financed from national resources is only expected to be 13.5% of the 2014 level. Due to the Chadian government's fiscal adjustment efforts and TFP budget support¹⁰, the overall fiscal balance (including grants and on a cash basis) is expected to represent 0.1% of GDP in 2017, compared to -4.9% in 2016. However, significant cutbacks in public spending made by the Chadian government have had a negative impact on economic growth, the most vulnerable segments of the population as well as the implementation of the country's economic development and diversification plan, which would contribute to its gradual emergence from its situation of fragility.

2.2.3. The current account balance and foreign exchange reserves situation is very worrisome. In 2016, mainly because of the sharp drop in oil exports, the current account deficit stood at 9.2% of GDP. At the end of 2016, Chad's foreign exchange reserves were negative and represented -1 month of imports. At the end of 2017, following a slight increase in oil prices and drop in imports, the current account deficit is expected to represent 2.2% of GDP and Chad's foreign exchange reserves to represent -0.1 month of imports¹¹.

2.2.4. Chad has a high risk of debt distress. Although, it reached the completion point under the Heavily Indebted Poor Countries Initiative (HIPCI) in April 2015 with the guarantee of external debt relief of at least USD 756 million, Chad has a high risk of debt distress according to the debt sustainability analysis carried out in June 2017 by IMF and WB. Its external debt, 53.2% of which is commercial debt, represented 27.1% of GDP in 2016 and the debt service/revenue ratio is projected to be 40% in 2017¹². External commercial debt is 98%, comprising two loans awarded to the Chadian central government by the Glencore Company responsible for the marketing of Chad's oil. At the end of 2015, these two loans – USD 600 million and USD 1.4 billion, respectively - were consolidated and restructured into a single loan¹³ to be repaid by 2021. This is an unsustainable fiscal burden given the drop in Chad's oil revenue. For its part, domestic debt is expected to reach 21.9% of GDP in 2017, compared to 10.3% in 2014. This amount doubled between 2014 and 2016. This increase in the domestic debt stock is the direct result of the drop in the central government's oil revenue, which compelled the Government to borrow to meet its recurrent expenditure. Furthermore, also

⁹ At the end of 2016, inflation was -4.9%.

¹⁰ Including AfDB.

¹¹ Chad, as a member of CEMAC, shares with 5 other countries of Central Africa a common currency (the CFA franc), which is pegged to the Euro. In addition, the 6 CEMAC countries pool their foreign exchange reserves. Thus, one country may not have any foreign exchange reserves and yet use the foreign exchange reserves of the other countries of the monetary zone.

¹² In the case of Chad, this ratio must be maintained at a maximum level of 18%.

¹³ The 600 million United States dollar loan was contracted in 2013 to meet the central government's cash requirements and the 1.4 billion United States dollar loan was contracted to finance the purchase by the Chadian central government of the share held by Chevron in the Doba oil consortium.

because of the drop in central government revenue, the stock of domestic arrears has increased in recent months. It was estimated at least CFAF 270 billion in April 2017¹⁴, representing an amount at least 5.2 times that of the stock of domestic arrears established at the end of 2014. This accumulation of domestic arrears has weakened private sector operators who are heavily dependent on public procurement.

2.2.5. Despite this very difficult situation, medium-term economic prospects could be favourable provided several conditions are fulfilled (including the continuing support of TFP)¹⁵. In case of an increase in oil prices, no deterioration in the security environment, continuing support of TFPs and scaling up of the Government's domestic resource mobilization efforts, government revenue could rise over the 2018-2020 period. This will contribute to the financing of pro-poor expenditure and the necessary public investments to revive the economy, create private sector momentum and diversify the economy¹⁶. The average GDP growth rate will be projected at 3.1% over the 2018-2020 period compared to -1.7% over the 2015-2017 period. If the economy is revived, the inflation rate is expected to average 2.4% over the 2018-2020 period, compared to 1.9% over the 2015-2017¹⁷ period. Foreign exchange reserves should become positive in 2018 and represent 1.3 months of imports by end-2020. Furthermore, the combined effect of the recovery of oil prices, stronger government efforts in terms of public resource management and the concerted support of TFPs should contribute to fiscal consolidation. Thus, over the 2018-2020 period, the overall fiscal balance (including grants and on a commitments basis) would average 0.8% of GDP, compared to -2.6% over the 2015-2017 period.

2.3. Economic Competitiveness

2.3.1. The Chadian private sector is poorly developed and hindered by several barriers. Despite the sustained economic growth of the past fifteen years, the Chadian private sector is dominated by informal enterprises involved in trading activities. The development and structuring of the Chadian private sector are hampered by several obstacles such as: (i) lack of skilled labour; (ii) difficulties in accessing credit; and (iii) an energy infrastructure gap that weakens the country's competitiveness. However, aware of this situation that is slowing down the economic diversification process, the Chadian authorities have since 2014 taken certain measures to improve the business climate and economic competitiveness. These concern: (i) the establishment and operationalization of a one-stop-shop for business start-up; and (ii) the reduction from CFAF 1,000,000 to CFAF 100,000 the minimum capital required to set up limited liability companies. Thus, in the Doing Business 2017 classification, Chad is ranked 180th out of 190 countries, compared to the 183rd position out of 189 countries in the Doing Business 2016 ranking.

2.4. Public Finance Management

2.4.1. The overall fiduciary risks linked to PFM remains high in Chad despite significant progress. However, the PFM reform trajectory is positive. The fiduciary risk assessment (FRA) linked to PFM carried out by the Bank in August 2014 and updated in August 2017 shows that the overall financial risk linked to PFM remains high in Chad¹⁸. However, in recent years, with TFP support (including the Bank through its budget support programmes and

¹⁴ An exact assessment of the stock of domestic arrears is required in order to accurately determine its current level and prepare a clearance plan.

¹⁵ See IMF June 2017 forecasts.

¹⁶ This effect could be increased in the event of a new restructuring of the consolidated Glencore loan in Chad's favour.

¹⁷ In the event of low rainfall, food prices could rise causing an increase in the overall level of inflation.

¹⁸ The most recent PEFA report dated in 2009 and a new PEFA is being prepared.

institution building projects), considerable progress has been made to improve PFM. This concerns: (i) the adoption of a public finance transparency and good governance code; (ii) the adoption of a citizen's budget; (iii) operationalization of the Court of Auditors; (iv) the revision of the Public Procurement Code; and (v) the operationalization of the Directorate-General of Public Procurement Control (DGCMP). The Chadian Government will continue its efforts to improve PFM through implementation of the 2017-2021 Public Finance Modernization Action Plan (PAMFIP)¹⁹, which benefits from the support of TFPs (including the Bank).

2.5. Inclusive Growth, Poverty Situation and Social Context

2.5.1. Despite some progress, social indicator levels are low and any progress is threatened. Between 2000 and 2015, Chad's HDI rose from 0.300 to 0.396. Moreover, the proportion of the Chadian population living below the monetary poverty line fell from 55% in 2003 to 46% in 2011²⁰. In addition, the country's school enrolment rate rose from 39% in 2000 to 63.6% in 2014, and life expectancy from 49.6 years in 2010 to 51.4 years in 2015. These results were achieved from the resources of the oil windfall, which has contributed to the realization of major investments in the education and health sectors. However, this performance remains insufficient and much needs to be done to significantly improve the living conditions of Chad's population and reduce inequalities through a more equitable distribution of oil revenue. For example, Chad was ranked 186th out of 188 countries in the HDI classification published in 2016, and the literacy rate was 22.6%. Moreover, in rural areas where 78% of all Chadians are found, 87% of the population lives below the monetary poverty line. Furthermore, gender inequalities are wide²¹ and impede women's social and economic integration. For instance, only 16% of higher education students are women. In addition, the labour-market participation rate is 48.5% for women compared to 77.1% for men, and average income for men is 1.8 times higher than that for women²². Consequently, in the social sector and in terms of reducing inequalities, it is important to intensify the efforts that have been observed for about fifteen years. However, since the drop in oil prices in 2014, and because of declining central government revenue, this momentum appears to be threatened. In 2016, social spending represented 63.4% of the 2014 amount. The construction sites for over 1 000 classrooms have been closed and, since 2013, no school textbooks have been purchased for primary schools.

