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Chad: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 22, 2009

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CHAD

LETTER OF INTENT

June 22, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. Since 2003, fiscal management weaknesses, characterized by expenditure overruns and nonobservance of normal budgetary procedures, have impeded the implementation of International Monetary Fund and World Bank-supported programs.

2. Furthermore, the conduct of economic and financial policies has been complicated not only by spillover effects of conflicts in neighboring countries, but also by repeated attacks by rebel groups based in Sudan. Meanwhile, Chad still hosts 250,000 refugees from the Darfur region of Sudan and 48,000 more from the Central African Republic, and takes care of 180,000 Chadian citizens who are internally displaced.

3. Recently, public finances have been hard hit by the fall in oil prices. The initial 2009 budget was prepared using high oil prices observed in September 2008. The fall in oil international prices in late 2008 and changes in oil tax payment have caused the collapse of oil revenue which should reduce government revenue by about 17 percent of non-oil GDP compared to the initial budget. Such a dramatic turnaround is significantly straining government finance, widening the budget deficit, wiping out oil savings and forcing fiscal adjustment.

4. Against this background, the government has adopted a revised 2009 budget, after consultation with its development partners. The revised 2009 budget is consistent with financing constraints and protects the priority sectors. The government has also started correcting weaknesses in public financial management that have hampered the implementation of the previous arrangement under the Poverty Reduction and Growth Facility.

5. Accordingly, the government hereby requests a staff-monitored program (SMP) covering the period April 1-October 31, 2009. The objectives and policies of that program are defined in the attached memorandum on economic and financial policies (MEFP). The

government plans to use the SMP to demonstrate clear progress in fiscal policy and public financial management. Emphasis will be placed on strict implementation of the revised 2009 budget and return to budget orthodoxy. To that end, the government will curtail the use of exceptional budgetary procedure ("*dépenses avant ordonnancement*") and stop the execution of spending without budget appropriation. These efforts will be firmed up in the 2010 budget, which the government will prepare in consultation with its development partners and introduce to Parliament prior to the end of the SMP.

6. The government strongly hopes that satisfactory implementation of the SMP during April-October 2009 and continued good policy performance through the end of the year will lead to a new arrangement under the Poverty Reduction and Growth Facility (PRGF) in the beginning of 2010. Indeed, successful implementation of such a program will play a catalytic role for mobilizing the external resources necessary for implementation of the new poverty reduction strategy (NPRS2) adopted in April 2008, in particular the resources expected from debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

7. The government is convinced that the policies and measures defined in the MEFP are appropriate for meeting the objectives of the program. However, it will take any further measures that may become appropriate for this purpose. And it will consult with the Fund on adoption of such measures, and in advance of revisions to the policies contained in the MEFP. To facilitate the monitoring and assessment of this program, the government will regularly submit all necessary information to Fund staff, within the required deadlines specified in the attached Technical Memorandum of Understanding (TMU).

8. Finally, the government consents to publication of this letter, the MEFP, the TMU, and the Fund staff report on the SMP.

Sincerely yours,

/s/	**/s/**
Gata Ngoulou	**Youssouf Saleh Abbas**
Minister of Finance and Budget	Prime Minister

Attachments:
I. Memorandum on Economic and Financial Policies
II. Technical Memorandum of Understanding

ATTACHMENT I

Chad—Memorandum on Economic and Financial Policies

I. INTRODUCTION

1. This memorandum on economic and financial policies (MEFP) presents the economic and financial policies of Chad for the period April 1-October 31, 2009, and the main features of those policies for the medium term.

II. BACKGROUND AND RECENT DEVELOPMENTS

2. Chad is one of the poorest countries in the world, as reflected in its ranking in the Human Development Indices. Furthermore, it hosts 250,000 refugees from the Darfur region of Sudan and 48,000 more from the Central African Republic, whereas 180,000 Chadians are displaced internally as a result of the conflicts in neighboring countries. Chad has also been the subject, in recent years, of periodic attacks by armed groups. The most serious attack broke out in February 2008, causing considerable damage, particularly in the capital N'Djamena, and temporarily disrupting its structures. The most recent attack in May 2009 required important deployment of troops to defeat and repel these armed groups. The deployment of a United Nations peacekeeping force numbering about 5,000 and the signing and then the implementation of a multiparty agreement on electoral reform now provide an opportunity for economic development in which the government is participating fully.

