

AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)</b>		1. PAAD Number	
		2. Country Chad	
		3. Category Budgetary Support Assistance	
		4. Date 9/17/90	
5. To Bernard D. Wilder AID Representative		6. OYB Change Number	
7. From Carole S. Palma Assistant AID Representative		8. OYB Increase To be taken from:	
9. Approval Requested for Commitment of \$		10. Appropriation Budget Plan Code GESO-90-31677-JG31 (037-61-677-00-50-01)	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period 10/1/90 - 10/1/91	14. Transaction Eligibility I
15. Commodities Financed			

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local 2,943,863
Cash ... 2,943,863	Other

18. Summary Description  
SUMMARY DESCRIPTION

The purpose of this \$2,943,863 million cash transfer is to provide budgetary support to the Government of Chad.

Subject to the availability of funds and the mutual agreement of the parties to the terms and conditions set forth herein, A.I.D. will disburse the FCFA equivalent of \$2,943,863 million in one tranche.

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 utilization plan. 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.

The substance of the following conditions precedent and covenants and disbursement procedures are included in the agreement.

19. Clearances		20. Action	
AFR/SWA:WSaulters (draft)	Date 7/27/90	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	Authorized Signature <i>Bernard D. Wilder</i>
AFR/PD:MBrown (draft)	Date 7/27/90		
AFR/CONT:MRogel (draft)	Date 7/27/90	Date 19 Sept '90	AID Representative
M/FM:JChezesy (draft)	Date 7/27/90		
ECON:PDMorris (draft)	Date 7/27/90		
CONT:CJohnson	Date 9/18/90		
PO:CSPalma	Date 9/18/90		
AID 1120-1 (5-82)	CLASSIFICATION:		
AFR/PD:MWright (draft)	Date 7/27/90		

UNCLASSIFIED

CHAD  
STRENGTHENING DEVELOPMENT MINISTRIES IV  
AMENDMENT NO. 1  
(677-0061)

USAID/CHAD  
AGENCY FOR INTERNATIONAL DEVELOPMENT

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## I. INTRODUCTION

### A. BACKGROUND TO THIS AMENDMENT

In August 1989, the Office of Sahel and West Africa Affairs (AFR/SWA) requested USAID/Chad opinion regarding the possibility to obligate the FY1990 proposed ESF cash transfer funds during the first quarter of the fiscal year. In responding positively the USAID discussed the options for doing so in the most expeditious manner. AFR/SWA had previously proposed that the annual cash transfer program be simplified through design as a three year program, to commence as such in FY1990. However, the extensive design work, including the use of short term technical assistance to identify and develop the policy conditionality aspects, would negate the possibility of a first quarter obligation. The alternative of an amendment to the FY1989 program (677-0061) could accomplish the early obligation and provide the mission with adequate time to design the multi-year program to commence in FY1991. This was proposed by USAID in 89 Ndjamena 04560.

Further discussion of the proposed amendment (see 89 Ndjamena 06016) was followed by Africa Bureau approval to use this approach. Guidelines for doing so were transmitted in December 1989 via 89 State 396097. Subsequently, USAID was notified that the ESF allotment for Chad would not be made available in FY1990, and development of the amendment was held in abeyance. In response to verbal notification from AFR/SWA in May 1990 that the ESF allotment may in fact become available, USAID/Chad is amending the subject PAAD to provide for a third tranche. The documents cited above are attached hereto for reference purposes.

### B. PAAD AMENDMENT

The PAAD (No. 677-K-604 date May 5, 1989) for the Strengthening Development Ministries IV project, USAID/Chad No. 677-0061, is being amended as follows:

1. Section III. MACROECONOMIC JUSTIFICATION FOR BUDGET SUPPORT, subsections A. OVERALL ECONOMIC PERFORMANCE and B. PUBLIC SECTOR OPERATIONS have been updated to include data for 1990, and are attached hereto.
2. Section IV. A. 2. Project Coverage has been updated to include the latest civil service census data by ministry eligible for U.S. budget support, and to provide the monthly payroll requirements under this budgetary support program. This information is attached hereto in Annex Table 7.

3. Section IV. E. IMPLEMENTATION SCHEDULE for the third tranche, being made available to the GOC under this amendment, is attached hereto.

4. Section IV. F. POLICY CONDITIONALITY, subsection 5. Fulfillment of 1989 Conditionality has been completed and is attached hereto.

5. Section IV. G. CONDITIONS PRECEDENT TO DISBURSEMENT, subsections 4. For The Third Disbursement, and 5. Representative Budget/Utilization Plan, have been completed for the third tranche made available under this amendment, and are attached hereto.

PDM7:456/1-2

### 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 severe drought in 1984 reduced the rate of growth for gross domestic product (GDP) that year to 5.0 percent below that of 1983, despite substantial growth in the industrial and construction sectors (see Annex Table 1). The economy rebounded the following year on an unprecedented scale. Growth in 1985 would have been significant even if it had started from a higher base for normal performance in 1984. Grain production more than doubled, helping to offset lower income from 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 4.2 percent decline in GDP for the year.

Near-drought conditions in 1987 led to another serious drop in the economy, down 3.4 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. GDP data show 1988 growth at nearly 16 percent in real terms. The agriculture sector has recovered from the 1984 drought and the weak water years of 1986-87. The provisional data for 1989 indicate that agricultural production is as good as it has ever been, and performance in 1990 is projected to continue at that level. Nevertheless, 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 rather 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. These efforts are producing some results. 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 1990 reveals that rehabilitation of the cotton sector is proceeding according to schedule and will result in a small profit this year. The recurrent budget projected deficit and financing gap for 1990 show marked improvement over the difficult deficits of 1989, but also reveal 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, secondarily, to gradually improve administrative efficiency as resources will allow. This long term priority in the GOC recurrent budget (see Annex Table 2) was intentionally diminished in 1989 by the World Bank through its Financial Rehabilitation Project. Following World Bank encouragement the GOC began to give more importance to improving efficiency of eight selected development-oriented ministries through an enhanced availability of materials and office supplies. This effort, along with the increased military activities on Chad's eastern borders, accounts for the extra-ordinary increase in the budget deficit and financial gaps for 1989 and 1990.

