International Monetary Fund

Chad and the IMF

Press Release:
IMF Executive Board Approves New US$ 312.1 Million Arrangement Under the Extended Credit Facility (ECF) for Chad and Cancels the Current Arrangement

June 30, 2017

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

June 16, 2017

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

June 16, 2017

Madam Managing Director,

This letter of intent and the attached Memorandum of Economic and Financial Policies (MEFP) present recent economic developments and outcomes of the economic program supported by an Extended Credit Facility (ECF) arrangement, as well as the policies that the Government will implement in the rest of the 2017 and the medium term.

The Executive Board of the IMF approved, on August 1, 2014, an ECF arrangement covering the period July 1, 2014 through June 30, 2017. Four reviews under this arrangement have already been concluded. The first and second reviews were concluded in April and December 2015, respectively. The third and fourth reviews were concluded together in November 2016 and the arrangement was extended until November 30, 2017.

Over the past three years, the Government has implemented the ECF-supported economic program in a particularly difficult context, characterized by the occurrence of three exogenous shocks: (i) the sudden, prolonged and substantial decline in oil prices; (ii) the worsening of the security situation following recurrent terrorist attacks in the region and in Chad; and (iii) the humanitarian crisis in light of the heightened terrorist threat and regional instability. Low oil prices since the second half of 2014, together with the service of the external commercial debt to Glencore, have adversely affected budgetary oil revenues in 2015 and even more in 2016. Security crises at Chad's borders have severely disrupted cross-border trade and lowered budgetary non-oil revenues. At the same time, the involvement of Chadian troops in the fight against terrorist groups to preserve peace and regional stability weighs heavily on the level of public spending. Finally, with heightened terrorist threat and conflict at its borders (including the Lake Chad region), Chad continues to host at least 700,000 refugees and displaced or repatriated persons in its territory.

Despite the difficult environment, the Government has implemented with great determination the ECF-supported program, with performance until through June 2016 broadly satisfactory. However, the persistence and extent of the current economic crisis and its worsening during the second half of 2016 have undermined the Government's capacity to implement the program. In spite of large spending cuts, the floor on the non-oil primary balance was missed, and arrears to external and domestic creditors accumulated.

Thus, the Government is convinced of the need for a new stabilization and reform package to get the country out of the crisis. With unchanged economic policies, the vicious circle of "low revenues, low expenditures, and decline in economic activity" will continue, seriously exacerbating social tensions.

In this context, the Government has developed a new medium-term economic program aimed at stabilizing the economy and laying the foundations for sustainable economic recovery. The Government is committed to dialogue closely with all internal and external stakeholders, whose support is necessary to ensure the success of the program.

Achieving fiscal and debt sustainability is the priority of the new program. The government will adopt a revised budget for 2017, with the non-oil primary deficit kept below 5 percent of non-oil GDP in 2017 (compared to 16 percent and 10 percent respectively in 2014 and 2015). To achieve this level, the Government is committed to contain the public sector wage bill, and level of spending on goods and services, and transfers and subsidies, while providing some space for a small increase public investment. Social spending will remain a high priority. The Government also aims to start repaying arrears on spending that has gone through the spending chain.

The Government is firmly committed and has publicly announced its plan to reduce the burden of external commercial debt owed to Glencore to restore debt sustainability. The Government is confident that, with the support of financial and legal advisors, it will achieve a restructuring in line with the program parameters. In consultation with its advisors, the Government understands that that the collateral associated with this debt is not likely to undermine its ability to generate the necessary financing to ensure the new program is fully financed and restore debt sustainability.

On managing public debt, the Government will take the necessary measures to secure the refinancing of domestic debt maturing over the coming months. This will entail providing space in the revised budget to repay arrears that accumulated to banks in November 2016, and to stay current on all its interest payment. The Government also plans to clear arrears to official bilateral creditors within 12 months.

Strengthening the mobilization of non-oil revenues to improve the viability of public finances is an essential part of the new economic program. Efforts in this regard started already in the original 2017 budget which included new tax measures that have yielded good results, and with the decision of the government to reinforce the moratorium on the granting of new tax and customs exemptions that deprive the budget of significant resources. Moving forward, the Government will take the necessary measures to improve the tax and customs administrations, and will consider options to broaden the tax base, with priority accorded to reforms of the personal income tax, VAT and property tax.

The Government will continue its efforts to improve public financial management. This includes improvement of the chain of expenditure and cash management system, and the adoption of a comprehensive strategy for repaying the stock of domestic arrears once those are audited properly. Improved transparency of the oil sector operations will continue to be at the forefront of the Government's priorities.

The Government is committed to diversify the economy to reduce its dependence on oil, including by improving the business climate to encourage private investment. Specific measures will be set out in the framework of its new National Development Plan 2017-21, which is being finalized, and a donors round table for mobilizing funding is planned for early September.