III. GOVERNMENT DEVELOPMENT PROGRAMME

3.1. Government's Development Strategy and Reform Priorities

3.1.1. PND 2017-2021 is a relevant tool for the creation of sustained, diversified and inclusive growth. Approved in July 2017, PND 2017-2021 is the main planning tool for 'Vision 2030' the objective of which is to make Chad a peaceful nation united in its cultural diversity, resilient through its transformed economy and offering a pleasant living environment for all. The overall objective of the PND is to lay the foundations of an emerging Chad, against a backdrop of stability. The four strategic thrusts are: (i) strengthening of national unity; (ii) improvement of good governance and the rule of law; (iii) development of a diversified and competitive economy; and (iv) improvement of the Chadian population's quality of life. 87% of PNDs financing requirements, whose total amount is estimated at CFAF 5538.2 billion, concerns Thrusts 3 and 4. The Chadian government is planning to finance PND's implementation by mobilizing external resources, attracting foreign direct investment, forging

¹⁹ PAMFIP is a Chadian Government programme aimed at improving PFM.

²⁰ Source: the most recent survey on the level of consumption and the informal sector in Chad published in 2012.

²¹ In 2015, Chad's gender inequality index was 0.695.

²² See the 2013 survey on consumption and the informal sector in Chad 2013.

public-private partnerships and mobilizing more domestic resources. To that end, Chad organized an international roundtable in Paris from 6 to 8 September 2017 in which the Bank participated and during which it confirmed its commitment to be among the country's leading partners in implementing the PND.

3.2. Challenges to the Implementation of the National Development Programme

3.2.1. The smooth and successful implementation of the PND faces some major constraints. The first major constraint to the smooth and successful implementation of the PND is linked to the security challenge. The rise in terrorism, especially in the Lake Chad region, is contributing to the creation of a climate of insecurity that is not conducive to socioeconomic development and national cohesion. To remove this constraint, plans have been made through Thrust 2 of the PND to strengthen: (i) the institutional and operational framework of the defence and security forces; and (ii) Chad's participation in regional and international mechanisms to combat terrorism. The second major constraint to the smooth and successful implementation of the PND is Chad's dependency on oil revenue due to the weak diversification of its economy. The drop in oil prices has seriously weakened the country's fiscal situation, forcing it to reduce pro-poor spending as well as the investment expenditure that supported economic activities. This further highlights the need for Chad to diversify its economy to reduce its dependency on oil. Through Thrust 3 of the PND, the Government of Chad is planning to accelerate economic diversification by supporting agriculture and grassroots economic infrastructure, among others. However, because of the current drop in central government revenue due to falling oil prices, acceleration of the economic diversification process is threatened. Therefore, the central government must make a fiscal consolidation effort by increasing tax revenue and enhancing the quality of public expenditure, 53.35% of which is expected to be allocated in 2017 to the payment of salaries and interest on the public debt. This is one of the priorities of PND Thrust 2 and one of the objectives of the 2017-2021 PAMFIP action plan. In addition, the government will also have to turn more to the concessional financial support of TFPs.

3.3. Consultation and Participatory Process

3.3.1. The PND was designed in a concerted and inclusive manner. The PND is the culmination of a long and inclusive participatory process that involved the National Assembly, public administration, civil society, the private sector and the TFPs. It also enjoyed the massive support of the Chadian population, whose concerns were at the centre of the programme's preparation.

IV. BANK SUPPORT IN FAVOUR OF THE GOVERNMENT'S STRATEGY

4.1. Linkage with the Bank Strategy

4.1.1. PUCB is in keeping with the second pillar of the 2015-2020 CSP entitled 'promote good governance to enhance the efficiency of public actions and the attractiveness of the economic framework'. PUCB will support reforms that will contribute to fiscal consolidation. The proposed programme is also aligned on the Bank Group's 2013-2022 Ten-Year Strategy and its High 5s, in particular the fifth: 'improve the quality of life for the people of Africa'. PUCB will contribute to the creation of a fiscal space that is conducive to the financing of pro-poor spending and necessary for the diversification of the Chadian economy that is heavily dependent on oil rent. Moreover, PUCB is consistent with the Bank Group's 2014-2019 Strategy for Addressing Fragility and Building Resilience in Africa. It is closely aligned on the first strategic thrust of this strategy entitled 'build State capacity and support efficient

institutions'. Furthermore, this programme will help to achieve the objective of Pillar I of the Bank's 2014-2018 Governance Strategic Framework and Action Plan (GAP II) entitled 'public sector management and economic management'.

Table2: Linkage between the PND, CSP and PUCB

PND 2017-2021	CSP 2015-2020	PUCB
<p>Objective: Lay the foundations for an emerging Chad against a backdrop of stability</p> <p>Strategic Thrusts: (i) strengthen national unity; (ii) improve good governance and the rule of law; (iii) develop a diversified and competitive economy; and (iv) improve the quality of life for the people of Chad</p>	<p>Objective: Contribute to the establishment of the necessary conditions to ensure more inclusive growth</p> <p>Pillars: (i) develop infrastructure to achieve strong and more diversified economic growth; and (ii) promote good governance to enhance the efficiency of public actions and the attractiveness of the economic framework</p>	<p>Objective: Revive the economy and protect social spending through fiscal consolidation</p> <p>Priorities: (i) improved domestic resource mobilization; and (ii) improved public resource management</p>

4.2. Meeting the Eligibility Criteria

4.2.1. **Apart from the criterion related to the macroeconomic framework, which is not required for a CRBS in response to an economic crisis²³, Chad fulfils all the budget support eligibility criteria²⁴ defined by the Bank's PBO policy adopted in 2012²⁵.** The determination of the public authorities to reduce poverty is visible through the participatory and inclusive process that led to the preparation and adoption of PND 2017-2021, which is the reference framework in terms of development. Due to the current external shocks facing the country, the stability of the macroeconomic framework has seriously deteriorated. However, Chad's efforts coupled with the coordinated support of TFPs (including the IMF, WB and AfDB) should help to restore macroeconomic stability. Chad is also experiencing relative political stability in spite of difficulties. While fiduciary risk is high, the trajectory of PFM reforms is positive, thanks to efforts made by the government and TFP support. Moreover, the design of PUCB, which is in keeping with the overall framework of concerted, coordinated and complementary support operations of TFPs in favour of Chad, has taken into consideration the principle of harmonization of operations among TFPs.

4.3. Collaboration and Coordination with Other Partners

4.3.1. **There is a solid partnership between TFPs operating in Chad.** TFP operations in Chad are harmonized within the framework of the TFP committee, which meets regularly and is chaired by the IMF. Within this platform, there are nine thematic groups including one group on macroeconomics and public finance (the Bank is an active member of this group). PUCB was designed within this consultation framework and is in synergy with the Three-Year Programme financed by the IMF ECF, approved in June 2017. The ECF's main objective is to help Chad to restore macroeconomic stability (the total amount of the programme: USD 312.1 million). More specifically, PUCB will help to achieve several targets of the IMF-financed programme. In particular, these concern the quantitative targets on nominal protection of social spending and the reduction of domestic arrears. Having financed an emergency budget support operation focused on fiscal stabilization in 2017 (amount: USD 65 million), the WB will finance

²³ PUCB aims to mitigate the impacts of the economic crisis that Chad is currently experiencing.

²⁴ The detailed analysis of the eligibility criteria for Chad to CRBS is presented in Technical Annex 1.

²⁵ ADF/BD/WP/2011/38.

a second budget support operation end-2017 focused on: (i) fiscal consolidation; (ii) revival of productive sectors; and (iii) establishment of social safety nets (minimum amount: USD 50 million). PUCB will be complementary to and in synergy with this WB operation. It will also be complementary to and in synergy with the budget support operations of French Cooperation (amount: EUR 50 million in 2017) and the EU Commission (amount EUR 39 million in 2017). The French Cooperation operation will focus on the health sector, salary, pension and retirement payments. The operation of the EU Commission will focus on: (a) public finances; (b) the social sectors; and (c) agriculture.

4.4. Relationship with Other Bank Operations

4.4.1. The Bank’s active portfolio in Chad comprises 13 operations, representing total net commitments of UA 153.25 million²⁶. The portfolio includes 7 national projects totalling UA 65.3 million and 6 multinational projects for UA 87.92 million. Three sectors represent almost 90% of investments: (i) transport with 43% (UA 67.16 million) ; (ii) agriculture/natural resources with 37% (UA 56.51 million); and (iii) water and sanitation with 13% (UA 20 million). The governance sector represents 5% (UA 7.29 million), energy less than 1% (UA 1.25 million) and the social sector less than 1% (UA 1 million). The performance of the Bank’s portfolio in Chad is satisfactory. However, as regards implementation of Bank-financed operations, the time taken to complete the procurement process is deemed too long.

4.4.2. PUCB has linkages with two institutional support projects financed by the Bank. PUCB has synergies with the HIPCI support project, which is still active and aims to finance activities related to the mobilization of tax revenue as well as public debt management. PUCB also complements the Business Climate Improvement and Economic Diversification Support Project (PACADET), which supports the structuring of a public-private partnership framework.

