CHAD

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE ON THE 2013 MONITORING REPORT OF THE NATIONAL DEVELOPMENT PLAN 2013-15

Poverty Reduction Strategy Papers are prepared by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated with annual progress reports, they describe the countries macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. This country document for Chad is being made available on the IMF website by agreement of the member country as a service to users of the IMF website.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org  Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.
OVERVIEW

1. Chad approved its National Development Plan (NDP) for the period 2013-15 in May 2013. The NDP is considered the third poverty reduction strategy for Chad, following the ones adopted for the periods 2003-06 and 2008-11. It focuses on a sensible set of priorities, notably on (i) developing production capacities and job opportunities, (ii) mobilizing and developing human capital and combating inequality, poverty, and social exclusion, (iii) protecting environment and combating climate change, and (iv) strengthening governance. The NDP was built on lessons learned from the previous poverty reduction strategies and benefited from a wide-ranging process of consultations. The main features of the NDP were discussed in the Joint Staff Advisory Note distributed to Boards of Executive Directors on June 20, 2013.¹ Staffs acknowledged in that note the comprehensiveness and relevance of the strategy to accelerate growth and reduce poverty, while underscoring the lack of intra- and inter-sectoral prioritization, as well as the need for greater elaboration of the Government’s plans to strengthen public investment management and protect government finances against oil price fluctuations.

2. The NDP includes a Priority Action Plan (PAP) and a Results Framework (RF). The PAP identifies, for each policy area, a list of actions and indicators for monitoring their implementation. Each action has been budgeted for each of the three years. The total cost of implementing the PAP was estimated by the government back in 2013 at CFAF 3,727 billion (US$7.4 billion), excluding

salaries, goods and services, with an estimated financing gap of CFAF 1,577 billion (US$3 billion). During an international conference held in Paris in June 2014, donors made financial pledges sufficient to close the NDP’s financing needs. The RF retains 24 strategic indicators and 65 intermediary indicators, for which baseline and targets were retained, though not necessarily for each of the three years of the NDP. The RF also monitors all floating completion point conditions retained for priority sectors under the Heavily Indebted Poor Countries (HIPC) initiative.2

3. This Note discusses progress in implementing the NDP in 2013, based on the 2013 Monitoring Report prepared by the Chadian authorities. This Note was prepared within the context of the HIPC initiative, for which Chad reached the decision point in 2001. Satisfactory implementation over at least one year of a Poverty Reduction Strategy is a HIPC completion point floating condition, and it was agreed with the authorities that the Monitoring Report of the National Development Plan 2013-15 would constitute the reference document for assessing its implementation.

4. In staffs view, the NDP was overall satisfactorily implemented in 2013. Such an achievement represents a major departure from the non-implementation of the first two poverty reduction strategies (2003-06; 2008-11), a development explained by a sharp improvement in security conditions and strong ownership resulting from the broad consultative process that supported the formulation of the NDP. By end 2013, around two thirds of strategic indicators and one half of intermediary indicators retained in the results framework did record progress in line with retained targets. In addition, the contribution of the 2013 national budget to the NDP implementation was close to initial plans, reflecting structural progress in terms of budget execution; and the adoption of a robust RF allowed the authorities to effectively monitor NDP implementation, in terms of inputs, outputs and outcomes. While a reliable poverty survey available in 2012 provided the analytical foundation to design the NDP, a new survey to be conducted in 2015-16 will allow assessing the impact of the NDP on poverty trends. A new demographic and health survey to be conducted in 2014-15 will complement this picture.

MACROECONOMIC PERFORMANCE

5. The 2013-15 NDP’s macroeconomic framework aims at maintaining macroeconomic stability, sustained levels of public spending to support economic growth and a reduction in poverty, and sustainable public debt. Real non-oil GDP, which has represented around 70 percent of total GDP, was projected to grow by more than 10 percent per year on average, driven by expansions in agricultural production (partly as the result of government-supported provision of seeds, fertilizer, and tractors). Oil GDP was projected to accelerate thanks to the start of production

2 See forthcoming IDA and IMF (2015), “Republic of Chad: Enhanced Heavily Indebted Poor Countries Initiative Completion Point and Multilateral Debt Relief Initiative” for a detailed discussion on progress against floating completion point conditions.
in new fields. After peaking in 2012, annual inflation was expected to converge to CEMAC’s 3 percent target. The NDP projected that a sustained reduction in the non-oil primary deficit to close to 15 percent of non-oil GDP by 2015 would lead to slight improvements in public debt ratios. The resulting medium-term expenditure envelopes were deemed consistent with the NDP’s financing needs.

