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

February 4, 2005

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.

N'Djamena, February 4, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. Over the past 10 years, the government of Chad has been implementing economic and financial policies as well as structural reforms, all designed to strengthen Chad's economic and social fabric, to improve growth prospects, and reduce poverty. The government has been supported in these efforts by the IMF through successive arrangements under the Poverty Reduction and Growth Facility (PRGF), the most recent of which ended on January 6, 2004.
2. The implementation of Fund-supported programs has enabled Chad to make real progress in many economic areas. Nonetheless, as the ex post assessment of performance under these programs revealed, Chad still has many challenges to address before it can achieve a sustainable and lasting reduction in poverty.
3. As the petroleum era commences in Chad, one of the challenges facing the country is to strengthen fiscal management, transparency, and governance to ensure that oil revenues are well managed and can contribute to the achievement of the objectives set out in the poverty reduction strategy adopted by the government in June 2003. This strategy underpins the economic and financial policies contemplated in the medium-term program described in the memorandum of economic and financial policies (MEFP) attached to this letter. The MEFP also sets forth the objectives and policies that the government intends to pursue in 2005. The technical memorandum of understanding that lays out concepts and definitions relating to elements of Fund conditionality, as well as data reporting requirements under the program, is also attached.
4. In support of its medium-term program, the government of Chad hereby requests a new three-year arrangement under the PRGF in a total amount of SDR 25.2 million (equivalent to 45 percent of Chad's quota). The government also requests that the first disbursement under the arrangement, in an amount equivalent to SDR 4.2 million, be made available following the approval of the new PRGF arrangement by the Fund Executive Board.
5. The government also requests an additional interim assistance of SDR 1.375 million under the enhanced HIPC Initiative to cover 13.2 percent of principal obligations falling due to the Fund between March 1, 2005 and December 30, 2005. It understands that this assistance is provided on the condition that on the basis of information provided by Chad, it

has met (i) all of the performance criteria that have been found to have been met with respect to the fifth, seventh, and eighth disbursements under the Poverty Reduction and Growth Facility (PRGF) arrangement of Chad that expired on January 6, 2004, and (ii) all of the conditions specified in the decisions completing the third, fourth, and fifth reviews under the PRGF arrangement that expired on January 6, 2004.

6. The government of Chad believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program to be supported by the new PRGF arrangement. Nonetheless, it stands ready to take any further measures that may become necessary. Moreover, the government of Chad will continue to consult with the Fund on its macroeconomic policies, in accordance with Fund policies on such consultations, and to provide the Fund with the information it needs to assess Chad's progress in implementing the economic and financial policies described in the MEFP.

7. The government will conduct, with the Fund, the first review under the new PRGF arrangement no later than September 30, 2005. The review will be based on quantitative performance criteria and indicative targets at end-June 2005 and the relevant structural performance criteria and benchmarks through end-September. The second review under the program will be completed no later than February 1, 2006. In the context of discussions for the first review under the program, the government will specify its policies and objectives for the second year under the PRGF-supported program.

8. The government of Chad hereby authorizes publication of the memorandum of economic and financial policies and the associated IMF staff report, including on the Fund website, with a view to providing broad dissemination.

Sincerely yours,

/s/
Ngueyam Djaibe
Minister of Economy and Finance

/s/
Pascal Yoadimnadjji
Prime Minister

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Chad for 2005–07

I. INTRODUCTION

1. **This memorandum sets out the medium-term macroeconomic objectives and policies of the government of Chad** that could be supported by the IMF through an arrangement under the Poverty Reduction and Growth Facility (PRGF) covering 2005–07. These objectives and policies are guided by the Poverty Reduction Strategy Paper (PRSP) adopted by the government in June 2003.

II. RECENT DEVELOPMENTS AND REFORM IMPLEMENTATION IN 2004

2. **Real GDP growth in 2004 is estimated at 31 percent, up from 11.3 percent in 2003, mainly on account of the coming onstream of oil production in July 2003.** Available data indicate that non-oil GDP growth slowed to 1.9 percent, compared with 3.5 percent in 2003, because of a decline in cotton and cereal production; the decline in cereal production is partly due to the infestation by desert locusts. Furthermore, private sector activities were hampered by an accumulation of treasury arrears in 2003–04. The government has decided to raise cotton producer prices by 18.8 percent, to CFAF 190 per kilogram, as an incentive to increase production for the next crop year.

