International Monetary Fund

[Chad](#) and the IMF

Press Release:
IMF Executive Board Completes Third Review under Extended Credit Facility for Chad and Approves US$48.6 Million Disbursement

November 30, 2018

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Chad: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

December 10, 2018

The following item is a Letter of Intent of the government of Chad, which describes the policies that Chad intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Chad, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Appendix I. Letter of Intent

December 10, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC, USA

Madame Managing Director,

On June 30, 2017, the Executive Board of the International Monetary Fund (IMF) approved a financial program under the Extended Credit Facility (ECF) covering the period June 30, 2017 through June 29, 2020, to support Chad's economic stabilization and recovery strategy. On April 13, the Executive Board completed the first review of the program and approved the second review on July 27, 2018. Each review led to the immediate disbursement of SDR 35.05 million, bringing total disbursements under the program to SDR 105.15 million.

Despite low oil revenues, a difficult socio-economic situation, and security challenges, Chad continues to make progress under its ECF-supported program. The signs of stabilization observed since the second half of 2017, especially in the fiscal area, continued in 2018. After contracting for a third straight year in 2017, non-oil economic activity began to recover in 2018, but at a slower pace than expected. While oil production rebounded as projected, the upturn in non-oil economic activity was not as strong as initially expected due to the public-sector strike and low budget execution.

Fiscal prudence continued in the first half of 2018, reflecting efforts to raise non-oil revenue and control spending. In addition, the following factors were key in supporting the stabilization: (i) the financial support of development partners; (ii) the debt rescheduling agreement with Glencore; and (iii) the successful rollover of domestic public debt. These developments have helped to improve the liquidity position of the Treasury, enabling the government to pay wages on time and clear some domestic and external arrears. Nevertheless, the government is aware that the pace of reform must be maintained to firmly stabilize the country's fiscal and financial situation, as well as to ensure the effective resumption of growth in the non-oil sector.

Program implementation is broadly on track. All but one performance criteria (PC) for completion of the third review were met, but the two indicative targets were not achieved. The continuous criterion of zero accumulation of new external arrears by the government and non-financial public enterprises was missed by a very slim margin, despite efforts to avoid arrears. The indicative target on poverty-reducing social spending was narrowly missed, a reflection of the wage bill reduction that had more of an impact on the ministries of Education and Health. The indicative target on the regularization of emergency spending procedures (DAO) was missed, due mainly to the large volume of DAOs and coordination issues among the relevant agencies. All the quantitative targets for end-September were met, except those relating to DAO regularization and poverty-reducing social spending.

Despite a few delays, the government undertakes to pick up the pace in implementing the structural reforms program. Just one of the three structural benchmarks was implemented on time, but progress has been made on the others. The government continues to publish quarterly updates on the oil sector in line with the template agreed with Fund staff. While the structural benchmark concerning the recruitment of external consultants to review and prepare reorganization plans for two public banks has not been reached, the government has since retained the services of two firms, which began their work with the aim of completing their reports by end-February 2019. Moreover, due to the delay in launching and completing the audit of domestic arrears, a strategy for clearing these arrears has yet to be prepared or adopted. The government undertakes to adopt a comprehensive clearance strategy for domestic arrears by end-March 2019 that will clearly establish the priorities and terms for clearing audited arrears. This strategy will be widely disseminated to the public.

The government's economic reform strategy remains focused on stabilizing the economy and supporting the resumption of growth in the non-oil sector. The gradual improvement in the fiscal position owing to strong non-oil revenue mobilization and greater oil revenue transparency, as well as improved public financial management will create fiscal space for higher investment and social spending and the repayment of domestic arrears. This should help strengthen financial sector stability and boost the non-oil sector.

Despite considerable challenges for 2019 and in the medium term, the government plans to focus on economic recovery and stabilization in 2019 to achieve a sustainable exit from the crisis. With appropriate policies and reforms as well as higher oil prices and production, non-oil GDP should rise again, and the economy should benefit more from the likely increase in oil revenues and the full effect of the Glencore debt restructuring.

The 2019 draft budget, which has been submitted to the National Assembly, is in line with the program. Non-oil revenue mobilization continues to be an important aspect of the overall effort to improve fiscal sustainability. The 2019 budget therefore includes additional provisions for improving non-oil tax revenues, including the elimination or revision of exemptions not compliant with legislation and the streamlining of income tax. The government commits to not renew expiring exemptions. To strengthen oil revenue mobilization, the government is firmly committed to not extend or renew tax and customs exemptions granted for existing oil production and refining operations and ensuring that all oil revenues are paid into the Treasury. As regards spending, the 2019 draft budget law seeks fiscal prudence, including control over the wage bill, greater resource allocation to social sectors and investments, and strict limits on DAO use. As of March 2019, the government will therefore take the necessary corrective action in case the monthly wage bill exceeds the budgeted amount. Furthermore, the allocation to social sectors will have to be at least 34 percent of primary expenditures. Lastly, following budget approval by the National Assembly, in accordance with Decree 817 establishing general government accounting rules, the government will publish a decree adopted by the Council of Ministers limiting DAOs (for primary spending excluding the wage bill and security spending) to 22 percent of primary non-wage expenditures. The 2019 budget includes an allocation of CFAF 33 billion to cover the cost of parliamentary elections. Additional expenditures for the elections would be financed through higher-than-expected oil revenues or budgetary support, in accordance with program parameters. In the event of additional oil revenues (beyond what is projected under the program), the government commits to consult with the IMF on the use of such windfall in the context of a supplementary budget.

The program includes structural reforms to diversify the economy and its competitiveness, strengthen the private sector, improve governance, and fight corruption, including through the effective implementation of the UNCAC and the enforcement of the constitutional obligation imposed on senior officials to report assets. These goals are also enshrined in our National Development Plan 2017–21. With more determined program implementation efforts and continued technical and financial support from our development partners, we are confident in being able to achieve the goal of progressively lifting economic growth and reducing poverty. The government has undertaken to seek concessional financing to support priority investments.

The government strongly supports CEMAC efforts to maintain an appropriate monetary policy, reinforce regional foreign exchange reserves, and promote the stability of the financial sector. In this respect, it is committed to transparency in managing oil sector capital flows, particularly by revising oil and mining codes to align them with CEMAC foreign exchange regulations by end-2019 and by repatriating foreign exchange revenues into the local banking system. The latter will be done by transferring balances at end-2018 from Treasury external accounts with Citibank to its current account with the BEAC and by ensuring that all revenues channeled through these accounts are then repatriated without delay.

The attached Memorandum of Economic and Financial Policies (MEFP) supplements that of July 2018. It describes the economic and financial situation in 2017 and 2018, sets out the economic and financial policies that the government intends to implement during the remainder of 2018 and in 2019, and establishes the performance criteria, indicative targets, and structural benchmarks for 2019.

Based on program performance, the government requests that the Executive Board of the IMF approve the completion of the third review under the ECF-supported program. The government also requests a waiver for the nonobservance of the continuous performance criterion on external arrears accumulation, as it was missed by a small margin due to a single late payment. That payment had been made on time but was rejected. The government requests a change in the definition of external arrears for the purpose of the program to exclude arrears that are less than six weeks old (instead of only two weeks) given the limited capacity in the country and the nature of the technical difficulties that have recently arisen in making payments. With elections planned for 2019, the government requests modification of the adjustor related to the use of additional budgetary receipts (from higher oil revenue, additional budget support, and exceptional receipts) to help preserve its conservative fiscal approach. The government also requests to modify the date of the structural benchmark on public banks reform.