1. Civil Service Employment and Salaries. The government's first task in the postwar period was to reestablish its regular administrative and public service functions. Ministries and other agencies gradually resumed their previous activities as former employees were reintegrated and temporary workers hired. The number of civil servants was approximately 9,000 in early 1985, doubled to 18,000 the following year, was established at 22,561 by the May 1987 civil service census, and as of late 1989 the total is estimated at 23,800. In macro terms, Chad's population of over 5 million inhabitants, vis-a-vis the 23,800 public employees, indicates that it has one of the relatively smallest public bureaucracies in the world. These employee figures include contractors, temporary and part-time employees and volunteers. However, the civil service census and

ongoing analysis by the GOC Ministry of Civil Service (MFP) clarify that the number of regular full-benefit civil servants is approximately the same as the 1976 level of 12,000.

With growth in the number for all types of civil servants the public wage bill has more than doubled since 1985. Aggregate monthly wages for GOC civilian employees have increased from an initial total of about CFA francs 634 million in 1985 to about CFA francs 1,423 million in 1989 and 1990 (see Annex Table 2). These figures reflect payments of only 50 percent of the prewar salary scale through early in 1986, and 60 percent from then through 1988. For 1989 and 1990 they represent salaries being paid at 100 percent of the new salary schedule adopted in late 1988.

The salary increase encompassed 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 increase to the 1989 overall salary bill was 5,089 million CFAF, more than double the 1989 level of USAID's budget support program. The 41 percent wage bill increase in 1989 also included allowances for the addition of about 1200 new government employees. 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 constituted a 7 percent increase to the level of 12,000 regular civil servants.

All civil servant salaries were to have been effected in January 1989. However, the pay raise was delayed for some employees until their individual personnel files could be up-dated during the Ministry of Civil Service review of the quality of public employees. The 1989 provisional data for salaries reflects this at a level 7.5 percent below the budget target.

Although the 1989 salary increase represents the beginning of an ongoing burden for the GOC budget it was a natural step to take, and was 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 was eroding employee morale and administrative efficiencies. The GOC has now agreed with the World Bank/IMF, under the structural adjustment program, to maintain the overall wage bill at its 1989 level plus

inflation until 1992. The actual number of employees may change somewhat, due to normal processes, but the overall wage bill should remain at a level approximating that in the 1990 budget.

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 21 to 22 percent of gross domestic product projected for 1990. This relative importance of the budget is the second factor, after salaries, responsible for the large rate of increase that occurred in 1989. The GOC, on World Bank recommendation, is attempting to use the budget to increase overall demand in the domestic economy.

The World Bank's Financial Rehabilitation Program (FRP) for 1989 and 1990 has attempted to stimulate demand through programming a significant one-time increase in 1989 spending for materials for eight development-oriented ministries. That program is being continued at the same level through the 1990 budget. 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, through the increased availability of basic supplies within the GOC, by implication an increased absorptive capacity for implementing development projects.

The absorptive capacity challenge will differ for each administrative unit of the GOC bureaucracy. Sufficient data are not currently available for an extensive analysis of the topic. Nevertheless, it is evident that the development budget (as opposed to the recurrent budget) levies vastly differing demands on each participating unit of the GOC. For example, there are 9 ministries absorbing 87 percent of total development funds. It is possible to measure the average management burden in terms of francs CFA managed per ministry employee. Given the obvious differences among projects--perhaps as much within a single sector as between differing sectors--the resultant spread in management burden-per-staff-member may be normal. That spread ranges from 1.8 million FCFA per employee in the Ministry of Education, to 72.8 million FCFA per employee in the Ministry of Mines and Energy. On the other hand, the wide variety in these levels may signify a less-than-efficient distribution of resources to project implementors. For the present we have no standard against which to judge the data. We intend to monitor these categories for change over time and to explore other possibilities for evaluating the absorptive capacity of the GOC, on the development and the recurrent budget sides.

Total recurrent expenditures were increased 39 percent in 1989, however, 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.

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

<u>Ministry of:</u>	<u>1988</u>		<u>1989</u>		<u>1990</u>	
	<u>Salary</u>	<u>Supply</u>	<u>Salary</u>	<u>Supply</u>	<u>Salary</u>	<u>Supply</u>
Education	2337.7	110.4	4224.3	387.0	3881.0	589.9
Health	701.3	181.8	1289.7	334.8	1195.1	524.6
Social Affairs	129.6	23.7	203.8	147.0	213.5	80.1
Agriculture	445.0	68.4	902.6	1083.8	716.2	289.2
Livestock	307.8	36.5	417.4	366.5	472.5	63.2
Tourism/Envir.	224.3	49.6	308.6	167.2	368.9	156.4
Public Works	175.7	70.3	295.8	239.2	204.3	158.7
Transport	39.5	9.4	65.8	40.4	73.3	68.3
Totals	4360.9	550.1	7708.0	2765.9	7124.8	1930.4

The materials category for these eight ministries was budgetted to raise a total of 2,216 million CFAF in 1989, however, disaggregated actual expenditures by Ministry are not yet available to verify year end results. For that reason the appearance of reductions budgetted for 1990 may not be very meaningful at this stage. For example, in the 2 main budget categories, salaries and supplies, provisional 1989 expenditures are lower than the original budget targets. The final figures for 1989 may remain near their current provisional levels, thus the 1990 targets will represent increases rather than the current appearance of definite reductions.

