

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

April 17, 2018
Report No.: 126014

Operation Name	First Programmatic Economic Recovery and Resilience Grant
Region	AFRICA
Country	Chad
Sector	Agriculture (15); Governance (35); Social Protection & Labor (25); Transport & ICT (25)
Operation ID	P163424
Lending Instrument	Development Policy Lending
Borrower(s)	Republic of Chad
Implementing Agency	Ministry of Finance and Budget
Date PID Prepared	April 17, 2018
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Corporate Review Decision	

I. Country and Sector Background

1. **The collapse of global oil prices, a persistently unstable regional security situation, and the high fiscal cost of ongoing humanitarian efforts, have strained Chad's public finances.** The Government has responded with a proactive but severe fiscal adjustment and the economy has experienced a deep and extended recession with high social costs. The crisis has also weighed heavily on the country's ability to implement much needed structural reforms for non-oil sector recovery and social inclusion.

2. **Following a global oil price drop, Chad's economy contracted 6.3 percent in 2016 and 3 percent in 2017.** Chad's oil sector has not only driven growth during boom years, but also translated falling oil prices into a sharp recession since 2016. The export price for Chadian crude oil fell from an average of US\$100 per barrel in 2013-14 to US\$34 in 2016, putting an abrupt end to growth rates around 6.3 percent per year in 2013-14. Oil-related fiscal revenues dropped from 11.7 percent of non-oil GDP in 2014 to just 3.5 percent in 2016. Chad's crisis has been aggravated by limited economic diversification and widespread poverty. In 2017, the economy struggled to recover and remained in recession, to a large extent due to an unexpected oil production shortfall.

3. **The new context of lower oil revenue, together with the challenging security and humanitarian situation, has greatly intensified economic, fiscal and social pressures.** In the absence of adequate macro policy buffers and in the presence of immediate financing needs, the government had no room to undertake counter-cyclical fiscal policy to support economic recovery and protect social spending effectively. Monetary policy options have also been limited as the regional central bank is trying to manage the fallout from the oil price shock across Central African Economic and Monetary Union (CEMAC) members (including Chad). Regional security threats have negatively impacted growth by reducing cross-border trade and kept foreign direct investment away. Significant security expenditures are linked to Chad's continued efforts combating transnational terrorist groups (such as Boko Haram), supporting regional stabilization (peace-building) initiatives (2.8 percent of GDP in 2016), as well as providing for a

vast number of refugees and displaced persons (around 2.8 percent of 2016 GDP per year).¹ Domestically, the government keeps diffusing tensions between agricultural communities and pastoralists.

4. **The government has demonstrated its determination to responsibly manage what has turned out to be a much deeper and longer fiscal crisis than expected.** Continued efforts to restructure external commercial debt came to fruition in February 2018, when an agreement in principle was reached. This agreement will allow Chad's public debt to return to sustainability and moderate risk of debt distress (as per the March 2018 Bank-Fund Debt Sustainability Analysis). The substantial oil-collateralized loan with an international commodity firm – Glencore – had heavily reduced fiscal revenues and rendered debt unsustainable (see Box 1 for details). As a result, between 2014 and 2016, public spending was cut by 10.8 percent of non-oil GDP, and since 2016 an emergency fiscal consolidation action plan has been adopted and extended in the 2017 Finance Law. Despite such sharp adjustment, Chad's fiscal situation remained challenging during 2017, with a financing gap that required domestic arrears accumulation.

5. **Poverty reduction gains achieved over the past decade have been threatened by the current economic crisis.**² In the absence of a well-targeted and effective social safety net, the poor and vulnerable have likely been deeply affected by the crisis. During the oil boom, poverty rates declined (from 55 percent in 2003 to 47 percent in 2011), however, the absolute number of poor increased from 4.9 million to 5.6 million due to population growth. Progress on non-monetary poverty also presents a mixed picture. Since the beginning of the crisis, dwindling fiscal resources have disrupted vital public services despite the government's efforts to protect priority social spending. Payments to community-based teachers and health workers, funding for student scholarships, social-program benefits, and the provision of agricultural inputs have either been delayed or halted altogether at various occasions, and all public investment projects have been suspended.