4.4.3. PUCB will pursue the fiscal consolidation reforms initiated under the two previous budget support operations. While taking into account the current context in Chad that has been affected by prolonged external shocks for three years, PUCB will continue the first series of fiscal consolidation reforms initiated under the previous budget support operation, i.e. PARFIP Phases I and II²⁷. Their outputs include the establishment of a new Tax Code, the entry into force of a new Public Procurement Code and the adoption of a modern government chart of accounts²⁸.

Table 3: Lessons from the Bank’s Previous Operations in the Country

Main Lessons from Previous Operations	Measures taken to Incorporate Lessons from Previous Operations in PUCB
Budget support operations must be based on institution building projects or technical assistance operations financed by TFPs.	The HIPCI support project backs activities targeting the same priority areas as PUCB.
The disbursement conditions for budget support must be realistic and take the capacity of countries into account.	These PUCB disbursement measures have been discussed in depth with the different technical directorates concerned and relate to reforms already initiated by the government with TFP support.
For budget support operations implemented in a context of fragility, it is necessary to create synergies and complementarities with the operations of other TFPs.	PUCB has synergies and complementarities with the support operations of major TFPs active in Chad.

²⁶ See portfolio status as at 31/08/2017 presented in Technical Annex 5.
²⁷ Specifically, PUCB will support the strengthening of tax revenue mobilization.
²⁸ Technical Annex 6 presents the results of previous budget support operations.

4.5. Analytical Underpinnings

4.5.1. **Several analytical works have contributed to PUCB's design**, including: (i) the study on the mobilization of non-oil domestic public resources; (ii) the strategy to manage central government's payment arrears; (iii) audit of civil service payroll; (iv) sustainability analysis on IMF and WB debt; (v) fiduciary risk assessment conducted by the Bank; and (vi) PND 2017-2021. These different works highlighted the need for Chad to: (i) improve domestic resource mobilization; (ii) rationalize expenditure on salaries; and (iii) improve public debt management.

V. THE PROPOSED PROGRAMME

5.1. Programme Goal and Objective

5.1.1. **PUCB's overall objective is to contribute to economic recovery and safeguard social spending through fiscal consolidation.**

5.1.2. **Like the majority of the economies of the Central African Economic and Monetary Community, the Chadian economy has been severely affected by the drop in oil prices since 2014, causing a sharp deterioration in the country's economic and fiscal performance²⁹.** Hence, the country now faces macroeconomic instability. **This situation has had a highly negative impact on social spending and is threatening implementation of PND 2017-2021, which is essential for Chad's economic diversification and the country's gradual emergence from its situation of fragility.** Between 2014 and 2016, Chad's oil revenue fell by 71.8% and in 2016, oil GDP contracted by 8.4%, resulting in the loss of many jobs in the oil sector, among others.

5.1.3. **Due to the drop in oil revenue, the government has considerably increased its debt³⁰.** From 2014 to 2016, the domestic debt/GDP ratio more than doubled (it was 24% in 2016) and the stock of domestic arrears multiplied by 3.2, thereby weakening the private sector enterprises which are heavily dependent on public procurement and negatively impacting the most vulnerable segments of the population. For example, central government arrears owed to the Pharmaceutical Purchasing Centre (CPA), which is responsible for the free supply of several drugs, stand at over CFAF 10 billion. This situation has placed the CPA in a very difficult financial situation since it is no longer able to pay amounts owed to its pharmaceutical suppliers on the due dates, thus jeopardizing the supply of free medicines in Chad. Furthermore, this is compounded by the external debt burden which, in view of Chad's current situation, is now unsustainable with a debt service/revenue ratio of 40% in 2016.

5.1.4. **In the wake of the sharp fall in its revenue, the central government has made a major adjustment to its public expenditure, including investment and social expenditure.** Public investment expenditure financed from national resources that drive non-oil GDP growth in Chad, has fallen sharply, from 9.9% of non-oil GDP in 2014 to 1.1% in 2016. This significant drop in public investment expenditure financed from national resources caused non-oil GDP to contract by 6% in 2016. The Government has also sharply cut back on operating expenditure and poverty reduction spending. The latter fell by 36.5% between 2014 and 2016, with a highly negative impact on the population³¹. For instance, about 20% of school structures closed

²⁹ See 2.2.1. With the exception of the Central African Republic, all CEMAC countries are oil exporters. Because of violent external shocks largely linked to the drop in oil prices, economic growth is at its lowest in CEMAC for 20 years.

³⁰ See § 2.2.4.

³¹ See § 2.5.1.

between 2015 and 2017 (in Chad, 60% of schools are community-run and located in rural areas. Community teachers work in them but allowances are paid by the government). However, since July 2014, these allowances are no longer paid by the central government. This has greatly demotivated these teachers, many of whom have left their jobs. The country's economy and public finances are also negatively affected by the security situation prevailing in the Sahel and in the Lake Chad region, and by the cost of the resultant military interventions. Hence, in a context of falling public spending, the 2017 budgetary allocation to the Ministry of Defence is 1.7 times higher than the allocation to the Ministry of Health³². Chad has received over 750,000 refugees and over 130,000 displaced people and returnees, further exacerbating the budgetary tension. In 2017, despite some improvement in the economic situation due to a slight rise in oil prices,³³ the Chadian economy remains very fragile.

5.1.5. In view of the country's current narrow fiscal space, implementation of PND 2017-2021 is also threatened. The programme focuses mainly on economic diversification to significantly reduce Chad's dependency on oil, and improve the quality of life for its people, which would contribute to the country's gradual emergence from its situation of fragility³⁴.

5.1.6. Therefore, it is urgent for Chad to consolidate its fiscal management to create favourable space initially for economic recovery and safeguarding of social expenditure, and subsequently implementation of PND 2017-2021 - fundamental for the success of the economic diversification process. PUCB is in keeping with this process and is a coordinated operation with synergies and complementarities with the budget support interventions of other TFP operating in Chad, particularly the IMF whose new programme financed by the ECF focuses mainly on the restoration of macroeconomic stability. Tangibly, the PUCB will contribute to the achievement of several quantitative targets of the programme financed by the IMF ECF programme, especially those concerning the nominal protection of social spending and the reduction of the domestic arrears stock.

5.2. Programme Components

5.2.1. PUCB comprises two complementary components intended to create a fiscal space that will initially contribute to the financing of economic recovery and social spending, and subsequently implementation of the programme to diversify the economy, which is essential to the country's gradual emergence from its situation of fragility. PUCB's two components are: (i) improved domestic resource mobilization; and (ii) more effective public resource management

Component 1: Improve domestic resource mobilization

Context and recent government actions

5.2.2. Domestic resource mobilization in Chad is insufficient. The tax revenue to non-oil GDP ratio is traditionally lower than 10% in Chad (7%³⁵ in 2016) This level is below the CEMAC average (11%), and is due among others to: (i) a sub-optimal tax system (in particular concerning the level of personal income tax (IRRP), which represented 20% of non-oil tax revenue in 2016); (ii) weak organizational and technical capacity of the tax administration; and (iii) existence of major tax exemptions badly managed, estimated at around 50% of Chad's non-

³² In the 2017 Budget Act, the budgetary allocation to the Ministry of Defence stands at CFAF 102.2 billion.

³³ In 2017, a GDP growth rate of 0.6% is expected compared to -8.4% in 2016.

³⁴ See § 3.1.1.

³⁵ Under current conditions, according to the IMF's analysis, the tax revenue to non-oil GDP ratio could reach 10% if the tax administrations was more efficient.

oil revenue in 2014. Furthermore, characterized by high oil revenue, the 2003-2013 period did not constitute a conducive framework for tax and customs reforms. Currently and in the wake of falling oil prices since 2014, the Chadian authorities are fully aware of the need to reduce the country's dependency on oil revenue. **With TFP support (including AfDB), the Government has implemented several measures to increase domestic resource mobilization** and generate additional resources that will help to finance social expenditure and the country's economic diversification programme. This will entail: (i) revision of the general tax code; (ii) an inventory of tax-paying enterprises, which has identified 30,761 physical units; (iii) the adoption of a moratorium on new tax and customs exemptions; (iv) the deployment of Asycuda ++ in 14 customs posts; and (v) the introduction of a single excise tax of 18% on telecommunications to replace several taxes on telecommunications. Although salutary, the measures taken by the government must be deepened in view of the current strong fiscal pressure.

Programme Measures

5.2.3. To support government's efforts to improve domestic resource mobilization, PUCB **will back measures aimed at: (i) simplifying taxation and improving its efficiency; and (ii) improving the organizational and operational framework of tax administration**, with a view to enhancing its performance. More specifically, PUCB will support the following measures: (i) conduct and validate a study on tax expenditure and IRPP reform; (ii) adopt and implement the new simplified IRPP regime; (iii) prepare and adopt a tax revenue mobilization plan to broaden the tax base; (iv) signature of a memorandum of understanding between the Directorate-General of Taxation (DGI) and the Directorate-General of Customs and Indirect Taxes (DGDDI), to step up the fight against tax and customs fraud; (v) adopt the new organization chart of the Directorate-General of Taxes to strengthen tax control of companies, among others; and (vi) signature of a performance contract by the DGI to strengthen its accountability.

