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**FOR  
AGENDA**

EBS/84/193  
Correction 1

CONFIDENTIAL

September 10, 1984

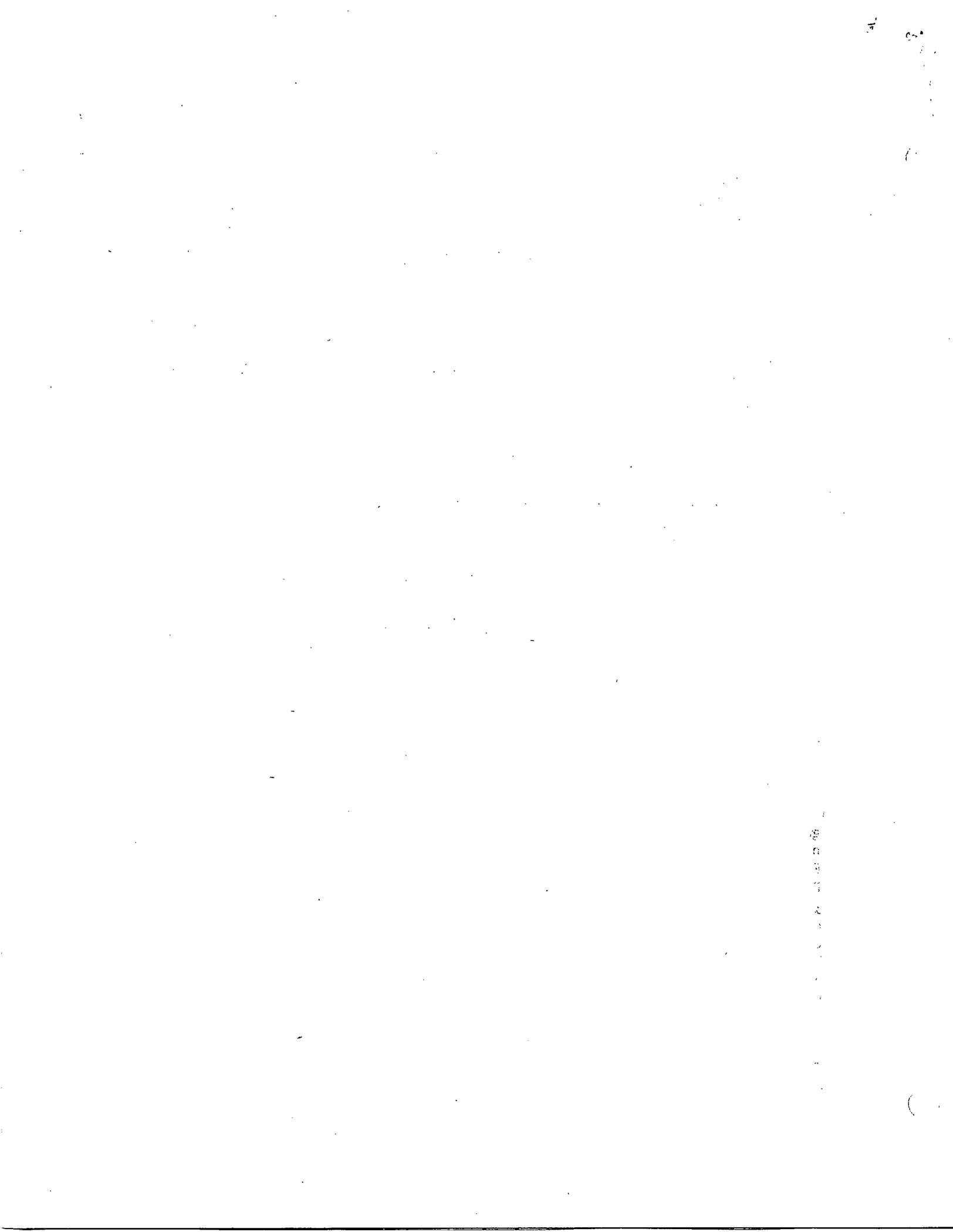
To: Members of the Executive Board  
From: The Secretary  
Subject: Chad - Overdue Obligations to the Fund - Current Status

The following correction has been made in EBS/84/193 (9/7/84):

Page 7, line 4: deleted

A corrected page is attached.

Att: (1)



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only paid a small per diem; (3) the consumption of goods and services by the administration is kept to a bare minimum with little scope for maintenance; (4) scholarships abroad are discontinued; and (5) there are no provisions for a local counterpart to foreign-financed investment. Stringent expenditure control is being applied and actual expenditure during the first six months was in line with the revised expenditure plan. It is now projected that total budgetary overruns for the entire year will be minimal.

