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December 22, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Chad—Request for a New Three-Year Arrangement Under the Poverty Reduction and Growth Facility**

Attached for consideration by the Executive Directors is a request from Chad for a new three-year arrangement under the Poverty Reduction and Growth Facility, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 23.

Mr. E. Harris (ext. 36621) and Ms. Allain (ext. 36349) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 3, 2000; and to the African Development Bank, the European Commission, and the Islamic Development Bank, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

CHAD

**Staff Report for the Request for A New Three-Year Arrangement  
Under the Poverty Reduction and Growth Facility**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,  
Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Ernesto Hernández-Catá and Ishan Kapur

December 21, 1999

- The discussions on a medium-term adjustment program to be supported by arrangements under the Poverty Reduction and Growth Facility (PRGF) were held in N'Djaména during October 29-November 12, 1999.
- The Chadian representatives in these discussions included Mr. Ouaidou, the Prime Minister; Mr. Bichara, Minister of Economy and Finance; Mr. Ben Barka, the National Director of the Bank of Central African States (BEAC); and other senior officials. On December 13, the government was reshuffled and a new Prime Minister was named. However, the Minister of Finance has retained his post, and the Minister of Planning has been reconfirmed in a renamed Ministry of Economic Promotion, Development, and Cooperation.
- The staff team consisted of Mr. Harris (head), Mr. Olters, Mr. Ntungwanayo, Ms. Nkusu, Ms. Allain, Ms. Da Luz, and Ms. Casaromani (assistant) (all AFR), and Mr. Fiator, the Fund's Resident Representative in Chad. Mr. Scanteie of the World Bank participated fully in the mission, as did Mr. Ondo Mañe, Alternate Executive Director for Chad.
- The previous three-year ESAF arrangement, in an amount equivalent to SDR 49.56 million (120 percent of old quota), was approved by the Executive Board on September 1, 1995 (EBS/95/139; 8/11/95). The arrangement expired on April 30, 1999, with all loans fully disbursed.
- In completing the 1999 Article IV consultation, along with the midterm review under the third annual ESAF arrangement on March 29, 1999, Executive Directors noted the improvement in fiscal performance and implementation of structural reforms, despite difficult economic conditions. They urged the authorities to sustain their efforts to accelerate fiscal consolidation and the implementation of the privatization program.
- Proposed access under the new three-year PRGF arrangement is SDR 36.4 million (65 percent of Eleventh General Review of Quotas). If all disbursements and repayments under the new PRGF arrangements are made as scheduled, Chad's outstanding use of Fund resources would rise from SDR 50.2 million (89.6 percent of quota) at end-November 1999 to SDR 77.7 million (138.8 percent of quota) at end-December 2002.

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## **EXECUTIVE SUMMARY**

### **Performance during the previous program**

- Implementation of the 1995-99 program was broadly satisfactory, despite repeated waiver requests. Considerable progress was made toward meeting the macroeconomic objectives in terms of GDP growth, inflation, savings and investment, and the external current account. The public finance situation improved, with marked improvements in both tax and customs administrations, and firm control over current spending. The primary current fiscal balance improved from a deficit of 1.7 percent of GDP in 1995 to surpluses of 1.1 percent in 1998 and a projected 0.9 percent in 1999. The overall fiscal deficit (on commitment basis and excluding grants) was reduced from 11.9 percent of GDP in 1995 to 7.7 percent in 1998 and is projected at 10.6 percent in 1999.
- Progress was made in key areas of structural reform, albeit with some delays, including the privatization or liquidation of the majority of public enterprises; the elimination of most controls on prices and profit margins; the liberalization of the external trade regime; and the rationalization of the labor code.

### **The medium-term strategy**

- The medium-term program aims to achieve the transition from crisis management and fiscal stabilization to the implementation of economic and social policies for sustained development. Key elements include (i) developing a comprehensive poverty reduction strategy over the next 12-15 months; (ii) maintaining macroeconomic stability; (iii) consolidating the public finance situation and strengthening the effectiveness of the public and financial administrations; and (iv) completing the unfinished structural reform agenda.
- The structural reform agenda focuses on (i) poverty reduction; (ii) private sector development (completion of the privatization program, policies in the transport sector, and regulatory and judicial reform); and (iii) administrative efficiency and economic management (through a capacity- and institution-building program, civil service reform, and administrative decentralization).
- The timeframe for beginning the exploitation of Chad's oil resources has been called into question. As oil-derived revenues were scheduled to begin only 2004, and since all pipeline-related investments are foreign-financed, delays in the construction of the Chad-Cameroon pipeline would not affect the fiscal program for 1999-2002. However, both the external current account deficit and the investment ratio would be considerably lower than presently projected.

### Key Macroeconomic Targets of the Program for 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
					Est.	Program		
	(Annual percentage change)							
Real GDP growth	1.0	3.7	4.1	8.1	-1.1	3.8	4.0	4.0
Consumer price index (annual average)	9.1	11.8	5.9	4.4	-8.4	2.3	4.1	3.2
	(In percent of GDP)							
Gross domestic investment <sup>2</sup>	11.6	11.9	14.4	16.4	17.0	22.7	34.1	40.3
Gross domestic savings <sup>2</sup>	-5.1	-5.1	-0.5	1.9	-1.2	0.5	1.4	1.5
Primary current fiscal balance <sup>1</sup>	-1.7	-0.6	0.8	1.1	0.9	0.7	1.1	1.5
Overall fiscal balance (commitment basis) <sup>1</sup>	-11.9	-11.1	-10.2	-7.7	-10.6	-12.0	-11.7	-11.4
External current account <sup>1 2</sup>	-17.6	-21.1	-18.8	-16.7	-20.5	-24.4	-35.0	-40.9

<sup>1</sup>Excluding grants.

<sup>2</sup>Including the pipeline project. The impact of a delay in the project on the external accounts, private savings, and the overall savings-investment balance is presented in Box 3.

### The program for 1999-2000

- The emphasis in public finances is on strengthening tax and customs administrations, and simplifying expenditure procedures, as well as on reinforcing the system of internal and external controls of budget execution. A major change in tax policy is the planned introduction on January 1, 2000 of a value-added tax (VAT) at a single rate of 18 percent.
- In the area of structural reform, the authorities intend to launch the privatization of the remaining large public enterprises (water and electricity, sugar, telecommunications, and cotton); emphasize routine road maintenance; and launch an action plan to strengthen the judiciary. A two-year strategy for liberalizing the cotton sector has been adopted. A wide-ranging capacity- and institution-building program will be launched, with particular emphasis on the public finance area, as well as the process of civil service reform. Preparations will be intensified for the phasing in of the planned administrative decentralization.
- A timetable has been set for elaborating, in consultation with civil society and external partners, a comprehensive and fully costed poverty reduction strategy that will integrate the sectoral policies defined in the areas of health, education, transport, and rural development. It is expected that a poverty reduction strategy paper will be prepared by the end of 2000.
- A preliminary analysis of the external debt data indicates that Chad is likely to be eligible for debt relief under the HIPC Initiative. The decision point is expected to be reached in the first half of 2000. The preliminary HIPC Initiative document will be prepared for discussion by the Boards in early 2000.

### **Issues raised in the staff appraisal**

- The importance of a review of public expenditure to help improve the efficiency of spending in priority areas;
- The need to mobilize external financing for the planned international summits to be hosted in Chad in 2000, so as to avoid endangering the fiscal program;
- The importance of defining as quickly as possible a plan for reducing domestic payments arrears and ensuring, through careful cash-flow management, that no new arrears are accumulated;
- The need to restrict government intervention in the banking system, such as the provision of liquidity support to the privatized commercial banks in 1999, which has complicated the government's cash-flow management;
- The critical importance of strengthening administrative and institutional capacity, in order to implement effectively the ambitious structural reform agenda. This underscores the need to proceed apace with the civil service reform program;
- The importance of preparing carefully the transition to the system of administrative decentralization, with a full analysis of the financial implications and the establishment of clear budgetary procedures for the local administrations;
- The need to improve overall governance, in order to foster a sense of participation and partnership on the part of civil society, which is critical to building the necessary consensus for the poverty reduction strategy;
- In the context of the preparation of the poverty reduction strategy, the need to strengthen the collection, dissemination, and interpretation of the relevant statistics and indicators of progress in reducing poverty, and to collaborate closely with civil society and donors during the process.



## I. INTRODUCTION

1. In a letter to the Managing Director, dated November 12, 1999, and in the accompanying memorandum of economic and financial policies (MEFP) (Appendix I, Attachment), the government of Chad sets out its economic program for the period October 1999–September 2000, in support of which it requests assistance during the first year of the new three-year PRGF arrangement.<sup>1</sup> In the attached note describing the “Preliminary Framework for a National Poverty Reduction Strategy” (Appendix II), the Chadian authorities set out their medium-term adjustment strategy and the proposed timeframe for the elaboration of a comprehensive poverty reduction strategy to be incorporated in a Poverty Reduction Strategy Paper (PRSP).

2. The World Bank’s recent assistance program in Chad was laid out in its 1996-98 Country Assistance Strategy (CAS), presented to the Bank’s Board in March 1996. A third *structural adjustment credit* (SAC) of US\$30 million was approved by its Board in May 1999. A new CAS predicated on the development and exploitation of Chad’s oil resources was circulated to the Bank’s Executive Directors in June 1999, and was to have been presented to the Bank’s Board together with a project in support of the construction of a pipeline from Chad to the Atlantic coast of Cameroon.<sup>2</sup> A major capacity-building project will be presented to the Bank’s Board by end-January 2000. A transport sector adjustment credit is also under preparation. Chad’s relations with the Fund and with the World Bank are presented in Appendices III and IV, respectively.

## II. PERFORMANCE UNDER THE 1995-99 PROGRAM AND RECENT DEVELOPMENTS

### A. Developments During 1995-98

3. **Implementation of the 1995-99 ESAF-supported program was broadly satisfactory, despite repeated waiver requests** associated with slippages that were, at times, beyond the control of the authorities. Progress was made toward meeting the macroeconomic objectives in terms of GDP growth, inflation, savings and investment, and the external current account (see Box 1).

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<sup>1</sup> The amount available under the first annual arrangement, which is equivalent to SDR 10.4 million (18.6 percent of quota), would be disbursed in two equal loans, the first upon Executive Board approval of the arrangement, and the second upon observance of the end-March 2000 performance criteria and completion of the first review.

<sup>2</sup> Exploitation was expected to begin in 2004. However, in the second week of November, two of the three private investors indicated that they were reconsidering their commitment to the project, primarily for strategic commercial reasons, calling the originally envisaged timing into doubt, with significant implications for medium and long-term economic perspectives. The new CAS is being reformulated to take account of these developments.

4. **The public finance situation improved significantly during the program period;** however it occasionally fell short of the program objectives. The primary current fiscal balance shifted from a deficit of 1.7 percent of GDP in 1995 to surpluses of 0.8 percent and 1.1 percent of GDP in 1997 and 1998, respectively. The overall fiscal deficit (on a commitment basis and excluding grants) narrowed from 11.9 percent of GDP in 1995 to 7.7 percent in 1998.<sup>3</sup> Tax and customs administrations were made more efficient; nevertheless, revenue performance consistently fell short of program projections, reflecting the thin tax base and the vulnerability of the private economy to exogenous shocks. Total expenditure fell from a peak of 18.1 percent of GDP in 1995 to 15.3 percent of GDP in 1998, as firm control was maintained over current spending. External payments arrears were settled in 1998, and close to CFAF 25 billion in domestic arrears was repaid in 1996-98.

**Box 1. Main Macroeconomic Objectives and Outcome <sup>1/</sup>**

Objectives	Outcome
Average annual growth rate of real GDP of 5 percent, or 2.5 percent in per capita terms.	Real GDP growth averaged 4.2 percent per year during 1995-98, in large part owing to gains in competitiveness and higher agricultural and agro-industrial production.
Inflation to fall into the 3-5 percent range, after the initial surge in prices following the CFA franc devaluation.	Inflation surged to 41.3 percent in 1994 but declined to 4.4 percent by 1998.
Improvement in the current primary budget balance from a deficit of 3.7 percent of GDP in 1994 to a surplus of 1.7 percent in 1998.	The current primary balance improved, to a surplus of 1.1 percent of GDP in 1998.
Reduction in the overall fiscal deficit (on a commitment basis and excluding grants) from 14.2 percent of GDP in 1994 to 8.6 percent in 1998.	The overall fiscal deficit was reduced to 7.7 percent in 1998.
Increase in overall investment from 11.8 percent of GDP in 1994 to 18.5 percent in 1998, along with elimination of gross domestic dissaving.	Gross fixed investment increased to 16.4 percent in 1998, reflecting mainly investment in the oil project. In 1998, a positive rate of gross domestic savings was registered for the first time, primarily because of the improvement in the public finances.
Reduction in the external current account deficit (excluding official transfers) from 21 percent of GDP in 1994 to 16.9 percent in 1998.	The external current account deficit (excluding grants) fluctuated around 18 percent of GDP (about 12.5 percent of GDP after grants) in 1994-98, owing to unstable terms of trade.

1/ The program objectives were redefined to be consistent with the revised GDP series.

5. **After the upheavals following the CFA franc devaluation in 1994, money and credit conditions in Chad stabilized.** The sharp growth of credit and broad money experienced in 1994-96 slowed—indeed, both broad money and total domestic credit contracted in 1997-98. The financial situation of the banking sector improved considerably, and all but two of the six banks are now in full compliance with the prudential regulations and norms of the

<sup>3</sup> Including grants, the deficit moved from 4.8 percent of GDP in 1995 to 3.9 percent in 1998.

regional banking commission (COBAC). Moreover, the government has surrendered its controlling interest in three banks, although it continues to hold a 50 percent share in another bank.<sup>4</sup>

6. **Progress was made in the area of structural reforms;** however, some measures were implemented with delays (see Appendix VI). The key elements of the structural reform agenda were the privatization or liquidation of most public enterprises; the elimination of most controls on prices and profit margins; the reduction of external tariffs in the context of regional reforms; the initial phase of liberalizing and privatizing the telecommunications sector; the rationalization of the labor code; and initial steps to reform the system of financing and execution of routine road maintenance.

#### **B. Performance in 1999**

7. **Real GDP is projected to contract by 1 percent in 1999** (as against an originally projected growth of 1.2 percent), owing mainly to lower cotton manufacturing output and reduced foodcrop production, relative to the 1998 bumper crop (Table 2). Moreover, production in all sectors was adversely affected by the severe energy crisis during the first half of the year.<sup>5</sup> Consumer prices are expected to decline in 1999 (as against an originally projected increase of 3.3 percent), reflecting the positive supply effects of the 1998 bumper food crop harvest. The external current account deficit (excluding grants) is projected to widen from 16.7 percent of GDP in 1998 to 20.5 percent in 1999 (compared with 21.1 percent originally projected), owing mainly to weak world prices for cotton.

8. **In the first half of 1999, fiscal revenue was adversely affected by the interruptions of economic activity caused by the 1998-99 energy crisis** (Table 3). In response to the revenue shortfall, the authorities limited current nonpriority expenditures. Revenue collection strengthened somewhat in the third quarter, although the recovery of tax arrears was somewhat less than expected, and collections are projected to pick up further in the last quarter. The primary fiscal surplus is thus estimated to reach 0.9 percent of GDP in 1999 (compared with the 2.3 percent originally anticipated under the program),<sup>6</sup> and the overall deficit, on a commitment basis (excluding grants) is estimated at 10.6 percent of GDP (5.4 percent including grants). Some domestic arrears were temporarily accumulated during

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<sup>4</sup> The other 50 percent is held by the government of Libya.

<sup>5</sup> Electricity and water production declined markedly in 1998, reflecting chronic fuel shortages that emerged after a petroleum refinery in northern Nigeria, supplying over 70 percent of Chad's petroleum product imports, was damaged and ceased operations in early 1998. Supplies from the other source (Cameroon) could not compensate for the shortfall (see EBS/99/36, 3/12/99, Box 1).

<sup>6</sup> The projected surplus takes account of the transfer to the Autonomous Road Maintenance Fund (CAER) in November of CFAF 2.2 billion, financed by an increase in the June disbursement of the World Bank's SAC. Excluding this amount, the primary current surplus would have been CFAF 10.4 billion (1.1 percent of GDP).

the third quarter, but these new arrears are expected to be fully cleared before the end of the year. Chad has been current on its external debt-service obligations since 1998.

9. Broad money is projected to contract marginally, by 0.3 percent in 1999, while credit to the private sector is expected to stagnate, reflecting the general economic slowdown. The net foreign assets position is expected to strengthen somewhat (Table 6). Notwithstanding the overall strengthening of their financial situation, as reflected in the compliance with the prudential ratios, some banks experienced temporary liquidity difficulties in mid-1999.<sup>7</sup> Despite having divested its controlling interest in these banks, the government provided support by shifting a considerable portion of its deposits from the central bank to its accounts in the commercial banks. Instead of using these deposits, the government then increased its recourse to central bank financing later in the year to meet its external obligations.

10. In the structural area, the authorities took **important steps toward completing the privatization program** at the end of the year. Negotiations are under way with the successful bidders for privatizing the management of electricity and water company (STEE) and for the privatization of the sugar company (SONASUT). Also at the end of the year, the government adopted a comprehensive strategy for the liberalization of the cotton sector (see paragraph 21 below).

### **III. REPORT ON THE POLICY DISCUSSIONS, THE MEDIUM-TERM STRATEGY, AND THE PROGRAM FOR 1999-2000<sup>8</sup>**

11. The central objective of the government's adjustment strategy over the medium term is to achieve the transition from crisis management and fiscal stabilization to the implementation of economic and social policies for development and poverty reduction. These include the financial and structural reforms needed to facilitate the proper management of the oil revenues that are expected to become available in 2004.<sup>9</sup> Key elements of policy include (i) maintaining macroeconomic stability; (ii) consolidating the public finance situation and strengthening the effectiveness of the public and financial administrations; (iii) completing the unfinished structural reform agenda; and (iv) developing a global poverty reduction strategy that will serve as the basis for social policy. The main macroeconomic and financial objectives of the medium-term program are set out in Box 2 and are presented in

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<sup>7</sup> However, according to the statistics on the prudential ratios, five of the six banks were in compliance with the minimum short-term liquidity requirement through July 1999 (see footnote 18 below).

<sup>8</sup> Details of the policies in the first year of the program are presented in the attached memorandum on economic and financial policies (MEFP) (Appendix I, Attachment). The overall medium-term strategy is presented in the attached note from the authorities on their approach to the poverty reduction strategy.

<sup>9</sup> The orientation of the adjustment strategy was presented to representatives of business, trade unions, civil society, and donors at a conference held in N'Djaména in June 1999 to evaluate the experience under the first three-year ESAF arrangement.

more detail in the accompanying "Preliminary Framework for a National Poverty Reduction Strategy" (Appendix II).

<b>Box 2. Macroeconomic Objectives and Key Financial Policies of the 1999-2002 Program</b>
<p><b>Macroeconomic objectives</b></p> <ul style="list-style-type: none"> <li>• Sustain real GDP growth at above 4 percent in 2000-02.</li> <li>• Contain inflation at about 3 percent per year on an annual average.</li> <li>• Reduce the non-oil external current account deficit (including grants) from 15 percent of GDP in 1999 to 14.3 percent in 2002.</li> <li>• Increase public investment from 5.4 percent of GDP in 1998 to 8½ percent of GDP in 2002, and private investment from 11 percent of GDP in 1998 to 32½ percent of GDP in 2002, mainly reflecting the investment in the oil sector.</li> <li>• Raise domestic savings from -1.2 percent of GDP in 1998 to 1.5 percent in 2002.</li> </ul> <p><b>Fiscal policies</b></p> <ul style="list-style-type: none"> <li>• Continue fiscal consolidation, with the objective of increasing the current primary surplus from 0.9 percent of GDP in 1998 to 1.5 percent in 2002.</li> <li>• Raise the revenue-to-GDP ratio from 9.4 percent of GDP in 1999 to 10.4 percent in 2002 by widening the tax base, continuing the strengthening of tax administration, and rationalizing the common regional external tariff and the taxation system.</li> <li>• Pursue prudent and transparent expenditure policies, with primary current expenditure maintained below 9 percent of GDP, by rationalizing the wage bill, reinforcing spending procedures and treasury operations, and ensuring adequate allocations for priority sectors.</li> </ul> <p><b>Monetary policy</b></p> <ul style="list-style-type: none"> <li>• Support a prudent monetary policy at the regional level; work toward the adoption of more efficient indirect instruments of monetary policy by the central bank, and promote the development of regional financial markets and diversified financial institutions and instruments.</li> </ul>

12. **Real GDP growth** is projected to rebound to 3.8 percent in 2000, after contracting by about 1 percent in 1999, as cotton production and ginning activity are expected to pick up. Inflation would stabilize at 2.3 percent per annum in 1999-2000. Gross investment is expected to increase from 17 percent of GDP in 1999 to 22.7 percent in 2000, with an increased share of private investment related to the pipeline project (see Tables 2 and 4). The external current account deficit (excluding grants) would widen from 20.5 percent of GDP in 1999 to 24.4 percent in 2000, mainly because of the large increase in imports related to investment in the petroleum sector.

#### A. Fiscal Policy

13. The **budget for 2000**, presently before the National Assembly, targets a primary current surplus of 1.4 percent of GDP. Overall revenue is projected to rise by 0.6 percentage point to 9.6 percent of GDP. Meanwhile, by strictly limiting nonpriority current spending, including military outlays, current primary expenditure is to be held to 8.3 percent of GDP in

2000. The budget provides for an increase of 20 percent in real terms in current non-wage spending in priority sectors,<sup>10</sup> and the unfreezing of the financial effects of automatic advancements in the civil service (amounting to CFAF 4 billion). It also makes provisions for the initial cost of administrative decentralization and the introduction of constitutional organs, as well as for the cost of hosting planned international summits.<sup>11</sup> Total investment spending is budgeted at 11.6 percent of GDP. The overall fiscal deficit (on a commitment basis and excluding grants) is projected at 12 percent of GDP.

14. The staff estimates **the current primary surplus for 2000 at 0.7 percent of GDP**, with overall revenue of 9.4 percent of GDP and current primary spending of 8.6 percent. The difference between the staff's and the authorities' projections is due in part to the authorities' inclusion of the gross receipts from taxes on exonerated public procurement contracts financed by foreign donors, but it is also due to the inclusion of budget subsidies to the CAER and the loss of revenue associated with the nonrenewal of the exceptional import tax on sugar, which was not taken into account in the Budget Law.

15. The only change in tax policy is the planned introduction on January 1, 2000 (with technical assistance from the Fund) of a **value-added tax (VAT)** at a single rate of 18 percent, replacing the 15 percent turnover tax (TCA). The main focus of policies on the revenue side will be on strengthening tax administration—reinforcing tax audit procedures, modernizing tax collection procedures, and enhancing the ability of the tax directorate to collect back taxes and tax arrears—and customs administration, particularly through the introduction of the computerized customs system (SYDONIA) in early 2000. In keeping with regional arrangements under the Central African Economic and Monetary Community (CEMAC), the authorities intend to eliminate remaining temporary import surcharges by July 2000 and the remaining customs exemptions that are inconsistent with the common CEMAC external tariff by end-2000.<sup>12</sup>

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<sup>10</sup> Namely health, education, public works (including road maintenance), and social affairs. For the past three years, the authorities have followed a consistent policy of reallocating expenditures towards these sectors, but expenditure levels are still very low in absolute terms (CFAF 9.9 billion, or 1 percent of GDP, are budgeted in 2000). These are, for the most part, the sectors for which special strategies have been prepared and presented to donors, and which are at the center of the government's poverty reduction strategy (see paras. 27-29).

<sup>11</sup> These are the annual summit of the Heads of State of the Central African Economic and Monetary Community (CEMAC), the Community of Sahelo-Saharan States (COMESSA) Summit, the Lake Chad Basin Commission (CBLT) Summit, as well as the Francophonie Summit. In the absence of external assistance, the budget allocation would be insufficient to cover the costs of these summits. The mission cautioned the authorities that extrabudgetary spending or arrears accumulation in this context would call the entire fiscal program into question.

<sup>12</sup> The exceptional tariff surcharge on sugar imports has not been renewed, implying a revenue loss of CFAF 1.3 billion in 2000. Some protection of the domestic sugar market remains in place, however, since the official reference price for sugar paid by consumers, (continued...)

16. The focus on the expenditure side is on simplifying expenditure procedures, reinforcing the system of internal and external controls of budget execution, harmonizing the budget and accounting nomenclatures,<sup>13</sup> and using improved forecasting and monitoring techniques to develop a detailed monthly cash-flow plan that incorporates actual resource flows (revenues and the mobilization of external resources) and a projection of receipts at least three months into the future (a performance criterion for end-March 2000).<sup>14</sup> The first of a series of regular annual public expenditure reviews will be launched in 2000, with the support of the World Bank. It is expected to provide information on the efficiency of spending, particularly in the priority social areas, which can be used to improve equity in access to social services, and to reassess expenditure priorities in light of the poverty reduction strategy to be formulated over the next months (see paragraph 28 below). The authorities also intend to set up by June 2000 a mechanism for comparing commitments with actual spending in the education sector, and to gradually extend it to all priority sectors.