The government is convinced that the measures and policies set forth in the MEFP will serve to achieve the program objectives. It stands ready to take other measures that may prove necessary. The Chadian authorities will consult with the IMF on the adoption of any additional measures in advance of revisions to the policies contained in the MEFP, in accordance with Fund policies on such consultations. To facilitate program monitoring and assessment, the government undertakes to provide all necessary information to Fund staff on a regular basis and in a timely manner, pursuant to the attached Technical Memorandum of Understanding (TMU).

In closing, in keeping with our longstanding commitment to transparency, the government agrees to the publication of the staff report, the letter of intent, the MEFP, and the TMU on the IMF website.

Very truly yours,

/s/

Allali Mahamat Akbar
Minister of Finance and Budget

Attachments:
I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

OVERVIEW

1. The crisis that began in 2014 has had far reaching economic, financial, and social effects on Chad. While the crisis was precipitated by the oil price shock, the burden of external commercial debt had severely aggravated its financial and social effect as it necessitated a deep and unsustainable fiscal contraction. In addition, the security and humanitarian tensions particularly in the Lake Chad region and Chad's active involvement in peacekeeping efforts in the region has added significant pressures on the budget and the economy more generally.

2. In June 2017, the government of Chad requested a new program under the ECF arrangement to support its reforms and stabilization strategy to lift the country out of the crisis. A three-year ECF arrangement was approved on June 30, 2017 in support of the government's medium-term economic program; the first review of the ECF was approved by the IMF's Board on April 13, 2018 and the second review on July 27, 2018. The main elements of the program are to (i) reestablish debt sustainability through external commercial debt restructuring, (ii) achieve further gradual fiscal adjustment and create space for domestic arrears payment by maintaining a tight spending envelope and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

3. After more than two years of sharp economic contraction, signs of stabilization started to appear at the end of 2017 and continued in 2018. Support from international partners, the agreement to reschedule the Glencore debt, and the successful rollover of domestic public debt have helped ease the liquidity position of the government, which has been able to pay wages on time and clear some domestic and external arrears. Nonetheless, the economic, fiscal, financial, and social situation continues to be difficult. The government recognizes the need to remain focused on implementing reforms to further stabilize the fiscal and financial situation in the country and ensure that economic growth in the non-oil sector rebounds.

4. This memorandum is an update and a supplement to that of July 2018. It lays out the specific elements of the government's reform strategy under the ECF arrangement. It describes recent economic developments, the government's efforts to implement policies agreed under the existing program supported by the current arrangement, macroeconomic prospects, as well as the government's policies and reform agenda, particularly for the remainder of 2018 and 2019.

RECENT DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Developments

5. Economic activity is expected to have started to recover in 2018, albeit at a slower pace than initially anticipated. After a sharp decline in 2017 following technical problems in the oil sector, oil production rebounded this year and is in line with projections. Despite some improvement relative to 2017, the recovery in non-oil economic activity has not been as strong as initially expected due to the strike in the public sector, low budget execution so far this year. After reaching a peak of 7.0 percent in May (y-o-y), inflation decelerated to 5.8 percent in September 2018. The pick-up of inflation is mainly due to the increase in the price of fresh water (from CFAF 105 to CFAF 200 per cubic meter) decided in May 2018 by the Chadian water company, and higher prices in the transportation, education, restaurants, and hotels sectors, while food prices declined.

6. The first six months were marked by continued fiscal prudence reflecting efforts to increase non-oil revenues and control spending. While the wage bill remained low, other domestically financed expenditures have started to pick-up in the second and third quarters. The lower monthly wage bill mostly reflects cuts in bonuses and benefits in 2018. Domestically financed investment and transfers and subsidies spending started to increase in the second quarter as the government made an effort to improve budget execution. However, social spending slightly underperformed partly due to the reduction in the wage bill which impacted the education and health sectors where the wage bill takes up a large share of the spending. Non-oil revenue performance was encouraging in the first six months despite strikes that erupted in the end of the second quarter, with tax revenues broadly in line with projections. This reflects strong efforts to secure revenues, including (i) channeling revenues through commercial banks (in which the Treasury opened four different accounts for tax, customs, land and non-tax revenues) rather than directly to the Treasury and (ii) reforms to improve VAT collection notably by increasing the threshold above which companies are considered large. In the third quarter, non-oil revenues have slightly declined but remained broadly in line with the projections.

7. Oil revenues have been driven by the satisfactory performance of oil tax revenues. Higher oil prices and production have contributed to a rebound of oil tax revenues so far in 2018. Government direct oil revenue (from royalties and government participation in oil companies) so far in 2018 has been in line with projections. It is not expected that higher oil prices will have a large impact on direct oil revenues that accrue to the treasury in 2018 (net of Glencore debt service) due to the contingencies included in the Glencore restructuring deal that allocate part of the windfall oil revenue to debt repayment which would help reduce the maturity of the debt.

8. Net government domestic financing in the first six months was in line with program objectives. The domestic treasury bills and bonds rollover rate during the first 6 months of 2018 has been broadly in line with the program objective (around 90 percent), although maturities have shortened. Deposits at the BEAC increased significantly, reflecting strong revenue performance and low budget execution.

9. The government made progress in paying domestic arrears. After declining by about CFAF 45 billion in the second half of 2017, payment of arrears was limited to CFAF 42 billion in the first three quarters of 2018.

10. In spite of minor accumulation of external arrears since the second review of the ECF, the government made considerable progress in clearing its arrears to external creditors and in paying external debt obligations in a timely manner. Following the agreement in principle signed with the Libyan Foreign Bank in May 2018, the government came to an agreement with Eximbank of India to reschedule external arrears (US$10.3 million) and upcoming maturities and is making an effort to clear the small arrears remaining to the commercial bank from Taiwan Province of China. The government is close to finalizing an agreement with the authorities of Equatorial Guinea to address outstanding arrears and has a draft agreement with the authorities of the Republic of Congo that is under negotiations. Finally, the government renegotiated Chad's debt to the Kuwait Fund—which was not in arrears—on more generous terms. In addition, an escrow account for external debt service payment was reactivated at the BEAC in September. Five percent of the balance of the Treasury account (that holds non-oil revenue) at the BEAC is transferred into the escrow account. The government expects that the dedicated funds for external debt payment—along with monthly meetings of all parties relevant for external debt service, including the IMF resident representative as an observer—will ensure that the occurrence of future arrears will stop.

11. Vulnerabilities in the banking sector remain elevated including because of continued portfolio deterioration. Overall banking sector liquidity is showing slight signs of improvement as deposits increased by 2.5 percent in August (y-o-y) thanks to the pick-up in government and state-owned enterprises' deposits that offset the decline in private sector deposits. Credit stabilized in August (y-o-y) as the deterioration of banks portfolio has limited their ability to support economic recovery. However, at end-August 2018, overdue loans accounted for 30.7 percent of gross loans, against 28 percent in December and provisions dropped to 52.7 percent. BEAC refinancing declined from CFAF 199 billion in December to CFAF 160 billion in August and advances at penalty rate declined significantly from CFAF 155 billion to around CFAF 82 billion.