6. **The macroeconomic developments described in the 2013 Monitoring Report are broadly in line with the staff’s assessment.** Real non-oil GDP grew by about 8 percent according to IMF staff estimates (around 10 percent according to the authorities’ calculations based on chain-weighing methodology), a slight deceleration relative to 2012 as agricultural production returned to more normal levels following the exceptionally good climatic conditions in 2012. Still, the supply of agricultural products in domestic markets remained strong, even during the dry season. Consequently, annual inflation fell sharply in 2013 to almost 0 percent due to a sizable fall in food prices. The external current account deficit widened partly as the result of reduced oil exports and FDI inflows to the oil sector continued to be its main financing source. Despite a reduction in government deposits, international reserves increased slightly to about 2.5 months of imports of goods and services.

7. **Despite a strong improvement in the underlying fiscal policy stance, unexpected oil revenue shocks led to a sizable overall fiscal deficit.** The non-oil primary deficit fell slightly more rapidly in 2013 than envisaged under the NDP mainly on account of stronger non-oil revenue collection and in spite of unanticipated security spending linked to Chad’s participation in the international military campaign in Mali. However, unforeseen oil production declines in mature fields linked to setbacks to their gas-powered electricity generation systems led to a shortfall in oil revenues. Consequently, the overall fiscal deficit was higher than originally envisaged and the government resorted to a non-concessional oil sales advance operation to offset the oil revenue shortfall in the absence of better financing alternatives or fiscal adjustment options, while maintaining priority social spending. Importantly, during 2013 Chad decided to cancel a large non-concessional project financing agreement with Eximbank China. As a result, deterioration in debt ratios was limited despite the extraordinary circumstances affecting the 2013 budget implementation. Going forward, the authorities need to persevere with a well-targeted fiscal consolidation and to rely on concessional funding sources to ensure debt sustainability. Obviously, reaching the HIPC completion point would help to obtain some debt relief and to expand access to concessional funding from development partners.

8. **The contribution of the 2013 budget to the implementation of the 2013-15 NDP was relatively satisfactory.** The 2013 Monitoring Report indicates that the spending envelope envisaged under the NDP’s priority action plans was executed by about 81 percent in 2013, with an 84 percent execution rate from budgetary sources, which would reflect structural progress in budget execution and improvements in the monitoring of NDP implementation. Execution rates were stronger for activities linked to governance improvements and human capital development, but weaker for productive development and environmental protection. Part of the execution shortfalls stemmed from ex-ante planning challenges and the intra-year adjustments to the budget in
response to oil revenue and security-related expenditure shocks. However, implementation constraints likely played an important role as well given an incipient experience with multi-year program budgeting. In this regard, it would be important for future annual monitoring reports to include an analysis of the factors behind execution shortfalls and how to deal with them.

**PROGRESS AGAINST NDP OBJECTIVES**

*Developing production capacities and job opportunities*

9. **The NDP articulates several strategic priorities to foster growth and job creation**, including the mechanization and intensification of agriculture, the extension of services to the livestock sector, the development of vocational training, the improvement of the business climate, and the development of infrastructure. Agricultural development is also meant to strengthen food security, while connective infrastructure is expected to facilitate regional integration.

10. **A number of projects to improve water management, generalize the use of fertilizers and tractors, and extend veterinary services were aimed to modernize agriculture and livestock.** In 2013, an additional 290 water points for herders were installed (in line with 2015 targets), but investments in irrigation were halted in the face of procurement issues. 4,000 tons of fertilizers, 2,500 tons of improved seeds, and 781 tractors were made available to farmers, which, while higher compared to 2012, were nonetheless below intermediary targets retained for 2013. Part of this gap was covered in 2014 through the supply of 1,732 tractors to farmers. Meanwhile, the vaccination rate of livestock against contagious diseases rose from 15 to 18 percent between 2012 and 2013.