3. In 2008 Chad's economic developments were marked by a slight decline in real GDP, a sharp upturn in inflation, and the notable impact of the oil boom on public finance and on the monetary and external sectors. Real GDP fell by ¼ percent from its 2007 level, the 3½ percent growth in the non-oil sector having been offset by the 11½ percent slump in the oil sector. The contraction in the oil sector stemmed from technical problems in the main oil fields, while growth in the non-oil sector was hampered by the slowdown in services and construction sectors following the February rebel attack on N'Djamena. Inflation accelerated, reaching an average rate of 8¼ percent mainly because of food prices. Fiscal expansion, financed by the inflow of oil revenue, led to a worsening of the non-oil deficit, which stood at 28½ percent of non-oil GDP, 6½ points up from 2007. The increase in the value of oil exports also led to a stronger external position, with the foreign reserves covering 7.2 months of imports (excluding imports by the oil consortium), which is 1½ months more than in 2007. The resulting strong growth in net foreign assets generated a 28 percent increase in the money supply over the previous year.

4. A particularly difficult environment made fiscal management challenging. The security situation and noncompliance with the budgetary procedures resulted in significant slippages from the initial targets. Since 2005, the non-oil primary deficit has widened by 23½ percent of non-oil GDP, owing to increased spending on wages, transfers to the state utility and cotton companies (STEE and COTONTCHAD), investment, and security.

5. The government has made some progress in public financial management but recognizes that this area needs further strengthening. It received considerable support from donors (European Commission and France) under the Action Plan for the Modernization of Public Finance (PAMFIP). However, major weaknesses remain in budget planning and the monitoring of budget execution, in particular the practice of spending following exceptional budgetary procedures (*dépenses avant ordonnancement*—DAO) and signing contracts without budget appropriation.

6. Constructive discussions have been held between the World Bank and the government of Chad. Under the agreement reached between the two parties in September 2008, Chad prepaid the full outstanding balance on the World Bank loans (CFAF 31.4 billion) for the Doba project pipeline. The two parties also agreed to initiate discussions on strengthening non-oil sector cooperation for poverty reduction purposes. In January 2009, the Bank reopened its N'Djamena office.

III. THE GOVERNMENT'S ECONOMIC PROGRAM

A. Poverty Reduction Strategy

7. The government's objectives and policies are based on the second version of the National Poverty Reduction Strategy (NPRS II), approved by the High-Level Supervision Committee in April 2008. The rural sector, good governance, and investment in human capital and in infrastructure are the main priorities. The new strategy emphasizes, more than the previous version, the importance of growth to poverty reduction. The strategy particularly stresses the need to improve the business climate, develop infrastructure, and strengthen rural development as the main pillars of more robust growth, taking account of the need to improve the quality of public spending. To implement effectively the NPRS II, the government also adopted a Priority Action Plan for 2008–11. This plan establishes a list of the quantifiable and verifiable actions needed to attain the objectives of the NPRS II and is being integrated into the program budgets of the ministries and into the medium-term expenditure framework (MTEF).

B. The 2009–12 Macroeconomic Framework

8. The MTEF is shaped by a plummeting of oil revenue in 2009 followed by a gradual recovery in parallel with oil prices. The international financial crisis triggered a steep drop in oil prices that will lead to a large reduction in oil revenue, compared with the levels of the past two years. In this context, the challenge for the government is to reschedule public

expenditure in such a way as to succeed in completing the numerous projects initiated to meet the country's enormous development needs, in circumstances where revenue is much scarcer than in the past two years. Real non-oil growth is expected to improve over the medium term, especially as a result of road construction whose positive effects on trade are already visible. Inflation should remain close to the CEMAC target of 3 percent a year owing to higher agricultural output and prudent monetary policy conducted by the BEAC. After a sharp deterioration in 2009 following the drop in oil prices, the overall balance of payments position is expected to improve gradually, with an increase in these prices envisaged for the medium term.

9. The key economic policy challenge is to ensure proper use of the expected oil revenue to reduce poverty, given the volatility of oil prices and the exhaustible nature of oil resources. Oil revenue provides a unique opportunity for Chad to lay the foundation for sustained growth and lasting poverty reduction. However, this revenue is volatile by nature, as demonstrated by the drastic fall of oil prices since the summer of 2008. Moreover, production from the Doba basin is expected to diminish gradually until it becomes negligible by 2030.