Based on the policies described in this letter and its attachments, the Government has decided to cancel the current ECF arrangement and requests the IMF Executive Board to approve a new three-year ECF arrangement for an amount of SDR 224.320 million (160 percent of quota) in support of our new medium-term economic program. The new ECF arrangement should address the country's protracted balance of payments problems by supporting the policies necessary to stabilize and revive the economy. This would allow the disbursement of the equivalent of about CFAF 59 billion in 2017 (sum of two equal installments of SDR 35.05 million, disbursed respectively after the approval of the new ECF arrangement and after the conclusion of the first review), provided that the relevant conditions attached to these disbursements are met.

The Government believes that the policies and measures set forth in the MEFP will help to achieve the program objectives. The government will adopt any additional measures required for this purpose. 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 IMF policies on such consultations. To facilitate monitoring and assessment, the government has established a negotiation committee within the Ministry of Finance and Budget, which is tasked to report all required information to Fund staff on a regular and timely manner, pursuant to the Technical Memorandum of Understanding (TMU).

In closing, the Government consents to the publication on the IMF website, following the conclusion of the approval of the new ECF arrangement, by the IMF Board of Directors of this Letter, the attached MEFP, the TMU, and the IMF staff report on the request of new ECF arrangement.

Very truly yours,

/s/

Christian Georges Diguimbaye
Minister of Finance and Budget

Attachment I. Memorandum of Economic and Financial Policies

OVERVIEW

1. Since August 2014, the Government of Chad has made steadfast efforts to effectively implement its economic and financial program supported by the IMF under the Extended Credit Facility (ECF). The three-year ECF arrangement was approved on August 1st, 2014 in support of the Government's medium-term economic program. The satisfactory implementation of the ECF, with the completion of the first review paved the way for reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in April 2015, an important milestone for Chad. Since then, while exogenous shocks have complicated policy implementation, Chad was able to complete three additional reviews.

2. The external shocks faced by Chad since mid-2014 have continued to weigh on the economic, financial and social situation:

- While international oil prices recovered slightly and stabilized in the second half of 2016, on average, the Chadian oil price was still lower in 2016 than in 2015, and its current level (about 45 U.S. dollars per barrel) still represents about half of the 2014 average price. This, along with the heavy burden of servicing a commercial debt which stood at about US$1.37 billion at end-2016), has drastically reduced oil revenues that enter the Treasury. The Government had to slash education, health, and investment spending and struggled to pay salaries, all of which led to increased social tension.
- The Chadian security forces continue to be heavily involved in regional peace-keeping efforts, especially in the Lake Chad basin. These efforts are crucial to maintain regional security, but the stationing of military personnel in Cameroon, Mali, Nigeria, Niger, Central African Republic, as well as on the border with Sudan and Libya, entails significant pressures on the budget and more generally on the economy. Indeed, the security situation continues to disrupt cross-border trade and crucial economic activities including in the livestock and agriculture sectors.
- The humanitarian crisis in the region is also an important source of pressure on Chad. Chad hosts about 700,000 refugees, displaced persons, and returnees. While the direct fiscal cost is difficult to measure, the Government is supporting refugees' access to land, basic community services and settlement in host communities.

3. The renewed efforts to contain the impact of the crisis since September 2016 have helped deepen Chad's engagement with the IMF and other international partners, but the fiscal pressures remain acute. Despite very difficult circumstances, the Government's strong commitment to reform has helped Chad complete the third and fourth reviews under the ECF arrangement on November 11, 2016. Disbursements of budget support from the IMF, World Bank, the European Union, the African Development Bank, and France have helped the Government regularize wage payments later in 2016 and early 2017. In spite of these efforts and the dramatic fiscal adjustment of the past two years, the Government continues to face serious liquidity pressures making it difficult to stabilize the fiscal and macroeconomic position.

4. The Government is therefore convinced that a new stabilization and reform strategy is urgently needed to lift the country out of the ongoing crisis and is requesting IMF support in this regard. Without changes in economic policies, the vicious circle of low revenue, low spending, and depressed economic activity will continue, with high risk of disorderly adjustment and further raising social tension. In this context, the Government has built a new medium-term economic program, aimed at stabilizing the economy and laying the foundation for a durable recovery. The Government is committed to engage closely with the relevant creditors and all its external and internal stakeholders, whose support (including financial support) is needed to ensure the success of the program.

5. This memorandum lays out the specific elements of the Government's reform strategy under the requested new ECF arrangement. It describes the difficult recent economic developments, the Government's efforts to implement policies agreed under the existing program supported by the current arrangement, the macroeconomic prospects, as well as the Government policies and reforms agenda for the 2017–20 period.

RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE 2014–17 ECF ARRANGEMENT

A. Recent Economic Developments

6. The economic and financial situation continued to worsen in the second half of 2016, with a deep contraction of the economic activity. Sharp cuts in Government spending, together with investment cuts and large layoffs in oil companies had strong spillovers on the rest of the economy. The non-oil private sector companies have also curtailed their activity, particularly in the construction sector, an important source of employment. As a result, economic activity contracted in 2016 for the second year in a row, even more markedly than in 2015. Weak domestic demand as well as continued cross border trade disruptions have led to deflation.