17. The authorities will update and verify the stock of **domestic payments arrears** by September 2000 and, on that basis, prepare a comprehensive plan to reduce domestic payments arrears—based on cash payments at deep discounts, rescheduling over long maturities with appropriate grace periods, or the issuance of new government debt instruments. Meanwhile, the authorities intend to repay CFAF 9 billion in 2000, including CFAF 5.5 billion in arrears to the cotton company (COTONTCHAD) as part of the rehabilitation effort (see below, paragraph 22).

### **B. Monetary and Credit Policy<sup>15</sup>**

18. Broad money is projected to grow by only 1.3 percent in 2000, as the lower export value for cotton will reduce the demand for money and crop credit, as well as cause some loss of net external reserves. Net domestic bank credit to the government will increase over the period by about 4½ percent of beginning-of-period money stock, as the government gradually draws down some of its deposits in the banking system.

19. The CEMAC Council of Ministers met at end-September 1999 to decide on measures to reverse the sharp loss of international reserves of the regional central bank in 1998 and the first half of 1999. These include a more effective control by the central bank of the expansion of its domestic assets, including in particular, the sharp increase in the recourse of some

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which is much higher than the world market price, has been retained, with its original schedule of yearly reductions until full elimination in 2004.

<sup>13</sup> Leading to the unification of the current and capital budgets by 2002.

<sup>14</sup> The introduction of this forward-looking monthly cash-flow plan by March 2000 represents an important instrument in improving overall fiscal management, as it should provide advance warning of problems that may arise in revenue collections, as in past years, and will give sufficient time for appropriate adjustments to be made.

<sup>15</sup> Official monetary aggregates are only available through July 1999, as banks have experienced problems in conforming to the new computerized reporting system.

member governments to statutory advances from the BEAC.<sup>16</sup> At that meeting, it was decided, *inter alia*, to study the possibility of freezing the ceilings on statutory advances, and of eventually revisiting the automatic access of governments to these advances. However, no timetable was set for an actual change in the present system.

20. The position of Chadian banks relative to the prudential norms has improved steadily over the past two years.<sup>17</sup> The government intends in 2000 to raise the minimum own-capital requirement from CFAF 150 million to CFAF 1 billion, a level already reached by all Chadian banks, and consistent with developments in other countries of the CEMAC. The government will also undertake in 2000 a study of microcredit institutions active in Chad, with a view to defining a supportive strategy, consistent with the supervisory requirements of the CEMAC.

### C. Structural Policies

21. The structural reform agenda is articulated around three principle objectives: (i) private sector development; (ii) administrative efficiency and economic management; and (iii) poverty reduction. The principal feature of the **private sector development** policy (for which the government adopted an official policy statement in June 1999) concerns the completion of the **public enterprise privatization** program.<sup>18</sup> In addition to the enterprises mentioned in paragraph 10 above, the government will launch the privatization process for the telecommunications company (SOTELTCHAD) in May 2000, and the privatization of the national road maintenance company (SNER) in June 2000.<sup>19</sup>

22. The cotton sector accounts for almost 40 percent of export earnings, and is the primary source of cash income for as many as 3 million people. As a prior action of the new program, the government has adopted and published, in consultation with the World Bank, a **medium-term strategy for liberalizing the cotton sector**.<sup>20</sup> It foresees complete

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<sup>16</sup> This reflected the deterioration of the public finances related to the decline in world oil prices during the period, which was not accompanied by appropriate fiscal tightening.

<sup>17</sup> As of July 1999, four of the six Chadian banks were in compliance with the risk-weighted capital adequacy ratio; three were below the maximum credit concentration ratio; five were in compliance with the short-term liquidity ratio; and four met the minimum long-term liquidity ratio.

<sup>18</sup> See paragraph 26 of the MEFP.

<sup>19</sup> The creation of a separate structure to absorb the nonperforming claims of the STEE is a prior action of the present program. However, a financial contribution from the government may be required to allow the negotiations on the privatization of the management of STEE to be completed. If part of the claims of the STEE are on the government, these claims could be directly settled in the context of the reduction of domestic arrears foreseen in the program for 2000.

<sup>20</sup> See paragraph 44 of the MEFP.



government disengagement from COTONTCHAD by end-2001,<sup>21</sup> the closer involvement of producers in the management of the sector, and the strengthening of producer organizations to enable them to assume some of the support functions presently provided by COTONTCHAD. Emergency measures have been taken to halve the operating deficit of COTONTCHAD (originally 1.1 percent of GDP for crop year 1999/2000). These include the reduction of the producer price from CFAF 170 per kilogram to CFAF 150 per kilogram (consistent with the price level yielded by the automatic price adjustment mechanism), the negotiation of smaller commercial bank margins on COTONTCHAD's crop credit,<sup>22</sup> lower transport tariffs, and lower fees to its foreign partner. The remaining deficit (0.5 percent of GDP) will be absorbed by the government in the context of its arrears reduction plan. An external financial controller will be nominated by end-March to execute a comprehensive restructuring plan for the enterprise. These actions will constitute a structural performance criterion of the first annual arrangement for end-March 2000.

23. The government's **transport sector** policies and priorities were presented to donors at a sectoral meeting at end-November 1999, with particular emphasis given to routine road maintenance. The authorities are exploring possibilities of making the CAER self-financing by including a specific road user fee in the structure of official petroleum product prices in 2001, after an audit of the CAER's accounts.<sup>23</sup> Steps to strengthen the **judicial and regulatory frameworks** include revitalizing the Judicial Reform Commission (comprising both public and private sectors); implementing a program to increase the number of trained judges and judicial personnel; and adopting a national investment charter compatible with the provisions of the regional charter.<sup>24</sup>

24. In the area of **economic and administrative management**, the authorities plan to execute a wide-ranging **capacity- and institution-building program** with the assistance of the World Bank and the United Nations Development Program (UNDP). Particular emphasis will be placed on the fiscal administrations and the treasury, the Supreme Court, and the General Accounting Office, and on the enhancement of macroeconomic and financial forecasting capacities.<sup>25</sup> The authorities also intend to continue preparations for the **administrative decentralization** which is expected to be implemented gradually, commencing in 2001. This process will require a detailed analysis of the financial

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<sup>21</sup> An investors' forum will be held by July 2000 to examine the different options for this disengagement. The tender for bids will be issued before June 2001.

<sup>22</sup> The banks currently charge interest rates on crop credit that are 3.5 percentage points over the interbank rate of 9 percent and considerably higher than the central bank's refinancing rate of 7.5 percent.

<sup>23</sup> In anticipation of this decision, and in view of current sensibilities surrounding the petroleum pipeline project, the authorities are unwilling to commit themselves at this time to the introduction of a flexible automatic price adjustment mechanism, as proposed by the staff. However, the issue will be reexamined over the next few months.

<sup>24</sup> See paragraphs 28-30 of the MEFP.

<sup>25</sup> Details and the planned timing of the measures envisaged in the program are described in paragraph 31 of the MEFP and in the accompanying matrix of policy measures.

implications of the decentralization, and a precise definition of the respective roles and relative authority. The analysis will be completed by September 2000.<sup>26</sup> The decentralization process will also require the establishment of budgetary rules and procedures for both the central administration and the local administrations, as well as careful monitoring thereof.

### Box 3: Perspectives for the Chad-Cameroon Pipeline Project

The capacity- and institution-building component of the structural program is designed also to help Chad prepare for the exploitation of its oil resources, which was originally expected to begin in 2004 upon completion of the pipeline from the Doba oil field in Chad to the Atlantic coast of Cameroon. The projections for the external current account and the private investment ratio under the present program take account of the impact of the construction of this pipeline (see Appendix VII).

However, in early November 1999, two of the three oil companies in the private consortium building the pipeline indicated that they were reconsidering their commitment to the project. This calls into question the schedule for the completion of the project. Nonetheless, the government and the remaining partner in the consortium are exploring the possibility of continuing the project with other private partners, and the World Bank and the IFC are continuing the preparations in support of the project, in the event that a viable consortium can be reconstituted.

A delay in the completion would have no impact on the fiscal objectives of the program for 1999-2002, as government revenues from the oil exploitation would not have begun before 2004. The balance of payments projections would be considerably different, however, as both the projected imports related to the pipeline and the capital flows that finance them would take place at a different rhythm. Similarly, the private investment ratio would be considerably lower.

	1999	2000	2001	2002
	(In percent of GDP)			
A. Original schedule for oil pipeline project				
Current account deficit (excluding grants)	-20.5	-24.4	-35.0	-40.9
Private investment	9.8	14.7	25.9	32.4
Overall savings/investment balance	-17.4	-20.9	-32.1	-38.3
B. Excluding pipeline project				
Current account deficit (excluding grants)	-18.0	-17.0	-16.9	-17.0
Private investment	7.3	7.1	7.4	7.4
Overall savings/investment balance	-15.9	-13.4	-14.0	-14.3

25. To reinforce the control over the wage bill, the authorities will begin implementation of their **civil service reform** program, which would include the introduction of merit-based remuneration, using objective norms and standards for judging performance; the definition of a policy for matching available skills to the requirements of the various positions; and the implementation of a voluntary departure program. A timetable for the transition to the new remuneration and advancement system will be established by September 2000. The

<sup>26</sup> See paragraph 32 of the MEFP.

authorities concurred with the staff that a revision of the civil service statutes would be necessary to facilitate the transfer of workers to local administrations in keeping with the redistribution of functions, and to enable posts to be shifted to allow for increased staffing in the priority sectors.

26. The success of the military demobilization program, under which the size of the standing army was reduced from over 55,000 men to some 25,000, has relieved much of the pressure on the overall wage bill. The authorities now intend to accelerate the social reinsertion of the demobilized soldiers, and are seeking donor financing for their program.

#### **D. The Poverty Reduction Strategy**

27. The mission discussed at length with the Chadian authorities the consultative process of preparing an integrated and comprehensive national poverty reduction strategy (PRS) over the next 12-15 months. The authorities noted that poverty reduction had been the motivating principle of their efforts to define sectoral policies in health, rural development, transport, and education. The focus of the PRS would therefore be on measures in these priority sectors that had already been defined through consultative processes with local stakeholders and external donors.<sup>27</sup> In view of the progress made, they considered such a time frame challenging, but feasible.

28. The approach to be followed by the authorities in preparing the PRS and the poverty reduction strategy paper (PRSP) is described in the attached note (Appendix II). The PRS will bring the various policies in the priority sectors into the medium-term macroeconomic framework. The main challenge will be to prioritize the existing sectoral strategies and measures and to integrate them into a cohesive whole, with a detailed estimate of their costs. The macroeconomic framework underpinning the PRS will thus have to be reviewed, in order to take account of this costing. In particular, the level and composition of public spending, and the fiscal and external deficits, will be reexamined in light of the priorities established in the PRS. The authorities stressed that a substantial and coordinated support effort would be needed from their external partners.<sup>28</sup>

29. The authorities intend to conduct by end-March 2000 an exhaustive survey of the statistics collected by their own services and by donors active in the various areas. In doing so, they will draw on the recently adopted statistical law that sets out the institutional framework for statistical activity, as well as a six-year program for strengthening the statistical apparatus. *On this basis, poverty indicators and appropriate intermediate targets* will be chosen. Meanwhile, the authorities have selected 15 preliminary indicators that they

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<sup>27</sup> The details of the policies in health, education, and rural development are presented in the MEFP (paras. 37-45), and in the attached matrix of policy measures.

<sup>28</sup> The mission met with the local representatives of Chad's main foreign partners and international agencies. All expressed great interest in deepening coordination to avoid duplication of effort and to provide the most efficient, unobtrusive support possible to the Chadian authorities in preparing the PRS.

are already monitoring, although without having fixed set targets (see Appendix II, Attachment). A full-scale household poverty and expenditure survey will be conducted over the next two years (with the support of the UNDP and the World Bank) to provide a detailed analysis of poverty in Chad and establish a differentiated poverty profile. Together with the public expenditure review, this survey should permit a better appreciation of the precision of the targeting of social expenditures, and thus of their efficiency in reducing poverty.

#### **E. The Balance of Payments and External Debt and Financing**

30. **Chad's balance of payments continues to depend heavily on the world market prices of its single most important export commodity—cotton.** The deterioration in the current account in 1999 is largely a reflection of unfavorable weather conditions in 1998 (reducing the production of cotton) and declining export prices for cotton in 1999, which together have led to a 19 percent decrease in the value of cotton exports in 1999.

31. **However, the main determinant of the external position over the medium term will be the imports associated with the oil pipeline project.**<sup>29</sup> Despite a strong increase in export volumes, the low world market prices for cotton limit the projected increase in export values in 2000 to 8.7 percent. The value of non-oil imports is expected to increase by about 9 percent, and the non-oil trade deficit is projected to shrink by 20 percent in value terms. The non-oil external current account deficit (excluding official grants) is thus projected to narrow from 18 percent of GDP in 1999 to 17 percent in 2002 (Table 5). Including the oil-related imports of goods and services, the current account deficit would widen considerably from 20.5 percent of GDP in 1999 to almost 41 percent in 2002. With the anticipated beginning of oil exports in 2004, however, the deficit would be expected to decline rapidly, reaching the low single digits after 2005. Capital inflows would rise sharply over the program period to a peak of CFAF 406 billion (US\$712 million), owing to the pipeline-related investment. Under present projections, there will be a small decline in external reserves over the period.

32. The mission undertook with the authorities a detailed loan-by-loan examination of the external debt in preparation for an update of the **debt sustainability analysis (DSA)**. Preliminary indications are that Chad's debt ratios would remain within the range considered for eligibility for debt relief under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Chad should reach the decision point under the Initiative in the first half of 2000. A preliminary HIPC Initiative document will be prepared for discussion by the Boards of the Bank and the Fund in the first half of the year.

33. **The external financing requirements for the program period 2000-02 are projected at CFAF 107.7 billion (US\$177 million), of which CFAF 26.8 billion**

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<sup>29</sup> Projections for the medium term are based on the assumption that investment and the related imports will take place according to the planned schedule under which petroleum exports would begin in 2004 (Box 3). This timetable may need to be substantially revised in view of recent developments concerning the project.

(US\$44 million) in residual financing is required for 2000. It is expected that this amount will be completely covered by assistance from the Fund, the World Bank, the African Development Bank, and France. Chad's management of its external debt has been good, despite difficult conditions. With the expected strengthening of the non-oil balance of payments position and the projected improvement in the fiscal situation, as well as in view of Chad's good record in servicing its debt to the Fund, the staff is confident of Chad's ability to meet its financial obligations to the Fund in full and in a timely manner.

#### **F. The Environment for Program Implementation, And Program Monitoring**

34. Among the factors that facilitated the implementation of the first ESAF-supported program is the authorities' clearly demonstrated commitment to policy reform. The establishment of a system of high-level committees has facilitated the preparation, implementation, and monitoring of the program, as well as the prompt correction of slippages. Moreover, the Ministry of Finance has demonstrated its ability to tighten nonpriority spending in response to revenue shortfalls and is the driving force behind the proposed strengthening of budgetary procedures under the new program. The authorities' willingness to discuss their policy intentions with the public at large (e.g., in evaluating the past ESAF-supported program, in preparing for the introduction of the VAT, or in formulating policies in the priority sectors) has increased public understanding and acceptance of the required reforms and facilitated their implementation. Among the weaknesses are governance problems stemming from institutional inefficiency and insufficient accountability, as well as the limited administrative and technical capacity to manage complex reform dossiers, which has limited the extent of administrative delegation. The relative dearth of trained civil servants, the high turnover rate among senior officials, and the inadequate cooperation with foreign technical assistance have limited public sector efficiency and delayed key structural reforms.

35. The program will be monitored by the quantitative and structural benchmarks set for end-December 1999, end-March 2000, end-June 2000, and end-September 2000, as set out in paragraphs 55 and 56, and Tables 1 and 2 of the attached memorandum. Some of the benchmarks for end-March 2000 will constitute performance criteria under the first year of the arrangement. In view of the persistent weakness of revenues over the past program period, a separate quantitative indicator has been set for total revenue (excluding grants), as well as for total current expenditure and spending in education and health, and for wages. Indicative structural benchmarks have been set in each of the priority areas to measure progress in achieving the goals of the poverty reduction strategy.

#### **IV. STAFF APPRAISAL**

36. The Chadian authorities have successfully completed a first three-year ESAF-supported program under sometimes difficult conditions. While the results have not always been as programmed, the authorities have demonstrated their capacity to correct slippages quickly, and the momentum of reform has been maintained. However, Chad—one of the

poorest countries of the world—still faces immense challenges, with an economic structure heavily dependent on a few crops. The economy thus remains very vulnerable to climatic changes and fluctuations in world market conditions.

37. Chad must now achieve the transition from crisis management and stabilization policies to the implementation of economic and social policies for development and poverty reduction. The proposed program is ambitious, and it will challenge a Chadian administration that is already overextended. However, the authorities' commitment to sustaining the adjustment effort and to opening the process of economic and social policymaking to public debate has enhanced public awareness and the sense of ownership of the structural adjustment program. This increased sense of ownership should help sustain the adjustment effort.

38. The staff agrees with the authorities' approach of concentrating on administrative improvements, rather than on innovations to the tax system, to consolidate the fiscal gains of the previous program. The priority should be to expand the tax base, given the limited number of enterprises subject to formal taxation. This implies the gradual increase of the resources allocated to the tax and customs services and an improved coordination among the various services. However, given past slippages, the authorities should monitor revenue collections very closely, and be prepared to take corrective measures promptly to preserve the fiscal program if unexpected difficulties arise. In this regard, the implementation of the forward-looking monthly cash-flow plan is essential. Similarly, the program correctly emphasizes the rationalization of budgetary procedures and the reinforcement of internal and external controls. Spending increases in priority sectors correspond to the stated objectives of policies to reduce poverty; nonetheless, the staff encourages the authorities to undertake as quickly as possible a review of public expenditure to help improve the efficiency of such spending increases.

39. However, the staff has a major concern with respect to the public finances for 2000. The budget allocations for the four summits planned in 2000 (CEMAC, CBLT, COMESSA, and the Francophonie) are inadequate. Hosting these summits will lead to extrabudgetary spending or an accumulation of new domestic arrears, unless external financing sources are found. The staff therefore urges the authorities to make every effort to mobilize such financing, but to be ready to withdraw their commitment to one or more of the four summits, should such external financing not be forthcoming within a reasonable time frame.

40. An important start has been made in reducing domestic payments arrears of the government with the treatment of arrears to COTONTCHAD in the context of the restructuring plan for the company. However, the persistence of arrears—and the temporary accumulation of new arrears this year—undermines private sector confidence in the government. The staff urges the authorities to define as quickly as possible the arrears reduction plan and to ensure, through careful cash-flow management, that no new arrears are accumulated.

41. Although the financial situation of the Chadian banking system has improved appreciably over the past year, some of the banks experienced intermittent liquidity problems

in 1999. The government's decision to provide liquidity support (in the place of the central bank) by transferring its deposits from the central bank to these commercial banks has complicated the treasury's cash-flow management—holding these deposits in the banks instead of using them has necessitated additional borrowing from the central bank and has raised the interest costs to the budget. The staff advises the government to avoid such interventions in the future. The banking system must also make efforts to reduce its overdependence on the wide margins on credit for prefinancing the cotton crop as its primary source of current income. In this context, the government should proceed apace with its plans to strengthen and reform the judicial system, and thus facilitate efforts by the banks to recover nonperforming loans.

42. The structural reform agenda during the new three-year program appropriately places emphasis on specifically addressing Chad's deep poverty, as well as on promoting private sector initiative. Important steps have been taken toward completing the privatization program, particularly as regards the strategy of disengagement from the cotton sector. Supplemented by the planned strengthening of the judicial apparatus and the regulatory framework, these steps constitute an important and welcome confirmation of the government's commitment to private sector promotion.

43. Implementing this multifaceted structural reform program will require a considerable strengthening of Chad's limited administrative resources and close collaboration with its external partners. As such, the staff considers the capacity- and institution-building component of the program to be of the utmost importance. The possible withdrawal of two of the three oil companies in the private consortium building pipeline between Chad and Cameroon may delay Chad's access to revenues from the exploitation of its oil resources. This in no way diminishes the importance of strengthening capacity during the program period, however, and the staff encourages the authorities to proceed apace with their program, regardless of eventual delays in completing the pipeline. The staff also urges the authorities to limit the extent to which individuals who benefit from specific training are reassigned to unrelated duties, as this hinders the building up of an adequate level of institutional competence.

44. These considerations underscore the importance of moving ahead with the civil service reform program, particularly the skills-matching aspect. It is also essential that the administrative decentralization process be meticulously prepared. The authorities should establish a timetable for the effective decentralization of the system over the next few years that is consistent with available resources. Together with efforts to enhance the transparency and accountability of the management of public resources, these steps should contribute to improving overall governance. This should help to foster a sense of participation and partnership on the part of civil society, which is critical to building the necessary consensus for the poverty reduction strategy.

45. The authorities should find it possible to integrate existing sectoral policies into a comprehensive poverty reduction strategy within the envisaged time frame. The staff welcomes the authorities' declared intention to strengthen their efforts to collect and analyze economic and social statistics, which are essential for monitoring the results of antipoverty

measures. The staff thus urges the authorities to ensure that this priority is reflected in budgetary decisions. Determining the costs of the individual measures will require considerable effort, and the authorities should work closely with their partners in dealing with this aspect of the process.

46. A key feature of the structural program, with deep cross-sectoral implications, is transportation policy. The mobilization of considerable donor resources for the extension of the woefully inadequate transport and road infrastructure depends on ensuring regular financing of routine road maintenance. The staff urges the authorities to ensure that the financial transactions of the CAER are subject to the highest standards of transparency and accountability, including through a full audit of its accounts, so that this mechanism can play its proper role.

47. The preliminary analysis of Chad's external debt situation indicates that it likely will meet the eligibility criteria for assistance under the enhanced HIPC Initiative. The authorities see this as an essential support for their poverty reduction efforts, particularly if the petroleum pipeline project should experience further delays. Meanwhile, however, Chad will continue to need substantial external financial support. The proposed program for 1999-2000 is aimed at preparing for the transition to an economic and structural adjustment program based on a full-fledged poverty reduction strategy. Given the authorities' commitment to the adjustment process, their emphasis on strengthening institutional and administrative capacity, and their good track record in meeting their obligations to the Fund, the staff recommends the approval of the request for a new three-year PRGF arrangement, and for the first year thereunder.