II. Proposed Objective(s)

6. **The primary objectives of the series are to enhance fiscal and oil sector risk management and transparency, promote economic diversification, and improve social protection for the poor and vulnerable.** To achieve these objectives, the programmatic series is organized around four intertwined pillars: First, it aims at enhancing fiscal risk management through (a) improved debt management, (b) rationalization of tax expenditures, (c) streamlining the payroll for enhanced fiscal space, and (d) improved oversight and transparency in the management of SOEs. Second, to improve the contribution of the oil sector to fiscal sustainability and economic resilience it promotes (i) a functional oil revenue management mechanism; (ii) transparency in the sector; and (iii) improved control over oil production costs. Third, to increase diversification and resilience of Chad's population in face of economic and climatic shocks, the operation (a) contributes to greater agricultural productivity for more sustainable and inclusive growth; and (b) strengthens the contribution of the ICT sector to inclusive growth through enhanced affordability and coverage of services, as well as improved transparency for public and private service delivery. Fourth, it increases social protection for the poor and most vulnerable groups including refugees, by developing an effective and well-targeted social safety net system, and implementing cash transfers.

¹ Of the more than 750,000 displaced people currently living in Chad, 403,780 are refugees. The number of refugees is equivalent to over 3 percent of the population, the fifth-highest level in the world. See: UNHCR and World Bank IDA18 refugee Sub-Window Board Consultation Paper (September 19, 2017).

² The latest poverty data are available as of 2011 only.

III. Rationale for Bank Involvement

7. **Building on the 2017 Emergency Fiscal Stabilization Operation (EFSO), this series shifts Bank support towards a structural resilience and growth agenda.** The authorities aim at sustaining growth recovery, fostering economic diversification in the medium term, and developing coping mechanisms for the poor and vulnerable. Four intertwined pillars combine structural measures to enhance fiscal risk management with boosting economic diversification and social resilience. Improved debt management, SOE oversight and oil revenue management are complemented by increased productivity in agriculture and competitive, open access information and communication technologies (ICT). Finally, putting in place a well-targeted and fully operational social protection system for the poor and vulnerable adds an explicit micro layer of resilience.

8. **The program supported by the proposed series is closely aligned with the three pillars of the Country Partnership Framework (CPF) for FY16-20.** The CPF was discussed at the Board on December 10, 2015. The CPF, which succeeded the interim strategy note for FY10-12, is based on three engagement themes: (i) strengthening fiscal management; (ii) improving the returns to agriculture and developing agricultural value chains; and (iii) building the stock of human capital and reducing socioeconomic vulnerability.

9. **The proposed series follows a sequence of efforts by the World Bank to help the Chadian government cope with the impact of multiple exogenous shocks and lay the groundwork for sustained growth recovery and social inclusion.** In December 2015, the Board approved the Fiscal Consolidation Program Support Grant (FCPSG), Chad's first development policy operation in a decade. The FCPSG aimed to reinforce macroeconomic stability, protect critical expenditures, and initiate a medium-term structural reform agenda. It supported measures to broaden the tax base, rationalize public spending, enhance PFM transparency, and streamline business-registration procedures. In December 2016, as a protracted slump in global oil prices coupled with persistently high security and humanitarian costs further strained Chad's fiscal resources, the Board approved US\$80 million in additional financing for the FCPSG through Crisis Response Window allocation. The FCPSG's implementation has been broadly on track, with a substantial increase in the number of taxpaying firms and newly registered businesses observed despite the difficult economic climate. While less progress has been achieved in enhancing public procurement and limiting recourse to extraordinary spending procedures, the government is now preparing to implement a new procurement code, while the fiscal consolidation and the recent shift to cash-based budgeting are expected to curb the use of extraordinary spending procedures. Considering the country's dire macro-fiscal situation, the World Bank also approved a US\$65 million emergency development policy financing operation - the EFSO – in June 2017, which builds on the FCPSG and has helped the government meet urgent financing needs while laying the groundwork for more substantive reforms.