These eight ministries now garner 24 percent of total annual material expenses versus 11 percent in 1988. 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. The primary emphasis of the FRP in 1989 was centered on the Agriculture and Livestock ministries where combined expenditures increased 13 times over their 1988 levels. That rate of increase may appear excessive for one year, but in another sense it is 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 constituted only 7 percent of the recurrent budget. In comparison, 26 percent of total 1985-1988 investment expenditures by the donor community went to these same two sectors.

That FRP emphasis has been changed somewhat for the 1990-1991 period, as evidenced by the budget drop in supply expenditures for these 8 ministries in general, and specifically for agriculture and livestock. The FRP is switching from an emphasis on production and service-oriented ministries (including Agriculture and Livestock), to improving administrative efficiency (including the Ministries of Finance/Data Processing, Information, and the General Secretariat). Success of the financial rehabilitation program requires that GOC tax collecting capability and results be augmented. The tax ratio of revenues to GDP has averaged from 4 to 5 percent during 1984-1987, but is now targetted to improve to above 8 percent in 1990.

3. Disaggregated Expenditures. Expenditures by functional category and by ministry appear in Annex Tables 2 and 3. GOC recurrent budget documents disaggregate planned expenditures first by ministry and department and secondly, within each ministry by salary and material/supply categories. Details of the 1989 and 1990 alterations in the traditional pattern of expenditures, 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. Military salaries and equipment consume a relatively large share of total resources in view of Chad's development needs. As a share of GDP, the military sector has fluctuated between 5 and 7 percent since 1985. It is doubtful that budgetary changes can significantly alter this expenditure pattern in the medium term. Annex Table 3 shows, via ministerial disaggregation, the preponderant position of Defense, at 23 percent of the 1989 budget plan total. That level represented a decrease from 35 percent in 1988, and was intended to allow the GOC to devote more effort and resources to development programs. The October 1988 diplomatic settlement of the long-standing Libyan threat along Chad's northern frontier should have allowed the release of additional resources for the production and services sectors. Those plans were marred somewhat.

Renewed hostilities in April 1989 along Chad's border with Sudan pushed military expenditures 43 percent above the budget plan, to reach a new high level of 7.5 percent of GDP. In an attempt to satisfy structural adjustment deficit reduction guidelines, the GOC has scheduled 1990 military spending 5 percent below the 1989 budgetted level. The defense share of the total budget is to diminish to 21 percent in 1990. However, in view of continuing military activities in the Sudan border area during the first half of calendar 1990, it is possible that this budget spending guideline will be breeched again in 1990.

The categorization of expenditures between administration and services (Annex Table 3) might require some modification if we could accurately and comprehensively disaggregate every expenditure item. Without that refinement the data imply the services delivery capacity of the GOC should improve markedly due to the three-fold increase in 1989 resources vis-a-vis the smaller 44 percent increase for administration. However, that large percentage improvement must be tempered by the reality of the data which show salaries plus all military expenditures still consuming 72 percent of the 1989 and 1990 budgets.

The largest actual increase in 1989 for a single GOC unit--2,163 million CFAF--went to the Ministry of Education, primarily for salaries. That share of the salary increase comes 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 the sector.

The Interministerial expenditures continue in 1990 to be one of the largest items in the budget, after Defense and Education. It contains funds for the purchase of vehicles to be assigned to several ministries; funds for the repair of non-allocated government buildings; and, the entire counterpart allotment (currently about 2,000 million CFAF per annum) 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. The 1990 budget provides for further modest increases for the Ministries of Planning and Health, while Agriculture and Public Works are reduced, and the others continue at or near their 1989 levels.

These ministries are the same as those benefitting from the World Bank FRP referred to above. Their increases and decreases in 1989 and 1990 are strongly related to the supplies and equipment category. 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 below on 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.

It is an anomaly that the 1990 investment budget by ministry shows no attribution of resources directly to the Ministry of Civil Service (MFP), which is responsible for the standard of quality within the civil service. On the other hand, the GOC and World Bank/IMF structural adjustment program gives considerable importance to studying and providing for improvements in public administration (see 88 Ndjamena 0646). The necessity for an increased level of efficiency in public administration is also prominently evident in the GOC's new ten-year Plan d'Orientation (see 90 Ndjamena 02040). Logically then, disaggregation of the development budget data by sector and subsector of the economy reveals that a very significant share of total development resources are dedicated to paying for improvements in public administration and human resources. For a comprehensive discussion of the two versions of the GOC development budget see 90 Ndjamena 03374.

CHAD - DEVELOPMENT BUDGET BY ECONOMIC SECTOR  
(Millions of current Francs CFA)

<u>SECTOR:</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Integrated Development	6,878	6,494	5,468
Agriculture/Irrigation	24,174	26,403	26,784
Mines/Industry/Energy	2,378	6,236	7,193
Infrastructure/Transport	18,846	24,268	29,981
Human Resources	11,154	14,713	18,450
Support to Development	<u>6,130</u>	<u>15,055</u>	<u>18,426</u>
Total	69,560	93,169	106,302

In another category of important expenditures, the GOC acknowledged responsibility to pay pre-1979 domestic and foreign 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), the income and expenditures of which are generally tabulated separately from the GOC recurrent budget. This arrangement is changing as the GOC is moving to include all such operations in 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 21 billion FCFA on 117 billion FCFA of debt outstanding as of December 1989.

Much of Chad's foreign debt is the result of the development budget, and disaggregation of the development budget trend into loans and grants is cause for concern. GOC budget documentation explains that the increased reliance on loan funds is attributable to the heavy investment in infrastructure, primarily for the road construction program. Although the loans come predominantly from the multilateral donors, extended at highly concessional rates of interest and lengthy grace periods prior to repayment, they are loans and will require repayment at some future date. Of the nearly 20 billion CFAF projected increase in the loan total in 1990, 14 billion will be due to World Bank and African Development Bank programs. The remaining 4.7 billion will come from the Caisse Central of France, for a second phase rehabilitation of the GOC organizations managing the supply of water and electricity. There is no government or government-guaranteed debt owed to the United States.

