

AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)**

PDBBT012

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5. To Bernard D. Wilder A.I.D Representative In Chad		6. OYB Change Number N/A	
7. From Cary L. Kassebaum Program Officer <i>ck</i>		8. OYB Increase N/A To be taken from:	
9. Approval Requested for Commitment of \$ 8.0 Million		10. Appropriation Budget Plan Code 72-119101037 GES9-89-31677-KG31	
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15. Commodities Financed			

16. Permitted Source U.S. only Limited F.W. Free World Cash \$8.0 Million	17. Estimated Source U.S. Industrialized Countries Local Other \$8.0 Million equivalent
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18. Summary Description

The purpose of this \$8.0 million cash transfer is to provide budgetary support to the Government of Chad.

Subject to availability of funds and the mutual agreement of the parties to the terms and conditions set forth herein, A.I.D. will disburse the CFA equivalent of \$8.0 million in two separate tranches of \$4.0 million.

Disbursements will be made in CFA francs to an interest-bearing Disbursement Account maintained by the GOC Treasury at a local commercial bank as general budget support. Both the principal and the accrued interest of this Disbursement Account will be reserved exclusively for expenses identified in the GOC utilization plans. Each month the Treasury will transfer an amount, equivalent to its estimated expenses under the utilization plan for that period, from the Disbursement Account to a Special Account at the Central Bank of Chad, from which actual payments to employees and suppliers will be made.

The substance of the conditions precedent, covenants and disbursement procedures on the attached pages 2 to 5 will be included in the Grant Agreement.

19. Clearances	Date	20. Action
PE: PDMorris <i>PDM</i>	5/9/89	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
PDO: WDeese <i>WDeese</i>	5/16/89	
A/CONT: JPenno	5/16/89	
REDSO/RLA: MAlexander <i>MRA</i>	5/12/89	
Authorized Signatur		Date
<i>Bernard Wilder</i>		19 May '89
Title		
AID Representative for Chad		

UNCLASSIFIED

CHAD

STRENGTHENING DEVELOPMENT MINISTRIES IV

(677-0061)

USAID/CHAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNCLASSIFIED

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LIST OF ABBREVIATIONS AND FOREIGN TERMS

A.I.D. -- U.S. Agency for International Development

Banque des Etats de l'Afrique Centrale (BEAC) -- Regional central bank for Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon. The Central Bank of Chad is the national branch of the BEAC.

Caisse Autonome d'Amortissement (CAA) -- Debt repayment fund of the Government of Chad, with autonomous budgetary and revenue authority.

CFAF -- Franc of the Communauté Financière Africaine, which is the currency of former French colonies in West and Central Africa. The CFAF is pegged to the French franc at 50:1 ratio. The exchange rate to the U.S. dollar fluctuates but valid approximate values may be derived through conversion to the U.S. dollar at 300 CFAF = \$1.

COTONTCHAD -- Parastatal company responsible for the production, marketing and domestic processing of Chad's cotton crop.

ESF -- Economic Support Funds

FRP -- Financial Rehabilitation Program, \$86.5 million from the World Bank, African Development Bank and the Saudi Fund to support policy reform.

GDP -- Gross Domestic Product

GOC -- Government of Chad

IBRD -- International Bank for Reconstruction and Development (World Bank)

IDA -- International Development Association. Affiliate of the World Bank which makes highly concessional loans to the least developed countries.

IMF -- International Monetary Fund

PPF -- Policy Framework Paper, agreement between the World Bank/IMF and GOC listing Chad's policy reform agenda, schedule and targets.

SDM -- Support to Development Ministries

PDM1:033/7

CONDITIONS PRECEDENT

First Disbursement. Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A statement of the names and titles of the persons who will act as representatives of the Grantee as defined in the appropriate section of the Grant Agreement, together with a specimen signature of each person named in such statement;
- (b) A statement designating the commercial bank and interest bearing account number into which the disbursement is to be made;
- (c) A statement certifying that a Special Account, from which disbursements for the purposes identified in the utilization plans submitted by the Grantee will be made, has been opened at the Central Bank of Chad;
- (d) The preliminary findings of the Interministerial Commission created in 1988 to analyze all available data on the Grantee's civilian work force, to formulate recommendations for improving the work force effectiveness, and to devise a plan for implementing those recommendations;
- (e) A request for short term technical assistance (provided at the expense of the Grantor) to the Technical Sub-Commission of the Interministerial Commission, to be utilized to help in planning for improved efficiency in the civil service, including the development of systems for the Grantee's use in estimating the medium and long term needs of it's civil service;
- (f) Evidence that the Grantee has provided said Interministerial Commission with the financial and material resources necessary for fulfillment of its responsibilities; and
- (g) An initial utilization plan specifying the purpose, estimated amount and timing of the proposed release of funds from the Special Account by the Grantee, to include a line item which provides for adequate and appropriate annual maintenance of the facilities and equipment of the rehabilitated computer center of the Grantee's Ministry of Finance and Data Processing.

Second Disbursement. Prior to the disbursement of the second tranche under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for a subsequent period not to exceed three months;
- (b) An interim utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of first tranche funds from the Special Account; and
- (c) Evidence that the Grantee has outlined a plan for the development of an in-service training program for the civil service, to include development and expanded use of the National Public Administration School.

COVENANTS

Completeness of Information. The Grantee will confirm:

- (a) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Grant, are accurate and complete, and include all facts and circumstances that might materially affect this Grant and the discharge of responsibilities under this Agreement; and
- (b) That it will inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

Special Covenants

- (a) The Agreement and the Special Account will be free from any taxation, fees or duties of whatsoever nature imposed under the laws in effect in Chad.
- (b) The Special Account will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or military, paramilitary or police activities of any kind, including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to the military or police.

- (c) The Grantee will provide A.I.D. access to the results of the research and analyses of the Interministerial Commission created to analyze the May 1987 civil service census and to plan the implementation of changes for improved effectiveness of the civil service.
- (d) The Grantee will provide A.I.D. with copies of the operating and investment budgets for 1989 and 1990 and the recurrent cost implications of these budgets and any other studies it may produce on the recurrent costs associated with development projects, as soon as these documents are available.
- (e) Except as the Parties may otherwise agree in writing, not later than four months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., a final utilization report certified by the Minister of Finance and Data Processing, and the Secretary of General Inspection and State Control setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of the interim utilization report for the first tranche previously submitted to A.I.D. under the Grant Agreement.
- (f) The Grantee will furnish to A.I.D. such other reports and information relating to the Grant, the Operating and Investment Budgets of the Government of Chad and the performance of the Grantee's obligations under the Agreement as A.I.D. may reasonably request.

DISBURSEMENT PROCEDURES

1. Disbursement of the Grant. After satisfying the conditions precedent to disbursement of the first tranche of the Grant, the GOC, acting through the Ministry of Finance and Data Processing, will request A.I.D. to disburse the tranche. The conditions precedent will include, among other things, submission of a utilization plan for the tranche and, for the second tranche, submission of a report on the utilization of the first tranche. After USAID/Chad reviews and approves the documentation submitted by the GOC, it will request the U.S. Government's Regional Accounting Management Center (RAMC) in Paris to deposit CFA francs by wire into the Disbursement Account maintained by the GOC's General Treasury for this purpose at the commercial bank, Banque Internationale pour l'Afrique au Tchad (BIAT) in N'Djamena.

2. Date of Disbursement. Disbursement of funds by A.I.D. will be deemed to occur on the date A.I.D. deposits the funds in accordance with the Grant Agreement.

3. Disbursement Account. The GOC will maintain a Disbursement Account reserved exclusively for the receipt of A.I.D. funds provided under this Grant. This account will be an interest bearing account maintained by the GOC's Treasury at a local commercial bank. A.I.D. will transfer grant funds in CFA francs directly into this account. Interest accruing to this account will be exempted from the usual GOC withholding taxes on interest payments.

4. Special Account. Actual payment of expenses identified in the GOC's utilization plans will be made from a Special Account held by the GOC's Treasury at the Central Bank of Chad. Approximately once a month the GOC Treasury will deposit into the Special Account an amount equivalent to its estimated expenses under the utilization plan for that month. The total amount deposited by the GOC into the Special Account will be equal to the amounts transferred by A.I.D. into the Disbursement Account plus all interest accruing to the Disbursement Account. All funds deposited into the Special Account will be expended by the GOC on items identified in the utilization plans submitted to and approved by A.I.D.

5. Rate of Exchange. The rate of exchange used to compute the amount of CFA francs to be disbursed by RAMC at USAID/Chad's request into the GOC's account at the local commercial bank will be the highest rate of exchange not unlawful in Chad on the date of disbursement. "Highest rate" means the rate yielding the greatest number of CFA francs per U.S. dollar.

6. Disallowed Expenditures. The GOC will reimburse any expenditures made from the Special Account at the Central Bank which are subsequently disallowed by A.I.D. Reimbursements will be made into the Special Account, and their release will be subject to A.I.D. approval of a utilization plan.

PDM2:110/1-4

I. EXECUTIVE SUMMARY

The strategy of the AID program in Chad is to promote sustained economic growth. Administrative and fiscal stability of the national government are essential prerequisites to the promotion of that economic growth. Unless the Government of Chad (GOC) can pay civilian salaries, minimum operating expenses and its non-deferrable debts, it cannot provide an environment conducive to economic growth. Subsequent to establishment of the current government in late 1982, it has struggled to stabilize and revitalize the economy.

The GOC is pursuing measures to correct Chad's difficult economic situation. In the short term it is implementing a World Bank/IMF-approved structural adjustment program to reduce sizeable financial deficits and rehabilitate the economy. The adjustment program entails the development of new sources of tax revenue and the imposition of strict ceilings on the overall and sectoral levels of public expenditures. In the longer term the government has embarked on programs to improve tax administration, and, assisted by the World Bank and other donors, to restore the cotton sector to profitability.

On the expenditures side, two politically sensitive items, military outlays and civilian salaries, have traditionally accounted for nearly 80 percent of all expenditures. Military expenditures continue to be a necessity, and any decrease in the modest civilian salaries would be immensely unpopular and probably reverse past gains made in administrative efficiency. Additionally, Chad will face foreign debt service requirements of about \$15 million during 1989, approximately twice what the government was able to pay during the past two years.

Examination of the aggregate expenditure figures since 1984 indicates an ability on the part of the GOC to maintain tight budgetary control in the face of military aggression, a notable drought, and the collapse of world prices for its primary export commodity. Additional revenues, particularly to temporarily replace the loss of cotton export duties, remain necessary as GOC budget expenditures consistently exceed revenues by a substantial margin. The government has relied upon a variety of sources, both domestic and foreign, to finance these budgetary deficits. The chief domestic source by far has been the regional central bank. Leading foreign sources have been the budgetary support programs of France and the United States. The French program is the largest of the two, providing approximately three times as much as the U.S. in 1989, and accounts for slightly over 63 percent of all externally provided budget support between 1983 and 1988. The United States has contributed 15 percent, and IDA almost all of the remainder.

Increased debt servicing arrears and an annual loss of official non-CFA franc exchange reserves, although manageable, indicate that past resource flows have been insufficient and substantiate the need for continued strong external support.

This Program Assistance Approval Document (PAAD) provides \$8 million of USAID/Chad 1989 ESF resources for cash transfer budgetary support to the Government of Chad. This cash transfer is the fourth in the successful series that began in 1984. The program responds to the increasing annual deficits between GOC revenues and the expenditures required to maintain a minimal acceptable level of public services. The implementation and auditing procedures to be utilized were established earlier and have been successfully used during the last two years.

The newness of the Chadian government, and particularly the willingness of GOC officials to implement policy suggestions on the basis of information and explanation, have negated the need for heavy-handed conditionality. The validity of a moderate approach to conditionality in the budget support program is further supported by the dominant efforts of the World Bank and the IMF in policy areas consistent with the USAID program. Nevertheless, USAID/Chad has incorporated conditions precedent and covenants into the 1989 program which require the GOC to support progress toward improving the quality and efficiency of its civilian work force. Our priority is to focus on the civil service, and to require improvements/changes to be revealed through the analyses forthcoming from an Interministerial Commission created under the conditionality associated with the 1988 cash transfer program.

Procedures for disbursements will be identical to those successfully used in the 1987 and 1988 budgetary support programs. Informal audits by USAID/Chad of the payment process for previous budget support programs verify that U.S. grant resources continue to be utilized for the payment of non-military salaries and some limited equipment, in compliance with the program Grant Agreements.

A partial view of the impact of these budget support programs is implied by their relationship to the economy. Although the civil service remains relatively small in Chad, annual GOC salaries are equivalent to approximately 15 percent of the money supply in circulation. The budget support program is therefore a significant factor in the cash economy and creates an even larger impact for increasing demand for every commodity in the major consumer market--the capital, N'Djamena--and throughout the country.

II. INTRODUCTION

The strategy of the USAID program in Chad is to promote sustained economic growth. Administrative and fiscal stability of the national government are essential prerequisites to the promotion of that economic growth. Unless the Government of Chad (GOC) can pay civilian salaries, minimum operating expenses and its non-deferrable debts, it cannot provide an environment conducive to economic growth. To assist the GOC in its continuing struggle to achieve fiscal stability, USAID/Chad will commit \$8 million of its 1989 ESF resources to direct budgetary support. This support program assures continued regular payment of non-military salaries in selected civilian development-oriented ministries.

The present government has continued, from its installation in late 1982 until now, to implement a variety of actions to limit the staff size of administrative units, to limit civilian salaries, to minimize other expenditures, and to effectively utilize available budgetary support from the French and AID. Nevertheless, government expenditures have consistently exceeded revenues. To its credit the GOC has been successful in limiting annual budget deficits to an average of 2.4 percent of GDP during 1983-1988.

The government's recurrent budget for 1989 implies that it can no longer limit civil service salaries to 60 percent of their 1967 level, nor can GOC ministries be expected to function productively without an initial installment of basic tools and supplies. These two reasons account for a 57 percent increase in recurrent budget expenditures for 1989 over their 1988 level, in contrast to an average annual increase of 3 percent over the previous 5 years. Domestic revenues are to increase 34 percent, forcing the projected deficit (commitment basis) to more than double that of 1988. Structural reform programmed reductions in debt arrears will push the cash deficit to be financed to over 16 billion CFAF, or nearly 10 percent of projected GDP. Donor budgetary support from the United States and France will cover 62 percent of that cash deficit, with the remaining financing gap to come from domestic sources and import reimbursement projects of the World Bank and other donors.

In October 1988 the government made a decision to commence paying salaries, as of January 1989, at 100 percent of a new 1986 pay scale. That decision alters the relative size of the U. S. budget support program vis-a-vis GOC budgetary needs. A possible first impression is that the GOC is less dependent on U.S. budgetary support. In 1988 this program provided 44 percent of the annual salary bill for eligible ministries, but in 1989 it will provide only 22 percent. In reality the new salary increase will cost the GOC an additional 7,539 million CFAF in 1989, a 39 percent increase in this budget category,

and will increase the budget deficit a similar amount. From this point of view continuation of the U.S. budget support program assumes increased importance to aid GOC efforts to control the annual budget deficit.

A second factor changing the recurrent budget for 1989 is a GOC decision, based on World Bank recommendation, to use the budget to increase overall demand in the economy through a one time five-fold increase in expenditures for basic office equipment and supplies for eight development-oriented ministries. This will occur by means of the Bank's Financial Rehabilitation Program. The result of these two decisions programming large simultaneous expansions in both major categories of the budget--salaries and supplies--increases GOC difficulty to balance the budget. It also makes it impossible for the budget deficit (commitment basis) to remain within the IMF structural adjustment arrangement deficit guidelines.

III. MACROECONOMIC JUSTIFICATION FOR BUDGET SUPPORT

A. OVERALL ECONOMIC PERFORMANCE

Chad's economy is one of the poorest in the world due to its landlocked position, to a paucity of known and economically-usable natural resources, and to past years of pervasive internal and international conflict. The intensity of the civil war of 1979-82, at the end of nearly twenty years of destructive military and political strife, devastated the public sector and Chad's limited physical infrastructure. Subsequent to establishment of the current government in late 1982, it has struggled to stabilize and revitalize the economy.

Chadian economic performance has been mixed, as should be expected for an economy dominated by rainfed agriculture. A record cotton crop, combined with an initial surge of industrial recovery, fueled a 5.6 percent (in 1977 constant prices) rate of growth in gross domestic product (GDP) in 1983. The severe drought of 1984, however, served to reduce the rate of growth for that year to a negative 5.0 percent, despite substantial growth in the industrial and construction sectors. The economy rebounded the following year on an unprecedented scale. Grain production more than doubled, offsetting the beginning of a sharp downturn in world cotton prices. Real GDP growth was an extraordinary 26 percent, expanding the economy to its previous peak 1977 level. Even so, the continuing downward movement in cotton prices was dominant in 1986 and resulted in a 2.7 percent decline in GDP that year (Table 1).

The 1985 and 1986 cotton price drops totalled a costly 58 percent below the 1984 level. Fortunately, the strong negative effect of reduced cotton sector earnings was mitigated by the excellent cereals harvest in 1986. Together with reconstitution of the livestock herd decimated by the 1984 drought, cereals prevented the overall economic decline from being far worse. Near-drought conditions in 1987 led to a serious drop in the economy, down 5.6 percent in real terms, as cotton prices remained low, and food crop production was poor. Abundant rains during 1988 resulted in above average harvests and residual agriculture growing potential. Provisional GDP data show 1988 growth only marginally below the World Bank projection of 12 percent in real terms. Although the agriculture sector has recovered from the 1984 drought and the weak water years of 1986-87, the cotton price setback continues to limit public and private sector revenues, discourage private sector investment and further restrict economic recovery.

The GOC is pursuing measures to correct Chad's difficult economic situation. In the short term it is implementing a World

Bank/IMF-approved structural adjustment program to reduce the sizeable financial deficits and rehabilitate the economy. The adjustment program entails the development of new sources of tax revenue and the imposition of strict ceilings on the overall and sectoral levels of public expenditures. In the longer term the government has embarked on a program, assisted by the World Bank and other donors, to restore the cotton sector to profitability. Simultaneously, the GOC has undertaken to rebuild public sector administrative capability, and is directing the donor community in the reconstruction of a major portion of the country's limited physical infrastructure. World Bank analysis in early 1989 reveals that rehabilitation of the cotton sector is proceeding according to schedule. The recurrent budget projected deficit and financing gap for 1989 show a significant continuing GOC need of donor assistance through budget support.

B. PUBLIC SECTOR OPERATIONS

Budgetary expenditure patterns clearly reflect the GOC priority to pay civil service salaries and, secondly, to gradually improve administrative efficiency as resources will allow.

1. Civil Service Employment and Salaries. The government's first task in the postwar period has been to reestablish its regular administrative and public service functions. Ministries and other agencies have gradually resumed their previous activities as former employees have been reintegrated and temporary workers hired. The number of civil servants was approximately 9,000 in early 1985, doubled to 18,000 the following year, and was established at 22,561 by the May 1987 civil service census. These figures include contractors, temporary and part time employees and volunteers. The civil service census and ongoing analysis by the Ministry of Civil Service clarify that the number of regular full-benefit civil servants has remained constant at approximately 12,000 since 1986. This is the same level as in 1976.

The great bulk of the initial increase in public sector employment took place in those ministries that provide essential services and implement development projects, for example, Education, Public Health, Social Affairs and Environmental Protection. Definite efforts were made to overcome severe shortages of teachers and health, forestry and environmental protection workers. Simultaneously, the public wage bill has expanded. Aggregate monthly wages for GOC civilian employees have increased from an initial total of about CFA francs 480 million in 1984 to about CFA francs 870 million in 1988 (Table 2). These figures reflect payments of only 50 percent of the prewar salary scale until early in 1986, and 60 percent from then through 1988. It is estimated that the salary increase to the 100 percent level and use of a new pay schedule, to be implemented in 1989, will raise the civilian

wage bill to 1.4 billion francs CFA per month. This 1989 amount includes allowance for about 1200 new government employees, 75 percent of whom will become technical specialists in the Ministry of Education, to improve Chad's human capital resources.

The noticeable salary increase for all civil servants, announced last October, was to take effect in January 1989. Subsequent GOC comments indicate that the pay raise has been delayed for some, possibly many employees for some unspecified time, until their individual personnel files can be up-dated by the Ministry of Civil Service. The salary increase encompasses two aspects: movement to a new higher pay schedule drafted in 1986, and elevation of actual payments to 100 percent of that schedule. Analysis of the new pay schedule indicates a range of increases from the maximum of 67 percent for the lowest ranked civil servants, to a minimum increase of 12 percent for those at the most senior levels of civil service. The projected increase to 1989 overall salary costs will be 7,539 million CFAF, which more than offsets projections of increased revenues from tax and fiscal measures

Although the salary increase represents a burden which will be ongoing for the GOC budget it was a natural target for change, and perhaps a necessity. The combination of salaries fixed at a maximum 60 percent of a 1967 pay scale, with the inflationary pressures of 20 years, constituted a situation which could easily erode employee morale and administrative efficiencies.

2. Material/Supply Expenditures. The recurrent budget is relatively large vis-a-vis the cash portion of Chad's economy--it is equivalent to one-third of the money supply, and 9 to 10 percent of gross domestic product. This relative importance of the budget is the second factor, after the salary increase, responsible for the large rate of increase for 1989. The GOC, on World Bank recommendation, is attempting to use the budget to increase overall demand in the economy.

The World Bank current economic review of October 1987 emphasized the lack of monetary demand in the Chadian economy, partially in evidence by the low level of three for the velocity of money. The Bank's Financial Rehabilitation Program (FRP) for 1989 and 1990 attempts to stimulate demand through programming for a significant one-time increase in spending for materials for eight development-oriented ministries. The Bank's goals include: an increase in real demand (and cash availability) in the local market for a variety of supplies and equipment, without imposing an equal long lasting increase in recurrent costs; improved balance in the share apportionment between salary and materials expenditure categories; an increase in development-oriented expenditures; improved working facilities for selected units of the GOC; and, with the increased availability of

basic supplies within the GOC by implication an increased absorptive capacity for implementing development projects.

While total recurrent expenditures are increased 57 percent for 1989, expenditures for each of the eight development-oriented ministries under the World Bank FRP were increased at rates above that--varying from 74 percent for Tourism/Environment to 287 percent for Agriculture. The materials category for these eight ministries was raised a total of 2,216 million CFAF in 1989, or 33 percent of the total materials increase. The material and salary increases combined for these eight ministries total 5,563 million CFAF, which accounts for 38 percent of the total recurrent budget increase in 1989.