12. The security situation has deteriorated recently while the social tensions are moderating. Deadly attacks took place in July and at end-September on the Chadian side of Lake Chad by Boko Haram and attacks in northern Chad near the border with Libya have occurred since August by armed groups. Concerns over security have necessitated an increase in security spending in 2018. A five-month strike by public sector workers (which delayed the start of the school) ended in late October after long negotiations between the government and unions culminating in an agreement to restore at the beginning of 2019 part of the benefits and bonuses cut that occurred in 2018. After the adoption of the new constitution in May (which moved Chad to a presidential system), the government plans to organize parliamentary elections in the fourth quarter of 2019, allowing time to secure the necessary financing and logistics.

B. Program Implementation

13. The government continued to show a strong determination to implement the program. All but one performance criteria were met (see text table XX), while the two indicative targets were missed at end-June. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed by a very small margin.

- The ceiling on non-oil primary balance (NOPB) for end-June has been met with a large margin. The deficit stood at CFAF 71 billion compared to the quantitative performance criterion of CFAF

125 billion set in the program. This result was achieved primarily because of the government's efforts to contain spending including the wage bill.

- The floor on customs revenue has been met (CFAF 56 billion versus a target of CFAF 45 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts.

- The criterion on net domestic government financing from BEAC has been met with a large margin.

- The criterion on net domestic government financing excluding BEAC was met. This reflects the government's efforts to reduce progressively its reliance on domestic market financing to alleviate liquidity pressures on banks.

- The adjusted criterion on domestic arrears payment was met. The stock of domestic arrears reached CFAF 176 billion against an adjusted target of CFAF 188 billion.

- The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed in spite of strong efforts to avoid such arrears. One small third-quarter payment ($60,000) was made with delay when the Banque de France rejected the first attempt to pay.

- The zero ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises was met as the government continues to resist pressures to access non-concessional financing.

- The indicative target on poverty-reducing social spending has been missed by a small margin, despite the reduction in the wage bill in the education and health ministries. In a context of spending restraints, the government remains strongly committed to protect spending on social sectors in line with the program and will increase this spending in line with the program for the remainder of the year.

- The indicative target on the regularization of emergency spending procedures (DAO) has been missed. The regularization reached 48 percent at end June 2018 against a target of 70 percent. The authorities are committed to accelerate the regularization speed to meet the end of year target.

14. Performance at end-September 2018 remained broadly in line with the program. The non-oil primary deficit remained significantly below the program ceiling as all categories of domestically financed spending were low. Custom revenue was met as the government sustained the efforts to improve custom administration and limit fraud. The IT on net domestic financing from the BEAC was met, and the IT on net domestic financing from banks was also met with a small margin. While the ITs on the repayment of domestic arrears was met, the regularization of DAO was missed by a large margin as coordination issues continue to complicate this effort given the large level of DAO. The IT on poverty reducing social spending was also missed as lower spending on the wage bill was not completely compensated by higher spending on other categories in the social sectors.

15. Despite some delays, the government is committed to accelerate the pace of implementation of the structural reform agenda. One out three structural benchmarks was met on time, but some progress has been made on the missed ones. The government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff. Although the structural benchmark on the hiring of external consultants to review and prepare a reorganization plan for the two public banks was missed, the government has since selected two consulting firms. In addition, due to the delay in launching the audit of domestic arrears, an arrears clearance strategy has not been prepared and adopted yet.

16. The government requests a waiver for the missed continuous PC on non-accumulation of external arrears. The request is based on the small degree to which the continuous PC was missed. There was just one late payment which occurred due to a rejection of the initial payment, which was made on time.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

17. The government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Fiscal policy aims to preserve much of the adjustment in current spending of the past two years and focus on redirecting resources to social sectors and public investment, while reducing domestic debt to banks and arrears to suppliers. The government considers that prudent spending policy including on the wage bill is necessary to ensure a sustainable fiscal position over the medium term. At the same time, efforts to raise non-oil revenue will need to be sustained to ensure that the government has a steady and reliable source of income, while enhancing the transparency of oil revenue flows and pursuing an effective taxation of the oil sector.

A. Fiscal Policy for the Remainder of 2018

18. For the remainder of 2018, the government is committed to continue to focus on non-oil revenue mobilization, increase primary spending in line with the budget and ensure that the 90 percent rollover objectives of domestic debt for the whole year is reached. On the revenue side, the government will continue to strengthen revenue collection efforts, particularly in the customs area. On the spending side, given low budget execution so far in 2018, the government will ensure that non-wage primary spending increases in the fourth quarter, most importantly in the social sector and investment, while increasing domestic arrears payment to help support the economic recovery and meet program targets. The fiscal space that resulted from the efforts to reduce the wage bill will be used to help offset the impact of lower than expected donor support. Given the tense security situation in the border areas, the government will likely have to increase security spending which it will do without undermining program objectives.

B. Fiscal policy in 2019 and the Medium-Term

19. While significant challenges remain in 2019 and the medium term, the government expects to build recovery and stabilization momentum in 2019 to durably lift the economy out of the crisis. With adequate policies and reforms and the improvement in oil prices, it expects that non-oil GDP will recover, and that the economy will benefit more from oil revenue set to accrue to the treasury following the restructuring of the Glencore debt, and the likely increase in oil tax revenues as more oil operators will begin paying profit taxes and some tax and customs exemptions will expire in 2019.

20. Strengthening non-oil revenue mobilization is a major element of the government program to improve fiscal sustainability. Within the 2019 budget, the government has taken additional dispositions to improve non-oil tax revenues in line with program objectives. These measures include: (i) removing and adjusting exemptions which are not in line with legal texts, based on the recommendations of the 2017 audit of 47 exemptions (existing SB); (ii) increasing income tax revenues by improving the collection of income tax, widening its base and increasing the rate of capital income tax; and (iii) reforming the corporate income tax (increase in the threshold of "regime reel"). Under its economic program, the government is targeting a gradual increase in non-oil tax revenue to a level of about 9 percent of non-oil GDP by 2020.

21. The government expects significantly higher oil revenues in 2019 onwards, with the implementation of the new Glencore debt contract and the likely increase in oil tax revenue from the oil producers and the refinery. The government firmly commits not to extend or renew the tax and customs exemption (to oil production and refining activities) to ensure that the expected revenues accrue to the budget. Given the difficulties in projecting with certainty the amount and the timing of the start of the tax payments by the largest oil producer and the national refinery and the need for prudence, the 2019 budget does not reflect the associated increase in oil tax revenue. In the event this increase takes place in 2019, the government will discuss with IMF staff how to further allocate it. In addition, the effect of the new Glencore debt contract which is expected to lead to higher oil revenues relative to previous years, is expected to be felt throughout 2019.

22. The 2019 budget will be designed with a view to maintain fiscal prudence while efficiently using available resources to support economic recovery and improve the livelihood of Chadians. The budget, in line with the IMF supported program, is expected to be submitted for approval by the National Assembly by early December 2018 (prior action).