CHAD - DEVELOPMENT BUDGET BY TYPE OF FINANCING  
(Millions of current francs CFA)

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Loans	18,928	34,626	53,116
Grants	50,632	58,544	53,186
Total	69,560	93,160	106,302
Percent Share of Total:			
Loans	27	37	50
Grants	73	63	50

The GOC external debt structure, based on the information available, will receive considerable relief upon completion of the on-going negotiations with France on debt forgiveness. As of the end of 1988 Chad's outstanding foreign debt (including principle, interest and arrears) was 96 billion francs CFA. Of that total, 53 billion is held by the multilateral institutions and is not being considered in the negotiations. Six bilateral donors hold 31 billion FCFA of Chadian debt, of which 20 billion FCFA is owed to France. The successful result of the debt reduction exercise will have an immediate but temporary impact on Chad. The long term effects will be nullified by the amount of new multilateral debt to be incurred through the 1990 development budget.

The debt service ratio, in relation to the export of goods and services, has been 4 percent per annum since 1985. Use of the 1990 data show the estimated ratio increasing to 6.5 percent. Although the ratio is low by most standards it represents a significant financial burden for the GOC as payments have ranged from the equivalent of 14 to 18 percent of annual domestic revenues since 1986. The government is attempting to deal with the debt 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 1985 to 1990 (Annex Table 4) indicates an ability on the part of the GOC to generally 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 1985-1990 average annual rate of increase of 6.0 percent in expenditures (excluding the disproportionate increase in 1989) approximates Chad's inflation rate over the same period. In effect, budgetary expenditures have been nearly frozen in real terms. The relatively large rate of increase for 1989 recurrent budget expenditures was the result of justifiably higher salaries for the civil service, the World Bank's Financial Rehabilitation Program to improve the administrative capacities of eight development-oriented ministries, and Chad's need to respond militarily to threats on its borders.

4. Shortage of Revenues and Budgetary Support. Revenue details are listed in Annex 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 rate of increase for tax revenues that some progress has been achieved. The GOC is continuing to utilize French and IMF advisors in its Tax, Treasury and Customs Departments to improve tax generation and administration techniques.

These efforts will be bolstered during 1990 by the Ministry of Finance Data Processing Center. A portion of the 1988 cash transfer resources from USAID were used to renovate the Center with new IBM equipment. Other USAID resources are providing training and technical assistance to the data processing staff. After completing computerization of the GOC civil service monthly salary payment process the Center has been charged with the follow-on task of computerizing the accounts of the Treasury, the Customs and the Tax departments.

Taxes are the overwhelming source of GOC domestic income, accounting for between 83 and 93 percent of total domestic-sourced revenue in recent years. As with other developing countries, taxes on international trade remain the most important, but they are gradually being replaced by income and sales taxes by the GOC. Import/export duties were supplying 45 percent of tax revenue in 1986, but are down to 29 percent in 1990. In the trade tax category, levies on imported goods naturally supply the larger share and have remained above 90 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. Although the cotton sector rehabilitation will result in some minor profit in 1990 for COTONTCHAD, the cotton sector monopoly in Chad, no further tax income is expected from cotton exports until later in the early 1990s.

Other leading sources of revenue are income taxes, and taxes on goods and services. The contribution of each of these has been expanding since 1986. Income tax revenues have risen gradually from 24 percent of tax revenue in 1986, to 28 percent in 1990. Sales taxes on goods and services have increased more significantly, from 22 percent in 1986 to 33 percent in 1990. Of particular importance is the fact that personal and business income tax revenues, more than doubled over that period, and sales tax revenues more than tripled, while GDP increased 18 percent over the same period.

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. With few exceptions these deficits have annually increased in absolute amount and as a percent of GDP. The budget deficits on a commitment basis have risen from 3.6 percent of 1984 GDP in current prices, to 6.9 percent in 1989. On a cash basis the deficits were slightly lower until 1988 when the World Bank/IMF financial rehabilitation program require the GOC to begin steady progress toward repayment of its debt service arrears. That was instrumental in pushing the 1989 cash deficit to 10.7 percent of GDP and an estimated 7 percent in 1990.

The government has relied upon a variety of sources, both domestic and foreign, to finance its budgetary deficits. Domestically that source has been the Banque des Etats de l'Afrique Centrale, (BEAC), the regional central bank (Annex Table 6). 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 has accounted for over 63 percent of all externally provided budget support between 1984 and 1989. The United States has contributed 15 percent, and IDA (World Bank) almost all of the remainder.

The provisional data for 1989 indicate that the deficit was not covered by the increased level of budget support from France, the United States and others. The cash deficit, at 49 percent of total recurrent expenditures, and the remaining financing gap at one-third of the cash deficit, were the result of the higher than planned for military expenditures, and the delay in implementation of the planned for debt forgiveness by the major donors. Although the commitment deficit was equal to nearly 7 percent of projected GDP, exceeding the IMF Structural Adjustment Arrangement guidelines that it be limited to 2 percent, the IMF/World Bank have accepted the GOC need to militarily protect its borders as the primary reason for that excess.

The GOC has attempted to cover the residual cash deficit financing gap of 1989 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. However, funds available in the 1989 tranche of the FRP were insufficient to cover the financing shortfall. Conversations with MFI Treasury officials indicate that much of the 1989 financing gap has been carried forward into 1990. Although the Treasury was unable to provide actual figures to substantiate this claim there is this circumstantial evidence validating the GOC need for continued U.S. budgetary support.