10. In those circumstances, the government's strategy is based on three main pillars: (i) converting the oil resources into other forms of capital; (ii) strengthening the collection of non-oil revenue; and (iii) improving public financial management to ensure the effective and transparent use of public resources. The overall strategy seeks to guarantee fiscal sustainability, defined as a shrinking non-oil primary balance, leading to increased poverty reduction spending while ensuring debt sustainability. The absorptive capacity and the quality of public expenditure are key in deciding on the expenditure package. The main challenge is to ensure that the numerous investment projects launched in recent years can be completed in a context that is much less favorable in terms of oil revenue.

11. Chad's MTEF takes account of the above considerations. The fiscal target is to reduce the non-oil primary deficit from 28.6 percent of non-oil GDP in 2008 to less than 5 percent in 2012. To achieve this goal, the government will have to continue increasing non-oil revenue and reduce spending gradually to a sustainable level over the medium term.

12. To improve revenue, tax policy and tax administration will be strengthened, as described below:

- **Tax policy.** The tax system will be reviewed, so that measures can be identified to increase its effectiveness and its equity and to improve tax revenue gradually. Exemptions from customs duty and taxes as well as tax incentives will be analyzed, so that implicit tax spending can be assessed with a view to its inclusion as a memorandum item in annual budgets, starting with the 2010 budget, in accordance with good transparency practices.

- **Tax administration.** The government will shortly take steps to strengthen the customs administration, in particular by updating and using the various modules of the computerized platform underlying ASYCUDA. This measure will first be implemented in a pilot project at the Ngueli offices and then expanded to include the offices at the N'Djamena and Komé airports. The government is committed to taking other measures to improve the customs administration, including enforcing, simplifying, and computerizing customs clearance procedures and allowing only customs officers and approved professionals to enter in-bond areas. As regards the tax administration, emphasis will be placed on strengthening the General Directorate of Taxes (DGI). In particular, the government will take steps, in consultation with IMF staff, to improve its performance. Those steps include restructuring the DGI and its organization chart; strengthening procedures, tax audits, and internal audits; and restoring the computer network of the Directorate of Large Enterprises (DGE), so that all DGE departments will be connected with each other and with the other DGI departments.

- Efforts to streamline and improve **spending** will cover the following key areas:

- **Wage bill.** The government is aware of the risks related to the rapid ballooning of the wage bill, both civilian and military, which currently absorbs almost all domestic non-oil budgetary resources. The measures aimed at streamlining the wage bill include mainly: conducting a biometric census of all civil servants, computerizing the payroll, and gradually paying wages only by transfer on a bank deposit. The government will ensure that health and education sectors are adequately staffed, in conformity with budgetary constraints. As soon as security conditions permit, the army wage bill will be gradually reduced.

- **Transfers.** The subsidies granted to COTONTCHAD and STEE will be gradually trimmed down, through pursuit of the structural reforms. Other transfers will also be streamlined;

- **Investment**. Capital expenditure will be not only aligned with the NPRS II and its priority action program but also maintained at a level compatible with absorptive capacity and financing constraints. Priority will be given to the maintenance and equipping of existing infrastructure. Given the high number of projects under execution,[1] the government undertakes to curtail the introduction of domestically financed new projects until all the investment projects launched in recent years have been successfully completed, and provided with personnel and goods and services to be operational. In this regard, the government undertakes to: (i) complete the installation, in the General Budget Directorate at the Ministry of Finance and Budget, of a comprehensive database of all ongoing investment projects and keep it rigorously updated; (ii) include in the 2009 supplementary budget, appropriations for any contracts signed without budget appropriation that the government may decide to

[1] Program authorizations as at April 30, 2009, total CFAF billion 711.

pursue in line with budget constraints; (iii) reschedule the implementation of investment projects on the basis of their level of priority and budget constraints; and (iv) plan to include, starting from the 2009 supplementary budget, a credit allocation for contingencies to facilitate the start-up during the year of any priority projects that were not initially planned, within reasonable limits and taking account of budget constraints.

- To stress its attachment to **compliance with orderly budgetary management**, the Council of Ministers adopted, on June 4, 2009, a Communication recalling the need to respect budgetary procedures, including that no investment project can be launched by the government without the prior existence of a budget appropriation (structural benchmark, Table 2).

- **Public procurement**. The government undertakes to reduce the share of domestically financed contracts awarded by non-competitive procedures. From June to December 2008, this share was 66 percent.

C. The Program in 2009

Fiscal Policy

13. The initial budget law passed by Parliament was formulated on the basis of an international oil price of US$83 a barrel, taking account of NPRS II priorities.