The following table details the World Bank impact on 1989 budgetted expenditures for materials for the eight development ministries concerned.

CHAD - EXPENDITURES BY MINISTRIES UNDER THE
WORLD BANK FINANCIAL REHABILITATION PROGRAM
(Millions CFAF; Commitment Basis)

Ministry of:	1988		1989	
	Salaries	Material	Salaries	Material
Education	2337.7	110.4	4224.3	387.0
Health	701.3	181.8	1289.7	334.8
Social Affairs	129.6	23.7	203.8	147.0
Agriculture	445.0	68.4	902.6	1083.8
Livestock	307.8	36.5	417.4	366.5
Tourism/Environment	224.3	49.6	308.6	167.2
Public Works	175.7	70.3	295.8	239.2
Transport	39.5	9.4	65.8	40.4
Totals	4360.9	550.1	7708.0	2765.9

These eight ministries will now garner 24 percent of total annual material expenses versus 11 percent the previous year. The increase of 77 percent in their salary total is larger than the budget average of 39 percent. That is attributable to planned augmentation to their combined staff level by 1039 additional personnel. That number is relatively large, and less than 20 percent of the total will be entry-level secretaries, chauffeurs and unskilled office assistants. The largest share, 887, will be relatively highly trained education specialists. If we assume the latter group will become regular full-benefit civil servants, that addition constitutes a 7 percent increase to the present level of 12,000 regular civil servants.

In most cases the materials expenditures for these eight ministries have doubled or tripled, giving some indication of the shortages which exist in general within the GOC for basic furniture, equipment and daily office supplies. However, the primary emphasis in the FRP is

centered on the Agriculture and Livestock ministries where combined expenditures increased 13 times over their 1988 levels. That rate of increase may appear excessive but it also can be considered consistent with the dominant role of agriculture and livestock in the Chadian economy. Even so, combined total expenditures for both Agriculture and Livestock in 1989 will still constitute only 7 percent of the recurrent budget. In comparison, 26 percent of total investment expenditures by the donor community over the past three years has gone to these same two sectors.

Given Chad's dependence on imports for most manufactured and/or processed goods it is questionable whether the Bank approach will make a lasting impact on the local economy. Nevertheless, one effect is immediately evident: a modification of relative emphasis within the budget as salary expenses decrease from 75 percent of the 1988 total to 67 percent in 1989, and equipment costs move up from 19 to 29 percent. Current data and the budget deficit indicate that the GOC cannot afford to maintain this level of spending for materials in subsequent years without an even more significant increase in new revenues. The GOC may have acquiesced to the World Bank in this large expenditure increase because of the opportunity to use the FRP financial resources to help cover the 1989 financing gap (see section III.B.5. The Deficit and Financing Gap, below). We should, therefore, expect to see some return toward the 1988 pattern of expenditures after completion of the Bank program.

3. Disaggregated Expenditures. Expenditures by functional category and by ministry appear in Tables 2 and 3 (Annex A). GOC recurrent budget expenditures are disaggregated first by ministry and department and secondly, within each ministry by personnel salary and material/supply expenses. Details of the significant alteration to the traditional pattern of expenditures in the 1989 budget, at the ministerial level, are examined below.

Two politically sensitive items, military outlays and civilian salaries, have traditionally accounted for nearly 80 percent of all expenditures. Table 3 shows, via ministerial disaggregation, the preponderant position of Defense, at 25 percent of the 1989 total. That, however, represents a decrease from 35 percent the previous year. Four other units of the government (the Presidency, and the Ministries of Interior, Education and Agriculture) each garnered larger actual increases than did Defense for 1989.

With the October 1988 diplomatic settlement of the long-standing Libyan threat along Chad's northern frontier, military demands in the 1989 budget were expanded at a slower rate, bringing about a minor reduction in the Defense dominance in relation to other sectors. That change releases additional resources for the civilian and services

sectors. However, the military salaries and equipment share remains a relatively large amount in view of Chad's development needs. As a share of GDP, the military sector has fluctuated between 2.5 and 4.0 percent since 1984, and it is doubtful that budgetary changes will significantly alter this expenditure pattern in the medium term. Expenditures for the Ministry of Interior (of which police needs absorb 59 percent) remained unchanged at 7 percent of the 1988 and 1989 annual budget totals.

The categorization of expenditures between administration and services (Table 3) might require some modification if we could accurately and comprehensively disaggregate every expenditure item. Without that, at first glance the categories indicate the public services delivery capacity of the GOC should improve due to the large 1989 changes vis-a-vis administration, rising from 30 percent of the budget in 1988 to 42 percent in 1989. However, that large percentage improvement must be tempered by the available data which show salaries plus all military expenditures still consuming 72 percent of the 1989 budget, down from 79 percent in 1988.

The largest actual increase in 1989 for a single GOC unit--2,163 million CFAF--will go to the Ministry of Education, primarily for salaries. This share of the salary increase will come from French budget support as the Education staff is situated predominantly outside of the N'Djamena capital area. U.S. budget support for salaries is limited to the N'Djamena area. The Education salary total was elevated more than 80 percent over the amount for 1988 to accommodate a projected increase of 887 new staff in this sector.

The Interministerial line item in Table 3 is larger than for Education, but it is not all for one unit of the government. It contains funds for the purchase of vehicles to be assigned to several ministries; some funds for the repair of as yet non-allocated government buildings; and, the entire counterpart allotment of 2,000 million CFAF to satisfy donor requirements vis-a-vis projects in the investment budget.

Outside of the World Bank Financial Rehabilitation Program influence, GOC recurrent budget expenditures for materials and supplies remain minimal. The situation still exists wherein the World Bank noted in its 1987 country economic review that there is a "generalized lack of basic equipment and supplies (e.g., desks, chairs, paper, simple office machines) in Government offices." The distribution of budget expenditures for 1984-1988 reveals that, as an annual average, less than 13 percent of total expenditures has been allocated for supplies and maintenance, versus an expected norm of above 33 percent.

Of the nine ministries that USAID/Chad works with closely in relation to its projects, seven (Planning, Education, Health, Social Affairs, Agriculture, Environment and Public Works) received 1989 allotments which rose at rates (74 to 287 percent) above the average of 57 percent for the recurrent budget overall. These ministries are the same as those benefitting from the World Bank FRP referred to above. Therefore, their increases are primarily related to materials and equipment. The eighth ministry, Civil Service, where USAID/Chad is endeavoring to play a larger role through policy reforms associated with this cash transfer program (see section IV.F., Conditionality), received the average rate of increase, i.e., that for salaries. The Ministry of Food Security increase is below the average rate because the supplies, equipment and the additional labor needed are normally the result of donor activities and contributions during periods of emergency.

The transfers line item provides funds apportioned one-third to international organizations of which Chad is a member, one-third to domestic agencies such as the University of Chad, the National Public Administration School, etc., and one-third for scholarships to Chadian students studying domestically and abroad at the university level.

In another category of important expenditures, the GOC acknowledged responsibility to pay pre-1979 debts and has attempted to reconstruct its public and publicly-guaranteed external indebtedness, service a growing proportion of maturing debt and avoid accumulating additional arrears. Foreign debt service is the task of the Caisse Autonome d'Amortissement (CAA), whose income and expenditures are generally tabulated separately from the GOC recurrent budget. This arrangement may change as the IMF continues to advise the inclusion of all such operations into the central budget. CAA revenue sources are a share of the excise and petroleum import taxes. Despite its efforts the CAA has not been altogether successful, and cumulative foreign debt service arrears are estimated at \$74 million, or about one third of debt outstanding as of January 1988.

Chad will face foreign debt servicing requirements of \$15 million during 1989, approximately twice what the government was able to pay during the past two years. The debt service ratio, an estimated 5 percent, is low by most standards. Even so, it represents a significant financial burden for the GOC. The government is attempting to deal with the problem in two ways: by negotiation to cancel or reschedule some existing debt, and through World Bank assistance to improve the CAA's revenue sources and administrative efficiencies.

To summarize, examination of the budgetary expenditure figures from 1984 to 1988 (Table 4) indicates an ability on the part of the GOC to

maintain tight budgetary control in the face of military aggression, a notable drought, and the collapse of world prices for cotton, its primary export commodity. The average annual rate of increase of less than 4.0 percent in expenditures approximates Chad's inflation rate over the same period, thus budgetary expenditures have been frozen in real terms. The relatively large rate of increase for 1989 recurrent budget expenditures is the result of apparently justifiably higher salaries for the civil service, and the result of the World Bank's Financial Rehabilitation Program to improve the capacities of eight development-oriented ministries.

4. Shortage of Revenues and Budgetary Support. Revenue details are listed in Table 5. The GOC search for increased resources runs up against certain weaknesses in the domestic fiscal system. The World Bank has classified them as follows:

--- Revenues rest on a narrow, undiversified base, for which the yield is reduced by inadequate tax administration.

--- The GOC has only a limited capacity to analyze the economic and social impact of fiscal options, which leads to an ad hoc system of taxation. This type of system also promotes consumption-switching toward less expensive smuggled goods, which creates significant disincentives to domestic production and to marketing through official channels. The circle is completed when these practices undercut the very revenues the GOC seeks to tax. According to the directors of Chad's major industries, consumption-switching is a particularly serious problem in the manufacture of daily basics such as cigarettes, soft drinks, sugar, oil and soap.

It should be noted that the opportunity for consumption-switching does exert a competitive influence on domestic prices. It thus may also be a worthwhile influence promoting increased efficiency in the production of some commodities currently dominated by the parastatal sector in Chad. In any case, the GOC urgently needs additional sources of revenue, which in turn requires an increased capacity to analyze fiscal options and to administer the tax system. It is evident from the budget data that some progress has been achieved. The GOC continues to utilize French and IMF advisors in the Tax, Treasury and Customs Departments to improve tax generation and administration techniques.

Taxes are the overwhelming source of GOC domestic income, accounting for between 75 and 86 percent of total domestic-sourced revenue in recent years. Of these, taxes on international trade are the most important, supplying 35 to 45 percent of all tax revenues since 1986. In the trade tax category levies on imported goods naturally supply

the larger share and have remained above 98 percent of all trade revenues since 1986. The absence of revenues from the export tax category reflects the GOC's waiver of taxes on cotton, the result of the extremely difficult situation in which that industry is now operating. No further tax income is expected from cotton exports until the early 1990s, when World Bank analysis indicates that profitability will return to that sector.

Other leading sources of revenue are income taxes, and taxes on goods and services. Each of these contribute an additional 15 percent or so of total tax revenues. Of particular importance is the fact that personal and business income tax revenues rose nearly 500 percent from 1983 to 1988, while GDP increased less than 15 percent over the same period.

Additionally, there are some encouraging, and perhaps exaggerated, aspects to the revenue picture associated with the 1989 budget projections. The combined revenue increase from domestic sources (up 34 percent) and donor budget support (up 30 percent, Table 5) is projected to be 8,510 million CFAF above that for 1988. The donor budget support amount has been verified whereas the domestic revenue rate appears optimistic in light of the fact that 1988 revenues, after some annual variability, have not improved beyond their earlier 1984 level. Nevertheless, members of the World Bank mission to Chad in March 1989 opined that the new revenue level is obtainable, based on current indications of GOC determination to proceed with its reform program. This marks a significant improvement over the IMF's 1987 appraisal in preparation for Chad's structural adjustment arrangement. At that time it was concluded that GOC revenues would grow no faster than nominal GDP over the next five years, i.e., about 7 percent a year.

Within the revenue details of the 1989 budget projections there are other positive changes indicated, particularly that the GOC is attempting to modify the pattern of revenue generation. For example, non-tax revenues from the sale of government services and the payment of parastatal profits are to increase 50 percent, nearly twice the rate for tax revenues overall. Achievement of this increase will be a tangible result of public sector reforms being implemented under the World Bank/GOC Policy Framework Paper. Within the tax category, direct taxes on income and property are to increase at rates three times those for indirect taxes on trade. And, the late penalties line item increase implies that French technical assistance at the Finance Department has helped to improve levy and collection efficiencies. Aside from these implications from the rates of change, the actual amounts in Table 5 indicate that the traditional pattern of dependency on trade taxes will remain. The largest share of taxes, 33 percent, will continue to come from import duties.

5. The Deficit and Financing Gap. Despite salary payments through 1988 at 60 percent of their 1967 levels, minimal expenditures for supplies and equipment and almost no provision for maintenance, GOC budget expenditures have consistently exceeded revenues by a substantial margin. Moreover, with the exception of the sizeable reduction in 1985, the deficits have annually increased in absolute amount and as a percent of GDP. The budget deficits have risen from 1.8 percent of 1983 GDP in current prices, to 4.5 percent in 1987 and 1988. Although the 1988 figure is not especially alarming, it does represent the equivalent of two thirds of GOC domestic revenues for that year.

The government has relied upon a variety of sources, both domestic and foreign, to finance its budgetary deficits. The chief domestic source by far has been the Banque des Etats de l'Afrique Centrale, (BEAC), the regional central bank. Leading foreign sources are the budgetary support programs of France and the United States. The French program is the largest of the two by a considerable margin and accounts for slightly over 63 percent of all externally provided budget support between 1983 and 1988. The United States has contributed 15 percent, and IDA (World Bank) almost all of the remainder.

The 1989 budget projected increase for domestic revenues and donor budgetary support of 8,510 million CFAF is equivalent to only 58 percent of the 14,531 million CFAF increase in expenditures. Contrary to the situation in 1988 the deficit in 1989 will not be covered by an increased level of budget support from France and the United States. The deficit, at 38 percent of total recurrent expenditures, and the remaining financing gap are of some concern to the GOC for two reasons. First, French officials have indicated it will be extremely difficult to allocate any additional funds to budget support this year, forcing the GOC to find resources elsewhere. The United States does not have additional funds for this program. Second, the commitment deficit is equal to about 6 percent of projected current price GDP, exceeding the IMF Structural Adjustment Arrangement guidelines that it be limited to 2 percent.

In regard to the first concern, World Bank analysts suggest that the GOC will probably cover the residual cash deficit financing gap (Table 6) through use of the Financial Rehabilitation Program resources. The GOC may draw FRP funds as reimbursement for verifiable public and private sector imports of any non-military nature. Additionally, those imports must not have been financed under a donor project. Funds available in the 1989 tranche of the FRP, and in other similar programs, are sufficient to cover the financing shortfall, which could be the equivalent of about \$30 million. There are at least two other programs of a similar nature--financed by the Germans and the European Economic Community--under which the GOC has access to import

reimbursement funds. These programs are primarily explained in terms of balance of payments support, however, convertibility of the CFA franc allows the funds to serve as budget support. It is our understanding, however, that the challenge for the GOC lies in identifying valid imports of individual commodities in large enough value terms to make the exercise manageable. There appear, therefore, to be reasonable possibilities for covering the residual financing gap for the 1989 recurrent budget.

The remaining problem--the budget deficit is triple the level permitted under the original guidelines agreed to with the IMF--is potentially more serious. Documentation for the first year of the IMF-GOC Structural Adjustment Arrangement clearly specifies that the deficit be limited to 2 percent of GDP. Now that it is necessary for the World Bank and IMF to reexamine that figure it may prove, retrospectively, to have been less than the proper target.

From one point of view the 2 percent target appears reasonable but challenging. The 1988 budget deficit (commitment basis) of 7,154 million CFAF was the equivalent of 2.9 percent of GDP in current prices. Given the normal and/or the projected rates for growth in relevant categories--4 percent for budget expenditures overall, 7 percent for revenue and GDP in current prices--the 1989 deficit would fall automatically to 2.0 percent without any other efforts by the GOC.

From another view, reconsideration of the situation by the Bank/IMF will have to allow for the increase in the deficit due to the Financial Rehabilitation Program. Increased budgetary spending for materials under the FRP, versus a projected situation without the FRP, adds the equivalent of nearly a full percentage point of GDP to the budget deficit.

A report of the March 1989 World Bank/IMF annual review of GOC compliance with the structural adjustment program, and of the overall economic situation, will become available in mid-1989. Outstanding performance by the GOC in all other aspects of the reform program may persuade the Bank/IMF to accept GOC slippage in the area of reducing the budget deficit.

C. THE EXTERNAL SECTOR

Recent trends in Chad's balance of payments, together with projections through 1989, appear in Table 7. The extent to which the usually negative trade balance is dependent upon developments in the cotton industry is evident, particularly since 1985. It was only during 1984, when a record level of cotton exports combined with unusually favorable world market conditions, that Chad managed to avoid trade and current account deficits. Likewise, the collapse of world cotton prices in 1985 and 1986, and their continued low levels since then, has led to record high trade deficits.

The trade deficits have consistently been exceeded by larger payments for the non-factor services associated with petroleum exploration. However, despite very substantial direct investments by Esso Corporation and increasing levels of official development assistance, net reserves were drawn down by \$24 million in 1985, by an additional \$74 million in 1986. The \$67 million increase in reserves in 1987 was the result of a large increase in the flow of official loans and grants, which was repeated in 1988. By the end of 1988 Chad's official foreign exchange reserves were the equivalent of approximately one month of imports.

Projections for 1989 differ according to the source, with the World Bank forecasting a small loss of reserves while the GOC foresees a positive acquisition equal to that of 1988. Therefore, while Chad's foreign exchange reserves are not enormous, they are not terribly troublesome, consistent with the external security which normally accompanys membership in a franc monetary zone. This relative absence of significant problems in its external sector allows the GOC to concentrate on its domestic budgetary challenges.

World Bank analysis has projected world cotton prices to rise only slowly in coming years. The outlook for a substantial increase in foreign investment may improve during the next few years as the Esso and Hunt oil companies increase their levels of activity. These possibilities are predicated on the continuation of peace in Chad, and an improving climate for private sector entrepreneurs. Even so, immediate prospects are not particularly promising, and there is a continuing need for substantial foreign economic assistance to provide the resources necessary for investment and development.

Chad's total external financing requirements for the three years of 1987 to 1989 were estimated by the World Bank to amount to about \$950 million, rather consistent with the rate of receipts that has been achieved to-date. Medium and long term capital inflows, including direct investment, have averaged \$98 million per year for 1987-1988, leaving a reasonable \$104 million to be raised in 1989. External

grants, including those from the United States, were projected at about \$200 million annually, and those have been realized. The resulting annual financial gap of about \$15 million was to have been within the resource levels of the World Bank's Financial Rehabilitation Program. On balance, however, the increased debt servicing arrears and the occasional annual loss of official exchange reserves, although manageable, indicate that past resource flows have not always been sufficient, and substantiate the need for continued strong external support.

D. ADJUSTMENT PROGRAMS

Prospects for economic growth during the next few years are fairly modest and have been projected by the World Bank at 2 percent per year for 1990 and beyond. Output in the cotton industry is unlikely to expand faster than at present, due to GOC implementation of its revitalization program. That program includes the termination of all production subsidies in the cotton sector, which may result in reduced but more efficient production. Prospects for other sectors appear to be less than strongly positive as well.

Most importantly, the GOC is in the process of implementing a policy framework program worked out with the World Bank and the IMF. The Policy Framework Paper (PFP) strategy is being jointly financed through a variety of donor efforts, including the \$86.5 million Financial Rehabilitation Program by the World and African Development Banks, the availability of \$18.5 million in resources from the IMF, etc. That reform program is proceeding satisfactorily as of late 1988, according to Bank and IMF analysts in Chad to evaluate GOC progress and update the PFP for 1989. The Bank/IMF analysis will become available, with greater detail and revised 1989-1990 targets by mid 1989. The existing PFP is discussed in further detail in comments below regarding conditionality (see section IV.F.).

E. OTHER DONORS

A review of the use of policy conditionality reveals that the World Bank is the only other donor involved in the civil service sector. The Bank had planned to implement civil service studies (section IV.F.4.) following USAID/Chad's original census of this sector. However, due to GOC slippage in meeting other aspects of the structural reform program, and because of USAID/Chad efforts and concentration on civil service reform, the Bank has postponed its plans for any specific interventions or conditionality tied to the civil service. The Bank prefers to concentrate on other than the civil service for the time being. World Bank staff members in Chad have recommended that USAID/Chad proceed with its civil service focus as described in section IV below. The Bank will structure its policy reform framework to accommodate these joint efforts by USAID/Chad and the GOC. At a later time the Bank may plan interventions around other public administration refinements to be identified during the reform process.

IV. PROJECT DESCRIPTION

A. BACKGROUND

USAID/Chad will utilize this Program Assistance Approval Document (PAAD) to grant \$8 million of its 1989 ESF resources, through a cash transfer for budgetary support, to the Government of Chad. This cash transfer is the fourth in the successful series that began in 1984. The implementation and auditing procedures were established earlier and have been successfully used during the last two years. The program responds to the increasing annual deficits between GOC revenues and the expenditures required to maintain a minimally acceptable level of public services.

1. Previous Programs. The agreement for the first U.S. budgetary support program in Chad, entitled "Cash Transfer" (677-0047), was signed in April 1984. The first one million dollar tranche was distributed in July 1985, and a total of \$3 million was provided. The agreement for the second budget support program, entitled "Strengthening Development Ministries II" (677-0052), was signed in September 1986. While similar to the previous program it differed in that it levied some initial conditionality. The program amount was increased to \$7 million and was paid in four equal tranches.

The fiscal 1988, or third program, continued the efforts and direction of SDM-II, was entitled "Strengthening Development Ministries III" (677-0055), and was signed for \$7 million in May 1987. The first of two tranches was paid in June 1988 and the last in December 1988. The conditions precedent in the 1988 program were designed to expand on the accomplishments of the previous year's program in the area of improving civil service efficiency.

2. Coverage. Previous budget support programs were designed to pay non-military salaries in the capital city N'Djamena area for 22 ministries for approximately six months of the year (Table 8). Through special covenant in the 1987 program civil service salaries were to be paid at a minimum of 60 percent of their 1967 scale. Prior to that time salaries had been paid only irregularly, and at a maximum of 50 percent of the schedule in force. In October 1988 the GOC announced that civil service salaries were to be raised to 100 percent of a new 1986 pay schedule, with the implementation commencement date set for the end of January 1989.