3. **The consumer price index declined by 4.8 percent in 2004,** reflecting the sharp increase in the food supply during the previous crop year and the appreciation of the euro. Nonetheless, inflationary pressures persisted in areas receiving refugees from Darfur. The authorities have appealed to the international community for humanitarian assistance to protect both local populations and refugees in these areas.

4. **The external current account deficit (excluding official transfers) has continued to strengthen, narrowing from 41.8 percent of GDP in 2003 to an estimated 19.4 percent of GDP in 2004.** This strengthening is due to the increase in oil exports as well as the sharp drop in imports since the development of the oil field and the Chadian part of the Chad-Cameroon pipeline were completed. At the same time, Chad's terms of trade improved by 22½ percent in 2004, mainly as a result of the increase in cotton and oil prices. The overall balance of payments recorded a surplus equivalent to ½ of 1 percent of GDP in 2004.

5. **Implementation of the 2004 budget was impeded by shortfalls in non-oil revenue and external budget support, resulting in expenditure compression and an accumulation of payments arrears.** The non-oil primary base deficit is estimated to have stabilized at about 3 percent of non-oil GDP, while the overall deficit (on a commitment basis, excluding grants) is estimated at 9.9 percent of non-oil GDP, financed with budgetary aid and debt relief under the HIPC Initiative.

6. **Government revenue is estimated at 14.5 percent of non-oil GDP in 2004, mainly on account of increased oil revenue.** Non-oil revenue is estimated to have increased by

9 percent in 2004, which is below target because of delays in the implementation of revenue-enhancing measures and weaker-than-anticipated economic activity in the non-oil sector.

7. **Total expenditure (excluding expenditure financed with earmarked oil revenue) was scaled down substantially to compensate for the lower-than-anticipated budgetary resources. Spending dropped from 26 percent of non-oil GDP in 2003 to 24.4 percent in 2004.** Expenditure cuts covered mostly goods and services, transfers, and domestically financed investment. The wage bill increased slightly to 5.8 percent of non-oil GDP, reflecting recruitment in priority sectors as well as wage increases for teachers and health workers. Spending in priority sectors is estimated to have increased to CFAF 78.4 billion, 20 percent more than in 2003.

8. **Further domestic payment arrears were accumulated in 2004, bringing the stock of domestic debt at end-2004 to CFAF 205 billion (14.8 percent of non-oil GDP),** with the following composition:

a. Unpaid payment orders outstanding at the treasury at end-2003 amounting to CFAF 65 billion (4.7 percent of non-oil GDP).

b. The stock of restructured debt totaling CFAF 116 billion (8.4 percent of non-oil GDP). The verification of these claims was completed in mid-2004 and understandings on a repayment schedule were reached with some creditors.

c. Payment arrears accumulated in fiscal year 2004 amounting to CFAF 24 billion (1.7 percent of non-oil GDP) at end-September.

9. **Monetary developments reflect a substantial increase in net foreign assets. Broad money is estimated to have increased by 6.7 percent at end-December,** while credit to the economy increased only slightly, consistent with the low level of economic activity. Net credit to the government dropped by 11.0 percent relative to beginning-of-period broad money, reflecting a buildup of deposits related to oil revenue. The financial health of the banking system remains generally sound, with most banks complying with the main prudential ratios of the regional banking supervision body (COBAC), which carried out two on-site inspections in Chad in 2004.

10. **Chad made progress in implementing structural reforms in 2004.** In the area of transparency and governance the following measures were implemented: publication and dissemination of the 2003 Budget Law; publication on the Auditor General's website of its report on the audit of the use of HIPC funds between May 2001 and May 2002; publication of the procedural manual of the oil revenue oversight board; adoption and publication of an action plan to further improve customs services; completion and publication on the Auditor General's website of its report on the execution of the 2002 Budget Law; adoption and publication of implementation decrees for the new procurement code; and establishment of a budget discipline court in charge of enforcing civil servants' accountability.