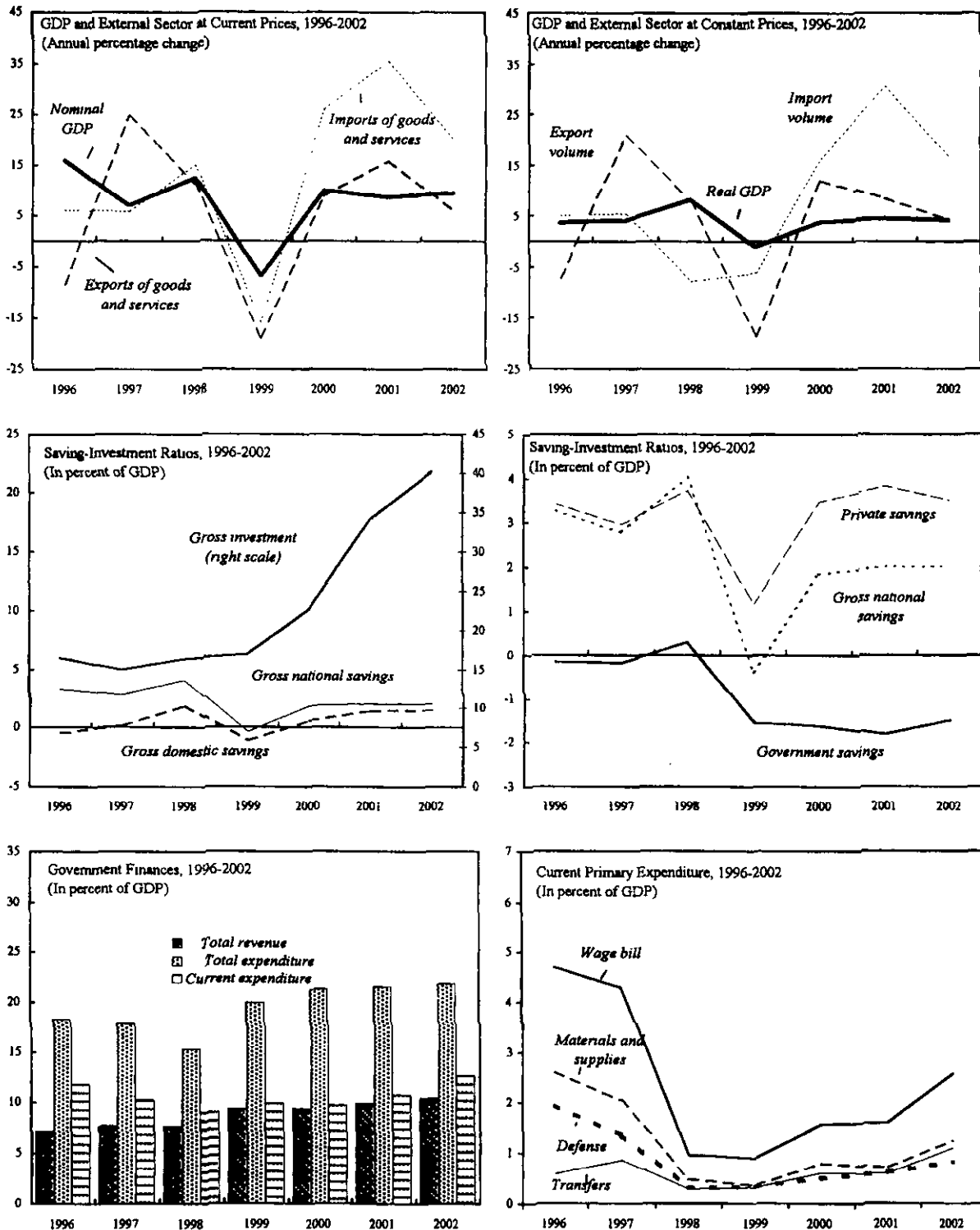


## **V. PROPOSED DECISION**

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

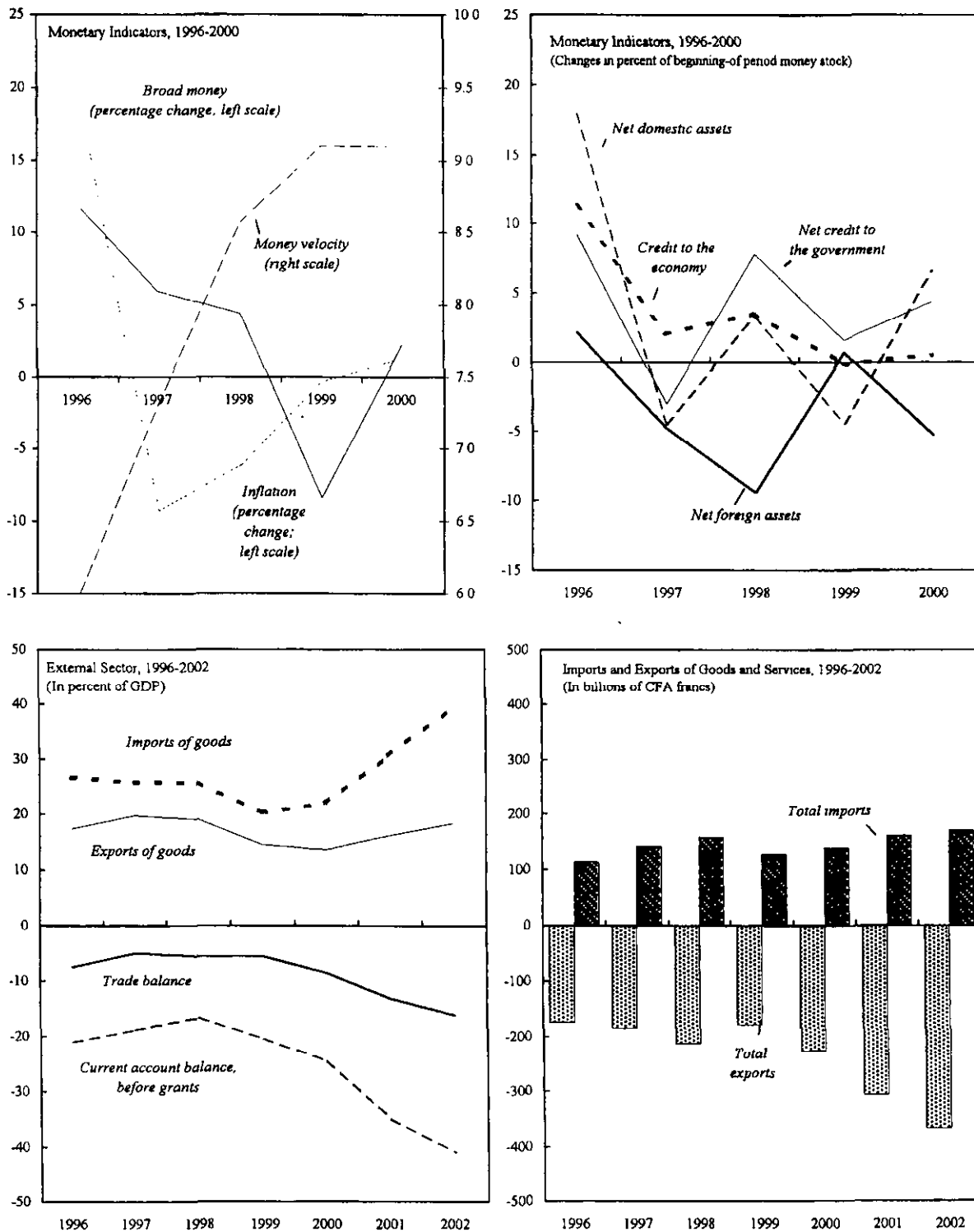
1. The government of Chad has requested a three-year arrangement under the Poverty Reduction and Growth Facility in a total amount equivalent to SDR 36.4 million.
2. The Fund notes the memorandum of economic and financial policies for 1999-2000, as well as the authorities' Preliminary Framework for a National Poverty Reduction Strategy.
3. The Fund approves the arrangement set forth in EBS/99/234.

Figure 1. Chad: Selected Economic and Financial Indicators, 1996-2002



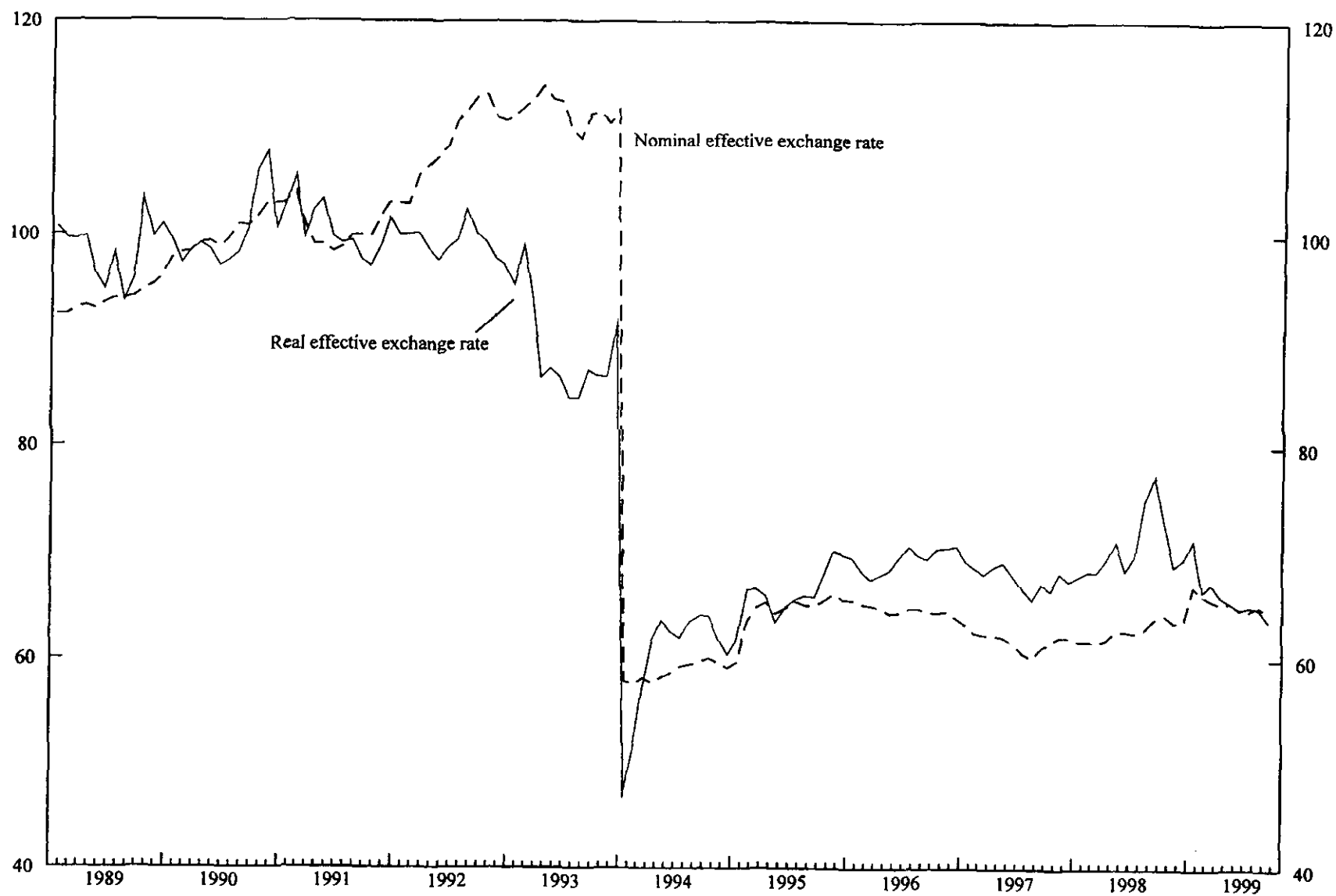
Source: Chadian authorities; and staff estimates and projections.

Figure 1. Chad: Selected Economic and Financial Indicators, 1996-2002  
(concluded)



Source: Chadian authorities; and staff estimates and projections.

Figure 2. Chad: Nominal and Real Effective Exchange Rates, January 1989-September 1999  
(Index, 1990=100)



Sources: IMF, Information Notice System.

Table 1. Chad: Fund Position During the Period of the PRGF Arrangement,  
December 1999-December 2002

	Outstanding at November 30, 1999	1999		2000		2001		2002	
		Dec.	Jan.-June	July- Dec.	Jan.-June	July- Dec.	Jan.- June	July- Dec.	
( In millions of SDRs)									
Net use of Fund credit									
Loans									
Under Structural Adjustment and special facilities									
Repayments		0.00	0.61	0.00	0.00	0.00	0.00	0.00	
Under ESAF/PRGF									
Drawings		5.20	5.20	5.20	5.20	5.20	5.20	5.20	
Repayments		0.00	0.00	0.00	0.83	1.65	2.48	3.30	
Total Fund credit outstanding	50.17	55.37	59.96	65.16	69.53	73.08	75.80	77.70	
Under Structural Adjustment and special facilities	0.61	0.61	0.00	0.00	0.00	0.00	0.00	0.00	
Under ESAF/PRGF	49.56	54.76	59.96	65.16	69.53	73.08	75.80	77.70	
( In percent of quota)									
Total Fund credit outstanding	89.59	98.88	107.07	116.36	124.17	130.50	135.36	138.75	
Under Structural Adjustment and special facilities	1.09	1.09	0.00	0.00	0.00	0.00	0.00	0.00	
Under ESAF/PRGF	88.50	97.79	107.07	116.36	124.17	130.50	135.36	138.75	

Source: IMF, Treasurer's Department.

Table 2. Chad: Selected Economic and Financial Indicators, 1996-2002

	1996	1997	1998 Est.	1999 Proj. Rev. Proj.	2000	2001 Projections	2002
(Annual changes in percent, unless otherwise specified)							
National income							
GDP at current prices	15.9	7.0	12.5	4.3	-6.8	9.9	9.4
GDP at constant prices	3.7	4.1	8.1	1.2	-1.1	3.8	4.0
Of which: Non oil	3.7	4.1	8.1	1.2	-1.1	3.8	4.0
Implicit GDP deflator	11.8	2.8	4.1	3.1	-5.7	5.9	5.2
Consumer price index (average)	11.8	5.9	4.4	3.3	-8.4	2.3	3.2
Consumer price index (December to December)	10.2	0.5	3.6	3.3	-8.3	5.7	3.2
Central government finance							
Revenue	32.8	14.8	11.5	39.8	14.4	9.8	14.8
Total expenditure	16.5	4.7	-3.5	23.0	21.1	17.5	10.9
Of which: current expenditure	19.3	-4.8	2.0	22.4	17.6	13.0	9.9
Money and credit							
Net foreign assets 1/	2.2	-4.8	-9.5	11.6	0.7	-5.3	...
Net domestic assets 1/	17.9	-4.5	3.2	-5.4	-4.4	6.5	...
Domestic credit	20.5	-1.0	11.3	-2.8	-0.3	5.0	...
Of which: net claims on central government 2/	9.2	-3.0	7.8	-6.2	-0.2	4.4	...
credit to nongovernment sector 1/	11.3	2.0	3.5	3.4	-0.1	0.6	...
Broad money 3/	20.2	-9.3	-6.2	6.2	-0.3	1.3	...
Velocity (GDP relative to average M2) 4/	6.0	7.3	8.6	9.0	9.1	9.1	...
External sector (valued in CFA francs)							
Exports, f.o.b.	-8.3	24.7	11.4	-9.2	-18.9	8.7	15.9
Imports, f.o.b.	6.1	5.8	15.2	13.4	-16.0	26.0	35.5
Export volumes	-7.1	20.7	8.0	-6.9	-18.6	12.1	8.6
Import volumes	5.1	5.4	-7.8	18.4	-6.2	16.3	30.5
Terms of trade	-1.4	1.6	-12.9	2.2	-0.9	-4.4	6.4
Real effective exchange rate (- depreciation)	6.8	-1.6	7.9	...	...	...	...
(In percent of GDP, unless otherwise specified)							
Basic ratios							
Gross fixed investment	16.5	15.0	16.4	19.9	17.0	22.7	34.1
Central government investment	6.3	6.6	5.4	6.5	7.2	8.0	8.2
Private sector investment	10.2	8.4	11.0	13.4	9.8	14.7	25.9
Of which: oil sector	5.9	2.6	5.3	4.8	2.5	7.6	18.6
Gross domestic savings	-0.5	0.1	1.9	1.0	-1.2	0.5	1.4
Gross national savings 5/	3.3	2.8	4.0	3.3	-0.4	1.8	2.0
General government	-0.1	-0.2	0.3	1.8	-1.5	-1.6	-1.5
Central government	4.1	4.1	3.9	6.0	3.0	3.2	3.1
Other public bodies	-4.3	-4.3	-3.6	-4.1	-4.6	-4.8	-4.9
Private sector	3.4	3.0	3.7	1.5	1.2	3.5	3.5
Central government finance							
Revenue	7.2	7.7	7.6	10.4	9.4	9.4	9.9
Of which: oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	18.3	17.9	15.3	18.4	19.9	21.3	21.6
Current balance (-deficit) 6/	-2.1	-0.6	0.1	1.4	-0.1	-0.4	0.2
Current primary balance (-deficit) 6/	-0.6	0.8	1.1	2.3	0.9	0.7	1.1
Overall fiscal deficit (commitment basis) 6/	-11.1	-10.2	-7.7	-8.0	-10.6	-12.0	-11.7
Overall fiscal deficit (cash basis) 6/	-14.6	-11.5	-8.1	-11.1	-10.5	-12.8	-13.5
Domestic financing	1.4	-0.4	0.3	-0.9	-0.8	0.5	-0.2
External financing (already obtained)	13.2	11.9	7.8	9.7	11.3	9.7	9.9
Financing gap (-)	0.0	0.0	-0.1	-2.3	0.0	-2.6	-3.8
External sector							
Current account (- deficit)							
Including official transfers 5/	-14.8	-14.1	-12.9	-16.6	-17.4	-20.9	-32.1
Excluding official transfers	-21.1	-18.8	-16.7	-21.1	-20.5	-24.4	-35.0
External debt outstanding 7/	53.6	54.9	51.6	60.6	63.6	64.2	64.5
Debt-service ratio 8/							
Including Fund	12.1	12.2	13.7	12.5	13.0	9.5	8.5
Excluding Fund	9.2	7.9	10.1	10.6	10.9	8.7	7.3
Total grants	10.4	10.3	7.6	6.4	7.9	9.2	7.9
Current grants	6.2	4.7	3.8	3.6	3.1	3.6	2.8
Capital grants	4.1	5.6	3.8	2.8	4.8	5.6	5.1
(In millions of U.S. dollars, unless otherwise specified)							
Contribution to the official external reserves of the Bank of Central African States (BEAC)	188.2	143.1	131.5	156.7	152.3	206.6	188.0
Nominal GDP	1,622.8	1,532.7	1,697.0	1,853.1	1,533.2	1,685.3	1,848.0
Nominal GDP (in billions of CFA francs)	830.2	888.2	999.3	1,026.6	931.2	1,023.6	1,112.1
Of which: oil GDP (in billions of CFA francs)	0.0	0.0	0.0	0.0	0.0	0.0	5.1
CFA franc per U.S. dollar (period average)	511.6	579.5	588.8	554.0	607.4	...	...
CFA franc per U.S. dollar (end of period)	523.7	598.8	562.2	554.0	607.4	...	...
Population (midyear, in millions)	6.5	6.7	6.8	7.0	7.0	7.2	7.3

Sources: Chadian authorities; and staff estimates and projections.

1/ Changes as percent of broad money stock at beginning of period.

2/ Defined as the treasury.

3/ For 1994 onward, including correction for currency notes not yet sorted at the Bank of Central African States (BEAC) national agency.

4/ Ratio of GDP to average broad money.

5/ For 1999 and 2000, assuming the financing gap is fully financed.

6/ Excluding grants.

7/ Including arrears, and the Fund.

8/ Scheduled debt service in percent of exports of goods and nonfactor services.

5/ Program columns include debt relief on Russian debt in 1998

Table 4. Chad: Supply and Use of Resources at Current Prices, 1996-2002

	1996	1997	1998	1999	2000	2001	2002
	Projections						
	(In billions of CFA francs)						
Gross domestic product	830.2	888.2	999.3	931.2	1,023.6	1,112.1	1,217.0
Domestic demand	984.2	1,037.0	1,149.8	1,100.1	1,250.6	1,476.0	1,689.6
Consumption	834.1	886.9	980.8	942.0	1,018.2	1,096.4	1,199.1
Central government	64.9	58.8	57.9	64.9	77.1	84.7	95.1
Other public bodies	35.5	38.2	36.2	42.5	49.5	54.3	59.5
Private sector	733.7	789.9	886.6	834.6	891.6	957.4	1,044.5
Gross capital formation	150.0	150.0	169.0	158.0	232.4	379.7	490.5
Gross fixed capital formation	137.0	133.2	164.0	158.0	232.4	379.7	490.5
Central government	52.5	58.8	53.9	67.1	81.6	91.3	102.0
Private sector	84.5	74.5	110.1	90.9	150.9	288.3	388.5
Non-oil sector	35.9	51.3	57.1	67.9	73.1	81.9	90.1
Oil sector	48.6	23.2	53.0	23.1	77.7	206.4	298.4
Changes in inventories	13.0	16.8	5.0	0.0	0.0	0.0	0.0
Resource gap	-154.0	-148.8	-150.5	-168.8	-227.0	-363.9	-472.6
Exports of goods and nonfactor services	135.4	169.9	191.9	161.4	187.6	218.7	236.7
Non-oil sector	135.4	169.9	191.9	161.4	187.6	218.7	236.7
Goods	113.1	141.0	157.1	127.4	138.5	160.5	170.0
Nonfactor services	22.3	28.9	34.8	34.0	49.1	58.2	66.7
Oil sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports of goods and nonfactor services	-289.4	-318.7	-342.5	-330.2	-414.6	-582.6	-709.2
Non-oil sector	-271.0	-296.0	-290.5	-307.6	-338.4	-380.3	-416.8
Goods	-174.9	-171.2	-181.6	-165.4	-179.3	-182.3	-188.1
Nonfactor services	-96.0	-124.8	-109.0	-142.2	-159.1	-198.1	-228.6
Oil sector	-18.5	-22.7	-51.9	-22.6	-76.2	-202.3	-292.5
Gross domestic savings	-4.0	1.2	18.5	-10.8	5.4	15.7	17.9
Private unrequited transfers	-1.9	2.2	2.5	1.5	2.5	1.9	1.9
Budgetary grants (current)	16.2	6.6	12.8	1.8	6.0	0.0	0.0
Other public transfers (current)	35.8	35.1	25.1	27.3	30.6	31.5	32.4
Net factor income from abroad	-18.9	-20.5	-18.6	-23.3	-25.6	-26.8	-27.7
Gross national savings	27.2	24.6	40.3	-3.6	18.9	22.3	24.5
Central government	34.3	36.6	39.2	28.1	32.8	34.0	41.3
Other public bodies	-35.5	-38.2	-36.2	-42.5	-49.5	-54.3	-59.5
Private sector	28.4	26.2	37.3	10.8	35.6	42.6	42.7
Saving-investment balance	-122.9	-125.4	-128.7	-161.6	-213.5	-357.3	-466.0
Central government	-18.2	-22.2	-14.7	-39.0	-48.8	-57.3	-60.7
Other public bodies	-35.5	-38.2	-36.2	-42.5	-49.5	-54.3	-59.5
Private sector	-69.1	-65.0	-77.8	-80.1	-115.3	-245.8	-345.8
Gross national product	811.3	867.6	980.6	907.9	998.0	1,085.3	1,189.3
National disposable income, adjusted	861.3	911.5	1,021.0	938.4	1,037.1	1,118.7	1,223.6
	(In percent of GDP)						
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand	118.6	116.8	115.1	118.1	122.2	132.7	138.8
Consumption	100.5	99.9	98.1	101.2	99.5	98.6	98.5
Central government	7.8	6.6	5.8	7.0	7.5	7.6	7.8
Other public bodies	4.3	4.3	3.6	4.6	4.8	4.9	4.9
Private sector	88.4	88.9	88.7	89.6	87.1	86.1	85.8
Gross capital formation	18.1	16.9	16.9	17.0	22.7	34.1	40.3
Gross fixed capital formation	16.5	15.0	16.4	17.0	22.7	34.1	40.3
Central government	6.3	6.6	5.4	7.2	8.0	8.2	8.4
Private sector	10.2	8.4	11.0	9.8	14.7	25.9	31.9
Non-oil sector	4.3	5.8	5.7	7.3	7.1	7.4	7.4
Oil sector	5.9	2.6	5.3	2.5	7.6	18.6	24.5
Changes in inventories	1.6	1.9	0.5	0.0	0.0	0.0	0.0
Resource gap	-18.6	-16.8	-15.1	-18.1	-22.2	-32.7	-38.8
Exports of goods and nonfactor services	16.3	19.1	19.2	17.3	18.3	19.7	19.4
Non-oil sector	16.3	19.1	19.2	17.3	18.3	19.7	19.4
Goods	13.6	15.9	15.7	13.7	13.5	14.4	14.0
Nonfactor services	2.7	3.3	3.5	3.7	4.8	5.2	5.5
Oil sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports of goods and nonfactor services	-34.9	-35.9	-34.3	-35.5	-40.5	-52.4	-58.3
Non-oil sector	-32.6	-33.3	-29.1	-33.0	-33.1	-34.2	-34.2
Goods	-21.1	-19.3	-18.2	-17.8	-17.5	-16.4	-15.5
Nonfactor services	-11.6	-14.1	-10.9	-15.3	-15.5	-17.8	-18.8
Oil sector	-2.2	-2.6	-5.2	-2.4	-7.4	-18.2	-24.0
Gross domestic savings	-0.5	0.1	1.9	-1.2	0.5	1.4	1.5
Private unrequited transfers	-0.2	0.2	0.3	0.2	0.2	0.2	0.2
Budgetary grants (current)	1.9	0.7	1.3	0.2	0.6	0.0	0.0
Other public transfers (current)	4.3	4.0	2.5	2.9	3.0	2.8	2.7
Net factor income from abroad	-2.3	-2.3	-1.9	-2.5	-2.5	-2.4	-2.3
Gross national savings	3.3	2.8	4.0	-0.4	1.8	2.0	2.0
Central government	4.1	4.1	3.9	3.0	3.2	3.1	3.4
Other public bodies	-4.3	-4.3	-3.6	-4.6	-4.8	-4.9	-4.9
Private sector	3.4	3.0	3.7	1.2	3.5	3.8	3.5
Saving-investment balance	-14.8	-14.1	-12.9	-17.4	-20.9	-32.1	-38.3
Central Government	-2.2	-2.5	-1.5	-4.2	-4.8	-5.2	-5.0
Other public bodies	-4.3	-4.3	-3.6	-4.6	-4.8	-4.9	-4.9
Private sector	-8.3	-7.3	-7.8	-8.6	-11.3	-22.1	-28.4
Gross national product	97.7	97.7	98.1	97.5	97.5	97.6	97.7
National disposable income, adjusted	103.8	102.6	102.2	100.8	101.3	100.6	100.5

Sources: Chadian authorities; and staff estimates and projections.