The "new" 1986 pay schedule is not totally compatible with the grades and seniority levels of those in the 1967 schedule, therefore transfer to the new schedule requires some examination of each individual employee file. This process is proving to be time consuming for the Ministry of Civil Service and is delaying implementation of payments

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under the new salary schedule. The GOC has publicly stated that difficulties to implementation of the salary increase will be resolved early during this Chadian fiscal year, January to December.

U.S. budgetary support to Chad in 1989 will permit coverage of the same 22 ministries as in 1988, but for a smaller portion of the year. USAID/Chad had anticipated that as certain World Bank projects came on stream, such as those in the education, agriculture and public works sectors, that salary expenses for the relevant ministries would have been included. They have not been. This situation would have provided a natural opportunity to reduce the number of ministries covered through U.S. budgetary support. It would also have permitted us to utilize the same level of funding to increase the number of months of our coverage to that smaller selected group of GOC ministries.

USAID/Chad believes there may be merit to reducing, from the current list of 22, the number of ministries eligible for salary support. However, in our discussions the GOC has requested that the list not be reduced for 1989. A reduction in the number of eligible ministries could result also in a reduced audit and verification workload, as well as allow USAID/Chad to increase its influence with selected ministries closely related to our overall program. This approach will be pursued seriously with the GOC in preparation for the 1990 program.

As in 1988, and in accordance with the congressional mandate, this support in 1989 will continue to exclude financing for military, police and foreign affairs related ministries. This effort by the United States will continue to supplement a similar, although larger, budget support operation that the French began in 1982.

3. OVERVIEW OF THE PROGRAM

Economic Support Funds granted under this program will be used for direct budgetary support to the Government of Chad. The program will continue the focus of the earlier Cash Transfer and Support to Development Ministries II and III activities. Specifically, the program assures salary payments to the civilian employees of ministerial departments with development-oriented responsibilities. Table 8 lists the GOC departments which will be eligible for support.

The necessity of this budgetary support program is explained through examination of three related but separate conditions and/or endeavors in Chad: (1) budgetary needs of the GOC, (2) the need, sectorially and economically, for the civil service reform conditionality promoted by the program, and (3) the program's support for the World Bank/IMF overall policy reform agenda for Chad.

1. The budgetary needs of the civilian development-oriented ministries of the GOC are analyzed above in Section III.B. and are plainly evident in the budget deficit and financing tables in Annex A.

2. Compliance with USAID/Chad's cash transfer conditionality will contribute to increased efficiency and effectiveness within the Chadian civil service. Those results will enhance GOC possibilities and capacity for compliance with the World Bank/IMF reform program. On the other hand, without USAID/Chad's civil service focus our need for program conditionality would divert GOC attention and our limited resources away from this vital sector. Given the otherwise comprehensiveness of the ongoing reform effort directed by the World Bank/IMF, that diversion would merely reinforce the efforts of another donor without making a significant and unique contribution where it is needed.

The lack of continuing USAID/Chad emphasis on civil service reform would create an unexpected vacuum of possibly long duration while other donors attempted to shift their attention and resources to promote this important effort. Furthermore, neglect of this sector would almost definitely diminish the possibility of GOC success in the entire reform effort. Success in the remainder of the World Bank/IMF structural reform program to rehabilitate the Chadian economy must not be hampered by inattention to a newly reconstituted and inefficient civil service. At this stage of Chad's economic development it is the public sector which must gather, analyze and disseminate the basic data and information necessary to the growth and functioning of the economy.

3. Civil service reform is integral to the overall reform program in World Bank/IMF documents such as the Policy Framework Paper for 1987-1990, the Financial Rehabilitation Program, and the Structural Adjustment Arrangement. While necessary to overall economic reform, World Bank/IMF planned interventions in civil service reform in the near term have been dropped because of other priorities and the magnitude of the overall reform effort. The World Bank/IMF have been able to do this largely because of USAID/Chad's proposed continued efforts. The World Bank/IMF and the GOC are relying upon a deliberate sharing of responsibility in implementation of the numerous aspects of the reform program. USAID/Chad is logically expected to continue to build on its original efforts in the vital area of civil service reform; i.e., to investigate, determine and advocate the implementation of requisite reforms. World Bank staff members have emphasized the importance of having USAID/Chad continue its civil service reform efforts as a necessary complement to overall reform. The integration of USAID/Chad and World Bank/IMF efforts is discussed in Section IV.F. below.

C. DISBURSEMENT PROCEDURES

Disbursements will be made in two equal tranches. Procedures for disbursement, as detailed in section IV.C. below, will be similar to those successfully used under Support to Development Ministries III. Disbursements will be made in CFA francs to an interest-bearing "Disbursement Account" maintained by the GOC Treasury at a local commercial bank as general budget support. Both the principal and the accrued interest of this Disbursement Account will be reserved exclusively for goods and services identified in the utilization plans.

Each month the Treasury will transfer an amount equivalent to its estimated expenses under the utilization plan for that month, from the Disbursement Account to a Special Account at the Central Bank of Chad, from which actual payments to employees and suppliers will be made. Payment through the Central Bank will be in accordance with normal Treasury procedures and will thus be simpler and less prone to bookkeeping and other errors than making payments directly from the account at the commercial bank. As with the Disbursement Account, funds in the Special Account will be reserved exclusively for the payment of goods and services identified in the utilization plans.

Each tranche is expected to cover approximately three months or less of the salaries of the N'Djamena employees of the eligible ministries. It is anticipated that disbursements will be made in May-June 1989 and in September-October 1989.

1. Disbursement of the Grant. After satisfying the conditions precedent to disbursement of the first tranche of the Grant, the GOC, acting through the Ministry of Finance and Data Processing, will request A.I.D. to disburse the tranche. The conditions precedent will include, among other things, submission of a utilization plan for the tranche and, for the second tranche, submission of a report on the utilization of the first tranche. After USAID/Chad reviews and approves the documentation submitted by the GOC, it will request the U.S. Government's Regional Accounting Management Center (RAMC) in Paris to deposit CFA francs by wire into the Disbursement Account maintained by the GOC's General Treasury for this purpose at the commercial bank, Banque Internationale pour l'Afrique au Tchad (BIAT) in N'Djamena.

2. Date of Disbursement. Disbursement of funds by A.I.D. will be deemed to occur on the date A.I.D. deposits the funds in accordance with the Grant Agreement.

3. Disbursement Account. The GOC will maintain a Disbursement Account reserved exclusively for the receipt of A.I.D. funds provided under this Grant. This account will be an interest bearing account maintained by the GOC's Treasury at a local commercial bank. A.I.D. will transfer grant funds in CFA francs directly into this account. Interest accruing to this account will be exempted from the usual GOC withholding taxes on interest payments.

4. Special Account. Actual payment of expenses identified in the GOC's utilization plans will be made from a Special Account held by the GOC's Treasury at the Central Bank of Chad. Approximately once a month the GOC Treasury will deposit into the Special Account an amount equivalent to its estimated expenses under the utilization plan for that month. The total amount deposited by the GOC into the Special Account will be equal to the amounts transferred by A.I.D. into the Disbursement Account plus all interest accruing to the Disbursement Account. All funds deposited into the Special Account will be expended by the GOC on items identified in the utilization plans submitted to and approved by A.I.D.

5. Rate of Exchange. The rate of exchange used to compute the amount of CFA francs to be disbursed by RAMC at USAID/Chad's request into the GOC's account at the local commercial bank will be the highest rate of exchange not unlawful in Chad on the date of disbursement. "Highest rate" means the rate yielding the greatest number of CFA francs per U.S. dollar.

6. Disallowed Expenditures. The GOC will reimburse any expenditures made from the Special Account at the Central Bank which are subsequently disallowed by A.I.D. Reimbursements will be made into the Special Account, and their release will be subject to A.I.D. approval of a utilization plan.

D. FINANCIAL ACCOUNTABILITY

Financial accountability for funds disbursed from the Treasury's Special Account at the Central Bank will be assured at three levels: normal GOC procedures of accountability and control, monthly reviews by USAID/Chad, and a final audit of all expenditures under the program by an independent accounting firm. These are the same procedures used during Support to Development Ministries II and III, under which no significant irregularities were found by either USAID/Chad or Price Waterhouse.

1. GOC Procedures of Accountability and Control. The GOC will exercise the same strict control over this activity that it has over the three previous A.I.D. budgetary support programs. Requests for payment of salaries or expenditures for goods and services will first be processed by the Ministry of Finance's Budget Office. This office will confirm availability of funds and the compliance of payment requests with personnel and procurement procedures. After the Budget Office review, payment orders under the program will then be sent to the Ministry of General Inspection and State Control, which will double check for accuracy and conformance to GOC regulations. It will only be after these two controls that payment orders will be sent to the General Treasury of the Ministry of Finance, for actual cash disbursement or bank transfer. The General Treasury will maintain the bank and related records for disbursements from the Special Account, and will assign responsibility for the necessary bookkeeping and other work to a separate staff.

2. USAID/Chad Reviews. USAID/Chad will conduct monthly reviews of salary disbursements from the Special Account, using methods recommended by the accounting firm Price Waterhouse. The reviews will be carried out by the Project Manager/Program Economist and by other staff from the USAID/Chad Controller's Office. The reviews will require physically verifying salary payments to a sample of a few dozen employees every month, and confirming for each tranche, through inspection of receipts, payroll journals and other records, that payments claimed by the GOC have actually been effected and received by the indicated employees. Any discrepancies found during these reviews will be immediately communicated to the Ministry of Finance for corrective action.

3. Outside Audit. After the GOC has completed disbursement of the second tranche, USAID/Chad will engage the services of an independent audit firm for a compliance audit of the entire program. Similar audits were performed for the first two budgetary support programs. The ECPR in AID/W recommended that SDM-III be audited prior to disbursement under this current program. USAID/Chad requested RIG/Dakar compliance with this schedule, but the audit will commence on May 29. All previous audits found no deviations from the terms of the respective Grant Agreements, although they did recommend minor improvements in management and control procedures, which the GOC subsequently adopted. In view of this excellent past record USAID/Chad has decided to proceed with paying the first tranche prior to completion of the SDM-III audit. If the audit reveals problem areas they will be corrected prior to any second tranche disbursement. The audit will be funded from PD&S funds. Its scope of work will be the following:

(a) Assess the GOC's compliance with the utilization plans submitted by the Ministry of Finance and approved by USAID/Chad, through examination of supporting documentation and physical verification as well as reviewing and reconciling the GOC's Disbursement Account at the local commercial bank and its Special Account at the Central Bank of Chad.

(b) Assess the accuracy of the interim utilization reports submitted by the GOC.

(c) Review the monthly reviews of disbursements conducted by the Project Manager/Program Economist and the USAID/Chad Controller's Office staff.

(d) Deliver an opinion concerning the internal controls observed in the course of the above examination, and suggest improvements to the extent warranted; point out any evidence of fraud or misuse of funds; and clearly document the basis for these conclusions.

(e) Prepare a brief report covering the findings resulting from the above examination, and offer action oriented recommendations for whatever corrective measures need to be taken.

E. IMPLEMENTATION SCHEDULE

<u>Estimated Date</u>	<u>Activity</u>
May 1989	<ul style="list-style-type: none"> -Grant Agreement signed. -GOC meets initial Conditions Precedent. First tranche requested. -A.I.D. deposits first tranche of CFA francs to GOC Disbursement Account at local commercial bank. -GOC begins monthly deposits of CFA francs (equivalent to monthly needs under USAID/Chad-approved utilization plans) into Special Account at Central Bank and begins disbursements.
July 1989	<ul style="list-style-type: none"> -GOC completes disbursement of first tranche.
August 1989	<ul style="list-style-type: none"> -Target for arrival of technical assistance to Interministerial Commission. -General Treasury payroll records become available for informal audits of first tranche.
September 1989	<ul style="list-style-type: none"> -GOC completes second set of Conditions Precedent and requests second tranche. -A.I.D. deposits second tranche of CFA francs to GOC Disbursement Account at local commercial bank. -GOC continues monthly deposits of CFA francs (equivalent to monthly needs under utilization plans) into Special Account at Central Bank and begins disbursements.
November 1989	<ul style="list-style-type: none"> -GOC completes disbursement of second tranche.
February 1990	<ul style="list-style-type: none"> -GOC submits final utilization report to USAID/Chad. -General Treasury payroll records of second tranche become available for informal audits.
April 1990	<ul style="list-style-type: none"> -Compliance audit of all GOC disbursements under the Grant by an outside accounting firm.

F. POLICY CONDITIONALITY

1. In Previous Programs. Conditionality was deliberately waived in the 1984 budget support program. The urgent nature of the requirement for budget support, the serious drought then underway, the chaotic state of the country's economic and social data base and the GOC's consequent lack of capacity to articulate its objectives and strategies other than in very broad and general terms, were the reasons for that decision. In 1987 the newness of the Chadian government, and particularly the willingness of GOC officials to implement policy suggestions on the basis of information and explanation alone, negated the need for heavy-handed conditionality in the program that year. The continued validity of this "moderate" conditionality approach by USAID/Chad in the programs since 1988 has been further justified by the dominant efforts of the World Bank and the IMF in policy areas consistent with the interests of the USAID/Chad program.

In 1987 the World Bank, IMF and the GOC negotiated a Policy Framework Paper (PFP) which outlines the government's policy objectives through 1995, with a detailed listing of specific policy actions to be implemented through 1990. World Bank and IMF staff members were in Chad in late 1988 and again in early 1989 to evaluate progress under that PFP and to update its objectives and guidelines for 1989-1990. The PFP addresses the overall needs of the Chadian economy and specifically focuses on areas of priority interest to USAID/Chad: agriculture (including crop production and marketing), transportation (including rehabilitation and maintenance of the road network, and improvement in the responsible government agencies), education, the government investment program, improved efficiency and competitiveness of parastatal enterprises (including the public utilities) and fiscal policies. The PFP also contains a schedule for analyzing each of the above sectors to refine determination of additional policy changes needed.

It is the judgement of USAID/Chad, and of other donors, that the GOC is currently fully engaged in a comprehensive and valid policy reform endeavor. An attempt by USAID/Chad to change the policy focus or to divert GOC energies would be counterproductive at this point, particularly given the limited administrative resources of the government. The Chadians have proven themselves very willing to implement viable policy on the basis of reason and mild persuasion. USAID/Chad use of other than minimal conditionality should be reserved until, and if, difficult choices are surfaced by upcoming PFP analyses in areas immediately relevant to the USAID/Chad program.

Notwithstanding the validity of the above reasoning, USAID/Chad has adhered to the principle that policy changes/improvements are needed

in this country, otherwise economic conditions would be vastly different than at present. Moderate conditionality was a part of the 1987 and 1988 budget support programs. In the 1987 program the GOC agreed to exclude a planned-for budget line item which would have financed a personal vehicle loan guarantee program for civil servants. The GOC also agreed to, and completed, a census of the civil service as a prerequisite to improving personnel planning and efficiency in public administration.

2. Status of Fulfillment of 1988 Conditionality. The 1988 program continued employing conditions and covenants requiring GOC improvements in the area of public administration. In compliance with the request in paragraph 2.A. of State 382473 we include below a detailed explanation of GOC activities vis-a-vis the 1988 requirements. NDjamena 03227 of June 1988 and NDjamena 06422 of October 1988 explained in detail how the GOC has fulfilled the conditions precedent in Article 3 of the Grant Agreement for project number 677-0055, dated May 19, 1988. Section 5.4 of the Grant Agreement contains several special covenants which the GOC has fulfilled or is making progress toward fulfilling.

The Price Waterhouse, Abidjan, Ivory Coast audit report of January 14, 1988 found that the AID grant is free from any taxation or fees imposed under the laws in effect in Chad. Subsequently, officials at the Banque des Etats de l'Afrique Centrale who supervise the special account reaffirmed that the grant continues to be free from any taxation or fees imposed under the laws in effect in Chad, in accordance with Section 5.4.(A) of the Grant Agreement.

Ongoing informal audits of the payment process by USAID/Chad verify that the grant resources are being utilized for the payment of non-military salaries and some limited equipment, in compliance with the covenant in Section 5.4.(B). USAID/Chad audit procedures are described below in section IV.C. Additionally, the GOC has made considerable progress toward fulfilling the extensive covenant of Section 5.4.(D), which calls for the establishment of a commission to study and recommend ways to improve public sector workforce effectiveness. Presidential decree No. 390/PR/MFP/88 was issued on August 6, 1988 and created the Interministerial Commission For Follow-on Work To The Civil Service Census. That nine member commission functions under the presidency of the Minister of Civil Service, with eight other ministers as members. The commission is specifically charged with the responsibility to implement improvements identified in analysis of the civil service census and other relevant public administration data.

The Minister of Civil Service issued orders number 19/MFP/DG/DER of September 8, 1988 and number 22/MFP/DG/DER of September 20, 1988 in

which he designated the staff and responsibilities for the working level technical sub-commission. The sixteen members of the sub-commission have been seconded full time to this assignment, have been provided office space in the central facilities of the government, have technical and analytical capabilities in a number of fields including data processing, and are being funded through a special line item for supplies and expenses in the utilization plan for the second tranche of the 1988 budgetary support grant. The budget support program will continue to require the inclusion of a line item in the GOC utilization plans for each tranche to finance the work of the sub-commission. The sub-commission is now in the process of data gathering to determine its work plan and schedule.

These efforts to improve administrative efficiency are actively supported by the World Bank through the Policy Framework Paper and other reform-oriented programs (see the discussion below in IV.F.4. Issues Currently Under Study or Planned).

The GOC, in accordance with Section 5.4.(F), of the May 1988 Grant Agreement, has provided USAID/Chad with copies of its operating and investment budgets for 1988, and the operating budget for 1989. The investment budget for 1989 is presently in the printing stage and will become available later. Due to a lack of GOC resources the investment budget continues to be a listing of bilateral and multilateral donor intentions for project expenditures during the year, rather than an expression of GOC priorities. The required studies, under this same Section, of the recurrent cost implications of these budgets have not been performed by the GOC, or to our knowledge, by any donor.

3. Background To 1989 Program Conditionality. The Interministerial Commission has progressed sufficiently into its quality review of the civil service that it should now begin to give consideration to next steps. The World Bank had planned to implement civil service studies (see section IV.F.4. below), all stemming from USAID/Chad's original census efforts in the Chadian civil service sector. However, due to GOC slippage in meeting other aspects of the policy reform program, and because of USAID/Chad efforts and concentration on civil service reform, the Bank has postponed its plans for any specific interventions or conditionality tied to the civil service. The Bank prefers to concentrate its efforts outside of the civil service for the time being. World Bank staff members in Chad have suggested that USAID/Chad should proceed with its original civil service focus as described above. The Bank will structure its Chadian policy reform framework to accommodate these joint efforts by USAID/Chad and the GOC, and will plan its own interventions around other public administration refinements to be identified later in the reform process.

USAID/Chad has developed a good foundation for rapport with the GOC in the improvement of civil service matters. We believe that the conditionality of the cash transfer can and should continue to be utilized toward further assisting the GOC in this important area. The timely use of competent technical assistance can provide the opportunity for USAID/Chad to develop some influence in the shaping of basic personnel policies of the GOC.

4. Civil Service Issues Currently Under Study or Being Planned

a. By The Government of Chad. (1) The Technical Subcommittee, under The Interministerial Commission for Follow-on Work to the May 1987 Census of the Civil Service, is reviewing the personnel files for each civil servant, followed by a personal interview with each of the 12,000 regular employees. The employee's annual evaluation reports provide the basis for this review. However, in addition to performance the Ministry of Civil Service (MFP) evaluators are also giving significant attention to the factors of age, health, attitudes, attendance and alcoholic consumption of each employee. This review of the quality of the existing civil service is a natural followon activity to the strictly quantified nature of the May 1987 census. The Technical Subcommittee, in compliance with earlier conditionality by AID, submitted its preliminary findings from this review, along with some broad guidelines for proposed changes, to the Interministerial Commission during February 1989.

The objectives of this review of the quality of the civil service are to determine where and how to reduce its overall size and improve its efficiency through:

- releasing those persons where there is cause
- retirement of those who are eligible
- release of the military currently occupying civilian positions, particularly outside of the capital, returning them to Ministry of Defense responsibilities
- transfer of excess civil servants from the capital area to the prefectures

(2) It is the plan of the Technical Subcommittee to seek approval from the Interministerial Commission For Follow-on Work to the May 1987 Civil Service Census and from the GOC during February-March to move immediately into implementation of the findings of its current quality review of the civil service. This could entail the eventual release and/or transfer of numerous civil servants. Current information indicates that the process of transfers from the capital to the prefectures is gradual and ongoing. The implementation of planned absolute reductions has not yet been approved by the GOC.

b. By The World Bank. (1) The Bank's Financial Rehabilitation Program for Chad (FRP, Report No. P-4806-CD of July 1988) is providing \$86.5 million for calendar years 1989 and 1990 (\$48.5 million structural adjustment credit from the World Bank, \$38 million from the African Development Bank). The FRP briefly describes two studies that were to be conducted on the civil service (see descriptions below). It is evident from the policy matrix for 1987-1990 in the World Bank, Report No. 6785-CD of October 1987, Chad's Economic Situation and Priorities, and from the Bank's outline for studies of the civil service sector in the FRP that the World Bank has built its program for civil service reform on the census undertaken with AID assistance in May 1987. Bank staff members have frequently voiced the value of that census as the necessary foundation without which further efforts at civil service reform would be delayed for some time and at considerable expense. Reform recommendations from the two studies that had been proposed by the Bank would be planned for implementation in later phases of Chad's overall adjustment program. As has been noted, the Bank will not conduct the first study described below in view of the AID effort, and has postponed to an undetermined date the second.

---One study would identify the number of personnel and their qualifications needed for each office, department and ministry, and compare those requirements with existing staffing patterns. Additionally, the study would be slanted to determine what functions should be performed by the government given its resource constraints. Reportedly there is a precedent for such a study: the French are said to have completed one within the Ministry of Education. The study would also provide the data for development of a plan for an in-service training program. Resources within the Bank's Economic and Financial Management Project (Credit No. 1872-CD) would have financed the study. The study has not been initiated and World Bank staff members have indicated that it will not be implemented if AID is able to advance its outline for work with the Interministerial Commission. The Bank will reevaluate the public administration situation at a later date and plan its interventions based on the data and conditions then available.

---A study of the potential social and economic impacts of reductions in the civil service, presently in title form only but recommended for completion prior to the implementation of reductions.