11. **In the oil sector, most of the institutional arrangements for the management of oil revenues were put in place, and a timetable was prepared for the remaining components, most of which relate to the oil revenues allocated to the Fund for Future Generations (FFG).** In the meantime, a separate account was opened with Citibank. Each time funds are credited to the main oil revenue account at Citibank, the portion allocated to the FFG will be transferred to the FFG sub-account. The government also decided that future oil revenues would be managed in the spirit of the Law on Petroleum Revenue Management (LPRM) (001/PR/99), based on the following principles:

- All future revenues will be budgeted and used primarily to finance additional spending in priority sectors, in accordance with the objectives of the PRSP and the National Strategy for Good Governance. Another share of these revenues will be allocated to oil-producing regions, to future generations, and to vulnerable groups.
- Revenues from oil fields will be deposited in a separate account opened with an offshore bank or with the Central Bank of Central African States (BEAC), to facilitate monitoring.
- A supervisory mechanism similar to the one created by Law 001/PR/99, namely, the Oil Revenue Control and Supervision Board (CCSRP), will be instituted.

12. **The cotton sector continues to experience many problems.** Sectoral reform actions taken in 2004 include organizing workshops for producers and potential investors and the selection of two scenarios for the privatization of the cotton company (Cotontchad), which were discussed at the workshops.

13. **A good number of measures were taken in 2004 to strengthen expenditure management and transparency.** The computerization of the expenditure circuit, which enables the monitoring of budget execution along the expenditure chain, was completed. In addition, the management of the externally funded capital budget has been transferred to the Ministry of Economy and Finance. To monitor budget execution more closely during the second half of 2004, a treasury cash-flow table was prepared and updated monthly. Also, to avoid re-emergence of arrears to the Fund, Chad set up a mechanism through which Chad's SDR holdings account will be used to repay the Fund. Progress has been made in preparing the strategy for provision of information. Finally, on civil service reform, the government has adopted an action plan for implementing the recommendations of an audit report of the nine pilot ministries and has decided to use the SYGASPE software to establish an integrated system for the administrative and financial management of the civil service.

III. THE ECONOMIC PROGRAM OF THE GOVERNMENT

A. Medium-Term Program Outlook

14. **The medium-term economic program is guided by the government's PRSP, which defines six pillars:** (i) promoting good governance, (ii) ensuring strong and sustained

growth, (iii) developing human capital, (iv) improving the living conditions of vulnerable groups, (v) restoring and safeguarding ecosystems, and (vi) monitoring and periodically evaluating PRSP implementation. The Medium-Term Expenditure Framework (MTEF), prepared for 2005–07 for priority sectors, is an important tool that will help establish the linkage between the objectives of the PRSP and the effective use of budget resources.

15. The government’s economic program for the next five years emphasizes macroeconomic policies and structural reforms that will help maintain a stable macroeconomic environment conducive to private sector development and investment.

During 2005–07, growth in the non-oil sector should rise to about 5.5 percent on average. Reforms in the energy and cotton sectors, as well as the increased investment in infrastructure, should pave the way for important productivity gains in the non-oil sector. According to available information, growth in the oil sector will reach some 27 percent in 2005 and decline in 2006–07, mainly because production from the Doba oil fields will stabilize and the medium-term framework does not take into account new investments for prospective oil fields.

16. Strengthening fiscal management will be central to achieving the medium-term goals.

To that end, the government intends to improve its collection of non-oil revenue through measures to combat tax evasion, improve efficiency in the revenue-collecting agencies, and streamline tax exemptions. These measures will progressively increase the revenue-to-GDP ratio to 10.7 percent of non-oil GDP in 2007. This level of revenue, along with the expected budgetary assistance, will allow the government to meet its commitments to domestic and external creditors.