7. Fiscal pressures continued to deepen throughout 2016. Both oil and non-oil revenue underperformed in 2016, and acute liquidity pressures prevailed throughout the year. In particular, oil revenues have dropped to around one-third of the amount observed in 2014. In response, the Government executed the budget on a cash basis for most of the year, with priority given to essential security spending, wage payment, debt service, and poverty reducing social expenditure. Since the middle of 2016, the Government has taken courageous measures such as reducing bonuses to contain the wage bill, drastically cutting investment spending to only 1.1 percent of non-oil GDP (compared to about 8 percent average between 2006 and 2015), and significantly reducing transfers and subsidies, to help balance the budget. However, these measures and the coming onboard of exceptional receipts from previous tax disputes have proven to be insufficient to stem the liquidity pressures. The pressures intensified further in the second half of the year in large part due to further underperformance of non-oil revenue and led to delays in the payment of wages and salaries, and the accumulation of some arrears to domestic and external creditors.

8. **The economic slowdown and the Government liquidity crunch have also taken a toll on banks.** Non-performing loans have increased markedly due to the accumulation of domestic arrears by the Government to private companies which in turn could not service their debts to banks. This was exacerbated by the decline in public procurement (on which the private sector is highly dependent) which has led to a decline in overall economic activity. This, together with the fact that some banks (which increased significantly their exposure to public securities in the last two years) have reached the refinancing limit at the BEAC, is generating liquidity pressures. The weakened situation of the banking sector has fed back into the real sector (as banks are no longer able to provide credit to the economy) and the public sector with the Government now facing difficulties placing new debt, and rolling over some of the existing debt.

B. Performance under the 2014–17 Extended Credit Facility

9. **Despite the unfavorable environment, the Government demonstrated strong determination to implement the program.** Performance up to June 2016 was broadly in line with targets set under the program.

- With the exception of the ceilings on accumulation of external and domestic payment arrears, the quantitative performance criteria (QPCs) were met. In particular, the non-oil primary deficit target, which is the fiscal anchor of the existing program, has been met in all the four reviews of the program. Meanwhile, the poverty-reducing social spending target, the ceiling for net domestic Government financing and the zero contracting or guaranteeing of non-concessional loans targets have also been met in all but one review.
- Most of the SBs set under the program up to the combined third and fourth reviews were observed, although a few with delays, notably the benchmarks on adopting a regulatory framework for debt management and on publishing a debt management report.

10. **More recently, however, despite the Government's strong commitment, the deepening economic crisis has undermined its ability to implement the program**. Three of the six QPCs for end-2016 were not met. The non-oil primary balance floor was missed due to a shortfall in non-oil revenue. The ceiling on net domestic financing has also been exceeded, as domestic debt amortization was lower than projected, and the Government accumulated arrears to the banking system. Finally, external payment arrears have accumulated, despite the Government's efforts to stay current on its external obligations. While these QPCs were not met, the Government made large spending cuts to prevent a further deterioration in the fiscal position, and made every effort to protect social spending, thus meeting the relevant PC. Two of the structural benchmarks for end 2016 were not met: (i) the submission of the National Development Plan to the Assembly has been delayed to allow time for sufficient consultation with external partners and to refine the underlying macroeconomic framework; and (ii) the Government decided to wait for clarity on the financing of the audit on domestic arrears before finalizing its terms of reference.

ECONOMIC AND FINANCIAL POLICIES UNDER A NEW THREE-YEAR ECF ARRANGEMENT

11. The Government has developed a comprehensive strategy to address the challenges facing the country, put the economy on a sustainable path of recovery, and improve the socio-economic conditions of the population. It entails policies that would help stabilize the economy, support a resumption in non-oil growth and build the foundation for inclusive and sustainable growth. The main elements of the strategy, detailed below, are to (i) ensure fiscal and debt sustainability, including by restructuring external commercial debt, preserving the bulk of the fiscal adjustment of the last two years, increasing non-oil revenue, and clearing domestic arrears which is key for economic recovery and banking sector stability; (ii) strengthen public financial management (PFM), including the efficiency of public spending, which also help avoid the reemergence of domestic arrears; and (iii) improve the business environment and promote economic diversification.

C. Short and Medium-Term Fiscal Policies: Enhancing Fiscal and Debt Sustainability

12. The Government will follow a two-pronged approach to enhance fiscal and debt sustainability starting with a revised budget for 2017 (prior action). First, the Government will preserve much of the adjustment in current spending of the past two years, and focus on redirecting resources to areas where the previous cuts had detrimental social consequences and to investment spending. Spending control will be enhanced by measures to contain the wage bill as well as transfers and subsidies. Second, the Government will aim to raise non-oil revenue in a gradual but determined way. This will allow a steady improvement in the non-oil primary deficit after an initial slight widening in 2017. A performance criterion on the non-oil primary balance (Table 1) would serve as the main fiscal anchor of the program supported by a new ECF arrangement. In addition, the Government is committed to repay domestic arrears at a pace consistent with the availability of resources.