G. CONDITIONS PRECEDENT TO DISBURSEMENT IN THE 1989 PROGRAM

1. For the First Disbursement.

a. A statement of the names and titles of the persons who will act as representatives of the Grantee as defined in the appropriate section of the Grant Agreement, together with a specimen signature of each person named in such statement.

b. A statement designating the commercial bank and interest bearing account number into which the disbursement is to be made

c. A statement certifying that a Special Account, from which disbursements for the purposes identified in the utilization plans submitted by the Grantee will be made, has been opened at the Central Bank of Chad.

d. A covenant in the Grant Agreement of May 19, 1988 for the 1988 cash transfer (677-0055) requires the GOE to submit to AID, prior to the end of May 1989, a report of the preliminary findings of the Interministerial Commission for Followon Work to the May 1987 Civil Service Census. The Interministerial Commission is nearing completion of the first phase of its survey of the quality of the civil service and will submit its findings and recommendations to the GOC during February or March. Those findings will constitute satisfaction of this special covenant. However, the Technical Subcommittee, under the Interministerial Commission, is scheduled to immediately begin personal interviews with each of the GOC's 12,000 regular civil servants. This will be the final phase of its review of civil service quality. Those interviews will consume another three to four months, and could possibly distract GOC attention from filing its report of preliminary findings. To preclude that possibility we are upgrading the 1988 covenant to a condition precedent for 1989.

e. The current activities of The Interministerial Commission are designed to measure the quality of individual civil servants (see section IV.F.2. above). An analysis of those results will be followed by actions to trim the unqualified, the non-performers and the redundant. The GOC intends that the overall size of the government will be reduced by not replacing all of those released. The Commission is now in the process of determining the size and membership of three broad categories in the civil service: those to be retained, those to be retired, and those to be fired for cause. Building on this current quality review by the Commission, an aspect of our conditionality for payment of the first tranche will support a GOC request for technical assistance which will begin to address, during 1989, selected conditions relevant to efficiency in the civil service. That technical assistance will support GOC efforts to refine its estimate of medium term needs in the civil service, as well as the development of a regularized system for comparison of existing skills to an estimate of medium and long term government needs. Implementing the results from this technical assistance will then become part of the conditionality associated with our cash transfer program in 1990. USAID/Chad will utilize a portion of its PD&S funds to provide this short term technical assistance, to be identified

with help from AID/W, for an estimated six to ten weeks. In the meantime, the GOC's existing outline of its medium term civil service needs will be utilized as a temporary yardstick against which it will continue to measure current staffing.

f. The Ministry of Finance will provide to the Ministry of Civil Service funds included in a line item in its utilization plan for each tranche of the cash transfer to financially support The Interministerial Commission for Followon Work to the May 1987 Civil Service Census. These funds should be controlled by the Ministry of Civil Service. This allocation will be focused to provide the basics of office equipment, transportation, and support services specifically to facilitate the work of the Technical Subcommittee. The Interministerial Commission and the Technical Subcommittee were created in August and September 1988, and their preliminary budget was to be sufficient to provide for their extensive activities during 1989. However, the Presidential Decree creating the Interministerial Commission shifted responsibility for its presidency from the Ministry of Finance to the Ministry of Civil Service. In this process the finalized budget was reduced so as to require supplemental funding from 1989 resources for the Commission. This conditionality will assure adequate funding for 1989. In this regard it will be necessary that the PAAD designate the Ministry of Civil Service as a co-implementing agency (with the Ministry of Finance) of the Grant Agreement, with responsibility for reporting compliance with the civil service related aspects of the conditionality.

g. Approximately ten percent of the second tranche of the 1988 cash transfer is being used by the GOC to purchase an IBM System AS/400 computer and supporting equipment to rehabilitate the Ministry of Finance computer center. The latter was totally destroyed during the strife in 1979-82. This center will constitute the core of GOC data processing capacity and will provide direct support to the civil service reform activities of the Interministerial Commission. It is, therefore, vital that the system be adequately maintained. The Ministry of Finance will include a line item in its utilization plan for each tranche of the cash transfer to provide for maintenance of the computer center's System AS/400. The contract for this maintenance will be undertaken by the Ministry of Finance and a maintenance firm of the Ministry's choice. Initial estimates from responsible firms indicate that this cost will approximate \$30,000 in each tranche.

2. For the Second Disbursement

a. A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for a subsequent period not to exceed three months.

b. An interim utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of first tranche funds from the Special Account.

c. To continue GOC attention on civil service improvement this conditionality will assist the GOC to begin to outline a plan for

the development of an in-service training program for all civil servants. Discussions of this topic will attempt to focus GOC plans on expanded use and improvement of the National Public Administration School, especially for in-service training. This condition may require an extensive effort by the GOC. We believe that very competent technical assistance will be required. Utilizing data from the Interministerial Commission's efforts, and working with other units within the Ministry of Civil Service and the National Public Administration School, this technical assistance can assist the GOC to build an effective in-service training program.

3. Representative Budget/Utilization Plan. The GOC utilization plan for each disbursement of the Grant will comprise a budget with the details listed below (the dollar amounts are illustrative, based on an exchange rate of 300 CFAF/\$1):

	<u>U.S. Dollars</u>
-For the First Disbursement:	
--Government Salaries (to include a listing by Ministry)	\$3,894,000
--Support to the Interministerial Commission to Follow the Civil Service Census:	
-Personnel	8,400
-Materials	54,000
-Travel	6,700
-Miscellaneous	3,500
--Maintenance Contract and Expenses for the Ministry of Finance and Data Processing Computer Center	<u>33,400</u>
Total	\$4,000,000
-For the Second Disbursement:	
--Government Salaries (to include a listing by Ministry)	\$3,894,000
--Support to the Interministerial Commission to Follow the Civil Service Census:	
-Personnel	8,400
-Materials	54,000
-Travel	6,700
-Miscellaneous	3,500
--Maintenance Contract and Expenses for the Ministry of Finance and Data Processing Computer Center	<u>33,400</u>
Total	\$4,000,000

H. COVENANTS

1. Completeness of Information. The Grantee will confirm:
 - a. That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Grant, are accurate and complete, and include all facts and circumstances that might materially affect this Grant and the discharge of responsibilities under this Agreement; and
 - b. That it will inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.
2. Special Covenants
 - a. The Agreement and the Special Account will be free from any taxation, fees or duties of whatsoever nature imposed under the laws in effect in Chad.
 - b. The Special Account will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or military, paramilitary or police activities of any kind, including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to the military or police.
 - c. The Grantee will provide A.I.D. access to the results of the research and analyses of the Interministerial Commission created to analyze the May 1987 civil service census and to plan the implementation of changes for improved effectiveness of the civil service.
 - d. The Grantee will provide A.I.D. with copies of the operating and investment budgets for 1989 and 1990 and the recurrent cost implications of these budgets and any other studies it may produce on the recurrent costs associated with development projects, as soon as these documents are available.
 - e. Except as the Parties may otherwise agree in writing, not later than four months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., a final utilization report certified by the Minister of Finance and Data Processing, and the Secretary of General Inspection

and State Control setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of the interim utilization report for the first tranche previously submitted to A.I.D. under the Grant Agreement.

- f. The Grantee will furnish to A.I.D. such other reports and information relating to the Grant, the Operating and Investment Budgets of the Government of Chad and the performance of the Grantee's obligations under the Agreement as A.I.D. may reasonably request.

I. ENVIRONMENTAL CONSIDERATIONS

Given the nature of the Program Grant, the chief Environmental Officer of the Africa Bureau has approved a Categorical Exclusion (Annex D). The activity meets the exclusion criteria of Section 216.(c)(i) because the A.I.D. funding does not have an effect on the natural or physical environment.

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TABLE 1

CHAD - ACTUAL AND PROJECTED GROSS DOMESTIC PRODUCT
(Billions of CFAF; constant 1977 prices)

	1977/79*		1982	1983	1984	1985	1986	1987		WORLD BANK	
	AMOUNT	% GDP						AMOUNT	% GDP	1988	1989
PRIMARY	65.2	43.9	59.2	62.3	47.6	72.3	69.9	63.1	43.3	75.5	77.0
Agriculture	42.6	28.7	34.6	37.9	28.2	52.2	49.2	41.9	28.8	54.5	55.5
Livestock	22.6	15.2	24.6	24.4	19.4	20.1	20.7	21.2	14.6	21.0	21.5
SECONDARY	25.0	16.8	20.9	23.5	29.1	28.0	26.9	26.7	18.3	29.6	30.0
Manufact. industries	22.6	15.2	19.9	22.2	27.2	25.4	23.9	22.8	15.6	26.3	26.5
Construct.&Public Works	1.2	0.8	0.3	0.5	0.8	1.4	1.7	2.3	1.6	2.2	2.3
Mining/Petroleum	0.3	0.2	0.1	0.1	0.2	0.3	0.3	0.5	0.3	0.2	0.2
Electri./Water distrib.	0.9	0.6	0.6	0.7	0.9	0.9	1.0	1.1	0.8	0.9	1.0
TERTIARY	58.4	39.3	45.8	47.1	49.2	58.3	57.6	55.9	38.4	58.3	59.4
Trade,transpt,communic.	48.1	32.4	38.0	42.0	42.9	52.0	51.2	49.3	33.8	51.6	52.6
Governt/other services	10.3	6.9	7.8	5.1	6.3	6.3	6.4	6.6	4.5	6.7	6.8
GDP at factor const	1148.6	1100.0	125.9	132.9	125.9	158.6	154.4	145.7	1100.0	1163.4	1166.4

Sources: 1977-1986 from World Bank Economic Memorandum NO 6785-CH of October 1987.

1987 Estimated by the Ministry of Planning and Cooperation.

1988-1989 Projected by the World Bank.

* Arithmetical average of 1977-1979 figures.

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TABLE 2

CHAD - CENTRAL GOVERNMENT RECURRENT BUDGET EXPENDITURES BY FUNCTION
(Millions CFAF; Actual Expenditures)

	1983	1984	1985	1986	1987	Budgetted	
						1988	1989
TOTAL	11,465	22,243	23,805	23,371	24,946	25,614	40,145
Salaries (civilian)	6,599	6,294	8,238	9,482	10,160	11,344	18,751
Central Administration	6,180	5,756	6,572	7,936	9,720	10,744	17,786
Foreign Service	147	169	385	403	400	560	898
General Staff Expenses	272	369	1,281	1,143	40	40	70
Goods and Services	3,322	2,418	4,750	2,747	3,470	3,900	7,732
Central Administration	1,184	767	1,511	477	1,777	2,586	5,339
Embassies	220	272	577	549	397	475	582
General Supplies	392	656	1,176	783	364	195	1,811
Building Maintenance	321	89	309	75	199	198	NA
Emergency Action Fund	53	21	115	444	431	254	NA
Miscellaneous	1,152	613	1,062	419	302	192	NA
Military (salaries/supplies)	2,050	9,000	9,397	8,649	9,056	9,000	10,000
Counterpart Funds (1)	0	0	593	635	1,907	0	2,000
Transfers	980	972	1,500	1,211	1,341	1,370	1,660
Scholarships	61	122	247	487	368	400	550
Contributions to Organizations	210	303	924	664	895	960	1,100
Pensions (2)	683	262	329	NA	NA	NA	NA
Other	26	279	0	60	78	10	10
Other	(1,486)	3,559	(673)	647	(988)	0	0

Source: IMF Report No. EBS/87/209 with data as of July 1987; World Bank Report No. 6785-CH, October 1987, with data as of November 1986; and Ministry of Finance, Central Treasury. All capital expenditures have been externally financed. Expenditures exclude foreign debt and debt servicing by CAA.

(1) 1985-86 counterpart to AID budget support; 1987 counterpart to IDA lending; 1989 counterpart to all investment projects.

(2) Pension data for 1986-89 have not yet been disaggregated from salary data.

TABLE 3

CHAD - CENTRAL GOVERNMENT RECURRENT BUDGET EXPENDITURES BY MINISTRY
(Millions CFAF)

MINISTRY/FUNCTION	1986 Actual		1987 Actual		1988 Budget		1989 Budget	
	Salaries	Supplies	Salaries	Supplies	Salaries	Supplies	Salaries	Supplies
Administration:								
Presidency	2,691.6	209.9	2,537.2	426.1	2,766.1	463.7	4,548.1	477.9
Government Secretariat	65.7	13.7	147.1	358.2	87.6	365.1	190.4	195.2
Nat'l. Advisory Council	112.1	6.4	129.0	24.7	141.6	34.1	134.2	36.5
Planning/Cooperation	64.0	2.0	86.5	27.1	110.1	22.4	218.0	35.1
Information	163.6	52.9	164.1	85.3	223.5	90.2	324.3	241.3
Audit/Inspection	97.5	10.7	119.1	38.7	122.2	45.0	150.2	62.0
Ministry of State	--	--	12.0	4.5	12.0	4.4	10.1	5.2
Foreign Affairs	86.4	423.6	152.2	478.1	692.6	518.2	898.3	582.1
Finance/Data Processing	469.7	521.6	658.7	346.6	628.9	381.6	1,162.1	556.9
Civil Service	42.1	0.9	53.0	13.2	82.9	23.0	142.2	24.6
Justice	146.8	66.2	198.3	119.1	197.9	123.7	316.9	130.6
Interior	1,363.0	265.8	1,621.1	254.2	1,467.9	270.5	2,195.4	622.4
Defense	7,000.0	1,400.0	7,000.0	2,000.0	7,943.7	1,056.3	8,072.1	1,927.9
Sub-Total	12,302.5	2,973.7	12,878.3	4,175.8	14,477.0	3,398.2	18,362.3	4,897.7
Services:								
Education	1,895.8	102.1	2,567.5	115.7	2,337.7	110.4	4,224.3	387.0
Public Health	547.1	69.3	617.4	122.3	701.3	181.8	1,289.7	334.8
Social Affairs	87.0	--	106.8	22.7	129.6	23.7	203.8	147.0
Labor	29.1	2.0	45.2	13.3	42.3	19.2	61.6	21.4
Food Security	39.2	--	44.8	11.0	38.1	17.9	44.2	18.9
Agriculture	371.2	38.4	470.0	75.5	445.0	68.4	902.6	1,083.8
Livestock/Irrigation	240.3	14.6	316.0	39.6	307.8	36.5	417.4	366.5
Tourism/Environment	211.8	4.6	243.2	42.8	224.3	49.6	308.6	167.2
Culture/Youth/Sports	--	--	194.1	53.2	147.7	53.4	284.3	79.4
Commerce/Industry	60.3	--	73.4	17.1	93.0	27.5	163.9	28.9
Mines/Energy	--	--	58.9	23.5	57.0	28.2	85.8	27.3
Public Works	169.1	12.2	170.2	62.3	175.7	70.3	295.8	239.2
Post/Telecommunications	20.1	--	30.3	9.5	30.8	8.2	45.8	8.2
Transportation	28.0	--	37.0	7.0	39.5	9.4	65.8	40.4
Transfers (1)	1,120.0	--	1,490.0	--	1,370.0	--	1,660.0	--
Interministerial	--	3,032.6	--	811.6	40.0	854.3	70.0	3,811.7
Sub-Total	4,819.0	3,275.8	6,464.8	1,427.1	6,179.8	1,558.8	10,123.6	6,761.7
Total	17,121.5	6,249.5	19,343.1	5,602.9	20,656.8	4,957.0	28,485.9	11,659.4

Source: Ministry of Finance & Data Processing, Budget Office. 1986-1987 data are actual expenditures. 1988-1989 are on a commitment basis.

(1) Mix of salaries and supplies in contributions to international organizations, and subsidies to local schools, scholarships and social organizations.

TABLE 4

CHAD - CENTRAL GOVERNMENT RECURRENT BUDGET PLUS FOREIGN DEBT FUND
(Millions CFAF)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Total Revenues	8,495	18,266	21,341	16,836	19,093	22,304	29,281
Tax Revenue	6,089	13,076	15,916	12,675	12,368	16,255	21,363
Of which Export Duties	281	2,739	3,365	106	133	493	477
Non-tax Revenue	2,030	3,452	4,117	2,590	2,484	2,205	3,307
Foreign Debt Fund (CAA)	376	1,738	1,308	1,571	4,241	3,844	4,611
Expenditures	12,763	23,456	24,958	24,086	26,560	28,652	44,756
Recurrent Budget	11,465	22,243	23,805	23,371	24,946	25,614	40,145
Foreign Debt Fund	1,298	1,213	1,153	715	1,614	3,038	4,611
Deficit (Commitment Basis)	(4,268)	(5,190)	(3,617)	(7,250)	(7,467)	(6,348)	(15,475)
Change in Arrears	802	518	691	700	(805)	(5,104)	(750)
Domestic	202	107	1,008	535	(648)	(1,500)	(750)
External	600	411	(317)	165	(157)	(3,604)	
Cash Deficit	(3,466)	(4,672)	(2,926)	(6,550)	(8,272)	(11,452)	(16,225)

Source: IBRD Report No. 6785-CH of October 1987, and IMF No. EBS/87/209 of October 1987.
1983-1987 are actual expenditures, 1988-1989 are budget commitments.

TABLE 5

CHAD - CENTRAL GOVERNMENT RECURRENT BUDGET REVENUE
(Million CFAF)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
TOTAL REVENUE (1)	20,033	15,265	14,852	18,460	24,670
TAX REVENUE	15,916	12,675	12,368	16,255	21,363
On Income & Profit	3,050	3,021	3,197	2,695	3,705
Individuals	2,088	2,087	1,663	1,640	2,210
Corporate	962	934	1,534	1,050	1,410
Late Penalties	--	--	--	5	85
Employer's Payroll	536	391	306	440	601
On Goods & Services	3,707	3,124	3,479	3,485	5,320
Domestic Turnover	1,342	997	927	945	1,780
Unitary Tax (2)	1,402	976	1,450	2,000	2,000
Registration Fees	168	224	225	260	442
Stamps	243	205	237	280	300
Other	552	722	640	--	798
Civic/Poll Tax	--	703	748	1,000	1,200
International Trade	8,623	5,436	4,614	7,355	9,037
Imports	5,540	5,757	4,130	6,785	8,343
Exports	3,365	106	133	493	477
Parastatal Profits(3)	(282)	(427)	351	77	217
Other	--	--	24	1,280	1,500
NON-TAX REVENUE	4,117	2,590	2,484	2,205	3,307
Property Rents	241	171	102	202	300
Administrative Fees	107	147	419	304	455
Non-Industrial Sales(4)	629	591	470	1,031	1,776
Central Bank Profit	1,008	641	261	540	240
Other (5)	2,132	1,040	785	128	536

Source: IBRD Report No. 6785-CH of October 1987; Ministry of Finance, General Treasury; and Budget Documents for 1988-1989. Actual revenues for 1985-1987, projections for 1988-1989.

(1) Does not include off-budget revenues of the Foreign Debt Fund shown in Table 4.

(2) Includes consumption and petroleum taxes.

(3) On trade aspects only.

(4) Includes government services.

(5) Includes fines, exchange rate guarantee, etc.

TABLE 0

CHAD - FINANCING THE CENTRAL GOVERNMENT CASH DEFICIT
(Millions CFAF)

	1983	1984	1985	1986	1987	Budgetted	
						1988	1989
FINANCING REQUIRED (1)	3,466	4,672	2,926	6,550	8,272	11,452	16,225
NET EXTERNAL FINANCING	3,928	2,836	3,988	5,077	10,099	7,434	8,662
Budgetary Support	3,928	2,971	4,387	6,320	11,999	7,600	9,900
France	3,928	1,990	3,925	5,000	3,010	5,500	7,500
USAID	--	981	462	572	1,590	2,100	2,400
Other (2)	--	--	--	748	7,399	NA	NA
Debt Relief (3)	--	--	--	--	748	960	NA
Amortization (4)	--	(135)	(399)	(1,243)	(2,648)	(1,126)	(1,238)
NET DOMESTIC FINANCING	(462)	1,836	(1,062)	1,473	(1,827)	(6,687)	(1,351)
Banking System	(1,176)	1,200	(2,016)	1,631	(1,345)	(1,719)	(1,351)
Central Bank	(1,143)	1,359	(2,042)	1,592	(1,205)	(1,719)	NA
IMF (net)	468	(1,015)	1,185	(509)	(36)	(341)	NA
SDR Advance	--	2,003	(1,118)	(691)	--	NA	NA
Credit Ceiling Adv.	(955)	1,981	(2,186)	2,238	(545)	NA	NA
Deposits	(656)	(1,610)	77	554	(624)	NA	NA
Commercial Banks	(33)	(159)	26	39	(140)	--	NA
Non-Banking Sector	714	636	954	(158)	(482)	(4,968)	
FINANCING SHORTFALL	--	--	--	--	--	(5)	914
						10,705	

Source: IMF Report No. EBS/87/209 of October 1987; Ministry of Finance, General Treasury Documents for 1988 & 1989; World Bank Report No. P-4806-CD, July 1988, Table 1.

(1) Table 4.

(2) Includes loan proceeds from import reimbursement projects such as the World Bank's Financial Rehabilitation Program, and others.

(3) On scheduled interest and amortization payments.

(4) On a cash basis, including change in arrears.

(5) Payment of interest on rescheduled arrears of COTONTCHAD.