17. The government is committed to increase poverty reducing spending and make progress towards the Millennium Development Goals through the use of oil resources and debt relief provided under the HIPC Initiative. To achieve this target, the government will continue to manage oil revenue effectively and transparently, in accordance with the LPRM 001/PR/99, which regulates its use. The government will also ensure that fiscal policy is sustainable in the medium term and that increases in spending reinforce macroeconomic stability. Furthermore, it will continue to provision the stabilization account to prevent volatility in international oil prices from causing erratic fluctuations in expenditure and from hampering the achievement of program objectives, particularly those relating to poverty reduction.

18. The implementation of the LPRM in 2004 brought to light a number of shortcomings to the earmarking scheme, including lack of flexibility in cash management and increased fragmentation of budget management systems. This seems to indicate that the LPRM scheme needs to be reviewed. The government believes, nonetheless, that a year or two of implementation is needed to gather experience and complete the work currently underway on the codification of poverty reducing spending, with assistance from the World Bank.

B. Economic Program for 2005

19. **In the context of the medium-term macroeconomic targets outlined above, the economic program for 2005 focuses on strengthening fiscal management and transparency and on addressing impediments to growth.** To this end, the government plans to give new impetus to its structural reform program, enhance non-oil revenue collection, and strengthen public expenditure management. The government also intends to complete the institutional arrangements pertaining to the management of oil revenues.

20. **Economic growth is expected to accelerate in 2005, spurred by oil-related activities and the recovery in cotton production.** Furthermore, increased public sector investment will benefit industry and services activities. The program for 2005 envisages a growth rate of 6.4 percent for non-oil GDP and an inflation rate of 3 percent. The external current account deficit (excluding official transfers) is expected to improve further to 8.4 percent of GDP.

Fiscal Policy

21. **Fiscal policy in 2005 will be geared toward reinforcing macroeconomic stability.** The non-oil primary base deficit will be contained at 6.5 percent of non-oil GDP. This represents a widening of 3.1 percent of non-oil GDP, resulting mainly from the increase in spending in priority sectors. The overall budget deficit (on a commitment basis, excluding grants) is expected to reach 11.2 percent of non-oil GDP. It will be financed with external budgetary assistance, including debt relief under the HIPC Initiative. In the event of lower-than-expected budget resources, nonpriority expenditure will be scaled down to avoid an accumulation of payments arrears.

22. **Total revenue is expected to reach 19.2 percent of non-oil GDP in 2005, compared with 14.5 percent in 2004.** Non-oil revenue is expected to increase slightly to 10 percent of non-oil GDP in 2005. To strengthen revenue collection, the government has decided to improve efficiency in the tax and customs administrations by increasing their human resources and computerization. It also plans to (i) enhance coordination and the sharing of information about taxpayers between the customs and tax departments; (ii) improve the use of the import preshipment inspection certificate issued by the inspection agency BIVAC; and (iii) computerize the exemptions granted by both product and beneficiary, and improve the ex post controls of exemptions by both the customs and tax departments. Starting in March 2005, the customs and tax departments will each produce a quarterly report analyzing trends in exemptions. The reports will specify the beneficiary of each exemption, the exempt product, and the legal grounds for the exemption.

23. **Total expenditures are budgeted to increase by 36 percent in 2005.** This sharp rise primarily reflects spending in priority sectors that is financed with earmarked oil revenue and, more specifically, investment. Overall, poverty reducing expenditure will reach CFA 156 billion, equivalent to 10.4 percent of non-oil GDP. The wage bill will be capped at CFAF 87.7 billion (5.9 percent of non-oil GDP). This amount includes civil service and

military wages, as well as new hiring estimated at 2,931 people, 2,625 of whom will be in the priority sectors. The government will not grant a general wage increase for the civil service in 2005. In the army, the government plans to replace the current system of lump-sum salary payments with a pay scale graduated by rank and seniority and to sharply pare supplementary allowances. The implementation of this reform accounts for the planned 8 percent increase in the military wage bill.

24. **Efforts to settle domestic debt will continue in 2005.** Payments on restructured debt will total CFAF 14.3 billion, based on restructuring arrangements reached with some creditors (See Appendix I, Table 2). Full elimination of arrears accumulated in 2004 will depend on resources available in 2005. The current framework programs the settlement of CFAF 14.8 billion (about 1 percent of non-oil GDP) out of CFAF 24 billion estimated at end-September. As for the stock of unpaid treasury arrears at end-2003, it will be inventoried and verified, and an action plan for the elimination of these arrears will be prepared by end-December 2005. The government intends to request financial support from donors for the implementation of the action plan.