- **The government is determined to maintain control of the wage bill while improving its management.** The Government understands that keeping the wage bill at a sustainable level is necessary to allow it to effectively implement fiscal policy and meet the development and social spending needs of the country. Following a much lower than projected wage bill so far in 2018, the government is committed to a wage bill in 2019 (CFAF 350 billion) that is lower than the initial target under the program. Compared with 2018, the increase in the wage bill in 2019 reflects the recent agreement with labor unions (October 2018) which will lead to an increase in bonuses and benefits of about CFAF 13 billion. In addition, the hiring of additional personnel in the security sector and civil service will lead to an increase in the wage bill by CFAF about 13 billion relative to 2018. The government commits to effecting this hiring only after concrete results derive from the ongoing efforts to update and clean the payroll. It also commits to taking new measures to control the wage bill by March 2019 if the monthly wage bill exceeds the budgeted amount.

- **The government will increase primary spending commensurate with available resources.** While spending needs are high in all sectors, particular emphasis will be placed on ensuring adequate allocation in the social sectors (to reach 34 percent of total primary spending) and investment whose allocation is increased by 40 percent relative to expected outcome in 2018. Given that parliamentary elections are likely to take place in the fourth quarter of 2019, the government has allocated CFAF 33 billion to cover their cost. Additional spending for the elections would only be made if external budget support can be secured or in case of additional receipts (e.g., oil revenue higher than projected), and will be consistent with the program.

23. With regard to domestic financing, the government will continue its budget financing strategy of limiting recourse to domestic banks only to roll over maturing treasury bills and bonds. In addition to paying maturities related to non-securitized debt, it will aim to repay at least 10 percent of maturing treasuries. It will aim to use additional budgetary revenues to further reduce domestic debt in 2019 consistent with program targets and objectives. In addition, the government will make every effort – notably through better communication with banks - to increase the maturity of rolled over debt in order to limit liquidity risks and reduce the costs of domestic financing through T-bills for which interests are prepaid). The government believes that moving to longer maturities is likely given the projected improvement in the fiscal position of the government.

24. The government considers the payment of domestic arrears as a priority and aims to reduce the stock of recognized arrears by at least the amount set under the program. The government firmly believes that the payment of arrears is key to the recovery of the non-oil sector and will therefore aim to pay more domestic arrears than programmed, if additional resources are available. Regarding unrecognized arrears (arrears outside the 'restes à payer' table), the government reiterates its commitment not to repay any of those before their audit is completed and a strategy for their clearance is developed. It will also aim to explain transparently to the public this strategy.

25. In its efforts to raise additional financing the government is committed to refrain from contracting or guaranteeing new non-concessional external loans. Recognizing the heavy burden of non-concessional external borrowing, the government will ensure that all external financing agreements, including for externally financed investment projects, will be concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. The government will respect the same parameters for potential budget loans. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID).

C. External Sector

26. The government is determined to support the CEMAC's external policy objectives. Chad has helped underpin CEMAC's efforts to rebuild particularly low foreign exchange reserves and in October hosted a CEMAC summit focused on reinvigorating regional effort to address regional challenges. The government will continue to lead by example in its cooperation with regional foreign exchange-related measures.

27. The commitment to transparency will reflect in the government's management of the oil sector's capital flows. The government has provided all the contracts and agreements with oil companies to all relevant bodies, including the secretariat of the PREF-CEMAC COPIL. It will review the hydrocarbon and mining codes to align them with CEMAC foreign exchange regulations by end-2019.

28. The government will support the regional institutions' efforts to strengthen the repatriation of forex receipts, especially by government-controlled entities. It will ensure that all public entities—including SHT (Societe des Hydrocarbures du Tchad) —repatriate and surrender all their forex receipts to resident banks and do not hold deposit accounts abroad that were not authorized by BEAC. Balances of authorized accounts will be reported regularly to BEAC. The government will ensure that all concerned administrations, especially customs, strictly control the domiciliation by all exporters of all their exports receipts with resident commercial banks, and that customs provide BEAC with copies of all exports licenses ("Titres d'exportation"), as required in the forex regulation.

29. Regional integration will become a more prominent objective in Chad's economic policy priorities. The government will send its 2019-2021 convergence plan to the CEMAC Commission by end-2018 as part of the regional surveillance framework. The plan will be consistent with the framework and policies agreed to under the ECF arrangement, including external arrears clearance. The government remains cognizant that the CEMAC commission's assessment of the convergence criterion on arrears for 2018 will impact the risk-weighting by banks of Chad's sovereign debt.

D. Tax and Customs Reforms and Policies

30. The government will continue to improve the scope and structure of oil and non-oil tax revenues.

- **Tax and customs exemptions.** The government is committed to reduce the high cost of exemptions. Most importantly it is firmly determined not to renew expiring exemptions nor to extend existing exemptions particularly in the oil sector (including oil refining), but also in construction and hospitality industries. This will ensure a reliable source of income for the government. The minister of finance will ensure that any request for new or renewal of existing exemptions is subjected to analytical scrutiny to assess its effect on revenue and only approve such requests if the effect is neutral. Going forward, the government will publish on a semiannual basis a list of all new exemptions (including renewal and extension of exemptions) on the Ministry of Finance website (new structural benchmark). The government continues to follow up on the recommendations of the audit of 47 tax conventions. The government will redouble efforts to identify exemptions for removal or amendment if those are not in line with legal texts or have not been implemented correctly (existing structural benchmark).

- **Non-oil revenues.** The government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is among the lowest in Africa. A time-bound plan to strengthen the VAT regime is expected by year-end (existing structural benchmark). This plan will include among others measures to (i) set-up a VAT refund mechanism and (ii) reduce VAT exemptions. Measures implemented in January 2018 requiring taxes to be paid through the banking system (so called "bancarisation des recettes") have demonstrated promise in reducing leakages and boosting non-oil tax revenues collection. A penalty customs rate was introduced to incentivize acquiring a tax ID. Finally, legislative measures are expected to widen the base and reduce avoidance of income tax and stamp duties.

31. Administrative measures can improve tax and customs collection performance.

- **Customs revenues.** The government aims to increase efficiency and improve compliance through greater computerization of customs operations. The expected migration to new software (ASYCUDA World) will (i) allow more accurate application of duties; (ii) shrink the abuse of customs exemptions; (iii) improve integration of customs and VAT systems to improve compliance; and (iv) set the stage for transition to a single window system.

- **Non-oil taxes.** The government is reconsidering, with TA support from the IMF, the newly established VAT directorate to ensure the effectiveness of the administration of VAT. A new effort was recently launched within the Ministry of Finance to combat fraud and tax avoidance. This will support the efforts of customs agents to improve effectiveness of customs collection. In addition, the Directorate in charge of land and property tax has begun a new cadastral survey, starting in N'Djamena, which the government expects to improve its ability to apply the taxes effectively.

E. Structural Reforms on Public Financial Management

32. The government reaffirms that achieving the objectives of its economic program depends on sound and transparent public financial management. The government emphasizes the recent progress made in terms of budget execution, monitoring, and reporting, as well as the integration of CEMAC directives within the Chadian legislation. The government intends to continue the strong collaboration with its development partners to further improve PFM, including with further TA missions and long-term resident experts within the Budget and Treasury Directorate.

