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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/59-3

3:45 p.m., July 3, 2019

3. Chad—2019 Article IV Consultation, Fourth Review Under the Extended Credit Facility Arrangement, Request for Modification of Performance Criteria, and Financing Assurances Review

Documents: EBS/19/60 and Supplement 1, and Supplement 2, and Supplement 3;
SM/19/163

Staff: Bakhache, AFR; Sun, SPR

Length: 45 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors Alternate Executive Directors

I. Mannathoko (AE)

M. Raghani (AF)

G. Lopetegui (AG)

N. Heo (AP)

K. Hennings (BR), Temporary

P. Sun (CC)

A. Guerra (CE)

M. Sylvester (CO), Temporary

S. Benk (EC)

A. Castets (FF)

I. Fragin (GR), Temporary

M. Siriwardana (IN)

M. Psalidopoulos (IT)

M. Shimada (JA), Temporary

K. Badsı (MD), Temporary

P. Al-Riffai (MI), Temporary

M. Tolici (NE), Temporary

J. Sigurgeirsson (NO)

S. Potapov (RU), Temporary

R. Alkhareif (SA)

R. Pandit (ST), Temporary

P. Trabinski (SZ)

D. Ronicle (UK)

P. Pollard (US), Temporary

C. McDonald, Acting Secretary

V. Sola, Summing Up Officer

B. Zhao, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

Also Present

African Department: S. Bakhache, M. Ben Hassine, D. Owen. Strategy, Policy, and Review Department: Y. Sun, R. Turk. World Bank Group: F. Tchana Tchana. Alternate Executive Director: F. Sylla (AF). Senior Advisors to Executive Directors: M. Sidi Bouna (AF). Advisors to Executive Directors: M. Bangrim Kibassim (AF), J. Corvalan (AG), J. Essuvi

(AE), Z. Huang (CC), M. Kikiolo (AP), R. Makhammadiev (SZ), M. Mehmedi (EC),
I. Skrivere (NO).

3. CHAD—2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

Mr. Raghani, Mr. Sidi Bouna and Mr. Bangrim Kibassim submitted the following statement:

The Chadian Authorities would like to express their appreciation to Staff, Management and the Executive Board for their continued support to Chad. The Extended Credit Facility (ECF) arrangement has been instrumental in the authorities' efforts to stabilize the economy following the severe oil and security shocks. The discussions with staff in the context of the 2019 Article IV consultation and Fourth Review under the ECF have shed light on the achievements thus far and the policies needed to further the recovery. The authorities broadly share the thrust of the staff report which gives a fair account of issues at stake.

In view of its fragile situation, Chad is still facing a challenging socio-economic environment characterized by heightened security conditions and a humanitarian crisis, which put additional pressures on already constrained public finances. Despite such a context, the authorities have made good progress in reform implementation while contributing to the macroeconomic stability of the CEMAC region. As a result of their efforts supported by the Fund and other development partners, notable achievements have been made in economic recovery both in the oil and non-oil sectors, enhancing the fiscal position and debt restructuring.

Going forward, the authorities reiterate their commitment to the objectives of the ECF-supported program. They are determined to step up effort to further supporting economic recovery for a stronger and inclusive growth and increased domestic revenue.

Recent Developments, Program Performance and Outlook

Recent Developments

Economic activity in 2018 was characterized by higher-than-anticipated oil production and a lower activity in the non-oil sector. Overall GDP growth is estimated at 2.4 percent while inflation stood at 4 percent resulting from price increases in services. The authorities' prudent fiscal policy in 2018 translated notably into a more comfortable position at the

regional central bank (BEAC). As well, improvements in oil exports caused the current account deficit to decline to 3.4 percent from 6.6 percent in 2017.

Program Performance

Despite challenges, program performance was satisfactory with all performance criteria (PC) met and corrective measures are being implemented for the indicative targets that were missed on poverty-reducing social spending and on regularizing emergency spending procedures. In addition, out of the six structural benchmarks, two were met, one was partially implemented, one was implemented with slight delays and two are still pending.

Outlook

The authorities share staff's views on a broadly favorable outlook while being cognizant of the downside risks. The rise in oil production paired with the recovery in the non-oil sector, albeit at a slower pace, bode well for medium term growth. The authorities remain committed to maintaining fiscal discipline regardless of future developments on oil markets while accelerating structural reforms. As well, they will closely monitor security situations and take preventive measures to ensure a peaceful environment conducive for private investment.

Policy and Reform Agenda for the Medium-Term

The authorities are determined to enhance macroeconomic stability and to implement their reform program to achieve the overarching goal of a sustainable and inclusive growth. For the period ahead, they will strive to enhance fiscal policy while lifting bottlenecks to the development of the non-oil sector and the diversification of the economy, including addressing infrastructure gaps and improving the business climate, as envisaged under the National Development Plan (NDP).

Fiscal Policy

Fiscal policy for 2019 and the medium term will be geared towards ensuring fiscal sustainability through continued improvement in domestic revenue mobilization and greater spending efficiency. This will be needed to create space for key expenditures—including increasing public investment in infrastructure and meeting social spending—and for clearing arrears, in line with the program objectives.

To enhance revenue mobilization, the authorities will aim at expanding non-oil revenue through more efficient collection methods by streamlining tax and customs exemptions including on VAT, reforming VAT, corporate income tax and strictly enforcing the legislation on importers. On the other hand, strengthened transparency and strict enforcement of tax collection in the oil sector is expected to better support revenue mobilization. Measures are also being taken, including strengthening the IT system, to improve customs and tax administrations and further increase revenue. Furthermore, the authorities are committed to enhancing fiscal resilience by building buffers.

On the expenditure side, the authorities will continue their prudent approach, including through the close monitoring of the wage bill. They will prioritize productive public investment, notably in infrastructure and education and health sectors. The government is also making progress in the clearance of domestic arrears despite pressures on public finances stemming from the fragile security situation.

Public Financial Management

Public financial management (PFM) will be enhanced with ongoing efforts to improve efficiency and transparency in public resources management, including measures to strengthen monitoring and reporting, implement CEMAC directives and enhance cash management and the public procurement process. Specific measures encompass: (i) reducing the use of emergency spending procedures; (ii) establishing a cash management plan; (iii) implementing the Treasury Single Account (TSA); and (iv) for capacity building notably in public procurement.

Stronger PFM will also require the clearance of government domestic arrears. In this regard, the authorities are determined to adopt by November 2019 a comprehensive clearance strategy for resolving recognized domestic arrears, in line with the program objectives. An audit will help assess the remaining arrears before payment.

Financial Sector

Liquidity conditions in the banking sector have improved and recourse of banks to BEAC refinancing has declined. Moreover, the strategy of government arrears clearance should help reduce non-performing loans (NPLs) and reinforce banks' contribution to the recovery. In addition, the authorities are taking steps to address remaining vulnerabilities in the banking

system, including by implementing the recommendations of the reports of the external consultants on the review and the reorganization plans for the two major public banks. The authorities will also work closely with regional institutions, BEAC and COBAC, to deepen the interbank money market. Progress will also be made in advancing financial inclusion, including through supporting the development of mobile banking.

Capacity Building

The authorities are grateful to the IMF and development partners for the increased technical assistance (TA) that has accompanied the implementation of the ECF arrangement and helped improve ownership. TA has covered tax policy and domestic revenue mobilization, oil revenue projection and management, non-oil revenue mobilization, debt management, the reform of the Treasury and PFM. Going forward, Chad being in fragile situation, the authorities are requesting long-term experts, notably in the area of PFM, to sustain the impact of capacity development and buttress the coordination of TA and reform programs.

Structural Reforms

The authorities will pursue the implementation of their structural reform agenda. Priority areas include enhancing transparency and governance and improving the business climate. To this effect, they will facilitate the creation of SMEs by rationalizing related procedures. They will also pursue financial sector reforms aimed at improving the access of businesses to financing. On the governance front, the authorities will forcefully implement the United Nations Convention against Corruption (UNCAC) approved by the national assembly in 2017, as well as the new anti-money laundering law in their continued efforts to further improve the business climate.

To foster non-oil growth, it is imperative that the authorities be able to invest in the electricity sector, which requires significant resources. In this vein, they call on development partners to avail the necessary concessional financing given the zero limit on non-concessional borrowing under the ECF-supported program. A number of actions are also underway to enhance transparency, especially in the oil sector. These include the recent publication of oil contracts and revenues, notably those earmarked for debt servicing, as well as the publication of the financial statements of the state-owned oil company, Société des Hydrocarbures du Tchad (SHT).

Conclusion

The authorities have made commendable progress in the implementation of sound policies and reforms to stabilize the economy and support recovery amid a difficult security environment. Performance under the ECF arrangement continues to be satisfactory. The authorities are cognizant of the challenges that still lie ahead, including the imperative of increasing domestic revenue to finance public investment and diversify the economy away from oil dependency. In view of Chad's appreciable program performance in a difficult environment and the authorities' continued commitment to the objectives of the program, we would appreciate Executive Directors' support for the completion of the Fourth Review under the Extended Credit Facility arrangement and the request for modification of performance criteria.

Ms. Levonian, Ms. McKiernan and Mr. Sylvester submitted the following statement:

We thank staff for their comprehensive set of papers and Messrs. Raghani, Sidi Bouna, and Bangrim Kibassim for their helpful buff statement. As we broadly concur with staff's appraisal and recommendations, we offer the following comments for emphasis.

With all performance criteria (PCs) met and progress made on the structural reform agenda, we support the completion of the fourth review of Chad's Extended Credit Facility (ECF) arrangement and related decisions. The authorities' broadly satisfactory performance under their ECF in an extremely difficult socio-economic and security context is commendable. We welcome the emerging signs of macroeconomic stability and the broadly favorable outlook. Notwithstanding these encouraging developments, Chad faces significant risks and longstanding development challenges, which serve to hinder better economic and social outcomes. Considering this, we welcome the authorities' continued strong commitment, as highlighted in the buff statement, to pursue prudent policies and reforms.

We welcome the focus in the report and SIP on reforms aimed at diversifying the economy and unlocking sustainable and inclusive growth. Chad faces a multiplicity of development challenges making it one of the poorest countries in the world. These challenges include issues emanating from the 2014/15 oil price shock, as well as numerous structural impediments, notably, a difficult business climate, social and physical infrastructure gaps, governance issues, and banking sector weaknesses. To address these challenges, the authorities have been making determined efforts but are

themselves constrained due to weak capacity, which may be partly responsible for the recent slowdown in the pace of reforms. Could staff elaborate on the reasons behind the slowdown in the pace of structural reforms? Bearing that in mind, we urge continued strong international support for Chad in the form of concessionary financing and technical assistance (TA) and see merit in the authorities' request for long-term experts to sustain and build on progress made in TA delivery.

We concur with staff's recommendation that the focus of fiscal policy should shift toward addressing short-term vulnerabilities while building resilience over time. The authorities should be commended for having made significant progress in strengthening their fiscal position and reducing debt vulnerabilities. As recommended by staff, fiscal policy in 2019 should be guided by the need to improve non-oil revenue mobilization, maintain spending prudence, and reduce government domestic debt and arrears. Beyond the immediate horizon, the focus should be on strong non-oil revenue mobilization and on reducing the dependence on oil revenues. Taken together, these efforts would be critical in helping to create fiscal space to close Chad's huge social and physical infrastructure gaps and build fiscal resilience. Accordingly, we take positive note that the authorities have committed to boost non-oil revenue sources and improve the quality and efficiency of public spending while strengthening the public financial management (PFM) framework, including the clearance of arrears. That said, the authorities have noted difficulties in implementing reforms on exemptions given the relatively slow activity in the non-oil sector and the need for tax incentives for investment. Could staff elaborate on their recommendation regarding exemptions and whether TA is being considered to help the authorities advance this reform?

We note that banking sector weaknesses continue to weigh on financial sector stability and growth and urge the authorities to expedite actions to improve banking sector resilience. The authorities should act decisively to address banking sector vulnerabilities, including the deterioration in liquidity positions and non-performing loans (NPLs). As noted by staff, these vulnerabilities are mainly linked to the tight sovereign-bank nexus. In this regard, we note positively that the authorities have prioritized the continued clearance of domestic arrears and the paying down of domestic debt, which should contribute to improving banking sector liquidity and reducing the high NPL ratio.

Finally, we note positively that the union-wide institutions (BEAC and COBAC) have pursued the implementation of their policy pledges. This

should augur well for continued successful implementation of the authorities' reform program and the maintenance of regional macroeconomic stability.

Ms. Mannathoko and Mr. Essuvi submitted the following statement:

We thank staff for a well written set of reports and Messrs. Raghani, Sidi Bouna and Bangrim Kibassim for their informative buff statement. Given the program's decent performance under extremely challenging conditions, we support completion of this fourth review under the Extended Credit Facility arrangement and accept the proposed decision.

It is heartening that with some recovery in oil prices and oil production in 2018, the economy is pulling out of its three-year recession and the crisis sparked by the 2014–15 oil price shock. Nevertheless, dependency on oil exports and the volatility of oil prices, together with downside risks linked to fragility still leave the economy vulnerable. We therefore welcome the significant progress made in restoring macroeconomic stability and raising growth prospects. Policy efforts should continue to pursue stability and sustainability, alongside structural reforms to promote diversified and resilient growth.