14. The steep drop in oil prices and consideration of the new memorandum of understanding signed in 2008 with the Consortium have created downward pressure on revenue, compared with the assumptions in the initial budget. Given the decline in oil prices to about US$52 a barrel in 2009, the new memorandum of understanding signed with the Consortium in 2008, and the time taken to adjust the prices used for calculating oil revenue payments, oil revenue must now be reduced to CFAF 93 billion in 2009, or CFAF 409 billion less than initially budgeted.

15. Dealing with that situation, the government has introduced to Parliament a draft revised budget. The main changes from the initial budget are as follows:

- **Revenue.** Total revenue was reduced to CFAF 343 billion, down CFAF 373 billion, owing to the above-mentioned decline in oil revenue, which will be somewhat mitigated by an increase in non-oil revenue, expected as a result of implementation of the administrative reforms described above (paragraph 12);

- **Expenditure.** The wage bill was maintained at CFAF 195 billion, given its incompressibility. Priority expenditure such as appropriations for vaccines and other spending of similar importance in the health and education sectors have been maintained in consultation with donors supporting the government in implementing

NPRS II. Goods and services were reduced to CFAF 76 billion, down CFAF 25 billion, in the non-priority sectors. Transfers, excluding exceptional security spending, were reduced to CFAF 106 billion, down CFAF 40 billion. The subsidy to STEE and transfers to the producing region were reduced as oil prices fell, while other transfers were streamlined. These cuts notwithstanding, the supplementary budget includes an adequate appropriation to cover wages and wage arrears payable to community teachers (CFAF 4.5 billion). Domestically financed capital expenditure was reduced to CFAF 165 billion, down CFAF 45 billion, through a rescheduling of the implementation of ongoing projects and a freeze on new projects.[2] Exceptional security spending was increased to CFAF 105 billion, up CFAF 59 billion, given the level of spending of this category in the first quarter of the year and the security imperatives; and

- **Financing**. To mitigate the impact of the huge decline in oil revenue, the supplementary budget provides for the use of up to CFAF 293 billion of government accumulated bank deposits, along with up to CFAF 99 billion of statutory advances from the BEAC. As part of a regional initiative to launch a market for Treasury Bills in July 2009, member states' statutory advances ceilings at the BEAC will be frozen at the level prevailing at end-June 2009. This will freeze Chad's statutory advances at CFAF 197 billion. Debt service to commercial banks include the reimbursement of a loan to COTTONTCHAD assumed by the government in an amount of CFA 13.7 billion.

16. The expenditure adjustment proposed in the supplementary budget is an important step for convergence toward a sustainable level in the medium term, given that oil revenue during the period 2010–12 can be expected to average less than half the level recorded in 2008. The government undertakes to present a draft 2010 budget law by October 31, 2009 (structural benchmark, Table 2). This draft will be consistent with the macroeconomic framework, which will be updated next fall, in collaboration with Fund staff.

Public Financial Management

17. The government is determined to correct the weaknesses in the public financial management system. Special attention will be paid to the following measures:

- Starting with the 2009 revised budget, budget laws will include an annex showing all investment projects by ministry, their total cost, and the related multiyear planning.

- Improving compliance with the budgetary procedures, in particular through:

[2] Except for any priority projects not initially planned, within reasonable limits and taking account of budgetary constraints (¶12).

- Strict application by the government of the "appropriation clearance" (*visa de crédit*) system, in which expenditure without a corresponding budget appropriation is prohibited.

- Publication, on June 9, 2009, of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called *dépenses avant ordonnancement (DAO)* (structural benchmark, Table 2). In particular, except in totally unavoidable circumstances, no capital expenditure may be settled using the DAO process, owing to the importance of properly planning and monitoring such spending. The amount of civilian expenditure executed by DAO will be subject to a ceiling during the program (indicative target, Table 1).

- Issuance, by October 15, 2009, of a circular similar to Circular 033/MFI/DG/DGB/07 of November 26, 2007, to close off spending commitments for FY 2009 by the deadline prescribed in the organic budget law.

• As regards the capital expenditure database in the General Budget Directorate at the Ministry of Finance and Budget (¶12), an interface will be created between the procurement database software and the integrated expenditure information system, with technical assistance from the European Commission. No contract funds may be budgeted, committed, authorized for payment, assumed as a liability, or paid unless they were previously recorded in this database.

• A monthly cash flow plan will be updated every month as of May 2009, on the basis of recommendations by technical assistance missions.

• The government undertakes to introduce draft budget review laws for FY 2007 and FY 2008 before submitting the draft 2010 budget law to Parliament.