33. The improvement of the expenditure chain is a high priority for the government.

- The use of emergency spending procedures ("*dépenses avant ordonnancement*", DAO), has been extensive in the past two years. The government is committed to both reduce the use of DAO and to regularize them as soon as possible after they occur to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, and recognizing the existing capacity constraints, the government is committed to (1) limit the use of DAO to a level lower than in 2017 and 2018. A limit of 22 percent of all primary spending excluding the wage bill, military spending and external debt service, will be set in a council of ministers decree by end-December (new SB), and will be monitored on a quarterly basis, (2) regularize within 45 days, 70, 75, and 80 percent of DAO after the second, third, and fourth quarter of 2019 respectively. This objective will be monitored through an indicative target (Table 1).

- More broadly, the expenditure chain should be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) are now implemented and monitored through the computerized system (CID). The government aims to more consistently implement the expenditure chain.

34. On the basis of an audit to be completed, the government is determined to adopt a holistic approach to clear domestic arrears. A well-defined clearance strategy will transparently explain the factors for prioritizing the clearance of arrears. A key component of the strategy is public communication and outreach, which will help the strategy succeed in rebuilding confidence of the private sector by reducing a key source of uncertainty regarding the repayment of arrears. Reforms envisaged to improve PFM (described above) would help avoid the recurrence of new arrears.

- In addition to the already validated arrears (CFAF 153 billion by end-September 2018) which are reported in the "*Reste à Payer*" table prepared by the Treasury, other potential claims that could be sizeable exist. An FAD technical assistance mission on managing and preventing domestic payment arrears in 2016 estimated the size of potential additional claims at CFAF 300 billion (on the basis of a sample of 8 ministries) although this estimate is subject to a wide variation.

- The government is committed to adopt a clearance strategy of domestic arrears by end-March 2019 (new structural benchmark, originally set for end-October 2018) based on audit results expected by end-December. The clearance of audited arrears will proceed at a pace consistent with resource availability and the medium-term fiscal framework. The government is committed to prioritize the payments on the basis of their economic and social impact, and the effect they are expected to have on the banking sector. Accordingly, the strategy will lay out transparent and objective factors for prioritization of payments. It will establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts.

- The government will reach out to the private sector and external stakeholders to clearly communicate the ongoing audit and the clearance strategy plans. The government is committed to earning the confidence of the public in the process of arrears clearance, thereby boosting the impact of these measures.

35. The government continues to work towards a more efficient cash management system. The Cash Plan Committee is in charge of cash flow forecasts and management, monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. A cash management plan, including monthly forecast of revenue and main expenditure (notably the wage bill, and domestic and external debt service) has been developed. Moving forward, efforts would focus on refining the monthly cash flow plan and strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.

36. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. The government is cognizant of its weak public debt management, monitoring and reporting, which led to recent misreporting of information on debt service to the IMF. To further improve public debt management, the government intends to draw on the ongoing AFRITAC Center's technical assistance missions to develop a medium-term debt strategy and strengthen debt monitoring. It will also seek follow-up TA support to improve debt management. Meanwhile, the government will continue to publish the annual public debt management report and will incorporate a section to elaborate on the short to medium term debt management strategy and a risk analysis. In addition, with a view to ensure that external debt service is paid on time and is adequately reported to the Fund, the ministry of finance will ensure that payments are in line with the mechanism under the escrow account and all the relevant officials meet on a monthly basis (with the participation of the IMF resident representative as an observer) to take stock of previous payments and plan for forthcoming ones.

37. The government intends to improve the efficiency and transparency of public procurement management. To this end, it plans to strengthen the capacity of the Public Procurement Regulatory Authority. The General Directorate of control of public procurement continues to publish a quarterly bulletin. The last report shows that in 2016, only 7 of the 146 markets (for a total of CFAF 250 billion) were attributed without public tendering.

F. Banking Sector Reforms

38. Despite some delays, the government is committed to implement its strategy to strengthen the position of public banks. The government reconfirms that these public banks are solvent and continue to operate even though they face some challenges. Planned reforms aim to ensure that these banks improve their financial intermediation role, including deposit collection, proper allocation of resources to economic sectors and monitoring of risks related to credit, liquidity and solvency. The government began to implement the needed reforms and has identified external consultants to review the operations and business strategies of the two public banks. It hired the consultants to begin the work (prior action for CBT) with the aim of completing and sharing the reports on the review and the reorganization plan for CBT and BCC by end February to the IMF staff and the COBAC (modified SBs). In addition, based on the audit results, the government is committed to address all weaknesses identified and improve the governance structure of the two public banks including if necessary replacing board members. In the meantime, the banks should continue to improve their liquidity position. Concerning the BAC, the Chadian and Sudanese authorities (the two shareholders) decided to recapitalize the bank and presented its strategic plan to the COBAC. The government aims to build on this plan to ensure that the bank has proper resources and a viable business plan. It was also decided to expand the BAC's activity to conventional intermediation in addition to Islamic finance.

G. Other Structural Reforms

39. Progress is under way in implementing the 2017-21 National Development Plan (NDP) which seeks to diversify the sources of economic growth. Two central economic axes of the NDP seek to strengthen governance and the rule of law and develop a diversified and competitive economy. The government has made progress in raising some financing for public investment from multilateral and regional creditors. Private sector contribution to the implementation of the NDP is still lacking in particular given the government's commitment not to provide sovereign guarantees on nonconcessional financing. The government has adopted a streamlined committee under the responsibility of the Ministry of Economy, and Development Planning to regularly monitor and support implementation of the NDP within a transparent framework. Recently, the chamber of commerce, industry, agriculture, mines, and craft held a national week of reflection on private sector contribution to economic recovery which was supported by the president of the republic. It called for actions by the government particularly to improve governance and the anti-corruption framework, improve procurement transparency procedures, improve access to internet and electricity, and pay domestic arrears transparently. The government started to follow up on these recommendations.

40. Improving governance is a key element of the government's strategy to revive the private sector. In this regard, the government is committed to implement the United Nations Convention against Corruption (UNCAC), which was recently ratified by the National Assembly. The government will assess the extent to which its present penal code is in line with the convention and seek to strengthen it where necessary to advance the fight against corruption. Notably, the government is committed to identify areas to improve the effectiveness of the legislation in criminalizing acts of corruption in line with the UNCAC. The constitution includes a requirement for high officials to declare their assets, but compliance appears to be very low. This is partly due to the absence of implementing legislation that explicitly define all aspects of the asset declaration obligations. The government is preparing legislation that aim for a strong implementation of asset declaration obligations set forth in the Constitution. The government through the ministry of justice, is seeking technical assistance from the IMF to support its efforts on asset declaration and the implementation of the UNCAC.

41. The government is committed to continue its effort to improve transparency and oversight of the oil sector. It expects Chad to be assessed to be compliant with the 2016 EITI standards**.** The government announced its intention to develop and adopt a policy on disclosure of contracts and licenses in the petroleum sector with support from the World Bank. It has published certified and verified annual financial reports for 2015-2016 for the SHT (Societe des Hydrocarbures du Tchad) holding and its subsidiaries. In addition, with support from the World Bank, an audit of the joint operations of the two major oil companies operating in Chad is planned.