Fiscal reform and fragility: Despite the extreme fiscal spending cuts and currency rationing that led, in the wake of the oil price shock, to a 12-percentage point improvement in the non-oil primary deficit in just two years (and a halving of the current account deficit), more reform is still required to attain fiscal and external balance. At the same time, the socio-political context is fragile, while poverty is high and projected to increase in the wake of the crisis. In addition, the influx of refugees has heightened humanitarian challenges. It follows therefore, that the reform program has to be implemented with a keen awareness of social risks. With this in mind, we appreciate the fact that the authorities have now made up for the missed 2018 social spending target and pledged to accelerate the payment of newly committed social spending. We also welcome the new high-level committee to monitor social spending and identify specific social programs that should be prioritized. Given the need for ongoing adjustment, could staff share their views on how much of an impact recent measures are having on public sentiment? Do staff have views on how risks to the social and political sustainability of the reform effort might be further mitigated?

Debt and domestic arrears: The last oil shock, coupled with external debt obligations led to an escalation of domestically sourced financing to help meet obligations. Given the resultant increase in domestic public debt and

high risk of debt distress, we encourage the containment of domestic debt. We welcome the authorities' decision to expand debt data coverage, avoid non-concessional borrowing and limit domestic financing. However, with regards the latter, the recent shift towards use of short-term securities has increased financing costs and refinancing risks. Could staff elaborate on the reasoning that led to this shift and on the scope to revert to longer-term debt instruments that would better support sustainable debt service payments?

Prioritization of domestic arrears clearance, alongside other measures, is also essential to give the private sector room to grow. It will help to boost the non-oil production required to restore fiscal and external balance in a sustainable manner. We therefore encourage the authorities not to lose reform momentum in this area, and to complete the audit of domestic arrears and operationalize a clear, transparent and prioritized domestic arrears clearance strategy. We note that with the late disbursement of budget support, payment of domestic arrears in 2018 was lower than expected. Could staff provide an update on corrective measures and arrears payments in Q1-2019?

Monetary and financial policies: We commend the authorities on the leadership and commitment to compliance demonstrated by Chad in implementing CEMAC policies that support the stability of the community's financial arrangements, including the recovery of the regional central bank's (BEAC) reserves.

For the financial sector, we urge a focus on elevated vulnerabilities given the deterioration in banking sector asset quality, profitability and liquidity levels, in the wake of the crisis. We encourage rebuilding the sector's asset base and reducing non-performing loans. We urge the authorities once again to expedite clearance of domestic arrears as this will improve liquidity conditions and enable the private sector to service bank loans. We also encourage the authorities to commence the process of restructuring and funding the two systemic public banks. Do staff have an update on the outcome of the public banks' audit?

Structural reforms: We urge the authorities to intensify efforts to address longstanding structural constraints, including those needed to improve the business environment and promote financial inclusion as articulated in the National Development Plan (NDP). Could staff elaborate on the factors underlying uneven progress in implementation of the NDP (Annex I)? We also encourage the authorities to tackle governance vulnerabilities and corruption through appropriate legislative reforms, including strengthening the AML/CFT framework and ensuring its implementation.

Finally, we urge authorities to continue to optimize opportunities to strengthen capacity and encourage coordination of the implementation of TA with other donors. We commend the progress reported on public financial management (PFM) and encourage continued commitment to the absorption of the TA needed to address remaining PFM weaknesses. We appreciate the reporting on capacity development by staff. Have there been useful insights from feedback instruments from CD and TA recipients on ways to enhance traction and effectiveness of CD? Staff comments are welcome.

With these remarks, we wish the Chadian authorities success in program implementation.

Mr. Lopetegui and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the report and selected issues paper on Chad, and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their informative buff statement. Dealing with legacies from the 2014-15 oil price shock, and subsequent economic crisis, is a challenging process. We welcome staff's approach in this report on how to restore the ability of the private sector recover from the crisis, with emphasis on non-oil sector participation. Restoring the ability of the non-oil private sector to participate in the economy will require improving energy supply, basic infrastructure, rule of law, banking services, and better governance.

We support the authorities' request for completion of the fourth review under the Extended Credit Facility (ECF). The country has significant gaps in human capital, infrastructure, governance, poverty, and security. Nevertheless, the focus on crisis management implemented in past years, if continued, might accelerate the foundations for further socio-economic improvements in the future. We believe this program is highly relevant to catalyze financing and technical assistance from development partners and support the still fragile low-income country. Social tensions are mounting, as well as security challenges, due to recent terrorist attacks. As clearly stated in the report, the program's main downside risk is a significant drop in oil prices, plus domestic risks arising from the shortage of public services' provisions to the population.

The focus on enhancing non-oil tax and customs revenues, as well as accountability and transparency in public operations, should remain a priority. We fully support the goal to reduce widespread tax exemptions and agree with staff that uncontrolled exemptions are not an appropriate tool to attract private investments. A price-smoothing mechanism will be needed to provide for

stability of the stream of oil revenue for budget purposes, and we welcome Annex III of the report, which clarifies the benefit of such mechanism for a country like Chad. In this regard, we would like to have more details from staff on the authorities' reasoning that significant time would be needed to assess different oil price-smoothing mechanisms. It is because of the complexity of its implementation or legal constraints? Expenditure control efforts remain important to create fiscal space for infrastructure, health, and education investments.

The overall risk of debt distress is categorized as "high", which highlights the importance of prioritizing grants, concessional financing, and non-debt creating financing such as PPPs. Given these constraints, plus the zero limit on non-concessional borrowing under the program, we would appreciate staff's assessment on how the electricity supply would be incremented.

It seems essential to strengthen banks' balance sheets to buttress non-oil sector development. Deterioration of the liquidity position of banks due to tight sovereign-bank nexus is a reality. On top of that, the arrears of the public sector to private suppliers are also hampering their ability to pay their debt to banks on time. The legacy of the crisis continues to disrupt the well-functioning of the financial system, with banks not efficiently channeling savings into investment and consumption. The growth prospects in the non-oil sector will continue to disappoint if swift decisions are not made to strengthen the regulation and supervision of the system.

With these comments, we wish the authorities of Chad all the best in their future endeavors.

Mr. Sun and Mr. Huang submitted the following statement:

We thank staff for the well-written reports and Messrs. Raghani, Sidi Bouna, and Bangrim Kibassim for their helpful buff statement. Despite daunting development challenges, the Chadian economy returned to expansion in 2018 after the oil price shock in 2014-15. However, the non-oil sector continues to be weak, and the economy is still hindered by long-standing structural constraints. Going forward, the authorities need to build fiscal buffers, address the banking sector vulnerabilities, and diversify the economy. We support the fourth review under the Extended Credit Facility (ECF) arrangement and agree with staff's appraisal.

Enhancing non-oil revenue mobilization and improving oil revenue management are important to increase fiscal resilience. We concur with staff that structural reforms, especially those aimed at improving the business climate, are more effective in attracting private investments than granting large amount of tax exemptions. Given the current narrow tax base, the authorities are encouraged to streamline tax exemptions and increase transparency. Other measures to raise non-oil revenues, including strengthening the VAT compliance and customs administration, are also needed. Given that the government revenues are highly dependent on oil revenues and vulnerable to oil price volatilities, we see merit in staff's suggestion to introduce a price-smoothing mechanism in the process of budget making. We encourage the authorities to set aside revenues to act as certain kind of fiscal buffer to absorb potential oil price shocks in the future. In addition, reforms to improve governance and transparency of the oil sector are also important.

Buttressing the non-oil private sector is essential to ensure a sustainable and inclusive growth. We find the first chapter of the selected issues paper useful in identifying the impediments to the non-oil sector development in Chad. The infrastructural gap is huge, but its financing is constrained by limited concessional resources. We agree with staff that alternative financing arrangements can be considered for those projects whose yield can cover financing costs. In addition, the authorities and development partners are encouraged to use limited concessional resources to leverage more private investments. Investment in human capital is as important as physical capital, and more should be done to increase social spending on education and health to meet the needs of the fast-growing population and the inflow of refugees. Other measures to improve the business environment, including reducing corruption and streamlining regulations and procedures, should also be implemented steadfastly.

The banking sector vulnerabilities calls for timely actions. Given the strong sovereign-bank nexus in Chad, the authorities are encouraged to speed up the payment of domestic arrears and reduce the government domestic debt. The plan to reorganize the two problem public banks is welcome and should be implemented swiftly. The two banks received around 92 percent of total BEAC refinancing to the Chadian banks at the end of 2018, while the BEAC is planning to reduce liquidity injection and tighten monetary policy. How will the two banks cope with the potential liquidity tightening? Staff comments are welcome. In addition, we encourage the authorities and regional financial regulators to strengthen the AML/CFT framework to combat the financing of terrorism activities in the region.

With these remarks, we wish the authorities every success in their future endeavors.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the excellent set of papers and Mr. Raghani, Mr. Sidi Bouna and Mr. Bangrim Kibassim for the helpful buff statement. We welcome the positive steps Chad has taken to strengthen the fiscal position, stabilize the economy, and achieve slightly positive non-oil GDP growth in 2018. Nonetheless, crisis legacies and deep-rooted structural weaknesses weigh heavily on the economy and progress under the program has been partial. Persistent effort is required, and we caution the authorities against stop-and-go reform efforts that wane as oil prices rise. We agree with the thrust of the staff appraisal and would highlight several points.

Fiscal Resilience. We commend the authorities for fiscal restraint, particularly on the wage bill, but urge greater attention to non-oil revenues which continue to disappoint. Decisive action is needed on the long-standing issue of reducing tax exemptions, as well as to improve the operation of the VAT. We echo staff that improving the business environment is the way to attract investment rather than offering exemptions. On the spending side, the difficulty in reducing the proportion of spending that does not follow proper procedures is also concerning. Over the medium-term, we urge the authorities to give serious consideration to adopting a price-smoothing mechanism to provide a buffer to oil price volatility, as suggested by staff. Adoption of such an approach could send an important signal to donors about the authorities' commitment to stronger fiscal prudence and economic governance going forward.

Social Spending. We regret the missed indicative target on social spending, considering Chad's extremely poor social indicators, and encourage stronger efforts on investment in human capital. While trends in health seem to be going in the right direction, we note that adult literacy rates appear to have decreased from 28 percent in 2004 to 22 percent in 2017, according to World Development Indicators. We welcome that social spending since March has increased, to help compensate for lower levels in Q1. We are also encouraged that the authorities have put in place a committee that will identify priority social programs in the budget, which we hope can be translated into a more meaningfully-specified social spending target in future. Improving the effectiveness of social spending is also critical, especially in a constrained fiscal environment.

Economic Diversification. A broad set of reforms is needed to reduce impediments to non-oil growth, from paying down audited domestic arrears, to investing in physical and human capital, to strengthening the banking sector. We agree that improvements in fiscal governance and the quality of public spending are key, and underscore staff's finding that prior to the crisis Chad's level of public investment was high relative to SSA countries but the impact on growth was transitory. It is in this context that we think about the authorities' difficulty in attracting sufficient concessional financing to address key infrastructure needs, such as for electricity. We are interested in better understanding how Chad is prioritizing the use of concessional resources, which have increased in recent years, and what financing constraints they may be facing in particular sectors such as electricity. We also are interested in whether this might be a useful case study for analyzing how the Debt Limits Policy operates. We note that high capacity countries like Rwanda are exploring the use of blended finance, and wonder whether there are modalities for donors to buy down the terms of semi-concessional sources to make them more appropriate for a country like Chad. We also wonder whether more decisive steps by Chad on governance, anti-corruption, and a sustained commitment to reform might increase interest from donors. Staff comments would be welcome.

Capacity Development. The annex on capacity development was very helpful, including discussion of donor coordination. With absorptive capacity limited, TA should be carefully prioritized and attention given to the most effective modalities. Both the authorities and staff pointed to the possible usefulness of a long-term advisor in the area of public financial management, and the IEO report on fragile states emphasizes greater hands-on technical support. Can staff comment on the IMF's experience using resident advisors in Chad and other CEMAC countries, and the prospects for finding room in the IMF's CD budget for such support?

Mr. Doornbosch, Mr. Psalidopoulos and Mr. Tan submitted the following joint statement:

We thank staff for the interesting set of papers and Messrs. Raghani, Sidi Bouna, and Bangrim Kibassim for the informative buff statement. In a very fragile context, marked by several factors of vulnerability, Chad's authorities have made great strides in restoring macro-fiscal stability. In view of the overall satisfactory program performance, we support the completion of the fourth review under the Extended Credit Facility and the other related requests. While the mitigation of short-term vulnerabilities should remain the

primary focus of the policy discussions, the relatively favorable outlook and progress under the program give space to also focus on the strategies aimed at enhancing resilience for the longer-term. We agree with the thrust of staff's appraisal and would like to add the following considerations for emphasis.

Further revenue mobilization is essential to reduce debt vulnerabilities and allocate resources to social spending. We note that non-oil tax revenues decreased in 2018 compared with 2017. This underperformance is quite underwhelming notwithstanding the significant fragilities facing the country and we encourage the authorities to put in place tax base-broadening measures, in particular through rationalization of tax exemptions, including those for VAT purposes. Since the IT on poverty reducing social spending has been missed twice in the last two quarters, we hope that the recent measures taken by the authorities would contribute to the compliance with the target at the present quarter. The authorities should work to ensure a prompt clearance of the arrears, in line with the program's timeline, and to prevent their recurrence through a comprehensive PFM reform. Although resorting to domestic financing can be partly unavoidable, this should be done through longer maturities to reduce rollover risks. We wonder if the expected disbursement of most of the budget support for 2019 in the fourth quarter of 2019 could create liquidity problems and – perhaps – new external arrears.