Domestic Debt Management

18. Clearing domestic debt arrears and preventing the accumulation of new arrears are priorities. The aim is to restore the credibility of public finance and stimulate the private sector. A 2006 audit put the stock of domestic debt at CFAF 142 billion (7 percent of non-oil GDP) at end-2005. A committee tasked with recording and validating domestic debt is currently updating the 2006 audit. It will examine new debt and arrears accumulated through 2008 and perform further auditing. It is to produce a final report by end-October 2009. The settlement plan will reconcile the stock of debt and arrears at end-2007 and 2008 with the 2006 audit report and information from the Treasury on debt payments. The plan, which will be published, will pave the way for the settlement of all arrears over a three-year period. To prevent the accumulation of new arrears, the government undertakes to pay all expenditure for which payment authorizations have been issued within a time frame of 120 days (continuous indicative target, Table 1).

Collection of Oil Revenue

19. The government will continue to observe strictly the Interim Mechanism for Oil Revenue Management, instituted by Decree 253/PR/Mfi/07 of March 29, 2007, until a new oil revenue management framework is adopted.

20. The government undertakes to ensure the existence of a tax framework applicable to the oil sector that is transparent and sustainable. Chad currently has a high level of transparency and accountability in oil revenue collection. In light of developments that will make the oil sector more complex, the government will build its capacity to maintain this transparency. The short-term measures envisaged include:

- Building the capacity of the Ministry of Finance and the Ministry of Petroleum to enable them to monitor oil revenue collection closely. The Oil Revenue Monitoring Bureau (BSRP) in the Ministry of Finance will be the focal point of these efforts. The first outcome will take the form of a detailed and comprehensive report on oil revenue collected since 2003. In this document, all revenue will be presented as a ratio of the pertinent tax base: royalties on production and prices; income tax on profits and costs: surface area tax, bonuses, etc. Furthermore, with assistance from the donors, the government will recruit a specialized firm in 2009 to provide the BSRP with a template for monitoring and a chart of accounts for recording oil revenue on a monthly basis so that all revenue can be tracked, from offshore accounts to the Treasury's single account at the BEAC**.**

- The recruitment of internationally recognized specialized firms to conduct audits, in accordance with pertinent international standards (ISA), of oil costs for 2006–07 and the declarations of outturns and royalties for 2002–07 from the Consortium, and the publication of these audits.

- The government will pursue its application to become an Extractive Industry Transparency Initiative (EITI) Candidate country.

Collection of Non-Oil Revenue

21. 2009 marks a fresh start for strengthening non-oil revenue collection. The two new directors who have been appointed at the head of the tax and customs administrations have already defined a strategy for modernizing revenue collection. This strategy was translated in a set of operational measures with technical assistance by the Fund's Fiscal Affairs Department. The DGI has started to implement the following measures for improving tax collection in 2009:

- opening of three additional tax administration offices in the N'djamena to broaden the tax bases and bring the tax collectors closer to taxpayers ;

- tightened tax controls to ensure that enterprises involved in public procurement pay their taxes;

- creation of an interministerial committee to tighten control on the payment of taxes on cars; and

- active use of additional resources, including cars, motorbikes and a boat.

22. The customs administration will implement the following measures :

- stepped up enforcement of procedures in the main customs offices;

- close scrutiny of tax and duty exonerations;

- stepped up efforts to detect fraud;

- continued implementation of a computerized information system; and

- accelerated training of key staff.

Public Enterprise Reform

23. In 2006, the government created a state oil company, *Société des Hydrocarbures du Tchad* (SHT). If the company is to produce the spin-offs expected by Chad, quality corporate governance is essential as well as an explicit procedure for government approval of all decisions with significant fiscal implications. In this regard, the government will ensure:

- That any budgetary support for the SHT—including transfers of endowment funds, financing, and contributions in kind—is recorded in the general government budget transparently and on a gross basis, that is, without deductions from the amounts payable to the government or the revenue collected by the SHT for the government.

- That all major decisions involving or that may involve the government's financial liability—including borrowing by the company—will receive in advance the assent of the Council of Ministers. The SHT budget, once approved, will be forwarded to the National Assembly for information purposes.

- Publication by the SHT of an annual report on its operations, as well as financial statements certified by an internationally recognized specialized audit firm.