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TABLE 7

CHAD - BALANCE OF PAYMENTS
(Millions US dollars)

	1983	1984	1985	1986	1987	--- (Projected) ---	
						1988	1989
Trade Balance	(32.2)	15.7	(73.1)	(107.5)	(149.0)	(158.4)	(162.6)
Exports	73.8	131.3	85.6	98.6	109.6	139.6	132.4
of which: cotton fiber	59.0	97.0	44.5	42.4	42.8	67.1	62.6
Imports	106.0	115.6	158.7	206.1	258.6	298.0	295.0
Non-factor Services	(24.2)	(42.4)	(110.1)	(129.8)	(148.1)	(161.5)	(147.1)
Receipts	36.6	35.3	36.2	43.7	55.0	61.3	53.2
Payments	60.8	77.7	146.3	173.5	203.1	222.8	200.3
Factor Services	(7.0)	(9.1)	(7.0)	(9.2)	(11.9)	(13.0)	(11.3)
Receipts	0.4	0.4	0.3	3.5	2.3	2.7	4.3
Payments	7.4	9.5	7.3	12.7	14.2	15.7	15.6
of which: interest	4.7	3.7	3.1	3.6	4.6	5.9	4.9
Transfers	87.4	49.2	58.2	69.1	226.5	249.5	51.8
Private (net)	(6.4)	(2.1)	(9.5)	(7.7)	(11.8)	(6.4)	(19.3)
Public (net)	93.8	51.3	68.1	76.8	238.2	257.9	71.1
food aid	11.8	21.6	49.0	17.2	19.8	37.0	14.4
budget support	9.8	15.3	12.6	20.4	29.8	31.7	32.4
other	72.2	14.4	7.6	39.2	168.6	159.3	24.3
Current Account Balance	24.0	13.4	(132.0)	(177.4)	(82.5)	(83.4)	(249.2)
CAB excl. public transfers	(69.6)	(37.9)	(200.1)	(254.2)	(320.8)	(341.3)	(340.3)
Official Capital Grants	0.0	27.6	43.3	33.5	74.8	118.0	161.9
Direct Investment	(1.1)	7.3	53.4	33.3	4.0	4.0	0.0
of which: Esso	0.0	7.4	53.7	35.5	NA	NA	NA
Medium- and Long-term Lending (net)	(1.8)	(1.0)	14.1	17.8	76.4	100.0	99.7
Disbursement	2.5	3.9	19.6	23.9	82.4	106.0	103.4
Amortization	4.3	4.9	5.5	6.1	6.0	6.0	3.7
Short-Term Lending (net)	(15.7)	(32.6)	(5.9)	18.4	(5.7)	14.0	0.0
Errors and Omissions				5.0			
Exchange Rate Guarantees	3.2	4.8	2.7	0.0	0.0	0.0	0.0
Change in Net Reserves	8.6	19.5	(24.4)	(74.4)	66.9	152.6	(7.6)
Change in Arrears	6.5	3.9	2.4	3.0	2.0	0.4	0.0

(1) Source: IBRD Report NO 6765 of October 1987; Ministry of Planning, Directorate of Statistics, Economic and Population Studies.

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TABLE 8

CHAD - GOVERNMENT MINISTRIES ELIGIBLE FOR U.S. BUDGET SUPPORT

Ministerial Department	N'DJAMENA		PROVINCES		TOTAL	
	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)
Posts and Telecommunications	13	1,468,588	6	351,000	19	1,839,588
National Consultative Committee	45	9,719,213	0	0	45	9,719,213
Labor	57	3,211,671	7	161,619	64	3,373,290
Food Security and Disaster Victims	55	2,544,554	0	0	55	2,544,554
Transportation and Civil Aviation	45	2,787,431	0	0	45	2,787,431
Social Affairs and Advancement of Women	206	6,276,074	125	2,168,762	331	8,444,836
General Secretariat of the Government	155	7,249,165	0	0	155	7,249,165
Culture, Youth and Sports	59	3,439,236	206	7,361,047	265	10,800,283
General Inspection and State Control	126	10,951,239	0	0	126	10,951,239
Mines and Energy	86	4,167,883	0	0	86	4,167,883
Commerce and Industry	122	7,004,642	7	181,799	129	7,186,441
Agriculture	552	19,940,649	724	14,038,255	1,276	33,978,904
Planning and Cooperation	141	7,907,699	0	0	141	7,907,699
Information	301	18,426,654	21	425,656	322	18,852,310
Finance and Data Processing	694	41,144,648	1,985	44,952,952	2,569	86,097,600
National Education	1,326	50,395,775	3,876	102,806,507	5,202	153,202,282
Tourism and Environmental Protection	537	10,197,992	542	6,115,052	1,079	16,313,044
Livestock and Pastoral Water Supply	370	13,603,218	501	11,156,931	871	24,760,149
Public Works	362	11,237,560	118	1,558,024	460	12,795,584
Civil Service	92	4,172,077	5	178,200	97	4,350,277
Public Health	752	22,114,045	1,908	34,122,948	2,660	56,236,993
Justice	232	12,102,191	404	4,054,910	636	16,157,101
TOTAL	6,318	270,082,604	10,335	229,633,662	16,653	499,716,266

Source: Ministry of Finance and Data Processing, Budget Office -- August 1988 Payroll.

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SC(1) - COUNTRY CHECKLIST

ANNEX B.1.

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b).
Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?
2. FAA Sec. 4E1(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are

No

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laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

N/A

3. 1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

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government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

N/A

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

No

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided

- either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? No
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No, agreement signed May 12, 1965
9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? N
10. FAA Sec. 620(o); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? No
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of

Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the Administrator at time of approval of Agency OYB.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?
15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

No

Not in arrears

No

No

No

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Yes, Chad appears to have been present and has not entered a written or oral reservation.
Yes, it was taken into account by the Administrator at time of approval of Agency OYB.
21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No

22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

NO

N/A

23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

N/A

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

ANNEX B.2.

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

Yes.

Completed by AID/W.

A: GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

The program was presented to the Congress in the 1989 Congressional Presentation.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No legislative action within Chad is required.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Not applicable to this budgetary support program.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
Government of Chad efforts to improve its credit worthiness and standing with the international lending community should eventually contribute to increased international trade.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
Not applicable to this budgetary support program, except to extent that computer services contract will be awarded to U.S. company.
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.
Virtually all program expenses will be paid from the cash transfers not from U.S.-owned currency.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
Not applicable to this budgetary support program to be used to pay civil service salaries.
9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?
N/A. ESF funded.
10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?
Conditionality will lead to data allowing determination in this area.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? **Yes.**
- b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? **No. Military or paramilitary uses are prohibited.**
- c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? **Not applicable to this budgetary support program.**
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? **Not applicable to this budgetary support program.**
- e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA **Assistance is \$8 million. (a) Funds will be deposited in a special account and not commingled. (b) CFA francs will be deposited into a special account for purposes agreed to by AID.**

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would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? (c) Yes.

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a).
Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The program is designed to assist with salary payments to persons working in economic development oriented ministries.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

N/A.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

A central focus of the program conditionality is to help the country develop proper civil service procedures, improve civil service efficiency and thereby improve implementation of public and private development activities, and strengthen the skills of public employees.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

(a) Activity has been designed to support economic assistance programs sponsored by other organizations such as the World Bank, the IMF, the African Development Bank, the Government of France. In particular, the program complements Chad's Structural Adjustment Program.

(b) Yes.

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c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

N/A.

d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Not applicable to this budgetary support program.

e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The program is designed primarily to assist with salary payments to persons working in development ministries.

f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

ANNEX C

TRADUCTION OFFICIEUSE

PROGRAM GRANT AGREEMENT
BETWEEN
THE REPUBLIC OF CHAD
("GRANTEE")
AND
THE UNITED STATES OF AMERICA
("DONOR")
ACTING THROUGH THE
AGENCY FOR INTERNATIONAL
DEVELOPMENT
("A.I.D.")
FOR
BUDGETARY SUPPORT FOR DEVELOPMENT
MINISTRIES IV
A.I.D. PROJECT NO 677-0061

ACCORD DE SUBVENTION DE PROJET
ENTRE
LA REPUBLIQUE DU TCHAD
("LE DONATAIRE")
ET
LES ETATS-UNIS D'AMERIQUE
("LE DONATEUR")
REPRESENTES PAR
L'AGENCE POUR LE DEVELOPPEMENT
INTERNATIONAL
("L'A.I.D.")
POUR L'AIDE BUDGETAIRE
AUX MINISTERES PHASE IV
PROJET AID No. 677-0061

DATE:

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PROGRAM GRANT AGREEMENT

BETWEEN

THE REPUBLIC OF CHAD

("THE GRANTEE")

AND

THE UNITED STATES OF AMERICA
ACTING THROUGH THE AGENCY FOR
INTERNATIONAL DEVELOPMENT

("A.I.D.")

FOR

BUDGETARY SUPPORT FOR DEVELOPMENT
MINISTRIES IV

PROJECT NO. 677-0061

ACCORD DE SUBVENTION DE PROJET

ENTRE

LA REPUBLIQUE DU TCHAD
("LE DONATAIRE")

ET

LES ETATS-UNIS D'AMERIQUE
REPRESENTES PAR
L'AGENCE POUR LE DEVELOPPEMENT
INTERNATIONAL
("L'A.I.D.")

POUR LE PROJET

AIDE BUDGETAIRE AUX MINISTERES
PHASE IV

PROJET NO. 677-0061

ARTICLE 1 - LA SUBVENTION

ARTICLE 1: THE GRANT

The United States pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement the local currency equivalent (CFA francs) of not to exceed eight million United States dollars (\$8,000,000) (the "Grant") to promote the economic and political stability of Chad. It is planned that the Grant will be made available to the Grantee in two equal tranches upon the satisfaction of the applicable conditions precedent to disbursement.

ARTICLE 2: ESTABLISHMENT OF
SEPARATE ACCOUNTS

(A) The Grantee will establish a special interest bearing

Dans le but de promouvoir la stabilité économique et politique en République du Tchad, conformément à la loi d'Aide à l'Etranger de 1961, telle qu'elle a été amendée, aux termes du présent Accord, les Etats-Unis d'Amérique conviennent d'octroyer au Donataire une somme en FCFA équivalente à 8.000.000 (huit millions) de dollars américains ("La Subvention"). Il est prévu que la Subvention sera octroyée au Donataire en deux tranches approximativement égales une fois que seront remplies les conditions préalables aux déboursements des fonds.

ARTICLE 2 - OUVERTURE DE COMPTES
SEPARES

(A) Le Donataire ouvrira un compte porteur d'intérêt dans lequel sera déboursée la Subvention (Compte de Déboursement). L'intérêt perçu sur ce compte sera également

account into which the Grant will be disbursed (Disbursement Account). Interest earned on this account will also be used for budget support. Funds in this account shall not be commingled with any other funds.

(B) In addition, the Grantee will establish a Special Account in the Central Bank of Chad and deposit therein currency of Chad in amounts equal to the amount disbursed into and interest accrued on the account described in (A) above (Disbursement Account). Funds in the Special Account may be used to defray budget salary expenses and other costs of the civilian ministries listed in the Amplified Program Description (Annex 1) only, and for such other purposes as are mutually agreed upon by A.I.D. and the Grantee. Funds in the Special Account shall not be commingled with any other funds.

ARTICLE 3: CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.1: First Disbursement

Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(A) A statement of the names and titles of the persons who will act as representatives of the Grantee under Section 7.2.,

utilisé pour l'aide budgétaire. Les fonds dans ce compte ne seront pas associés à tout autre fonds.

(B) En plus, le Donataire ouvrira un Compte Spécial auprès de la Banque Centrale du Tchad et y déposera les montants en monnaie locale équivalents au montant déboursé et à l'intérêt accumulé dans le cadre du compte ci-dessus défini en (A) (Compte de Déboursement). Les fonds du Compte Spécial peuvent être utilisés pour couvrir les dépenses budgétaires relatives aux salaires et aux autres frais de fonctionnement des Ministères énumérés dans la Description Elargie du Programme (Annexe 1) uniquement, et à d'autres fins qui seront mutuellement convenues par l'A.I.D. et le Donataire. Les fonds dans ce compte ne seront pas associés à tout autre fonds.

ARTICLE 3 - CONDITIONS PREALABLES AU VERSEMENT

Section 3.1: Premier Versement

Avant d'effectuer tout versement au titre de la Subvention, ou avant l'émission par l'A.I.D. des documents permettant ce versement, le Donataire devra, sauf disposition contraire des parties convenue par écrit, fournir à l'A.I.D. les pièces justificatives ci-après, qui devront satisfaire l'A.I.D. tant dans la forme que dans le fonds:

(A) Une liste des noms et titres des personnes qui agiront en qualité de représentants du Donataire en vertu de la Section 7.2, et un spécimen de la signature de chaque personne figurant sur ladite liste;

together with a specimen signature of each person named in such statement;

(B) A statement designating the bank and account number of the Disbursement Account required by Article 2(A);

(C) A statement from the Central Bank of Chad confirming that the Special Account required by Article 2(B) has been opened in the name of the Government of Chad and specifying the number of the account;

(D) The preliminary findings of the Interministerial Commission, created in 1988 to analyze all available data on the Grantee's civilian work force, along with the Commission's recommendations for improving the work force effectiveness and a plan for implementing those recommendations;

(E) A request for short term technical assistance (provided at the expense of A.I.D. and not out of the Grant) to the Technical Sub-Commission of the Interministerial Commission, to assist in planning for improved efficiency in the civil service, including the development of systems for the Grantee's use in estimating the medium and long term needs of its civil service;

(F) Evidence that the Grantee has provided the Ministry of Civil Service with the financial and material resources necessary for fulfillment of the

(B) Un état indiquant la raison sociale de la Banque et le numéro du Compte de Déboursement, tel que l'exige l'Article 2(A);

(C) Une déclaration de la Banque Centrale du Tchad confirmant que le Compte Spécial, tel que l'exige l'Article 2 (B), a été ouvert au nom du Gouvernement de la République du Tchad, et précisant le numéro du compte;

(D) Les constatations préliminaires de la Commission Interministérielle créée en 1988 pour analyser toutes les données disponibles concernant les agents de l'état donataire, en même temps que les recommandations de la Commission en vue d'améliorer l'efficacité des agents de l'état et un plan de mise en oeuvre de ces recommandations.

(E) Une demande d'Assistance Technique à court terme (octroyée aux frais de l'AID et en dehors de la Subvention) en faveur de la Sous-Commission Technique de la Commission Interministérielle, en vue d'aider à planifier pour une meilleure efficacité de la fonction publique, y compris l'élaboration de systèmes à l'usage du Donataire pour évaluer les besoins à moyen et long termes de la fonction publique.

(F) La preuve que le Donataire a mis à la disposition du Ministère de la Fonction Publique les

responsibilities of said Interministerial Commission; and

(G) An initial utilization plan specifying the purpose, estimated amount and timing of the proposed release of funds from the Special Account by the Grantee, to include a line item which provides for adequate and appropriate annual maintenance of the facilities and equipment of the rehabilitated computer center of the Grantee's Ministry of Finance and Data Processing.

Section 3.2: Subsequent Disbursement

Prior to disbursement of the second tranche under the Grant, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(A) A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for a subsequent period not to exceed three months;

(B) An interim utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of first tranche funds from the Special Account; and

(C) Evidence that the Grantee has outlined a plan for the

ressources nécessaires à l'acquittement des responsabilités de ladite Commission Interministérielle.

(G) Un plan d'utilisation initial des fonds précisant l'objet, le montant estimatif et les dates pour le déblocage des fonds du Compte Spécial envisagé par le Donataire, devant inclure un poste budgétaire qui prévoit une maintenance annuelle suffisante et appropriée des installations et équipements du centre informatique réhabilité au Ministère des Finances et de l'Informatique du Donataire.

Section 3.2: Versement Subséquent

Avant le versement de la deuxième tranche au titre de la Subvention, ou avant l'émission par l'A.I.D. de documents en vertu desquels s'effectuera le versement, le Donataire devra, sauf disposition contraire des parties convenue par écrit, fournir à l'A.I.D. les pièces justificatives ci-après, que celle-ci trouvera satisfaisantes tant dans la forme que dans le fond:

(A) Un plan d'utilisation des fonds ultérieurs, précisant l'objet, le montant et les dates de paiement envisagés pour les fonds issus du Compte Spécial pour une période subséquente n'excédant pas trois mois;

(B) Un rapport d'utilisation intérimaire certifié par le Ministre des Finances et de l'Informatique et par le Ministère Délégué à la Présidence de la République Chargé de l'Inspection Générale et du Contrôle d'Etat portant sur l'usage effectif de la première tranche de fonds tirée du Compte Spécial; et

development of an overall training program for the civil service, to include development and expanded use of the National Public Administration School.

Section 3.3: Notification

When A.I.D. has determined that the conditions specified in Sections 3.1 and 3.2 have been met, it will promptly notify the Grantee.

Section 3.4: Terminal Date for Conditions Precedent

If all the conditions specified in Section 3.1 have not been met within 30 days from the date of this Agreement, or such later date as agreed upon by the parties in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE 4: DISBURSEMENT

Section 4.1: Disbursement of the Grant

After satisfaction of the conditions precedent, the Grantee may request A.I.D. to disburse funds under the Grant. After review and approval of the documentation submitted by the Grantee, A.I.D. will deposit the funds in the Disbursement Account.

Section 4.2: Date of Disbursement

Disbursement of funds by A.I.D. will be deemed to occur on the date A.I.D. deposits the funds in accordance with Section 4.1.

Section 4.3: Exchange Rate

(C) La preuve que le Donataire a dressé le canevas d'un plan pour l'élaboration d'un programme de formation global pour la fonction publique, en vue d'y inclure le développement et un vaste recours à l'Ecole Nationale d'Administration et de Magistrature.

Section 3.3: Notification

Quand l'A.I.D. aura établi que les conditions spécifiées dans les Sections 3.1 et 3.2 auront été remplies, elle le notifiera sans tarder au Donataire.

Section 3.4: Date Limite pour les Conditions Préalables

Si toutes les conditions spécifiées dans la Section 3.1. n'ont pas été remplies dans un délai de 30 jours à compter de la date du présent Accord, ou d'une date ultérieure convenue par écrit entre les parties, l'A.I.D. peut, à son gré, résilier l'Accord en le notifiant par écrit au Donataire.

ARTICLE 4 - DEBOURSEMENT

Section 4.1: Versement de la Subvention

Après avoir satisfait aux conditions préalables, le Donataire peut demander à l'A.I.D. de débloquer les fonds au titre de la Subvention. Après examen et approbation de la documentation présentée par le Donataire, l'A.I.D. déposera les fonds dans le Compte de Déboursement.

Section 4.2: Date de Versement

La date de versement sera la date de dépôt des fonds par l'A.I.D., conformément à la Section 4.1.

The rate of exchange that will be used to compute the amount of CFA francs to be disbursed in each tranche will be the actual rate at which the U.S. Treasury procures the CFA francs for that tranche.

ARTICLE 5: COVENANTS

Section 5.1: Completeness of Information

The Grantee confirms:

(A) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Grant, are accurate and complete, and include all facts and circumstances that might materially affect this Grant and the discharge of responsibilities under this Agreement; and

(B) That it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Grant.

Section 5.2: Books and Records

The Grantee shall maintain and cause recipients of funds from the Disbursement Account and the Special Account to maintain, in accordance with generally accepted accounting principles and practices

Section 4.3: Taux de Change

Le taux de change à utiliser pour calculer le montant en francs FCFA à virer pour chaque tranche sera le taux réel utilisé par le Trésor des Etats-Unis pour se procurer des francs CFA destinés à cette tranche.

ARTICLE 5 - CLAUSES

Section 5.1: Fiabilité de l'Information

Le Donataire confirme:

(A) Que les faits et circonstances dont il a informé ou a fait informer l'A.I.D., avant d'arriver à un accord avec celle-ci sur cette Subvention, sont fiables et complets, et comprennent tous les faits et toutes les circonstances qui pourraient avoir un effet matériel sur la présente Subvention et sur l'acquittement des obligations dans le cadre du présent Accord; et

(B) Qu'il informera l'A.I.D. en temps opportun de tout fait ou de toute circonstance ultérieure(e) qui pourrait avoir un effet matériel, ou que l'on est en droit de penser qu'il ou elle aura un tel effet, sur la Subvention ou l'acquittement des obligations dans le cadre du présent Accord.

Section 5.2: Livres Comptables et Documents

Le Donataire devra tenir et faire tenir par les bénéficiaires des fonds du Compte de Déboursement et du Compte Spécial, conformément

consistently applied, books and records relating to the Disbursement Account and the Special Account. The Grantee shall grant or cause such recipients to grant to A.I.D. or any of its authorized representatives the right to inspect such books and records at all times as A.I.D. may reasonably require. Such books and records shall be maintained for three years after the date of last disbursement by A.I.D. under the Grant.

Section 5.3: Refunds

In the case of any release of funds under the Disbursement Account or the Special Account which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such funds to the Disbursement Account or the Special Account within ninety (90) days after receipt of a request therefor.

Section 5.4: Special Covenants

(A) The Agreement and the Special Account will be free from any taxation, duties or fees imposed under the laws in effect in Chad.

(B) The Special Account will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or military, paramilitary or police requirements of any kind,

aux principes de comptabilité généralement admis et aux pratiques concrètement appliquées, tous les livres comptables et documents ayant trait au Compte de Déboursement et au Compte Spécial. Le Donataire devra accorder ou faire accorder par ces bénéficiaires, à l'A.I.D. ou à tout représentant légal, le droit de consulter ces livres et documents chaque fois que l'A.I.D. le demandera à juste titre. Ces livres et documents devront être tenus pendant trois ans après la date du dernier versement par l'A.I.D. des fonds alloués au titre de la Subvention.

Section 5.3: Remboursements

Lorsqu'un déblocage de fonds à partir du Compte de Déboursement ou du Compte Spécial n'est pas justifié par une documentation valide conformément au présent accord, ou lorsqu'il est effectué, ou que les fonds sont utilisés, contrairement à l'accord, l'A.I.D. peut, nonobstant la validité ou l'exercice de tout autre recours dans le cadre du présent Accord, solliciter du Donataire le remboursement de ces fonds au Compte de Déboursement ou au Compte Spécial dans un délai de quatre vingt-dix jours (90) jours après réception d'une requête à cet effet.

Section 5.4: Clauses Particulières

(A) L'Accord et le Compte Spécial seront exempts de droits et taxes imposés dans le cadre de la législation tchadienne en vigueur.

(B) Le Compte Spécial ne sera pas utilisé pour le financement de biens de

including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to the military or police.

(C) Except as the parties may otherwise agree in writing, not later than three months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., a final utilization report certified by the Minister of Finance and Data Processing and the Minister Delegate at the Presidency of the Republic in Charge of General Inspection and State Control setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of interim utilization reports, previously submitted to A.I.D. under Section 3.2.

(D) The Grantee will provide A.I.D. with copies of the Operating and Investment Budgets for 1989 and 1990, including any recurrent cost studies of these budgets and any studies of the recurrent costs associated with individual development projects, as soon as these documents are available.

(E) The Grantee will furnish to A.I.D. such other reports and information relating to the Grant and the Special Account, the Operating and Investment Budgets of the Grantee, and the performance of the Grantee's

luxes, d'équipements d'avortement, d'équipements de jeu ou d'instrument de changement météorologique, ou pour le financement de besoins militaires, para-militaires ou de police, y compris l'acquisition de biens ou de services devant être utilisés par l'armée ou la police, ou encore pour payer le principal ou les intérêts de prêts accordés à l'armée ou à la police.