42. The government considers that improving the level and efficiency of electricity production will alleviate a key constraint to economic growth and the well-being of the population. Very limited power generation and a narrow transmission network means that just 9 percent of the population has access to electricity. The low efficiency and the high production cost of the public electricity company calls for concerted efforts to reform the electricity sector, with the aim of attracting fresh investment to raise power generation capacity, transmission and distribution at lower cost. The government is committed to seek concessional financing to support investment in the sector.

MONITORING THE IMPLEMENTATION OF THE PROGRAM

43. To monitor the implementation of measures and attainment of objectives under the program, the government will continue to rely on the Negotiation Committee based in the Ministry of Finance and Budget. The Committee is in constant communication with IMF staff in Washington and its Resident Representative in Chad.

44. The program will be monitored through bi–annual reviews by the IMF Executive Board on the basis of performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the attached Technical Memorandum of Understanding (TMU). The fourth review on end-December 2018, the fifth review on end-June 2019, the sixth review on end-Dec 2019. The government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

Table 1. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) under the ECF Arrangement

(in billions of CFAF, unless otherwise indicated)

	End-Dec 2018 QPC	End-Mar 2019 IT	End-June 2019 QPC	End-Sept 2019 IT	End-Dec 2019 IT
1. Floor on non-oil primary budget balance (NOPB)	-218	-80	-125	-180	-240
2. Floor on customs revenue	118	25	50	90	125
3. Ceiling on net domestic government financing excluding BEAC	-55	-20	-35	-45	-60
4. Ceiling on net government financing from the BEAC	35	110	125	125	65
5. Ceiling on the stock of domestic payment arrears by the government	150	140	130	120	100
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0	0	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0	0	0	0
	IT	**IT**	**IT**	**IT**	**IT**
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	80	50	70	75	80
9. Floor for poverty-reducing social spending	214	57	114	177	241
Memo item:					
10. Emergency spending procedures-DAO (Percent of primary spending)	*...*	*22*	*22*	*22*	*22*
11. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
12. External concessional borrowing (US$ million)	*155*	*27*	*54*	*80*	*130*
13. Oil Revenue	*318*	*90*	*180*	*269*	*359*
14. Grants	*150*	*0*	*0*	*34*	*60*

Sources: Chadian authorities; and IMF Staff.

1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

2. Customs revenue as given by the Treasury in the Table "Situation des Regies financières".

3. Includes net financing from Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.

5. Stock of verified arrears, as given in the Table "Restes à payer". In line with the TMU, the target for end-December 2018 is 150 (reflecting the actual end-December 2017 stock of domestic arrears of CFAF 195 billion). Starting end-March 2019, the target will be adjusted to reflect actual end-December 2018 stock.

6. Applies continuously.

7. Applies continuously.

8.DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.

9. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).

13. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

14. Budget grants.

Table 2. Chad: Prior Actions and Structural Benchmarks for the Program, 2018- 2019

Measures	Due Dates	Status
Prior actions		
1. Submission of the 2019 budget in line with the program to the National Assembly		Pending
2. Hire external consultants and begin work to review and prepare a reorganization plan for CBT.		Met
Structural Benchmarks		
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-December 2018	…
2. Develop an action plan with timebound measure to improve VAT collection.	End-December 2018	…
3. Adopt a decree to limit the use of emergency spending procedures	End-December 2018	Proposed
4. Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented.	End-February 2019	…
5. Deliver report of external consultants on the review and reorganization plan for two public banks.	End-February 2019	Proposed (modified)
6. Adopt a clearance strategy of domestic arrears based on the audit results.	End-March 2019	Proposed (original date October 2018)
7. Publish a semi-annual note which lists all new exemptions (including renewal and extension of exemptions).	Semi-annual, starting end-July 2019	Proposed

Sources: Chadian authorities; and IMF staff.

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of December 10, 2018**. It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program. It describes more specifically:

a) reporting procedures;

b) definitions and computation methods;

c) quantitative performance criteria;

d) indicative targets;

e) adjusters to the quantitative performance criteria and indicative targets; and

f) structural benchmarks.

A. Reporting Procedures to the IMF

2. **Data on all the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs)** and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith. With respect to continuous QPCs, the authorities will report any non-observance to the IMF promptly. For the purpose of this TMU, **days** refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 14 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to 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 comprising all the executive bodies, institutions and any structure receiving special public funds and whose competence is included in the definition of central government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

4. **A public nonfinancial enterprise is a government–controlled corporations[1] whose principal activity is the production of goods or nonfinancial services.** For the purpose of the program monitoring, these include: *Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société des télécommunications du Tchad (SOTEL), Société Tchadienne des*

[1] Control of a corporation is defined as the ability to make key financial and operating decisions (see GFSM 2014 paragraph 2.104 – 2.114).

Postes et de l'Epargne (STPE), Société des Hydrocarbures du Tchad (SHT), Compagnie Tchadienne de Textiles (COTEX), Socièté Nationale de Ciment (SONACIM Tchad), CimenTchad, Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Société Tchadienne d'Hydraulique (STH), Fonds d'Entretien Routier (FER).

5. Oil revenue is defined as the sum of (i) the gross sales revenue of government's crude oils obtained through government's equity participation in oil companies minus all costs incurred due to the equity participation (*cash-call*) and transportation cost associated with the sales of government's crude oils, (ii) royalties, (iii) statistical fees, (iv) profit tax, (v) dividends, (vi) bonuses, (vii) revenues from exploration duties, (viii) surface tax, (ix) access rights to the pipe and (x) any other flows of revenue paid by oil companies (settled *in-kind* and *in-cash*), except indirect duty and taxes. The authorities will notify IMF staff of changes in the oil taxation systems and laws that may impact revenue flows. **Exceptional receipts** paid by oil companies, whose definition is given in Paragraph 7 below, are excluded from oil revenue.

6. Customs revenue is defined as the revenue generated from all levies and duties payable on goods of a particular kind because they are entering the country or services because they are delivered by nonresidents to residents (as defined in GFSM 2014, paragraph 5.84). Customs revenue is recorded on a cash basis. For the purpose of the program monitoring, customs revenues are those recorded in the table "*Situation des régies financières*" of the Treasury.

7. Exceptional receipts are defined as payments to the government that include:

- Payments from resolution of protracted disputes between foreign companies operating in Chad and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations.
- Payments from the sale or placement or privatization of Government's assets, granting or renewal of licenses.

8. Total government revenue is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5). Oil revenue, as defined in paragraph 5 and custom revenue as defined in paragraph 6, and exceptional receipts as defined in paragraph 7. These items will be shown in the breakdown of total government revenue report.

9. Total government expenditure is understood to be the sum of expenditure on wages and salaries of government employees (as provided in the document "*Masse salariale*", see Paragraph 11 for details), goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Except for capital expenditure, which is defined as shown in the Government Finance Statistics Manual 1986 (GFSM 1986),[2] all

[2] Capital Expenditure - expenditure for acquisition of land, intangible assets, government stocks, and nonmilitary, nonfinancial assets, of more than a minimum value and to be used for more than one year in the process of

other spending items are defined as in GFSM 2014 (Chapter 6). Total government expenditure also includes "*dépenses avant ordonnancement*" (DAO) which are not yet regularized (see paragraph 10 for details).

