



The World Bank

Chad Second Programmatic Economic Recovery and Resilience Grant (P168606)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Nov-2019 | Report No: PIDA27050

**BASIC INFORMATION****A. Basic Project Data**

Country Chad	Project ID P168606	Project Name Chad Second Programmatic Economic Recovery and Resilience Grant (P168606)	Parent Project ID (if any) P163424
Region AFRICA	Estimated Board Date 15-Jan-2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Economy and Development Planning	Implementing Agency Ministry of Finance and Budget		

Proposed Development Objective(s)

The Program Development Objectives and pillars of the proposed series are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. Chad is gradually recovering from a severe economic and fiscal crisis and has returned to a sustainable debt path. The restructuring of the oil collateralized loan with Glencore in 2018 reduced the debt service-to-revenue ratio, allowing Chad to regain liquidity, reduce the financing gap and return to a sustainable debt path. The recent fiscal stabilization is gradually translating into economic recovery with growth estimated at 3.0 percent in 2019. Growth is largely supported by increases in oil prices and oil production. Favorable weather conditions and privatization of the cotton public enterprise improved agricultural production. Industry and services sectors contributed to this rebound owing to a slow rise in capital investment and the clearance of some domestic arrears. In turn, the output gap, which has been widening since the negative oil price shock in 2014, is beginning to close. But the effects of recession and austerity aggravated Chad's humanitarian challenge while constraining poverty reduction. Insecurity in the sub-region resulted in an inflow of over 450,000 refugees, putting further pressure on tight fiscal balances and strained public service delivery. In the absence of a well-targeted and effective social safety net, the poor and vulnerable have been deeply affected by the crisis. Poverty is estimated at 41 percent in 2019.

2. Significant achievements have already been noted. Through reforms under DPO1 and DPO2 major sources of fiscal, economic and social risk are increasingly addressed in a structural way. The macroeconomic policy framework is deemed adequate for this operation. Medium term economic growth is expected to be solid. Strong oil sector performance will gradually spill over into key non-oil sectors. Agriculture output, notably in cotton, will increasingly contribute to GDP growth. The Government is credibly committed to fiscal discipline and the clearance of external and domestic arrears. As a member of CEMAC, monetary and exchange rate policy will be well anchored at the regional level.

Relationship to CPF

3. The program supported by the proposed series is closely aligned with the three pillars of the Country Partnership Framework (CPF) for FY16-FY20 approved by the Board on December 10, 2015. The pillars include: (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and (iii) building human capital and reducing vulnerability. In December 2015, the Board approved the Chad-DPO Fiscal Consolidation Program Support Grant (P155480). 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. Considering the country's dire macro-fiscal situation, the World Bank provided a US\$71 million emergency DPF operation - the EFSO – in June 2017, which builds on the FCPSG and will help the Government meet urgent financing needs while laying the groundwork for more substantive reforms. The proposed second DPO will be prepared and implemented in parallel with a Domestic Resource Mobilization and Management Project; an ongoing oil sector capacity building grant, aimed at improving technical and financial knowledge of the MoPE to strengthen its oversight capacity; two World Bank agricultural investment lending projects in Chad and complements a pilot Safety Nets project. 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.



C. Proposed Development Objective(s)

The Program Development Objectives and pillars of the proposed series are to (1) enhance fiscal risk management; (2) improve oil revenue transparency and management; (3) promote resilience and economic diversification in key real sectors; and (4) increase social protection for the poor and vulnerable.

Key Results

4. With the support of this second programmatic DPO (i) the Ministry of Finance and Budget has further strengthened its debt management and fiscal risk management capacity; (ii) the Government established an oil revenue management mechanism for fiscal stabilization; (iii) the Government created conditions for modernizing and enhancing extension services to farmers and increased access to quality seeds, and iv) the Government enabled open access to a second fiber link, reducing wholesale prices of international connectivity by 83 percent.