(C) Sauf disposition contraire des parties convenue par écrit dans les trois mois suivant la date du dernier versement au titre de la Subvention, le Donataire remettra à l'A.I.D. un rapport final d'utilisation que celle-ci trouvera satisfaisant tant dans la forme, que dans le fond, certifié conforme par le Ministre des Finances et de l'Informatique et le Ministre Délégué à la Présidence de la République Chargé de l'Inspection Générale et du Contrôle d'Etat, exposant l'emploi effectif de tous les fonds débloqués du Compte Spécial. Le rapport final d'utilisation peut englober l'essentiel des rapports d'utilisation intérimaires préalablement présentés à l'A.I.D. au titre de la Section 3.2.

(D) Le Donataire remettra à l'A.I.D. des copies des Budgets de Fonctionnement et d'Investissement pour 1989 et 1990, y compris les implications de ces budgets en matière de charges récurrentes, et de toute étude des charges récurrentes en rapport avec ces projets de développement, dès que ces documents seront disponibles.

(E) Le Donataire remettra à

obligations under this Agreement as A.I.D. may reasonably request

ARTICLE 6: TERMINATION AND REMEDIES

Section 6.1: Termination

This Agreement may be terminated by mutual agreement of the parties at any time. Either party may terminate this agreement by giving the other party thirty (30) days written notice. Termination of the Agreement will terminate any obligations of the parties with respect to funds not yet disbursed under the Grant but shall not affect obligations of the parties with respect to funds already disbursed at the time of such termination.

Section 6.2: Suspension

If at any time:

(A) The Grantee shall fail to comply with any provision of this Agreement; or

(B) Any representation or warranty made by or on behalf of the Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(C) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purposes of this Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

l'A.I.D. tout autre rapport et informations relatifs à la Subvention et au Compte Spécial, aux Budgets de Fonctionnement et d'Investissement du Donataire, et à l'acquittement des obligations du Donataire au titre du présent Accord qui lui seront à juste titre demandés par l'A.I.D..

ARTICLE 6 - RESILIATION ET RECOURS

Section 6.1: Résiliation

Le présent Accord peut être résilié à tout moment par consentement mutuel des parties. Chaque partie peut résilier cet Accord en donnant par écrit un préavis de trente (30) jours à l'autre partie. La résiliation de cet Accord mettra fin à toutes les obligations des parties en ce qui concerne les fonds non encore versés dans le cadre de la Subvention, mais n'aura aucun effet sur les obligations des parties en ce qui concerne les fonds déjà débloqués à la date de la résiliation.

Section 6.2: Suspension

Dans le cas où, et ce à n'importe quel moment:

(A) Le Donataire ne parvient pas à se conformer à toute disposition du présent Accord; ou bien

(B) Toute représentation ou garantie faite par le Donataire, ou en son nom, en ce qui concerne l'obtention de la présente Subvention, soit faite, soit exigée dans le cadre de cet Accord, est erronée du point de vue matériel; ou

(D) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.,

Then A.I.D. may suspend or cancel this agreement.

Section 6.3: Cancellation by A.I.D.

If, within sixty (60) days from the date of any suspension pursuant to Section 6.2, the cause or causes thereof have not been corrected, then A.I.D. may cancel any part of this Grant that is not then disbursed or irrevocably committed to third parties.

Section 6.4: Non-waiver of Remedies

No delay in exercising or omitting to exercise, any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers, or remedies.

ARTICLE 7: MISCELLANEOUS

Section 7.1: Implementation Letters

From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

(C) Il survient une occurrence que l'A.I.D. retient comme étant une situation exceptionnelle qui rend improbable soit la réalisation des objectifs du présent Accord soit la capacité du Donataire à s'acquitter de ses obligations dans le cadre du présent Accord; ou

(D) Tout versement de fonds par l'A.I.D. serait en violation de la législation régissant l'A.I.D.

L'A.I.D. est alors en droit de suspendre ou de résilier le présent Accord.

Section 6.3: Résiliation par l'A.I.D.

Si, dans les soixante (60) jours suivant la date de la résiliation conformément à la Section 6.2, il n'a pas été remédié à la (ou aux) cause(s) de cette résiliation, l'A.I.D. peut alors résilier toute partie de cette Subvention qui n'est pas versée ou irrévocablement engagée envers de tierces parties.

Section 6.4: Droit de Recours

Aucun retard intervenu dans l'exercice ou en omettant d'exercer tout droit, pouvoir ou recours revenant à l'A.I.D. dans le cadre de cette Subvention ne sera interprété comme une renonciation à ces droits, pouvoirs ou recours.

ARTICLE 7 - DIVERS

Section 7.1: Lettres d'Exécution

De temps en temps, à titre d'information et d'orientation des deux parties, l'A.I.D. adressera des Lettres d'Exécution décrivant les procédures 76

Section 7.2: Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Minister of Finance and Data Processing, the Minister Delegate at the Presidency of the Republic in Charge of General Inspection and State Control, and any other persons designated by them, and A.I.D. will be represented by the individual holding or acting in the office of A.I.D. Representative, Chad, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D. in writing and A.I.D. may rely upon any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3: Communications

Any notice, request, document or other communication submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee:

Mail/cable address:

Ministry of Finance and Data
Processing
P.O. Box 144
N'Djamena, Chad
(Telex 5257 KD)

applicables à l'exécution du présent Accord. Sauf autorisation par les dispositions particulières du présent Accord, les Lettres d'Exécution ne seront pas utilisées pour amender ou modifier le texte du présent Accord.

Section 7.2: Représentants

Pour tout ce qui concerne cet Accord, le Donataire sera représenté par la personne titulaire ou intérimaire au poste de Ministre des Finances et de l'Informatique, Ministre Délégué à la Présidence de la République Chargé de l'Inspection Générale et du Contrôle d'Etat, et par toute autre personne désignée par eux à cet effet, et l'A.I.D. sera représentée par la personne titulaire ou intérimaire au poste de Représentant de l'A.I.D. au Tchad; chacune des parties susmentionnées peut désigner par écrit des représentants supplémentaires. Les noms des représentants du Donataire, ainsi que les spécimens de leurs signatures, seront remis à l'A.I.D. qui peut accepter comme dûment autorisé tout document signé par ces représentants dans l'exécution du présent Accord, ce jusqu'à réception d'une notification écrite de révocation de leur pouvoir.

Section 7.3: Communications

Toute notification, demande, tout document ou toute autre communication présenté(e) par l'une à l'autre partie dans le cadre de cet Accord sera fait(e) par écrit par télégramme ou câble, et sera considéré(e) comme effectivement donné(e) ou envoyé(e) lorsque remis(e) à la partie en question à l'adresse suivante:

To A.I.D.:

Mail/cable address:

A.I.D. Representative
A.I.D./Chad
P.O. Box 413
N'Djamena, Chad
(Telex 5203 KD)

All such communications will be in English or French unless the parties otherwise agree in writing. Other addresses may be substituted for the above by either party upon giving of notice to the other party.

Section 7.4: Public Information

The Grantee will give appropriate publicity to the Grant as a program of assistance to which the Government of the United States of America has contributed.

Section 7.5: Language of Agreement

This agreement is prepared in both English and French. In the event of ambiguity or conflict between the two versions, the English language version will control.

AU Donataire:

Ministère des Finances et de
l'Informatique
B.P. 144
N'Djaména, Tchad
(Telex 5257-KD)

A l'A.I.D.:

Adresse postale/télégraphique:

Représentant de l'A.I.D.
A.I.D./Tchad
B.P. 413
NDjaména, Tchad
(Telex 5204-KD)

Sauf disposition contraire des parties convenues par écrit, toute communication sera faite en anglais ou en français. D'autres adresses peuvent être données pour substituer aux adresses ci-dessus, et ce sur avis préalable de l'une à l'autre partie.

Section 7.4: Information Publique

Le Donataire portera à la connaissance du public la Subvention en tant que programme d'assistance auquel a contribué le Gouvernement des Etats-Unis d'Amérique.

Section 7.5: Langue de l'Accord

Le présent Accord est rédigé en langues anglaise et française. En cas d'ambiguïté ou de conflit entre les deux versions, la version anglaise fera foi.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this agreement to be signed in their names and delivered as of the day and year first written above.

FOR THE GOVERNMENT OF CHAD

EN TEMOIGNAGE DE QUOI, le Donataire et les Etats-Unis d'Amérique, chacun agissant par l'intermédiaire de ses représentants dûment autorisés, ont signé cet Accord en leurs noms et le font entrer en vigueur à la date ci-dessus mentionnée.

POUR LE GOUVERNEMENT DE LA REPUBLIQUE DU TCHAD

SOUMAILA MAHAMAT

Title: Ministre du Plan et de la Cooperation

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

POUR LE GOUVERNEMENT DES ETATS-UNIS D'AMERIQUE

ROBERT L. PUGH

Title: Ambassador

BERNARD D. WILDER

Title: AID Representative

ANNEX 1

AMPLIFIED PROGRAM DESCRIPTION

The purpose of the \$8,000,000 Budgetary Support to Development Ministries IV program is to help the Government of Chad finance its projected budget deficit in 1989 by paying salaries and other operating expenses of civilian administrative units and ministries. It is understood that all salaries paid under this program will be paid at the level of at least 60 percent of the stated salary. These units and ministries are: the General Secretariat of the Government; National Consultative Council; Planning and Cooperation; Information and Orientation; General Inspection and State Control; Finance and Data Processing; Civil Service; Justice; Education; Advanced Teaching and Scientific Research; Public Health; Social Affairs and Advancement of Women; Labor, Employment and Professional Training; Food Security and Disaster Victims; Agriculture; Livestock and Pastoral Water Supply; Tourism and Environmental Protection; Culture, Youth and Sports; Commerce and Industry; Mines and Energy; Public Works; Land, Urban and Housing Development; Post Office and Telecommunications; and, Transport and Civil Aviation.

This budgetary support will permit the Government of Chad to traverse a difficult period of economic and financial adjustment without endangering the basic operations and services provided by the central administration. The program complements the structural adjustment program currently being

DESCRIPTION ELARGIE DU PROGRAMME

L'aide budgétaire de 8.000.000\$ accordée au programme d'Aide Budgétaire aux Ministères, Phase IV a pour objectif d'aider le Gouvernement de la République du Tchad à financer ses déficits budgétaires prévisionnels en 1989 en payant les salaires et autres frais de fonctionnement des Ministères et unités administratives civils. Il est entendu que tous les salaires payés dans le cadre de ce programme seront de l'ordre d'au moins 60 pour cent des salaires indiqués. Il s'agit des Ministères et unités énumérés ci-après:

Le Secrétariat Général du Gouvernement; le Conseil National Consultatif; le Ministère du Plan et de la Coopération; le Ministère de l'Information et de l'Orientation Civique; l'Inspection Générale et du Contrôle d'Etat; le Ministère des Finances et de l'Informatique; la Fonction Publique; la Justice; l'Education Nationale; l'Enseignement Supérieur et de la Recherche Scientifique; la Santé Publique; les Affaires Sociales et Promotion Féminine; le Travail, Emploi et Formation Professionnelle; la Sécurité Alimentaire et Populations Sinistrées; l'Agriculture; l'Elevage et Hydraulique Pastorale; le Tourisme et Environnement; la Culture, Jeunesse et Sport; le Commerce et Industrie; les Mines et Energie; les Travaux Publics; l'Aménagement du Territoire, de l'Urbanisme et de l'Habitat; les Postes et Télécommunications; et le Transport et Aviation Civile.

Cette aide budgétaire permettra au Gouvernement de la République du Tchad de traverser une période difficile d'ajustement économique

implemented by the Government of Chad with the approval and support of the International Monetary Fund and the World Bank. By ensuring payment of civil service salaries, minimum operating expenses and the acquisition of essential equipment, the program supports the administrative and fiscal stability of the government. This is crucial to revitalization of the domestic economy.

The \$8,000,000 will be made available in two tranches of \$4,000,000. It is intended that each tranche be fully disbursed by the Government of Chad over a three month period. Allowing a two month period between disbursements to confirm payments previously made, the entire \$8,000,000 should be disbursed and accounted for within ten (10) months after the signing of this document. A professional accounting firm will be engaged by A.I.D. at the end of this period to conduct an audit of the payments and records.

PDM3:124

et financier sans mettre en danger les activités et les services de base fournis par l'administration centrale.

Ce programme complète le programme d'ajustement structurel que met actuellement en oeuvre le Gouvernement de la République du Tchad avec l'approbation et l'appui du Fonds Monétaire International et de la Banque Mondiale. En assurant le versement des salaires aux agents de l'état, le paiement des dépenses de fonctionnement minimales, et l'acquisition des équipements essentiels, le programme aide à la stabilité administrative et fiscale du pays. Ceci est capital pour la relance de l'économie nationale.

Les 8.000.000 dollars seront débloqués en deux tranches de \$4.000.000. Il est prévu que chaque tranche sera entièrement dépensée par le Gouvernement de la République du Tchad sur une période de trois mois. En autorisant un intervalle de deux mois entre les remboursements pour confirmer les paiements antérieurement effectués, on devra verser, dépenser et justifier les \$8.000.000 dans leur intégralité, dans les dix (10) mois qui suivent la signature du présent document. Une firme comptable professionnelle sera engagée à la fin de cette période pour effectuer une vérification des paiements et des documents afférents.

WF/6770061.CR.50

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INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Project Country: Chad
Project Title: Support to Development Ministries, IV - 677-0061
Funding: FY (s) 1989 \$ 8.0 million
IEE Prepared by: Ron Daniel, AFR/SWA

Environmental Action Recommended:

Positive Determination _____
Negative Determination _____

Categorical Exclusion:

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (c)

Sec. 216.2(c) (2) (vi) does not require an IEE where a cash transfer to a national government is provided for budgetary support.

Concurrence:
Bureau Environmental Officer
Bessie L. Boyd, AFR/TR/PRO

Approved _____
Disapproved _____
Date _____

Clearance: GC/AFR: PLJ
Pauline Johnson

Date: 4 May 89

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STATE 269113/01

ACTION: AID-3 INFO: AMB DCM

RECEIVED AID/CHAD
DATE 1 MAR 1989

677-0061

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CN: 33757
CERG: AID
DIST: AID

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AIDAC, APIDJAN FOR REDSO

I.O. 12356: N/A

SUBJECT: CBAD - SUPPORT TO DEVELOPMENT MINISTRIES IV,
677-0061 - ECFR/PAIP

REF:

1. THE AFRICA BUREAU EXECUTIVE COMMITTEE (ECPR) CHAIRED BY TIMOTHY BORN, MET ON FEBRUARY 8, 1989 TO REVIEW SUBJECT PAIP. PARTICIPATING IN THE REVIEW WERE REPRESENTATIVES FROM AFR/PT/SWAP, AFR/SWA, PPC/EA, GC/AFR, STATE/AF/C AND THE USAID/CBAD REPRESENTATIVE. AT THE REVIEW, ECPR APPROVED THE PAIP WITH THE CONDITION THAT A SPECIAL PROJECT COMMITTEE MEETING BE HELD TO REVIEW THE PROPOSED PROGRAM CONDITIONALITY. THE MEETING WAS HELD ON FEBRUARY 13 AND RESULTED IN DECISIONS INDICATED IN PARAGRAPHS G AND H BELOW. THE MISSION MAY PROCEED WITH PAAD DEVELOPMENT, REVIEW AND AUTHORIZATION SUBJECT TO THE GUIDANCE OUTLINED BELOW.

REVIEW.

A. ISSUE NO. 1: PROGRAM CONDITIONALITY.

(1) NATURE OF THE ISSUE: THE PAIP, AS ORIGINALLY

PRESENTED, WAS UNCLEAR IN ITS DISCUSSION REGARDING THE CONDITIONALITY LIKELY TO BE ESTABLISHED UNDER THE PROGRAM, ALTHOUGH REFERENCE WAS MADE TO THE NEED FOR CONDITIONALITY REGARDING THE OPTIMUM SIZE OF THE CIVIL SERVICE AND THE MIX OF SKILLS WITHIN THE GOVERNMENT OVERALL AND WITHIN INDIVIDUAL MINISTRIES AND DEPARTMENTS. THERE WAS ALSO CONSIDERATION OF CONDITIONALITY RELATED TO THE REESTABLISHMENT OF A COMPUTER CENTER IN THE MINISTRY OF FINANCE. SPECIFIC CONDITIONALITY, ACCORDING TO THE PAIP, WOULD HAVE TO AWAIT ANALYSES FORTHCOMING FROM THE INTERMINISTERIAL COMMISSION SET UP BY PRESIDENTIAL DECREE TO IMPLEMENT IMPROVEMENTS IN PUBLIC ADMINISTRATION. A PRELIMINARY REPORT OF THE NEWLY-APPOINTED TECHNICAL SUBCOMMISSION ON ITS FINDINGS AND RECOMMENDATIONS IS DUE BY MAY 1989.

BEST AVAILABLE DOCUMENT

(2) RESOLUTION OF THE ISSUE: THE ECPR CONCLUDED THAT CIVIL SERVICE REFORM WOULD FACILITATE THE COUNTRY'S

GROWTH, SINCE AN EFFICIENTLY MANAGED PUBLIC SECTOR IS AN IMPORTANT CONTRIBUTORY FACTOR TO A COUNTRY'S GROWTH AND DEVELOPMENT. IT WAS FURTHER ACKNOWLEDGED THAT THE WORLD BANK AND IMF LOOKED TO A.I.D. TO PROVIDE LEADERSHIP IN THIS AREA; INDEED, THE WORLD BANK HAS CURTAILED OR DROPPED CIVIL SERVICE REFORM ACTIVITIES IN DEFERENCE TO A.I.D.'S INVOLVEMENT IN THIS SECTOR. EQUALLY IMPORTANT IS THE GOC'S FAVORABLE ACCEPTANCE OF A.I.D.'S WORK IN THIS AREA, WHICH HAS NOT ONLY LED THE GOC TO ORGANIZE ITSELF TO IDENTIFY AND ADDRESS CIVIL SERVICE REFORMS, BUT IS EXPECTED TO LEAD TO REQUESTS FOR A.I.D. TO SUPPLY TECHNICAL HELP IN PREPARING POLICIES GOVERNING THE SIZE, TRAINING AND EFFICIENCY STANDARDS FOR THE ENTIRE CIVIL SERVICE. HOWEVER, THE ECPR DID DIRECT THAT A POST-ECPR PROJECT COMMITTEE BE CONFINED TO REVIEW THE SPECIFIC PROGRAM CONDITIONALITY INTRODUCED BY THE MISSION (NDJAMINA 646) FOLLOWING THE SUBMISSION OF THE PAIP. SEE PARAGRAPHS G AND H FOR THE OUTCOME OF THIS MEETING.

B. CONCERN NO. 1: MAGNITUDE OF AND FINANCING FOR THE GOC 1989 BUDGET DEFICIT.

(1) NATURE OF THE CONCERN: WHILE THE PAIP ARGUES THAT THE 1989 BUDGET DEFICIT WILL NOT LIKELY DECREASE IN ACTUAL OR RELATIVE AMOUNTS FROM THE LEVELS OF THE PAST TWO YEARS, THERE IS NO INDICATION IN THE PAIP OF THE BUDGET, THE PROJECTED BUDGET DEFICIT, NOR HOW THE DEFICIT WILL BE FINANCED. THIS IS PARTICULARLY IMPORTANT SINCE THE GOC HAS RECENTLY INCREASED THE SALARY SCALE AND, ACCORDING TO WORLD BANK SOURCES, IS PLANNING TO SHIFT A LARGE NUMBER (1,200 WAS MENTIONED)

OF MILITARY PERSONNEL TO CIVIL SERVICE ROLLS.

(2) RESOLUTION OF CONCERN: THE MISSION SHOULD INCLUDE A BUDGET GAP ANALYSIS IN THE PAIP INDICATING PROJECTED INCOME AND EXPENDITURE LEVELS FOR 1989 AND SHOWING AS PRECISELY AS POSSIBLE, THE LEVEL OF THE RESULTING BUDGET DEFICIT AND THE SOURCES IDENTIFIED FOR FINANCING THIS DEFICIT. THIS INFORMATION SHOULD BE TRANSMITTED TO A.I.D./W PRIOR TO PROGRAM APPROVAL.

C. CONCERN NO. 2: SATISFACTION OF PRIOR CONDITIONALITY.

(1) NATURE OF THE CONCERN: WHILE IT APPEARS THE GOC HAS COMPLIED WITH THE CONDITIONS PRECEDENT AND MOST OF THE COVENANTS UNDER PREVIOUS CASH TRANSFER AGREEMENTS, IT IS NOT CLEAR THAT THE GOC HAS PROVIDED A.I.D. WITH ANALYSIS REGARDING THE RECURRENT COST IMPLICATIONS OF THE 1988 AND 1989 BUDGETS. THIS COVENANT WAS ESTABLISHED IN THE FY-88 PROGRAM (SEM III, 677-0055) TO IT

AIDAC, ABIDJAN FOR REDSO

ENCOURAGE THE GOC, PARTICULARLY THE FINANCE MINISTRY, TO CONSIDER THE RECURRENT COSTS ASSOCIATED WITH THE VARIOUS DEVELOPMENT PROJECTS SPONSORED BY DONORS AND CEADIAN MINISTRIES.

(2) RESOLUTION OF CONCERN: MISSION REPRESENTATIVE INDICATED THAT THE WORLD BANK HAD ASSISTED THE GOC IN CARRYING OUT SUCH ANALYSES AND OFFERED TO CABLE THIS INFORMATION TO A.I.D./W.

D. CONCERN NO. 3: TIMING AND NUMBER OF PROPOSED TRANCHEES.

(1) NATURE OF CONCERN: THE PAIP WAS UNCLEAR AS TO THE RATIONALE FOR THE PROPOSED TIMING OF THE TWO TRANCHEES, PARTICULARLY SINCE THE FIRST TRANCHEE WOULD HAVE BEEN DISBURSED BEFORE THE INTERMINISTERIAL COMMISSION'S (IC) REPORT ON THE CIVIL SERVICE REFORMS HAD BEEN COMPLETED (DUE IN MAY 1989).