11. **Progress in improving the business climate and increasing job opportunities for the youth remained modest in 2013.** There was no significant progress in Doing Business indicators in 2013, and the only source of job creation for the youth reported in the monitoring report is the hiring of 6,000 youth in the public administration. This lack of progress reflects both the difficulty to monitor job creation in the informal sector (including agriculture) and the difficulty to establish a strong and conducive dialogue between authorities and a private sector which remains mostly informal, in light of costly, complex and long registration (to the fiscal, business and social security administrations) procedures.³ In the face of it, improved tax policy design and revenue administration are necessary to encourage informal firms to regularize their situation vis-à-vis fiscal, business and social security administrations.

12. **Significant progress in the development of infrastructure was recorded in 2013.** Broadly on track to meet 2015 targets, the number of kilometers of paved roads for the national network increased from 1,908 in 2012 to 2,733 in 2013, while the length of rural roads (including

feeder roads) increased from 2,130 to 3,293 over the same period. Installed electricity generation increased by 80 Mega Watts in 2013, and access to internet increased from 4.7 to 12.9 percent of the population between 2012 and 2013. Improved budget execution and procurement procedures, and greater competition in service delivery (for internet in particular), greatly contributed to such achievements. Progress was also recorded in the facilitation of major international corridors, triggering for instance a decline in average transit time from the Douala port in Cameroon to N’Djamena from 15 days in 2012 to 7 days in 2013.

13. **A non-oil GDP growth of around 8 percent in 2013 would suggest the relative success of those sectoral policies.** Such a rate of non-oil GDP expansion is satisfactory given an expected decline in agricultural production following the bumper crop in 2012, as well as the impact of the fiscal consolidation discussed above. It also slightly exceeded the average growth of 7.6 percent observed between 2005 and 2012. In 2013, agricultural production managed to be relatively elevated, while non-oil GDP growth was mainly driven by commerce, transport and telecommunications in the tertiary sector, as well as manufacturing, handicrafts and utilities in the secondary sector, even if the latter represents a small weight in the economy.

*Mobilizing and developing human capital and combating inequality, poverty, and social exclusion*

14. **Universal access to quality health and education, water, sanitation, and the development of social protection mechanisms for the most vulnerable parts of the population are the strategic priorities retained in the NDP to reduce poverty and inequalities.** These ambitious objectives are further magnified by the very high fertility rate most recently recorded in Chad, ranging between 6.5 and 7 children per woman. However, the APR, as the NDP itself, devotes little attention to provisions targeting fertility reduction, and the decline in the contraceptive prevalence ratio between 2004 (3 percent) and 2013 (1.6 percent) does not suggest any significant progress in this critical area.

15. **Chad recorded important progress in health indicators in 2013, but major challenges remain.** Free access to selected health service for 350,000 persons in 2013 (against 240,000) in 2012, the rehabilitation and operationalization of 24 regional hospitals and 450 health centers, improved access to water sources (covering 46 percent of the population in 2013 against 37 percent in 2011) and sanitation (16 percent of population in 2013 against 12 percent in 2012), extended vaccination campaigns and the recruitment and deployment to rural areas of qualified health personnel altogether contributed to the following outcomes: significant declines in infant and neo-natal mortality, acute malnutrition, as well as in the prevalence of respiratory infections, syphilis, genital ulcers and purulent urethritis. Yet, under-5 mortality increased between 2012 and 2013 with persistent malaria prevalence and increased acute malnutrition for children (in the Sahelian zone in particular, in contrast with the rest of the country where acute malnutrition has been in significant regression since 2007). In 2013, the actual share of health expenditures in total public expenditures (excluding debt service) was 8.1 percent, against 9.8 percent in the Budget Law and a target of 20 percent for 2015.
16. **Progress achieved in the education sector was limited in light of huge demographic challenges.** The rapid demographic growth rate and increased enrollment rates in the last decade have rendered the objective of improving, or even maintaining, the quality of primary education extremely challenging. Thus, while a 7 percent annual increase in primary school enrollment is indicative of efforts to increase access, the repetition rate in primary education worsened in 2013 (from 23 percent in 2012 to 25 percent in 2013) and the primary completion rate has stagnated at about 38 percent (over these past 10 years). Those developments illustrate serious quality concerns. By contrast, gross enrollment rates in secondary education increased from 28 to 30 percent between 2012 and 2013, while repetition rates decreased from 47 to 42 percent. In 2013, the actual share of education expenditures in total public expenditures (excluding debt service) established itself at 10.9 percent, against 8.7 percent in the Budget Law and a target of 20 percent for 2015. As for education, such a target might prove to be too ambitious given the relatively low starting point.