Monetary Sector Issues

25. **Broad money is expected to grow in line with non-oil GDP in 2005.** Credit to the economy is projected to expand by 10 percent, reflecting the expected recovery in economic activity. At the same time, net credit to the government is projected to decline by 20 percent relative to beginning-of-period broad money, reflecting the buildup of deposits related to oil revenue, and the scheduled reduction in liabilities to the banking system. Chad's statutory advances from the BEAC will increase in 2005 when oil revenue is included in the calculation of the annual ceiling. The government intends to use this additional margin to pay off CFAF 14 billion in costly exceptional advances granted by the BEAC in 2003-04.

Structural Reforms, Public Expenditure Management, and Governance

26. **The government is committed to push ahead with reforms in the cotton sector, notably through the implementation of measures agreed upon** with the World Bank under the Institutional Reform Support Credit (IRSC). The government plans to have consultations with the World Bank and other donors on the cotton sector crisis in early 2005. Based on the outcome of these consultations, the government will prepare a strategy for the cotton sector and a timeschedule for the privatization of Cotontchad. In this context, the government will take into account feedbacks from workshops organized for producers and potential investors on the privatization of Cotontchad, and specify measures to resolve the financial difficulties facing the company, with a view to determining the timeschedule for the elimination of subsidies currently granted to Cotontchad. The government will discuss key aspects of the cotton sector reform strategy with Fund staff at the time of the first review of the program and seek to reach understandings on measures to be included in Fund conditionality. The government plans to take the following actions during 2005-06:

- Select of the final privatization scenario for Cotontchad. Two scenarios (sale of equities or sale of ginneries) were selected out of nine, and were discussed at the investors and producers' forums held, respectively, in September and October 2004.
- Complete the ex-ante qualitative Poverty and Social Impact Analysis (PSIA). The first stage of the qualitative analysis and the quantitative analysis have already been completed.
- Address Cotontchad's financial situation: the government and Cotontchad agreed on the settlement of reciprocal debt in 2004. Issues to be addressed include deciding how to rehabilitate the company or how to assume the company's debts, depending on the choice of privatization scenario.
- Specify the institutional framework for the cotton sector after privatization is completed, including market regulation and access to credit.
- Complete a study on options to engage the private sector in cotton activities.
- Clarify the producer price-setting mechanism.
- Strengthen producers' organizations by reviewing the performance of the local coordination committees and continue the dissemination campaign on the selected scenario for reform.
- Train cotton farmers on production and selling techniques and inform them about market conditions and inputs.
- Improve the rural road network in cotton-producing areas.
- Prepare bidding documents and launch tender for bids for the privatization of Cotontchad.
- Launch an ex-post PSIA after privatization of Cotontchad.

27. **In the energy sector, the government's reforms focus on increasing production and addressing financial difficulties facing the water and power company (STEE).** To increase capacity in the short run, the government has decided both to recondition old generators and to purchase three new ones to meet existing demand. However, this strategy is likely to cause STEE's financial situation to deteriorate because the generators operate with expensive fuel, with average costs estimated at CFAF 300 per kilowatt hour, while the average electricity tariff is CFAF 170 per kilowatt hour. Strategies providing for smaller increases in output but at lower average cost are being considered, with assistance from the World Bank. In the medium term, the government plans to build a new power plant at Farcha, financed with a concessional loan from the Islamic Development Bank. The plant is meant to reduce Chad's dependence on high-cost diesel fuel. Oil from the Sédigui field near Lake Chad could be used to supply the new facility. However, it will take several years to complete this project. In the interim, three options are being contemplated: (i) use Doba crude oil, (ii) use the light fraction of Doba oil produced from a topping plant; or (iii) use gas field condensate. On the financial situation of STEE, an action plan to improve its

performance is under way with assistance from the World Bank. It entails lowering production costs, controlling the use of diesel by limiting production from old and inefficient generators, improving marketing procedures, and freezing investment until production costs have been lowered substantially.