Table 5. Chad: Balance of Payments, 1996-2002

	1996	1997	1998 Prov.	1999	2000	2001 Projections	2002
(In billions of CFA francs)							
Goods and services	-154.0	-148.8	-150.5	-168.8	-227.0	-363.9	-472.6
Goods	-61.8	-44.1	-56.2	-51.9	-87.5	-145.6	-197.2
Exports, f.o.b.	113.1	141.0	157.1	127.4	138.5	160.5	170.0
Of which: cotton	55.3	66.6	86.2	48.2	53.9	67.3	71.5
oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports, f.o.b.	-174.9	-185.1	-213.3	-179.3	-226.0	-306.1	-367.2
Of which: oil equipment	0.0	-13.9	-31.8	-13.8	-46.6	-123.8	-179.1
Services	-92.2	-104.7	-94.3	-116.9	-139.5	-218.4	-275.4
Credit	22.3	28.9	34.8	34.0	49.1	58.2	66.7
Debit	-114.5	-133.6	-129.1	-150.9	-188.6	-276.5	-342.0
Income	-18.9	-20.5	-18.6	-23.3	-25.6	-26.8	-27.7
Of which: public sector interest	-7.1	-7.0	-7.1	-7.7	-8.5	-8.6	-8.6
Current transfers	50.0	43.9	40.4	30.5	39.1	33.4	34.3
General government (net)	51.9	41.7	37.9	29.0	36.6	31.5	32.4
Other sectors (net)	-1.9	2.2	2.5	1.5	2.5	1.9	1.9
Current account balance	-122.9	-125.4	-128.7	-161.6	-213.5	-357.3	-466.0
Excluding official transfers	-174.8	-167.1	-166.6	-190.7	-250.1	-388.9	-498.3
Non oil - excluding official transfers	-156.3	-144.4	-114.7	-168.0	-174.0	-186.6	-205.9
Capital and financial account	93.0	125.3	148.3	172.0	190.4	312.0	409.5
Capital account	46.5	51.6	38.7	46.3	57.7	56.5	58.2
Capital transfers	46.5	51.6	38.7	46.3	57.7	56.5	58.2
Of which: debt forgiveness	12.1	1.8	0.6	1.9	0.0	0.0	0.0
Financial account	76.4	73.8	90.1	125.7	132.7	255.5	351.3
Direct investment	53.0	21.7	48.2	63.0	88.0	190.9	269.0
Other investment	55.4	68.1	31.6	61.9	50.3	76.9	91.4
Public sector drawings	85.1	63.8	46.6	63.9	49.7	56.5	58.2
Of which: IMF purchases	12.3	6.6	6.6	6.8	0.0	0.0	0.0
Debt rescheduling (agreed)	18.2	2.7	4.8	3.5	0.0	0.0	0.0
Public sector amortization	-9.4	-13.7	-12.6	-14.3	-15.7	-16.0	-18.1
Of which: IMF repurchases	-3.2	-6.5	-6.6	-1.9	-1.7	-1.8	-5.2
Net change in arrears	-39.2	-2.7	-4.1	0.0	0.0	0.0	0.0
Change in liabilities of the Bank of Central African States (BEAC)	13.8	9.5	4.6	0.0	0.0	0.0	0.0
Private sector (net)	5.1	11.2	-2.9	12.3	16.3	36.4	51.2
Of which: deposit money banks	-1.1	9.7	-1.8	-2.9	0.0	0.0	0.0
Reserve assets	-2.1	-15.9	-9.3	0.8	-5.6	-12.3	-9.0
Errors and omissions	-30.0	-0.1	19.6	.	.	.	.
Financing gap	..	..	..	0.0	26.8	42.5	38.4
Memorandum items							
External financing	102.4	112.1	81.3	110.6	147.7	147.6	147.4
Project financing (net)	67.8	74.2	60.6	96.6	114.9	105.1	109.0
Project loans	39.6	31.6	35.3	62.6	66.1	56.5	58.2
Project grants	34.4	49.8	38.1	44.4	57.7	56.5	58.2
Amortization	-6.2	-7.2	-12.8	-10.4	-8.9	-7.9	-7.4
Debt relief already obtained	30.4	4.5	5.4	5.4	0.0	0.0	0.0
Exceptional financing	43.4	36.1	19.4	8.6	32.8	42.5	38.4
Program loans already obtained	15.0	23.0	0.0	0.0	0.0	0.0	0.0
IMF disbursement	12.3	6.6	6.6	6.8	0.0	0.0	0.0
Program grants already obtained	16.2	6.6	12.8	1.8	6.0	0.0	0.0
Residual financing gap	.	.	.	0.0	26.8	42.5	38.4
Of which: possible debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in external arrears (+ increase)	-39.2	-2.7	-4.1	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise specified)							
Trade balance (deficit -)	-7.4	-5.0	-5.6	-5.6	-8.5	-13.1	-16.2
Current account (deficit -)	-14.8	-14.1	-12.9	-17.4	-20.9	-32.1	-38.3
Excluding official transfers	-21.1	-18.8	-16.7	-20.5	-24.4	-35.0	-40.9
Non oil - excluding official transfers	-18.8	-16.3	-11.5	-18.0	-17.0	-16.8	-16.9
Public external debt 1/	53.6	54.9	51.6	63.6	64.2	64.5	63.1
(in billions of CFA francs)	444.7	487.8	515.5	592.5	657.5	717.6	768.3
Debt service 2/	1.5	1.5	1.9	1.9	1.6	1.4	1.3
Debt-service ratio 2/ 3/	9.2	7.9	10.1	10.9	8.7	7.3	6.6
Gross official reserves (in billions of CFA francs)	98.6	85.7	73.9	92.5	125.5	113.2	104.1

Sources: Bank of the Central African States (BEAC); and staff estimates and projections

1/ Stock of the direct and guaranteed public foreign debt (including the Fund)

2/ Excluding the Fund.

3/ In percent of exports of goods and nonfactor services

Table 6. Chad: Monetary Survey, 1996-2000

	1996	1997	1998				1999				2000
			March	June	Sept.	Dec.	March	June	Sept.	Dec.	Proj.
			Est.				Est.				Proj.
(In billions of CFA francs)											
Net foreign assets	64.7	58.5	44.4	39.1	44.3	47.3	49.5	47.0	42.4	48.1	42.5
Central bank 1/	63.8	47.9	39.5	33.1	35.6	38.6	38.8	39.0	39.2	39.4	33.8
Commercial banks	0.9	10.6	4.9	6.0	8.7	8.8	10.8	8.1	3.2	8.8	8.8
Postal debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium- and long-term liabilities	0.0	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
Net domestic assets	64.9	59.0	69.6	72.1	60.6	62.8	60.7	62.7	62.2	58.0	64.9
Domestic credit	92.6	91.3	106.0	105.7	98.6	104.6	117.7	102.3	102.8	104.2	109.5
Claims on the government (net)	45.0	41.1	49.6	51.3	51.9	50.2	57.4	43.9	49.3	50.0	54.7
Treasury (net)	50.5	47.0	46.2	48.1	49.7	48.3	55.2	42.1	47.1	47.8	52.7
Central bank	55.6	62.5	59.7	63.2	60.3	55.0	57.7	44.5	62.3	61.7	61.6
Commercial banks	-5.5	-16.2	-14.0	-15.6	-11.2	-6.7	-2.5	-2.5	-15.4	-14.0	-9.1
Others	0.4	0.7	0.6	0.6	0.7	0.0	0.0	0.1	0.2	0.2	0.2
Others	-5.5	-5.9	3.4	3.2	2.2	1.9	2.2	1.8	2.1	2.1	2.0
Credit to the economy	47.6	50.2	56.4	54.4	46.7	54.4	60.3	58.5	53.6	54.2	54.8
Of which : crop credit	11.5	14.6	21.9	19.4	12.6	15.5	23.3	22.6	14.0	17.0	15.0
Other items (net)	-27.7	-32.3	-36.4	-33.6	-38.0	-41.7	-57.0	-39.6	-40.6	-46.3	-44.6
Of which : revaluation account	-9.8	-9.8	-9.8	-9.8	-9.8	-9.8	...	...	...	...	...
Money and quasi money	129.5	117.4	113.9	111.2	104.9	110.2	110.1	109.7	104.6	106.1	107.4
Currency outside banks 1/	99.7	81.3	78.9	77.5	73.2	78.3	75.4	74.2	70.8	71.9	72.8
Demand deposits	24.5	30.3	28.4	26.7	24.8	26.2	28.7	29.3	27.4	27.8	28.1
Time and savings deposits	5.4	5.9	6.6	7.1	6.8	5.8	6.0	6.2	6.3	6.4	6.5
(Changes in percent of beginning-of-period money stock, unless otherwise specified) 2/											
Net foreign assets	2.2	-4.8	-12.0	-16.5	-12.1	-9.5	2.0	-0.3	-4.5	0.7	-5.3
Net domestic assets	17.9	-4.5	9.0	11.1	1.4	3.2	-2.0	-0.1	-0.6	-4.4	6.5
Domestic credit	20.5	-1.0	12.5	12.3	6.2	11.3	11.9	-2.0	-1.6	-0.3	5.0
Claims on the government (net)	9.2	-3.0	7.3	8.7	9.2	7.8	6.5	-5.8	-0.9	-0.2	4.4
Treasury (net)	11.1	-2.7	-0.6	1.0	2.4	1.2	6.2	-5.7	-1.1	-0.4	4.5
Credit to the economy	11.3	2.0	5.2	3.6	-3.0	3.5	5.4	3.7	-0.7	-0.1	0.6
Credit to the economy (annual percent change)	34.3	5.6	12.2	8.3	-7.0	8.2	7.0	7.4	14.6	-0.3	1.1
Money and quasi money	20.2	-9.3	-3.0	-5.3	-10.7	-6.2	-0.1	-0.5	-5.1	-0.3	1.3
Currency outside banks	21.4	-14.2	-2.0	-3.2	-6.8	-2.6	-2.6	-3.7	-6.7	-0.2	0.9
Demand deposits	1.1	4.5	-1.6	-3.1	-4.7	-3.5	2.3	2.8	1.1	-0.4	0.3
Time and savings deposits	-2.3	0.4	0.6	1.0	0.8	-0.1	0.2	0.4	0.5	6.0	0.1

Sources: Bank of Central African States (BEAC); and staff estimates and projections.

1/ Beginning in 1994, the central bank's foreign assets and currency outside banks have been adjusted upward by including 50 percent of the amount of unsorted bills at the national BEAC agency.

2/ For the quarterly data, changes are cumulative.

Table 7. Chad: Indicators of Fund Credit and Debt Servicing, 1996-2007

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Projections											
Outstanding Fund credit/old quota 1/	109.5	109.8	109.8	120.5	115.7	114.0	98.3	78.6	55.1	25.2	14.0	6.0
Outstanding Fund credit/new quota 1/	80.8	80.9	81.0	88.9	85.3	84.1	72.5	58.0	40.6	18.6	10.3	4.4
Outstanding Fund credit/GDP 1/	4.0	4.1	3.6	4.4	3.9	3.5	2.8	2.1	0.9	0.4	0.2	0.1
Outstanding Fund credit/exports of goods and nonfactor services 1/	24.8	21.3	18.9	25.5	21.2	18.0	14.3	10.6	2.7	0.8	0.4	0.2
Debt service to the Fund/exports of goods and nonfactor services 2/	-2.9	-4.3	-3.6	-1.9	-0.4	-1.0	-2.4	-2.8	-1.1	-0.7	-0.5	-0.2
Debt service to the Fund/total debt service	23.8	35.1	26.4	13.6	3.1	9.3	21.6	26.1	26.2	27.7	22.4	11.1
Debt service to the Fund/ gross official reserves	-4.0	-10.7	-11.8	-4.0	-0.7	-2.4	-6.6	-8.5	-4.2	-1.9	-0.9	-0.3
Total debt-service ratio 2/	-12.1	-12.2	-13.7	-14.0	-12.2	-11.2	-11.2	-10.6	-4.1	-2.6	-2.4	-2.0
Memorandum items:	(In millions of SDRs)											
Exports of goods and services	182.3	213.1	240.4	195.1	225.9	261.7	283.2	306.2	853.9	1369.8	1408.8	1453.7
Total Fund credit outstanding	45.2	45.3	45.4	49.8	47.8	47.1	40.6	32.5	22.7	10.4	5.8	2.5
Of which: net use of Fund credit	12.2	0.1	0.0	4.4	-2.0	-0.7	-6.5	-8.1	-9.7	-12.3	-4.6	-3.3
Total debt service	22.1	26.1	33.0	27.4	27.5	29.2	31.7	32.3	35.1	36.1	33.4	29.8
Of which: IMF	5.3	9.2	8.7	3.7	0.9	2.7	6.8	8.4	9.2	10.0	7.5	3.3
Gross official reserves	132.7	85.7	73.9	92.5	125.5	113.2	104.1	99.4	219.7	535.1	852.9	1180.0
Nominal GDP	1117.6	1113.9	1251.5	1125.7	1232.9	1330.5	1456.1	1574.7	2540.0	2696.9	2856.1	3026.4
Quota (until Feb. 99)	41.3	41.3	41.3	...	...	...	...	...	...	...	...	...
Quota (since Feb. 99)	...	...	...	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0	56.0

Sources: IMF, Treasurer's Department; and staff estimates and projections.

1/ Outstanding Fund credit includes SAF/ESAF/PRGF loans and outstanding purchases, assuming access under a new program (1999-2002) equivalent to 65 percent of new quota.

2/ Debt service in percent of exports of goods and services.

Table 8. Chad: Social Indicators, 1996

Total population, mid-year (millions)	6.6
Growth rate (percent annual average)	2.5
Urban population (percent of population)	22.5
Life expectancy at birth (years)	
Total	48.2
Male	46.5
Female	49.9
Total fertility rate (births per woman)	5.6
Mortality	
Infant (per thousand live births)	115
Under 5 (per thousand live births)	189
Child malnutrition (percent under 5 years)	39
Access to safe water (percent of population)	
Total	24
Urban	48
Rural	17
Immunization rate (percent under 12 months)	
Measles	24
DPT	18
Gross primary enrollment (percent of school-age population)	58
Male	76
Female	39
Gross secondary enrollment (percent of school-age population)	10
Male	15
Female	4
Illiteracy (percent of population age 15+)	52
Daily newspapers (per 1,000 people)	0.3
GNP per capita (US\$)	160

Source: World Development Indicators 1998 CD-ROM, World Bank

**Chad: Three-Year Arrangement Under  
the Poverty Reduction and Growth Facility**

Attached hereto is a letter (the "Letter") with annexed Memorandum on Economic and Financial Policies (the "Memorandum") dated November 12, 1999, from the Minister of Economy and Finance of Chad requesting from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Chad intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Chad intend to pursue during the first year of the arrangement; and

(c) understandings of Chad with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Chad will pursue for the second and third years of the arrangement.

To support these objectives and policies the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from January [ ], 2000, Chad will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 36.4 million, subject to the availability of resources in the Poverty Reduction and Growth Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 10.4 million until October 1, 2000 and the equivalent of SDR 20.8 million until October 1, 2001.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 5.2 million, will be available upon approval of this arrangement, at the request of Chad; and

(ii) the second disbursement in an amount equivalent to SDR 5.2 million, will be available after June 30, 2000 at the request of Chad and subject to paragraph 2 below.

(d) The right of Chad to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement

shall be determined in the context of a review of Chad's program with the Trustee, the timing of which shall be established at the review contemplated in paragraph 2(e) of this arrangement.

2. Chad will not request the second disbursement provided for in paragraph 1(c)(ii) above:

- (a) if the data as of March 31, 2000 indicate that:
  - (i) the ceiling on net domestic bank credit to the government, or
  - (ii) the floor on the central government current primary fiscal surplus, or
  - (iii) the floor on the net reduction of domestic payments arrears of the central government, or
  - (iv) the ceiling on external borrowing on nonconcessional terms contracted or guaranteed by the central government with maturity of between one and twelve years, or
  - (v) the ceiling on public short-term external debt,

as specified in Table 1 of the Memorandum, respectively, was not observed; or

- (b) if, by March 31, 2000, Chad did not carry out its intentions with respect to:
  - (i) the nomination of a controller and the adoption of a restructuring plan for COTONTCHAD, or
  - (ii) the completion of a study of the statistics presently produced by the statistical apparatus and of their periodicity,

as specified in paragraphs 55 and 56 and Table 2 of the Memorandum; or

(c) if, at any time during the period of this arrangement, Chad has accumulated any new external payments arrears except for arrears that are subject to debt-rescheduling agreements as specified in Table 1 of the Memorandum; or

- (d) if Chad:
  - (i) has imposed or intensified restrictions on payments and transfers for current international transactions, or
  - (ii) has introduced or modified multiple currency practices, or

- (iii) has concluded bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) has imposed or intensified import restrictions for balance of payments reasons.

(e) until the Trustee has determined that the first review contemplated in paragraph 6 of the Letter has been completed.

When Chad is prevented from requesting disbursements under this arrangement because of paragraph 2, such disbursements will be resumed only after consultation has taken place between the Trustee and Chad and understandings have been reached regarding the circumstances in which Chad may request further disbursements.

4. In accordance with paragraph 4 of the Letter, Chad will provide the Trustee with such information as the Trustee requests in connection with the progress of Chad in implementing the policies and reaching the objectives of the program supported by this arrangement.

5. During the period of this arrangement Chad shall remain in close consultation with the Trustee. In accordance with paragraph 5 of the Letter, Chad will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Chad has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Chad will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Chad's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Chad or of representatives of Chad to the Trustee.

N'Djamena, November 12, 1999

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Managing Director:

1. In support of Chad's structural adjustment program, the Executive Board of the International Monetary Fund approved on September 1, 1995 a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF). The results of its implementation have been largely satisfactory, and the government met its main objectives. To consolidate these favorable results and to respond to the major challenges that our country continues to face, particularly the need to achieve a significant reduction in poverty and an improvement in the standard of living of the population, the government has decided, in consultation with civil society, to continue and strengthen the economic and financial reforms, as well as its poverty-reduction policies, within the framework of a new structural adjustment program for the period from October 1999 to September 2002.

2. The orientations of the government's policy, and the objectives and policies of the program, are described in the "Preliminary Framework for National Poverty Reduction Strategy," which was prepared in close collaboration with the staffs of the Fund and the World Bank, and which will be transmitted to you under separate cover.

3. The attached memorandum of economic, financial, and poverty-reduction policies is drawn from this orientation and describes the objectives and policies that the government of Chad intends to pursue during the period of the three-year program and, more particularly, the objectives and specific measures for the first year of this program covering the period October 1, 1999 to September 30, 2002. In support of the implementation of these objectives, the government of Chad requests a new three-year arrangement under the PRGF in an amount equivalent to SDR 36.4 million (65 percent of new quota). The first two disbursements, each in the amount of SDR 5.2 million, would be available after the approval of the program by the Executive Board of the IMF and after the conclusion of the first review of the arrangement for the first year by the Executive Board, respectively. The third disbursement will take place after the conclusion of the second review and the finalization of a second year program covering the period October 2000-September 2001.



4. The government of Chad will communicate to the Fund the information necessary to evaluate progress made by Chad in implementing its economic and financial policies, as well as in meeting the objectives of the program. To ensure a wide dissemination of the program, the government authorizes the IMF to publish the memorandum of economic and financial policies on its Internet web site.

5. The government of Chad considers that the policies and measures presented in the attached memorandum will allow it to meet the objectives of its program. However, it remains ready to take, in sufficient time, such measures as may prove necessary to safeguard these objectives. During the period of the three-year arrangement, the government of Chad will consult with the Fund on the adoption of any measures that may be appropriate, at the initiative of the government or at the request of the Managing Director. Moreover, at the end of the period covered by the third annual arrangement, and for as long as Chad has financial obligations toward the Fund resulting from loans obtained under this arrangement, the government will hold periodic consultations with the Fund on Chad's economic and financial policies, at the initiative of the government or whenever the Managing Director so requests.

6. In any event, the Fund will conduct a first review under the ESAF arrangement, to be completed before end-June 2000. The second review under the arrangement, which should be completed before end-December 2000, will coincide with the finalization of the second annual program covering the period 2001-02.

Sincerely yours,

//s//

Bichara Chérif Daoussa  
Minister of Economy and Finance

Attachment: Memorandum of Economic and Financial Policies for 1999-2000

**MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES  
FOR 1999-2000**

**I. INTRODUCTION**

1. In the context of a three-year program under the Enhanced Structural Adjustment Facility (ESAF), which expired on April 30, 1999, Chad implemented a wide-ranging program of structural reform and economic adjustment, based on stabilizing the macroeconomic and financial framework. The program focused particularly on improving public finances, restructuring and privatizing most of the public enterprises, and further liberalizing trade. This adjustment program was also supported by the World Bank, and by other bilateral and multilateral donors in the form of balance of payments financing, loans, contributions to the financing of public investment projects, and external debt relief.
2. The government intends to pursue and strengthen these reforms under a second three-year program under the Poverty Reduction and Growth Facility (PRGF). The new program will be underpinned by a comprehensive poverty reduction strategy, particularly in the context of the Heavily Indebted Poor Countries (HIPC) Initiative. This memorandum briefly reviews the results achieved thus far, establishes the objectives of the new program, and sets out the policies and measures that the Chadian authorities intend to pursue in the first year of the new program.

**II. PERFORMANCE UNDER THE ADJUSTMENT PROGRAM IN 1995-99**

3. Implementation of the last ESAF-supported program was broadly satisfactory, despite several waiver requests caused by slippages largely beyond the control of the authorities. Real growth averaged 4.2 percent annually during 1995-98, owing in large part to gains in competitiveness and higher agricultural and agro-industrial production. Inflation, which averaged 9 percent between 1995 and 1997, fell to 4.3 percent in 1998.
4. Fiscal performance improved considerably over the course of the program, even though the increase in government revenue remained smaller than had been envisaged, particularly at the end of the period. Expenditure management was characterized by a prudent wage policy, increased funding for priority sectors, and the containment of nonpriority expenditure, in spite of a few slippages in 1997. Domestic payments arrears were reduced and external arrears were cleared.
5. Chad's external position is heavily dependent on cotton sector developments. Thus, buoyant cotton exports and improved terms of trade led to a narrowing of the current account deficit in 1998, but the fall both in cotton production and world market prices is expected to lead to a widening of the current account deficit in 1999.
6. Significant progress was made toward liberalizing the economy, although the structural reform program has yet to be implemented. In the telecommunications sector, the reform process is under way; in the meantime, however, a cellular telephone license has been

reform process is under way; in the meantime, however, a cellular telephone license has been granted to a private operator. A tender has been launched for the privatization of the sugar company (SONASUT), while negotiations for an overall management contract for the electricity company have made good progress. The situation in the cotton sector remains a source of concern, but the authorities are working on a liberalization strategy that should be finalized in December 1999.

### III. CHALLENGES AND THE REMAINING REFORM AGENDA

7. Overall, the 1995-99 economic program has helped to bring about a marked recovery in economic activity, tangible progress toward macroeconomic stability, and an improved economic environment for private enterprise. This is a clear reflection of the government's firm commitment to bring the adjustment and reform process to a successful conclusion. The establishment of structures for coordination (the High Interministerial Committee, the Technical Committee, and the Economic Unit) has facilitated program preparation, implementation, and monitoring. Chad's membership of the Bank of Central African States (BEAC) and the Central African Economic and Monetary Community (CEMAC) has contributed to its monetary policy discipline and encouraged the effective implementation of the regional trade and tax reforms.

8. However, the nation still faces widespread poverty, which impedes human development. Low income levels and a relatively thin private sector limit national savings and the investment necessary for growth. As a result, the economic and physical infrastructure is woefully inadequate and in great need of expansion. The cost of public utilities (electricity, water, and telecommunications) and petroleum products is prohibitive, and the rudimentary state of the transportation network, particularly in the rural areas, compounds the problems posed by Chad's landlocked position. Moreover, the economy is still very vulnerable to exogenous shocks, such as the 1998 energy crisis and the deteriorating terms of trade, which in part account for the slippages relative to program targets.

9. Under these conditions, Chad's future adjustment efforts must aim at accomplishing the transition from crisis management and fiscal stabilization to the implementation of economic and social policies for sustained development. Specifically, Chad's main challenge is to consolidate the gains made in macroeconomic stability and gradually bring the economy onto a path of sustainable, private sector-led growth, in order to reduce poverty. Attaining this objective will require further fiscal consolidation, as well as improved transparency and accountability in the management of public resources, a significant reduction in Chad's dependence on external assistance, and the consistent implementation of the entire range of required structural reforms.

10. The prospective exploitation of oil resources beginning in fiscal year 2003/04 will help to consolidate the strengthening of financial viability, and provide Chad with a unique opportunity to accelerate its overall development and its poverty reduction efforts. The Chadian authorities are fully aware that this will not be easy, as experience in many other

countries has shown. They therefore intend to decisively address governance issues ahead of the beginning of oil production, to ensure that this resource is managed in a transparent fashion. Furthermore, they have already begun to implement a comprehensive strategy in preparation for managing the "oil economy," covering the period 1999-2004, in close cooperation with development partners. Moreover, a law on the management of oil revenue was adopted and promulgated by parliament in January 1999, under which all oil revenues will be included and accounted for in the state budget, and used to meet development objectives.