IV. Institutional and Implementation Arrangements

10. **The government's Negotiation Committee will oversee the implementation of the reform program supported by the proposed operation.** The Negotiation Committee, which is chaired by the Ministry of Economy and Development Planning, is an inter-ministerial committee charged with coordinating the preparation of the proposed operation and monitoring the reform program. The participating ministries, departments, and agencies will provide information on the status of their respective programs, and the committee will monitor their progress against program objectives. The committee previously collaborated with both the IMF and the World Bank during the successful HIPC completion process and the implementation of the FCPSG. A results framework will define concrete

indicators and empirical benchmarks to monitor progress and facilitate ex post evaluation following the end of the program.

V. Risk and Risk Mitigation

11. **The overall risk rating for the proposed operation is high.** Political and governance risks, macroeconomic risks, and risks related to institutional capacity for implementation and sustainability are especially serious.

12. Following the agreement in principle to restructure the debt to Glencore, debt vulnerabilities declined significantly. Public debt remains in distress for the time being. Once the final agreement is reached and progress is made on clearing the outstanding external arrears, other things equal, the risk rating would be expected to be upgraded to moderate under the current LIC DSF methodology.

13. Risks of delayed structural reforms in sensitive areas because of political resistance cannot be fully mitigated and remain high. Against the backdrop of continued exposure to oil price and production shocks, the government has demonstrated a strong commitment to fiscal discipline and an ability to maintain a sound fiscal stance in a challenging economic context. While CEMAC membership has bolstered macroeconomic stability in recent years, CEMAC's low foreign-exchange reserves and the constrained fiscal space of its members pose additional downside risks. Risks related to institutional capacity for implementation and sustainability will be mitigated by leveraging ongoing and planned World Bank projects in the policy areas supported by the proposed series, as well as technical assistance from Chad's development partners, including France, the AfDB, EU, IMF and CEMAC.

VI. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

14. **The proposed series is expected to have a significant positive impact on poverty reduction in the medium and longer term.** The proposed operation is expected to help decrease poverty in the medium and long term through the promotion of inclusive growth in agriculture, and the development of more affordable ICT services and broader coverage in underserved areas. In addition, a properly targeted expansion of the social safety net system has the potential to have a significant impact on allowing households to move out of poverty and strengthen household resilience to shocks. The overall impact on poverty therefore is expected to be positive in the medium and longer term.

15. **Medium term efficiency gains in fiscal and debt management and better overall risk management are expected to improve fiscal space for social protection and other public services as well as pro-growth investment.** While fiscal rationing and stabilization policies of the Government may have a negative short-term impact on poverty through public sector job losses or decreases in public services, however, medium term efficiency gains in fiscal and debt management and better overall risk management should clearly improve fiscal space for social protection and other public services as well as pro-growth investment. Improved control of fiscal risks should also contribute to macroeconomic stability, which is beneficial to growth and poverty reduction. The social costs associated to the elimination of irregularities in the payroll is likely to have only negligible social costs. However, the payroll audit may set the stage for deeper reforms of the civil service (beyond the scope of this operation), which would likely involve significant social costs and would require careful evaluation and adequate mitigation.

16. **The proposed reforms in agriculture and ICT may lead to a more diversified economy and improved public services.** As around 80 percent of Chad’s labor force is active in agriculture, productivity gains stemming from enhanced dissemination and adoption of agricultural technology and more effective input supply chains is bound to result in broad positive effects for vulnerable and poor households. The development of more affordable ICT technologies is also expected to contribute directly, over the medium term, to the provision of better public services. This would benefit the poor who tend to rely disproportionately on public services. Cheaper, more effective ICT services in Chad, may also contribute directly to inclusive growth in agriculture by facilitating extension services, but also have cross cutting positive spillover effects for most sectors using ICT as an input. Ultimately, effective ICT is also expected to support faster and more efficient implementation of social safety nets and related transfer and social protection systems nationwide.