28. **The government will continue its efforts to strengthen expenditure and cash-flow management.** In this context, it plans to request additional technical assistance from the IMF to prepare the implementation of measures recommended by the October 2004 Fiscal Affairs Department (FAD) mission, to strengthen budgetary procedures and address the fragmentation of cash management through the setting of a treasury single account. During the first review of the program, the government will discuss the specific timing for the implementation of these measures by end-2005. A treasury cash-flow plan to be updated monthly was prepared for 2005. It will be one of the key components for fiscal management. Other measures, to be pursued in the context of the World Bank lending operations, include the computerization of Administrative and Financial Directorates (DAFs) of line ministries, the connection of priority ministries to the Integrated Financial Management Information System, the codification of poverty-reducing spending, the submission of administrative and management accounts for 2004 to the Auditor General's office, and the submission to parliament of the 2004 settlement law. Based on lessons learned from preparing MTEFs for priority sectors for the past two years, the government will take the measures needed to improve the quality of the MTEF and link it more closely with the objectives of the PRSP. The government will prepare the updated MTEF for 2006–08 in consultation with Fund and Bank staff, so that it can be adopted by the Council of Ministers by end-September 2005. One key measure in this regard is building the administrative capacity of the DAFs. In the event, a comprehensive action plan incorporating donors' recommendation in the fiscal area is under preparation in collaboration with the World Bank. The government has also prepared, in consultation with IMF staff, a medium-term macroeconomic framework that will facilitate multiyear budget programming to serve as a basis for updating the MTEFs for 2006–08.

29. **Other measures to strengthen good governance and transparency in resource management include the strengthening of the public procurement system,** notably through the recruitment of qualified personnel and the provision of training needed to ensure that the new procurement code is properly implemented. In particular, the Committees for Opening and Assessing Bids (COJO) and the pre-selection subcommittees will be established during 2005, the update of the 2000 civil service census and the strengthening of personnel management through the computerization of the payroll and personnel management systems by end-2005.

30. **In the oil sector, the publication of quarterly reports prepared by the CCRSP will continue, and the investment strategy for the resources allocated to the FFG will be finalized by end-June 2005.** The government has also decided to adhere to the Extractive Industry Transparency Initiative (EITI). A working group will be set up by May 2005 to prepare the required actions for implementing the EITI; it will be responsible, in particular,

for analyzing the procedures for publishing data and the legal obligations of stakeholders and for preparing an action plan to effectively implement the provisions of the EITI by end-2005.

HIPC Initiative and PRSP Implementation

31. Cognizant of the substantial budgetary support that Chad will receive through debt relief at the completion point under the HIPC Initiative, the government will work to implement the necessary structural measures to reach the completion point in 2005.

To date, it has taken a large number of structural measures and made substantial progress in the health, education, and infrastructure sectors. Moreover, the first PRSP progress report was completed in late December 2004. The progress report complements the PRSP by providing a review of specific measures needed to achieve the PRSP objectives and highlights important issues for poverty reduction that received insufficient attentions in the original document.

Program Monitoring

32. Progress in program implementation will be evaluated on a quarterly basis using the quantitative and structural measures indicated in Tables 1 and 2 of the Appendix.

IMF staff will conduct two annual reviews of the program with the government to evaluate its implementation based on the results at end-June and end-December 2005. The first review should be concluded by the IMF Executive Board by end-September, 2005. It will focus on measures aimed at improving budgetary procedures and cotton sector reforms. The second review will be completed no later than February 1, 2006.

33. A technical committee has been set up in the Ministry of Economy and Finance to monitor the implementation of the program. This committee, which will be operational by end-February 2005, will also be responsible for consolidating and regularly disseminating macroeconomic and financial information. In particular, it will prepare and publish a quarterly report on budget execution, using data from the computerized table covering the four stages of the expenditure circuit. The first report on budget execution at end-March 2005 should be communicated to the Fund by May 1, 2005.