#### IV. MEDIUM-TERM STRATEGY

11. The main quantitative objectives for 1999-2002 will be: to (i) sustain a real GDP growth rate of at least 4 percent in 2000-02; (ii) keep annual inflation at about 3 percent; (iii) to achieve a current primary surplus of 1.5 percent of GDP by 2002, and (iv) reduce the non-oil external current account deficit (excluding grants) from 18 percent of GDP in 1999 to 17 percent in 2002. In order to achieve the medium-term growth objective, Chad will need to boost investment and increase the domestic resources available for this purpose, both by strengthening government savings and implementing policies aimed at bolstering the formal financial sector and microfinance institutions, so as to contribute to higher private savings. However, Chad will continue to need financial support from its external partners to supplement its relatively low domestic savings during the transition to the oil economy.

12. The primary focus of fiscal consolidation will be on increasing non-oil revenue to levels consistent with an efficient delivery of necessary public services. The priorities are to raise efficiency in the tax and customs administrations in order to reduce fraud and evasion, and to continue broadening the tax base. On the expenditure side, the authorities will strengthen budget programming and expenditure management, and will enhance the effectiveness of public spending, particularly in the priority sectors.

13. The structural reform effort during the three-year program will pursue the following main objectives: (i) private sector development; (ii) the strengthening of economic and administrative management; and (iii) poverty reduction. Policies for private sector development will center on completing the public enterprise reform and privatization program; reforming the financial sector; and improving the transportation network. Economic and administrative management will be strengthened through a comprehensive capacity- and institution-building program; the decentralization of the public administration; and a fundamental reform of the civil service. Finally, in the area of poverty reduction, the Chadian authorities will integrate the strategy presented to donors at the April 1998 roundtable and in sectoral meetings on health, rural development, education, and transportation into a comprehensive and fully costed poverty reduction strategy that will guide government action and help to coordinate donor assistance. The authorities intend to formulate this poverty reduction strategy over the course of the next 12 months, in close consultation with civil society and their external partners.

## V. THE PROGRAM FOR 1999-2000

14. Real GDP growth is projected to pick up to about 4 percent in 2000, after a contraction of about 1½ percent in 1999, reflecting substantial gains in cotton and food crop production after favorable rains, the expansion of cotton and sugarcane processing activities, and oil-related construction. Gross investment should increase from 17.0 percent of GDP in 1999 to 22.7 percent of GDP in 2000, with an increased share of private investment related to the oil pipeline construction project. Gross domestic savings are expected to rise to 0.5 percent of GDP in 2000, following a dissaving on the order of 1.2 percent of GDP in 1999. Inflation is projected to stabilize at about 3 percent on annual average during 1999-2000. The external current account deficit (excluding grants) is projected to widen from 20.5 percent in 1999 to 24.4 percent in 2000, mainly on account of the considerable increase in imports related to investment in the oil sector.

### A. Public Finances

15. The budget for the year 2000 targets a current primary surplus of 1.5 percent of GDP. Overall revenues are projected to remain at about 9.6 percent of GDP in 2000. Current primary expenditure will be limited to 8.3 percent of GDP; however, within this ceiling, the authorities intend to increase operating expenditure in the priority sectors by 20 percent and to absorb an increase in the wage bill of CFAF 4 billion, reflecting the financial effects of automatic advances in the civil service, which were frozen in 1994. Moreover, in keeping with the provisions of the 1996 constitution, the 2000 budget provides allocations for the initial cost of administrative decentralization and the introduction of constitutional bodies. Total investment spending is budgeted at 11.6 percent. The overall fiscal deficit (on a commitment basis and excluding grants) is projected at 12 percent of GDP.

16. For 2000, the only change in the area of taxation is the introduction on January 1, 2000 of the value-added tax (VAT) at the single rate of 18 percent, replacing the turnover tax (TCA). Preparations for the implementation of the VAT are well advanced, including the public information campaign. A study will be conducted by December 1999 to determine the exact number of enterprises subject to the VAT, including those currently paying the single general tax (*Impôt général libérateur*—IGL).

17. The tax directorate (DIT) will also improve the management of the register of taxpayers to ensure effective tax collections. The collection of taxes and other revenues paid on the basis of taxpayer declarations will gradually be transferred from the Treasury to the DIT between December 1999 and January 2001, beginning with amounts owed following audits. A working group will be established by end-1999 to facilitate this transfer of authority. The DIT will also, by December 1999, institute a procedure for coordinating tax audits. The government intends to increase the resources allocated to the DIT to enable it to conduct spot checks on VAT compliance, to verify that public enterprises actually pay this tax, and, by June 2000, to establish procedures for inventory audits to combat the proliferation of clandestine imports. In 2000, the authorities will begin the process of streamlining the land registry office, starting with N'Djamena.

18. The budget also foresees an increase in customs revenues, based on the introduction of the computerized customs system (SYDONIA) in early 2000, and implementation of the action plan to reduce exemptions, fraud, and smuggling, as well as to reinforce internal audit procedures. In this context, the authorities have also taken steps to improve the functioning of the system for monitoring exemptions of imports under government contracts financed by external donors.

19. The Chadian authorities will eliminate the remaining temporary surcharges on imports by July 1, 2000 and, by December 2000, abolish all exemptions that are incompatible with the CEMAC tax and customs reform. The Chadian authorities also intend to work with their regional partners to gradually reduce the maximum rate for the common external tariff. Finally, in keeping with the planned gradual phasing out of the protection of domestic sugar production, the reference price for sugar for 2000 will be reduced from CFAF 350 per kilogram to CFAF 340 per kilogram.

20. On the expenditure side, the government intends to reinforce the system of internal and external auditing of public expenditure by strengthening institutional agencies, such as the Accounting Chamber of the Supreme Court, as well as by using external auditors. To rationalize the expenditure management system, the accounting and budget nomenclatures will be harmonized, accounting procedures simplified, the system of economic and functional classification of expenditure updated and extended to capital spending, and treasury operations computerized. Treasury cash-flow management will be based on a system of monthly forecasting and analysis of revenues and expenditures, drawing on the monthly cash-flow management plan that the government intends to implement with the start of the new fiscal year.

21. To enhance the effectiveness of government spending, a public expenditure review will be launched with World Bank assistance in March 2000, paving the way for annual reviews. Moreover, the government will start the transition from the public investment program (PIP) to the sectoral programming of expenditure, beginning with a few pilot departments. Beginning in the second quarter of 2000, the government will introduce a monitoring system for reconciling commitments and actual expenditure in the education sector on a quarterly basis, and will gradually extend this system to other priority sectors.

22. Management of the wage bill will remain critical to controlling overall expenditure. The government intends therefore to maintain its policy of limiting recruitment to the priority sectors and in 2000 will launch the process of civil service reform. In the meantime, the files of the payroll office will be harmonized with those of the Ministry of Civil Service—the computerized payroll management system has been upgraded to ensure Year 2000 (Y2K) compliance.

23. Finally, the Chadian authorities intend to clear the remaining domestic payments arrears over the program period. The stock of verified domestic arrears will be updated by end-September 2000, and a program for settling the arrears will be established. Some combination of the following three options will be negotiated with eligible creditors: (i) cash

payments against discounts on the nominal value of the claim; (ii) rescheduling the debt over a period of about ten years; or (iii) exchange for a new government debt instrument. The program will be financed with resources to be obtained from Chad's external partners, the proceeds of privatization operations, and future budgetary resources.

### **B. Money and Credit Policy**

24. The monetary policy conducted at the regional level by the BEAC continues to aim at strengthening the external reserves of the monetary union and containing inflation by means of a prudent credit policy. In 2000, an increase in broad money of about 1.3 percent is projected, and one of about 5 percent for domestic credit; net external assets of the banking system are expected to decline by about 5.3 percent. The quarterly ceilings on net bank credit to the government are set out in the annexed Table 1, and will be adjusted in the event of shortfalls in external financing relative to projections.

25. In the financial sector, the authorities have divested their controlling stake in the commercial banks. They will continue to work with the regional banking commission (COBAC) to ensure that Chadian banks are in compliance with the prudential norms and will support the adaptation of these norms to international standards. More specifically, the authorities will ensure that the domestic banking system is strengthened, in particular by raising minimum equity capital to CFAF 1 billion—the level already reached by local banks. To encourage small- and medium-scale savings and investment, the government of Chad will begin a study of microfinance institutions, with a view to defining a strategy to promote them. The government will encourage commercial banks to reduce their dependence on crop credits.

### **C. Structural Policies**

#### **Private sector development**

##### ***Public enterprises***

26. The government will resolutely pursue its public enterprise privatization policy. The management of the electricity and water company (STEE) will be privatized in January 2000. Following the adoption of the Law on Electricity and the water code, the government will continue to strengthen the regulatory and institutional framework. The implementing legislation and the water and electricity regulatory bodies will therefore be in place before September 2000. In addition, a feasibility study will be carried out on water tariffs. The regulatory bodies will adjust tariffs annually. The same type of regulatory provisions will be implemented in 2000 in the telecommunications sector, following the granting of a license to a private operator to exploit a cellular telephone network and the improved capability for satellite connection to the international network. The process of privatizing the telecommunications company (SOTELTCHAD) will begin in May 2000 with the hiring of consultants to launch the tender for bids. Regarding the postal service, the government has decided to keep it in the government portfolio. The government has chosen an offer for the

sugar company SONASUT and will open negotiations with the buyer by March 2000. The sale process should be completed within 12 months. The government will complete the privatization of the national road maintenance company (Société Nationale d'Entretien Routier, or SNER) by end-June 2000. Finally, cotton sector liberalization will begin before the end of the year. The study on separating COTONTCHAD's oil and soap activities from ginning will be completed by June 2000.

### ***Pricing policies***

27. Regarding pricing policies, by March 2000, the government will examine the possibility of adopting a new mechanism for automatically adjusting petroleum product prices. The mechanism would pass changes in world market prices through to retail prices, with a view to fully liberalizing the latter over the medium term.

### ***Road maintenance***

28. In the context of its policy for ensuring the financing of routine road maintenance, a portion of the oil taxes collected are deposited directly in the Autonomous Road Maintenance Account (CAER), supplemented by a budgetary allocation of CFAF 1.7 billion and other amounts included in the pricing structure for these products. All financial transactions of the CAER will be duly registered in the table of government financial operations (TOFE). To ensure the CAER's total financial independence vis-à-vis the government budget, a user fee will be introduced beginning in 2001 in the pricing structure for petroleum products, following a full audit of the CAER's accounts; the effect on pump prices will be reviewed and the structure of petroleum product prices revised, if necessary.

### ***Judicial reform***

29. In the area of judicial reform, the government intends to ensure application of the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA) in Chad. The Judicial Reform Committee, which combines the public and private sectors, will be made operational in order to review existing commercial legislation and propose improvements, including the establishment of an arbitration tribunal. By June 2000, the authorities will develop an action plan for gradually increasing the number of qualified magistrates and auxiliary legal staff, and will increase budgetary allocations to the justice system over the program period.

### ***Strengthening the regulatory framework***

30. The authorities intend to intensify their efforts to improve conditions for private economic activity. They will adopt and implement a national investment charter in line with the provisions of the CEMAC regional charter and will seek to further improve the payments system and other trade services, such as insurance and transit services with their regional partners.



## **Economic and administrative management**

### ***Capacity and institution building***

31. The government of Chad intends to embark on a comprehensive program of capacity and institution building, in order to improve transparency and governance, and to strengthen the public administration. Beyond the specific measures outlined above in the area of tax administration and expenditure management, the authorities intend to further strengthen the system of economic policy coordination committees (particularly the High Interministerial Committee and the Technical Committee). The research and forecasting directorate will be strengthened in 2000 so that it can prepare an annual macroeconomic framework, which will be updated on a quarterly basis, as an input to budgetary programming and execution.

### ***Administrative decentralization***

32. The 2000 budget provides for the initial costs of administrative decentralization and establishment of the bodies envisaged in the 1996 constitution. This decentralization is a central element of the government's policy for improving the delivery of public services to the population. To ensure that the establishment of decentralized institutions meets this objective, the government will complete by September 2000 a detailed analysis of the financial impact of the new system, based on a clear definition of the functional and expenditure responsibilities and the taxation authority of each administrative level, and will define and implement budgetary rules and procedures for the local administrations, including sanctions for noncompliance. In parallel with this transfer of functions, the authorities will also establish by September 2000 a program for the gradual transfer of human, technical, and financial resources from the central government to the local administrations.

### ***Civil service reform***

33. Civil service reform is an essential element of controlling the growth of the wage bill, and of improving the public administration. Therefore, the authorities have set a firm timetable for implementing the recommendations of the technical commission for civil service reform, which were adopted by the government at end-1998. To that end, the government will, by June 2000, conduct a review of the existing statutes and of present practices in relation to, inter alia, indemnities, other allocations, and mission expenses. To facilitate the transition to a merit-based remuneration and advancement system, a minimum set of objective performance criteria will be established by the same date, and training in their application will be provided to supervisors. A study of possible ways of revising the wage scale system will be completed by September 2000, and a timetable for the transition to the new remuneration and advancement system will be adopted by the government by end-2000.

34. Similarly, by end-2000, the government will prepare an analysis of actual civil service requirements in terms of skills and competencies, including at the local administrative level, and will design a program for reducing the size of the civil service through voluntary departures. The government is fully aware of the need for closely

involving trade unions and other concerned parties, including the parliament, in this process to facilitate execution of the reforms envisaged; therefore, the government will consult closely with these partners at every stage of the process.

## **Poverty reduction**

### ***The poverty reduction strategy***

35. The government will launch a process of consultation with civil society and its external partners to develop a comprehensive poverty reduction strategy by October 2000. This process will take the form of a series of seminars and conferences to deliberate on the various elements of the strategy, which will incorporate the government's various sectoral policies, and will provide a precise cost analysis of all proposed measures and provisions. The consultation process will culminate in a seminar scheduled for September-October 2000, at which the strategy will be endorsed. This strategy will use available statistical indicators, which will be updated regularly. It will also serve as the basis for designing the government's economic and social policies during the remainder of the program, and will prepare the way for the transition to the oil era.

36. The scheduled household budget/consumption survey will be adapted to provide measurable and differentiated poverty indicators, and an effort will be made to coordinate the collection and dissemination of statistics by all services and donors working in the various sectors.

## ***Health***

37. Policy in the area of health will continue to be guided by the approach presented at the sectoral meeting on health in March 1999. This policy is based on four main objectives: (i) developing high-quality basic health services accessible to the entire population; (ii) increasing the number of trained health care personnel, particularly in health centers; (iii) improving the management of the health care system; and (iv) stepping up efforts to eradicate endemic and epidemic diseases. Specific quantitative targets will be set in each of these areas by March 2000, and progress will be monitored using the appropriate statistical indicators.

38. In order to provide optimal health coverage, the adopted approach seeks as a priority to consolidate the implementation of the minimum package of activities (PMA) and the supplementary package of activities (PCA), the administration of which will be concentrated at the district level. In order to improve the quality and accessibility of health services, health coverage will gradually be extended to all districts by making sure that all health centers are operational. A three-year program aimed at staffing each health center with at least one qualified nurse will be launched in 2000.

### ***Education***

39. By end-2000, the government will adopt an Orientation Law on Education. The key objectives and major directions of government policy in this sector will be presented to donors at a sectoral meeting on education, to be held in January 2000. Government policy will focus on immediately raising primary school enrollment rates, and improving instruction and conditions for teaching and learning. To that end, by end-March 2000, specific targets will be established in these areas for the program period.

40. Operating expenditure in the education sector has been increased by 20 percent in real terms in the 2000 budget. To increase spending effectiveness, a monitoring system allowing commitments to be matched with actual expenditure on a quarterly basis will be implemented in the sector, beginning in the second quarter of 2000.

41. The government will institute new standards for teacher training in 2000 and will develop a training system for their implementation. A program for gradually transferring the management of schools and teaching staff to the local level will be formulated in 2000.

42. Beginning in 2000, the statistical information system will be strengthened, with support from external partners, in order to extend the system for monitoring and evaluating the quality of education. The authorities will define a series of preliminary indicators, which will provide a basis for the specific targets for improving the principal education indicators in the medium term.

### ***Social reintegration of demobilized soldiers***

43. Having successfully completed its demobilization program, the government now faces the task of reintegrating the demobilized soldiers into civil society. A pilot project, prepared with World Bank support, was launched in five prefectures in January 1999 after considerable delays and administrative difficulties. In light of the results thus far, the government is thinking of moving to the regular phase of the program, which would entail reintegrating demobilized soldiers across the entire territory through a series of small-scale projects. Financing for this reformulation and for the overall program will be sought from donors to ensure the program's continuation into 2000 and beyond.

### **Rural development**

#### ***Agriculture***

44. One of the most important elements of the government's agricultural policy in 2000 is reform of the cotton sector. In December 1999, the government will adopt a comprehensive strategy for liberalizing the sector after a process of intensive consultation with stakeholders. This strategy sets out the timing of key steps in the liberalization process, which includes three aspects of reform. The institutional aspect aims at liberalizing the sector and making it more competitive. The key element of this aspect of the reform is government divestiture of COTONTCHAD. The second aspect—provision of training and support to producers—seeks

to involve producers in managing the sector. The third aspect deals with professionalizing producer organizations, thereby enabling them to gradually take responsibility for their activities.

45. The second major axis of the government's rural development policy is enhancing food security. The government will continue to improve producer support services, particularly by promoting research and extension services. The corresponding budgetary allocations will be increased in 2000. Over the course of the year 2000, the Ministry of Agriculture will define a strategy for strengthening producer associations, and enabling them to secure the necessary financing for purchasing inputs and agricultural equipment, and for providing transport for the harvests. Also, producers will receive training in improving their agricultural techniques, and in establishing reliable distribution and marketing channels. The authorities also intend to promote and support the development of small-scale rural finance institutions.

### ***Transportation***

46. A key factor in the transportation policy is the extension of the national network of permanent roads in rural areas; in this connection, a ten-year investment program was formulated and presented to donors at the transport sector meeting in November 1999. Transport services and road maintenance work were liberalized during the previous program, and a mechanism for financing the maintenance work through CAER has been established.

47. In 2000, the government intends to continue privatizing road maintenance and increasing user participation in the administration of road maintenance funds. Emphasis will be placed on extending and maintaining the road network in rural areas to improve the movement of food and cash crops (especially cotton), and to reduce transport costs. To this end, financial and technical assistance for local projects to maintain roads and expand transportation in rural areas will be increased.

48. Also, in 2001, the government will launch a study on the granting of concessions for the five major airport facilities as an integral part of the government's policy to open up the country.

### ***Environment***

49. In March 2000, the government will launch the preparation of a National Environmental Action Plan (PNAE), which will be adopted by end-2002, as well as an Information, Education, and Communication (IEC) campaign. Other supplementary actions are envisaged in the short term, particularly the incorporation of environmental aspects into the planning and programming processes used by the Ministries of Finance and Planning, beginning with the formulation of the 2001 budget, and the carrying out of a feasibility study of the most urgent cross-border environmental activities (Lake Chad).

#### **D. Strengthening the Statistical System**

50. Following a study of the statistics system, a law to regulate Chad's statistical activities was adopted in June 1999. It defines the institutional framework, the major statistical principles, and the relations between the bodies responsible for producing official statistics, as well as the relations with other organizations that produce statistics outside the national statistics system. The law also spells out the circumstances in which a response to statistical surveys is obligatory, defines the confidentiality of statistics, and sets out the resources for operating the national statistics system. The establishment of a High Statistical Council and a Statistical Programs Committee is envisaged to implement the law, and a decree defining the legal status of the central statistics agency has been adopted, thereby enabling it to play its role in full.

51. A national six-year statistics program will be designed by February 2000, and the first year of this program will be included in the 2001 budget. In addition, a study of the periodicity and the data currently produced by all the services and agencies outside the national statistics system will be carried out by end-March 2000, with a view to better identifying statistical requirements for improving and monitoring the effects of poverty reduction policies.

#### **E. The Balance of Payments and External Financing**

52. A deterioration of the external current account deficit (excluding official transfers) from 20.5 percent of GDP in 1999 to 24.4 percent is projected in 2000, mainly because cotton exports, despite the strong decline in world cotton prices, will increase. Export values will increase by 8.7 percent in 2000, while the value of imports (excluding the pipeline project) will increase by 9 percent in 2000. In view of the sizable capital inflows linked to investment projects, a capital account surplus of CFAF 190 billion is projected. Chad's contribution to the CEMAC's external reserves will be slightly negative in 2000.

53. The authorities have almost completed the internal reconciliation of the external debt data. These data will be used by IMF staff to prepare an analysis of Chad's external debt sustainability, which will make it possible to determine Chad's eligibility for debt relief under the HIPC Initiative.

54. The 1999 financing requirement is wholly covered by financial assistance from the World Bank, the European Union, France, and the International Monetary Fund. The 2000 financing requirement is estimated at CFAF 26.8 billion. External assistance already identified, principally from the World Bank, the European Union, the African Development Bank, and France, should suffice to cover this deficit. To consolidate the tax situation and to secure social expenditure, the authorities intend to seek a rescheduling of the eligible debt service from Paris Club creditors in 2000.

## F. Program Monitoring

55. During the period December 1999-October 2000, the program will be monitored by means of quantitative performance criteria and quarterly benchmarks, as well as structural benchmarks. End-December 1999 and end-June 2000 quantitative benchmarks are the indicators for monitoring program progress, while those for end-March and end-September 2000 constitute performance criteria. The quantitative benchmarks and performance criteria shown in the attached Table 1 include (i) a ceiling for net claims of the banking system on central government; (ii) a floor for the current primary balance; and (iii) a floor for the net reduction of domestic payments arrears of the central government; (iv) the nonaccumulation of central government external payments arrears; (v) a ceiling for new nonconcessional external borrowing with maturities of more than one year, contracted or guaranteed by central government; and (vi) a ceiling on the change in short-term external borrowing maturing in under one year, excluding normal trade financing. Benchmarks (iii) to (vi) must be respected continuously throughout the program. Indicative benchmarks for program progress are the following: (i) total budgetary revenue; (ii) total current spending, excluding interest; and (iii) total wage bill of central government. Noncompliance with these indicators will give rise to discussions with IMF staff to determine the appropriate corrective measures. In addition, throughout the program period, the government will not impose or intensify restrictions on payments and transfers for current international transactions, will not introduce or modify multiple currency practices, will not conclude bilateral payments agreements which are inconsistent with Article VIII, and will not impose or intensify import restrictions for balance of payments reasons.

56. Monitoring of the program will include the following structural criteria, shown in the attached Table 2: (i) the adoption, by the Council of Ministers, of a comprehensive strategy for liberalizing the cotton sector over the medium term, before mid-December 1999; (ii) the operational implementation of the Judicial Reform Commission before mid-December 1999; (iii) the establishment of a separate structure to absorb the non-performing claims of the STEE (*structure de cantonnement*) before mid-December 1999; (iv) the appointment of a general controller and agreement on the rehabilitation plan for COTONTCHAD before end-March 2000; (v) the completion of the study on the separation of COTONTCHAD's oil and soap production activities and the launching of the tender for bids for its privatization before end-June 2000; (vi) the harmonization of the files of the civil service ministry and of the payroll before end-June 2000; (vii) the finalization of the proposals to reform the civil service regulations before end-June 2000; (viii) an evaluation of the financial impact of the introduction of the decentralized administrative structure before end-September 2000; (ix) the establishment of a monthly cash-flow plan before end-March 2000; (x) the completion of a study of the periodicity of data currently produced by the statistics system before end-March 2000; (xi) in the area of health, the establishment of an action plan for the transfer of the management of primary health care services to prefectoral hospitals and health districts by end-December 2000; (xii) in the area of education, the establishment of an action plan to institute a mechanism for monitoring actual expenditure by end-June 2000; (xiii) in the area of rural development, the adaptation and start-up of training programs by end-June 2000; and (xiv) the examination of an automatic adjustment mechanism for the retail

prices of petroleum products by end-March 2000. Benchmarks (i) to (iii) are prior actions for consideration of the program by the Executive Board of the IMF. Benchmarks (iv), (ix) and (x) are the program performance criteria.

57. The government of Chad will conduct the first program review under the first year of the PRGF arrangement with the staff of the IMF before end-June 2000. This review will examine economic and financial developments during October 1999-March 2000, as well as the revised prospects for the rest of the year. Completion of the review, as well as compliance with the end-March 2000 performance criteria, will condition the disbursement of the second loan under the first arrangement. A second review will be conducted with IMF staff before end-December 2000. This review will cover economic and financial developments during 2000; it will take place jointly with the negotiations on the program for the second year of the arrangement, covering the period October 2000-September 2001.