13. Both short and long term-measures will be implemented to maintain the wage bill at a sustainable level. The Government is determined to bring the wage bill to a level consistent with medium-term budgetary revenue forecasts, and taking into account the need to preserve other priority spending. Measures in the short term will include a hiring freeze in the civil service including potential hire eligible to join the civil service, but who have not joined it yet, freeze on wage increases, and reduction in bonuses. This is expected to help contain the wage bill to no more than CFAF 348 billion in 2017. Beyond these measures, the Government will adopt an action plan (structural benchmark) drawing on the results of the audit of payroll financed by the EU, to improve the management of the wage bill with the objective to reduce it to about 6.5 percent of non-oil GDP and to less than 70 percent of non-oil revenue by 2020. This audit shows that by cleaning the wage bill registry (in particular by eliminating ghost workers), at least CFAF 40 billion (about 0.8 percent of 2017 non-oil GDP) can be saved. In addition, an audit of the diplomas of civil servants, will identify people who have falsely reported their education attainment. This will help dismiss or reduce the salaries of those identified.

14. The Government is also committed to streamline transfers and subsidies. The adjustment of the past two years was also drastic for transfers and subsidies. While a large part of these transfers and subsidies are allocated to crucial sectors (education, health, agriculture, security), there is room to reduce some subsidies that are proven to be inefficient. An audit of transfers and subsidies (structural benchmark), to be launched in 2018, would help to identify potential sources of savings. In the meantime, the Government has implemented measures, such as the merger of public entities in order to streamline their operations, which could also reduce their subsidies, to keep the level at around 2.5 percent of non-oil GDP per year, about half the level that prevailed during 2010–14.

15. Poverty reducing social spending will remain a high priority. While the economic and financial crisis has complicated the implementation of basic social programs, the Government attaches the utmost importance to social spending. For 2017, the Government will increase the level of poverty reducing social spending to maintain its high share (of about 30 percent) of domestically financed primary expenditure. The Government plans further increases in both 2018 and 2019. Social spending, that have been defined in collaboration with the World Bank, will be monitored through an indicative floor (Table 1).

16. Investment spending will be increased gradually. The Government is aware that returning to the levels of investment spending prior to the crisis is not feasible and sustainable given that they were supported by exceptionally (and temporarily) high levels of oil revenue. Nonetheless, investment spending plays a crucial role in reviving the economy and supporting medium-term growth potential. As such, the Government plans to increase domestically financed investment spending to 1.4 percent of non-oil GDP in 2017, followed by a gradual increase toward 2.2 percent of non-oil GDP by 2021.

17. The Government's program will also aim to repay domestic arrears in a manner consistent with resources availability. In March 2016, the Government launched an operation to clear CFAF 65 billion out of the stock of recognized arrears by the Treasury in the "*Reste à Payer table*", which was financed by two bonds issuances. Subsequently, the amount of arrears repayment was raised by about CFAF 20 billion, and was financed by additional bond issuance. Unfortunately, due to the continuing liquidity pressures, new arrears accumulated and offset much of these payments. In 2017, the Government plans to pay at least CFAF 30 billion in arrears with the objective of clearing the entire amount that accumulated in the first half of the year. The Government is committed to prioritize the payments on the basis of their economic and social impact, and will take into consideration the effect they will have on the banking sector. The exact amount to be cleared per year will depend on the level of budgetary resources available. In this regard, the Government is seeking financial support (external concessional or domestic at favorable terms) to help repay the arrears in a manner consistent with a well-designed clearance strategy (see below and paragraph 32 for details). Consequently, the ceiling on the stock of domestic payment arrears recognized by the Treasury (performance criterion under the ECF arrangement, see Table 1) would be adjusted depending on the availability of resources (see Technical Memorandum of Understanding -TMU- for details). Over the medium term, the Government is determined to implement a comprehensive strategy to verify and clear potential arrears and resolve the problem of arrears accumulation (see Paragraph 32 for details).

18. The Government is committed to clear all its external debt arrears. We have reached out to relevant creditors to seek an agreement to clear the arrears. We have also adopted a plan to repay all the external arrears pending confirmation by the respective creditors. Arrears to official bilateral creditors are planned to be cleared within the next 12 months, and those to multilateral creditors within the program period. We are also seeking the clearance of arrears with a private commercial creditor in Taiwan Province of China. Going forward we are committed to economic and financial policies that would prevent further accumulation of arrears.

19. The Government will seek the rollover of domestic debt maturing in coming months. In 2015 and 2016, the Government raised respectively CFAF 192 and 241 billion through domestic public securities auctioned in the regional market. In light of recent difficulties to raise additional financing in the regional market, the Government is working closely with banks in coordination with the BEAC to pay the arrears that emerged last year, stay current on the 2013–18 Emprunt Obligataire, pay all interest coming due on treasury bills and bonds, and rollover the maturing principal in 2017. In line with BEAC policies, the Government is committed to refrain from any new financing from the BEAC and to gradually repay its debt to the BEAC with the aim of eliminating it by 2028.