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ANNEX TABLE 1

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

ECONOMIC SECTOR	1977-1979 <sup>a</sup>		1984	1985	1986	1987	1988		Prev. 1989	Proj. 1990
	AMOUNT	%GDP					AMOUNT	%GDP		
PRIMARY	65.2	43.9	51.4	74.8	71.3	67.4	63.1	44.2	79.2	75.1
Agriculture	42.6	28.7	29.1	53.1	45.4	44.6	55.5	31.7	55.1	53.2
Livestock	22.6	15.2	22.3	21.3	21.9	22.8	27.6	12.5	24.1	21.9
SECONDARY	25.1	16.6	29.3	28.4	27.4	25.1	26.4	15.1	34.3	37.2
Manufacturing	22.6	15.2	27.2	25.4	24.1	21.6	24.8	13.2	30.3	31.5
Construct./Public Works	1.2	0.8	1.1	1.7	1.3	1.9	2.1	1.1	2.3	3.1
Mining/Petroleum	0.4	0.2	0.2	0.4	0.4	0.5	0.4	0.2	0.5	0.7
Water/Electricity	0.9	0.6	0.8	0.9	1.1	1.1	1.1	0.6	1.2	1.4
TERTIARY	56.4	37.3	60.4	72.4	70.1	69.3	76.4	40.7	50.9	53.2
Trade/Transport/Commun.	48.1	32.4	44.3	53.1	53.5	50.4	56.5	30.1	59.0	61.5
Gov. Administration	10.3	6.9	16.1	19.3	16.6	19.2	19.9	10.6	21.6	20.0
GDP at Factor Cost	148.7	100	143.1	175.2	167.8	162.1	187.9	100	154.4	159.1

Source: Government of Chad, Ministry of Plan and Cooperation, Comptes  
Economiques 1988-1990, p. 46

<sup>a</sup> Amount is arithmetical average of the 1977-1979 data.

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ANNEX TABLE 2

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

	1985	1986	1987	1988	Prov.	Budgetted	
	24,958	25,011	27,711	31,197	1989	1989	1990
TOTAL (1)					43,444	43,083	43,499
Salaries (civilian)	8,238	9,583	11,325	12,363	17,452	18,754	18,500
Central Administration	6,572	7,936	9,720	NA	NA	17,786	NA
Foreign Service	385	403	400	NA	NA	898	NA
General Staff Expenses	1,281	1,244	1,205	NA	NA	70	NA
Goods and Services	4,750	4,071	3,886	4,014	6,263	9,732	9,167
Central Administration	1,511	477	1,777	NA	NA	5,339	NA
Embassies	577	549	397	NA	NA	582	NA
General Supplies	1,176	783	364	NA	NA	1,811	NA
Building Maintenance	309	75	199	NA	NA	NA	NA
Emergency Action Fund	115	444	431	NA	NA	NA	NA
Miscellaneous	1,062	1,743	718	NA	NA	NA	NA
Military (salaries/supplies)	9,085	8,982	9,567	12,500	14,365	10,000	9,500
Transfers	1,971	1,320	2,058	1,199	3,279	1,660	2,940
Scholarships	247	487	368	NA	NA	550	780
Contributions to Organizations	924	773	895	NA	NA	1,100	2,160
Pensions	329	NA	NA	NA	NA	NA	NA
Other	471	60	795	NA	NA	10	--
Other (2)	914	1,055	875	896	876	937	1,455
Counterpart Funds	0	0	0	225	1,209	2,000	1,937

Source: IMF Report No. EBS/87/209 with data as of July 1987; Ministry of Plan and Cooperation, Comptes Economiques, 1983-1990, p. 43; Ministry of Finance, Central Treasury. All capital expenditures are externally financed. All data are for actual expenditures except where noted. The disaggregation of pre-1988 data was done by the IMF, and is not available in current publications by the GOC.

- (1) Includes GOC counterpart contribution to Investment budget for all development projects.  
(2) Includes debt servicing interest payments by the CAA.

ANNEX TABLE

CHAD - CENTRAL GOVERNMENT EXPENDITURE BUDGET EXPENDITURES BY MINISTRIES  
 (Millions of current CFAF)