Introducing a fiscal rule can strengthen fiscal sustainability. We see merit in staff's medium-term suggestion to implement a simple oil price-smoothing mechanism to counteract budget procyclicality and to prevent the materialization of an upside risk – such as higher oil prices – from backfiring, leading to a slowdown of the reform momentum. We welcome the authorities' commitment to limit dependence on oil. We also take note that in staff's projections the payment of the oil tax revenue by the largest oil producer in 2019 is essential to achieve fiscal targets. Further elaboration on the timeline and conditions associated to this payment are welcome.

We thank staff for the clear picture of the development challenges that Chad is currently facing. Economic diversification with private sector participation, financial development and inclusion would be essential to address these challenges. In such a complex setting along with growing security concerns, an adequate sequencing of the reform actions is paramount given the long list of structural constraints to growth on the one hand, and the low implementation capacity on the other. The latter represents a severe constraint in itself, and we agree with staff that the reliance on long-term experts is essential in fragile countries such as Chad. The governance weaknesses, which are reflected in the governance indicators gap compared to

the SSA region, represent a key concern. Perseverance from the authorities is needed to complete the recent actions for both improving the legal framework and fighting corruption on the ground. Increasing the transparency in the management of oil revenue and oil-related expenditures can also go in a long way in improving public perception of governance in the country. Can staff elaborate more on the “alternative financing arrangements” that can be used to fill the infrastructure gap within the debt limits policy?

Last but not least, we welcome Annex II on Capacity Development (CD) in Chad as a good leap forward in the integration of Capacity Development with surveillance and lending. We encourage staff to complement the annexes on Technical Assistance (TA) and CD with information on past training of officials and priorities by topic and assess if past training enhanced Chad’s capacity to receive TA. Finally, staff could also relate CD activities to the objectives and program criteria and benchmarks. Staff’s comments are welcome.

Mr. Benk and Mr. Mehmedi submitted the following statement:

We thank staff for the insightful reports, and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their helpful buff statement. We support the completion of Chad’s fourth review under the Extended Credit Facility (ECF), the request for modification of performance criteria, and financing assurances review. We highly appreciate the authorities’ commitment towards the program targets and their leadership in implementing policies that support the stability of the Central African Economic and Monetary Community’s (CEMAC) financial and monetary arrangement, especially the recovery of the regional central bank’s (BEAC) reserves. We welcome that all end-December PCs were met. However, we are worried about the slowdown in program implementation early this year, including two structural benchmarks which are still pending for the current review. In view of the downside risks to the program, including the fragile security situation and flow of refugees, pressures on the non-productive expenditures, and the fluctuations in oil prices, the authorities need to remain committed to the program’s objectives to ensure fiscal and debt sustainability while also making further strides in implementing structural fiscal reforms and diversifying the economy away from oil. We broadly share staff’s assessment and policy recommendations, and provide the following comments for emphasis.

Fiscal policy should be geared at ensuring debt sustainability by containing non-productive current spending and mobilizing non-oil revenue.

We note that much of the impact of the decline in oil prices in late 2018/early 2019 was contained on the back of lower Glencore debt service. Nonetheless, the fiscal position remains highly vulnerable to lower oil revenues and reinforces the need to consider introducing a simple price-smoothing mechanism, along the lines suggested by staff, to better safeguard stability in the face of highly volatile oil prices and mobilize non-oil revenue. In this vein, the authorities' efforts should focus on reforming the process of granting tax exemptions, including phasing out tax exemptions on VAT, and broadening the tax base by reforming both tax and customs administrations. At the same time, further progress is needed in rationalizing expenditures and containing the public-sector wage bill to create the much-needed fiscal space for growth-enhancing capital investment. We would appreciate staff's comments on whether the financing for the long overdue parliamentary elections, which are scheduled to take place this year, has been budgeted for.

Strengthening the public financial management (PFM) is an essential component for ensuring debt sustainability and effectively improving the design, implementation, and monitoring of fiscal policy. While the government has adopted regulations on PFM in line with the regional CEMAC Directives, we regret that emergency spending procedures have intensified while significant domestic arrears remain. Against this backdrop, we urge the authorities to comply with the CEMAC Directives and promptly initiate discussions on setting a single treasury account and complete the audit of domestic arrears and move forward with the development and implementation of a time-bound and transparent domestic arrears clearance plan. Strengthening debt management, including the implementation of the medium-term debt management strategy will be critical.

To enhance capacity development and maximize the effectiveness of the Fund's TA, we support the authorities' request for long-term experts in the areas related to the PFM reform implementation.

Vulnerabilities in the financial sector stemming from the weak public banks and high non-performing loans (NPLs) should be urgently addressed. We note that the banking sector's vulnerabilities remain elevated reflecting the tight bank-sovereign nexus and the slow non-oil economic recovery. We welcome the authorities' concerted efforts to strengthen the position of the two large public banks, but these efforts should be complemented by measures to improve their governance structure and enhance their liquidity provision by addressing the high stock of NPLs and increasing provisioning. Given that only 9 percent of Chadians have a bank account, we are wondering about the potential of mobile banking and microfinance to increase financial inclusion.

Diversifying the economy away from oil, boosting competitiveness, and tackling corruption are essential for fostering sustainable and inclusive growth. In this context, more progress is needed in implementing the 2017-21 National Development Plan (NDP), including on improving the business environment, reducing the infrastructure gap, and addressing governance issues and weak oil sector transparency. Staff's comments on the authorities' practical steps taken in implementing the United Nations Convention against Corruption are welcome.

Mr. Trabinski and Mr. Makhammadiev submitted the following statement:

We support the completion of the fourth review under the ECF arrangement and we share the thrust of staff's assessment of Chad's economy. We welcome the authorities' continued commitment to the objectives of the program, in spite of multifaceted challenges. While the program is broadly on track, we take note of the slowdown in its implementation early this year. In this regard, we call on the authorities to sustain their close cooperation with the Fund and the donor community in addressing the most pressing constraints, while preserving strong ownership of the program.

We encourage the authorities to advance non-oil revenue mobilization and restore debt sustainability. While the ongoing mobilization measures, such as revenue collection through the banking system, are encouraging, revenue leakage from tax exemptions and deficiencies in the VAT regime should be addressed more forcefully. On the expenditure side, we urge the authorities to reduce and regularize extraordinary budget procedures (DAO) in line with the program conditionality. Safeguarding debt sustainability will require fiscal discipline, caution in contracting new debt and continued restraint in resorting to non-concessional external borrowing. Going forward, to avoid the procyclicality of government spending and in order to accumulate much-needed fiscal buffers, the authorities would be well advised to implement an oil price smoothing mechanism, in line with staff's recommendation.

We call on the authorities to curtail the reliance on banks' financing of the budget. This would help to loosen the tight linkage between the state and the banking system, which entails critical risks. The authorities should address the high level of NPLs, reduce domestic debt held by public banks and clear domestic arrears. We also encourage the authorities to adopt and implement restructuring plans for the two public banks in a timely manner, as specified in the corresponding structural benchmark.

Combating corruption and improving governance in Chad remains a top priority to revive the business climate, especially in the non-oil private sector. We welcome efforts to enhance the anti-corruption framework, including the implementation of the UNCAC, the development of an asset declaration system for public officials, and the enactment of the new anti-money laundering law. However, we are concerned about limited capacity of the anti-corruption bodies, which may hinder implementation. We would also like to reiterate that more structural conditionality on governance and corruption would be called for, given their macro-critical nature and the existing gaps.

We acknowledge Chad's leadership in implementing regional stability policies. So far, the regional CEMAC strategy has brought a stabilization of reserves at low levels, but not a meaningful re-building of buffers. Like the other CEMAC countries, Chad's authorities should target a feasible diversification away from oil. We emphasize that policy assurances of the BEAC continue to be critical for the success of Chad's program. Finally, we take positive note of the creation of Financial Market Supervisory Commission of Central Africa (COSUMAF), which seems to be a good step forward in improving supervision, regulatory compliance and coordination within the region. Could staff elaborate on how the new single regulator might benefit Chad's economy?

Mr. Heo and Mr. Kikiolo submitted the following statement:

We thank staff for their report and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their useful buff statement. We generally agree with the staff's assessment and recommendations and make the following points for emphasis.

We commend the Chadian authorities for a satisfactory program performance under the ECF arrangement amid a very challenging environment. We noted that all performance criteria were met, and the authorities have undertaken corrective actions to address the two missed indicative targets. Structural benchmarks on the other hand showed mixed results. Given the authorities' continued strong commitment to the program and staff's assessment that Chad still has adequate capacity to repay the Fund, we support the completion of the fourth review under the ECF arrangement and the request for modification of performance criteria. We also echo staff that completion of the fifth ECF arrangement review be conditional on the

implementation of critical policy assurances on NFA accumulation at the union level, as established in the June 2019 union wide background paper.

We agree with staff that the authorities should improve non-oil revenue mobilization while driving down domestic debt. Noting Chad's heavy dependence on oil revenue, we urge the authorities to consider staff's recommendations to review issued exemptions, streamlining income tax and penalizing importers without a tax identification code. We also call on the authorities to consider using a simple price smoothing mechanism to maintain fiscal stability when oil prices are volatile. On expenditure, we underscore the importance for the authorities to comply with the 2019 budget law which emphasizes spending prudence including control over the wage bill, while allocating more resources towards the social sectors and investments. With the large stock of debt arrears, we welcome current efforts to clear recognized domestic arrears while at the same urge the authorities to formulate and implement an arrears clearance strategy.

We encourage the authorities to urgently address banking vulnerabilities to safeguard financial stability and support private sector growth. In addition to measures to clear domestic arrears, we see value for banks with high NPLs to increase their provisioning and facilitate quick resolutions of overdue loans through the court process. The authorities should also consider reducing government dependence on domestic bank refinancing. We welcome the preliminary report on the two public banks and note staff's recommendation "the reorganization and funding plans for the two banks should be based on realistic assumptions and aim to sustainably improve their ability to effectively provide intermediation services." Could staff elaborate? Additionally, are the deadlines in June for prior action and end September 2019 for adoption by relevant banks realistic considering capacity issues in Chad? We note BEAC's NFA assurances is critical to the success of Chad's program and to the region's external sustainability. In this regard, we support staff's call for the authorities to implement adjustment policies in line with the IMF supported program. We also commend the Chadian authorities for leading the region in implementing CEMAC policies on financial arrangement.

We urge the authorities to implement structural reforms that will promote diversification and inclusive growth. We welcome the findings highlighted in the Selected Issues Papers and emphasized that longstanding crisis legacies be urgently addressed to unlock opportunities in the non-oil sectors. The authorities should reduce the large domestic debt overhang, implement financial sector reforms, while improving the business conditions. Efforts to address governance issues and improve transparency especially in

oil related transactions should be supported. We agree with the SIP that investing in quality infrastructures and human capital pays significant dividend for a low-income country such as Chad.

Mr. Geadah and Ms. Al-Riffai submitted the following statement:

We thank staff for their report and Messrs. Raghani, Sidi Bouna, and Bangrim Kibassim for their buff statement. Despite a challenging socio-economic and security environment, Chad has made notable progress towards fiscal stability and debt sustainability. Program performance has been satisfactory. All performance criteria for end-December 2018 were met, and though end-December indicative targets on social spending and the regularization of emergency procedures were missed, corrective action was taken to address these slippages. We also note that the authorities are making progress towards meeting the missed structural benchmarks.

The resolution of arrears remains an important issue. While significant progress was made in clearing external arrears, domestic debt and arrears remain large. We positively note the authorities' determination to adopt a clearance strategy for resolving recognized domestic arrears by end-November 2019. We also look forward to the completion of the audit that will assess the remaining arrears before payment. Further efforts to control and monitor spending are needed to help prevent a recurrence of arrears. We concur with staff that higher than expected revenues should be partly channeled to repay government debt especially as Chad remains at high risk of debt distress.

Liquidity conditions in the banking sector have improved and recourse of banks to BEAC refinancing has fallen. However, government arrears led to a deterioration in the quality of bank portfolios. We welcome the authorities' collaboration with the regional supervisory authorities, BEAC and COBAC, to modernize the monetary policy framework and activate the inter-bank money market. We also look forward to the completion of the review and reorganization plans for the two public banks. Besides facilitating extra judicial resolution of overdue loans, the plan aims to increase provisioning in banks with high NPLs. Can staff comment on the recapitalization plans for the public bank with large NPLs? We are pleased to note that the government is open to reconsidering its role in the two public banks.

Chad is a fragile economy with significant capacity development needs. The staff report notes that the Fund provided 60 TA missions since the start of the program, covering areas that are important for the success of the

program. We note that one of the conclusions of the recent PEFA report states that reform progress has been uneven and slower than expected, due to capacity constraints and the high turnover of officials. As noted by staff, the presence of long-term resident experts can have a significant impact on knowledge transfer and institutional capacity development. However, an excessively high turnover of officials can also counteract the benefits of having a long-term expert, especially if nationally developed expertise cannot be retained beyond the expert's stay.