(2) RESOLUTION OF CONCERN: ECPR CONCURRED IN RECOMMENDATION BY THE MISSION TO RESCHEDULE THE FIRST TRANCHEE FOR MAY/JUNE AND THE SECOND TRANCHEE FOR SEPTEMBER/OCTOBER FOLLOWING RECEIPT OF IC'S FINAL REPORT.

E. CONCERN NO. 4: NEED FOR PROGRAM AUDIT.

(1) NATURE OF CONCERN: WHILE THE MISSION UTILIZES AN INTERNAL SYSTEM FOR SPOT CHECKING SALARY PAYMENTS MADE WITH PROGRAM FUNDS, THE LAST EXTERNAL AUDIT OF THE SDM

PROGRAM BY AN INDEPENDENT CPA FIRM WAS UNDERTAKEN IN SEPTEMBER 1987. THE PC WAS CONCERNED THAT AN EXTERNAL AUDIT BE CARRIED OUT PRIOR TO ANY DISBURSEMENT UNDER THE PROPOSED PROGRAM.

(2) RESOLUTION OF CONCERN: MISSION AGREED TO ACCELERATE THEIR SCHEDULED AUDIT TO ADDRESS THIS CONCERN.

F. CONCERN NO. 5. SIMPLIFYING FUTURE DESIGN/REVIEW PROCEDURES.

(1) NATURE OF CONCERN: THE AFRICA BUREAU HAS BEEN DISCUSSING THE NEED FOR SIMPLIFYING ITS PROCEDURES FOR, INTER ALIA, DEVELOPING AND REVIEWING DESIGN DOCUMENTATION. SINCE THIS ISF PROGRAM IS LIKELY TO CONTINUE, THE PC FELT THAT THE BUREAU SHOULD BEGIN TO CONSIDER WAYS FOR STREAMLINING THE DESIGN PROCESS.

(2) RESOLUTION OF CONCERN: THE ECPR CONCLUDED THAT THE FY-1990 PAIP SHOULD SET FORTH A THREE TO FIVE-YEAR PROGRAM AND THAT THE TECHNICAL ASSISTANCE PROGRAMMED FOR FY-1989 COULD ASSIST THE MISSION AND GOC IN ELABORATING A LONGER-TERM CIVIL SERVICE REFORM AGENDA. THIS APPROACH SHOULD PERMIT A GREATER DEGREE OF PLANNING AND CONSENSUS BUILDING FOR ACHIEVING A MEANINGFUL PUBLIC

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ADMINISTRATION REFORM PROGRAM. PROGRAM OBJECTIVES COULD BE ESTABLISHED AS WELL AS INTERMEDIATE BENCHMARKS AND TARGETS RELATED TO DISCRETE TRANCHES UNDER THE MULTI-YEAR BUDGET SUPPORT PROGRAM. THE TARGETS AND BENCHMARKS SHOULD BE SET TO PERMIT MEASURABLE PROGRESS ON AN ANNUAL BASIS AND PROGRESS REPORTS WOULD BE EXPECTED AT LEAST ANNUALLY. THIS ARRANGEMENT WOULD SIGNIFICANTLY REDUCE EXCESSIVE DESIGN REQUIREMENTS CURRENTLY ASSOCIATED WITH THIS PROGRAM AND ALLOW THE MISSION INSTEAD TO FOCUS ON PROGRAM IMPLEMENTATION, PARTICULARLY IN RELATION TO IMPROVEMENTS IN CIVIL SERVICE QUALITY, RELEVANCY AND EFFICIENCY.

G. THE SPECIAL FEBRUARY 13, 1989 PROJECT COMMITTEE MEETING WAS CONVINED TO REVIFY THE PROPOSED PROGRAM CONDITIONALITY SET FORTH IN NDJAMENA 646, PARA 4. THE RESPONSES FLOW ARE KEYED TO THE CONDITIONS LISTED THEREIN:

- FIRST TRANCHE CONDITIONALITY:

- (1) A.I.D./W AGREES WITH THE PROPOSED TIMING OF THE FIRST TRANCHE; I.E. MAY/JUNE.
- (2) UPGRADE THE FY-88 COVENANT, WHICH CALLS FOR A REPORT ON THE IC'S PRELIMINARY FINDINGS CONCERNING CIVIL

SERVICE REFORMS, TO A CONDITION PRECEDENT UNDER THE FY-89 PROGRAM IS APPROPRIATE.

- (3) ENSURING FINANCING UNDER THE PROGRAM FOR THE INTERMINISTERIAL COMMISSION, WHICH WAS ESTABLISHED TO IDENTIFY AND IMPLEMENT NEEDED CIVIL SERVICE REFORMS, IS APPROPRIATE.

- (4) THE THIRD AND FINAL CP TO FIRST TRANCHE DISBURSEMENT CALLS FOR THE DEVELOPMENT AND INITIAL TRIAL OF A REGULARIZED SYSTEM FOR COMPARING EXISTING SKILLS IN THE CIVIL SERVICE TO AN ESTIMATE OF MEDIUM-TERM GOVERNMENT NEEDS. THE PROJECT COMMITTEE CONCLUDED THAT THIS CP MIGHT BE DIFFICULT TO MEET. THUS, THE MISSION SHOULD CONSIDER (1) MOVING UP THE START DATE OF THE PROPOSED PD&S FUNDED TA TO ASSIST THE IC IN SATISFYING THIS CONDITION; AND (2) MOVING THIS CP FROM THE FIRST TO BT

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AIDAC, AFIDJAN FOR REDSO

THE SECOND TRANCHE, IF NECESSARY.

(5) ASSURING PROGRAM FUNDING FOR MAINTAINING THE MINISTRY OF FINANCE COMPUTER CENTER IS APPROPRIATE, CONSIDERING THE CENTER'S DATA INPUT TO CIVIL SERVICE REFORM ACTIVITIES.

-- SECOND TRANCHE CONDITIONALITY:

(1) A.I.D./W AGREES WITH THE PROPOSED TIMING OF THE SECOND TRANCHE; I.E., SEPTEMBER/OCTOBER.

(2) THE REQUIREMENT FOR GOC ACCEPTANCE OF TECHNICAL ASSISTANCE IS APPROPRIATE. HOWEVER, AS MENTIONED ABOVE, MISSION MAY WANT TO MOVE THIS CP FORWARD TO THE FIRST TRANCHE IN ORDER TO SECURE HELP IN SATISFYING OTHER CONDITIONS PRECEDENT AND ESTABLISHING THE LONGER-TERM CIVIL SERVICE REFORM AGENDA. MOREOVER, GIVEN THE LONGER-TERM HORIZON NOW CONTEMPLATED FOR AID ASSISTANCE IN THE CIVIL SERVICE AREA, MISSION SHOULD GIVE SERIOUS CONSIDERATION TO THE REQUIREMENTS FOR LONG-TERM PUBLIC ADMINISTRATION TA.

(3) THE CONDITION CALLING FOR THE GOC TO OUTLINE A PLAN FOR THE DEVELOPMENT OF AN IN-SERVICE TRAINING PROGRAM FOR THE CIVIL SERVICE IS ACCEPTABLE. AID/W UNDERSTANDS THAT THE MISSION INTENDS TO USE TA PROVIDED UNDER THE REGIONAL HUMAN RESOURCES DEVELOPMENT ASSISTANCE PROJECT (698-0463) TO HELP THE GOC DEVELOP PLANS FOR THE EXPANDED USE OF THE NATIONAL PUBLIC ADMINISTRATION SCHOOL.

H. FINALLY, AS PART OF THE GRANT AGREEMENT'S PROGRAM DESCRIPTION, THE MISSION IS REQUESTED TO EXPLICITLY DISCUSS THE ROLE OF THE CIVIL SERVICE REFORM PROGRAM WITHIN THE BROADER MACROECONOMIC POLICY REFORM PROGRAM SUPPORTED BY THE WORLD BANK AND THE IMF.

I. FYI. AID/W WILL PREPARE AND TRANSMIT AN IFE FOR INCLUSION IN THE PAAD END FYI. BAWER

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 FT
 UNCLAS NDJAMINA 01729

CLASS: UNCLASSIFIED
 CHRG: AID 3/24/89
 APPRV: AMB:RLPUGH
 DRFTD: PF:PDMORRIS
 CLEAR: AID/REP:BDWILDER
 DISTR: AID3 AMB DCM
 CHRON

AIDAC

STATE PASS TO AF/C, AF/FFS AND LE
 AIT/W FOR AFR/SWA R.DANIFL

E.O. 12356: N/A
 TAGS: FAID, CD
 SUBJECT: CHAD CENTRAL GOVERNMENT RECURRENT BUDGET FOR
 1989

NDJ FILE COLL: ECF 2

1. SUMMARY. THE GOVERNMENT OF CHAD (GOC) COMPLETED AN APPROVED THE RECURRENT PORTION OF ITS 1989 BUDGET ON DECEMBER 29, THEN REVIEWED AND APPROVED THE INVESTMENT BUDGET ON JANUARY 20. THE GOC FISCAL YEAR COINCIDES WITH THE CALENDAR YEAR. THE RECURRENT BUDGET DOCUMENTS WERE PRINTED AND DISTRIBUTED DURING FEBRUARY. PRINTING AND DISTRIBUTION OF THE INVESTMENT BUDGET HAS BEEN DELAYED AND WILL BE TOPIC OF SEPTFL. RECURRENT BUDGET EXPENDITURES FOR 1989 ARE MARKED BY A 57 PERCENT INCREASE OVER THE 1988 LEVEL, IN CONTRAST TO AN AVERAGE ANNUAL INCREASE OF 3 PERCENT OVER THE PAST FIVE YEARS. DOMESTIC REVENUES ARE TO INCREASE 34 PERCENT, FORCING THE PROJECTED DEFICIT TO MORE THAN DOUBLE THAT OF 1988. DONOR BUDGETARY SUPPORT WILL COVER 64 PERCENT OF THAT DEFICIT, WITH A REMAINING ESTIMATED FINANCING GAP OF 5,575 MILLION CFAF, EQUIVALENT TO 2-3 PERCENT OF PROJECTED GDP.

2. THE RECURRENT BUDGET REMAINS RELATIVELY LARGE VIS-A-VIS THE CASH PORTION OF CHAD'S ECONOMY: IT IS EQUIVALENT TO ONE-THIRD OF MONEY SUPPLY, AND 9 TO 10 PERCENT OF GROSS DOMESTIC PRODUCT. THIS RELATIVE IMPORTANCE OF THE BUDGET IS ONE OF TWO FACTORS RESPONSIBLE FOR THE LARGE RATE OF INCREASE FOR 1989. THE GOC, ON WORLD BANK RECOMMENDATION, WILL USE THE BUDGET TO INCREASE OVERALL DEMAND IN THE ECONOMY THROUGH A ONE TIME FIVE-FOLD INCREASE IN EXPENDITURES FOR BASIC OFFICE EQUIPMENT AND SUPPLIES FOR EIGHT DEVELOPMENT-ORIENTED MINISTRIES. THE SECOND FACTOR IS THE GOC DECISION TO PAY SIGNIFICANTLY HIGHER SALARIES TO EVERY LEVEL OF THE CIVIL SERVICE, RESULTING IN AN INCREASE OF 39 PERCENT FOR THIS BUDGET CATEGORY. THEORETICALLY THESE TWO COMBINED INCREASES—FOR MATERIALS AND FOR SALARIES—SHOULD ADD NOTICEABLY TO GOC ABSORPTIVE CAPACITY TO IMPLEMENT GOVERNMENT SERVICES AND THE INVESTMENT BUDGET TARGETS. IN REALITY THE LARGE

SIMULTANEOUS INCREASES MAKE IT DIFFICULT FOR THE GOC TO BALANCE THE BUDGET AND MAKE IT IMPOSSIBLE FOR THE BUDGET DEFICIT TO REMAIN WITHIN THE IMF STRUCTURAL ADJUSTMENT ARRANGEMENT DEFICIT GUIDELINES. END SUMMARY.

3. BUDGET DEVELOPMENT PROCESS. THE GOC FOLLOWS A SPECIFIC PROCESS AND SCHEDULE FOR FORMULATION OF THE ANNUAL BUDGETS, THE RECURRENT SEPARATE FROM THE INVESTMENT. THE BUDGET DIRECTOR IN THE MINISTRY OF FINANCE AND DATA PROCESSING (MOFDP) IS RESPONSIBLE FOR INITIATING AND OVERSEEING DRAFTING OF THE RECURRENT BUDGET, WHILE THE MINISTRY OF PLAN AND COOPERATION (MOPC) DOES THE SAME FOR THE INVESTMENT BUDGET. THE PROCESS COMMENCES IN LATE-MAY AND IS SCHEDULED TO END IN FINAL APPROVAL ABOUT MID-NOVEMBER. ON THE RECURRENT SIDE THE LARGEST SHARE OF THIS PERIOD IS ALLOTTED TO THE DRAFTING PROCESS AT THE DEPARTMENT AND MINISTERIAL LEVELS DURING JUNE TO AUGUST.

4. THE NEXT TASK OF AMALGAMATING THE DIVERSE MINISTRY AND DEPARTMENT DRAFT BUDGETS, ALONG WITH THE DEVELOPMENT OF SUMMARIZATION TABLES AND INITIAL COORDINATION OF EXPENDITURE AND REVENUE PROJECTIONS, OCCURS DURING SEPTEMBER AND OCTOBER. DURING THIS SAME PERIOD THE MOPC IS INVOLVED COMPILING THE INVESTMENT BUDGET BASED ON ACTUAL PROJECTS AND SPENDING PLANS OF THE DONORS. PREPARATION OF AN INVESTMENT BUDGET WAS INITIATED IN 1987, THEREFORE, THE TASK REMAINS A RELATIVELY NEW AND CHALLENGING EXERCISE FOR THE GOC. THE GOAL IS TO IMPROVE THE PROCESS TO WHERE THE GOC WILL SELECT AND COORDINATE SPECIFIC DONOR PROJECTS TO FULFILL PREVIOUSLY-DETERMINED GOC DEVELOPMENT TARGETS, RATHER THAN MERELY ACCEPT AND COMPILE A LISTING OF DONOR DECISIONS. ALTHOUGH THE MOPC IS RESPONSIBLE FOR PUTTING TOGETHER THE INVESTMENT BUDGET, IMPLEMENTATION MONITORING AND CONTROL RESPONSIBILITIES ARE SHARED WITH MOFDP AFTER COMMENCEMENT OF THE BUDGET YEAR.

5. DURING OCTOBER, WHEN THE INTERMINISTERIAL FINANCIAL COMMISSION COMMENCES ITS WORK, THE RECURRENT AND INVESTMENT BUDGETS COME TOGETHER TO PROCEED THROUGH THE APPROVAL PROCESS AS ONE PACKAGE. GOC BUDGETARY POLICIES

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ARE THEN BROUGHT INTO THE PICTURE TO AFFINE THE INDIVIDUAL MINISTRY AND DEPARTMENT BUDGETS, AS WELL AS THAT FOR INVESTMENT. AT THIS STAGE OF THE PROCESS THE ANNUAL FINANCIAL LAW IS ALSO DRAFTED TO SET FORTH NEW AND/OR MODIFIED REVENUE GENERATION PROCEDURES. FINAL REVIEW AND APPROVAL OF THE ENTIRE BUDGET PACKAGE AT THE HIGHEST LEVELS OF THE GOC IS SCHEDULED FOR NOVEMBER. WHEN THESE REVIEW AND APPROVAL ACTIVITIES ARE EXTENDED, AS THEY WERE IN PREPARING THE 1989 BUDGET, THERE APPEAR TO BE NO NOTICEABLE CHANGE IN THE PACE OF GOVERNMENT ACTIVITY, RATE OF PROJECT IMPLEMENTATION, OR AVAILABILITY OF FUNDS. THE GOC RELIES UPON A QUOTE CARRYOVER UNQUOTE PERIOD, WHICH COMMENCES IN NOVEMBER AND LEGALLY CONTINUES UNTIL THE NEW BUDGET IS INSTITUTED. DURING THE CARRYOVER PERIOD THE GOVERNMENT CAN CHARGE EXPENDITURES AGAINST EITHER THE PREVIOUS OR THE UPCOMING ANNUAL BUDGET, AS APPROPRIATE.

G. TABLE 1: CHAD - RECURRENT BUDGET SUMMARY
(MILLIONS CURRENT CFAF; COMMITMENT BASIS)

EXPENDITURES:		
SALARIES	19,297	26,326
EQUIPMENT/SUPPLIES	4,957	11,659
MISCELLANEOUS	1,370	1,660
TOTAL	25,614	42,145
REVENUES:		
TAX	16,255	21,363
NON-TAX	2,225	3,307
TOTAL	18,460	24,670
DEFICIT	7,154	15,475
DONOR BUDGET SUPPORT:		
US	2,120	2,400
FRANCE	5,500	7,500
FINANCING GAP	--	5,575

7. MACRO INFLUENCES MOLDING 1989 BUDGET EXPENDITURES. MACRO LEVEL DISAGGREGATION OF RECURRENT EXPENDITURES IN TABLE 1 APPORTIONS CAUSE OF THE EXCEPTIONALLY LARGE OVERALL INCREASE BETWEEN BOTH THE SALARY AND EQUIPMENT CATEGORIES, THE FORMER UP 30 PERCENT AND THE LATTER 135 PERCENT. THE WORLD BANK ECONOMIC REVIEW OF OCTOBER 1987 EMPHASIZED THE LACK OF MONETARY DEMAND IN THE CHADIAN ECONOMY, PARTIALLY IN EVIDENCE BY THE LOW LEVEL OF THREE FOR THE VELOCITY OF MONEY. THE BANK'S FINANCIAL REHABILITATION PROGRAM FOR 1989 AND 1992 ATTEMPTS TO INITIATE SOME CORRECTION TO THIS LACK OF DEMAND THROUGH PROGRAMMING FOR A SIGNIFICANT ONE-TIME INCREASE IN SPENDING FOR MATERIALS FOR EIGHT DEVELOPMENT-ORIENTED MINISTRIES. THE BANK'S GOALS INCLUDE: AN INCREASE IN REAL DEMAND (AND CASH AVAILABILITY) IN THE LOCAL MARKET FOR A VARIETY OF SUPPLIES AND EQUIPMENT, WITHOUT IMPOSING AN EQUAL LONG TERM INCREASE IN RECURRENT COSTS IMPROVED BALANCE IN THE APPORTIONMENT OF EXPENDITURES

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BETWEEN SALARY AND MATERIALS EXPENSES; AN INCREASE IN DEVELOPMENT-ORIENTED EXPENDITURES; IMPROVED WORKING FACILITIES FOR SELECTED UNITS OF THE GOC; AND, WITH THE INCREASED AVAILABILITY OF BASIC SUPPLIES WITHIN THE GOC BY IMPLICATION AN INCREASED ABSORPTIVE CAPACITY FOR IMPLEMENTING DEVELOPMENT PROJECTS.

8. GIVEN CEAD'S DEPENDENCE ON IMPORTS FOR MOST MANUFACTURED GOODS IT IS QUESTIONABLE THAT THE BANK APPROACH WILL MAKE ANY LASTING IMPACT ON THE LOCAL ECONOMY. EVEN SO, AT LEAST ONE EFFECT IS IMMEDIATELY EVIDENT: A MODIFICATION OF RELATIVE EMPHASIS WITHIN THE BUDGET AS SALARY EXPENSES DECREASE FROM 75 PERCENT OF THE 1988 TOTAL TO 67 PERCENT IN 1989, AND EQUIPMENT MOVES UP FROM 19 TO 29 PERCENT. HOWEVER, THE CURRENT DATA INDICATE THAT THE GOC CANNOT AFFORD TO MAINTAIN THIS LEVEL OF SPENDING FOR MATERIALS IN SUBSEQUENT YEARS, THEREFORE WE SHOULD EXPECT A TURN TOWARD THE 1988 PATTERN OF EXPENDITURES.

9. THE NOTICEABLE SALARY INCREASE FOR ALL CIVIL SERVANTS, ANNOUNCED LAST OCTOBER, WAS TO TAKE EFFECT IN JANUARY 1989. SUBSEQUENT GOC COMMENTS INDICATE THAT THE PAY RAISE HAS BEEN DELAYED FOR SOME, POSSIBLY MANY

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EMPLOYEES FOR SOME UNSPECIFIED TIME, UNTIL THEIR INDIVIDUAL PERSONNEL FILES CAN BE UP DATED BY THE MINISTRY OF CIVIL SERVICE. THE SALARY INCREASE ENCOMPASSES TWO ASPECTS: MOVEMENT TO A NEW HIGHER PAY SCHEDULE DRAFTED IN 1986, AND ELEVATION OF ACTUAL PAYMENTS TO 100 PERCENT OF THAT SCHEDULE. ANALYSIS OF THE NEW PAY SCHEDULE INDICATES A RANGE OF INCREASES FROM THE MAXIMUM OF 67 PERCENT FOR THE LOWEST RANKED CIVIL SERVANTS, TO A MINIMUM INCREASE OF 12 PERCENT FOR THOSE AT THE MOST SENIOR LEVELS OF CIVIL SERVICE. THE PROJECTED INCREASE TO SALARY COSTS WILL BE 7,539 MILLION CFAF FOR 1989, WHICH MORE THAN OFFSETS PROJECTIONS OF INCREASED REVENUES FROM TAX AND FISCAL MEASURES. ALTHOUGH THE SALARY INCREASE REPRESENTS A BURDEN WHICH WILL BE ONGOING FOR THE GOC BUDGET IT WAS A NATURAL TARGET FOR CHANGE, AND PERHAPS A NECESSITY. WITH FEW EXCEPTIONS, CIVIL SERVICE SALARIES HAVE BEEN PAID AT 50 PERCENT OF A 1967 PAY SCALE SINCE THE GOVERNMENT BEGAN RECONSTITUTING ITSELF IN 1982.