17. **Formal social protection mechanisms remain largely insufficient in Chad.** In 2013, 5 percent of the population was covered by social security, mostly Government employees. From a food security standpoint, cereal stocks were increased from 35 to 39 thousand tons between 2012 and 2013, and vitamin A supplement and anti-parasite campaigns were conducted, with respective population coverage of 74 percent and 65 percent. Acknowledging the deficiencies, the Government developed in 2013 a comprehensive social protection strategy. The strategy identifies the need to: (i) pay particular attention to key vulnerable groups; (ii) develop social security relying on mutual health funds; (iii) extend cash-for-work programs targeted to unemployed youth; (iv) target food insecure land-locked zones, and (iv) better articulate supply demand-side interventions. The strategy is scheduled to be implemented from 2015 onwards with the support of the World Bank.

**Protecting the environment and combating climate change**

18. **The NDP pillar dedicated to environmental protection and climate change was appropriately built on four key elements:** (1) protection of Lake Chad and other ecosystems; (2) land management in rural and urban areas; (3) prevention of management of risks and natural disasters; and (4) fight against desertification and biodiversity conservation. The joint IDA-IMF staff advisory note of June/July 2013 welcomed the focus on Lake Chad and the attention paid to natural disasters and risk management, and made some concrete recommendations to complement the proposed actions in the area of land management and investments to be made in water resource infrastructure, land and water conservation and resilient agriculture and agro-pastoralism. It also shed the light on the poor enforcement of the forestry law and the absence of a regional biodiversity conservation strategy, which led, inter-alia, to several cases of elephant poaching.

19. **Overall, there was no measurable progress under the environment and climate change pillar as the strategic and intermediate indicators (with the exception of the land-use planning ones) were not reported.** While some progress has been made in institutional
strengthening and adoption of strategic documents such as the national land use planning master plan\textsuperscript{4} and four regional plans,\textsuperscript{5} there is no information on the implementation of concrete activities under this pillar despite a high disbursement rate of allocated resources under the 2013 Budget. The latter could be just the result of a relatively small budgetary allocation and the high disbursement rate associated with risks and disaster management, which exceeded the initial allocation. However, monitoring of progress across this pillar extends beyond direct incomes and livelihoods impacts to include impacts on other elements of well-being captured in other pillars of the NDP (e.g., health, education, agro-sylvo-pastoral production).

20. The apparent lack of progress calls for a more rigorous approach in identifying the priority areas of interventions and investments needed to support the country’s sustainable development. The same principle applies for the development of the country’s long term vision for preserving its natural capital and improving the people’s quality of life in the context of the upcoming 2030 vision and its associated 5-year Plans.

**Strengthening governance**

21. In the absence of a second national governance strategy, the NDP serves as the framework for governance reforms in Chad. Governance is an important aspect of the NDP and its strengthening is an important basis for a successful implementation of the NDP itself. The NDP focused on public sector reforms, public financial management, decentralization, and human rights. The 2013 Monitoring Report suggests a relatively strong implementation of the projects and programs promoting governance in 2013.