Mr. Merk and Mr. Fragin submitted the following statement:

We thank staff for the informative set of reports, and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their helpful buff statement.

We concur with the thrust of staff's assessment. In a challenging security environment, Chad has continued its gradual recovery from the 2014-2017 economic crisis. Performance under the ECF-supported program has been broadly satisfactory, albeit an accelerated reform momentum is warranted to improve the implementation of structural conditionality. Substantial structural weaknesses remain, particularly in the non-oil and financial sector. Moreover, the country still faces a high risk of debt distress. Ambitious reforms will have to be pursued to facilitate strong, sustainable, and inclusive growth. To support these efforts, good use should be made of the Fund's Technical Assistance.

We agree to the completion of the fourth review under the ECF arrangement, including the waiver for modification of performance criteria (PC) and the financing assurances review. The government has shown continuous commitment to program implementation and all end-December PCs have been met. However, the authorities should avoid slowing down their structural reforms. Reducing dependence on oil exports, preserving newly won fiscal buffers, and keeping the program on track is of the essence. This seems particularly important as a worsening in the security situation could endanger the economic recovery and put a renewed drag on the state budget.

We welcome the authorities' efforts to keep up spending discipline, reduce domestic arrears, and achieve gradual improvements in their fiscal position. However, significant fragilities remain given that revenue from the non-oil sector remains lower than expected and the overall risk of debt distress remains high.

We call upon the authorities to be particularly cautious with regard to the recent shift to short term maturity T-bills, as those could add an additional layer of fragility to the fiscal position in times of crisis. Moreover, reductions in social spending should be avoided when pursuing further fiscal consolidation given Chad's high poverty levels and potential repercussions on the country's security situation.

We support staff's call for a swift completion of the auditing process for domestic arrears. We also agree that authorities would be well-advised to avoid any new non-concessional lending for the foreseeable future. Tax exemptions should be further scaled back and those in place should be terminated after a predetermined period. We welcome staff's proposal to introduce a price-smoothing mechanism to reduce vulnerability to swings in the oil-price in the medium term.

We support the authorities' efforts to address vulnerabilities in the banking sector and reorganize two public banks. Given the high interconnectedness between the Chadian banking sector and the state budget as well as the dependence of the non-oil sector on domestic financing, reducing weaknesses in the financial sector would contribute to further resilience building. Reducing T-bill concentration in public banks would be an important contribution in this regard.

We also commend the authorities for their leadership in supporting regional stability within the CEMAC region and contributing to the build-up of reserves at the BEAC. We reiterate the importance of individual member states' responsibility in implementing their respective Fund-supported programs.

Courageous structural reforms should be pursued by the authorities to reduce dependence on oil exports. Most attention should be turned to closing the infrastructure gap – particularly with regard to nationwide energy provision –, strengthening access to financial services, and improving the transparency of the oil sector.

Strengthening institutions and the governance framework would help to improve the business climate and attract external private investment for much needed infrastructure building. Firm measures should be taken in the areas of anti-corruption as well as implementation of a robust AML/CFT framework.

Finally, we would welcome more details on the availability and quality of economic data provided by the authorities, including which measures are being taken to improve data.

Mr. Sigurgeirsson and Ms. Skrivere submitted the following statement:

We thank staff for the report and Mr. Raghani, Mr. Sidi Bouna and Mr. Bangrim Kibassim for their detailed buff statement. The economic situation in the CEMAC region is gradually improving; however, the success of the regional strategy ultimately depends on the reform progress in each individual country, including in Chad. We welcome the progress achieved so far under the ECF arrangement, and we encourage the authorities to continue their reform efforts. We support the proposed decision and the conclusion of the fourth review under the Extended Credit Facility (ECF) arrangement. We broadly share staff's appraisal and offer the following points on fiscal policy, structural reforms, and capacity building for emphasis.

We encourage the authorities to continue on their path towards prudent fiscal policies that will reduce public debt vulnerabilities. While the restructuring of the Glencore debt contributed positively to Chad's debt sustainability, we note that risks of external and overall debt distress remain high. Therefore, we emphasize the importance of continuing with the revenue-led fiscal consolidation and maintaining spending restraint. We also encourage the authorities to reinvigorate their efforts to reduce the stock of domestic and external arrears. We note that as the audit of potential contingent liabilities is ongoing, a notable stock of domestic arrears is in all likelihood yet to be recognized. In this regard, we emphasize the need to improve the authorities' capacity to record and monitor public debt. Addressing the fiscal crisis legacies, including the high level of public debt and the stock of domestic arrears, are important for the continued economic recovery and Chad's economic diversification and reduced reliance on the oil sector.

Improving governance and addressing corruption are essential for macroeconomic stability, sustainable growth, and trust in public institutions. Chad's structural weaknesses are hampering potential growth, and they are a part of the reason why non-oil sector growth remains relatively subdued. High levels of corruption, ineffective public institutions, and a large informal sector create an unfavorable business environment. Addressing these challenges could help to move Chad towards a more private sector-led growth model that would also contribute to the necessary diversification of the economy. Improving fiscal governance, transparency, and public spending efficiency will be essential as the public investment and social spending needs on health

and education remain large and are expected to increase further as the population continues to grow rapidly.

Capacity building efforts should be well targeted and parsimonious, appropriately considering the absorptive capacity of the authorities. As Chad is a low-income fragile state, we recognize that the capacity development (CD) needs are large. The Fund, alongside other international partners, can provide valuable advice and help the authorities improve their institutions. Nevertheless, we emphasize the need to closely coordinate CD efforts, both within the Fund and across different institutions, to limit the burden on the authorities, and consider the system's absorptive capacity.

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

We thank staff for the well-written reports and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their informative buff statement.

After three consecutive years of recession, the Chadian economy recorded a modest recovery in 2018 with the growth in the non-oil economy turning positive, although it still remains weak. The medium-term outlook is broadly favorable and the projection is for a higher growth. As a fragile and smaller economy in the CEMAC region, Chad faces significant vulnerabilities, including social tensions, and security and humanitarian challenges, in progressing with its broad developmental objectives. Addressing crisis legacies while enhancing macroeconomic stability is also important to sustain the economic recovery and support the regional stability. We broadly concur with the staff's appraisal and would like to make following remarks for emphasis.

The ECF program has been broadly on track. All end-December 2018 PCs have been met. However, the end-December ITs on social spending and regularization of emergency spending procedures (DAO) were missed. The structural reform implementation has also been slowed down, although it is progressing. However, given the significant challenges the country is facing and in view of the authorities' commitment to implementing policies, we support the completion of the fourth review of the ECF facility. At the same time, we stress the need for steadfast implementation of the agreed policies to achieve program objectives.

Continued fiscal prudence is imperative with improved quality of adjustment. We encourage the authorities to press ahead with tax reforms to enhance non-oil revenue mobilization and create fiscal space to meet

infrastructure and social spending needs with improved efficiency. The decline in the non-oil revenue in 2018 relative to 2017 underscores the need for strong revenue efforts. Control over the wage bill along with prioritized capital spending is also necessary to complement this. We noted that the floor on social spending has been missed mainly due to under-execution because of weak procurement practices, despite the need for more social spending to meet development goals. Also, we echo the staff's view that security pressures should not lead to underspending in social sectors. Could staff comment on the best way to maintain a balance between these two important requirements? Given the high risk of debt distress, we note the need for resorting to more concessional financing. However, the limited availability of concessional financing could prevent the meeting of this goal. Could staff comment?

Vulnerabilities in the banking sector continue to be elevated. Overdue loans have increased significantly, and authorities are encouraged to strengthen their efforts to clear the outstanding arrears through the preparation and adoption of a domestic arrears clearance strategy. Measures to improve the access of businesses to financing and address very limited financial inclusion in Chad are also vital.

Overcoming several long-standing constraints is vital to achieve an inclusive growth to provide increased benefits to the population. Addressing infrastructure gaps, investing in the electricity sector and diligently addressing factors that undermine the business environment are vital among them. In the context of improving governance, we appreciate the authorities' commitment to implement the United Nations Convention Against Corruption (UNCAC), ratified in 2017, and their commitment to identify areas to improve the effectiveness of the legislation in criminalizing acts of corruption in line with UNCAC.

Very weak capacity has been a key reason for Chad's fragility. We positively note the increased Fund TA and the involvement of other international development partners in capacity development elaborated in Annex II. However, we are particularly concerned about the weak absorption capacity. Staff's comments are welcome on any overlapping of the provision of TA and the need for streamlined approach to capacity development in Chad while taking its absorption capacity into account. Also, we strongly support the authorities' request for long-term experts, particularly in the area of PFM, to sustain the impact of capacity development and buttress the coordination of TA and reform programs, as indicated in the buff statement.

The humanitarian challenge, which seems seriously affecting Chad's economic progress, needs particular attention. For a country which hosts a large number of refugees along with the humanitarian crisis in the Lake Chad region, the need for increased financial resources is undeniable. Staff's comments are welcome on the Fund's view on the humanitarian challenges similar to the one in the Lake Chad region and the international financial support to Chad in dealing with this important issue, given the limited availability of domestic resources.

With these remarks, we wish the Chadian authorities all success in their future endeavors.

Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their helpful buff statement. Amidst a challenging domestic context and lower than expected recovery from the impact of oil prices decline, Chad has been able to satisfactorily advance its reform agenda to secure macroeconomic stability. While there are significant risks to the outlook, we are encouraged by the authorities' strong ownership. Furthermore, although we acknowledge that implementation of structural benchmarks has been mixed, the program is broadly on track. We support the completion of the fourth review under the Extended Credit Facility (ECF) and the request for modification performance criteria.

The authorities' efforts to address fiscal vulnerabilities in the short term are yielding results. Going forward, work towards building fiscal resilience in the medium term will be crucial for the success of the program. In order to reduce dependence of the fiscal position to oil price volatility, focusing on enhancing non-oil revenue mobilization is of the essence. Widening the tax base, avoiding tax exemptions, and strengthening the tax administration will be important steps in this regard. Fiscal discipline should be maintained while improving the quality and efficiency of public spending. We take note that the government will prioritize productive public investment on infrastructure and social sectors. Improving public financial management (PFM) will be important to enhance the effectiveness of fiscal policy.

Notwithstanding the reduction in debt vulnerabilities, high risk of debt distress remains. We are encouraged by progress on the clearing of external arrears and the timely payment of external debt obligations. However, clearing of domestic arrears and reducing debt owed to domestic banks are still pending. On the latter, we look forward to the audit completion and a

transparent clearance strategy of domestic arrears in line with the program objective.

Steps to strengthen the banking sector are welcome but vulnerabilities remain elevated. We welcome progress on the strategy to reorganize and fund the two public banks and look forward to the adoption of the plans. We agree with staff that the highest priority should be addressing the high level of NPLs.

Chad has had a leadership role in the implementation of policies to support economic stability in the CEMAC region. We welcome Chad's commitment to the full implementation of the fiscal consolidation path and the recovery in the BEAC's net foreign asset position.

We also welcome the helpful Annex on Capacity Development activities by the IMF in Chad. We find the breakdown of the TA missions useful and the broader areas on which assistance was provided, as well as TA delivered by other partners. While the table on the link between CD activities and program objectives is a step in the right direction, we would like to see a more detailed timeline and if there is a sequencing process to the main activities planned. Can staff comment how CD absorption of technical assistance could be improved?

Mr. Castets, Mr. Ronicle, Mr. Haydon and Mr. Rozan submitted the following joint statement:

We would like to thank staff for the comprehensive report, as well as interesting selected issues paper, and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their insightful buff statement. In the context of the IMF-supported program, the Chadian economy is experiencing a gradual recovery from a severe crisis caused by a shock to the terms of trade. The outlook appears broadly favorable. However, the country remains very fragile and vulnerable to the evolution of the oil price and to difficult security conditions. In this context, program performance appears satisfactory, although continued commitment to the program's objectives will be needed going forward. We agree with the main policy steps proposed by staff to tackle the legacy of the crisis, generate stronger and more inclusive growth, and reduce oil dependency. In this regard, after two years of program implementation, we are very appreciative of the longer-term perspective that staff has adopted in highlighting key challenges and opportunities for the country, and would like to share the following comments:

Important progress has been made to restore macroeconomic stability over the last few years. Oil production and oil revenues have grown steadily since 2016, and the outlook appears favorable, thanks to investment in new fields that will expand production in the coming years. However, non-oil GDP growth appears subdued, as a result of unresolved legacies of the crisis. Strong commitment to the program's objectives will continue to be essential going forward. We share the description of upside and downside risks presented by staff. One upside risk noted by staff in paragraph 21 relates to the possibility that larger than projected donor support could materialize, "particularly from the World Bank". We would welcome staff comments on the possibility for the World Bank to provide additional financing. Beyond that, we would like to have more details on the sources of financing for 2020 and 2021.