Table 1. Chad: Preliminary Quantitative Performance Criteria and Benchmarks  
During the First Year Under the Poverty Reduction and Growth Facility  
October 1, 1999-September 30, 2000

(In billions of CFA francs, for 2000 cumulative from January 1, 2000,  
unless otherwise indicated)

	Dec. 31, 1999	Mar. 31, 2000 1/	Jun. 30, 2000 2/	Sep. 30, 2000 1/ 2/	Dec. 30, 3/ 2000 2/
<b>Quantitative performance criteria and benchmarks</b>					
Ceiling on net banking system claims on the central	-7.16	6.36	12.76	13.21	3.30
Floor on current primary budget balance 4/	8.2	-3.58	-0.96	-0.1	7.24
Floor on net reduction of domestic payments arrears of the central government 5/	0.54	-2.00	-5.50	-5.50	-9.00
Nonaccumulation of external payments arrears of the central government (cumulative since Sep. 99) 6/ 7/	Zero	Zero	Zero	Zero	Zero
Ceiling on new nonconcessional foreign borrowing of more than 1 year contracted or guaranteed by the central government (cumulative) 6/ 8/	Zero	Zero	Zero	Zero	Zero
Ceiling on net change in short-term external borrowing with a maturity of less than 1 year, except normal trade financing (cumulative) 6/	Zero	Zero	Zero	Zero	Zero
<b>Indicative benchmarks and monitors of program 9/</b>					
Total revenue (excluding grants) 10/	87.2	16.6	42.8	64.2	95.8
Total current noninterest spending	79.0	20.2	43.8	64.3	88.5
Of which: on education	3.2	0.8	2.0	3.0	4.4
on health	3.1	0.7	1.8	2.7	4.0
Total wage spending by the central government (including military)	44.6	12.7	25.4	38.0	50.6
<b>Adjustors</b>					
Balance of payments assistance	27.2	3.1	5.1	8.0	23.8
Of which: Adjustment lending (excl. IMF)	25.5	0.0	0.0	0.0	13.8
Adjustment grants	1.7	3.1	5.1	8.0	10.0
Debt relief	0.0	0.0	0.0	0.0	0.0

Sources: Chadian authorities; Bank of Central African States (BEAC); and staff estimates and projections.

1/ These targets will constitute performance criteria of the program.

2/ Indicative targets; definitive targets, as well as performance criteria for end-September 2000, will be set at the time of the midterm review.

3/ The targets will be adjusted (i) upward for a shortfall in balance of payments assistance (as identified in the adjustors and excluding projected lending and grants) up to an amount equivalent to 75 percent of the shortfall; (ii) downward to the full extent of any excess of balance of payments assistance over projected amounts; and (iii) downward to take account of a lower repayment of domestic arrears than foreseen under the program for the corresponding period.

4/ Defined as total revenue less grants, minus current primary spending (current spending, less demobilization and reinsertion outlays, electoral and other one-off outlays, and interest).

5/ The target for the reduction of domestic payments arrears will be adjusted downward to the full extent of any difference between projected and actual receipts from privatization.

6/ Monitored on a continuous basis.

7/ Excluding external payments arrears incurred pending debt rescheduling.

8/ In millions of U.S. dollars. Nonconcessional loans defined as loans with a grant element of less than 35 percent, using discount rates based on the commercial interest reference rates (CIRRs). Exceptions will be made for a nonconcessional IBRD loan in an amount of US\$35 million contracted by the government of Chad in the context of the Chad-Cameroon Pipeline Project.

9/ These indicators will not constitute performance criteria of the program.

10/ Net of reimbursements under the system of treasury checks.



**Table 2. Chad: Possible Structural Performance Criteria and Benchmarks  
For the First Year Under the Poverty Reduction and Growth Facility  
October 1, 1999-September 30, 2000**

Measures	Target Date
<b>Prior actions</b>	
Adopt in the Council of Ministers an overall strategy for the liberalization over the medium term of the cotton sector and launch a public information campaign on the objectives and steps of the reform, including the confirmed disengagement of the government, according to a fixed timetable	Prior action
Make operational the Judicial Reform Commission, comprising the private sector, civil society and the public sector, so that it can review existing commercial legislation and propose measures for rationalizing and modernizing it	Prior action
Put in place a debt reorganization structure of "cantonement" for the water and electricity company (STEE)	Prior action
<b>Public enterprises</b>	
Nominate a general controller for cotton company (COTONTCHAD) and adopt the restructuring plan	By March 31, 2000*
Complete the study of the separation of COTONTCHAD's oil and soap manufacturing activities of and launch tender for bids for privatization	By June 30, 2000
<b>Civil service reform and administrative decentralization</b>	
Harmonize the files of the civil service ministry and the payroll files	By June 30, 2000
Finalize proposals for reforming the statutes and application texts of the civil service, and submit these to the government	By June 30, 2000
Evaluate the financial implications of the implementation of the decentralized administrative structure	By September 30, 2000
<b>Treasury and expenditure management</b>	
Implement a monthly cashflow plan at the treasury based on a system of analysis and projection of the cash flow	By March 31, 2000*
<b>Poverty reduction</b>	
Complete study of periodicity of data and of the statistics actually produced by the statistical apparatus	By March 31, 2000*
Health: establish an action plan for transferring the responsibility for basic health care services and for maintaining health centers to the prefectural hospitals and the health districts	By December 31, 2000
Education: establish an action plan to create and implement a monitoring mechanism to compare commitments and actual spending in the education sector	By June 30, 2000
Rural development: Adapt and launch training programs in agricultural, herding, and fishing techniques	By June 30, 2000
<b>Other</b>	
Examine the possibility of adopting an automatic adjustment mechanism for the adjustment of retail petroleum prices	By March 31, 2000

\* Signifies a structural performance criterion under the program for end-March 2000.

## **CHAD: PRELIMINARY FRAMEWORK FOR A NATIONAL POVERTY REDUCTION STRATEGY**

### **I. INTRODUCTION**

1. In the context of a three-year Enhanced Structural Adjustment Facility (ESAF), which expired on April 30, 1999, and of the structural adjustment program supported by three IDA credits (the last of which was approved in May 1999), Chad has made substantial progress over the past years toward macroeconomic and financial stabilization, and in the implementation of structural reforms aiming at lifting the obstacles that hinder economic growth and delay access of the majority of the population to economic opportunities. After reviewing the results of this first adjustment program with civil society and external partners during an evaluation seminar held in N'Djaména in June 1999, the Chadian authorities have decided to pursue and strengthen the reform process. They thus intend to formulate and to implement a new structural adjustment program. This program will be based on a global poverty reduction strategy, which will integrate the government's economic, financial, and social policies.

2. In order to support its efforts toward poverty reduction and economic, financial and social reform, the Chadian government requests from the International Monetary Fund a three-year program under the Poverty Reduction and Growth Facility (PRGF). The government also intends to request support from the World Bank and other external partners for this adjustment program. It is aware that the elaboration and implementation of a national poverty reduction strategy will demand considerable effort and the broad participation of all the social partners in Chadian society. Some time will therefore be required to prepare a poverty reduction strategy paper (PRSP), that can be used as a basis to coordinate the government's economic, financial, and social policies, as well as the program supported by Chad's external partners, particularly in the context of the enhanced Heavily Indebted Poor Countries Initiative (HIPC). The government has begun the work of formulating this strategy in accordance with the interim procedures communicated by the joint mission of the Fund and the World Bank in the month of November 1999. The government is confident that a PRSP can be drafted within the next 12-15 months.

3. While starting the elaboration of a poverty reduction strategy, and without prejudging the results of the consultation with its partners in the context of a broad participatory process, the government has already set out, as preliminary guidelines, some of the principal objectives of its economic development program. Poverty reduction is the principal objective of the government of Chad. The first step of the government's strategy in this area includes the articulation of the macroeconomic framework and of the orientations of the political and structural policies, as described in the memorandum of economic and financial policies for the first year of the PRGF-supported program, and a matrix of policies aiming at enhancing economic growth and reducing poverty. This note summarizes this macroeconomic and structural framework, describes the envisaged process leading up to the elaboration of a national poverty reduction strategy, and lays out the corresponding timetable, which aims at

the articulation of a PRSP by end-2000. The Chadian government intends to inform the Executive Boards of both Bretton Woods institutions on a regular basis of its progress in elaborating the strategy, and wishes to call on the assistance of the staff of both institutions as required.

## **II. THE CONTEXT OF THE PROPOSED ADJUSTMENT PROGRAM**

4. The results of the 1995-99 program supported by the first ESAF and the World Bank's structural adjustment operations have been broadly positive. Real economic growth reached 4.6 percent on average during 1995-98; inflation was brought down from an average of 9 percent in 1995-97 to 4.3 percent in 1998. Despite difficulties in mobilizing the expected level of revenue, the public finance situation has improved considerably, and the central government's budget has registered positive primary current balances since 1997, thanks to firm control over expenditure. The government has nonetheless ensured a constant increase of budget allocations to the priority sectors in the fight against poverty, the reduction of domestic payments arrears, and the clearing of remaining external arrears. Important progress has also been achieved in the area of structural reform, particularly regarding the withdrawal of the state from economic activities and economic liberalization. These financial consolidation and economic reform efforts have taken place in the context of political liberalization and the installation of democratic institutions. Chad adopted a new constitution by referendum, democratically elected its President and National Assembly, set up a Supreme Court and intends to start the decentralization process mandated by its constitution.

5. In spite of this progress, Chad faces considerable challenges in its fight against poverty. The country remains one of the poorest in the world (it ranked 164th out of 174 countries surveyed by the United Nations in its last human development report). Almost two-thirds of Chadians live below the poverty line, and 80 percent of the population subsists on less than a dollar a day. Demographic, health, and education indicators bear witness to the magnitude of the challenges that must be overcome in order to raise income, significantly improve living conditions, and durably reduce poverty. The long years of civil war have considerably slowed—or even reversed—the development of essential physical and economic infrastructure, exacerbating the serious problems that stem from the country's landlocked situation and fluctuating climatic conditions. The structure of the economy is not diversified or competitive enough, making it even more vulnerable to external shocks.

6. *The government is committed to pursuing its adjustment efforts, in order to achieve as rapidly as possible the transition from crisis management and macroeconomic stabilization to the implementation of the economic and social policies that will allow for a durable reduction in poverty. This goal, which motivates the government's development policy, requires sustained economic growth, at a much faster pace than has prevailed in the past few years. To achieve such growth rates, Chad will need to consolidate its gains in the area of macroeconomic management, pursue an aggressive policy to raise domestic savings, encourage domestic and international investment, and foster private sector activity, while ensuring the proper implementation of a coherent poverty reduction policy.*

7. The exploitation of oil resources, which is due to start in 2004, would provide Chad with an opportunity to accelerate its development process. The Chadian parliament already adopted in end-1998 an oil revenue management law that prescribes the allocation of the major part of these resources to the priority sectors in the fight against poverty and that sets up the surveillance and control mechanisms to oversee this use. Management of these resources will also require improving governance and the capacity of the government to manage public affairs. Thus, during the next program, the Chadian authorities will stress administrative and institutional capacity building, and acceleration of the structural reforms (e.g., through a reform of the legal framework and the fostering of private sector activity) that are needed to create an environment conducive to private sector development and to the participation of all Chadians in development actions. The government has adopted a Strategy for Economic Management in the Oil Era that confirms its commitment to poverty reduction goals, as well as to the reforms and economic management measures necessary to reach these goals.

### III. MEDIUM-TERM OBJECTIVES AND STRATEGIES

8. The main objectives of the government's program for 2000-02 are (i) elaborating, through a participatory process, a national poverty reduction strategy, which will serve as the global framework for Chad's economic, financial, and social policies; (ii) to support this principal objective, maintaining macroeconomic stability, pursuing fiscal consolidation, and achieving faster economic growth; (iii) improving the efficiency of public affairs management in general, and more particularly of financial resources; and (iv) furthering economic liberalization, continuing the process of state withdrawal from activities of production, and fostering private initiative.

9. The main macroeconomic targets for the 2000-02 program period are the following: (i) sustain real GDP growth of at least 4 percent; (ii) annual inflation of below 3 percent; (iii) an increase in the current primary fiscal surplus balance to 1.5 percent of GDP by 2002; (iv) a reduction in the non-oil external current account deficit (excluding grants) to 17 percent of GDP by 2002. In order to achieve the medium-term growth objective, Chad will need to boost investment and increase the domestic resources available to this end, through an increase in domestic savings and the implementation of policies aiming at a better mobilization of private domestic and external savings. The investment ratio is projected to increase from 17 percent of GDP in 1999 to over 40 percent in 2002, and domestic savings would rise from -1.2 percent of GDP in 1999 to 1.5 percent in 2002. Chad will nevertheless still need the financial assistance of its foreign partners to finance a large part of its public investment program, as well as to close any eventual remaining financing gap. The latter is estimated at CFAF 108 billion (US\$177 million) for 2000-02.

10. Public finance policies will focus on strengthening the budget preparation process in order to orient it better toward poverty reduction goals; improving the tax and customs administration; and strengthening public expenditure management. The introduction of a new budget and accounting nomenclature, and the improvement of the macroeconomic

framework for the programming of public expenditures, as well as the progressive consolidation of public resources management, will allow for an improved consistency among financial, economic, and social policies. In terms of revenue, the objective is to raise the domestic resources available for development by broadening the tax base through a reduction in fraud and evasion, as well as by improving taxation of the informal sector. No changes in the tax structure are foreseen, except for the replacement of the turnover tax (TCA) by a single-rate value-added tax (TVA) in early 2000. As for expenditure, the main measures focus on a better allocation of budgetary resources to the priority sectors in the fight against poverty, the simplification and rationalization of public expenditure circuits to increase their efficiency, the strengthening of control and audit procedures, and finally, an increased transparency and broader diffusion of information on budget execution.

11. Monetary policy will continue to aim at reducing the inflation rate, consolidating the country's foreign asset position within the BEAC, and pursuing the ongoing consolidation of the financial and banking system. The Chadian authorities will work with the regional partners to improve the efficiency of BEAC interventions on the monetary market through increased use of indirect monetary policy instruments and the market determination of interest rates, in order to reduce financial intermediation costs. With a view to increasing the domestic resources available for private sector investment, the government will continue to limit its use of domestic bank financing. It will strongly support efforts aimed at reinforcing banking supervision by the COBAC, as well as any initiative to diversify financial instruments and institutions, and to improve the rural sector's access to credit.

Structural reforms during the 2000-02 period will focus on (i) poverty reduction; (ii) private sector development; and (iii) the strengthening of economic and administrative management. Policies to foster private sector development will aim for the complete withdrawal of the state from commercial activities; the strengthening of the financial sector, in particular through the rehabilitation of commercial banks and the promotion of micro-credit institutions, especially in the rural sector; judicial and legal reform, to ensure the security of private economic activity; increased public-private sector dialogue on all aspects of economic policy; and a special effort to maintain and extend the road network.

12. Improvement in economic and administrative management will help support a broad institutional capacity-building program; the government expects World Bank assistance. This process will go in step with a far-reaching civil service reform, aimed at improving administrative efficiency through an appropriate staffing and skill mix at every level of the administration, and the rationalization of positions and tight control over the public wage bill, in particular through the replacement of automatic advancement by a merit-based advancement system. A second part of the reform focuses on administrative decentralization, as mandated by the constitution; this process will start in 2000, with the holding of local elections. The government will ensure that the process is based on a precise definition of the attributions and responsibilities of local administrations, and will lay out detailed rules to regulate the budgetary operations of the decentralized administrative units.

13. The poverty reduction policy will integrate the sectoral policies that have already been defined in the areas of education, transport, rural development, water supply, and health. Following the fourth Round Table held in Geneva in October 1998, the authorities have organized sectoral meetings on health and rural development. Sectoral meetings on transport and education are scheduled for November 1999 and January 2000, respectively. In order to prepare for these discussions, specific sectoral strategies and policies have been defined, in consultation with civil society, the private sector, and the external partners involved in these sectors, notably the World Bank, the European Union, the United Nations system, and France.

#### **IV. APPROACH AND TIMETABLE FOR THE PREPARATION OF A POVERTY REDUCTION STRATEGY IN CHAD**

14. The government has decided to start working as rapidly as possible on the elaboration of a national poverty reduction strategy (PRS), in association with all its development partners, both local and foreign. To support this strategy, the government wishes to benefit from a reduction of its external debt in the context of the HIPC Initiative, and intends to implement a structural adjustment program during the 2000-02 period and articulate, in a participatory manner, a poverty reduction strategy paper (PRSP).

#### **Approach**

15. The approach envisaged by the government during this initial phase consists of the following actions:

a. Sensitize, inform, and involve development partners (private sector, decentralized administrative units, trade unions, professional, women, human rights and other organizations, NGOs, media, educational institutions, and other civil society representatives, as well as Chad's external partners) in the objectives of the PRS, through the organization of workshops and seminars, as well as media actions.

b. Undertake a participatory formulation of the terms of reference, a work program, and a timetable for action, as well as the choice of the forms of participation, coordination and monitoring of the formulation of the PRS and the management of the participatory process. The government is counting on its external partners to support this process.

c. During this preparatory phase, the existing information relative to the level of poverty and to the determining factors for poverty reduction will be examined and the first version of the PRS will be prepared. In this context, the sectoral policies and programs in the priority sectors for the reduction of poverty will be evaluated, as will their costs. The results of the review of public expenditure envisaged by the government, with the support of the

World Bank, will also be integrated. It will also be necessary to analyze the capacity and the existing indicators for monitoring poverty, and to propose specific indicators of performance that could be put in place during the program period 2000-02, as well as mechanisms for documenting the various proposals emanating from the diverse partners and civil society. The government will evaluate the modalities of providing feedback to the partners in the process of internalization.

d. Prepare a draft poverty reduction strategy paper (PRSP) integrating the policies and programs of the priority sectors in the fight against poverty, and proposing a medium-term program based on specific indicators of the results to be obtained in terms of poverty reduction. The PRSP will be accompanied by a financing plan and a timetable for implementation, and will propose future actions aimed at ensuring a more complete coverage of the dimensions of poverty.

e. Provide feedback on the draft PRSP through workshops and consultations with domestic and external partners and civil society.

f. Finalize the PRSP, establish a monitoring system, and issue reports on the implementation of the PRS.

#### Timetable

• Launching of the process of preparing the PRS	Dec. 1999
• Establishment of the modalities of coordination and monitoring	Jan. 2000
• Association of and consultation with partners; reception of proposals, evaluation of costs	Jan-Apr. 2000
• Organization of workshops, seminars, conferences, and an information campaign	May-June 2000
• Completion of a draft document	Aug. 2000
• Implementation of monitoring system for PRSP	Sep.-Oct. 2000
• Feedback and finalization of the PRSP	Oct. 2000
• Annual evaluation of the results of the implementation of the PRSP and feedback to partners	2001-02
• Update of PRSP on the basis of an improved system of statistics on poverty	End-2002

**Chad: Summary and Timetable of Macroeconomic and  
Structural Adjustment Policies, 1999-2002**

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
<b>A. Macroeconomic and financial policies</b>				
1. Economic management, administrative efficiency	Strengthen the implementation and monitoring of macroeconomic and structural policies	Make effective use of the system of economic policy committees (High Interministerial Committee and Technical Committees), and deepen and broaden its functions.	1999-2002	
		<ul style="list-style-type: none"> <li>Strengthen the Economic Unit (Cellule Economique) in charge of designing and monitoring the adjustment program, and supervising existing technical committees.</li> </ul>	1999-2002	World Bank
		<ul style="list-style-type: none"> <li>Prepare (i) a monthly set of basic statistics, including summary statistics (<i>tableau de bord</i>) on national accounts, government finances, monetary developments, balance of payments, and critical economic sectors, and (ii) a quarterly report on program execution and deadlines for policy measures.</li> </ul>	1999-2002	
		Submit to the High Interministerial Committee, and to the IMF, World Bank, and other donors the monthly data set and the quarterly report on program execution prepared by the Economic Unit.	1999-2002	
		Reinforce the Direction des Etudes et de la Prévision in charge of macroeconomic analysis and forecasting (in finance), with a view to preparing an annual macroeconomic framework.	As of January 1, 2000	World Bank
		Improve the internal and external budget oversight and audit functions (including related to the provisions of the Petroleum Revenue Management Law):	2000-02	World Bank
		<ul style="list-style-type: none"> <li>Operationalize the Auditor General's Office</li> </ul>	March 2001	
		<ul style="list-style-type: none"> <li>Ensure issuance by the government of the implementing decree for the Collège de Contrôle et de Surveillance des Recettes Pétrolières (CCSRP).</li> </ul>	December 2001	
		Adopt the National Statistics Program to reinforce the availability, timeliness, and reliability of macroeconomic, financial, and social statistics:	March 2001	



Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
2. Public finances	Improve the efficiency of the government's financial and budget management	<ul style="list-style-type: none"> <li>Conduct a survey of periodicity and coverage of regular statistics.</li> </ul>	March 2000	
		Implement an information, education and communication program for disseminating the results of the quarterly reviews of the SAP.	2000	World Bank
		Reform the structures and procedures of the Ministry of Finance to ensure efficient budget preparation, execution, monitoring, and control.	1999-2002	World Bank
		In the area of budget preparation,		
		<ul style="list-style-type: none"> <li>Modernize and harmonize the budget and the accounting nomenclatures, update the economic and functional classification expenditures, and extend its scope to investment operations;</li> </ul>	Sep. 1999 – Dec. 2000	World Bank, IMF
		<ul style="list-style-type: none"> <li>prepare the budget using the new budgetary nomenclature, the macroeconomic framework, and the public expenditure framework;</li> </ul>	As of 2002 budget	World Bank
		<ul style="list-style-type: none"> <li>implement the consolidated budget and present the finance law within a consolidated general budget equilibrium table, including the financing sources;</li> </ul>	As of 2002 budget	World Bank
		<ul style="list-style-type: none"> <li>reinforce the system of public investment programming, with a view to making the transition to sectoral expenditure programming; and</li> </ul>	1999–2001	UNDP
		<ul style="list-style-type: none"> <li>implement the sector-based budget programming on a pilot basis.</li> </ul>	As of 2002 budget	World Bank
		In the areas of budget execution and control,		
		<ul style="list-style-type: none"> <li>rationalize, simplify, and computerize the expenditure execution and review and improve the internal control procedures;</li> </ul>	2000	IMF, World Bank
		<ul style="list-style-type: none"> <li>implement the new simplified process of expenditure execution and control; and</li> </ul>	As of 2001 budget	World Bank
		<ul style="list-style-type: none"> <li>implement a financial management information system by developing software associated to new procedures, acquiring equipment and services, installing a network system, ensuring training, and producing financial reports.</li> </ul>	2000–02	World Bank
		In the area of cash-flow management,		
		<ul style="list-style-type: none"> <li>establish a monetary treasury plan based on a system of treasury analysis and forecasting; and</li> </ul>	March 2000	World Bank, IMF

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
		<ul style="list-style-type: none"> <li>close the budget exercise within three months following the end of each fiscal year (n), and submit the budget accounts to the Auditor's General Office; submit the Settlement Law to the parliament by the end of fiscal year (n + 1), with a view to facilitating its adoption before end-May of fiscal year (n + 2).</li> </ul>	March 2001–March 2002	
2.1 Revenues	Strengthen tax administration, broaden the tax base, continue comprehensive tax reform, and reduce tax fraud by enhancing the effectiveness of tax revenue agencies and revenue collection procedures	Strengthen tax administration, using the recommendations of the IMF technical assistance report of October 1999.	Dec. 1999– Jan. 2001	IMF
	The tax department	Create a single register of taxpayers to monitor tax collection, including back taxes.	Dec. 1999	IMF
		Complete the preparation of a broad-based VAT system, including the preparation of legislation, consultation, publicity, organization, training, procedures, forms, and computer development.	July – December 1999	IMF
		Implement a VAT, with a single rate and limited exemptions, and strengthen staffing to ensure a smooth application.	As of January 1, 2000	IMF
		Improve the collection, monitoring, and audit procedures of taxes on profit of the large enterprises.	July– December 2000	IMF
		Shift responsibility for the collection of taxes from the Treasury to the Direction des Impôts et Taxes (DIT).	Dec. 1999– Jan. 2001	
		Simplify the direct taxation system so as to extend the informal sector taxation.	2001–02	IMF
	The property tax department	Streamline the administration of property taxes and continue the reform of the property register (cadastre).	2000–01	
	Take actions to strengthen the customs department	Complete the remaining measures of the CEMAC reform by: <ul style="list-style-type: none"> <li>eliminating temporary surcharges; and</li> <li>eliminating or renegotiating the remaining exemptions contrary to the reform.</li> </ul>	July 2000  June-Sep. 2000	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
Petroleum Taxation Office (Bureau de la Fiscalité Pétrolière)		In concert with its CEMAC partners continue the simplification and further reduction of the common external tariff.	1999-2002	
		Remove protection on the sugar domestic market by		
		<ul style="list-style-type: none"> <li>progressively applying the timetable for reducing the import reference price, with a view to its elimination by 2004; and</li> </ul>	1999-2002	
		<ul style="list-style-type: none"> <li>Use in a very limited manner the recourse to safeguard clauses.</li> </ul>	1999-2000	
		Implement the action plan to reduce tax fraud and smuggling, including the strengthening of internal audit.	1999-2002	
		Modernize the customs procedures by introducing the SYDONIA computerized system, establishing new offices and warehouses, and providing training to customs officers and external stakeholders.	1999-2000	UNDP, UNCTAD, IMF
		Publish the decree on the composition of the Competitiveness Committee to improve the system of monitoring and controlling the payment by treasury check of the taxes and duties on externally financed government procurement contracts, in order to make it compatible with donor procurement rules and guidelines.	Before end-November 1999	IMF
		Harmonize and make uniform the information and statistics on trade and revenue, including through computerization, and ensure reconciliation of data between the two revenue departments and the Treasury and the Petroleum Taxation Office.	1999-2002	
		Transfer the recovery of customs receipts to the customs directorate, while strengthening the role of inspection of the Treasury.	Jan. 2001	
		Decide on the future role of the Petroleum Taxation Office with respect to the prospective exploitation and exportation of oil resources.	2000	
		Improve the mechanism of taxation of petroleum products, including the application of the VAT.	2000-02	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
2.2 Expenditure	Improve expenditure management to enhance capacity to program, execute, and control the budget	Keep the wage bill within limits compatible with budget constraints and make it consistent with the provisions of the civil service reform.	1999-2002	
		Ensure the upgrade of the computerized payroll management system in order to ensure Y2K compliance.	As of December 1999	
		Maintain and upgrade the payroll management system.	1999-2002	World Bank
		Implement annual public expenditure reviews.	2000-02	World Bank
		Increase current budgetary expenditure allocated to the priority sectors for goods and services by 20 percent per year in real terms and review this allocation in the light of the public expenditure review.	1999-2002	World Bank, EU
		Disaggregate the budget of the <i>dépenses communes</i> (e.g., electricity and water consumption, by ministry).	Budget 2001	
		Improve the sufficiency of the budgetary allocations for local counterpart of investment, and ensure the full and regular payment of these amounts.	1999-2002	
3. Public debt	Improve public debt management and eliminate payments arrears	Ensure nonaccumulation of new government payments arrears.	1999-2002	IMF
		Do not contract nonconcessional external loans (excluding the financing of the oil project).	1999-2002	
		Verify and validate the stock of domestic payments arrears and other government domestic debts.	Sep. 2000	
		Adopt and publish a plan for the settlement of all verified domestic arrears, including those due to the social security agencies, through external financing, domestic securitization and use of proceeds from privatization.	Dec. 2000	
		Upgrade the public debt-management system through the installation of an efficient computerized system and ensure appropriate training.	December 2000	World Bank, UNCTAD