Expected Outcomes

5.2.4. **The reforms sustained by PUCB will lead to an improvement in Chad's fiscal performance.** The tax revenue/non-oil GDP ratio should rise from 7% in 2016 to 8.2% in 2018.

Component II: Improve Public Resource Management

Sub-Component II.1: Improved wage bill control

Context and Government's Recent Actions

5.2.5. To create a conducive fiscal space for economic recovery through the financing of public investments and safeguarding of social sector expenditure, **Chad must consolidate efforts to improve the quality of public spending by streamlining its operating expenditure, in particular wage-bill related expenditure.** Over the past fifteen years, Chad has considerably increased its wage bill and the number of civil servants due to its oil revenue. From 2004 to 2016, civil servant-related expenditure (including pensions) rose by 358% and the number of civil servants doubled to about 89,000. In 2016, expenditure related to salaries represented 7.5% of non-oil GDP and 63.3% of public revenue. In 2017, the ratio of salary-related expenditure/non-oil revenue is expected to be 89.2%; i.e. the highest percentage in CEMAC. In this context, it is essential to streamline the management of the civil service payroll, particularly characterized by many serious irregularities concerning the payment of staff salaries and allowances (several workers receive undue salaries and allowances; the existence

of “ghost” workers is also a problem). **To control wage bill-related spending, the government recently took several measures**, including: (i) a 50% reduction in civil servants’ allowances; (ii) a freeze on the financial impact of civil servants’ advancement; and (iii) the conduct of an audit of the civil service payroll, which could lead to savings of CFAF 40 billion if some of its recommendations are implemented. However, the government should continue to pursue efforts to streamline wages and salaries.

Programme Measures

5.2.6. To help control the wage bill, PUCB will support the following measures: (i) implement the recommendations following the civil service payroll audit; and (ii) audit the qualifications of civil servants and prepare the subsequent action plan.

Expected Outcomes

5.2.7. PUCB-backed reforms will help to control the wage bill. Therefore, the wage bill/non-oil GDP will drop from 7.5% in 2016 to 6.9% in 2018.

Sub-components II.2: Improved public debt management

Context and Recent Government Actions

5.2.8. Chad’s public debt management performance is weak. This situation is mainly due to Chad’s weak public debt management and monitoring capacity, fragmentation of the central government debt decision-making process and the absence of any public debt management strategy. As a result, despite having reached the HIPCI completion point in April 2015 and in the current context of declining oil revenue, Chad is at risk of debt distress because of its high level of external commercial debt³⁶. For instance, the projected debt service/revenue ratio over the 2017-2018 period is 40%. Moreover, the amount of public debt interest paid in 2017 is expected to represent 66.8% of the amount of social spending for that year. Furthermore, from 2014 to 2016, to offset the drop in oil revenue, Chad’s domestic debt increased by 102.7%. In addition, domestic arrears over the same period increased by 224, 3%, which weakens the private sector and economic activity. In April 2017, domestic arrears were estimated to be at least CFAF 270 billion (but an accurate assessment is necessary to determine their exact amount). This situation reduces the budgetary margin available for social sector spending, investment expenditure, impedes economic recovery and threatens implementation of PND 2017-2021, which is primarily focused on economic diversification and improving the quality of life for the people of Chad.

5.2.9. To address this situation, the government recently took the following measures to improve public debt management: (i) mandatory prior approval by the National Debt Analysis Commission before the signing of any loan agreement; (ii) publication of an annual report on public debt management; and especially (iii) the recruitment of international financial and legal advisers to negotiate a new restructuring of the Glencore debt, which represents 98% of Chad’s external commercial debt³⁷. However, the government must intensify its actions aimed at improving public debt management in order to release more resources to finance social sector spending and the necessary investments to diversify the Chadian economy and reduce its dependency on oil.

³⁶ See § 2.2.4.

³⁷ See § 2.2.4.

Programme Measures

5.2.10. In this regard, **PUCB is expected to support the following measures that will help to improve public debt management:** (i) prepare a medium-term debt management strategy, which will include a risk assessment component, and help to build public debt accounting and monitoring capacity; (ii) install SYGADE 6 debt management software, which will allow more effective monitoring and more detailed analysis of domestic and external debt; and (iii) conduct an audit of domestic arrears and prepare a domestic arrears clearance plan, particularly taking into account social criteria (settlement of the central government's debt to CPA will be one of the plan's priorities).

Expected Outcomes

5.2.11. **PUCB-backed reforms will help to improve public debt management.** They will bring the debt service to revenue ratio down from 40% in 2016 to below 35% in 2018.

5.3. Policy Dialogue

5.3.1. **Under PUCB, policy dialogue will focus on fiscal consolidation.** During PUCB's implementation period, policy dialogue between the Government of Chad, the other TFPs and the Bank will focus mainly on the fiscal consolidation reforms to be implemented, in order to revive the Chadian economy and create positive conditions for the execution of the economic diversification programme. This dialogue will take place within the overall framework of the TFP Committee and the specific framework of the macroeconomic and public finance thematic group, of which the Bank is a highly active member³⁸. This dialogue will be underpinned by several analytical works already completed³⁹ as well as others to be available shortly (the PEFA 2017 report, the audit of civil servants' qualifications and the audit of domestic arrears).

5.4. Grant Conditions

5.4.1. **PUCB measures precedent were selected by mutual agreement with the Government of Chad⁴⁰.** PUCB measures precedent are limited measures but essential for the programme's implementation. Furthermore, after discussion, they will be subject to a consensus between the Government of Chad and the Bank. They have also been discussed with the other TFPs.

³⁸ See §4.3.1.

³⁹ See § 4.5.1.

⁴⁰ See Table 4.

5.5. Good Practice Principles on the Application of Conditionality

5.5.1. **Good practice principles on the application of conditionality were followed during PUCB's design.** Ownership is the result of close cooperation between the Chadian Government and the Bank during the programme's design and its alignment on PND 2017-2021 as well as the 2017-2021 Action Plan. Furthermore, PUCB was closely coordinated with the other TFPs through the TFP Committee. PUCB took national needs into account as seen in the programme's contribution to the fiscal consolidation process triggered by the government to revive the national economy. The conditions precedent to disbursement mainly concerned essential and realistic reforms. The programme is also aligned on the country's budgetary cycle.

Table 4 : PUCB Measures Precedent	
PUCB Measures Precedent	Proof of Implementation to be Provided by the Chadian Authorities
Measure Precedent 1: Conduct a study on tax expenditure and IRPP reform and validate the study; Status: completed	Proof 1 : Correspondence from the Minister of Finance and Budget forwarding the study on tax expenditure and the IRPP reform validating the study
Measure Precedent 2: Prepare and adopt a tax revenue mobilization plan; Status : completed	Proof 2: Correspondence from the Minister of Finance and Budget forwarding the adopted tax revenue mobilization plan
Measure Precedent 3 : Signature of a memorandum of understanding between DGI and DGDDI ; Status : completed	Proof 3: Correspondence from the Minister of Finance and Budget forwarding a copy of the memorandum of understanding signed between DGI and DGDDI
Measure Precedent 4 : Prepare the report for implementation of the recommendations following the civil service payroll audit; Status : completed	Proof 4: Correspondence from the Minister of Finance and Budget forwarding the report on implementation of the recommendations following the civil service payroll audit

5.6. Financing Needs and Arrangements

5.6.1. **PUCB is part of the external financing resources that will contribute to narrowing the overall fiscal deficit (excluding grants, on a cash basis) and domestic debt repayment in 2017.** In particular, these external financing resources comprise concessional loan resources awarded by the IMF and budget support in the form of TFP grants amounting to CFAF 179 billion in 2017. PUCB resources represent 20.1% of this amount (see Table 5).

5.7. Application of Bank Group Non-Concessional Borrowing Policy

5.7.1. **PUCB complies with the Bank's non-concessional borrowing policy and principles.** This programme is financed by a grant to Chad, a country with a high risk of debt distress⁴¹. It is also in keeping with the Bank Group's non-concessional borrowing policy.