Continuing to enhance fiscal resilience and to strengthen public financial management will be necessary, building on existing progress. Fiscal performance over the course of the program has been satisfactory, with a steady increase in government revenues, and stronger budget discipline. Efforts have been made to reduce debt sustainability concerns, which continues to require particular attention. Going forward, and building on ongoing efforts, revenue sources will need to be diversified to reduce reliance on the oil sector, through a reform of tax exemptions, stronger collection of income and corporate tax, and revising the ceiling of application of the VAT, as envisaged for 2019. In this regard, we support the new structural benchmarks on the VAT taxpayers list, and encourage the authorities to make decisive progress in implementing the audit of the tax settlement agreements. The removal of tax exemptions seems particularly promising, as it does not require a whole new fiscal infrastructure, so can be considered a relatively cost-effective way of generating more revenue. Staff's assessment of the amount of revenue that could be raised through these initiatives would be welcome.

Beyond 2019, we agree with the main policy recommendations highlighted in the report, which will need to be accompanied by adequate technical assistance. There appears to be scope to gradually expand the revenues from customs and VAT. Enhancement of public finance management frameworks will need to be accompanied by dedicated technical assistance. In this regard, we would like to thank staff for the annex on capacity development, which shows progress in government ownership. We share staff's conclusions that, given Chad's low absorption capacity highlighted throughout the report, CD priorities will need to be streamlined, with improved coordination among donors, notably the World Bank, and greater resort to long term experts. In this regard, we encourage staff to reflect

on how a medium-term strategy on domestic resources mobilization might support the authorities' efforts in that field – staff's comments are welcome. As for Niger, we would appreciate if staff could share views on the most effective modalities of technical assistance for a fragile economy such as Chad. Finally, the annex on an oil price smoothing mechanism, to avoid a procyclical fiscal policy and to build up buffers, is very useful. We would welcome staff comments on possible institutional mechanisms (legal, administrative) to put in place to give more substance to the proposal.

Composition of spending and the quality of the adjustment are key to ensure the sustainability and the acceptance of the ongoing reforms. Social spending is key, given the low health and education outcomes highlighted in the selected issues paper. Significant increases by 2030 are required to meet the Sustainable Development Goals (SDGs). Social expenditures have been subdued recently, and we agree with staff that the authorities should ensure that budget commitments are disbursed and that security pressures are not allowed to contribute to underspend in social sectors. Having said that, we are encouraged by suggestions of the authorities' renewed commitment. In this regard, we would welcome staff elaborations on poverty-reducing spending beyond 2019, which are absent from the tables distributed. Having a high quality and efficient civil service is instrumental to delivering positive development outcomes. We therefore encourage staff to further assess the quality of the wage bill (such counting of civil servants and audits of qualifications), and the authorities to ensure that the wage bill is disbursed according to plan in this pre-election year. Any push to reduce the wage bill, however, should be subject to a rigorous political-economy analysis, as a previous attempt to do this led to lengthy and widespread strikes that were more costly than beneficial. Finally, domestically financed investment appears very limited (2.3 percent of GDP). Stepping up the public effort will be necessary given the sizable infrastructure gap, and we encourage the authorities to identify and prioritize projects that have significant economic and development returns.

Reforms should continue to reduce banking vulnerabilities, given the tight bank-sovereign nexus. The increased liquidity and deposits are positive signs, but we encourage the authorities to make determined efforts to finalize a comprehensive audit of all domestic arrears, and implement a strategy to gradually clear them, given the impact these arrears are having on the ability of clients to service their debts. The reduced reliance of public banks on government financing envisaged in the program should also help. We are also encouraged by progress in the reorganization plan for the two public banks, to sustainably improve their ability to provide intermediation services. The high

level of NPLs is a cause of concerns, and we encourage authorities to ensure adequate provisioning and facilitate the resolution of overdue loans. The reinforcing of the banking system should in turn support the promotion of financial inclusion.

Finally, we welcome the shared understanding of the key constraints to economic diversification and inclusive growth. This requires long term efforts to improve the business climate, close the infrastructure gap, significantly upgrade governance, enhance financial inclusion, improve transparency in the oil sector and develop better private financial management. The three selected issues paper were particularly insightful in this regard. To guide the authorities' efforts, we would welcome staff comments on the most promising non-oil sectors, to accompany the government's diversification efforts.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for their well-written set of reports and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their informative buff statement. We broadly agree with staff conclusions and policy recommendations, support the proposed decision, and would like to make the following comments in addition to our statement on the Common Policies in the Central African Economic and Monetary Community (CEMAC).

We are encouraged by the continuous progress being made by Chad under the ECF-supported program. We commend the authorities for their strong commitment to the program, which remains broadly on track and which allowed Chad to restore fiscal stability and debt sustainability. Chad remains, however, at high risk of debt distress and risks to the outlook are also elevated and include security threats, social tensions, and increased humanitarian needs. We, therefore, encourage the authorities to make every effort to support the recovery and implement their reform agenda to promote more inclusive growth.

We have some concerns about social spending. As a low-income fragile country, Chad will benefit from increased social spending to reduce poverty, enhance public support for the program, and ease social tensions. Against this background, we are disappointed that the end-December 2018 and the end-March 2019 indicative targets on social spending were missed. Staff explains this outcome by, among other things, the fact that “the reduction in the wage bill disproportionately impacted the education and health ministries that have a large share of the civil service” (¶15). Since fiscal discipline, particularly on the wage bill is an important component of the

program and as the wage bills for the civil service in the education and health ministries are not necessarily a good indicator of effective social spending, could staff elaborate on how to achieve a better targeting of social spending under the program? Additionally, is the creation of a high-level committee to monitor and prioritize social spending, as has been done in Chad, a good example to ensure efficiency of social spending under Fund arrangements?

We welcome the emphasis in the Article IV discussions on longer-term issues that could sustain fiscal and financial resilience, while supporting inclusive growth. The three topics of building fiscal resilience, fostering sustainable and inclusive growth, and strengthening banking sector stability are appropriate and should be supported by the provision of adequate technical assistance to help the authorities build their management capacity and, in this regard, we support the authorities' request for long-term experts to enhance coordination between reform programs and TA.

With these remarks, we wish the authorities further success.

Mr. Daïri and Mr. Badsı submitted the following statement:

We thank staff for the well-written set of papers and Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim for their informative buff statement. We commend the authorities for the progress made in stabilizing the economy and alleviating the impact of the 2014-15 oil price shock despite the serious fragilities, security issues, social tensions, and refugee inflow they are facing in a context of pervasive poverty, very limited capacity, and weak governance. In so doing, the authorities have significantly contributed to the macroeconomic stability of the CEMAC region. Although growth is barely recovering after three years of recession, inflation is decelerating, and the twin deficits are shrinking. However, the oil-dependent economy continues to face considerable structural challenges. Moreover, while the outlook is favorable, risks are tilted to the downside, mainly stemming from domestic and regional security threats, deterioration of public banks financial indicators, and a significant drop in oil prices. We concur with the thrust of the staff appraisal and, in view of the authorities' satisfactory program performance so far and their strong commitment to the program, we support the proposed decision.

We commend the authorities for their commitment to prudent fiscal policy and to keep budget spending in line with the program, thereby contributing to strengthening the regional reserves pool. We are encouraged by the shared view between the authorities and staff on the need for strong non-oil revenue mobilization to reduce domestic public debt and create fiscal

space, and welcome the introduction of new tax measures in the 2019 budget. Over the medium term, we encourage the authorities to mitigate fiscal policy procyclicality as suggested by staff, improve PFM, and step up efforts to increase non-oil revenue, including from VAT and customs, and improve expenditure efficiency and prioritization in favor of social and other pro-growth spending while gradually eliminating arrears and preventing their accumulation.

The fragile banking sector is facing significant vulnerabilities, including high NPL, tight banks-sovereign nexus, still elevated public debt, and large domestic arrears. We are pleased to note the authorities' agreement on the urgent need to improve banking sector resilience. We welcome their commitment to address weaknesses of the two systemic public banks and look forward to the implementation of their reorganization and funding plans. We support staff proposals aimed at reducing NPLs.

Against a backdrop of limited diversification, which is exacerbated by fast-growing population, Chad economy needs to tackle daunting challenges. We commend the authorities for their commitment to implementing their structural reform agenda to diversify the economy, including by enhancing transparency and governance and fighting corruption, improving the business climate, addressing the arrears issue, and easing SME's access to financing and promoting financial inclusion. The international community has commendably provided substantial financial and capacity building support to Chad, and we call on donors in particular to maintain a level of grant flows commensurate with the country's considerable developmental and humanitarian needs and to strengthen delivery and coordination of technical assistance. In this regard, we support the authorities' request for appointing long term experts, notably in PFM, as indicated by Mr. Raghani, Mr. Sidi Bouna, and Mr. Bangrim Kibassim.

We wish the authorities success in their endeavors.

The Acting Chair (Mr. Furusawa) made the following statement:

Chad has made important strides in improving its macroeconomic stability, and its performance under the program has been satisfactory. Notwithstanding the progress and the broadly favorable outlook, the country remains susceptible to security risks and faces numerous development challenges in the context of a difficult social situation. To address these, a prudent fiscal policy stance accompanied by structural reforms targeted at diversifying the economy away from oil and boosting competitiveness will be

of crucial importance. As many Directors noted in the gray statements, it will be also essential to support the authorities' efforts with prioritized and well-coordinated technical assistance (TA), taking into account Chad's limited absorptive capacity.

Ms. Hennings made the following statement:

We support the request for completion of the fourth review under the Extended Credit Facility (ECF) arrangement, the request for modification of performance criteria, and the financing assurances review.

Program implementation has been broadly satisfactory. Important progress has been made under the 2017 ECF, restoring macro-stability and improving the outlook after the devastating impact of the oil price shock of 2014 and 2015. Political instability has somewhat improved with the adoption of the new constitution that moved the country to a full presidential system. Chadian authorities have also demonstrated commitment in implementing policies that support the stability of the Central African Economic and Monetary Community (CEMAC) financial and monetary arrangement and have recently contributed to restoring the international reserves of the regional central bank. We congratulate the authorities for those positive results.

There is reason to be moderately optimistic with Chad's economic outlook, which remains relatively favorable as oil production rises in spite of still-meager growth in the non-oil sector. It is encouraging to see the significant increase in public investment and the progress in payment of domestic arrears. In addition, following the 2018 privatization of the cotton public enterprise, the cotton sector is expected to contribute more to growth starting in 2020. This slow economic recovery, particularly in the non-oil sector, primarily reflects lower foreign finance, investment, wage bill, and arrears payments than originally projected, as stated by the staff.

We are particularly concerned with the downward revision in growth projections since the last program review. It seems that the growth pickup is being repeatedly postponed into the future. We know that significant structural reforms are needed to change this reality. It is particularly important to improve the business climate, build up human and physical infrastructure, address governance issues, reduce banking sector vulnerabilities, and increase financial inclusion.

As with many other low-income economies (LICs), it is also critical to foster diversification and reduce the economic dependence on the oil sector.

That said, we understand that a small, poor, and fragile economy usually has a long to-do list and a shortage of resources and capacity. That is why a well-designed and implemented capacity development strategy with effective coordination among development partners is of utmost importance.

Last but not least, security issues remain at the top of our concern in Chad, as in other countries in the Sahel region. The projected humanitarian crisis has been heightened by the large number of refugees entering Chad's territory. International support and finance are fundamental to help Chad tackle this situation. We wish Chad's authorities all the best in their future endeavors.

Mr. Castets made the following statement:

We thank the staff for the report and the answers to our technical questions and Mr. Raghani and colleagues for their helpful buff statement. We published a detailed gray statement with Mr. Ronicle, so I will limit my intervention to a few points this afternoon.

First, we would like to underline the fact that thanks to the Fund-supported program and the authorities' efforts, important progress has been made to restore macroeconomic stability and fiscal sustainability in a challenging environment. As recalled by our colleague and by the staff in the report, Chad is affected by security issues in the context of being an LIC with fragility features that already has to tackle several challenges. But despite this context, oil production and oil revenues have grown steadily since 2016, and the outlook appears more favorable now. Nonetheless, the non-oil GDP growth is still subdued, which will require tackling the legacy of the terms-of-trade shock, and dealing with arrears and reducing the bank-sovereign nexus.

Second, we welcome the fact that fiscal performance over the course of the program has been satisfactory with a steady increase in government revenues and stronger budget discipline. Going forward, and building on ongoing efforts, revenue sources will need to be diversified, in particular through VAT and customs revenues. We are glad to see that the necessary strengthening of public financial management will be underpinned by a strong and focused capacity development strategy, and we would like to express our appreciation for the annex dedicated to this issue, which was very informative.

Finally, as already noted, growth remained relatively subdued, and the pickup is slightly postponed in the staff's projection. This calls for further

efforts to improve the quality of public expenditure, which should continue to be a priority for the authorities' and for the staff in its advice.

We welcome the authorities' renewed commitment to ensure that social expenditure will be maintained and will increase according to the trajectory design in the program. And we would like to express again our concern regarding the relatively low level of investment, notably of public investment, so we know that given the need for sustained fiscal consolidation adjustment, the level of public investment is necessarily a constraint. But moving forward, we would appreciate if the staff could inform us about what the impact might be on potential growth.

More generally, in an election context, keeping public spending in check and making sure that disbursements are made according to the budgetary plans will be key.

Mr. Benk made the following statement:

We welcome the authorities' commitment to the program and acknowledge the important strides made to restore macro stability. However, the program remains subject to a number of downside risks, including a fragile security situation, social tensions, and political uncertainty, and we are greatly concerned about the recent slowdown in program implementation. Against this backdrop, the authorities' continued vigilance and commitment to the program targets and objectives are essential, and we caution the authorities against the stop-and-go reform efforts that wane as oil prices rise, just like Ms. Pollard highlighted.