MINISTRY/AGENCY	1986 Actual		1987 Actual		1988 Actual		1989 Budget		1990 Budget	
	Salaries	Supplies	Salaries	Supplies	Salaries	Supplies	Salaries	Supplies	Salaries	Supplies
<b>ADMINISTRATIONS</b>										
-----										
Presidency	2,491.6	209.6	2,537.0	426.1	2,766.1	421.7	4,345.1	477.6	2,181.0	511.0
Government Secretariat	65.7	13.7	147.1	356.0	57.6	125.1	190.4	195.0	136.0	294.4
Nat'l. Advisory Council	112.1	6.4	129.0	24.7	141.6	34.1	174.0	31.5	119.5	92.1
Planning/Cooperation	64.0	2.0	66.5	27.1	110.1	22.4	218.6	35.1	196.0	92.8
Information	163.6	52.9	164.1	85.3	220.5	90.0	324.0	241.0	376.8	441.5
Audit/Inspection	57.5	10.7	119.1	38.7	125.2	45.0	150.0	62.0	199.9	61.9
Ministry of State	--	--	12.0	4.5	12.0	4.4	10.1	6.2	11.9	12.0
Foreign Affairs	86.4	425.6	152.2	476.1	692.6	516.0	598.0	590.1	1,027.2	602.6
Finance/Data Processing	469.7	521.6	685.7	346.6	628.9	331.6	1,160.1	566.9	1,379.1	784.7
Civil Service	42.1	0.9	53.0	13.2	52.9	23.0	142.0	24.6	105.8	33.8
Justice	146.6	66.2	176.0	119.1	197.9	103.7	316.9	133.8	296.0	127.0
Interior	1,315.0	265.6	1,611.1	254.0	1,467.6	270.0	2,198.4	422.4	1,767.1	375.0
Defense	7,000.0	1,400.0	7,000.0	2,000.0	7,940.7	4,250.0	8,070.1	1,507.9	6,600.0	1,800.0
Sub-Totals	12,302.5	2,870.7	12,876.3	4,175.6	14,477.0	6,698.2	19,360.0	4,670.7	16,466.5	4,679.9
<b>SERVICES</b>										
-----										
Education	1,895.8	102.1	2,567.6	115.7	2,307.9	110.4	4,374.0	359.0	3,426.4	401.7
Public Health	547.1	69.3	617.4	120.0	761.0	161.6	1,269.7	334.6	1,195.1	524.6
Export Affairs	57.0	--	106.8	22.7	109.6	22.7	160.6	147.0	213.5	60.1
Leisure	29.1	2.0	45.2	12.0	42.0	19.0	61.6	21.4	75.0	31.0
Food Resources	79.2	--	44.8	11.0	35.1	17.9	44.0	19.9	49.5	19.7
Agriculture	371.0	36.4	470.0	75.6	446.0	63.4	902.6	1,003.8	716.0	269.0
Irrigation/Inigation	240.3	14.6	316.0	39.6	307.6	36.6	417.4	366.0	472.0	67.0
Tourism/Environment	211.6	4.6	240.0	42.6	224.7	49.6	308.6	167.2	365.9	156.4
Culture/Youth/Sports	--	--	194.1	52.2	147.7	52.4	234.3	71.4	303.6	86.9
Commerce/Industry	60.2	--	73.4	17.1	52.0	27.5	163.9	29.9	175.9	42.0
Mines/Energy	--	--	56.9	23.6	57.1	26.2	65.8	27.3	66.7	45.0
Public Works	169.1	12.2	170.2	62.3	175.7	70.0	265.6	139.0	204.0	156.7
Post/Telecom/Communications	20.1	--	30.3	9.8	32.6	9.0	45.6	9.2	44.4	15.0
Transportation	26.0	--	37.0	7.0	39.5	9.4	65.6	40.4	70.0	66.0
Higher Education/Research	NA	NA	NA	NA	NA	NA	NA	NA	424.6	166.0
Urban Development	NA	NA	NA	NA	NA	NA	NA	NA	66.5	57.4
Transfers (1)	--	1,120.0	--	1,490.0	--	1,370.0	--	1,660.0	--	2,940.0
Interministerial	--	3,032.6	--	511.6	40.0	854.3	70.0	3,611.7	40.0	3,431.0
Sub-Totals	3,699.0	4,395.2	4,974.2	2,617.1	4,809.6	2,975.8	8,463.6	5,421.7	6,010.5	6,627.0
<b>Totals</b>	<b>16,001.5</b>	<b>7,369.5</b>	<b>17,850.1</b>	<b>7,092.9</b>	<b>19,286.6</b>	<b>9,674.0</b>	<b>27,823.6</b>	<b>10,092.4</b>	<b>26,500.0</b>	<b>11,307.0</b>

Source: Ministry of Finance & Data Processing, Budget Office and annual budget accounts.

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

ANNEX TABLE 4

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

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	Prov. 1989	Proj. 1990
Total Revenues	18,266	21,341	17,748	19,471	24,775	28,810	33,100
Tax Revenue	13,076	15,916	13,751	13,794	18,666	23,019	27,100
(Of which Ex/Imp)	7,865	8,905	6,164	5,092	6,227	6,917	7,800
Non-tax Revenue	3,452	4,117	2,497	1,617	1,320	1,947	2,200
Foreign Debt Fund(CAA)	1,738	1,308	1,500	4,060	4,789	3,844	3,800
Expenditures	23,456	24,958	25,011	27,711	30,972	42,235	41,562
Recurrent Budget	22,243	24,044	23,956	26,836	30,076	41,359	40,107
Foreign Debt Fund	1,213	914	1,055	875	896	876	1,455
Deficit on Commitment Basis	(5,190)	(3,617)	(7,263)	(8,240)	(6,197)	(13,425)	(8,462)
Change in Arrears	518	1,325	924	567	(1,055)	(6,210)	(3,000)
Domestic	107	1,008	759	502	(1,377)	(6,285)	(3,000)
External	411	317	165	65	322	75	--
Counterpart to the Investment Budget	--	--	--	--	225	1,209	1,937
Cash Deficit	(4,672)	(2,292)	(6,339)	(7,673)	(7,477)	(20,844)	(13,399)

Sources: IBRD Report No. 6785-CH of October 1987, and IMF No. EBS/87/209 of October 1987.  
GOC Ministry of Plan and Cooperation, Comptes Economiques 1983-1990. 1984-1988 are actual expenditures, 1989 is provisional data, and 1990 is the budget commitment.

ANNEX TABLE 5

CHAD - CENTRAL GOVERNMENT RECURRENT BUDGET REVENUE  
(Millions current CFAF)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Prov. 1989</u>	<u>Proj. 1990</u>
TOTAL REVENUE (1)	16,248	15,411	19,986	24,966	29,300
TAX REVENUE	13,751	13,794	18,666	23,019	27,100
On Income & Profit	3,339	3,494	4,554	6,289	7,600
Individuals	2,405	1,960	3,499	4,794	NA
Corporate	934	1,534	1,050	1,410	NA
Late Penalties	--	--	5	85	NA
Employer's Payroll	391	306	440	601	NA
On Goods & Services	3,019	3,223	6,002	7,319	9,000
Domestic Turnove	997	927	945	1,780	NA
Unitary Tax (2)	976	1,450	2,000	2,000	NA
Registration Fee	224	225	260	442	NA
Stamps	205	237	280	300	NA
Other	617	384	2,517	2,797	NA
Civic/Poll Tax	703	748	1,000	1,200	NA
International Trade	6,164	5,092	6,227	6,917	7,800
Imports	6,485	4,608	5,657	6,223	NA
Exports	106	133	493	477	NA
Parastatal Profits(3)	(427)	351	77	217	NA
Other	135	931	443	693	2,700
NON-TAX REVENUE	2,497	1,617	1,320	1,947	2,200
Property Rents	171	102	202	300	NA
Administrative Fees	147	419	304	455	NA
Non-Indus. Sales(4)	591	470	486	214	NA
Central Bank Profit	641	261	200	442	NA
Other (5)	947	365	128	536	NA

Source: IBRD Report No. 6785-CH of October 1987; Ministry of Finance, General Treasury; and Budget Documents for 1988-1990. Actual revenues for 1985-1988, provisional data for 1989, and projections for 1990.