10. *Dépenses avant ordonnancement* (DAO) is defined as all expenditures which do not go through the standard spending procedure. A standard procedure entails a chain which includes the commitment ("engagement"), the validation ("liquidation"), the authorization of payment order ("*ordonnance*"), and the cash payment. There are two categories of DAOs:

- The first category consists of DAOs which are made relative to a credit line in the budget. These DAOs can be regularized (i.e., recorded in the correspondent line of the budget) without difficulties.

- The second category consists of DAOs which are made regardless of the existence of a credit line in the budget. Their regularization requires either an adjustment in the revised budget, i.e., Amended Financial Law (LFR), or a ministerial order to transfer credit allocation within the budget.

11. Wages and salaries correspond to the compensation of all government employees, including civil servants and members of the armed and security 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. For the purpose of program monitoring, data are computed from the document "Masse salariale", which excludes compensations to staff under certain contracts that are classified as Transfers (see Paragraph 13 for details).

12. Subsidies are defined as government current expenditure that are made to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. For the purpose of program monitoring, subsidies refers to those reported in "Tableau de 4 Phases".

13. Transfers are defined as government current expenditure to individuals, private nonprofit institutions, nongovernmental foundations, corporations, or government units that are not included in other categories of transfers. For the purpose of program monitoring, transfers refer to those reported in "Tableau de 4 Phases".

14. For the purposes of this TMU:

- The term "debt" is as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107) but also

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production. Capital expenditure is frequently separated (in some cases along with certain revenue) into a separate section or capital account of the budget or into an entirely separate budget for expenditure, i.e., the capital budget. This separation may sometimes follow different criteria, however.

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 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 exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime 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;

- 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) will not give rise to debt.

- **Domestic debt** is any debt as defined in above, which is denominated in Central African Franc (CFAF).

- **External debt** is any debt as defined in above, which is denominated in a foreign currency, i.e., a currency other than CFAF.

- Debt is considered **concessional** if it includes a **grant element** of at least 35 percent[3] and **non-concessional** if otherwise. The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is

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[3] The IMF website gives an instrument (link hereafter) that allows the calculation of the grant element for a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

calculated as the discounted sum of all future the debt service payments at the time of the contracting of the debt[4]. The discount rate used for this purpose is **5 percent per annum**.

15. Domestic payment arrears are defined as the sum of (i) recognized expenditure payment arrears and (ii) domestic debt payment arrears, which are defined below:

- The outstanding amount in a payment order, to a private or public company, for an expenditure incurred, validated and certified by the financial controller and then created by the "*Direction of Ordonnancement*", is defined as a **float** after the payment authorization is issued by the Treasury. The outstanding amount of a float is classified as a **recognized expenditure payment arrear** 90 days after the issuance of the payment authorization. The recognized expenditures payment arrears so defined do not include domestic debt payment arrear and arrears on wage and salaries. **Unrecognized expenditure payment arrears** are defined as any potential expenditures payment arrears which have not gone through that standard spending procedure. The nature and the amount of those potential arrears will be determined by an audit of domestic arrears (see paragraph 23).

- **Domestic debt 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.

16. External debt payment arrears are defined as external debt obligations of the government and public, non-financial enterprises that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government for which the creditor has accepted in writing to negotiate alternative payment schedules before the relevant payment due and excludes technical arrears that are less than six weeks.

17. The non–oil primary balance (NOPB) is defined on a commitment basis as the difference between (i) total government revenue (not including grants, oil revenue and exceptional receipts), and (ii) primary expenditure, which is defined as the total government expenditure minus interest payments on domestic and external debt and foreign–financed capital expenditure.

18. Poverty–reducing social spending, according to the latest general structure of Government, comprises public spending by the following ministries: (i) National Education and Civic Promotion, (ii) Public Health, (iii) Women, Early Childhood Protection and National Solidarity, (iv) Production, Irrigation and Agricultural Equipment, (v) Livestock and Animal

[4] The calculation of concessionality takes into account all aspects of the loan agreement, including maturity, grace period, schedule, commitment and management fees commissions. The computation of the grant element for loans from the Islamic Development Bank (IsDB) will take into account the existing agreement between the IsDB and the IMF.

Production, (vi) Environment Water and Sanitation, and (viii) Professional Training and small Job Promotion.

19. Domestic currency government financing is defined as the issuance of any instrument in CFAF to creditors; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted in CFAF. Net domestic currency financing to the government is subdivided into net bank financing, net securitized financing, net government financing from BEAC, and other non-bank financing. Net bank financing is defined as the change in the net government position towards the domestic commercial banks and includes prepaid interest. Net government financing from BEAC is defined as the change in net government position towards the BEAC.[5] Net securitized financing includes the issuance of securitized government bonds and loans in CFAF to domestic and regional banks net of related amortizations since the end of the previous year.

20. "Program reference rate", is based on staff's "average projected rate" for the six-month USD LIBOR over the following 10 years and is identified as 3.22 percent for the duration of the program. The present value of loans with flexible interest rate will be calculated using the program reference rate plus the fixed spread (in basis points) specified in the loan contract. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 basis points) will be added.

C. Quantitative Performance Criteria

21. The quantitative performance criteria and indicative targets listed below are those specified in Table 1 of the MEFP. Continuous Quantitative Performance Criteria (QPC) require that at no point in time it will be non-observed. Should any non-observance occur, the authorities would inform the IMF promptly. Adjusters for the QPCs are specified in Section E below. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The quantitative performance criteria 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 17 above.

- **A floor on custom revenue.** The custom revenue is defined in paragraph 6 above.

[5] Net claims of the BEAC and domestic commercial banks to the State represent the difference between government debts and its deposits in the Central Bank and commercial banks. The scope of the net claims of the bank system on the State is defined by BEAC and represents the government net position.

- **A ceiling on the net domestic government financing (excluding BEAC). This is the sum of net bank financing and net securitized financing as defined in para 19**. This ceiling does not apply to the new agreements on internal debt restructuring and arrears securitization and to credit from the banking sector used to pay the arrears of the cotton public enterprise.

- **A ceiling on net government financing from BEAC** (as defined in para 19). The ceiling includes support from the IMF.

- **A ceiling on the stock of domestic recognized expenditure payment arrears**. Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-December 2017, the stock of recognized expenditure payment arrears was at CFAF 195 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling set for end-March 2019 onwards would be adjusted to reflect the end-December 2018 actual stock of arrears when final data is available.

- **A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises**. This ceiling applies continuously. Any non-observance to the ceiling will be reported promptly to the IMF with information regarding the date of the non-observance, amount of the missed payment and the creditor involved.

- **A zero ceiling on new non-concessional external debt contracted or guaranteed by the government and non–financial public enterprises, with a maturity of more than one year**. This ceiling applies continuously and does not include IMF financing. Debt is non-concessional if it includes a grant element of less than 35 percent, as described in Paragraph 14. Excluded from the ceiling are: (i) normal short–term credits for imports; and (ii) debt contracted before the ECF arrangement and rescheduled during this arrangement to the extent that the rescheduling is assessed to improve the overall public debt profile.