Like several other Directors, we were also disappointed by the missed indicative targets on social spending given its criticality on meeting development goals. While we are encouraged by the authorities' establishment of a high-level commitment to monitor and prioritize social spending, we note that there is scope to further explore ways to improve social protection and enhance social targeting, including by drawing on the World Bank's recommendations.

Finally, we welcome the Annex II in the staff report on capacity development in Chad and note that capacity development activities should be further aligned with Chad's institutional capacity and specific development needs through greater flexibility in delivery modalities, possibly including resident long-term advisors.

Ms. Pollard made the following statement:

We thank the staff for the papers and their bilateral engagement with our office and Mr. Raghani and his colleagues for their helpful buff statement. I know it is late in the afternoon on a very long Board day, but Chad is one of those countries, given its fragility, that as Ms. Hennings and Mr. Castets said, can benefit greatly from engagement with the Fund, and so this is an important program and important country to pay attention to.

I just want to focus my remarks on three issues: debt sustainability, the banking sector, and capacity development. On debt sustainability, we appreciate the answer to our question on debt limits and debt sustainability. We encourage the authorities to make careful use of this significant increase in International Development Association (IDA) resources that appears to be available, including US\$240 million in commitments for 2019, according to the World Bank website. We recognize that project commitments disburse over an extended period, but nonetheless, these are significant resources. That said, we recognize the enormous infrastructure investment needs in Chad and welcome that there is thinking on financing modalities that could increase access to resources without unduly raising the debt burden. We agree with the staff's focus on helping the authorities identify high yield projects and to take measures to improve debt service capacity.

On the banking sector, both national and regional authorities have important roles to play in strengthening Chad's banking sector so it can better support economic growth. We underscore the staff's advice for the authorities to work in collaboration with the Central African Banking Commission (COBAC) to increase provisioning in banks with high NPLs and facilitate resolution of overdue loans. Like others, we welcome the reorganization plans for the two large public banks and encourage timely implementation. Paying down domestic arrears and reducing government reliance on domestic bank financing will be important to improving the health of Chad's banking system.

Finally, on capacity development, it has been interesting to see this issue in the various CEMAC countries that have come to the Board, and as staff in the regional and technical departments consider their allocation of resources, we encourage them to give priority to long-term advisors in fragile states like many of the CEMAC countries, where there are good prospects that patient, hands-on support is needed and will be well used.

Mr. Alkhareif made the following statement:

We have issued our gray statement in which we supported the proposed decision, so I just wanted to take this opportunity to thank the authorities for the progress made under the program. We commend them for their strong commitment to the program, which remains broadly on track, and allowed Chad to restore fiscal sustainability. Chad, however, remains at risk especially given the high debt levels and risk to the outlook. We therefore encourage the authorities to make every effort to support the recovery and implement their reform agenda to promote more inclusive growth. Separately, we encourage the authorities to focus on enhancing social spending, as highlighted by other Directors.

Finally, I would like to echo the point made by Ms. Pollard on the importance to provide capacity development to fragile states. Given the capacity needs for Chad, we support the authorities' request for the long-term experts to enhance coordination in the reform programs and the TA provided by the Fund. With these comments, we wish the Chadian authorities continued success.

Ms. Mannathoko made the following statement:

We support the proposed decision. We are encouraged by the post-recession recovery even though it is still subdued by limited investment, and we also just wanted to commend the authorities on the satisfactory program performance under very difficult conditions. It is also heartening for us to note in the staff responses that the social context, while difficult, has nevertheless improved since the beginning of the ECF arrangement. However, we also wish to urge the authorities to deliberately guard against a slowdown in reform momentum, to keep up the momentum so that the gains they have already seen are not undermined.

We have issued a gray statement, so I just wish to add a few points. On fiscal policy, like others, we believe that sustaining fiscal prudence to create fiscal space for infrastructure to help meet infrastructure needs and for social spending is a priority. As efforts are made, however, to maintain the spending discipline, we just wanted to encourage the authorities to focus on reinforcing the attention given to institutional systems, in strengthening and developing appropriate institutional systems and processes, as these are key in entrenching discipline.

On debt, while debt sustainability has been restored, there is scope that distress remains high, and so we encourage sustained efforts in this area to contain overall debt levels. We urge attention to the development of the well-considered debt management plan and to the strengthening of debt management practices, though we note and support the focus on concessional financing.

In terms of debt management capacity, we also wanted to express our appreciation, like Mr. Castets and Ms. Pollard and others, for the reporting on capacity development, and we would appreciate the staff's views on the progress in debt management capacity development. We note the improvements in public financial management (PFM) cited by the authorities in their letter of intent and in the Memorandum of Economic and Financial Policies (MEFP), and so we encourage continued progress in this area. It will help to bring efficiency gains and advance fiscal credibility and sustainability.

On arrears clearance, we encourage the prioritization of the preparation and adoption of a well-structured domestic arrears clearance strategy. We know that the authorities are awaiting conclusion of the audit on unverified arrears; however, we still urge them to proceed with the arrears clearance as soon as they can, given the adverse impact on the private sector.

Finally, we just wanted to encourage an intensified effort on the structural reform agenda, including addressing constraints to doing business and financial inclusion and strengthening anti-corruption outcomes. All these will help contribute to private-sector development in the economic recovery. With that, we wish the Chadian authorities success.

Mr. Sigurgeirsson made the following statement:

We join others in welcoming the program performance, recognizing the fragile state of the country and the challenges faced by the authorities, and I agree with Ms. Pollard that it is important that we do our best to assist Chad.

I have issued a comprehensive gray statement, but I would just like to make one point. Chad clearly has significant needs for institutional building and capacity development provision. It seems to have been focused on important objectives, and the staff report mentions that ownership of reform seems to be increasing, which is a good thing. We also read with interest the comprehensive and frank overview in Annex II, where it is indicated that despite significant increase in efforts, those efforts have been constrained by capacity and high turnover of officials. But at the same time, we welcome the

forward-looking strategy which is laid out there, and aims at streamlining TA toward capacity and more on the long-game TA assistance.

We also place some faith in the quality of the upcoming CDMAP system, but we note, however, that over the past two financial years, 60 Fund missions have taken place, in addition to World Bank, EU, African Development Bank (AFD), Asian Development Bank (ADB) missions, and I must admit I do not envy the mission chiefs having had to follow the comings and goings of these TA missions and integrate output into the program and at the same time maintain consistency. But with that said, we look forward to the answers on capacity development.

The staff representative from the African Department (Mr. Bakhache), in response to questions and comments from Executive Directors, made the following statement:¹

I will update the Board on the prior actions agreed with the authorities, and then I will take up some of the issues raised in gray statements that we did not address in our written responses. I would like to confirm that the prior actions were implemented as of last week. The audit reports of the two public banks were finalized in line with the agreed terms of reference. Based on the conclusion of these reports, reorganization and funding plans for the two banks will be adopted by end-September. There will be a discussion in the context of the next review on specific steps with regard to the implementation of these plans in coordination with the COBAC just to make sure that all the relevant parties are involved.

The authorities have also finalized the first part of the audit of arrears and have already signed the contract to conduct the remaining audit. They intend to complete the audit in the next two months and adopt a clearance strategy by the end of November.

Now I will turn to two issues that were raised in the gray statements and also during the discussion. Let me start with the issue of capacity development. It was prominent in gray statements and in the discussion. We very much appreciate Directors' comments. This is a very important issue for Chad, and these comments are helpful in mobilizing TA for Chad, and we appreciate the expression of support for the long-term experts. There were a number of questions. I have grouped them in the following way, so let me start by talking about enhancing the effectiveness of TA.

¹ Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

Clearly, aligning capacity development priorities with the program objectives has significantly improved the traction and effectiveness of our TA. In fact, this helps the team and the authorities draw on the findings and recommendations of TA missions to identify key measures to achieve the program objectives, so there is an anchor to the choice of measures from the TA recommendations. For example, now priority is given to improve revenue mobilization and strengthen PFM because those have been identified as key objectives under the program. Of course, TA in other areas such as statistics and debt management continue to be provided.

We also believe, as do the authorities, that the presence of experts on the ground would help maintain focus on implementing key recommendations especially in an environment where TA needs to transcend all facets of public administration, but absorption capacity is limited.

We are ongoing to place a long-term expert on revenue mobilization in the field, and that expert intends to help coordinate PFM-related capacity development activities. Based on this experience, we will consider next steps to ensure optimal impact. In this regard, I would like to emphasize that we are aware of the risks that long-term experts may provide incentives that obviate the need to develop in-house expertise. As we speak, we are following up on this issue with the experts to make sure that they have in place the elements to minimize this risk and maximize institutional knowledge transfer. Clearly resident advisors work best, but they are costly. Another way to improve the traction and effectiveness of TA with a relatively lower cost is to provide follow-up hands-on implementation support through a series of expert visits from the Regional Technical Assistance Center (RTAC).

One last point that is worth mentioning on the effectiveness of TA is that it is important to set expectations commensurate with the known fragility in the country on the ground, and we need to be patient and persistent in our effort to build capacity.

With regard to the link between capacity development and program targets and benchmarks, I would like to emphasize that many of the program benchmarks have been derived from past TA reports, notably in the area of revenue mobilization. In other areas, for example, on enhancing transparency in the oil sector, the country team in AFR has provided support to the authorities to design the quarterly note that has now become a mainstay of the efforts to improve transparency in the sector. This is not traditional TA in the sense that we use the term in the Fund, but certainly it is part of the country team's effort to support capacity building on the part of the authorities.

Second, there was a question on how to maintain balance between the security and the social spending needs in the country. I would like to emphasize that maintaining security and achieving a reasonable level of spending in the social sectors are both key elements of the efforts to ensure sustainable and healthy growth in Chad. To help make headway on both elements, the authorities are making strong efforts to raise revenues from both the oil sector and the non-oil sectors and to maintain overall fiscal spending discipline. The staff has advised the authorities to ensure that security pressures do not lead to underspending on social sectors relative to the budgeted amounts and the agreed targets under the program. The authorities are aware of the critical need for social spending, and a committee has been established to ensure that program targets are met. Initial indications, which are subject to confirmation, suggest that Chad is on track to meet the end-June targets.

Mr. Castets made the following statement:

I thank the staff for the detailed and helpful answer. I would like to first say that I share your views that we have to be patient and persistent as regards TA in fragile countries, and when trying to assess the effectiveness of our TA, we have to take into consideration the difficulty on the ground. But that said, I support Ms. Pollard's call, supported by other Directors, for having resident advisors in countries such as Chad.

I also wanted to mention that we have to take into consideration the risk of having a resident advisor. It comes with pros but also with cons. But this chair has repeatedly called for having a discussion on having a medium-term strategy in those countries, especially as regards revenue mobilization for two reasons. First, because there are many TA providers in those countries, and it puts a massive burden on the authorities most of the time just to coordinate the different TA providers. Second, because we know that on those issues, the medium-term perspective is very important, and it is important also to design with the authorities a medium-term objective to make sure that it is not a temporary intervention, but that we are able to develop a strategy, and there we need a strong coordination with the World Bank, because we know that within this institution with our limited resources, they are part of the spending that is needed to address some of the difficulties, such as developing an IT system for tax administration. Once again, that is a debate we keep having with FAD and also with the AFR, but we hope that we will soon have some answers regarding if it is not a medium-term revenue strategy, but an instrument that will fit the need of the fragile countries in that regard.

Mr. Sun made the following statement:

I have just one issue on the alternative financing modalities. Several Directors raised this question, and we did not raise it as a question, but it is also one of our concerns, and in our gray statement, we echo the staff's view for exploring alternative options. We thank the staff for the detailed answer to this question. The answer is comprehensive, practical, and problem solving. Like Ms. Pollard, we also welcome and encourage the staff's proactive approach in helping the authorities to identify good products to fill the huge gaps, especially infrastructure gap. Like the staff answered in the technical answers, options could include blending concessional and/or grant financing with non-concessional resources, as well as the use of guarantees. The authorities need to double their efforts to ensure debt sustainability, and given the time limit I will not elaborate more.

This leads me to the issue of TA and capacity development that many colleagues have raised and emphasized. Mr. Sigurgeirsson, Mr. Castets, and others just emphasized this again, and I will not repeat their points.

Mr. Sigurgeirsson made the following statement:

On the subject of having people on the ground there for long-term, it is important to balance that with ownership on behalf of the authorities, so there is a balance there. You cannot just solve it by having people from here stay there and take care of things in the long-term. It is not a long-term solution.

Mr. Raghani made the following concluding remarks:

On behalf of my Chadian authorities, I wish to express my appreciation to Directors and management for their continued support to Chad's policy agenda. I welcome Directors' recognition of Chad's progress under the ECF arrangement amid a very challenging regional and domestic environment. I would like to reaffirm authorities' determination to pursue the program objectives, which are meant to contribute to the CEMAC regional strategy of preserving external stability while pursuing the country's growth and development plan.

Chad remains in a fragile situation stemming from weak capacity and challenging security, humanitarian, and social conditions, which threaten to undermine the favorable outlook. Directors have therefore stressed the need to pursue fiscal discipline, address vulnerabilities emerging from the banking

sector, and advance structural reforms to promote non-oil growth and make it more inclusive. I have taken good note of Directors' comments and policy recommendations, which I will faithfully convey to my Chadian authorities.