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
4. Monetary and credit policy	Work within the framework of BEAC to strengthen monetary policy, increase the efficiency of the banking system, and improve financial intermediation	Support the BEAC's efforts to rely on market-based monetary policy instruments, ensure that interest rate are market-determined, and promote the development of the regional financial markets and the regional stock exchange.	1999-2002	
		Strengthen the commercial banks through enhanced supervision by the COBAC, higher levels of required minimum capital, and enhanced competition, in particular, by the single licensing of banks within the BEAC zone.	1999-2002	
		Promote the creation of small savings and loan institutions in conformity with regional regulations.	2000-02	
		Encourage the development of specialized financial institutions to promote private business expansion in conformity with regional regulations.	2000-02	
		Support the reform under way in the CEMAC to strengthen the payments and clearance system.	2000-02	
	Strengthen microfinance institutions	Prepare a study of microfinance institutions and define a strategy to strengthen them and ensure appropriate regulation and supervision.	2000-01	
5. Regional integration	Strengthen the ability of banks to collect nonperforming loans and encourage new productive lending	Disseminate, raise awareness of, and enforce the Uniform Acts of OHADA, particularly as they apply to collateral, bankruptcy proceedings, and enterprise accounting.	2000-02	
	Promote the effectiveness of the activities of the CEMAC and ensure integration into the regional economic area	Support the CEMAC to make effective the system of multilateral surveillance	2000-02	
		Contribute to the preparation of a regional budget law framework aimed at harmonizing the public accounting system, and of the regional legal framework for transport and transit services .	2000-02	
		Adopt the new exchange regulations and arrangements for the BEAC zone.	2000-02	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
<b>B. Private sector development</b>				
1. Public enterprise reform and privatization	Complete program of privatization	<p>Complete the privatization of of the electricity and water company (STEE).</p> <ul style="list-style-type: none"> <li>Establish a debt recovery structure</li> <li>Effectiveness of the overall management contract.</li> </ul> <p>Complete the study on the separation of the oil and soap manufacturing activities of COTONTCHAD and launch tender for bids for privatization.</p> <p>Complete the privatization of SONASUT</p> <p>Privatize SOTELTCHAD:</p> <ul style="list-style-type: none"> <li>Recruitment of advisors for launching the tender for bids for the privatization of SOTELTCHAD.</li> <li>Define the framework for the information memorandum for the privatization.</li> <li>Privatize SOTELTCHAD.</li> </ul> <p>Complete the privatization of SNER.</p>	<p>Dec. 1999</p> <p>Jan. 15, 2000</p> <p>June 2000</p> <p>March 2001</p> <p>2000-02</p> <p>May 2000</p> <p>Dec. 2000</p> <p>Dec. 2001</p> <p>June 2000</p>	<p>World Bank</p> <p>World Bank</p> <p>World Bank</p>
2. Judicial Reform	Strengthen and improve the functioning of the legal system	<p>Disseminate and apply the Uniform Acts of the OHADA, in conformity with the National Program of Private Sector Promotion adopted by the government on June 10, 1999, taking advantage of training opportunities provided; and harmonize local legislation with OHADA texts.</p> <p>Adopt an action plan for gradually increasing the number of trained magistrates and auxiliary personnel.</p> <p>Gradually increase the budgetary allocations for the functioning of the judicial system, including for the Supreme Court and the Constitutional Council.</p>	<p>2000-02</p> <p>June 2000</p> <p>2000-02</p>	
	Strengthen commercial legislation	Operationalize the Judicial Reform Commission, composed of representatives of the private sector, civil society, and the public sector to review existing commercial legislation and propose steps for its rationalization and modernization, including examining the feasibility of establishing an arbitration Tribunal for settling commercial disputes.	December 1999	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
3. Regulatory framework	Promote investment	Adopt and implement the national investment charter, which will be consistent with the provisions of the regional charter of the CEMAC.	2000	
		Work with regional partners to improve the provision of trade-related financial and other services (e.g., insurance).	2000-02	
	Implement pricing policies	Examine an automatic adjustment mechanism for retail petroleum products.	March 2000	IMF
4. Transport sector policies	Strengthen and extend regular road maintenance and ensure its financing	Submit to parliament the draft law on the introduction, within the structure of petroleum product prices, of a user fee aimed at financing the routine maintenance of the national road network.	March 2000	World Bank
		Submit to parliament a draft law on the reform of the CAER, and the creation of a Joint Control and Surveillance Committee for the CAER.	March 2000	
		Decide in the government on the level of the user fee and on the new structure of petroleum prices, as well as on the treatment to be accorded to consumers of petroleum products who do not use the roads.	March 2000	
		Carry out the budget of the CAER for 2001 on the basis of a complete financing of its maintenance activities through own resources.	Jan. 2001	
	Increase the participation and the responsibility of the private sector in the management and maintenance of the road network	Implement a pilot project for the execution of maintenance work on the road network on the basis of contracts concerning the level of service provided.	Nov. 2000	
<b>C. Economic management and administrative efficiency</b>				
1. Civil service reform	Control wage bill	Harmonize the payroll and the civil service files.	Before end-June 2000	World Bank
	Implement the recommendations of the advisory group on civil service reform	Strengthen the advisory group charged with implementing the civil service reform ( <i>cellule technique chargée de la mise en oeuvre de la réforme de l'administration publique</i> or CESRAP).	1999-2002	World Bank
		Update the civil service statutes to rationalize recruitment requirements.	June 2001	World Bank
		Define and adopt a set of minimal performance standards for use in evaluating performance.	June 2000	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
2. Decentralization	Review and rationalize hiring requirements and procedures	Adopt a strategy and a timetable for the transition to a system of merit-based remuneration in the civil service, based on objective and measurable performance indicators.	Sep. 2000	World Bank
		Review and revise as appropriate the wage scale system, to provide for the possibility of merit-based pay increases.	Sep. 2000	
		Implement system of merit-based remuneration with the 2001 budget.	Dec. 2000	
		Adopt a system of voluntary departures in the civil service.	Dec. 2000	
		Apply the reform measures giving priority to the Minister of Finance and Planning and to the pilot departments in the Ministries of Education, Rural Development, and Public Works, with a view to completion by 2003.	2000-02	
		Establish a standard organizational chart showing staffing by ministry and by function, both of civil servants and workers with other status, with a view to improving the match between actual competencies and the skill requirements of posts, as a guide to eventual redeployments.	June 2000	
		Assist ministerial departments and decentralized administrations in preparing such staffing charts.	December 2001	
	Design a human resource management strategy	Provide training for supervisors in personnel management and career development.	Dec. 2001	
	Introduce decentralized institutions and agencies	Define and publish list of the functions of each level of administration.	June 2000	
		Evaluate financial impact of the introduction of decentralized administrative structure.	Dec. 1999-Sep. 2000	
		Design a program for the transfer of the necessary human, technical, and financial resources from the central administration to the local administrations in step with the shift in functional responsibility.	June-Dec. 2000	
		Design and implement budgetary rules and procedures for local authorities, with clear guidelines on taxation authority, expenditure responsibility, resource transfer mechanisms, as appropriate, and budgetary sanctions.	Sep. 2000	
		Launch the process of institutional assessments	Sep. 2000	



Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
<b>D. Poverty reduction</b>				
1. Definition of poverty reduction strategy	Consultation with civil society and donors	<p>Organize seminars and conferences with the various groups of civil society to deliberate on the elements of the poverty reduction strategy, integrating the sectoral policies proposed at the roundtables.</p> <p>Undertake cost analysis of various policies and measures proposed.</p> <p>Finalize the poverty reduction strategy and present at a special meeting of civil society and donors.</p>	<p>Dec. 1999-Sep. 2000</p> <p>June-Sep. 2000</p> <p>Sep.-Oct. 2000</p>	
2. Creation of statistical base for monitoring poverty	Establish baseline of existing poverty profile	<p>Conduct households, expenditure, and community surveys to determine who is poor, distinguishing among regions, head of household, occupation, sex, number of children, etc., with surveys to be repeated on a three-year cycle.</p> <p>Establish and update on a regular basis key statistical indicators for monitoring the impact of antipoverty policies.</p> <p>Initiate system of regular participatory poverty assessments, beneficiary assessments, surveys of quality of delivered services, including in education and health.</p>	<p>2000-01</p> <p>March 2000-2002</p> <p>2000-02</p>	<p>UNDP, World Bank</p> <p>UNDP, World Bank</p> <p>UNDP, World Bank</p>
3. Health	Develop high-quality basic health services	<p>Progressively extend the provision of health care to all districts by ensuring the operational functioning of all district health centers.</p> <p>Ensure that first-tier health centers receive priority in resource allocation</p> <p>Consolidate the implementation of the Minimum Package of Activities (PMA) and the Complementary Packages of Activities (PCA), particularly in the areas of health and reproductive health</p> <p>Implement the national pharmaceutical policy:</p> <ul style="list-style-type: none"> <li>• Increase the capacity of the Central Pharmaceutical Supply (CPA) to meet the demand.</li> <li>• Strengthen the distribution system for essential generic drugs through the Prefecture supply Pharmacies (PPA).</li> <li>• Continue policy of quality control.</li> </ul> <p>Continue and expand efforts to increase the rate of attendance at rural health centers by improving the quality of service provided.</p>	<p>2000-02</p> <p>Starting with the Budget Law of 2001</p> <p>2000-02</p> <p>2000-02</p> <p>2000-02</p>	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
	Strengthen the human resources available in the health sector	<p>Ensure that every district health center is staffed by at least one trained nursing personnel by</p> <ul style="list-style-type: none"> <li>• accelerating short-term recruitment and training in basic health care techniques;</li> <li>• extending and developing training capacity; and</li> <li>• continuing the program of decentralized initial training (FID), decentralizing recruitment, and implementing the regionalization of positions.</li> </ul> <p>Increase the number of trained nurses and doctors per 100,000 population, and improve the regional distribution of health care personnel.</p>	<p>2002</p> <p>2001</p> <p>2002</p> <p>2002</p> <p>2000-02</p>	
	Improve the management of the health system	<p>Reinforce institutional capacity at the central level to implement the national health care strategy.</p> <p>Establish an action plan for transferring responsibility for the delivery of basic health services and for the maintenance of the primary health care units to the prefecture hospitals and health districts.</p> <p>Increase the participation of civil society in the provision of health care services by</p> <ul style="list-style-type: none"> <li>• introducing gradually a harmonized system of minimal user fees for certain services</li> <li>• pursuing public education and information campaigns;</li> <li>• conducting periodic beneficiary assessments in the health care system; and</li> <li>• promulgating judicial texts governing the system of community participation (health management committees, cost recovery) and the autonomy of hospitals.</li> </ul> <p>Set up contractual mechanisms governing the provision of health care services by private operators.</p>	<p>2000-01</p> <p>December 2000</p> <p>2000-01</p> <p>2001</p> <p>2000-01</p> <p>Starting 2001</p> <p>2001</p> <p>June 2001</p>	
	Increase efforts to eradicate endemic and epidemic disease	<p>Increase rates of infant immunization against BCG (DTC3, and measles), from 45 percent (25 percent, 70 percent) in 1999 to 50 percent (30 percent, 55 percent) in 2000; 55 percent (45 percent, 70 percent) in 2001; and 60 percent (50 percent, 80 percent) in 2002.</p>	<p>2000-02</p>	EU

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
4. Education	Adopt the legislative framework	Strengthen the monitoring and early warning system against outbreaks of potentially epidemic diseases and define a rapid response policy.	June 2001	AfDB
		Adopt in the Council of Ministers an integrated water and sewerage policy to increase access to clean potable water.	March 2002	
		Adopt the revised Orientation Law	End 2000	
		Introduce new norms for the level of teachers recruited and their remuneration.	2000	
	Improve the efficiency and effectiveness of education spending	Develop training system to implement these norms.	2000-02	World Bank
		Raise the share of education spending allocated to primary education while reducing the share of central administration in the education budget.	2000-02	
		Increase the share of budgetary resources and raise investment spending in the sector.	2000-02	
		Set targets for reducing number of pupils per teacher/classroom.	2000-02	
	Improve teaching conditions and learning conditions	Increase construction of schoolrooms.	2000-02	World Bank, UNDP
		Prepare a program to complete the decentralization of the management of schools and teachers, as well as of remuneration of staff in the education system.	2000	
		Elaborate an action plan for renewing curricula ensuring their relevance to the workplace	2000	
		• Complete training of school book conceptualizers.	Dec. 2000	
		• Formulate a strategy to update and provide school books.	June 2001	
		Strengthen the statistical information system to measure enrollment rates, pupil ratios, and other indicators of progress in education and literacy, and extend the system for monitoring and evaluating the quality of education.	2000	
	Improve the efficiency of the management of the education system	Establish an action plan to create and put in place a monitoring mechanism allowing the quarterly comparison of commitments and actual spending in the education sector.	June 2000	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
	Raise the level of literacy	Set targets for improvements in literacy rates by region, sex, and age distribution.	2000-02	
	Increase community participation	Examine and define a policy for user costs, particularly at secondary and tertiary levels.	2000	
		Ensure application of the norms of the <i>carte scolaire</i> to teachers in community schools.	2000	
		Complete the pilot project of the School Committees and extend it gradually to the whole school system.	2001-02	
		Continue and extend the policy of support for community schools.	2000-02	
5. Rural development				
5.1 Agricultural policy	Improve food security by raising production	Diversify agricultural production:		
		<ul style="list-style-type: none"> <li>Raise production in agriculture, timber, and animal farming by diversifying and expanding production</li> </ul>	2000-02	
		<ul style="list-style-type: none"> <li>Apply the strategy to strengthen the provision of support services (extension services, research, and training).</li> </ul>	2000-02	
		<ul style="list-style-type: none"> <li>Prepare a strategy to strengthen professional organizations, so that they can take responsibility for acquisition and distribution of production inputs, to increase their accessibility.</li> </ul>	2000	
		Strengthen the information management system and dialogue among the different operators in the rural sector.	2000-01	
		Develop a strategy for reconstituting and renewing private and public security stocks.	Dec. 2000	
		Support the intensification of crops and animal husbandry appropriate to the climatic zones.	2000-02	
	Promote the emergence of competitive branches	Promote the development of appropriate financing instruments.	2000-02	
		Encourage the establishment of private units of transportation to develop crop, fishing, and animal production.	2000-02	
		Promote the creation of frameworks for dialogue by branch of activity.	2000-02	
		Develop a strategy to promote the emergence of new branches of activity.	Dec. 2000	

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
5.2 Cotton	Promote the welfare of rural populations	Implement the action plan for removing the impediments to the free circulation of agricultural products and animal herds, including by rehabilitating, maintaining, and extending the rural road network.	June 2001	
		Adapt and launch special training programs in agricultural, animal husbandry, and fishing techniques.	June 2000	
		Strengthen producer organizations and transfer to them the management of certain functions.	2000-02	
		Define a program of targeted actions for the promotion of rural women and youth.	Dec. 2000	
	Improve the management and development of natural resources	Strengthen the collaborative structures between users and the public sector and increase the role played by users and operators in the management of natural resources.	2000-02	
		Develop and initiate a user training program in natural resource management techniques.	Oct. 2000	
		Adopt an action plan for water management to improve village, agricultural, and pastoral water supplies.	2000-02	
		Support the development of an integrated system of natural resource use.	2000-02	
	Improve the efficiency of public intervention	Continue the domestic energy program aimed at improving the efficiency of wood/charcoal use, and at the substitution of alternative energy sources (e.g., butane).	2000-02	
		Focus state activity on the delivery of support services at the local level by increasing the share of resources allocated to these activities.	2000-02	
		Launch the program for strengthening the capacity to formulate and monitor strategies and policies in the rural sector.	June 2000	
		Improve the collection, use, and dissemination of basic data.	2000-02	
	Complete reforms leading to liberalization of the cotton sector	Implement a government policy for property rights consistent with traditional customs.	Dec. 2000	
		Adopt in the Council of Ministers an overall medium-term strategy for liberalizing the cotton sector, and initiate a public information campaign on the objectives and stages of the reform, including confirmation of the government's disengagement according to a fixed timetable.	Before mid-December 1999	
		Disengage the state from COTONTCHAD:		

Sector	Objectives and Policies	Strategies and Measures	Implementation Period	Technical Assistance
5.3. Protection of the environment	Combat desertification  Strengthen the regulatory framework and the national capacity for environmental management	<ul style="list-style-type: none"> <li>Nominate in the Council of Ministers a general controller of COTONTCHAD in charge of applying the savings measures, and adopt by the government the restructuring plan, in agreement with donors involved in the sector</li> <li>Evaluate different disengagement options.</li> <li>Decide on the chosen disengagement option.</li> <li>Launch tender for bids for the disengagement.</li> </ul>	March 2000	
		Strengthen producer associations/organizations and involve them in decision-making processes:		
		<ul style="list-style-type: none"> <li>Create a paritative committee with equal representation of production and cotton companies to negotiate producer prices and the "ristournes."</li> </ul>	March 2000	
		Adopt an action plan, including tree planting, the control of soil erosion, and soil fertility management.	2001	
		Publish application texts for the Framework Law on the Environment and the Water Code Law.	End-2000	
		Train national experts in environmental evaluation.	2000-01	World Bank
		Carry out and publish a participatory evaluation of the state of the environment.	2002	
		Adopt and publish a National Environment Plan.	End-2002	World Bank

**Chad: Indicators for Monitoring Progress in the  
Social and Priority Sectors**

**Education**

Rate of primary school enrollment

Rate of repetition (boys and girls)

Percentage share of total current expenditures  
allocated to education

Rate of successful completion of the primary cycle

**Health**

Percentage share of total current spending on health  
allocated to the purchase of medicines, material and  
sanitary supplies: 36.26 percent

Percentage share of health expenditure allocated to priority  
services for prevention and basic care, particularly  
deserving persons at the lowest level: 57.73 percent

Rate of vaccination coverage (DPT3): 20 percent

Rate of prenatal consultations: 27.2 percent

**Food security**

Production and availability of cereals (kg/person)

**Use of water and environmental indicators**

Number of wells and waterholes realized

Number of new subscribers to pipe-borne drinking water

**Transport sector**

Expenditures allocated to construction and  
rehabilitation of roads (paved and dirt)

Expenditures allocated to road maintenance

**Use of energy**

**Chad: Relations with the Fund**  
(As of November 30, 1999)

**I. Membership Status: Joined 7/10/63; Article VIII**

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	56.00	100.0
Fund holdings of currency	55.72	99.5
Reserve position in Fund	0.28	0.5

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	9.41	100.0
Holdings	0.01	0.1

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>% Quota</b>
Structural Adjustment Facility (SAF) Arrangements	0.61	1.1
Enhanced Structural Adjustment Facility (ESAF) Arrangements	49.56	88.5

**V. Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF	9/01/95	4/30/99	49.56	49.56
Stand-By Arrangement	3/23/94	3/22/95	16.52	10.33
SAF	10/30/87	10/29/90	21.42	21.42

**VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):**

	Overdue		Forthcoming			
	11/30/99	1999	2000	2001	2002	2003
Principal	0.0		0.6	2.5	5.8	7.4
Charges/interest	0.0	0.1	0.6	0.6	0.6	0.5
Total	0.0	0.1	1.2	3.1	6.4	7.9



## **Chad: Relations with the Fund (continued)**

### **VII. Exchange Rate Arrangement**

Chad is a member of the Bank of Central African States (BEAC). The exchange system common to all members of the BEAC has been free of restrictions on payments and transfers for current international transactions. Repurchase of the CFA franc banknotes exported outside the BEAC was suspended on August 2, 1993. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc. Effective January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from F 1 = CFAF 50 to F 1 = CFAF 100. Starting in January 1, 1999, the CFA franc has been pegged to the euro at a the fixed rate of EUR 1 = CFAF 655.95. On October 31, 1999, the rate of the CFA franc, in terms of the SDR, was CFAF 866.24 = SDR 1.

### **VIII. Article IV Consultations**

(a) Chad is on the standard 12-month consultation cycle.

(b) The last discussions for the 1999 Article IV consultation were held in N'Djaména during the periods October 27–November 11, 1998 and January 19–26, 1999. The staff report (EBS/99/36; 3/12/99) was discussed by the Executive Board on March 29, 1999. A document on “recent economic developments” (SM/99/74; 3/12/99) was also circulated to the Board.

### **IX. Technical Assistance**

1988: FAD mission to prepare a tax reform program.

1989: FAD mission to prepare a tax reform program.

1990: FAD mission to review implementation of the tax reform program.

1991: FAD mission to review implementation of the tax reform program.

1994: FAD mission to assess weaknesses in customs administration and recruit an expert responsible for strengthening customs administration.

October 1994–October 1995: FAD resident expert to strengthen customs administration.

1996: FAD mission to review the tax reform program (introduction of the turnover tax, and strengthening of tax administration).

**Chad : Relations with the Fund (concluded)**

August 1997: FAD mission to follow up on the tax reform program initiated in 1996.

November-December 1997: FAD mission to assess weaknesses in customs administration and prepare a rehabilitation program for strengthening the customs directorate.

May-June 1998: FAD mission to assess the need for long-term assistance in tax and customs administration, treasury operations, and budget preparation and execution.

November 1998: FAD expert to begin a series of missions to strengthen customs administration.

March 1999: FAD expert to start long-term assignment to assist the tax administration with, in particular, the introduction of a value-added tax.

October 1999: FAD mission to assess tax administration.

November 1999-June 2000: TRE mission to assist in treasury operations.

**X. Resident Representative**

Mr. Fiator has been the Resident Representative since October 6, 1998.

### Chad: Relations with the World Bank Group

The Bank's last assistance program in Chad was laid out in its 1996-98 Country Assistance Strategy (CAS), presented to the Board in March 1996, and focusing on three key objectives: to restore minimum critical public sector capacity, focus public expenditures on poverty reduction, and promote sustainable use of natural resources. A new CAS, circulated to Board members in May 1999, will be updated and is expected to be discussed by the Board in early CY 2000.

The Bank's current portfolio of projects supports investment in the productive sectors (agriculture, livestock, and energy), transport infrastructure, the social sectors (health and education), and capacity building. Three quick-disbursing policy reform operations have successfully been carried out (1996-99) as planned in the 1996 CAS in support of the government's structural adjustment program, for a total of US\$85 million.

#### A. Statement of IDA Credits (As of October 31, 1999)

(In millions of U.S. dollars)			IDA	Undisbursed
Credit No.	Fiscal Year	Purpose		
Cr.21840	1991	Engineering	11.00	4.28
Cr.25010	1993	Basic Education	19.30	7.37
Cr.25200	1993	Transport Sector II	37.00	0.05
Cr.25201	1994	Transport Sector II	12.70	1.71
Cr.26850	1995	Agricultural Services	24.53	8.99
Cr.26920	1995	Population and AIDS	20.40	8.95
Cr.28180	1996	Capacity Building	9.50	0.36
Cr.30820	1999	Household Energy	5.30	5.08
Cr.26261	1999	Health and Safe Motherhood	10.9	7.42
Cr.32000	1999	SAC III	30.0	0.00
Total number of credits = 9				
Total disbursed (IBRD and IDA)				556.86
Of which: repaid				19.03
Total now held by the Bank and IDA				532.48

**Chad: Relations with the World Bank Group (concluded)**

**B. Statement of IFC Investments**

Chad completed the requirements for IFC membership in 1997. The IFC has no investments in Chad at this juncture.