Table 5: Financing Needs for the 2017-2018 Period (in CFAF billion)		
Source: IMF (June 2017)		
	2017	2018
Total revenue and grants	962	964
Of which grants (excluding budget supports)	82	99
Total Expenditure	909	927
Of which interest payments	137	109
Of which capital expenditure	230	263
Overall fiscal balance on a commitments basis (excluding budget support)	-126	-80
Accumulated arrears	-30	-40
Overall fiscal balance on a cash basis (excluding budget support)	-175	-117
External financing (loans)	91	50
Budget supports	179	117
Of which AfDB budget support	36	0
	-95	-50
Domestic Financing		
Financing needs	0	0
Residual financing gap	0	0

⁴¹ See 2.2.4.

VI. OPERATION IMPLEMENTATION

6.1. Programme Beneficiaries

6.1.1 **All of Chad's population will benefit from PUCB.** PUCB will create a conducive fiscal space for economic recovery and safeguarding of social sector spending. It will also contribute to the implementation of PND 2017-2021, which includes economic diversification and improvement of the quality of life for the people of Chad among its priorities. Furthermore, thanks to PUCB, the capacity of the Chadian administration in terms of domestic resource mobilization, wage bill control and public debt management will be built. In addition, by addressing the domestic arrears issue, PUCB will have a positive impact on private sector enterprises, which are dependent on public procurement.

6.2. Impact on Gender and Vulnerable Groups

6.2.1. **PUCB-backed reforms will impact positively on women, young people and vulnerable communities.** PUCB will create a conducive fiscal space for safeguarding social sector spending, which is threatened following declining oil revenue since 2014. It will unlock resources to finance the priority thrusts of the country's gender policy adopted in 2011. These mainly concern the closing of the gender gap in education and gender mainstreaming in the general government budget. Furthermore, PUCB will help to create fiscal conditions that will encourage implementation of the national health policy adopted in 2016, whose objective is to provide the population of Chad with universal access to high quality health care. In addition, the expected economic recovery following PUCB's implementation will contribute to job creation, particularly among young people.

6.3. Impact on Environment and Climate Change

6.3.1. **PUCB will not have any negative impact on the environment and climate.** This programme, which is a CRBS, was classified in Environmental Category III in accordance with the Bank's environmental and social impact procedures. Moreover, PUCB will contribute to the implementation of PND 2017-2021, which has an environmental component including activities aimed at protecting Lake Chad and controlling desert encroachment.

6.4. Implementation, Monitoring and Evaluation

6.4.1. **The Ministry of Finance and Budget will be responsible for monitoring the programme's implementation.** It will play the role of PUCB Steering Committee and will ensure that the technical structures involved in the programme's execution play their full role by rolling out specific measures that fall within their areas of competence. The General Secretariat of the Ministry of Finance and Budget will be charged with the routine monitoring and evaluation of the programme. This Secretariat will be specifically responsible for preparing quarterly reports based on results-based logical framework and PUCB matrix of reform measures. At Bank level, PUCB will be monitored through two supervision missions and continuous dialogue between the Chadian Government and the Bank. The Chad Country Office will play a key role.

6.5. Financial Management, Disbursement and Procurement⁴²

6.5.1. Fiduciary Risk Assessment: **The PFM reform trajectory is positive, thanks to government’s continued efforts. However, the risks remain high.** In August 2014, an FRA concerning Chad’s PFM system was conducted by the Bank in accordance with : (i) the Financial Management Policy for Operations financed by the Bank Group of February 2014; (ii) the Directive on the Promotion of the Use of National Systems of March 2014; and (iii) the March 2014 Operational Guidelines for PBO. The assessment revealed that the overall fiduciary risk was high. During PUCB appraisal, the FRA was updated and the overall fiduciary risk level remains high. However, despite the country’s fragility drivers, it should be noted that significant progress had been made to enhance transparency and accountability through the operationalization of the Court of Auditors, among others. Moreover, with TFP support the Chadian Government will gradually implement the mitigation measures identified to reduce the PFM-related fiduciary risk.

6.5.2. Financial Management Arrangements: **PUCB resources will be managed through the national PFM system. However, verification of the programme’s financial flows will be carried out by an independent firm of external auditors.** PUCB is a CRBS, whose main objective is to contribute to financing the fiscal deficit and implementing fiscal consolidation reforms. To do so, even though the overall fiduciary risk level related to the use of the national PFM system remains high, PUCB resource management will be carried out using the said system particularly in view of the positive PFM trend in Chad. Therefore, the Ministry of Finance and Budget will assume responsibility for the administrative, financial and accounting management of these resources. However, the Chadian authorities and the Bank have agreed to establish a special mechanism to monitor PUCB-related financial flows. It mainly concerns: (i) the transfer of PUCB resources to a special account at the National Directorate of the Bank of Central African States (BEAC); (ii) the adequate recording of transactions on this account in order to produce reliable financial information in real time; and (iii) the performance of an audit of PUCB-related financial flows by an independent firm of external auditors recruited and paid by the Chadian Government based on terms of reference deemed satisfactory by the Bank, latest six months after the disbursement of resources.

6.5.3. Disbursement: **Project resources will be disbursed in a single tranche, subject to fulfilment of the related general and specific conditions by the Donee. At the Donee’s request, the Bank will disburse the funds into a special account opened in the name of PUCB in the books of the BEAC National Directorate.**

6.5.4. Procurements: **PUCB is a CRBS and its implementation does not raise any issues directly related to the procurement of goods and services.** Furthermore, the country procurement assessment carried out by the Bank concluded that the National System was satisfactory overall. The public procurement framework was strengthened following the adoption of a new Public Procurement Code in 2015. A significant advance in this new code is the separation of the control function from the regulatory function and the setting of timelines for each stage of the process. The main public procurement management bodies are now: (i) the procurement body; (ii) the prior control body (DGCMP under the oversight of the Prime Minister in principle, but recently attached to the Ministry of Finance and Budget. This structure is operational); and (iii) the regulatory body (ARMP placed under the oversight of the President of the Republic. To-date, only the Director-General of ARMP has been appointed). While this

⁴² See Technical Annex 3.

new Code corrected the shortcomings of the former code, there are still some weaknesses, in particular the approval of contracts by the President of the Republic (CFAF 10 million).

VII. LEGAL FRAMEWORK

7.1. Legal Instrument

7.1.1. **The financing instrument proposed under this programme is a TSF grant for UA 46 million.** A grant agreement shall be signed between the Republic of Chad (the “Donee”) on the one hand, and on the other hand, the African Development Bank (the “Bank”) and the African Development Fund (the “Fund”), collectively called “the Bank” on behalf of the TSF. The general conditions applicable to grant agreements related to grants awarded by the Fund will form an integral part of the grant agreement.

7.2. Conditions Associated with Bank’s Intervention

7.2.1. **Conditions precedent and effectiveness:** Before the programme is presented to the Boards of Directors, the Government of Chad will provide evidence of the implementation of the measure precedents presented in Table 4 of this report. Effectiveness of the grant agreement shall be subject to its signature by the Bank and the Donee.

7.2.2. **Conditions precedent to disbursement of the TSF grant.** In addition to the conditions of effectiveness of the grant, the disbursement of the resources of the TSF grant (UA 46 million) will be subject to the following condition: “Provide references of a Public Treasury bank account opened in the books of the BEAC National Directorate for the sole purpose of receiving the grant resources”

7.3. Compliance with Bank Group Policies

7.3.1. This programme complies with applicable policies and guidelines, in particular the Bank Group’s policy on PBO. No exception or waiver is requested in relation to these policies and guidelines in this proposal.

VIII. RISK MANAGEMENT

8.1. Achievement of PUCB’s objectives could be hindered by many risks. To guard against these risks, the following mitigation measures have been identified.

Table 6: Risk Matrix

Risks	Mitigation Measures
<p>Political and security: The socio-political climate became tense following protests by some political parties in the wake of the 2016 Presidential elections and the postponement of legislative elections. Moreover, tension related to security problems and purchasing power persist. Moderate level</p>	<p>Chad has established a national political dialogue framework, which is the forum for settling political disputes. This consultative framework will enable the different stakeholders to preserve the country’s relative political stability.</p> <p>The Lake Chad riparian countries (Cameroon, Niger, Nigeria and Chad) have taken measures to pool their resources in the combat against terrorism. Moreover, the international community (in particular France and the United States) is supporting all these countries in the fight against terrorism.</p>

<p><u>Risk related to macroeconomic instability:</u> The drop in oil prices led to an economic recession in 2016. In addition, Chad’s external commercial debt burden, which is ranked as at high risk of debt distress, is affecting its ability to revive the economy and intensify economic diversification. This is necessary to reduce the country’s dependency on oil rent. High Level</p>	<p>With the concerted support of the TFPs, Chad has embarked upon a process of fiscal consolidation, which will enable it to create a fiscal space conducive to economic recovery and intensification of economic diversification. The fiscal consolidation process initiated also included a component to improve the management of the public debt, whose burden on public finances has resulted in a reduction in available resources to finance the necessary productive investments for economic recovery and diversification.</p>
<p><u>Weak institutional capacity and limited commitment to the implementation of reforms:</u> Due, in particular, to decades of political instability that the country has experienced, its institutional capacity is weak and commitment to the implementation of reforms is limited. Moderate Level</p>	<p>The technical assistance provided by the TFPs (including institutional support financed by the Bank) is helping to build Chad’s institutional capacity. Commitment to the implementation of the reforms became stronger during the consultation and concertation process that culminated in the preparation and validation of the 2017-2021 PND.</p>
<p><u>Fiduciary Risk:</u> Due to the many PFM shortcomings, the fiduciary risk is high.</p>	<p>Through the 2017-2021 PAMFIP Action Plan and TFP support to improve PFM, the fiduciary risk should be gradually reduced.</p>

IX. RECOMMENDATION

9.1. In light of the foregoing, Management recommends that the Boards of Directors of the Bank and the Fund approve the CRBS operation for UA 46 million from TSF resources, under the conditions set out in this report.