I also thank the staff, notably the mission chief, Mr. Bakhache, and his team for their dedication and close dialogue with the Chadian authorities. I associate myself with the staff's responses to technical questions raised by Directors, and I would like to make a few specific points.

First, on capacity building, as mentioned by many Directors, capacity building is critical for fragile states like Chad. The authorities highly value the TA provided by the Fund and other partners in their respective domain of expertise. That being said, they are requesting a long-term expert from the Fund, notably in the area of PFM, to better integrate TA with the reform agenda and sustain the impact of capacity development. I thank Directors who supported this request and who also highlighted the importance of this expertise to the country and also to help in advancing the reform in terms of TA agenda of the country.

Second, to ensure fiscal sustainability, the authorities give priority to mobilizing non-oil revenue, including through the rationalization of tax and customs exemption. Concrete measures are already underway and will be strengthened down the road. In addition, the authorities' expansion measures will focus on scaling up social and infrastructure spending, as reflected in the 2019 budget, while increasing spending efficiency. They understand that reducing the debt vulnerabilities also requires efforts to improve debt management capacity and gives priority to concessional financing. Directors' advice on further enhancing PFM and establishing an energy price smoothing mechanism to minimize fiscal vulnerability to oil price fluctuations is well taken.

Third, addressing financial sector weaknesses is a concern for the government, which intends to repay arrears and tackle domestic debt. I also take note of Directors' emphasis on restructuring public banks, addressing nonperforming loans, improving banks' liquidity situation, and easing the strong sovereign-bank linkages. Along with addressing these concerns, the authorities intend to develop the financial sector and advance financial inclusion, including through the development of mobile banking.

Finally, the authorities recognize there is a long way to make the business environment conducive to investment and private sector-led growth. They will build on the institutional and legal progress achieved in recent years

to strengthen the governance framework and streamline regulations. To conclude, I would like to reiterate the importance of the ECF arrangement for Chad's stabilization efforts and for catalyzing the needed assistance from development partners. Again, I thank all for your support.

The Acting Chair (Mr. Furusawa) noted that Chad is an Article VIII member, and no decision was proposed under Article VIII.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' continued commitment to the reform program supported by the IMF despite a challenging environment marked by fragility and significant development challenges. Notwithstanding the broadly favorable outlook, Directors noted the significant downside risks, including from the deterioration in the security situation and large drops in oil prices. In this context, they underscored the need to maintain fiscal discipline, while implementing reforms to address long-standing structural impediments to non-oil activity and achieve higher and more inclusive growth.

Directors commended the authorities for maintaining prudent fiscal policy. However, in light of high risk of debt distress, they emphasized the importance of increasing non-oil revenue, including by reducing costly exemptions and improving VAT collection, and maintaining spending discipline. This would help to ensure debt sustainability and create space for the much needed social and infrastructure spending. To reduce vulnerability to oil price fluctuations, Directors encouraged the authorities to consider a simple price-smoothing mechanism. They noted that strengthening public financial management and clearance of domestic arrears also needs to remain a priority.

Directors noted that vulnerabilities in the financial sector remain elevated, reflecting the tight sovereign-bank nexus. They encouraged curtailing the public banks' financing of the budget, reducing the high levels of non-performing loans and improving banking sector liquidity.

Directors encouraged the authorities to accelerate the pace of structural reforms to promote private sector development, diversify the economy and boost competitiveness. They emphasized the need for efforts to improve the business climate, enhance the fight against corruption, strengthen public financial management, and deepen financial inclusion. Directors noted that these efforts should be supported by well-targeted and coordinated capacity

development activities, taking into account the authorities' absorptive capacity. To ensure the effectiveness of the provided technical assistance many Directors supported the authorities' call for long-term resident experts.

Directors noted that Chad's program continues to be supported by the implementation of policies and reforms by the regional institutions, which are critical to the program's success. These comprise the policy assurances provided in the December 2018 Letter of Policy Support, which were implemented as planned, and the assurance on NFA accumulation in 2019 presented in the updated letter of June 2019 and discussed in the June 2019 union-wide staff report. Completion of the fifth review will be conditional on the implementation of the updated policy assurance.

It is expected that the next Article IV consultation with Chad will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

The Executive Board took the following decision:

Chad—Fourth Review Under the Extended Credit Facility Arrangement, Request for Modification of Performance Criteria, and Financing Assurances Review

1. Chad has consulted with the Fund in accordance with paragraph 4.C(b) of the arrangement for Chad under the Extended Credit Facility (EBS/17/64, 06/19/2017) (the "ECF Arrangement"), as amended, to review program implementation and to reach understandings regarding the conditions for further disbursements.
2. The letter dated June 18, 2019 from the Minister of Finance and Budget (the "June 2019 Letter"), together with its Memorandum of Economic and Financial Policies (the "June 2019 MEFP") and the Technical Memorandum of Understanding (the "June 2019 TMU"), shall be attached to the ECF Arrangement, and the letter dated June 16, 2017 from the Minister of Finance and Budget, together with all of its attachments, as subsequently supplemented and modified, shall be read as further supplemented and modified by the June 2019 Letter and its attachments.
3. Accordingly, the ECF Arrangement for Chad shall be amended as follows:

(a) New paragraph 2(g) shall be included in the ECF Arrangement to read as follows:

“2(g) the seventh disbursement, in an amount equivalent to SDR 28.04 million, will be available on or after April 15, 2020, at the request of Chad and subject to paragraphs 4 and 5 below.”

(b) Paragraph 4.D(a) shall be amended to replace the words “Table 1 of the December 2018 MEFP and further specified in the December 2018 TMU” with “Table 1 of the June 2019 MEFP and further specified in the June 2019 TMU”.

(c) Paragraph 4.D(b) shall be amended to replace the words “paragraph 44 of the December 2018 MEFP” with “paragraph 44 of the June 2019 MEFP”.

(d) A new paragraph 4.E of the ECF Arrangement shall be inserted to read as follows:

“4.E. Chad will not request the seventh disbursement under this arrangement specified in paragraph 2(g) above:

(a) If the Managing Director of the Trustee finds that, with respect to the seventh disbursement, the data as of December 31, 2019 indicate that

(i) the floor on the non-oil primary budget balance;

(ii) the floor on customs revenue;

(iii) the ceiling on net domestic government financing (excluding BEAC);

(iv) the ceiling on net government financing from the BEAC; or

(v) the ceiling on the stock of domestic payment arrears by the government;

as set out in Table 1 of the June 2019 MEFP and further specified in the June 2019 TMU was not observed; or

(b) until the Trustee has determined, with respect to the seventh disbursement, that the sixth program review, referred to in paragraph 44 of the June 2019 MEFP, has been completed.”

(e) Paragraphs 5(a) and 5(b) shall be amended to replace the words “Table 1 of the December 2018 MEFP and further specified in the December 2018 TMU” with “Table 1 of the June 2019 MEFP and further specified in the June 2019 TMU”.

4. The Fund decides that the fourth review specified in paragraph 4.C(b) and the financing assurances review specified in paragraph 5(d) of the ECF Arrangement are completed, and that Chad may request the fifth disbursement referred to in paragraph 2(e) of the ECF Arrangement, on the condition that the information provided by Chad on the implementation of the measures specified as prior actions in Table 2 of the June 2019 MEFP is accurate.
(EBS/19/60, 6/20/19)

Decision No. 16553-(19/59), adopted
July 3, 2019

APPROVAL: April 6, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Fiscal issues

1. ***Given the need for ongoing adjustment, could staff share their views on how much of an impact recent measures are having on public sentiment? Do staff have views on how risks to the social and political sustainability of the reform effort might be further mitigated?***
 - Following dramatic spending cuts in the wake of the oil price shock in 2014, the authorities' program supported by the ECF arrangement aims at a steady revenue based fiscal adjustment, and at a gradual increase in spending, primarily social spending and public investment. Although the social context remains difficult, it has certainly improved since the beginning of the ECF arrangement. Going forward, implementing the reform program, particularly in the areas of domestic arrears payment, higher social spending, and better governance will be key to support the sustainability of the reform efforts and mitigate risks.
2. ***We note that with the late disbursement of budget support, payment of domestic arrears in 2018 was lower than expected. Could staff provide an update on corrective measures and arrears payments in Q1-2019?***
 - The adjusted PC on domestic arrears was met at end-December 2018. However, the adjusted IT at end-March 2019 was missed, with the stock of arrears slightly increasing in Q1 2019. Since then, the authorities have put in place a team (through a ministerial decree) in charge of ensuring adequate and timely payment of domestic arrears.
3. ***In this regard, we would like to have more details from staff on the authorities' reasoning that significant time would be needed to assess different oil price-smoothing mechanisms. It is because of the complexity of its implementation or legal constraints?***
4. ***Finally, the annex on an oil price smoothing mechanism, to avoid a procyclical fiscal policy and to build up buffers, is very useful. We would welcome staff comments on possible institutional mechanisms (legal, administrative) to put in place to give more substance to the proposal.***

- Staff proposal is a simple price smoothing mechanism which can be implemented in the context of budget preparations. A fiscal rule which sets specific parameters for spending and saving would require an institutional set up which is likely to take a long time to put in place, and technical assistance. Staff has not recommended such a rule at this time given that there is a fiscal rule in place for the entire CEMAC region. The authorities showed interest in staff proposal and valued staff's analysis in this regard. While they would like to do more assessment of the mechanism under different price scenarios before adopting a particular one, they emphasized that even in the absence of such a mechanism oil revenue in the budget is projected based on a conservative oil price.
5. ***We wonder if the expected disbursement of most of the budget support for 2019 in the fourth quarter of 2019 could create liquidity problems and – perhaps – new external arrears.***
- Most of the budget support disbursements are expected in the fourth quarter. While the authorities do not have sufficiently detailed cash flow projections, based on staff projections, it is not expected that the government would face liquidity shortage, as the level of deposits at the BEAC remains sufficient. As such, it is not expected that new external arrears would accumulate. Lastly, in the event of delays in budget support, performance criteria and indicative targets would be adjusted (in line with the TMU) in a way that preserves the program objectives.
6. ***We also take note that in staff 's projections the payment of the oil tax revenue by the largest oil producer in 2019 is essential to achieve fiscal targets. Further elaboration on the timeline and conditions associated to this payment are welcome.***
- Based on discussions during the mission with the relevant stakeholders, staff projects that the main oil operator will pay profit tax starting this year. However, the timing and the exact amount remain difficult to assess as there is uncertainty with regards the amount of differed amortization. On this basis, staff's projections are conservative including on the oil price assumptions.
7. ***We would appreciate staff's comments on whether the financing for the long overdue parliamentary elections, which are scheduled to take place this year, has been budgeted for.***
- The precise budget for the 2019 legislative elections will be prepared by the recently established Independent National Electoral Commission. On a provisional basis, the 2019 budget law had included an allocation of CFAF 33 billion for the legislative elections. The authorities expect donors to support the election process through

contributions to the basket fund under the UNDP electoral assistance project. Some donors are expected to provide in kind support (equipment).

8. ***We noted that the floor on social spending has been missed mainly due to under-execution because of weak procurement practices, despite the need for more social spending to meet development goals. Also, we echo the staff's view that security pressures should not lead to underspending in social sectors. Could staff comment on the best way to maintain a balance between these two important requirements?***
 - Oral response.
9. ***We would welcome staff comments on the possibility for the World Bank to provide additional financing. Beyond that, we would like to have more details on the sources of financing for 2020 and 2021.***
 - Based on recent discussions with the WB staff, it is possible that budget support in 2019 will be higher than initially expected. However, there is uncertainty on the timing of the disbursement, which is why staff decided to keep a conservative projection in the baseline. If additional support materializes, it would be dealt with adjusters to program targets, in line with the technical memorandum of understanding. For 2020 and 2021, staff assumes external budget support of about 0.5-1 percent of GDP a year. Staff will refine those assumptions in upcoming missions in light of discussions of the 2020 budget.
10. ***The removal of tax exemptions seems particularly promising, as it does not require a whole new fiscal infrastructure, so can be considered a relatively cost-effective way of generating more revenue. Staff's assessment of the amount of revenue that could be raised through these initiatives would be welcome.***
 - It is challenging to estimate precisely the revenue loss from tax exemptions. A TA mission estimated that the revenue shortfall from customs exemptions was about CFAF 140 billion (about 2.3 percent of GDP) in 2015. Another study by the ministry of commerce based on 39 conventions (a small share of existing exemptions) estimated the revenue shortfall of about CFAF 45 billion. More generally, staff analysis based on existing empirical literature suggests that the non-oil tax potential in Chad stands at about 10 percent of non-oil GDP (versus an actual of 7.5 percent at end-2018).
11. ***That said, the authorities have noted difficulties in implementing reforms on exemptions given the relatively slow activity in the non-oil sector and the need for tax incentives for investment. Could staff elaborate on their recommendation***

regarding exemptions and whether TA is being considered to help the authorities advance this reform?