10. DISAGGREGATION OF BUDGET EXPENDITURES. GOC RECURRENT BUDGET EXPENDITURES ARE DISAGGREGATED FIRST BY MINISTRY AND DEPARTMENT AND SECONDLY, WITHIN EACH MINISTRY, BY PERSONNEL SALARY AND EQUIPMENT/SUPPLY EXPENSES. THE MACRO CHANGES TO THOSE CATEGORIES WERE HIGHLIGHTED IN PARA. 7 ABOVE. TABLE 2 SHOWS, VIA MINISTERIAL DISAGGREGATION, THE PREPONDERRANT POSITION OF DEFENSE, AT 25 PERCENT OF THE 1989 TOTAL. THAT, HOWEVER, REPRESENTS A DECREASE FROM 35 PERCENT OF THE TOTAL IN 1988, AS FOUR OTHER UNITS (THE PRESIDENCY, INTERIOR, EDUCATION AND AGRICULTURE) EACH GAINED LARGER ACTUAL INCREASES THAN DID DEFENSE FOR 1989. EXPENDITURES FOR THE MINISTRY OF INTERIOR (OF WHICH POLICE NEEDS ABSORB 59 PERCENT) REMAINED UNCHANGED AT 7 PERCENT OF EACH ANNUAL TOTAL. THERE IS EVIDENCE IN THE REDUCED DEFENSE SHARE THAT THE GOC IS WILLING TO UTILIZE THIS PERIOD OF RELATIVE PEACE ON ITS BORDERS--AFTER THE LATE 1986 CESSATION OF OPEN HOSTILITIES WITH LIBYA--TO DEVOTE A LARGER SHARE OF DOMESTIC RESOURCES TO OTHER RECURRENT NEEDS.

11. THE SECOND LARGEST ALLOCATION IS FOR THE PRESIDENCY, NEARLY 13 PERCENT OF THE TOTAL, WITH EDUCATION IN THIRD RECEIVING 11 PERCENT. COMBINING THE PRESIDENCY'S SHARE OF BUDGET ALLOCATIONS WITH FOUR OTHER UNITS CLOSELY ASSOCIATED WITH THE PRESIDENCY (I.E., GOVERNMENT SECRETARIAT, ADVISORY COUNCIL, AUDIT AND INSPECTION, AND MINISTRY OF STATE) DOES NOT GREATLY ENLARGE THEIR COMBINED RELATIVE SHARE OF THE TOTAL. THERE IS, HOWEVER, RELATIVE IMPROVEMENT IN THE OVERALL ALLOCATION OF BUDGETARY RESOURCES IF WE EXAMINE THE CHANGE IN DISAGGREGATION BETWEEN ADMINISTRATION AND SERVICES SHOWN IN TABLE 2. THIS CATEGORIZATION MIGHT

TABLE 2: CHAD - RECURRENT BUDGET EXPENDITURES BY MINISTRY
(MILLIONS OF CURRENT CFAF; COMMITMENT BASIS)

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ADMINISTRATION:

-PRESIDENCY	3,229.8	5,026.1
-GOVERNMENT SECRETARIAT	452.8	395.5
-NAT'L. ADVISORY COUNCIL	175.7	170.7
-PLANNING/COOPERATION	132.5	253.2
-INFORMATION	313.7	555.5
-AUDIT/INSPECTION	167.2	212.2
-MINISTRY OF STATE	16.4	15.2
-FOREIGN AFFAIRS	1,210.8	1,480.5
-FINANCE/DATA PROCESSING	1,010.5	1,718.9
-CIVIL SERVICE	105.9	166.8
-JUSTICE	321.6	447.5
-INTERIOR	1,738.4	2,817.2
-DEFENSE	9,000.0	12,000.0
SUP-TOTAL	17,575.3	23,259.9

SERVICES:

-EDUCATION	2,449.1	4,611.3
-PUBLIC HEALTH	283.1	1,624.4
-SOCIAL AFFAIRS	153.3	350.8
-LABOR	61.5	83.0
-FOOD SECURITY	56.0	63.1
-AGRICULTURE	513.5	1,926.4
-LIVESTOCK/IRRIGATION	344.2	723.8

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-TOURISM/ENVIRONMENT	273.8	475.7
-CULTURE/YOUTH/SPORTS	201.1	363.7
-COMMERCE/INDUSTRY	120.5	192.7
-MINES/ENERGY	85.2	113.1
-PUBLIC WORKS	246.0	534.9
-POST/TELECOMMUNICATIONS	39.0	53.9
-TRANSPORTATION	48.9	106.2
-TRANSFERS	1,370.0	1,662.0
-INTERMINISTERIAL	694.3	3,831.7
SUB-TOTAL	7,739.5	13,865.2
TOTAL	25,614.8	40,145.1

REQUIRE SOME MODIFICATION IF WE COULD COMPLETELY DISAGGREGATE EVERY EXPENDITURE ITEM. EVEN SO, AT FIRST GLANCE IT INDICATES THAT THE PUBLIC SERVICES DELIVERY CAPACITY OF THE GOC HAS IMPROVED, VIS-A-VIS ADMINISTRATION, FROM 30 PERCENT OF THE BUDGET IN 1988 TO 42 PERCENT IN 1989. THAT IMPROVEMENT IS TEMPERED BY THE LIMITED AVAILABLE DATA WE HAVE WHICH SHOW SALARIES PLUS ALL MILITARY EXPENDITURES CONSUMING 72 PERCENT OF THE 1989 BUDGET, DOWN FROM 79 PERCENT IN 1988.

12. THE LARGEST ACTUAL INCREASE FOR A SINGLE GOC UNIT--2.2 BILLION CFAF--WENT TO EDUCATION, PRIMARILY FOR SALARIES. THIS SHARE OF THE SALARY INCREASE WILL COME FROM FRANCE BUDGET SUPPORT AS THE EDUCATION STAFF IS SITUATED PREDOMINANTLY OUTSIDE OF THE N'DJAMENA CAPITAL AREA. THE EDUCATION SALARY TOTAL WAS ELEVATED MORE THAN 80 PERCENT OVER THE AMOUNT FOR 1988 IN ORDER TO PROVIDE FOR A PROJECTED INCREASE OF 250 NEW STAFF IN THIS SECTOR. THE INTERMINISTERIAL LINE ITEM IS LARGER THAN EDUCATION BECAUSE IT CONTAINS FUNDS FOR THE PURCHASE OF VEHICLES TO BE ASSIGNED TO SEVERAL MINISTRIES; SOME FUNDS FOR THE REPAIR OF AS YET NON-ALLOCATED GOVERNMENT BUILDINGS; AND, THE ENTIRE COUNTERPART ALLOTMENT OF 2 BILLION CFAF TO SATISFY LONGER REQUIREMENTS VIS-A-VIS PROJECTS IN THE INVESTMENT BUDGET.

13. OF THE NINE MINISTRIES THAT USAID/CHAD WORKS WITH CLOSELY, SEVEN (PLANNING, EDUCATION, HEALTH, SOCIAL AFFAIRS, AGRICULTURE, ENVIRONMENT AND PUBLIC WORKS) RECEIVED 1989 ALLOTMENTS WHICH ROSE AT RATES (74 TO 257 PERCENT) ABOVE THE AVERAGE FOR THE RECURRENT BUDGET. THESE MINISTRIES ARE THE SAME AS THOSE BENEFITTING FROM THE WORLD BANK PROGRAM REFERRED TO IN PARA 7 ABOVE. THEREFORE, THE INCREASES ARE PRIMARILY FOR MATERIALS AND EQUIPMENT. THE EIGHTH MINISTRY, CIVIL SERVICE, WHERE USAID/CHAD IS ENDEAVORING TO PLAY A LARGER ROLE THROUGH POLICY REFORMS ASSOCIATED WITH THE CASH TRANSFER PROGRAM, RECEIVED ONLY THE AVERAGE RATE OF INCREASE, I.E. FOR BIGHTER SALARIES. THE MINISTRY OF FOOD SECURITY INCREASE IS BELOW THE AVERAGE RATE BECAUSE THE SUPPLIES EQUIPMENT AND EVEN THE ADDITIONAL LABOR NEEDED ARE NORMALLY THE RESULT OF HONOR ACTIVITIES AND CONTRIBUTIONS DURING PERIODS OF EMERGENCY.

14. THE TRANSFERS LINE ITEM PROVIDES FUNDS APPORTIONED

ONE-THIRD TO INTERNATIONAL ORGANIZATIONS OF WHICH CHAD IS A MEMBER, ONE-THIRD TO DOMESTIC AGENCIES SUCH AS THE UNIVERSITY OF CHAD, THE NATIONAL SCHOOL OF ADMINISTRATION, ETC., AND ONE-THIRD FOR SCHOLARSHIPS TO CHADIAN STUDENTS STUDYING DOMESTICALLY AND ABROAD AT THE UNIVERSITY LEVEL.

15. WHILE TOTAL RECURRENT EXPENDITURES ARE INCREASED 57 PERCENT FOR 1989, EXPENDITURES FOR EACH OF THE EIGHT DEVELOPMENT-ORIENTED MINISTRIES UNDER THE WORLD BANK FINANCIAL REHABILITATION PROJECT WERE INCREASED AT RATES ABOVE THAT--VARYING FROM 74 PERCENT FOR TOURISM/ENVIRONMENT TO 287 PERCENT FOR AGRICULTURE. THE COMBINED MATERIALS CATEGORY FOR THESE EIGHT MINISTRIES WAS RAISED A TOTAL OF 5.6 BILLION CFAF, WHICH ACCOUNTS FOR 38 PERCENT OF THE TOTAL RECURRENT BUDGET INCREASE IN 1989.

16. IN ADDITION TO THE EIGHT DEVELOPMENT MINISTRIES FOUR OTHERS (PLANNING/COOPERATION, INFORMATION, FINANCE/BANKING, AND CULTURE) EACH RECEIVED LARGER (72 TO 91 PERCENT) RATES OF INCREASE THAN THE AVERAGE OF 57 PERCENT. THE JANUARY 1989 SALARY INCREASE ACCOUNTS FOR THE MAJOR SHARE OF EACH OF THE

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NON-DEVELOPMENT MINISTERIAL INCREASES, WITH THE EXCEPTION OF THOSE FOR THE MINISTRIES OF INFORMATION AND FINANCE/DATA PROCESSING. IN THE CASE OF THE FORMER THE INCREASE IS PRIMARILY ATTRIBUTABLE TO NEW EQUIPMENT AND IMPROVED MAINTENANCE CAPABILITIES FOR CHAD'S TELEVISION AGENCY. FOR THE MCFDP THE INCREASE IS FOR EQUIPMENT TO IMPROVE MOBILITY AND COMMUNICATIONS IN THE CUSTOMS DEPARTMENT, I.F., SUPPORT FOR INCREASING THE PRIMARY SOURCE OF GOV TAX REVENUES.

17. TABLE 3 REVEALS DETAILS OF THE WORLD BANK IMPACT 0 1989 BUDGETTED EXPENDITURES FOR MATERIALS FOR EIGHT DEVELOPMENT MINISTRIES.

TABLE 3: CHAD - EXPENDITURES BY MINISTRIES UNDER THE WORLD BANK FINANCIAL REHABILITATION PROJECT (MILLIONS CFAF; COMMITMENT BASIS)

	SALARIES	MATERIAL	SALARIES	MATERI
EDUCATION	2337.7	110.4	4224.3	387.
HEALTH	701.3	181.8	1299.7	334.
SOCIAL AFFAIRS	129.6	23.7	203.8	147.
AGRICULTURE	445.0	68.4	922.6	1253.
LIVESTOCK	307.8	36.5	417.4	336.
TOURISM/ENVIRON.	224.3	49.6	303.6	167.
PUBLIC WORKS	175.7	70.3	295.6	239.
TRANSPORT	39.5	9.4	63.8	42.
TOTALS	4362.9	550.1	7723.0	2763.

18. THESE EIGHT MINISTRIES WILL NOW GARNER 24 PERCENT OF TOTAL ANNUAL MATERIAL EXPENSES VERSUS 11 PERCENT THE PREVIOUS YEAR. THEIR SALARIES INCREASE OF 77 PERCENT, LARGER THAN THE BUDGET AVERAGE OF 39 PERCENT, IS ATTRIBUTABLE TO PLANNED AUGMENTATION TO THEIR COMBINED STAFF LEVEL BY 1239 ADDITIONAL PERSONNEL. THAT NUMBER IS RELATIVELY LARGE, AND LESS THAN 22 PERCENT OF THE TOTAL ARE TO BE ENTRY-LEVEL SECRETARIES, CHAUFFEURS AND UNSKILLED OFFICE ASSISTANTS. THE LARGE SHARE, 850, ARE TO BE RELATIVELY HIGHLY TRAINED AGRICULTURE SPECIALISTS AND EXTENSION AGENTS. IF WE ASSUME THE LATTER GROUP WILL BECOME REGULAR FULL-BENEFIT CIVIL SERVANTS, THAT NUMBER WILL CONSTITUTE A 7 PERCENT INCREASE IN THE PRESENT LEVEL OF 12,200 REGULAR CIVIL SERVANTS.

19. IN MOST CASES THE MATERIALS EXPENDITURES FOR THESE EIGHT MINISTRIES HAVE DOUBLED OR TRIPLED, GIVING SOME INDICATION OF THE SHORTAGES WHICH EXIST IN GENERAL WITHIN THE GOV FOR BASIC FURNITURE, EQUIPMENT AND DAILY OFFICE SUPPLIES. HOWEVER, THE PRIMARY EMPHASIS IN THIS PROJECT IS CERTAINLY ON THE AGRICULTURE AND LIVESTOCK MINISTRIES WHERE COMBINED EXPENDITURES INCREASED 13 TIMES OVER THEIR 1988 LEVELS. THAT RATE OF INCREASE MAY APPEAR BIASED BUT IT ALSO CAN BE CONSIDERED CONSISTENT WITH THE DOMINANT ROLE OF AGRICULTURE AND LIVESTOCK IN THE CHADIAN ECONOMY. EVEN SO, COMBINED TOTAL EXPENDITURES FOR EIGHT MINISTRIES IN 1989 WILL STILL CONSTITUTE ONLY 7 PERCENT OF THE RECURRENT BUDGET, VERSUS 26 PERCENT OF ANNUAL TOTAL DEVELOPMENT

EXPENDITURES FOR THE SAME SECTORS FOR THE PAST THREE YEARS.

22. SHORTAGE OF REVENUES AND BUDGET SUPPORT. THE COMBINED REVENUE INCREASE FROM DOMESTIC SOURCES (34 PERCENT) AND DONOR BUDGET SUPPORT (30 PERCENT) IS PROJECTED TO BE 6.5 BILLION CFAF ABOVE THAT FOR 1988 (TABLE 1). THE DONOR BUDGET SUPPORT AMOUNT IS ACCURATE WHEREAS THE DOMESTIC REVENUE RATE APPEARS OPTIMISTIC IN LIGHT OF THE FACT THAT 1988 REVENUES, AFTER SOME ANNUAL VARIABILITY, WERE AT THEIR EARLIER 1984 LEVEL. NEVERTHELESS, MEMBERS OF THE WORLD BANK MARCH 1989 MISSION IN CHAD BELIEVE THE NEW REVENUE LEVEL IS CERTAINLY BASED ON CURRENT INDICATIONS OF GOO DETERMINATION TO PROCEED WITH ITS REFORM PROGRAM. THIS MARKS A SIGNIFICANT IMPROVEMENT OVER THE IMF'S APPRAISAL IN 1987 IN PREPARATION FOR CHAD'S STRUCTURAL ADJUSTMENT ARRANGEMENT. AT THAT TIME IT WAS CONCLUDED THAT GOO REVENUES WOULD GROW NO FASTER THAN NOMINAL GDP OVER THE NEXT FIVE YEARS, I.E. ABOUT 7 PERCENT A YEAR.

TABLE 4: CHAD - RECURRING BUDGET REVENUES
(MILLIONS CFAF; COMMITMENT BASIS)

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TAX REVENUE	16,255	21,363
ON INCOME/PROFITS:	2,695	4,305
COMPANIES	1,050	1,700
INDIVIDUALS	1,640	2,520
LATE PENALTIES	5	85
EMPLOYERS PAYROLL TAX	440	601
PROPERTY TAX	260	442
ON GOODS/SERVICES	4,225	5,695
INTERNATIONAL TRADE:	7,355	9,320
IMPORTS	6,785	8,126
EXPORTS	493	477
EXCHANGE RATE/OTHER	77	217
OTHER	1,290	1,520
NON-TAX REVENUES	2,205	3,307
DIVIDENDS/PROFITS:	1,046	995
FEAC	540	242
OTHER	506	755
NON-INDUSTRIAL SALES	1,031	1,776
OTHER	129	536
TOTAL	18,460	24,670

21. WITHIN THE REVENUE DETAILS THERE ARE SEVERAL POSITIVE CHANGES INDICATED, PARTICULARLY THAT THE GOC IS ATTEMPTING TO MODIFY THE PATTERN OF REVENUE GENERATION. FOR EXAMPLE, NON-TAX REVENUES FROM THE SALE OF GOVERNMENT SERVICES AND THE PAYMENT OF PARASTATAL PROFITS ARE TO INCREASE 50 PERCENT, NEARLY TWICE THE RATE FOR TAX REVENUES. ACHIEVEMENT OF THIS INCREASE WILL BE A TANGIBLE RESULT OF PUBLIC SECTOR REFORMS BEING IMPLEMENTED UNDER THE WORLD BANK-GOC POLICY FRAMEWORK PAPER. WITHIN THE TAX CATEGORY, DIRECT TAXES ON INCOME AND PROPERTY ARE TO INCREASE AT RATES THREE TIMES THOSE FOR INDIRECT TAXES ON TRADE. AND, THE LATE PENALTIES LINE ITEM INCREASE IMPLIES THAT FINCH TECHNICAL ASSISTANCE AT THE FINANCE DEPARTMENT HAS IMPROVED LEVY AND COLLECTION EFFICIENCIES. EVEN SO, ASIDE FROM THESE IMPLICATIONS FROM THE RATES OF CHANGE, THE ACTUAL AMOUNTS IN TABLE 4 INDICATE THAT THE TRADITIONAL PATTERN OF DEPENDENCY ON TRADE TAXES WILL REMAIN. THE LARGEST SHARE OF TAXES, 33 PERCENT, WILL CONTINUE TO COME FROM IMPORT DUTIES.

22. DEFICIT/FINANCING GAP. THE COMBINED PROJECTED INCREASE FOR DOMESTIC REVENUES AND DONOR BUDGET SUPPORT WILL TOTAL 8512 MILLION CFAF IN 1999. THAT AMOUNT IS EQUIVALENT TO ONLY 58 PERCENT OF THE 14,531 MILLION CFA

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INCREASE IN EXPENDITURES. CONTRARY TO 1988 THE DEFICIT IN 1989 WILL NOT BE COVERED BY THE INCREASED LEVEL OF BUDGET SUPPORT FROM FRANCE AND THE UNITED STATES. THE DEFICIT, AT 38 PERCENT OF TOTAL RECURRENT EXPENDITURES, AND THE REMAINING FINANCING GAP (TABLE 1) ARE OF SOME CONCERN TO THE GOC FOR TWO REASONS. FIRST, FRANCE OFFICIALS HAVE INDICATED IT WILL BE EXTREMELY DIFFICULT TO ALLOCATE ANY ADDITIONAL FUNDS TO BUDGET SUPPORT THIS YEAR, FORCING THE GOC TO FIND RESOURCES ELSEWHERE. SECOND, THE DEFICIT IS EQUAL TO ABOUT 6 PERCENT OF PROJECTED GDP, EXCEEDING IMF GUIDELINES THAT IT WILL BE LIMITED TO 2 PERCENT.

23. IN REGARDS TO THE FIRST CONCERN, WORLD BANK ANALYSTS SUGGEST THAT THE GOC WILL PROBABLY COVER THE RESIDUAL FINANCIAL GAP THROUGH USE OF THE FINANCIAL REHABILITATION PROJECT (FRP) RESOURCES. THE FRP IS AN 62 MILLION DOLLAR TWO YEAR INDEAVOR. THE GOC MAY DRAW FRP FUNDS AS REIMBURSEMENT FOR VERIFIABLE PUBLIC AND PRIVATE SECTOR IMPROVEMENTS OF ANY NON-MILITARY NATURE. FUNDS AVAILABLE IN THE 1989 TRANCHE ARE SUFFICIENT TO COVER THE BUDGET FINANCIAL GAP EQUIVALENT TO A LITTLE LESS THAN 20 MILLION DOLLARS. THERE ARE AT LEAST TWO

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OTHER PROGRAMS OF A SIMILAR NATURE--FINANCED BY THE GEFMANS AND EUROPEAN ECONOMIC COMMUNITY--UNDER WHICH THE GOC HAS ACCESS TO IMPORT REIMBURSEMENT FUNDS. THESE PROGRAMS ARE PRIMARILY EXPLAINED AS BALANCE OF PAYMENTS SUPPORT. HOWEVER, THE CONVERTIBILITY OF THE CFA ALLOWS THE FUNDS TO SERVE ALSO FOR BUDGET SUPPORT. IT IS OUR UNDERSTANDING, HOWEVER, THAT THE CHALLENGE FOR THE GOC LIES IN IDENTIFYING VALID IMPORTS OF INDIVIDUAL COMMODITIES IN LARGE ENOUGH VALUE TERMS TO MAKE THE EXERCISE MANAGEABLE. ADDITIONALLY, THOSE IMPORTS MUST NOT HAVE BEEN FINANCED UNDER A DONOR PROJECT.

24. THERE APPEAR, THEREFORE, TO BE REASONABLE POSSIBILITIES FOR COVERING THE RESIDUAL FINANCING GAP FOR THE RECURRENT BUDGET. THE REMAINING PROBLEM IS THAT THE BASIC DEFICIT IS TRIPLE THE LEVEL PERMITTED UNDER THE ORIGINAL GUIDELINES AGREED TO WITH THE IMF DURING THE FIRST YEAR OF THE STRUCTURAL ADJUSTMENT ARRANGEMENT (SAA). THE IMF COMPLETED AN ANNUAL REVIEW OF GOC COMPLIANCE WITH THE SAA AND OF THE OVERALL ECONOMIC SITUATION IN EARLY MARCH. THE IMF REPORT OF THIS REVIEW WILL BECOME AVAILABLE IN MAY. ALTHOUGH THE SAA DOCUMENTATION STATES THE DEFICIT GUIDELINE IN DEFINITE TERMS, OUTSTANDING PERFORMANCE BY THE GOC IN ALL OTHER ASPECTS OF THE REFORM PROGRAM MAY PERSUADE THE FANY/IMF TO ACCEPT GOC SLIPPAGE IN THIS ONE AREA. PAGE

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