Table 1. Chad: Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January 1, 2005–December 31, 2005

| Measures | Expected Date of Implementation |
|---|----------------------------------|
| Prior Actions | |
| Clearance of all arrears on nonreschedulable external debt. | Observed |
| Completion of the computerization of the expenditure execution system. | Observed |
| Preparation of a monthly cash-flow plan for 2005 to be updated monthly. | Observed |
| Creation of a unit in the Ministry of Economy and Finance to monitor the reform program. | Observed |
| Establishment of an automatic mechanism for the use of Chad's SDR holdings account for the payment of obligations to the Fund. | Observed |
| Performance criteria | |
| Publication and communication to the IMF of the quarterly budget execution report, including detailed information about expenditure commitments, validation, payment orders, and cash payments. | Continuous, starting May 1, 2005 |
| Preparation and communication to the IMF of an action plan to eliminate treasury verified domestic payment arrears (MEFP, para 24) | End-December 2005 |
| Creation of a payroll and civil service roster using the computerized system for the administrative management of civil servants and payroll, and based on the results of the civil service census scheduled for end-November 2005. | End-December 2005 |
| Structural benchmarks | |
| Adoption by the Council of Ministers of the investment strategy for oil revenue allocated to the Fund for Future Generations. | End-June 2005 |
| Adoption by the Council of Ministers of the medium term expenditure framework for all priority sectors (health, education, rural development, basic infrastructure and environment) for 2006–08, prepared in consultation with the Fund and the World Bank, and consistent with the Poverty Reduction Strategy Paper. | End-September 2005 |
| Publication of quarterly reports prepared by the Oil Revenue Control and Surveillance Board on the collection, allocation, and use of oil revenue. | Continuous |

Table 2. Chad: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005 – December 31, 2005 ^{1/}
(In billions of CFA francs; Cumulative Changes from the beginning of the Calendar Year, Unless Otherwise Indicated)

| | End-Dec 2004 | Cumulative Changes from the Beginning of the Calendar Year, unless otherwise indicated | | | |
|---|--------------|--|----------------------|--------------------|----------------------|
| | | End-March 2005 | End-June 2005 | End-Sep 2005 | End-Dec. 2005 |
| | | Indicative Targets | Performance criteria | Indicative Targets | Performance criteria |
| | | Program | Program | Program | Program |
| A. Quantitative performance criteria and indicative targets | | | | | |
| Floor on primary fiscal base balance, excluding oil revenue ^{2/} | ... | -19.3 | -44.4 | -80.8 | -97.7 |
| Ceiling on total wage spending (including military) | ... | 21.9 | 43.9 | 65.8 | 87.7 |
| Stock of restructured domestic debt ^{3/} | 115.7 | 114.3 | 112.1 | 110.8 | 101.3 |
| B. Continuous quantitative performance criteria | | | | | |
| Nonaccumulation of external payments arrears of the central government ^{4/} | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Central government's contracting or guaranteeing of new nonconcessional external debt with maturities of more than one year ^{5/} | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| Central governments' outstanding stock of external debt with a maturity of up to and including one year, except normal trade financing | ... | 0.0 | 0.0 | 0.0 | 0.0 |
| C. Indicative targets | | | | | |
| Total revenue ^{6/} | ... | 64.0 | 134.8 | 209.8 | 287.1 |
| Oil | ... | 30.5 | 63.6 | 101.2 | 136.8 |
| Non oil | ... | 33.5 | 71.1 | 108.6 | 150.2 |
| Memorandum items: | | | | | |
| Repayments on restructured domestic debt ^{3/} | ... | 1.4 | 3.6 | 4.9 | 14.3 |
| Budgetary aid (excluding from the Fund) | ... | 13.1 | 13.1 | 30.8 | 30.8 |
| Debt relief (including HIPC Initiative assistance) | ... | 2.6 | 5.0 | 6.7 | 9.1 |

Sources: Chadian authorities; and staff projections.

1/ Performance criteria for program indicators under A and B; indicative targets otherwise.

2/ The primary base balance is the difference between total revenue and total expenditure, excluding interest on domestic and external debt and externally financed investments.

3/ Restructured domestic debt refers to BEAC, Contonchad, CNPS, CNRT, ASECNA, CBT, "France Cable et Radio", Alcatel, subscriptions, contributions to international organizations, arrears on rents and legal commitments.