20. The Government is committed to use prudently higher than projected budgetary resources (including exceptional receipt, oil revenue, and external support). While priority will be given to social spending, domestic investment, if necessary the Government will use those resources to reduce debt to banks and repay additional recognized domestic arrears. If possible, the Government will build higher Government deposits as a buffer and to further support the regional stabilization efforts. In the event of lower donors financing or lower oil revenue, the Government would at first consider repaying less domestic recognized arrears and then resort to domestic financing only if such a move does not risk undermining the soundness of domestic banks (see TMU).

21. Strengthening non-oil revenue mobilization is a major element of the Government program to improve fiscal sustainability. Under its economic program, the Government is targeting a gradual increase in non-oil tax revenue of about 2 percent of non-oil GDP by 2020, to a level equivalent to about 9 percent of non-oil GDP. The fiscal measures already taken under the 2017 budget, as well as the Government plans regarding tax and customs reforms and policy are detailed in section II B.

22. The Government recognizes that reducing the burden of commercial debt is crucial to restore debt sustainability. It has become clear that in spite of the increase in oil price and the projected increase in the volume of oil production, oil revenue that accrue to the treasury will continue to be modest in the short and medium term because of the large debt service of a private commercial debt (Glencore debt). The Government is fully committed to seek a restructuring of this debt that would provide a significant reduction in debt burden in line with the program parameters.

It has already approached the creditor in this regard, and has appointed debt and legal advisors who are working closely with IMF staff toward this end. The objective is to rapidly reduce debt service to revenue substantially in the near and medium term while reducing the present value of debt. The Government is determined to reach the necessary restructuring by the time of the first review of the requested program.

23. In its efforts to raise additional financing, the Government is committed to refrain from contracting new non-concessional external loans. Recognizing the heavy burden of non-concessional external loan, 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).

D. Tax and Customs Reforms and Policies

24. The Government recognizes the weaknesses of the tax system and is committed to address them. There is a wide consensus that the budget should not remain dependent on oil revenues, and that a better mobilization of non-oil revenue is essential. The weakness of non-oil revenue, which is far below what can be observed in other African countries, including other CEMAC members, is due to various factors including limited technical capacity in the revenue administrations, suboptimal tax system, and problems in the application of the existing rules. To address these weaknesses in a holistic manner, the Government will set up a unit in charge of tax policy (Structural Benchmark). Under the direct supervision of the Minister of Finance and Budget, the unit will promote and coordinate the identification of reforms to improve non-oil revenue mobilization, and their advancement. The Government will consider whether to create a new unit or ensure that an existing structure within the tax administration has the mandate to deliver in this regard.

25. In 2017, the Government expects an improvement in non-oil tax revenue mobilization particularly on the back of new tax measures implemented in the 2017 budget. Several measures included in the 2017 budget have begun to give results. In particular, the additional tax on oil products yielded almost CFAF 2.5 billion in the first two months of the year. Furthermore, the implementation of an 18 percent excise tax on communications (replacing a number of less efficient taxes), has yielded CFAF 2.4 billion in the first two months of the year, which represents more than a doubling of the amount collected in the same period last year. Other measures include the VAT withholding tax on all contracts and public orders, and the shifting to the normal taxation system of all travel agencies. Moving forward, the Government will explore possibilities to simplify taxation in other sectors.

26. In addition, the Government will begin tackling the prevalence of tax and customs exemptions which deprive the budget of important resources. The cost of exemptions is particularly high. The cost of exemptions for the General Directorate of Customs alone is estimated at about CFAF 140 billion in 2016. In addition, based on a sample of 39 (out of a total of 150–250) "*conventions d'établissement*", an EU study estimates the cost of exemptions for the Tax Directorate at about CFAF 45 billion in 2015. To begin dealing with these losses, the Government will reinforce soon the September 2016 moratorium on the enactment of new exemptions and extension of existing ones, by a new decree of the Minister of Finance and Budget (prior action). The moratorium would remain in place until the Government publishes a full list of exemptions provided under common law or contractual instruments ("*conventions d'établissement, conventions ad-hoc*"). The national workshop organized by the Government in March 2017, with support from EU, emphasized the necessity of assessing the impact of exemptions before they are approved. Following the finalization of ongoing TA from the EU, actions will be taken to reduce the exemptions. This could include several sectors, notably construction and electricity.

27. The Government will pursue measures to improve Tax and Customs Administration. Regarding tax administration, efforts are underway for the modernization and computerization of tax filling and payment procedures, as well as for a better classification of small and medium-sized enterprises for taxation purposes. The Government is also seeking to improve excise revenue collection on tobacco, alcohol and soft drinks. On customs, the Government welcomes the results of recent IMF Technical Assistance missions, and will follow up on their recommendations. Those are focused in particular on the full activation of the ASYCUDA module for the bonded warehouses, which is expected to reduce loss of revenue due to shipments that bypass registration and control. The Government has started implementing a contract signed with BIVAC International for the control of imported goods from their point of origin, aiming at minimizing customs revenue losses. BIVAC will also contribute to the implementation of a single window (in Ngueli) for customs operations (structural benchmark), in collaboration with the Directorate-General of Customs and Indirect Taxes (DGDDI), which will facilitate the clearance of customs operations and is expected to improve the control and collection of custom duties. The Government also plans to extend to all customs offices the mandatory payment of import duties and taxes directly to the banks. In view of the importance of the mobilization of non-oil customs revenue, a performance criterion is established under the new ECF arrangement (Table 1 and TMU for details).