- (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.

ANNEX TABLE 6

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

	1984	1985	1986	1987	1988	Prov. 1989	Proj 1990
FINANCING REQUIRED (1)	4,672	2,292	6,339	7,673	7,477	20,844	13,399
NET EXTERNAL FINANCING	2,836	3,988	4,505	7,013	9,233	11,775	13,725
Budgetary Support	2,971	4,387	5,748	6,609	8,525	14,109	12,300
France	1,990	3,925	5,000	3,010	5,500	7,500	NA
USAID	981	462	572	1,590	2,100	2,400	--
Other (2)	--	--	176	2,009	925	4,209	NA
Debt Relief (3)	--	--	--	1,304	967	--	8,629
Amortization (4)	(135)	(399)	(1,243)	(900)	(259)	(2,334)	(7,204)
NET DOMESTIC FINANCING	1,836	(1,696)	1,834	660	(1,756)	2,705	(326)
Banking System	1,200	(2,168)	1,524	(498)	(1,399)	(3,059)	(326)
Central Bank	1,359	(2,194)	1,597	(402)	(1,501)	3,848	(326)
IMF (net)	(1,015)	1,185	(509)	(36)	(341)	NA	NA
SDR Advance	2,003	(1,118)	(691)	803	NA	NA	NA
Credit Ceiling Adv.	1,981	(2,186)	2,238	(545)	NA	NA	NA
Deposits	(1,610)	2,119	559	(624)	NA	NA	NA
Commercial Banks	(159)	26	(73)	(96)	102	(789)	--
Non-Banking Sector	636	472	310	1,158	(357)	354	--
FINANCING SHORTFALL	--	--	--	--	--	6,364	

Source: IMF Report No. EBS/87/209 of October 1987; Ministry of Finance Budget Documents for 1988-1990; World Bank Report No. P-4806-CD, July 1988, Table 1; and GOC Ministry of Plan and Cooperation, Comptes Economiques 1983-1990.

(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 through debt rescheduling and/or forgiveness.

ANNEX TABLE 7

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

<u>MINISTRY/DEPARTMENT</u>	<u>Number of Employees(1)</u>	<u>Monthly Payroll (CFA Francs. 000)</u>
<u>Administration:</u>		
General Secretariat	173	10,464
National Consultative Council	54	9,884
Planning/Cooperation	187	15,078
Information	369	25,888
Inspection/State Control	136	15,377
Finance/Data Processing	2,615	84,615
Civil Service	111	8,135
Justice	675	22,791
<u>Services:</u>		
Education	5,333	263,567
Public Health	2,713	91,930
Social Affairs/Women	393	16,426
Labor/Employment	91	5,782
Food Security	67	3,112
Agriculture	1,397	55,094
Livestock/Irrigation	908	36,346
Tourism/Environment	1,142	28,383
Culture/Youth/Sports	291	24,877
Commerce/Industry	146	13,839
Mines/Energy	97	7,437
Public Works	510	15,718
Post/Telecommunications	63	3,416
Transportation	157	5,636
Higher Education/Research	186	34,925
Urban Development	82	6,842
<b>Totals</b>	<b>17,896</b>	<b>805,562</b>

Source: GOC Ministry of Finance letter No. 1500/MFI/DG/88 of December 1987 reporting the census of 1987, updated to December 1989 by the Ministry of Civil Service (MFP). Monthly payroll derived from Ministry of Finance budget documents for 1990.

(1) Includes employees in Ndjama and in the prefectures as disaggregated data are not available.

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IV. PROJECT DESCRIPTION

E. IMPLEMENTATION SCHEDULE

<u>Estimated Date</u>	<u>Activity</u>
July 1990	-Grant Agreement Amendment signed.
August 1990	-GOC meets Conditions Precedent. Third tranche requested.  -A.I.D. deposits third 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 plan) into Special Account at Central Bank and begins disbursements.
October 1990	-Technical assistance arrives to work with MFP.
November 1990	-GOC completes disbursement of third tranche.
February 1991	-General Treasury payroll records become available for informal audits of third tranche.  -GOC submits final utilization report to USAID/Chad.
April 1991	-Compliance audit of all GOC disbursements under the Grant by an outside accounting firm.

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#### IV. F. POLICY CONDITIONALITY

##### 5. Status of Fulfillment of 1989 Conditionality.

The conditions precedent for the 1989 cash transfer are listed in Article 3 of the Program Grant Agreement, signed July 8, 1989. The current status of their fulfillment is as follows:

a. Section 3.1 addresses those aspects relevant to the first tranche. Ministry of Finance and Data Processing letter No. 1013/MFI/DG/DB/89 of July 27, 1989 provided a statement of the names and titles of the persons who will act as representatives of the Government of Chad, together with a specimen signature of each person listed, in compliance with Section 3.1 (A); a statement designating the bank and account number of the Disbursement Account, in compliance with Section 3.1 (B); a statement from the Central Bank of Chad confirming that the Special Account has been opened in the name of the Government of Chad and specifying the number of the account, in compliance with Section 3.1 (C); a report of the preliminary findings of the Interministerial Commission, created in 1988 to analyze all available data on the Government of Chad's civilian work force, along with the Commission's recommendations for improving the work force effectiveness and a plan for implementing those recommendations, in compliance with Section 3.1 (D); a request for short term technical assistance to the Technical Sub-Commission of the Interministerial Commission, to assist in planning for improved efficiency in the civil service, in compliance with Section 3.1 (E); evidence that the Government of Chad has provided the Ministry of Civil Service with the financial and material resources necessary for fulfillment of the responsibilities of the Interministerial Commission, in compliance with Section 3.1 (F); and, an initial utilization plan specifying the purpose, estimated amount and timing of the proposed release of funds from the Special Account by the Government of Chad, including a line item which provides for adequate and appropriate annual maintenance of the facilities and equipment of the rehabilitated computer center of the Ministry of Finance and Data Processing. Implementation letter No. 2, dated September 5, 1989 informed the GOC that the above listed proofs satisfied the conditions precedent to disbursement of the first tranche under the grant.