**C. Activities Under Preparation**

A Household Energy Project in the amount of US\$5.6 million and a supplemental credit to the Health and Safe Motherhood Project in the amount of US\$10.9 million were approved in FY 99. IBRD support for the Chad-Cameroon Pipeline Project is under consideration, as well as complementary capacity-building projects in environmental, financial, and technical management, to be financed under IDA. Sector strategy work is well advanced in health and transportation and under preparation in education and rural development, with a view to preparing new investment operations in these sectors over the next three years. As indicated above, a new Country Assistance Strategy is under preparation; it is expected to be presented to the Bank Board in early CY 2000.

## **Chad: Statistical Issues**

Chad's statistical system is weak and suffers from a shortage of financial and human resources. The compilation of national statistics is decentralized at various ministries, and at the national agency of the Bank of Central African States (BEAC). The statistics directorate at the Ministry of Planning (*Direction des Statistiques et des Etudes Economiques et Démographiques*, or *DSEED*) is in charge of the national accounts and the consumer price index (CPI), as well as the production and publishing of statistics on population. The Ministry of Finance is responsible for compiling fiscal data. The BEAC is responsible for monetary statistics and the balance of payments. The CPI is published biweekly, and other data are disseminated as they become available.

The authorities have expressed a strong interest in reforming the statistical system but lack the resources—both human and financial—to do so. An important step in this direction was the recent adoption of new national accounts. Following a study of the statistics system, a law to regulate Chad's statistical activities was adopted in June 1999. It defines the institutional framework, the major statistical principles, and relations between the agencies responsible for producing official statistics, as well as the relations with statistics-producing agencies outside the national statistics system. It spells out those cases in which there is an obligation to respond to statistical surveys and the need to respect the confidentiality of statistics. It also describes the resources for operating the national statistics system. It is envisaged that the establishment of a Higher Statistical Council and a Statistical Programs Committee will implement the law, and a decree defining the legal status of the central statistics agency has been adopted, thereby enabling it to play its role to the full. A national six-year statistics program will be designed by February 2000, and the first year of this program will be included in the 2001 budget. In addition, a study of the periodicity and the data currently produced by all the services and agencies outside the national statistics system will be carried out by end-March 2000, with a view to better identifying the country's statistical needs.

Overall, the quality of real sector data has improved since the national accounts were revised back to 1995. However, weaknesses in balance of payments, government finance, and monetary statistics make program design and monitoring difficult.

### **Real sector**

In early 1998, the authorities adopted a new set of national accounts, based in 1995, that is comprehensive and consistent with the methodology of the United Nations' 1993 System of National Accounts. These new accounts include an input-output table and incorporate nonmarket household production and a better coverage of the informal sector. The CPI is obsolete, with outdated base weights. There is a need to accelerate the establishment of a new CPI base, using the results of a household consumption survey (ECOSIT) undertaken in 1996.

### **Public finance**

The authorities are making efforts to improve the quality and timeliness of data; nevertheless, they have not yet been able to resume reporting of data to *Government Finance Statistics Yearbook (GFSY)*. In 1998, some progress was made in broadening the current scope of coverage of government operations to include three national agencies in the government budget. In addition, a quarterly consolidated government operations table is regularly issued. The authorities are giving priority to strengthening the accounting procedures of treasury operations in order to improve the accuracy of government statistics.

### **Monetary sector**

Monetary data published in *International Financial Statistics (IFS)* are based on reports to STA by the BEAC. Data have been provided on a regular basis, although with some delays. The October 1999 issue of *IFS* included data through March 1999. The quality of monetary data is affected by the still-unresolved problem of unsorted BEAC notes at the national agency of the central bank.

### **Balance of payments**

The quality of balance of payments statistics is poor because of the lack of resources devoted to this task (only one person and not on a full-time basis). In addition, data continue to be compiled with long delays. Even considering the difficulty of collecting data on informal trade between Chad and its neighboring countries, many improvements could be made on items such as imports (following resumption of import data collection by the customs), noncotton exports, freight, and public transfers. Coordination with the DSEED should also be strengthened.

# Chad: Survey of Reporting of Main Statistical Indicators

(As of end-November 1999)

	Exchange Rates 1/	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Current Government Balance	GDP/GNP	External Debt
Date of latest Observation	Sep. 99	Aug. 99	Aug. 99	Aug. 99	Aug. 99	June 99	July 99	Dec. 97	Dec. 97	Aug. 99	1998	June 99
Date received	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99	Oct. 99
Frequency of data	Monthly	Monthly	Monthly	Monthly	Monthly	Irregular	Monthly	Annual	Annual	Monthly	Annual	Monthly
Frequency of reporting	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Monthly	Annual	Annual	Monthly	Annual	Monthly
Source of data	Central bank	Central bank	Central bank	Central bank	Central bank	Central bank	Ministry of Planning	Central bank	Central bank	Ministry of Finance	Ministry of Planning	Ministry of Finance
Mode of reporting	Cable	Mail	Mail	Mail	Mail	Mission in the field	Fax or mission in the field	Mission in the field	Mission in the field	Fax or mission in the field	Fax or mission in the field	Fax or mission in the field
Confidentiality	NO	YES	YES	YES	YES	NO	NO	YES	YES	YES	YES	YES

1/ From January 1, 1999, the CFA franc has been pegged to the euro.

### Chad: Recent Policy Performance, 1995-98

Sector	Actions Taken	Timing
Economic management	Established a system of high-level economic policy committees to prepare, implement, and monitor the economic program, including the preparation of a quarterly report on program and budget execution.	1995-98
Fiscal policies		
Overall	Reduced the overall budget deficit and achieved a surplus in the current balance in 1998.	1995-98
	Improved the consolidation of the government financial operations.	1995-98
Revenue	Implemented the Central African Economic and Monetary Community indirect tax and customs reform by	
	<ul style="list-style-type: none"> <li>applying a turnover tax system, which evolved into a single tax rate and a limited number of exemptions;</li> <li>introducing excise tax on few nonessential products;</li> <li>revising the Investment Code to comply with the tax reform; and</li> <li>renegotiating special tax agreements in conformity with the reform.</li> </ul>	1995-98 1995 1995 1997
	Strengthened the tax department, including its computerization.	1995-98
	Established a special unit in the tax department to monitor and collect taxes from large taxpayers.	1996
	Reorganized the customs department and strengthened its procedures.	1995-98
	Applied a single taxpayer code and file for all revenue departments and strengthened coordination between the customs and tax departments.	1997-98
	Introduced a single tax for small business taxation.	1998
	Established a mechanism for budgeting and monitoring exemptions on externally financed projects.	1997-98
	Implemented a streamline withholding taxation system on tax on profits.	1997-98
Expenditure	Kept the wage bill within limits compatible with budget constraints by	1995-98
	<ul style="list-style-type: none"> <li>establishing a wage index matrix;</li> <li>implementing a civil service census and eliminating "ghost" employees; and</li> <li>creating a computerized payroll file.</li> </ul>	1996 1996 1996
	Increased the share of expenditure allocated to the priority sectors (health, education, social affairs, transport and public works).	1996-98
	Presented a unified Budget Law, including domestically and externally financed public investment.	1996-98
	Implemented a multiyear demobilization program, halving the size of the army from its 1992 total.	1995-98
Public sector management	Strengthened budgetary procedures and eliminated off-budget operations.	1998
	Initiated a public expenditure review.	1996
Debt management	Implemented an inventory of domestic arrears and reduced the outstanding stock through cash payments, offsetting of cross debts with other public entities, and donor financial assistance.	1996-98
	Eliminated external payments arrears and remained current on debt-service payments.	End-1998



Sector	Actions Taken	Timing
Civil service reform	Prepared and ratified a strategy for reform based on a comprehensive internal diagnosis of the system, and set up a permanent unit to monitor its implementation.	1998
Monetary and banking sector	Under the umbrella of the regional central bank, took the following actions: <ul style="list-style-type: none"> <li>Implemented an integration of national monetary programs into the regional monetary programming framework.</li> <li>Pursued a prudent monetary policy, relying on use of indirect monetary instruments.</li> <li>Strengthened the role of the banking supervision commission (COBAC).</li> <li>Improved the soundness of the commercial banks: no bank was rated by the COBAC as in critical condition.</li> </ul>	1995-98 1995-98 1995-98 1998
Public enterprises and entities	Continued to divest from commercial activities through the following actions: <ul style="list-style-type: none"> <li>liquidation of BICIT, SONACOT, OPIT, FIPP, and Air Tchad (ongoing);</li> <li>completion of privatization of BIEP/SOGEC, SOTEC, INT, SONAPA, SIPT, LNBPT, BIAT, BTCD, BTM, ONPVH, and Hotel du Chari (management);</li> <li>ongoing privatization of DHS, SNER, AFF, STEE (management), SONASUT, and SOTELTCHAD (merger of TIT and telecom part of ONPT); and</li> <li>beginning of preparation of a reform strategy for liberalization and privatization of the cotton sector (COTONTCHAD).</li> </ul> <p>Implemented an audit of the two social security agencies (CNRT and CNPS).</p>	1996-98 1995-98 1997-98 End-1998 1998
Legal and regulatory framework	Eliminated all prices and profit margins of previously controlled products, except for petroleum products, water and electricity, and generic medicines.	1995-96
	Revised the Labor Code and abolished government's setting of minimum wage.	1996
	Liberalized foreign trade and adhered to the provisions of the CEMAC trade reform: eliminated import and export licenses, removed customs duties and surcharges on intraregional trade, and eliminated of export taxes.	1995-98
	Applied exchange rules and regulations in line with the Bank of Central African States (BEAC) zone texts.	End-1995
Sectoral policies		
Agriculture	Established cotton pricing mechanism to give producers a larger share of international prices.	1997-98
	Ensured participation of farmers' representatives in the cotton policy committee.	1997-98
	Ensured privatization of veterinary services from livestock ministry.	1997
Transport	Implemented a road user charge for road maintenance.	1996-98
	Privatized road maintenance.	1996
Energy	Adopted a policy statement on the energy and water sector.	1997
	Implemented a new electricity and water distribution code to allow for the privatization of the sector.	1998
Telecommunications	Opened up the sector to private investors, privatized the main operator, limited fixed-service monopoly to five years, and designed a new regulatory framework.	1997-98

Sector	Actions Taken	Timing
Social sectors		
Health	Updated and pursued implementation of the government's National Health Policy.	1995-98
	Carried out and published a demographic and health survey.	1996-97
Education	Increased the primary school enrollment ratios from 45 percent in 1995 to 63 percent in 1998.	1995-98
	Started preparation of an Education Framework Law.	1998
Environment	Prepared environmental assessments and management plans for environmental protection for Doba region.	1998

### **Chad: Summary of the Petroleum Development and Pipeline Project**

1. The project would involve (i) the development of oil reserves in the Doba region in the south of Chad (the field system), entirely financed by a consortium of private oil companies led by Exxon; and (ii) the construction of a 1,070-kilometer pipeline from Chad to the Atlantic coast in Cameroon (the export system). Construction of the pipeline is supported by two joint-venture companies, the Chad Oil Transportation Company (TOTCO) in Chad and the Cameroon Oil Transportation Company (COTCO) in Cameroon; these companies, comprising the private sponsors and minority shareholdings by the two governments, respectively, will own and operate the Chad and Cameroon portions of the export system.<sup>1</sup> The field system would require an investment of about US\$1.5 billion to exploit oil reserves of about 900 million barrels over 25 years. The export system would entail an investment of about US\$300 million for TOTCO and US\$1,700 million for COTCO, for which external financing, including from the World Bank and IFC, is being sought. Oil exports should come onstream by end-2004, while the development phase for the oil fields will stretch out through 2008.
2. The oil sector will be an economic enclave, with limited direct employment generation. In 2005, the first full year of exploitation, real GDP would grow by about 50 percent, with oil GDP representing 41 percent of non-oil GDP. According to the declining profile of oil production over time, oil GDP growth is expected to start decreasing after a few years.
3. Chad will not participate in the oil production company, and therefore its share in oil revenues would be in the form of royalties and taxes channeled directly to the government. Based on a price of about US\$15 per barrel for the Brent reference crude, nominal oil revenues for the government would average about US\$80 million a year over the first ten years of oil production—about 22 percent of the total projected fiscal revenues, including oil, or 60 percent of the 1998 fiscal revenues. Over the period of production, US\$1.8 billion (nominal) of direct revenues is projected for the government, of which about 53 percent would represent the royalties on oil exploitation, 41 percent taxes from the oil field companies, 1.5 percent taxes from the income of TOTCO, and 4.5 percent expected dividends from the profits of TOTCO and COTCO, in proportion to Chad's minority equity stake.
4. In mid-November 1999, two of the three private sector partners indicated their intention to withdraw from the consortium, raising questions as to the possibility of completing the investments and beginning the oil exploration within the originally envisaged time frame. The Chadian authorities have contacted other possible partners that might be willing to step in and the World Bank and the IFC are continuing their preparations, with a view to reconstituting a viable consortium. However, the uncertainty surrounding the project has not yet been resolved.

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<sup>1</sup> Chad will acquire 15 percent of TOTCO's equity and 5 percent in COTCO, which is being partly financed by the World Bank under an IBRD loan amounting to US\$35 million.

### **Chad: Fiscal Performance Under the 1995-99 ESAF-Supported Program**

1. Economic growth and development continue to be constrained by Chad's relatively weak fiscal performance. However, substantial adjustment was achieved over the course of the past ESAF-supported adjustment program. The overall fiscal deficit, on a commitment basis and excluding grants, was cut by over one-third over the program period, including grants, it remained under 5 percent of GDP (see attached table). The current primary balance improved continuously over the program period and registered a surplus for the first time in 1997.
2. Government revenue has increased over 1995-99, though not as much as had been envisaged. The increase in total revenue reflects the marked recovery in tax collection, which is expected to rise by 3 percentage points to reach an estimated 8.6 percent of GDP at the end of 1999. This recovery was made possible by a strengthening of the tax and customs administration to combat fraud and evasion and to broaden the tax base, as well as by the implementation of comprehensive fiscal and trade reforms agreed at the level of the Central African Economic and Monetary Community (CEMAC). However, the increase in the revenue-to-GDP ratio at the end of the program was lower than had been envisaged, mainly because of exogenous shocks that have hampered economic activity in 1998 and 1999. The energy crisis, which affected the economy during the second half of 1998 and the first half of 1999, and the terms of trade shock induced by the fall in world market prices for cotton caused serious cash-flow problems for the country's biggest firms, leading them to accumulate tax arrears. The thinness of the tax base, combined with a recovery of arrears somewhat smaller than had been expected, led to a revision of the projection of tax revenue from 9.6 percent to 8.6 percent of GDP at end-1999. The mobilization of external financing remained volatile; revenue from grants fluctuated between 3.8 percent and 7.5 percent of GDP, and tended to decline over the course of the program.
3. The Chadian government has demonstrated throughout the program its willingness and ability to contain nonpriority expenditure in response to revenue shortfall while continuously increasing funding for the priority sectors. It maintained a prudent wage policy over the period, mainly by freezing the financial effects of automatic advancement in the public sector over the entire program period and by limiting hiring to the priority sectors. Defense spending was kept at about 1 percent of GDP. The implementation of the public investment program was uneven throughout the program period, owing to problems in mobilizing the domestic contribution to project financing and delays in project execution and, particularly in 1998, problems associated with the reform of the taxation of public procurement. Domestic arrears were reduced by some CFAF 25 billion over the program period, and all remaining salary arrears should be cleared before the end of 1999. External borrowing was limited to concessional loans. Chad cleared the remaining external payments arrears at end-1998 and has remained current on its debt-service obligations since then.
4. Assessment of the country's fiscal stance at end-1999 is blurred by a CFAF 2.2 billion transfer to the Autonomous Road Maintenance Fund (CAER) in November.

This transfer, which was financed by an increase in the June 1999 disbursement of the World Bank's structural adjustment credit (SAC), had not been envisaged when the 1999 Budget Law was passed in December 1998. Similarly, the revised projections for end-1998 take account of a loss of CFAF 0.3 billion in customs revenue resulting from the non-renewal of the additional tariff surcharge on sugar imports. Excluding these factors, the primary current surplus for 1999 would have been projected at 1.3 percent of GDP, as against 0.9 percent in the revised projection.

Table 1. Selected Fiscal Indicators, 1995-99

(In percent of GDP; unless otherwise specified)

	1995		1996		1997		1998		1999	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Proj.	Rev. Proj.
Total revenue	6.0	6.3	6.1	7.2	8.0	7.7	9.0	7.6	10.4	9.4
Tax revenue	5.0	5.5	5.2	6.4	7.0	6.9	8.2	7.0	9.6	8.6
<i>Of which: income and property taxes</i>	1.7	2.4	1.7	2.7	2.6	2.5	2.5	2.3	3.4	3.2
taxes on goods and services	1.5	0.9	1.7	1.3	1.1	1.9	2.1	1.4	2.3	2.0
taxes on international trade	1.6	1.7	1.6	2.2	2.3	2.3	2.7	2.7	3.2	2.9
<i>Of which: revenue earmarked for the Autonomous Road Maintenance Fund (CAER)</i>	...	...	...	...	...	...	0.5	0.2	0.4	0.3
Nontax revenue	1.0	0.7	0.9	0.8	0.9	0.8	0.9	0.6	0.8	0.7
Total grants	6.2	7.5	4.4	6.1	5.0	6.3	3.8	3.8	4.1	5.2
Total expenditure	18.1	18.2	17.1	18.3	16.9	17.9	17.7	15.3	18.4	19.9
Primary expenditure	16.7	17.2	15.6	17.3	16.0	16.9	16.9	14.5	17.6	19.0
Domestic primary expenditure	7.6	8.0	7.1	7.8	7.1	7.4	8.2	7.1	9.0	9.2
Primary current expenditure	7.4	7.9	6.9	7.8	6.6	6.9	7.4	6.6	8.1	8.5
Wage bill 1/	3.8	4.2	3.4	3.7	3.3	3.5	3.1	3.2	3.4	3.7
Defense 2/	1.3	1.4	1.2	1.5	1.0	1.1	1.0	1.0	1.3	1.3
Other primary current expenditure	2.3	2.3	2.3	2.5	2.3	2.3	3.2	2.5	3.4	3.5
<i>Of which: priority sectors</i>	...	0.4	...	0.3	0.5	0.5	0.7	0.6	0.8	0.8
transfers	1.7	0.7	1.7	0.5	0.7	0.7	7.4	0.5	0.7	0.7
<i>Of which: transfers to the CAER</i>	...	...	...	...	...	...	0.5	0.2	0.4	0.7
Domestic contribution to investment	0.2	0.0	0.2	0.1	0.5	0.5	0.9	0.5	0.9	0.8
Demobilization, elections, and other	0.0	0.1	0.0	0.5	0.5	0.4	0.2	0.1	0.0	0.0
Investment expenditure (externally financed)	9.0	9.1	8.5	8.9	8.3	9.2	8.5	7.3	8.6	9.7
Interest	1.4	1.0	1.5	1.0	0.9	1.0	0.8	0.8	0.8	0.9
Current expenditure	8.8	9.0	8.4	9.3	8.0	8.3	8.3	7.5	9.0	9.5
Investment expenditure	9.3	9.2	8.7	9.0	8.9	9.6	9.4	7.8	9.4	10.5
Current balance (= deficit)	-2.8	-2.8	-2.3	-2.1	-0.1	-0.6	0.7	0.1	1.4	-0.1
<i>Of which: domestic primary balance</i>	-1.7	-1.7	-1.0	-0.7	0.9	0.3	0.8	0.5	1.4	0.1
<i>Of which: primary current balance</i>	-1.5	-1.7	-0.8	-0.6	1.4	0.8	1.7	1.1	2.3	0.9
primary current balance, excluding CAER	...	...	...	...	...	...	1.7	1.1	2.3	1.3
Overall deficit (commitment basis)										
Excluding grants and foreign financed investment	-3.0	-2.8	-2.5	-2.2	-0.6	-1.0	-0.1	-0.4	0.5	-0.9
Excluding grants	-12.1	-11.9	-11.0	-11.1	-8.9	-10.2	-8.6	-7.7	-8.0	-10.6
Including grants	-5.8	-4.4	-6.6	-5.0	-3.9	-3.8	-4.8	-3.9	-4.0	-5.4
Overall deficit (cash basis, excluding grants)	-14.0	-11.0	-12.1	-14.6	-12.2	-11.5	-11.2	-8.1	-11.1	-10.5
Overall deficit (cash basis, including grants)	-7.8	-3.5	-7.7	-8.5	-7.2	-5.2	-7.3	-4.3	-7.0	-5.4
Memorandum item:										
GDP (in billions of CFA francs) 3/	716	716	830	830	930	888	1,027	999	1,027	931

Sources: Chadian authorities; and staff estimates and projections.

1/ Consists of the civil service wage bill

2/ Include military salaries

3/ Because a new set of national accounts was adopted in January 1998, actual GDP numbers are used in the program columns for 1995 and 1996, in order to make the "program" and "actual" columns comparable

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EBS/99/234

Supplement 1

CONFIDENTIAL

January 11, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Chad—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement for Chad under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 00/2 (1/10/00).

Att: (1)

Other Distribution:  
Department Heads





**CHAD**  
**Three-Year Arrangement Under**  
**the Poverty Reduction and Growth Facility**

Attached hereto\* is a letter (the "Letter") with annexed Memorandum on Economic and Financial Policies (the "Memorandum") dated November 12, 1999, from the Minister of Economy and Finance of Chad requesting from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Chad intend to pursue during the three-year period of the arrangement;

(b) *the objectives, policies and measures that the authorities of Chad intend to pursue during the first year of the arrangement; and*

(c) understandings of Chad with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Chad will pursue for the second and third years of the arrangement.

To support these objectives and policies the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from January 7, 2000, Chad will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 36.4 million, subject to the availability of resources in the Poverty Reduction and Growth Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 10.4 million until October 1, 2000 and the equivalent of SDR 20.8 million until October 1, 2001.

(c) During the first year of the arrangement:

- (i) the first disbursement, in an amount equivalent to SDR 5.2 million, will be available upon approval of this arrangement, at the request of Chad; and
- (ii) the second disbursement in an amount equivalent to SDR 5.2 million, will be available after June 30, 2000 at the request of Chad and subject to paragraph 2 below.

(d) The right of Chad to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement

\*See EBS/99/234 (12/22/99)

shall be determined in the context of a review of Chad's program with the Trustee, the timing of which shall be established at the review contemplated in paragraph 2(e) of this arrangement.

2. Chad will not request the second disbursement provided for in paragraph 1(c)(ii) above:

- (a) if the data as of March 31, 2000 indicate that:
  - (i) the ceiling on net domestic bank credit to the government, or
  - (ii) the floor on the central government current primary fiscal surplus, or
  - (iii) the floor on the net reduction of domestic payments arrears of the central government, or
  - (iv) the ceiling on external borrowing on nonconcessional terms contracted or guaranteed by the central government with maturity of between one and twelve years, or
  - (v) the ceiling on public short-term external debt,

as specified in Table 1 of the Memorandum, respectively, was not observed; or

- (b) if, by March 31, 2000, Chad did not carry out its intentions with respect to:
  - (i) the nomination of a controller and the adoption of a restructuring plan for COTONTCHAD, or
  - (ii) the completion of a study of the statistics presently produced by the statistical apparatus and of their periodicity,

as specified in paragraphs 55 and 56 and Table 2 of the Memorandum; or

(c) if, at any time during the period of this arrangement, Chad has accumulated any new external payments arrears except for arrears that are subject to debt-rescheduling agreements as specified in Table 1 of the Memorandum; or

- (d) if Chad:
  - (i) has imposed or intensified restrictions on payments and transfers for current international transactions, or
  - (ii) has introduced or modified multiple currency practices, or

- (iii) has concluded bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) has imposed or intensified import restrictions for balance of payments reasons.

(e) until the Trustee has determined that the first review contemplated in paragraph 6 of the Letter has been completed.

When Chad is prevented from requesting disbursements under this arrangement because of paragraph 2, such disbursements will be resumed only after consultation has taken place between the Trustee and Chad and understandings have been reached regarding the circumstances in which Chad may request further disbursements.

4 *In accordance with paragraph 4 of the Letter, Chad will provide the Trustee with such information as the Trustee requests in connection with the progress of Chad in implementing the policies and reaching the objectives of the program supported by this arrangement.*

5. During the period of this arrangement Chad shall remain in close consultation with the Trustee. In accordance with paragraph 5 of the Letter, Chad will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Chad has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Chad will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Chad's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Chad or of representatives of Chad to the Trustee.