17. **The expected medium-term impact of the reforms included in this operation on gender equity is positive.** In the medium to longer term, increased fiscal space for health, education, and social safety nets would have positive impacts on services benefitting women. Increased spending for health may contribute to decrease very high maternal mortality rates. At 856 deaths per 100,000 women, Chad ranks only above CAR and Sierra Leone in international comparisons.³ In addition, increased funding for education and social safety nets may support improved school attendance for girls. Families with limited resources often prioritize the education of sons, and, despite recent improvements, the 2014/15 Demographic and Health Survey shows that 44 percent of girls aged 15 to 19 have never attended school, compared to 30 percent of boys in the same age group. To help address this, the implementation of the NSPS clearly identifies women as the most vulnerable population, and targets them specifically as the primary recipients of cash transfers and cash for works programs.

Environment Aspects

18. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country’s environment, forests and other natural resources.** Environmental Assessment (EA) is a legal requirement in Chad and is widely applied to all developmental projects. The EA process is based on Presidential Decree No. 630/PR/PM/MEERH/2010 on EA regulations and the ministerial decision No. 039/PR/PM/MERH/SG/DGE/DEELCPN/2012 with respect to the general guidelines and procedures for environmental assessment. The department of environmental assessment and pollution control in the Ministry of Environment and Fisheries is institutionally saddled with reviewing and clearing environmental impact assessment (EIA) documents.

19. **As per the Policy on Development Policy Financing, the World Bank assessed whether specific country policies supported by the DPF series are likely to cause significant effects on the country’s environment, forests, and other natural resources.** The assessment concluded that the policies supported by the proposed DPF are not likely to have negative impacts on the country’s natural assets. All the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. The assessment of potential impacts related to actions supported by the DPF will rely on the existing national legal and regulatory framework, and will be monitored and addressed through the national procedures in place in Chad.

³ World Health Statistics 2016, World Health Organization.

20. **Prior actions and triggers designed for increasing social protection for the poor, vulnerable and refugees are also largely environmental neutral.** Although some cash for work under the social protection programs could be expected to have some small physical footprint, the Government will finance significant capacity-building activities including environmental and social safeguards through the Cellule Filet Social (CFS) established on March 10, 2016. In conjunction with department of environmental assessment and pollution control, the CFS will play a key role in minimizing any environmental and social adverse impacts and enhancing the positive ones derived from social protection programs. Further, the operation’s focus on ensuring adequate fiscal space to preserve pro-poor spending and maintain the government’s capacity for effective social protection policy could indirectly support environmental objectives by mitigating the need for rural households to resort to environmentally unsustainable practices in the event of a natural disaster or a shock to agricultural production.

21. **Prior actions with respect to reforms in the agriculture and ICT sectors may have positive or little impact on the environment.** Improved seeds will increase productivity at the intensive margin, thereby reducing the need to increase cultivated land size and grow at the external margin. Although this operation focuses uniquely on open access to Chad’s fiber backbone, potential extension of geographic coverage of mobile networks at a later stage could involve the destruction of some flora and fauna. However, any potential environmental impact could be minimized by avoiding areas where the impact will be substantial. Also, the licensed operators would be encouraged to begin revegetation of excavated sites immediately the sites have been backfilled.

22. **The Government’s reform agenda encompasses a robust institutional framework for environmental protection.** The NDP includes a pillar dedicated to environmental protection and adaptation to climate change built on four key elements: (i) the protection of Lake Chad and other critical ecosystems; (ii) improved land management in rural and urban areas; (iii) the mitigation of risks related to natural disasters; and (iv) the fight against desertification and the conservation of biodiversity. The 1998 Environmental Code was augmented in 2009 by a decree on pollution and environmental damage. The use of charcoal is officially forbidden in Ndjamenà to minimize indoor air pollution, and the country is promoting the use of improved cooking stoves. Nevertheless, indoor air pollution remains a major health risk, and access to clean fuels is limited. The Environmental Code also defines principles for solid and hazardous waste management, though these are poorly enforced. The GoC promulgated a Forestry Law in 2008 that clearly distinguishes between conservation and production activities.

VII. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	65.00
Borrower/Recipient	
IBRD	
Others (specify)	
Total	65.00

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