- Staff advised the authorities that widespread exemptions are incompatible with the mobilization of a substantial and stable base of tax revenue and are not an appropriate tool to attract private investment. As such, while limited new exemptions may be necessary, the authorities should not renew expiring exemptions on existing activities nor extend existing exemptions particularly in oil production and refining activities. Attracting and maintaining investment requires primarily structural reforms to improve the business climate. Based on TA from the Fund and other donors, the authorities have taken steps to remove exemptions. While progress has not been as considerable as expected due to legal challenges to the removal of exemptions, the authorities continue to press on this issue and planned TA in this area aims to support these efforts.

12. In this regard, we would welcome staff elaborations on poverty-reducing spending beyond 2019, which are absent from the tables distributed.

- Poverty reducing spending remain low in Chad compared to peer countries and to the population's need. The authorities should continue to increase this spending to ensure that its share in GDP and in total primary spending continues to rise. It is expected to be 34 percent of primary spending at end-2019 (from 30 percent in 2018) or about 4.6 percent of non-oil GDP. Staff will seek to agree with the authorities on a level of social spending that would exceed this share. In addition, as discussed in the SIP on social spending, the authorities should improve the quality and the efficient of spending in discussions with their development partners.

13. Since fiscal discipline, particularly on the wage bill is an important component of the program and as the wage bills for the civil service in the education and health ministries are not necessarily a good indicator of effective social spending, could staff elaborate on how to achieve a better targeting of social spending under the program? Additionally, is the creation of a high-level committee to monitor and prioritize social spending, as has been done in Chad, a good example to ensure efficiency of social spending under Fund arrangements?

- Social spending in Chad is low in light of current and future development needs (see SIP on social spending). Together with higher social spending targeted under the program, we agree that there is also scope to improve the allocation of resources. These detailed recommendations are country specific and need to be tailored to country needs and characteristics. As emphasized in the recently adopted strategy for IMF engagement on social spending, there is a need for increased focus on the quality and efficiency of social spending to maximize its impact and improve social

outcomes. The strategy encourages early engagement with the authorities and drawing on the expertise of international development institutions. Generally, improving the authorities' ability to monitor and prioritize social spending can help achieve better social outcomes, particularly in circumstances with a tight financing constraint. It is important to note that specific measures for a country should be tailored and fit into country-specific political and economic circumstances.

- The authorities are currently working with the World Bank and the UN on a review of education and health spending, in part to improve allocative efficiency. The creation of a high-level committee to prioritize and monitor social spending is aimed at ensuring that the allocated resources for social sectors are actually spent on needed projects to avoid the drop that was experienced in previous months.

Debt and debt sustainability

14. *However, with regards the latter, the recent shift towards use of short-term securities has increased financing costs and refinancing risks. Could staff elaborate on the reasoning that led to this shift and on the scope to revert to longer term debt instruments that would better support sustainable debt service payments?*

- The oil price shock of 2014-15 led to severe liquidity pressures on the government and the banking sector. As such, long term debt instruments have not been available for the government. However, in light of the recent improvement in the fiscal position, staff has advised the authorities to better communicate with banks this improvement with a view to access longer term financing (from banks in Chad and the sub-region) which would help improve public debt dynamic going forward.

15. *We are interested in better understanding how Chad is prioritizing the use of concessional resources, which have increased in recent years, and what financing constraints they may be facing in particular sectors such as electricity. We also are interested in whether this might be a useful case study for analyzing how the Debt Limits Policy operates. We note that high capacity countries like Rwanda are exploring the use of blended finance, and wonder whether there are modalities for donors to buy down the terms of semi-concessional sources to make them more appropriate for a country like Chad. We also wonder whether more decisive steps by Chad on governance, anti-corruption, and a sustained commitment to reform might increase interest from donors. Staff comments would be welcome.*

16. *Can staff elaborate more on the “alternative financing arrangements” that can be used to fill the infrastructure gap within the debt limits policy?*

17. *Given the high risk of debt distress, we note the need for resorting to more concessional financing. However, the limited availability of concessional financing could prevent the meeting of this goal. Could staff comment?*
18. *Given these constraints, plus the zero limit on non-concessional borrowing under the program, we would appreciate staff's assessment on how the electricity supply would be incremented.*
- The level of concessional resources for investment has been small in Chad (estimated at about CFAF 85 billion in 2018) which was used in several sectors (primarily infrastructure, energy, social sectors, and energy). While it increased in recent years, the increase comes from a low base of CFAF 18 billion in 2016 and is projected to remain modest over the medium term.
 - Attracting investment in the power sector is a key priority in Chad, with other infrastructure sectors (such as transport) also high on the list. Financing constraints include the poor credit quality of the state electricity company—similar to most state utility providers—requiring government involvement in backing any private sector-led investments in power.
 - We agree that improving governance, anti-corruption and other improvements in the business climate could help catalyze greater resources both from donors and private investors. This could also present a path toward a greater variety of financing arrangements. For example, for electricity, a number of solar projects are under consideration. Discussions are under way on a financing modality to ensure that the debt does not unduly raise the debt burden. Options include blending concessional/grant financing and nonconcessional resources to bring down overall concessionality, and guarantees from development partners that could reduce the risk of contingent liabilities. The Debt Limits Policy does allow for the possibility of blended financing for the purposes of assessing the grant element under the program. In practice, whether a particular combination of financing instruments can be treated as a package for the purposes of meeting conditionality is assessed on a case-specific basis.
 - Nonetheless, it is important to recognize that the availability of all such financing is limited for Chad and has therefore recently constrained the ability of Chad to invest in energy and infrastructure. Staff continues to discuss with the authorities ways to finance needed investment projects without jeopardizing debt sustainability in line with the debt limits policy and the importance of identifying high yield projects and taking measures to improve the government's debt service capacity.
 - As for the debt limits policy, the May 2019 informal board presentation highlighted the experiences of recent programs with debt conditionality, including Chad. Additionally, the relevant experiences from this and other cases are guiding the progress of the ongoing review of this policy.

- It is worth noting that work is ongoing in AFR on what policies are needed to help bring in more private finance for SDGs.

Banking sector

19. *Do staff have an update on the outcome of the public banks' audit?*

20. *Can staff comment on the recapitalization plans for the public bank with large NPLs?*

- The audit reports were recently finalized. They point to the need for reorganization of both banks on several fronts including governance, internal control, HR management, information system, adherence to prudential standards, and dependence of central bank financing. Staff will discuss the findings of the audits with MCM colleagues and the authorities to agree on specific measures to reorganize the banks. Important considerations will be the government expected payment of domestic debt to banks and domestic arrears which will affect the need for recapitalization and reliance on central bank financing.

21. *The plan to reorganize the two problem public banks is welcome and should be implemented swiftly. The two banks received around 92 percent of total BEAC refinancing to the Chadian banks at the end of 2018, while the BEAC is planning to reduce liquidity injection and tighten monetary policy. How will the two banks cope with the potential liquidity tightening? Staff comments are welcome.*

- The ongoing efforts to improve the position of the two large public banks is expected to strengthen their resilience in general including to a tighter monetary stance. The rollover of government T-bills and T-bonds was reduced to 85 percent and the planned payment of domestic arrears in 2019 are expected to help reduce pressure on public banks' liquidity. This effort is expected to continue next year, especially with the implementation of a clearance strategy of domestic arrears. In addition, in the context of reorganization plans, the auditors have prepared funding plans for the two banks that present a realistic progress reduction of the two banks dependence on the BEAC refinancing.

22. *Given that only 9 percent of Chadians have a bank account, we are wondering about the potential of mobile banking and microfinance to increase financial inclusion.*

- Access to financial services is very low in Chad and alternatives to the banking sector intermediation, notably, microfinance institutions and mobile banking are still underdeveloped. Increasing financial inclusion requires efforts on different fronts

including: (i) improving the banking sector resilience, by addressing vulnerabilities and increasing transparency, and (ii) enhancing the regulatory system of microfinance institutions by accelerating the implementation of the 2017 regional regulation and ensuring that a regulatory framework for mobile money is implemented to help support the development of this sub-sector while protecting the consumers.

23. ***Finally, we take positive note of the creation of Financial Market Supervisory Commission of Central Africa (COSUMAF), which seems to be a good step forward in improving supervision, regulatory compliance and coordination within the region. Could staff elaborate on how the new single regulator might benefit Chad's economy?***
- The Financial Market Supervisory Commission of Central Africa (COSUMAF) is the regulatory and control authority of the Central African Financial Market which was created in March 2019. Its mission consists of protecting savings invested in securities, improving the quality of investors information and the good functioning of the market. The COSUMAF aims to promote regional capital market integration. While its immediate impact on Chad is expected to be limited given the small size the regional capital market, this could support efforts to raise financing for public investment over time.
24. ***We welcome the preliminary report on the two public banks and note staff's recommendation "the reorganization and funding plans for the two banks should be based on realistic assumptions and aim to sustainably improve their ability to effectively provide intermediation services." Could staff elaborate? Additionally, are the deadlines in June for prior action and end September 2019 for adoption by relevant banks realistic considering capacity issues in Chad?***
- According to the terms of reference, the external consultants were required to present reorganization and funding plans that use macroeconomic indicators in line with the IMF projections that allow the banks to meet all prudential requirement, to increase their profitability and reduce their dependence on the Central Bank refinancing. The prior actions on delivering reports of external consultants on the review and reorganization plan for the two banks has been met. Based on these reports, the authorities have three months to prepare restructuring and funding plan that they expect to adopt before end September

Structural reforms

25. ***We urge the authorities to intensify efforts to address longstanding structural constraints, including those needed to improve the business environment and promote financial inclusion as articulated in the National Development Plan***

(NDP). Could staff elaborate on the factors underlying uneven progress in implementation of the NDP (Annex I)

- Progress in implementing the National Development Plan (PND, 2017-21) has been slow in part due to capacity constraints, but also the poor mobilization of financing committed by the private sector. The authorities are aware that much needs to be done to improve the business environment. In this regard, they have adopted implementation regulations for the PPP law, and have recently established institutional bodies charged with improving the business climate, including the Presidential Council to Improve the Business Climate (including private sector participants and chaired by the President) and an Observatory for the business climate. The forum with potential investors from the Arab world, held in N’Djamena during June 26-28, showed interest in investing in Chad.
26. ***To address these challenges, the authorities have been making determined efforts but are themselves constrained due to weak capacity, which may be partly responsible for the recent slowdown in the pace of reforms. Could staff elaborate on the reasons behind the slowdown in the pace of structural reforms?***
- The recent slowdown in the pace of structural reforms in large part reflects the fragility in Chad in particular the limited capacity and the recent rise in security concerns. Nonetheless, the authorities have taken steps to make up for this slowdown by implementing the prior actions on domestic arrears audit and the finalization of the audit of the two large public banks.
27. ***Staff’s comments on the authorities’ practical steps taken in implementing the United Nations Convention against Corruption are welcome.***
- The authorities are seeking support from the UN to undergo an assessment of whether their legislation is in line with UNCAC and which aspects need strengthening. They are also focused on identifying assistance to design and implement their asset declaration framework.
28. ***To guide the authorities’ efforts, we would welcome staff comments on the most promising non-oil sectors, to accompany the government’s diversification efforts.***
- It is important for the authorities to create the conditions for the diversification of the economy outside of the non-oil sector. This includes prioritizing investment in infrastructure, human capital and creating a supportive business environment.

Capacity development

29. *We appreciate the reporting on capacity development by staff. Have there been useful insights from feedback instruments from CD and TA recipients on ways to enhance traction and effectiveness of CD? Staff comments are welcome.*

- Oral response.

30. *Can staff comment on the IMF's experience using resident advisors in Chad and other CEMAC countries, and the prospects for finding room in the IMF's CD budget for such support?*

- Oral response.

31. *Finally, staff could also relate CD activities to the objectives and program criteria and benchmarks. Staff's comments are welcome.*

- Oral response

32. *Staff's comments are welcome on any overlapping of the provision of TA and the need for streamlined approach to capacity development in Chad while taking its absorption capacity into account.*

- Oral response

33. *Can staff comment how CD absorption of technical assistance could be improved?*

- Oral response

34. *In this regard, we encourage staff to reflect on how a medium-term strategy on domestic resources mobilization might support the authorities' efforts in that field – staff's comments are welcome. As for Niger, we would appreciate if staff could share views on the most effective modalities of technical assistance for a fragile economy such as Chad.*

- Oral response

Other

35. *Staff's comments are welcome on the Fund's view on the humanitarian challenges similar to the one in the Lake Chad region and the international financial support*

to Chad in dealing with this important issue, given the limited availability of domestic resources.

- Fund support can play an important role in helping Chad address its humanitarian challenges, including the burden of caring for displaced persons. The IMF program helps catalyze other donor support: projected budget support from bilateral and multilateral donors over 2017-20 is about twice as large as programmed Fund financing. The Fund program also supports reforms to improve domestic revenue mobilization to increase fiscal space to meet humanitarian needs. The catalytic role of the Fund in Chad is consistent with the finding in the LIC facilities review that the Fund continues to play an important catalytic role.

36. *Finally, we would welcome more details on the availability and quality of economic data provided by the authorities, including which measures are being taken to improve data.*

- The quality of economic data still shows gaps that are expected to be covered by continued TA including by the IMF and the World Bank. Since December 2015, the authorities have been implementing a reform strategy for national statistics, under a medium-term EU project (ACET). Precise improvement actions are contemplated in the 2019-23 action plan recently adopted by the national statistics institute (INSEED).