Annex 1: Letter of Development Policy

REPUBLIC OF CHAD

PRESIDENCY OF THE REPUBLIC

OFFICE OF THE PRIME MINISTER

MINISTRY OF ECONOMY AND DEVELOPMENT PLANNING



UNIUNITY-WORK-PROGRESS

N'Djamena,

N°-----/MEPD/17

The Minister of Economy and Development Planning

To

Dr.

**President of the African Development Bank Group
Abidjan, Republic of Côte d'Ivoire**

Subject: Letter of Development Policy for the Emergency Fiscal Consolidation Programme (2017-2018 PUCB)

Mr. President,

1. This Letter of Development Policy (LPD) describes on the one hand, the socio-economic context of Chad, the national development strategies as well as recent economic developments in 2016 and, on the other, presents the economic prospects and reforms for 2017 and 2018. It reviews all the priority public and sector policies implemented by the government to significantly reduce poverty in Chad.

2. The LPD also indicates the urgent priority reform measures necessary to mitigate the impacts of the three major shocks linked to: (i) the continuing fall in oil prices and its consequences for the repayment of the Glencore debt; (ii) the security tensions in Chad and in the region which continue to seriously affect the budget and, in general the economy; and (iii) the reception and continuing care of at least 750,000 refugees and over 130,000 displaced people and returnees, along the borders with neighbouring countries. This LDP sets out the broad lines of the short-and medium-term reform programmes.

3. In order to support its programme, the Government of Chad is seeking from the African Development Bank Group an amount of 46 million units of account (UA) i.e. the equivalent of 64 million United States dollars, in the form of a grant for budget support in 2017.

I. Context

4. Since the restoration of peace in 2009, the quality of dialogue and several renegotiations led first to the signing with the International Monetary fund of a Staff-monitored Programme in 2013. Since August 2014, the Government of Chad has implemented bold measures to effectively implement its medium-term economic and financial programme supported by the IMF under the Three-Year Extended Credit Facility (ECF) approved on 1 August 2014. As a result of the satisfactory implementation of the arrangement under the ECF, with completion of the first review, the completion point of the Heavily Indebted Poor

Countries Initiative (HIPCI) was reached in April 2015, which was a major turning point for Chad. Since then, and notwithstanding the implementation of economic policies complicated by external shocks, Chad has been able to complete a further three reviews under the 2014-2017 ECF Programme.

5. As a result of the budget support disbursements of the IMF, World Bank, the European Union, the African Development Bank and more recently France, the Authorities were able to regularize the payment of salaries in 2016 until early 2017 and that also resulted in significant progress in terms of macroeconomic and financial stabilization and structural reforms in accordance with the programme's objectives and despite a particularly difficult context in 2016.

6. The Government prepared and successfully implemented the National Development Plan (NDP) covering the 2013-2015 period which was recently succeeded by the National Development Plan (2017-2021 NDP) adopted and successfully presented at the Donor Roundtable in Paris on 6, 7 and 8 September 2017 under the High Patronage of His Excellency Idriss Deby Itno, President of the Republic assisted by his counterpart, the President of the Islamic Republic of Mauritania. Indeed, this first plan is derived from the 'Vision 2030, the Chad we want' over the next fifteen years. The Vision 2030 and NDP preparation process was even more participatory and inclusive than in the past since it 'gathered the aspirations'⁴³ of all segments of the population at national level and was motivated by the search for consensus around strategic guidelines that would guarantee ownership by all actors and consequently facilitate its implementation. It thus provided a fresh opportunity to strengthen dialogue on the sector policies and strategies to be implemented between the Administration, civil society, religious faiths, Parliament and the Technical and Financial Partners (TFPs). Also, the 2017-2021 NDP is currently the only medium-term consultation and assistance reference framework in the area of economic and social development, for the government and TFPs.

7. The exogenous shocks facing Chad since the middle of 2014 continue to affect the economic, financial and social situation:

- Despite a slight rise in, and stabilization of world oil prices in the second half of 2016, the price of Chad's oil has remained below that of 2015, and its current level (about 45 United States dollars a barrel) still only represents about half the average 2014 price. Because of this price level, coupled with the heavy burden of repaying a loan guaranteed by oil which, at the end of 2016, represented about 1.37 billion United States dollars, oil revenue paid to the Treasury has fallen considerably. The Government has had to make cuts in spending on education, health and investments and, despite that, is still experiencing difficulties in paying salaries. This has contributed to the heightening of social tensions.
- Chadian security forces have remained very closely involved in the different peace maintenance efforts, in particular, in the Lake Chad basin. These efforts are critical to maintain regional security, but the stationing of military personnel, especially in Cameroon, Mali, Nigeria and Niger as well as on the border with Sudan and Libya has put a serious strain on the General Government Budget and affected the Government's Economic and Social Development Programme. The security situation continues, therefore, to disrupt crossborder trade and key economic activities, especially in the livestock and agricultural sectors.

⁴³ INSEED Survey on National Aspirations

- The humanitarian crisis in the region whose negative impact on the aforementioned refugees, displaced people and returnees that Chad is facing alone is also a major source of difficulties for Chad, without taking into account those who are hosted by families. While it is difficult to calculate the direct budget cost, the Authorities are facilitating access to land and basic community services for refugees and helping them to settle in the host communities.

II. Overview of the National Development Plan (2013-2015 NDP)

8. The 2013-2015 NDP has identified the following eight (8) priority areas (i) sustained growth; (ii) food security; (iii) the creation of, and access to employment ; (iv) human capital development; (v) private sector development ; (vi) the development of Information and Communication Technologies (ICTs) (vii) environmental protection and climate change adaptation; and (viii) improvement of governance.

9. In order to achieve the above objectives, four (4) strategic operational and programming thrusts have been identified: (i) development of production supply and opportunities for decent jobs ; (ii) mobilization and enhancement of human capital and the fight against inequality, poverty reduction and social exclusion; (iii) Environmental protection and climate change control and; and (iv) the improvement of governance.

10. In general, the three-year budgetary programming of the Priority Action Plan (2013-2015 PAP) was consistent with the annual tranches of the Budget Laws (2013-2015), despite the different exogenous shocks mentioned above.

11. The analysis of the performance in the implementation of the NDP over the period under review shows an overall positive result. Indeed, of the 94 indicators retained (strategic and intermediates), 29 indicators exceeded the targets set, i.e. 32%; 2 indicators achieved their targets; 35 indicators are making significant progress, i.e. 37%; and 28 indicators have mixed results, i.e. 30%.

12. A performance analysis by strategic thrust reveals the following: i) concerning Thrust 1 relating to the development of Production Supply and Opportunities for decent Jobs, 10 of the 27 indicators achieved and even exceeded their 2015 targets; 5 have made significant progress while 12 have had mixed results; ii) Concerning thrust II relating to the mobilization and enhancement of human capital and the fight against inequality, poverty reduction and social exclusion, 15 of the 47 indicators achieved and even exceeded their 2015 targets, 24 have progressed and 8 are progressing irregularly; iii) concerning Thrust III relating to environmental protection and climate change control, of the 6 indicators, only the one concerning the National Regional Development Plan has been achieved and the annual deforestation rate has increased significantly (from a baseline value of 2.5% in 2012, the rate stood at 0.7% in 2015 compared to a target of 0.5%); and iv) concerning Thrust IV relating to the improvement of governance, 4 of the 14 indicators have achieved or exceeded their targets, the indicator concerning the publications of quarterly bulletins has achieved its target, 3 are making significant progress whereas 6 are making irregular progress.

13. Analysis of the financial implementation over the entire 2013-2015 period reveals a satisfactory average implementation rate of 85% for domestic financing and 91.5% for external financing. However, stronger efforts are required to further improve the objectives relating to these four strategic thrusts especially in the supply of socio-economic services and administrative reforms.