24. The government plans to pursue the reforms of the main public enterprises, with a view to streamlining them and reducing their burden on the budget. It launched a technical and financial audit of COTONTCHAD that will be completed by October 2009. This is all the more important as the company has been unable to repay its bank loans even though it has received very substantial subsidies and exceptional transfers since 2006. On the basis of this audit, the new roadmap for reforming the sector will be updated. The government will

make every effort to reduce STEE operating costs by using competitive bidding procedures for the purchase of fuel and accelerating the installation of the topping plant. In addition, the responsible ministry will conduct an audit of the use of subsidies to the STEE since 2006, by year-end.

Financial System

25. The government undertakes to develop the financial system and preserve financial stability in collaboration with the Banking Commission. In this context, it will inform IMF staff in a timely way about the actions to be taken, including those with possible fiscal implications. In the medium term, it intends to prepare an action plan to strengthen the financial sector and promote financial deepening of the economy. To this end, it launched in the first quarter of 2009 the operation to pay civil servants' wages by bank deposit. It also deems it crucial to develop microfinance through an appropriate strategy. The government will also need a Financial Sector Assessment Program (FSAP) and technical assistance from the IMF to achieve its objectives.

External Debt Management

26. Although Chad's debt situation has improved appreciably, the outlook remains tenuous**.** It is therefore of utmost importance for Chad to reach completion point of the Initative for Heavily Indebted Poor Countries (HIPC), as this will also open the way to debt reduction under the Multilateral Debt Relief Initiative (MDRI). The government's aim is to reach completion point as soon as possible. The government is also aware that any non-concessional borrowing will jeopardize its attainment of the completion point under the HIPC Initiative.

IV. Program Monitoring

27. The SMP will cover the period April 1-October 31, 2009. To keep expenditure execution consistent with the budget, the government undertakes to maintain active consultation with IMF staff in executing its budget. The government, through the High-Level Interministerial Committee for the Preparation and Negotiation of Programs Supported by the Poverty Reduction and Growth Facility (PRGF), assisted by the Technical Committee (Economic Unit, UCID, and the various other units directly involved), will supervise the SMP until the conclusion of a new three-year PRGF-supported program. The program will be the subject of quarterly assessments, based on the indicative targets for end-June and end-September 2009, shown in Table 1, and the structural benchmarks listed in Table 2. The indicative targets are defined in the Technical Memorandum of Understanding (attached). Although, the SMP will end in October, the government will implement it thoroughly until the end of 2009 to pave the way for a successor arrangement under the PRGF in the beginning of 2010.

Table 1. Chad: Indicative Targets for the Period April 1 - October 31, 2009 and Projections for the Period Beyond That [1]
(In billions of CFA francs; cumulative changes from the beginning of the calendar year, unless otherwise indicated)

	End-June 2009	End-Sept. 2009	End-Dec. 2009	End-Mar. 2010
	Prog.	Prog.	Proj.	Proj.
Non oil fiscal primary balance, floor	-236.8	-292.8	-398.2	-48.9
Net claims of the banking system on the government, ceiling	189.0	236.6	372.9	61.0
Civilian expenditures executed through exceptional budgetary procedures (*dépenses avant ordonnancement*), ceiling	70.0	80.0	90.0	…
Accumulation of domestic payments arrears of the government, ceiling [2]	0.0	0.0	0.0	0.0
Accumulation of external payments arrears of the government, ceiling [2]	0.0	0.0	0.0	0.0
Government's contracting or guaranteeing of new nonconcessional external debt, except normal trade financing with a maturity of up to one year, ceiling [2]	0.0	0.0	0.0	0.0
Memorandum items:				
Oil revenue	87.4	89.2	93.3	20.4
Income Tax	7.5	8.5	9.5	12.5
Royalties and dividends	76.6	76.6	76.6	5.3
Other	3.3	4.1	7.2	2.6

Sources: Chadian authorities; and IMF staff projections.

1. See Technical Memorandum of Understanding (TMU) for a definition of the indicative targets.
1. Continuous.

Table 2. Chad: Prior Action and Structural Benchmarks for the Staff-Monitored Program
April-October 2009

Measure	Deadline	Status
Prior action for submitting the program for Management approval		
Submission to Parliament of a draft 2009 supplementary budget consistent with the macroeconomic framework agreed with Fund staff.		Met
Structural benchmark		
Adoption of a Communication by the Council of Ministers recalling the need to respect budgetary procedures, including that no investment project can be launched by the government without the prior existence of a budget appropriation.	June 30, 2009	Met
Publication of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called *dépenses avant ordonnancement (DAO)*.	June 30, 2009	Met
Submission to Parliament of a draft 2010 budget consistent with the macroeconomic framework agreed with Fund staff.	October 31, 2009	

ATTACHMENT II

Chad—Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum on Economic and Financial Policies (MEFP) for the period April 1-October 31, 2009 prepared by the authorities of Chad. It describes more specifically: (a) reporting procedures; (b) definitions and computation methods; (c) indicative targets; and (d) adjusters of the indicative targets; and (e) structural benchmarks.