22. Significant progress in the implementation of public financial management reforms was observed in 2013. The following concrete actions can be highlighted: (i) enactment of the Organic Finance Law (LOLF) by the President of the Republic; (ii) creation of a computer center within the Ministry of Finance and Budget (MFB); (iii) computerization of the public expenditure chain (Circuit Intégré de la Dépense, CID) through the completion of network connections between different units of the MFB and six other ministries as well as the interconnection between the IFMIS and SIGASPE (Système Intégré de Gestion Administrative et Salariale du Personnel de l’Etat), connection of the CID to the Treasury to cover the four phases of the spending cycle; (iv) operationalization of the payment systems SYSTAC and SYGMA; (v) establishment of and compliance with a calendar for budget preparation and approval; (vi) establishment of a macroeconomic framework model and the development of operating manuals; and (vii) initiation of efforts to fully computerize the accounting system. Public procurement was improved through increased reliance on competitive bidding and the publication of a public procurement bulletin for 2013 including information on the attribution of contracts. In terms of external control, the

\textsuperscript{4} Schéma national d’aménagement du territoire.

\textsuperscript{5} Schémas régionaux d’aménagement du territoire.
regularization of the budget review acts (loi de règlement) 2007-13 was pursued. In addition, the government tightened controls on the use of extraordinary spending procedures (DAOs), which fell from 2012 levels to below 20 percent of domestically financed spending (excluding salaries, debt service, and security spending linked to the Mali military campaign). Despite these efforts, PFM systems need to be further reinforced to enhance the efficiency of public spending. The authorities have expressed their commitment to pursue reforms, in particular through the transposition of the remaining CEMAC directives (Governance and Transparency; General Regulations on Government Accounting; Budgetary Nomenclature; Government Financial Operations; Government Chart of Accounts).

23. **Chad’s adherence to the African Peer Review Mechanisms (APRM) and compliance to the EITI confirms the Government’s commitment to improving governance and institutional quality.** Chad adhered to the APRM in January 2013, a welcome initiative which reflected the Government’s commitment to pursue reforms to promote good governance. The country became an EITI Candidate country in 2010 and conducted its first validation, the EITI’s quality assurance mechanism, in May 2013. That report found that significant progress had been made, but alerted that further work was needed to achieve compliance to the EITI Rules. Important efforts were made to establish a monitoring and evaluation system of oil receipts and to prepare the 2012 report which was published in March 2014. In the end, all outstanding issues were resolved and Chad was recognized as EITI-compliant in October 2014. Going forward, the recent significant changes in the oil sector in terms of higher government equity participation, increased reliance on production sharing contracts, and utilization of oil sales advances call for a revamping of the oil revenue transparency process to adapt to the new realities.

24. **Decentralization efforts were pursued during 2013.** During the year, all officials elected at the local level in the 2012 elections received training and other capacity building efforts included the validation of a guide for Municipal Development Plans. Despite these efforts, capacity to deliver public services at the municipal level, and associated financial and human resources transferred from the center, remain extremely limited.

25. **Corruption remains a significant challenge despite some efforts to reduce it.** During 2013, financial and performance audits (control missions) resulted in prosecution of 36 persons for embezzlement of public funds. A total of FCFA 6 billion was recovered as a consequence of those missions. However, Chad’s ranking on Transparency International’s Corruption Index remained low in 2013. The interactions between corruption, poverty reduction and growth are critical aspects to Chad’s long-term development efforts. Consequently, the fight against corruption will have to be intensified and the next National Governance Strategy should have a special focus on it.
IMPLEMENTATION ARRANGEMENTS, MONITORING AND EVALUATION

26. **An institutional framework was put in place in 2013 to monitor progress against NDP objectives.** It is comprised of an Inter-ministerial Oversight Board, a Technical Steering Committee, Regional Monitoring Committees, and a Dialogue and Consensus Framework between the Government and Partners. The 2013 monitoring report is nonetheless silent on the roles effectively played in the production of such report by the different entities, beyond that of the technical steering committee. Lessons learned from the functioning of this institutional framework could help improve the quality of future monitoring reports as well as the implementation of the NDP. As advised in the JSAN on the NDP, the role of the National Institute for Statistics, Economic and Demographic Studies (INSEED) could also be further clarified, given its responsibility for data collection, centralization, validation, dissemination and storage.

27. **Staffs appreciate the authorities’ efforts to assess the financial contribution of the national budget.** As stated in the 2013 monitoring report, the NDP constitutes the sole and unique reference framework for all development interventions in Chad. Thus, government budgets are expected to fully reflect NDP priorities in the allocation of national resource. In this regard, the 2013 monitoring report is making a remarkable effort to update the PAP for 2014 and 2015, in order to inform the preparation of budgets for 2014 and 2015, and assess the related financing gap. Since it was completed in 2014, the 2013 monitoring report could have benefited from a discussion on institutional mechanisms put in place to ensure that NDP objectives are fully considered during budget preparation, as well as from a discussion on the inclusion of NPD objectives in the Finance Law 2014 approved in late 2013.