III. Macroeconomic Situation in 2016 and Outlook for 2017

14. The economic and financial situation continued to deteriorate in the second half of 2016, with a strong contraction of economic activity. The drastic budget cuts coupled with reduced investment by oil companies resulting in many redundancies in these companies and even among sub-contractors, have had indirect impacts on the rest of the economy. Companies in the non-oil sector have also cut back on their activities, especially in the construction sector, an important source of jobs. As a result, economic activity contracted in 2016 for the second successive year and was even more pronounced than in 2015. Weak domestic demand as well as continuing disruptions to cross-border trade have led to deflation.

15. Budget difficulties continued to worsen throughout 2016. Oil and non-oil revenue were considerably lower in 2016, and serious liquidity problems persisted throughout the year. Oil revenues, in particular fell to about one third of their 2014 level. In response, the Authorities executed the budget on a cash basis by prioritizing essential expenditure such as security expenditure, payment of salaries, debt servicing and social sector spending to reduce poverty. Since the middle of the year, the Authorities took bold measures such as a reduction in bonuses to contain the wage bill, a drastic reduction in investment expenditure to 1 % of non-oil GDP compared to an average of 8% between 2006 and 2015 and a significant drop in transfers and subsidies to balance the budget. However, these measures as well as the mobilization of exceptional revenue were insufficient to resolve the liquidity problems. The cash-flow problems worsened in the second half of the year largely due to the economic slowdown, the poor performance of oil revenue and caused delays in the payment of wages and salaries as well as the accumulation of a number of years of arrears owed to domestic and external creditors.

16. The economic slowdown and liquidity crisis facing the Government have seriously affected the banks. Non-performing loans have increased significantly because of the accrual of domestic arrears by the Government to private sector companies which, in turn were unable to pay their debts to banks. This situation was exacerbated by the decline in public contracts (on which the private sector is heavily dependent), which resulted in an overall decline in economic activity. This situation coupled with the fact that the banking sector (which has greatly increased its direct exposure to public securities over the last two years) has reached the BEAC refinancing threshold, is creating liquidity problems for the banks. The delicate situation of the banking sector has impacted on the real sector (for the banks are no longer able to provide credits to the economy) as well as on the public sector. As a result, many banks have reached, or are about to reach, their BEAC refinancing limits. The Government is also faced with difficulties in issuing new debt securities and rolling-over the existing debt.

17. The Government has prepared a vast strategic plan to address the challenges facing the country and to return real GDP to the path of sustainable growth and improve the population's socio-economic situation. To this end, on 30 June 2017, the Government signed a new Three-Year Agreement with the IMF supported by the Extended Credit Facility (2017-2019 ECF) to support its economic and financial policies. In the wake of the 2016 recession as a result of the above-mentioned exogenous shocks, Chad is expected to return to economic growth from this year, 2017 when the real GDP growth rate is expected to be 1.3% (real oil GDP growth rate is expected to be 5.9% compared to 0.9%), as a result of the good 2016/2017 crop year despite an unfavourable economic situation with respect to services (-4.4%) and industries (+0.8%). Indeed the production of cereal crops rose by 17.0 % compared to the last crop year. Compared to the average of the past five (5) years it has also risen by 13.6%. Seed cotton production has also increased by 14.8 % in relation to the previous crop year. This

upward trend is expected to be maintained in 2018 according to the macroeconomic framework assumptions

IV. The Reform Programmes

18. Democratic governance, public sector reform and the combat against corruption are equally important thrusts of the country's development policy. A national consensus has been reached on the need to diversify the economy beyond the oil sector. The Government and other stakeholders recognize that the crude oil price shock persists and that it is important to reduce dependency on the oil sector as an engine of growth. The Government is convinced that improving the business climate is a promising means of diversifying exports and attracting foreign investments outside the oil sector.

19. The New National Development Plan (2017-2021 NDP) adopted by the Council of Ministers on 7 July 2017, has the following four strategic thrusts: i) Strengthen the national unit; ii) improve good governance and the rule of law; iii) Develop a diversified and competitive economy; and iv) improve the population's quality of life (social protection). This plan was prepared following a broad-based national consultation process. The final draft was reviewed with all the domestic stakeholders at a workshop organized on 6 and 7 October 2016 and submitted to the Steering Committee chaired by His Excellency the Prime Minister, Head of Government. A Multi-Sector and Multi-Donor Technical Review Committee was established at the end of 2017 and produced the final versions as well as nine (9) thematic sector notes, which were submitted to the Council of Ministers for adoption and forwarded to the National Assembly on 17 July 2017 for information. The outcome of the Donor Roundtable on 6,7 and 8 September 2017 was the mobilization of three times the financing gap of the 2017-2021 National Development Plan.

20. Under the implementation of the 2017-2021 NDP, the Government will maintain its economic diversification policy by supporting the promotion of promising sub-sectors, non-wood forest products and value chains in rural development (gum arabic, groundnuts, rice, maize, shea, honey, cowpeas, sesame, spirulina, dates, fishing, meat, milk, etc.). This will be done in particular through actions targeting producer supervision, intracommunity trade, and the operationalization of integrated industrial development and export promotion strategies.

21. In order to mitigate the negative impacts of the three aforementioned shocks over the 2017-2018 period of the PUCB, the Authorities wish to pursue and strengthen the different reform programmes through two public finance –related components, namely: i) improved mobilization of domestic resources and ii) more effective human resource management. Since the main objective is to cushion the impacts of the crisis through fiscal consolidation measures, to effectively support the recovery of the Chadian economy and improve the population's socio-economic conditions by protecting the vulnerable segments:

- **Under Component 1, Improved domestic resource mobilization**, the **Government** undertakes in order to achieve this objective, through the **1st sub-component on simplification of taxation and improvement of its efficiency**, to carry out in 2017 and 2018 respectively: i) the study on tax expenditure, reform of the IRPP and validation of the study; ii) adoption and implementation of the new simplified IRPP in 2018 by the Initial Budget Law. **The 2nd sub-component on the improvement of the organizational and operational framework of the Tax Administration** through: I) the preparation and adoptions of a tax revenue mobilization plan; ii) the signing of a memorandum of understanding between the Directorate-General of Taxation (DGI) and the

Directorate-General of Customs Duties and Indirect Taxes (DGDDI); iii) the adoption of a new DGI organization chart in 2018 and iv) signing of a performance contract by DGI in 2018.

- **Under Component 2, Improvement of Public Resource Management:** In order to achieve the component's objective, the Government recommends, through the **1st Sub-Component 'Improved wage bill control'** to: i) prepare an action plan following the audit of the civil service payroll; ii) implement the Action Plan following the civil service payroll audit in the short-to-medium term; iii) in 2018 conduct the audit of civil servants' qualifications and validate the action plan stemming from that audit. **The 2nd Sub-Component Improved Cash and Public Debt Management':** i) conduct the audit of domestic arrears and validate the related report; prepare and adopt the domestic arrears settlement plan in 2018 ; ii) prepare a medium and long-term debt management strategy with the assistance of the Afritac Centre in 2018 and iii) Install the SYGADE 6 debt management software with AfDB assistance. Some of the short-term measures and/or actions have already been completed such as the study on tax expenditure, the Order abolishing the granting of new exemptions, a 50% reduction in the public authorities' allowances, etc.
- Several reform measures were implemented from 2015 to 2016 including i) the adoption of the new Public Procurement Code; iii) establishment of the Public Procurement Regulatory Authority (ARMP) and appointment of managerial staff; iv) adoption of CEMAC Directives and modernization of public finances through the computerization of the Large Enterprises Directorate the DGI, installation of Ayscuda ++ software in the main customs posts in N'Djamena and the integrated expenditure circuit through the four-phase table for expenditure tracking

V. Programme Monitoring

22. The African Development Bank's budget support will continue to be implemented under the supervision of the Negotiations Committee at the Ministry of Finance and Budget. The latter will continue to prepare quarterly reports on the programme's status in collaboration with the different sectors concerned and will endeavour to collect all the relevant information to more efficiently monitor the programme. All the structures concerned by the programme will actively ensure coordination with the programmes of other donors in order to guarantee their success, consolidate social stability and support the economic growth required for a significant and lasting reduction in poverty in Chad.

23. I renew the gratitude of the Government and people of Chad and ask you to accept, Mr. President, the assurances of my highest consideration.