28. For the medium term, the Government recognizes the importance of widening the tax base, and prioritizing reforms of the personal income tax, the VAT, and the property tax. The Government is aware that the current personal income tax code is complex, with different schemes and a complicated taxation scale, which the Government intends to address with TA support from the IMF and the EU. In addition, the Government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is the lowest in Africa. One of the main challenges the Government intends to address is the set-up of a VAT refund mechanism, the absence of which has partly been responsible for the weak performance of the VAT. In addition, the Government sees a significant potential gain from improvements in property tax revenues through better land and property registration and tax collection procedures. Currently there are fewer than 5,000 land titles registered in Chad and revenue from tax on land ownership represents less than 1 percent of total tax revenue.

E. Structural Reforms on Public Financial Management

29. 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 all CEMAC directives within the Chadian legislation. The Government intends to continue the strong collaboration with its development partners to further improve PFM.

30. The improvement of the expenditure chain remains a high priority for the Government.

- In a context of cash flow management difficulties made acute by the economic crisis and the liquidity shortages, emergency spending procedures ("*dépenses avant ordonnancement*", DAO), have been extensively used in 2016. This use of DAOs (22 percent of total domestically financed expenditures in 2016, excluding wages and salaries and debt service) also reflects the large compression in spending categories like investment that are typically executed through ordinary procedures. The Government is firmly committed to limit the use of DAO in 2017, and instructions have been given in this regard, requiring ministries to commit expenditures through the normal chain of payment. Above all, it is crucial that payments made via DAOs be regularized as soon as possible to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, the Government is committed to regularize 90 percent of DAOs within 45 days after each quarter which will be monitored through an indicative target (Table 1).
- More broadly, the expenditure chain has to be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) should be implemented and monitored through the computerized system (CID). This is especially important for the last phase (cash payment), which has not been activated and led to difficulties tracking exact date of payment and potential arrears.

31. The Government has made progress in moving to medium-term program budgeting. Currently, with technical assistance from the World Bank, the tools for organizing the draft budget preparation discussions have been developed, and the medium-term expenditure framework and medium-term budgetary framework have been consolidated for five "pilot" ministries (Health, Education, Infrastructure, Agriculture, and Finance and Budget). For the five selected ministries, specific programs were formulated and served as the framework for the development of annual performance projects (PAPs), which present public policy objectives and performance indicators.

32. Beyond the repayment of recognized arrears, the Government is firmly determined to implement a comprehensive strategy to clear all potential existing arrears. The Government is committed to adopt a holistic approach to clear arrears which will include a well-defined and well-communicated clearance strategy. It expects that such a strategy will help rebuild 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 (estimated at about CFAF 270 billion by end-April 2017) which are reported in the *Reste a Payer* table prepared by the Treasury, other potential claims that could be sizeable exist. In this regard, an FAD technical assistance mission on managing and preventing domestic payment arrears took place in September 15-28, 2016. The TA mission estimates the size of potential additional claims at CFAF 300 billion although this estimate is subject to a wide variation. They include but may not be limited to: (i) claims related to capital expenditures incurred under public procurement contracts but which have not gone through the standard spending chain, (for instance "*décomptes*", which are an acknowledgement by a line ministries that a tranche of a public procurement contract has to be paid, but has not been transmitted to the Treasury for commitment and payment); (ii) claims related to goods and services expenditures that have not gone through the standard spending chain; (iii) claims related to public procurement contracts for capital expenditures that have not generated any "*décomptes*"; and (iv) debt not approved by the Debt Directorate (under litigation process), which includes some liabilities of public enterprises.

- The Government is committed to verify and validate the authenticity and nature of all potential claims and plans to launch an audit of these claims by October 2017 (structural benchmark). The Terms of Reference (ToR) for the audit will be in line with the recommendations made in the FAD Report. The Government is actively seeking donor support to finance the audit.
- The clearance of arrears will then continue at a pace consistent with the medium-term fiscal framework. In the past year, under pressure to resume some projects that had been halted due to non-payment of obligations, the Government repaid some of its arrears that were not included in the *Reste à Payer* table about CFAF 50 billion. Moving forward, recognizing the importance of clearing arrears in a predictable and comprehensive manner, the Government is committed: (i) not to repay any more arrears other than those reported by the Treasury in the *Reste à Payer* table at end-April 2017 before the audit is completed; (ii) to follow a well-articulated repayment strategy that prioritizes repayment of arrears based on their economic and social impact; (iii) to establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts; and (iv) to publicly communicate its repayment strategy. The clearance strategy will depend on the size of identified arrears and will be in line with available resources.

33. The Government continues to work towards a more efficient cash management system.

- The Cash Plan Committee is now fully operational. The 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. The current 2017 cash-management plan has been provided to IMF staff. Moving forward, efforts would focus on strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.
- The Treasury Unit in charge of the issuance of Treasury bills and bonds on the CEMAC regional market is taking actions to ensure better programming and visibility of issuances, strengthen the network of primary dealers (SVT) which increased from seven to eight banks in 2016, and improve dialogue with them.

34. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. To further improve public debt management, the Government intends to draw on the findings of ongoing AFRITAC Center's technical assistance missions to develop a medium-term debt strategy and strengthen debt monitoring. 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.

35. 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 report. 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.

36. Transparency in the oil sector operations has been enhanced steadily, but the Government is determined to make further progress. The Technical Committee in charge of monitoring oil revenue has been established by ministerial decree on September 14, 2016. This committee will prepare and publish an oil sector note. The note will include information on production trends, exported cargoes (shipments), shipment schedule, the discount of the Chadian crude oil (Doba Blend) relative to the Brent price, oil revenues and their detailed breakdown. In addition, it will include all information on financial flows relating to SHT that affect the budgetary oil revenue level, such as cash-call paid to the Doba consortium (and also any other current and future participations), transportation costs, and debt-service (interest payments, amortization and fees) of the Glencore loan. A template, developed with IMF staff support will be used to disseminate this information. The first note will be published by end-September 2017 and on a quarterly basis thereafter (Structural Benchmark). In addition, the Government is fully committed to remain compliant with the EITI requirements: the 2014 report has been published in December 2016 (http://itie-tchad.org/?p=622) and the authorities are now facilitating the work of the EITI National Committee to publish the 2015 report. To this end, a series of training courses under the Program of Support to Good Governance of the European Union was held during March 6–10, 2017 in Bakara to strengthen the capacities of the members of the EITI National Committee.

F. Other Structural Reforms

37. Chad faces significant structural competitiveness challenges. With still poor transportation infrastructure and being landlocked, the country has one of the highest trade costs in the world. It also scores poorly in doing business and competitiveness indicators, trailing behind its peers in quality of institutions, barriers to starting a business, enforcing contracts, paying taxes and access to electricity. In addition, educational attainment among the population is also low. Addressing these structural weaknesses remains key for diversification and sustainable growth.

38. The Government is firmly committed to diversify the economy and reduce the dependence on the oil sector, and has made this a key objective under its new National Development Plan, which is expected to be finalized by end-July (structural benchmark). The draft NDP 2017–21 is anchored on national cohesion and sets as the overall objective, to structurally transform and diversify the economy and achieve strong, inclusive growth. The diversification of the economy will be based on comparative advantages of Chad including the development of value chains in agriculture, farming, fishing and mining. The contribution to GDP growth of mining, and handicraft will be enhanced through the development of sectoral strategies and the creation of a business-friendly environment. The development of agro-forest-pastoral industries will be based on promising value chains identified in the recent Chad Diagnostic Trade Integration Study (October 2016).

39. The Government recognizes the importance of deepening the financial sector in supporting economic growth and reducing poverty. While the use of financial services by Chadian households has expanded somewhat over the years along with the expansion of commercial banks' physical presence, it is still very limited. For example, the agricultural sector which represents about 25 percent of GDP, receives around 2 percent of total credit provided by commercial banks. The Government intends to place emphasis on this issue including by developing an appropriate legal, regulatory and institutional framework. This would help foster financial inclusion and develop micro-financial institutions over the long term. The Government will also consider promoting mobile banking, which is proven to be an effective way to widen access to financial services, due to the increasing coverage of mobile phone services among the population and the relative low cost of mobile phones.

40. Aware of the fact that Chad is ranked 142nd out of 146 countries by Transparency International, the Government attaches high importance to the fight against corruption. A high-level committee on institutional reforms, placed under the authority of the Prime Minister, has been created in October 2016 to design and implement key institutional reforms, including the creation of a special court for suppression of economic and financial crimes. The fight against corruption is an essential component of the Government strategy to improve the business environment and promote cross-border trade and private investment. As such, the Government plans to issue the draft law creating a special court by end-June 2018 (structural benchmark).

MONITORING THE IMPLEMENTATION OF THE PROGRAM

41. 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.

42. 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 Technical Memorandum of Understanding (TMU) attached. The first program review will be based on end-June test dates and should be completed on or after September 15, 2017. The second review will be based on end-December test dates and should be completed on or after February 15, 2018.

43. During the program period, the Government undertakes not to introduce or step up restrictions on payments and transfers for current international transactions, nor introduce multiple currency practices, sign bilateral payment agreements that would be inconsistent with Article VIII of the IMF Articles of Agreement, impose or tighten import restrictions in order to ensure balance of payments equilibrium. In addition, 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) for the Program Under the ECF Arrangement

(In billion of CFAF, unless otherwise indicated)