D. Indicative Targets

22. The indicative targets listed below are those specified in Table 1 of the MEFP. Adjusters of them are specified in Section E below. Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (**the assessment period**) specified in Table 1 of the MEFP. The indicative targets and details on their assessment are as follows:

- **A floor on regularization of spending executed through emergency spending procedures (DAO**) Regularization of DAO (as defined in paragraph 10) will be done within 45 days after the end of the quarter and as follows: 70 percent after the second quarter, 75 percent after the third quarter, and 80 percent after the fourth quarter.

- **A floor on poverty–reducing social spending**. Poverty–reducing social spending is defined in paragraph 18.

E. Adjustors to Performance Criteria and Indicative Targets

23. To take into account factors or changes beyond the government's control, the following quantitative performance criteria during the assessment period will be adjusted as follows:

- If the total budgetary receipts and loans are **lower** than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears can be adjusted **upward** up to the planned arrears repayment amount. An increase in net domestic financing (either net domestic government financing excluding BEAC or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall not compensated for through reduction in arrears payment.

- If the total budgetary receipts and loans are larger than the programmed amount, because of higher oil revenue, additional budget support excluding grants to finance the parliamentary elections, or exceptional receipt, the floor for the non-oil primary balance can be adjusted downward by 35 percent of the excess amount up to CFAF 20 billion. The remainder of the larger-than-programmed budgetary receipts and loans will be used to reduce net domestic financing (either net domestic government financing excluding BEAC or net government financing from BEAC). The non-oil primary balance can be adjusted downward by the same amount of budget grants provided to finance the parliamentary elections. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.

Text Table 1. Baseline Projection of Selected Variables
(Cumulative on annual basis)

	2018	2019			
	End-Dec.	End-Mar.	End-Jun.	End-Sept.	End-Dec.
	(in CFAF Billion)				
Net Oil Revenue[1]	318	90	180	269	359
Budget Grants	150	0	0	34	60
Budget Loans	26	0	0	0	13
Exceptional Receipt	0	0	0	0	0
Total	494	90	180	303	432

[1] Net Oil Revenue is the sum of (i) the sale revenue of government oil net of operating and transportation cost and (ii) oil tax revenues.

- Should expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio does not decline compared to the previous year.

F. Structural Benchmarks

24. Prior Actions are specified in Table 2 of the MEFP

- Submit the 2019 budget to the national assembly for approval in line with the program parameter.

- Start the audit of public bank CBT.

25. Structural benchmarks are specified in Table 2 of the MEFP. Outstanding SBs are governed by the previous TMU.

- Publication of a quarterly note on the oil sector, in line with the template agreed with the IMF staff, including detailed information on debt service to Glencore, quarterly, starting end-December 2018 (Table 2). The December note will cover developments up to September 2018 and will need to be issued by mid-February.

i. The note will comment on the recent development in the oil sector, including information related to production, export, and new exploration over the previous quarter, and expectation and forecast for the next 6 months.

ii. The note will also provide a detailed account of the flow of oil revenue. Oil revenue will be reported by categories and the corresponding types of payments, in-cash (payment made in cash by oil companies) and in-kind (payment made in crude oil by oil companies). Other information will include information on the sale of government-owned crude oils, such as gross sales revenue, volume sold, transaction prices, operating costs ("Cash-call") to oil companies, transportation cost, interest payments, principal repayment, other related fees paid to service the Glencore loan and the final amount of sales revenue accrued to the Treasury.

Issue by end-December 2018 a decree by the council of ministers on the implementation of the 2019 budget that includes a limit on the use of emergency spending procedures of 22 percent of total primary spending excluding the wage bill. The ratio is defined as the share of total domestically financed primary spending excluding the wage bill and security spending (and debt service) in total domestically financed primary spending excluding the wage bill (and debt service).

Publication every six months of a list of all new, renewed or extended tax and customs exemptions during the previous six months. The first list should be published at end-July and should cover the period January to June 2019.

- Adopt a clearance strategy of domestic arrears based on the audit results by end-March 2019.

- Develop an action plan with timebound measure to improve VAT collection by end-December 2018. This should include at least timebound steps to set-up of a VAT refund mechanism and a plan to reduce VAT exemptions.

- Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented by end February 2019.

- Deliver the report of external consultant on the review and reorganization plan for BCC and CBT to the IMF staff and regional supervisory authorities (COBAC) by end-February 2019.

Table 1. Summary of Data to be Reported		
Data	***Provider***	***Periodicity and Target Date***[1]
Oil and Non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	Ministry of Finance and Budget (Treasury)	Monthly, within 45 days of month–end
Quarterly Oil Sector Note	Ministry of Finance and Budget	Quarterly, within 45 days of quarter-end
Budget execution data, including on poverty–reducing social spending, showing commitments, validations, authorizations of payment order, and cash payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 45 days of month–end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance and Budget (General Budget Directorate)	Monthly, within 45 days of month–end
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)		
Information on DAO regularization	Ministry of Finance and Budget.	Quarterly, within 60 days after the end of the Quarter
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)		
Data	***Provider***	***Periodicity and Target Date***
Information on public procurement in the previous month and updating of payment maturity for the rest of the year.	Ministry of Finance and Budget (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 45 days of month–end
Table on external debt (including those in local currency). The table should include previous month's due payments, payments made, and projected payments due for the next 3 months broken down by creditors.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence
Details on the servicing of the domestic debt and payment arrears of the government[2]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)

Details on the servicing of the external debt of the government[3]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.

Table 1. Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
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, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[4])*	BEAC	Monthly, within 45 days of month–end.
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month–end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month–end.
Consumer price index	INSEED	Monthly, within 45 days of month–end.
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 180 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (preliminary data).
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.

[1] For end-December fiscal data, data should be reported 45 days after the end of the complementary period.

[2] Including maturities.

[3] Including the breakdown by currency and maturity.

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

Table 2. Summary of Oil Revenue

CFAF Million	2017 Actual	2017 Projection	2018 Projection	2019 Projection	2020 Projection	Unit
Production and Export Overiew						
Production Volume						Barrel
Export Volume						Barrel
Export Value						CFAF
Crude Oil supplied to SRN						Barrel
Crude Oil Received						
By the Government						Barrel
By SHT						Barrel
Total						Barrel
Total Oil Revenue						CFAF
Direct Receipt						CFAF
Net Sales Revenue						CFAF
Direct Receipt						
Profit Tax (in Cash)						CFAF
Statistical Fee						CFAF
Surface Fee						CFAF
Dividend						CFAF
Bonus						CFAF
Other Receipt in cash						CFAF
Total						CFAF
Gross Government Crude Oil Sales Revenue						
Government						CFAF
SHT						CFAF
Net Sales Revenue						CFAF
Average Selling Price						
in FCFA						CFAF
in USD						US Dollar
Doba Discount						US Dollar
Oil sales until March 2017						
Government						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT						
Export Volume						Barrel
Export Value						CFAF
Average Selling Price						CFAF
Transportation Cost						CFAF
SHT participation cost (Cash-call)						CFAF
Glencore Debt						
Interest Payment						CFAF
Principal Repayment						CFAF
Restructuring Fee						CFAF
Net Sales Revenue						CFAF
Memorandum Item						
Exchange Rate						CFAF/USD