The Minister of Economy and Development Planning

NGUETO TIRAINA YAMBAYE

Annex 2: Matrix of PUCB Reform Measures

OBJECTIVES	2017 MEASURES	2018 MEASURES	INDICATORS	MEANS OF VERIFICATION
Component I : improvement of domestic resource mobilization				
I.1 Simplification of taxation and improvement of its efficiency	Conduct of a study on tax expenditure and reform of the IRPP and validation of that study		Study on tax expenditure and reform of the IRPPP	Correspondence from the Minister of Finance and Budget forwarding the study on tax expenditure and IRPP reform and confirming the validation of that study
	Adoption of the new simplified IRPP regime	Implementation of simplified IRPP regime	2018 Draft Budget Law adopted by the Council of Ministers and including the implementation of the new simplified IRPP regime	Correspondence from the Minister of Finance and Budget forwarding the Draft Budget Law for 2018 adopted by the Council of Ministers and including the implementation of the new simplified IRPP regime
	Preparation and adoption of a tax revenue mobilization plan Signing of a memorandum of understanding between the Directorate-General of Taxations and the Directorate –General of Customs and Indirect Taxes		Tax revenue mobilization plan Memorandum of understanding between the Directorate-General of Taxation and the Directorate – General of Customs and Indirect Taxes	Correspondence from the Minister of Finance and Budget forwarding the adopted Tax Revenue Mobilization Plan Correspondence from the Minister of Finance and Budget forwarding the copy of the memorandum of understanding signed between the Directorate-General of Taxes and the Directorate-General of Customs and Indirect Taxes
I.2 Improvement of the organizational and operational framework of the tax administration		Adoption of the new organization chart of the Directorate-General of Taxation	New organization chart of the Directorate-General of Taxation	Correspondence from the Minister of Finance and Budget forwarding the copy of the Ministerial Order adopting the new organization chart of the Directorate-General of Taxation
		Signature of a performance contract by the Directorate-General of Taxation	Performance contract signed by the Directorate-General of Taxation	Correspondence from the Minister of Finance and Budget forwarding a copy of the performance contract signed by the Director-General of Taxation

OBJECTIVES	2017 MEASURES	2018 MEASURES	INDICATORS	MOYENS DE VERIFICATION
Component II : Improvement of Public Resources Management				
II.1 Improvement of wage bill control	Prepare a report on implementation of the recommendations following the civil service payroll audit		Report on implementation of the recommendations following the civil service payroll audit	Correspondence from the Minister of Finance and Budget forwarding the report on implementation of the recommendations following the civil service payroll audit
		Pursue the implementation of recommendations following the civil service payroll audit	2018 Draft Budget Law adopted including the implementation of the recommendations following the audit of the civil service payroll	Correspondence from the Minister of Finance and Budget forwarding the 2018 Draft Budget law adopted by the Council of Ministers and including the implementation of the recommendations following the audit of the civil service payroll
		Conduct of the audit of civil servants' qualifications and validation of the related report; preparation and validation of an action plan following the audit of civil servants' qualifications	Report on audit of civil servants' qualifications and an action plan following that audit	Correspondence from the Minister of Finance and Budget forwarding a copy of the minutes of the Council of Ministers' meeting adopting the audit report on the audit of the qualifications of civil servants as well as the said audit report; Correspondence from the Minister of Finance and Budget forwarding a copy of the minutes of the Council of Ministers' meeting adopting the audit report on the audit of the qualifications of civil servants as well as the related action plan
II.2 Improvement of Public Debt Management		Preparation of a medium-term debt management strategy	Medium-term debt management strategy	Correspondence from the Minister of Finance and Budget forwarding the medium-term debt management strategy adopted by the Council of Ministers and a copy of the minutes of the Council of Ministers' meeting adopting the said strategy

		Operationalization of SYGADE 6 public debt management software	SYGADE 6 public debt management software	Correspondence from the Minister of Finance and Budget forwarding a copy of the minutes confirming the operationalization of SYGADE 6 public debt management software.
		Conduct of the audit of domestic arrears and validation of the related report; preparation and adoption of a domestic arrears clearance plan	Report on the audit of external arrears and domestic arrears clearance plan	Correspondence from the Minister of Finance and Budget forwarding the report on the audit of domestic arrears validated by the Government as well as a copy of the minutes of the Council of Ministers' meeting adopting the said report; Correspondence from the Minister of Finance and Budget forwarding the domestic arrears clearance plan and a copy of the minutes of the Council of Ministers meeting adopting the said plan

Annex 3: Note on Relations with IMF

Press Release 17/257

IMF Executive Board Approves New US\$ 312.1 Million Arrangement Under the Extended Credit Facility (ECF) for Chad and Cancels the Current Arrangement

July 5th, 2017

- Board's decision enables immediate disbursement of US\$48.8 million for Chad.
- The arrangement will support the authorities' stabilization and recovery strategy and help foster long-term robust and inclusive growth.
- The arrangement will help stabilize the fiscal position, support a sustainable balance of payments position, and help rebuild the regional international reserve pool.

On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Chad for SDR 224.32 million (about US\$ 312.1 million, or 160 percent of Chad's quota) to support the country's stabilization and recovery strategy. Today's Board decision also notes the cancellation of the previous ECF arrangement. Policies under the new arrangement are expected to catalyze further support from Chad's external partners.

The ECF-supported program aims to help Chad restore macroeconomic stability and lay the foundation for robust and inclusive growth. It will also contribute to the regional effort to restore and preserve external stability for the Central African Economic and Monetary Union (CEMAC).

An amount equivalent to SDR 35.05 million (about US\$ 48.8 million) will be immediately disbursed to Chad. The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Chad, Mr. David Lipton, First Deputy Managing Director and Acting Chair, stated:

“Chad's macroeconomic and financial performance have deteriorated significantly over the past two years, against the backdrop of low oil prices, tense regional security situation, and a heavy external commercial debt burden. In 2016, real non-oil GDP contracted by 6 percent, following a 2.9 percent reduction in 2015.

“The new three-year arrangement under the ECF will support the authorities' strategy towards macroeconomic stabilization in the short term and a robust, equitable, and sustainable recovery.

“The program, supported by the new ECF arrangement, aims at stabilizing the fiscal and external position as well as re-establishing debt sustainability, through the restructuring of external commercial debt, prudent fiscal policies, and the resumption of growth.

“The authorities are committed to preserving the fiscal adjustment achieved so far and to improving the mobilization of non-oil revenue, which requires measures to broaden the tax base, and strengthen tax and customs administrations.

“Achieving debt sustainability and stabilizing the fiscal position hinge on reducing the burden of external debt service. To this end, the authorities are committed to restructure the debt with Chad's major external commercial creditor, and have appointed financial and legal advisors to help them through the process. These efforts would serve to ensure the protection of poverty-reducing social spending and allow the phased clearance of arrears thereby supporting growth.

“Structural reforms to improve public financial management and diversify the economy are key elements of the program. This includes improving budgetary practices and strengthening cash management and forecasting. Fostering long-term growth will require greater diversification of the economy. The authorities are committed to boost competitiveness by improving the business environment and addressing supply side bottlenecks. The new National Development Plan, which is expected to be released soon, will constitute a milestone in that regard.

“Continued strong implementation of the ECF-supported program will be critical to catalyze financial support from international partners to more effectively tackle development needs and support economic growth.

“The success of Chad’s program will depend in part on the implementation of supportive policies and reforms by the regional institutions.”

Annex

Recent Economic Developments

Economic activity contracted sharply in 2016, for the second year in a row. The economy continued to be affected by a very challenging external environment, with low oil prices and a tense security situation coupled with a refugee crisis; the heavy burden of servicing external commercial debt; and the impact of the sharp fiscal adjustment in 2015 and 2016 (the non-oil primary deficit fell from 16.2 percent of non-oil GDP in 2014 to 4.4 percent in 2016). This adjustment, and the accumulation of large domestic arrears, have set in motion a vicious cycle of contraction in non-oil economic activity, non-oil revenue, and government spending. Following a 2.9 percent reduction in 2015, real non-oil GDP contracted by another 6 percent in 2016, with consumer prices declining by about 1 percent on average in 2016.

Program Summary

Chad’s reform strategy is embedded in the coordinated regional approach outlined at the Yaoundé Heads of States summit in December 2016. The new ECF arrangement (which becomes effective today further to the cancellation of the previous ECF) is expected to address the country’s protracted balance of payments problems by supporting policies required to stabilize and better manage the fiscal position, place public debt on a sustainable path, and foster long term inclusive and robust growth including through the diversification of the economy. The program also aims to support the regional stabilization efforts.

The program aims to maintain fiscal prudence through preserving the fiscal adjustment achieved in the last few years and reallocating resources for domestic arrears clearance, investment and social spending; re-establish debt sustainability by restructuring external commercial debt; focus on improving non-oil revenue mobilization over the medium-term; and reduce reliance on domestic financing to ease liquidity pressure on banks. Structural reforms will also focus on improving public financial management, and on boosting competitiveness.

Background

Chad, which became a member of the IMF on July 10, 1963, has an IMF quota of SDR 140.2 million.