	End-June 2017 QPC	End-Sept 2017 IT	End-Dec 2017 QPC	End-Mar 2018 IT	End-June 2018 IT
1. Floor on non-oil primary budget balance (NOPB)	-139	-185	-221	-65	-125
2. Floor on customs revenue	35	70	110	25	45
3. Ceiling on net domestic government financing excluding BEAC	0	-15	-40	0	-5
4. Ceiling on net government financing from the BEAC	-1	-1	29	0	30
5. Ceiling on the stock of domestic payment arrears by the government	270	263	240	230	210
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)	90	90	90	90	90
9. Floor for poverty-reducing social spending	80	140	205	45	92
Memo item:					
10. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
11. External concessional borrowing (US$ million)	*147*	*215*	*235*	*35*	*70*
12. Oil Revenue	*135*	*214*	*310*	*79*	*156*
13. Grants	*109*	*186*	*261*	*45*	*90*

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 recettes financières".
3. Includes Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.
4. Includes statutory and exceptional advances, "créances consolidées" as well as IMF disbursments, see Technical memorandum of understanding.
5. Stock of verified arrears, as given in the Table "Restes à payer".
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).
11. Includes $100 million budget loan from Angola.
12. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

Table 2. Prior Actions and Structural Benchmarks for the Program Under the ECF Arrangement

Measures	Due Dates	macro-criticality
Prior Actions		
1. Moratorium on the enactment of new exemptions		
2. Revised 2017 budget		
Structural benchmarks		
1. Submission to the National Assembly of the new National Development Plan	End-July 2017	High
2. Set up a unit in charge of tax policy	End-Aug 2017	High
3. 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-September 2017	Medium
4. Launch of audit of unrecognized expenditure payment arrears	End-October 2017	High
5. Establishment of the single customs window at Ngueli	End-Dec 2017	Medium
6. Adoption of an action plan to improve management of the wage bill, drawing on the audit of payroll system to identify control weaknesses and/or ghost workers, financed by the EU	End-Dec 2017	High
7. Launch of audit to identify potential sources of saving in transfers and subsidies	End-Mar 2018	High
8. Create a special court for suppression of economic and financial crime	End-June 2018	Medium

Source: 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 June 16, 2017. 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 Postes et de l'Epargne (STPE), Société Cotonnière du Tchad (SN), Société des Hydrocarbures du Tchad (SHT),*

[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).

Compagnie Tchadienne de Textiles (COTEX), Sociètè 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, and (ix) 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 other spending items are

[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 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.

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 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 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** is 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**

[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.

[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.

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 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.

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

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. 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.

[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.

C. Quantitative Performance Criteria

19. 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 occurs, 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.
- **A ceiling on the net domestic government financing (excluding BEAC) relative to end-2016. 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 debts restructuring and arrears securitization.
- **A ceiling on net government financing from BEAC relative to end-2016** (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-April 2017, the stock of recognized expenditure payment arrears is estimated at CFAF 270 billion based on information in the Table "*Reste à Payer*" (prepared by the Treasury). The ceiling would be adjusted to reflect developments until the date of the approval of the program.
- **A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises** (see paragraph 4 for definition). 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

20. 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 define in paragraph 10) will be done within 45 days after the end of the 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

21. 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 or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall.
- If the total budgetary receipts and loans are **larger** than the programmed amount, because of higher oil revenue, additional budget support, or exceptional receipt, the floor for the non-oil primary balance can be adjusted **downward** by 50 percent of the excess amount. 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)

	2017			2018
	End-Jun	End-Sep	End-Dec	End-Mar
	(in CFAF Billion)			
Oil Revenue[1]	135	214	310	79
Budget Grants	69	125	178	0
Budget Loans	62	62	88	0
Exception Receipt	0	0	0	0
Total	267	401	576	79

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

- 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 increases compared to the previous year.

F. Structural Benchmarks

22. **Structural benchmarks** are specified in Table 2 of the MEFP.

- Submit the new National Development Plan to the National Assembly by end-July 2017.
- Set up a unit in charge of tax policy end-August 2017. The unit will be in charge of identifying and advancing reforms to improve non-oil tax mobilization. This will include taking stock of existing tax and customs exemptions, identifying those that could be removed, and assessing the merit of new request for exemptions. In addition, the unit will be in charge of identifying reforms to simplify existing taxes, and identifying areas of reforms to the VAT, general income tax, and property tax.
- 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, starting end-September 2017 (Table 2).
  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.
- Launch an audit of unrecognized expenditure payment arrears by end-October 2017. The Terms of Reference for the audit will be in line with the recommendation of a technical assistance mission provided by the Fiscal Affairs Department of the IMF which took place in September 2016.
- Establishment of the single customs window at Ngueli by end-December 2017.
- Adoption of an action plan by end-December 2017 to improve management of the wage bill, drawing on an audit on the payroll system to identify control weaknesses and/or ghost workers, financed by the EU.
- Launch an audit to identify potential sources of saving in transfers and subsidies by end-March 2018.
- Create a special court for suppression of economic and financial crimes through the issuance of a draft law by end-June 2018.

Table 1. Summary of Data to be Reported		
Data	***Provider***	***Periodicity and Target Date***
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)

Data	***Provider***	***Periodicity and Target Date***
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.
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[1]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.
Details on the servicing of the external debt of the government[2]	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[3])*	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] Including maturities.

[2] Including the breakdown by currency and maturity

[3] 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*	*Projection*	*2018*	*2019* *Projection*	*2020*	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