However, both the initial budget and the revised expenditure plan provide an incomplete picture of central government fiscal operations, mainly for two reasons. A number of important functions, including the servicing of Chad's scheduled public debt, have been entrusted to special funds that operate outside the budget, and consumption of certain services, namely utilities, is not fully reflected in the budget. Including available data on extrabudgetary operations, projected overall expenditure commitments are expected to total CFAF 17,590 in 1984, an increase of 12 percent over the 1983 actual. 1/

The revenue estimate of the initial budget was retained when the revised expenditure plan was prepared. However, based on six-month actuals, revenue is now projected to reach CFAF 12,000 million, including a transfer of central bank profits estimated by the staff at CFAF 500 million. The principal causes for the expected 30 percent increase in revenue over the 1983 outturn are: (1) favorable cotton exports combined with the increase in the flat cotton export tax, based on a standard value, from CFAF 10.4 per kg to CFAF 48.7 per kg effective January 1, 1984; (2) improvements in the administration both of the internal revenue agencies and customs, with the continued reintegration of civil servants into the administration; and (3) a number of increases in rates on domestic taxes, including automobile licenses.

The 1984 overall deficit on a commitment basis is thus estimated at CFAF 5,590 million, or 32 percent of consolidated expenditure, as against CFAF 6,406 million, or 41 percent of consolidated expenditure, in 1983. Taking into account the likelihood that new arrears of CFAF 1,190 million will be incurred, the cash deficit is projected at CFAF 4,400 million. These arrears are likely to include interest due by the Amortization Fund (CAA) and those incurred vis-à-vis certain domestic and foreign suppliers. Financing of the cash deficit is expected to be covered largely by agreed bilateral budget support of CFAF 3,500 million, with the remainder to be financed chiefly through the available margin under the statutory central bank credit ceiling. Other domestic financing available to the Treasury, namely in the form

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1/ This projection includes electricity charges paid directly to the utility from an earmarked part of bilateral budget support, certain items for which arrears are being incurred, and unallocated Treasury payments.

of deposits by public sector agencies, is negligible, as most of these agencies maintain their funds with the banking system. Information on the level of accumulated arrears is incomplete as the validity of claims incurred prior to 1979 and during the civil war is being assessed. The cumulative total of budget arrears recognized so far is estimated at some CFAF 5.1 billion by the end of 1984. No provisions for the discharge of these arrears have been made.

On the basis of data collected so far by the CAA, Chad's outstanding external public debt amounted to CFAF 53 billion as at end-1983. Scheduled debt service obligations in 1984 are estimated at CFAF 1.2 billion, excluding obligations to the Fund. Accumulated CAA arrears by the end of 1983 are estimated at CFAF 7.8 billion, of which CFAF 3.1 billion represents interest; these are in addition to the above-mentioned budgetary arrears.

The two most important special funds are the Cotton Price Stabilization Fund (CSPC) and the CAA. The CSPC by statute receives 80 percent of any profits (net of amortization) of COTONTCHAD, the public company entrusted with ginning and marketing of cotton; in turn, it is to reimburse COTONTCHAD for any marketing losses. The CSPC's profit share, which was CFAF 3.5 billion in 1982/83, is expected to be substantially larger in 1983/84. The CAA receives proceeds from an additional tax on cotton exports, from excises on beer and cigarettes, and from the tax on bank loans. For 1984, total proceeds are estimated at CFAF 557 million, compared to CFAF 398 million in 1983. After deduction of minor operating charges, the CAA's financial assets are estimated at CFAF 0.8 billion by the end of July 1984, of which CFAF 0.2 billion is held in a blocked account and the remainder in demand or short-term deposits with commercial banks. In addition, the CAA accounts show receivables totaling CFAF 1.3 billion, representing revenue due for the period 1979-82, during which little or no funds were received. The CAA has not resumed servicing Chad's debt, because funds available are insufficient to face total obligations.

### III. Report on the Discussions

At the outset the Chadian representatives strongly reiterated their Government's willingness to meet Chad's financial obligations, including those to the Fund. However, they indicated that because of its unique circumstances, Chad's creditors should be understanding. The protracted civil war intensified in 1979-82, resulting not only in physical destruction, but also in the dislocation of the economy and the public administration. Although maintenance of security remains its primary objective, the present Government, which came into power in June 1982, has also endeavored to revive economic and financial activities and to rebuild and centralize the civil service in the capital. Cotton production increased sharply, but the major industries (beer, textiles, sugar, and