4/ Excluding external payments arrears incurred pending debt rescheduling.

5/ Excluding debt relief obtained in the form of rescheduling or refinancing.

6/ Excluding revenue from the privatization of public enterprises and from the concession of exploitation or exploration permits of oil fields.

**Technical Memorandum of Understanding
On Concepts, Definitions, and Data Reporting
Under Chad's PRGF-Supported Program**

February 4, 2005

1. The purpose of this technical memorandum of understanding (TMU) is to describe the concepts and definitions that will be used in monitoring the implementation of the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). The memorandum also describes the adjusters that will be applied to certain quantitative performance criteria of the program and sets out the data-reporting requirements for monitoring program implementation.

The primary base balance

2. The primary base fiscal balance is defined as total government revenue minus primary base expenditure on a commitment basis. Total government revenue is defined as tax revenue plus nontax revenue plus oil revenue, minus proceeds from the taxation of public contracts, minus sales of assets. Oil revenue is defined as royalties plus dividends paid by oil companies. Primary base expenditure is defined as total expenditure, less externally-financed investment, less interest payments on domestic and external debt.

The wage bill

3. The government wage bill is defined as the sum of wages and remunerations, allowance, bonuses, and contributions to the pension fund paid for the calendar year to all state employees, civilian and military.

Stock of restructured domestic debt

4. For program purposes, the outstanding restructured domestic debt covers the government's liabilities to domestic creditors identified in the inventory of domestic debt completed in July 2004. These liabilities have been in arrears and were restructured under conventions signed with creditors, indicating repayment terms.

New nonconcessional external debt contracted or guaranteed by the government with a maturity of more than one year

5. This performance criterion applies not only to "debt" as defined in point No.9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed by the Republic of Chad for which value has not been received.

6. The government will not contract or guarantee external debt with an original maturity of one year or more with a grant element of less than 35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates. This performance criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

7. The government will not contract or guarantee external debt with an original maturity of less than one year. The term debt will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). Short-term and import-related trade credits are excluded from this performance criterion. This performance criterion will be monitored on a continuous basis.

Arrears on external debt

8. The government undertakes not to incur payments arrears on external debt that it owes or guarantees, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. This performance criterion will be assessed on a continuous basis.

9. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

10. For the purpose of program monitoring, the government undertakes to consult with the Fund before contracting or guaranteeing an external loan for which an assessment of the grant element is required.

Data reporting

11. The authorities undertake to provide monthly and quarterly data needed to assess the attainment of program quantitative targets as well as macroeconomic developments. Detailed information on the following indicators will be provided to the Fund monthly, within 30 days: (i) oil and non-oil revenue by category, (ii) proceeds from sales of assets, and (iii) capital spending by source of financing (domestic or external).

12. Budget execution tables showing commitments, payment orders, liquidations, and payments will be provided to the Fund monthly, three weeks after the end of each month.

13. Detailed information on repayment of domestic arrears will be provided to the Fund monthly, within 30 days of the end of each month.

14. Tables showing external debt-service payments actually made during the previous month and expected to fall due during the following two months will be provided to the Fund monthly within a week of the end of each month. These tables should also show the amount of HIPC assistance or debt rescheduling received and transfers of HIPC assistance to the HIPC account at the BEAC made during the previous month and expected to fall due during the following two months, as well as arrears to the HIPC account.

15. Detailed information on new loans contracted or guaranteed by the government will be communicated to the Fund within 30 days of the completion of the transaction.

16. Provisional monetary data prepared by the BEAC will be provided to the Fund monthly within 45 days of the end of the month. Data on net credit to the government will be provided to the Fund monthly, within 30 days of the end of each month.

End notes

17. The definition of debt set forth in Point 9 of the guidelines reads as follows: “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., 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.

18. Debts can take a number of forms, the primary ones being the following:

- Loans: advances of money to an 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 buyer’s credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).
- Supplier’s credits: 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.
- Leases: arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leaser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.
- Under the definition of debt set out in Point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (payment on delivery) will not give rise to debt.