5. To further explain the key results, the Government implemented measures to streamline tax expenditure and eliminate identified irregularities. The key objective of the adopted oil revenue management framework is to manage oil price and production volatility in a countercyclical way. The new extension strategy will induce farmers to adopt climate-smart technologies and/or practices designed to reduce GHG emissions or improve soil fertility. Reduced cost of international connectivity will spur competition and efficiency across key sectors in the Chadian economy, while benefitting consumers.

D. Project Description

6. The objectives and pillars of the proposed operation and the DPO series are to (1) enhance fiscal risk management, (2) improve oil revenue transparency and management, (3) promote resilience and economic diversification, and (4) increase the social protection for the poor and vulnerable populations.

7. First, the DPO will enhance fiscal risk management through (a) the improvement of debt management; (b) the rationalization of tax expenditures; (c) the streamline of the payroll; and (d) the improvement of oversight and transparency in the management of SOEs. Second, the DPO will improve the contribution of the oil sector to fiscal sustainability and economic resilience by strengthening (i) oil revenue management mechanism, (ii) financial transparency of the SHT, and (iii) control of oil production costs. Third, the DPO will foster economic diversification and resilience of Chad's population in the face of economic and climatic shocks by promoting (a) higher agricultural productivity and (b) greater access, coverage, and quality of ICT services. Fourth, the DPO will strengthen social protection for the poor and most vulnerable groups, including refugees, by developing an effective and well-targeted social security network (SSN) system and implementing a cash transfer mechanism.

E. Implementation

Institutional and Implementation Arrangements



8. 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 Minister of Finance and Budget, 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.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. 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. Reforms underpinning Pillar I are expected to have a net positive impact on poverty. Pillar II reforms in the oil sector are expected to lead to better transparency and to free-up resources that can benefit the poor. The proposed reforms under Pillar III, in agriculture and ICT may lead to a more diversified economy and improved public services. The expected medium-term impact of the reforms included in this operation on gender equity is positive.

Environmental, Forests, and Other Natural Resource Aspects

10. The reforms and policy actions supported by the proposed operation are unlikely to have 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 department of EA and pollution control in the Ministry of Environment and Fisheries is institutionally saddled with reviewing and clearing environmental impact assessment (EIA) documents. As per the World Bank Policy on DPF, 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.

11. Prior actions with respect to reforms in the agriculture and ICT sectors may have positive or little impact on the environment. Prior actions and triggers designed for increasing social protection for the poor and vulnerable are also largely environmental neutral. 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 Ndjamen 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.



G. Risks and Mitigation

12. The overall risk rating for the proposed operation is high. Political and governance risks are high. Ongoing violence by Boko Haram has increased insecurity along Chad's borders with Nigeria and Cameroon, compounding an already fragile situation at the borders with Libya, Central African Republic and, to a lesser extent, Sudan. These issues, as well as domestic security concerns, could divert scarce institutional and financial resources away from the reform program. However, risks of the reforms being delayed because of political resistance cannot be fully mitigated and remain high.

13. Macroeconomic risks are also high. Agreement on external commercial debt restructuring has significantly reduced the risk of debt distress and improved macroeconomic stability, but public debt vulnerabilities remain elevated. Also, uncertainty regarding future oil prices and oil production as well as the volatile security situation add major sources of macroeconomic risk jeopardizing progress along the structural reform path. However, the new oil revenue management mechanism will partially mitigate this risk. Both technical design of the program as well as institutional capacity for implementation and sustainability are subject to high risks, which can be mitigated by external technical support. The fiduciary risk of the proposed operation is rated substantial. Recent progress notwithstanding, Chad continues to face serious challenges in terms of budget formulation, execution, and oversight. However, the publication of the "citizen's budget," the adoption of a new PFM Action Plan, and the measures supported by the proposed operation mitigate these risks. Stakeholder risks are high. The vested interests of various groups that benefit from the current distribution of public resources could impede the implementation of reforms supported by the proposed operation.

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APPROVAL

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