A. Reporting to the IMF

2. Data on all the variables subject to quantitative targets will be transmitted regularly to the IMF in accordance with the schedule shown in Attachment 1 herewith. Revisions will also be forwarded quickly (within a week). In addition, the authorities will consult with IMF staff if they obtain any information or new data not specifically defined in this TMU but pertinent for assessing or monitoring performance against the program objectives.

B. Definitions and Computation Methods

3. Unless otherwise indicated, the term **government** refers to the central government of the Republic of Chad as defined in the *Government Finance Statistics Manual* of 2001 (GFSM 2001), paragraphs 2.48-50.

4. **Oil revenue** is defined as the sum of royalties (royalties and statistical fees), income tax, dividends, discounts, area taxes, and any other flows of revenue paid by oil companies, except indirect duty and taxes. The authorities will notify IMF staff if changes in the oil taxation systems lead to changes in revenue flows.

5. **Total revenue** is tax revenue plus social contributions plus non-tax or other revenue (as defined in GFSM 2001, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, and grants are not considered revenue for the purposes of the program. It is appropriate to show separately oil revenue, as defined in paragraph 4 above, in the breakdown of total revenue.

6. **Total expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), debt interest, and capital expenditure. All these categories are recorded on a commitment basis, except debt interest, which is recorded on a cash basis. Investment is defined as shown in the *Manual on Government Finance Statistics* of 1986 (MGFS 1986) and excludes taxation on contracts. With the exception of capital expenditure, all other spending items are defined as in GFSM 2001 (paragraphs 6.1-6.88). Total

government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement*—DAO) and not yet regularized.

7. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8-6.18 of GFSM 2001, namely, all employees (permanent and temporary), including civil servants and members of the armed forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non-monetary payment.

8. For the purposes of this memorandum, the terms **debt, debt (domestic or external) payment arrears, and expenditure payment arrears** are defined as follows:

- The term "**debt**" is as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000 (Decision 12274-00/85), but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement signed by a legally authorized government representative through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

- Debt can take several forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary asset swaps, equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, generally with interest, by repurchasing the collateral from the seller in the future (as in repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts under which the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

- Any debt obligations as defined above that have not been amortized in conformity with the conditions specified in the pertinent contract or legal document establishing them are defined as **arrears**. **Debt (domestic or external) payment arrears** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract or legal document;

- In accordance with the definition of debt set out above, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) does not constitute debt; and

- **Expenditure payment arrears** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 120 days after their issuance.

9. **Loan concessionality** is assessed on the basis of the commercial interest reference rates established by the Organization for Economic Cooperation and Development (OECD). A loan is deemed to be on concessional terms if on the date the contract is signed the ratio of the present value of the loan, calculated on the basis of the interest reference rates, to its nominal value is 65 percent or less, or, in other words, if it has a **grant element** of at least 35 percent (this does not apply to refinancing operations). For debts maturing in over 15 years, the 10-year interest reference rate published by the OECD will be used to calculate the grant element. For shorter maturities, the six-month market reference rate is to be used. To both the 10-year and six-month averages of the reference rate, the following margins will be added: 0.75 percent for repayment periods of less than 15 years, 1 percent for repayment periods of 15-19 years, 1.15 percent for periods of 20-29 years, and 1.25 percent for periods of 30 years or more.

10. The fiscal program is hinged on the **non-oil primary balance.** The non-oil primary **balance** is defined as total revenue, minus oil revenue and the proceeds of interest on government assets, minus total government expenditure, excluding interest payments on domestic and external debt and foreign-financed capital expenditure.

C. Indicative Targets

11. The **indicative targets** (ITs) listed below are those specified in Table 1 of the MEFP. **Adjusters** of the ITs are specified in Section D below. Unless stated otherwise, all ITs will be assessed **cumulatively** from the beginning of the calendar year to which they apply. The quantitative targets and details on their assessment are as follows:

- **A floor for the non-oil primary balance**: The non-oil primary balance is defined in paragraph 10 above.

- **A ceiling on net banking system[1] claims on the government**: Net claims are measured in accordance with the accounting practices of the central bank (BEAC).