28. **Staffs also praise authorities for their efforts to streamline the results framework.** The JSAN on the NDP underlined the likely challenges related to retaining a RF comprising over 400 indicators, most of which without baseline, target, and identified source of information. Since then, the RF was streamlined to retain a workable number of indicators, with most of them including baselines, targets, identified sources of information, and policy attributions. This RF was extensively used in the monitoring report and proved extremely useful to monitor effective progress on a selected number of key indicators. Staffs advise the authorities to keep unchanged the RF, while updating it regularly with newly available data. Next monitoring reports would also benefit from an annex clearly reporting the definition and source of statistical measures retained (metadata).

CONCLUSIONS, RISKS AND RECOMMENDATIONS

29. **Staffs commend the authorities for their sustained efforts in implementing the NDP.** Staffs acknowledge the institutional framework put in place to monitor the implementation of the NDP, including through a streamlined set of indicators. The first year of implementation of the NDP shows important achievements under difficult external conditions, particularly in terms of maintaining macroeconomic stability, supporting agriculture and livestock productions, expanding
road infrastructure, improving health service coverage and indicators, and implementing public financial management reforms. On the other hand, much remains to be done to reduce poverty and foster inclusive growth, including by reducing infrastructure bottlenecks (e.g., in the energy sector), improving the business environment and the quality of education, developing social protection and protecting the environment through improved land and water management. In particular, staffs encourage the authorities to continue to implement their ambitious public financial management reform agenda, a critical element toward increased efficiency of public spending and reduced corruption. Those reforms should include the computerization of government accounting—to strengthen the quality and timelines of fiscal data—and the reinforcement of treasury management operations.

30. **Continued implementation of the NDP remains subject to several risks:**

   - Chad’s very high dependence on volatile oil revenue makes spending plans quite vulnerable to falls in oil prices and changes in oil production plans. The sharp fall in oil prices in late 2014 will force a reassessment of the PAP in terms of available resources and spending priorities, and significant fiscal consolidation will be needed in view of financing constraints. In this context, staffs highlight the criticality of expanding non-oil revenue through strengthening tax policy design and revenue administration in particular, the need for further support from Chad’s development partners to help the country obtain the necessary resources to tackle its development challenges, and the need to protect social priority spending as much as possible from eventual fiscal adjustment needs which should rather focus on the rationalization of less productive and non-well targeted spending (e.g., transfers and subsidies). Oil revenue volatility suggests that Chad will continue to need to base spending plans on prudent revenue projections with a medium-term horizon and to strengthen spending controls and build stabilization buffers.

   - Second, various political and institutional challenges are present. The complex regional security situation constitutes an ever-present risk for Chad that, as in recent years, could force a change in priorities away from the NDP’s objectives. Furthermore, it is important to maintain the commitment to reforms and avoid policy slippages during the electoral cycle starting in 2016. Despite some recent progress, institutional and technical capacity constraints can complicate Chad’s ability to implement increasingly complex development programs and projects.

   - Finally, continued volatility in agricultural output risks affecting growth and poverty reduction objectives foreseen in the NDP. In this regard, staffs encourage the authorities to deepen their efforts to better protect vulnerable households against climatic shocks through the development of climate smart agricultural techniques and safety nets in rural areas.

31. **Staffs encourage the authorities to take into account the NDP implementation lessons in preparing the next 5-year national development strategy.** The authorities have started work
to design the NDP 2016-20, following the consultative process that guided the NDP 2013-15. Staffs believe that is important to determine priorities on the basis of realistic cost-benefit analyses of public expenditure, existing capacity constraints, and the continued fragile regional environment in which Chad operates.

32. In considering the 2013 Monitoring Report on the NDP for the 2013-2015 period and associated JSAN, Executive Directors views are sought on whether they concur with the advice and recommendations made by staffs in the identified priority areas.