- **A ceiling for civilian DAO**. Civilian DAO is expenditure, not for military purposes and not related to the payment of debt, executed before payment authorization is obtained.

- **A zero ceiling for the accumulation of domestic arrears by the government**. Domestic arrears are the sum of payment arrears on expenditure and payment arrears on domestic debt as defined in paragraph 8 above. This ceiling will be assessed continuously.

- **A zero ceiling for the accumulation of external payment arrears by the government**. This ceiling will be assessed continuously.

- **A zero ceiling on government contracting or guaranteeing of new non-concessional external debt, excluding the normal financing of foreign trade, maturing in up to a year.** Debt is nonconcessional if it has a grant element of less than 35 percent (as described in ¶9 above). Normal short-term import credits are excluded, these being self-liquidating operations because the proceeds from sales of imports are used to repay the debt. This ceiling will be assessed continuously.

D. Adjusters of Indicative Targets

12. To take account of factors beyond the government's control, various indicative targets will be adjusted, as follows:

- In the event oil revenue exceeds the programmed amount, the **ceiling for net banking system claims on the government** will be lowered by the excess of oil revenue. Should oil revenue be less than programmed, the ceiling will be raised accordingly to a maximum of CFAF 10 billion; and

- The **floor for the non-oil primary balance** will be adjusted downward by the amount of unexpected budgetary support obtained.

[1] The banking system includes the central bank, the commercial banks, and the post office bank.

E. Structural Benchmarks

13. Structural benchmarks are specified in Table 2 of the MEFP. Some further details are as follows:

- *Publication of a circular limiting the categories of expenditure that can be executed using the exceptional budgetary procedure bypassing the normal expenditure chain called dépenses avant ordonnancement (DAO).* This measure refers to the establishment of regulations to spell out the enforcement of the existing legislation on expenditure not going through normal budget procedures (DAO), by limiting and specifying the types of expenditure and the exceptional circumstances for which the DAO procedure will be authorized. The draft regulations will be discussed with IMF staff before finalization.

Attachment

Data	**Provider**	**Periodicity and Target Date**
Oil and non-oil revenue, by category *(Revenue position of the revenue-collecting agencies)*	Ministry of Finance (Treasury)	Monthly, within 30 days of month-end, except: 15 days after month-end for revenue positions of the revenue-collecting agencies (N'Djamena).
Budget execution data showing commitments, payment authorizations, validations, and payments *(Table showing the four phases; payroll table, including benefits; table of expenditure before payment authorization; comparative budget execution table; TOFE, on a cash basis; consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance)*	Ministry of Finance (General Budget Directorate and Treasury)	Monthly, within 30 days of month-end, except: 15 days after month-end for the table showing the four phases, the payroll table, and the table of expenditure before payment authorization.
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance (General Budget Directorate)	Monthly, within 30 days of month-end.
Details, by project, of execution of the domestically financed investment budget, with the information organized by Ministry *(Database, by contract)*	Ministry of Finance (General Budget Directorate)	Quarterly, within 15 days of the end of the quarter.
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Planning and Ministry of Finance and Budget	15 days after the end of each semester.
Cash flow plan to the end of the ongoing year	Ministry of Finance (General Treasury Directorate)	Every month, within 15 days of month-end.
Details on the servicing of domestic debt and payment arrears of the government[4]	Ministry of Finance (Debt Directorate)	Quarterly, within 15 days of the end of the quarter.

[4] Including maturities.

Details on the servicing of the external debt of the government[5]	Ministry of Finance (Debt Directorate)	Quarterly, within 15 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government	Ministry of Planning	Within 30 days of transaction completion.
Monetary survey	BEAC	Monthly, within 45 days of month-end.
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities[6],base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[7])*	BEAC	Monthly, within 45 days of month-end.
Net banking system claims on the government *Net government position (NGP)*	BEAC	Monthly, within 15 days of month-end for the BEAC and within 20 days for the full NGP.
Consumer price index	INSEED	Monthly, within 15 days of month-end.
Gross domestic product and gross national product	INSEED	Annually, within 90 days of year-end.
Balance of payments *(External current account balance, exports and imports of goods and services, etc.)*	BEAC	Annually, within 90 days of year-end in the case of estimates for monetary programming and within nine months for the final data.

[5] Including the breakdown by currency and by maturity.

[6] Including reserve assets pledged or otherwise encumbered as well as net derivative positions.

[7] Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, notes, and bonds and other securities.