b. Section 3.2 addresses those aspects of conditionality relevant to the second tranche. Ministry of Finance letter No. 1609/MFI/DG/DB/89, date December 7, 1989 provided a utilization plan specifying the proposed purpose, amount and timing of payments to be made from the Special Account, in compliance with Section 3.2 (A); 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, in compliance with Section 3.2 (B); and, evidence that the Government of Chad has outlined a plan for the development of an overall training program for the civil service, to include development and expanded use of the National Public Administration School, in compliance with Section 3.2 (C).

c. Upon receipt of the proofs listed above to satisfy Section 3.2 (A) conditionality, USAID submitted a verbal request to the GOC to further explain and justify a higher than usual amount requested for the purchase of materials listed in the proposed utilization plan for the second tranche. In response, Ministry of Finance and Data Processing letter No. 0291/MFI/DICAB, dated March 6, 1990 explained that an increased level of materials was necessary to assist in successfully implementing the revenue generating targets established under the World Bank/IMF structural adjustment program. As the combined first and second tranche expenditures for materials will equal 13 percent of the total grant (only slightly above the usual standard of approximately 10 percent) the GOC explanation was acceptable to USAID.

d. Although the overall training plan submitted to USAID to satisfy 3.2 (C) is weak it does comply with the "letter of the law" regarding this conditionality. More importantly, there is additional evidence that the GOC is attempting to implement the "spirit of the law". The Government plays an active and directive role in developing and managing the two-year (1989-1990) training plan financed under USAID's Human Resource Development Project (698-0463). The \$0.5 million of annual resources in this project are utilized by the GOC to acquire significant and varied short term training, all programmed to improve public administrative, service and technical capacities. The GOC Training Committee includes representatives from several ministries, and expends significant time and energy in planning the

use of these resources. Additionally, the GOC sought and acquired assistance from the Mission Francaise de Cooperation et D'Action Culturelle (FAC) to bolster its programs at the National School of Administrators and Magistrates (ENAM). The FAC is providing technical assistance, classroom space adding 30 places to the existing facilities, and augments the ENAM program in subjects related to development project management and implementation.

The Government of Chad has fulfilled the conditionality required for the second tranche. However, Implementation Letter No. 3, accepting the above list of proofs as having satisfied those conditions precedent, has not been sent to the GOC as of July 1, 1990. The reason for this delay is explained below.

The RIG/Dakar review of the formal non-federal audit of the 1988 budgetary support program (677-0055) raised questions concerning GOC administrative procedures in the calculation of civil service salaries. RIG/Dakar recommended that no further funds under this program be provided to the GOC until the GOC implements a system for calculating civil service salaries on a daily basis rather than on a monthly basis. The non-federal auditors discussed this recommendation for change with GOC Ministry of Finance officials during the audit. The recommendation was refused by the GOC as unworkable and excessively burdensome. The existing time-consuming manual system of salary calculations on a monthly basis would become totally unmanageable to perform on a daily basis.

This recommendation was closed by RIG/Dakar per Dakar 7714 dated 13 June 90 with no further action required,. All remaining recommendation for RIG audits 7-677-90-02-N and 7-677-90-03-N were closed by RIG/Dakar per Dakar 8632 dated 06 Aug. 90.

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#### IV. G. CONDITIONS PRECEDENT TO DISBURSEMENT

##### 4. For the Third Disbursement

This conditionality contributes to and continues the longstanding Chadian Government/USAID relationship to improve efficiency within the civil service through this budgetary support program. In compliance with Section 3.1 (E) of the 1989 Grant Agreement, the GOC requested short term technical assistance to work with the Ministry of Civil Service (MFP). It was originally envisaged that this T.A. would be in place for at least two months and fulfill the scope of work provided in 89 Ndjamena 04728. The difficulty in obtaining qualified T.A. was documented in a USAID/Chad memorandum to the files on October 12, 1989.

Qualified T.A. did arrive in Ndjamena in December 1989, and during an abbreviated two week period was able to study the Chadian civil service in general, and the Ministry of Civil Service situation in particular. The February 1990 report from the consultant was provided to the MFP and MOPC ministries during April, as well as to the major donor agencies operating in Chad, with the suggestion that the outlined civil service reform effort should be pursued on a multi-donor basis. Discussions with the MFP during April to June determined that this follow-on phase of T.A. will initially focus on the development of an overall reform plan for the civil service and its implementation in the MFP. The scope of work will require the performance of a management survey, development of a suggested reorganization plan along functional lines, an outline of the technical and managerial training needs of the MFP staff, as well as identification of the immediate material needs of the MFP.

The conditions precedent to payment of funds under this third tranche will require the following of the GOC:

- a. 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 cumulative use of first and second tranche funds from the Special Account.
- b. A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for the third tranche period not to exceed four months. The utilization plan will include a line item which provides for adequate and appropriate maintenance of the

facilities and equipment of the rehabilitated computer center of the Ministry of Finance and Data Processing. The utilization plan will also include a line item reserving 10 percent of the third tranche funds for direct disbursement by USAID/Chad to finance the technical assistance, training and material support for the civil service reform explained below.

c. The monthly submission to USAID/Chad of a standard bank account reconciliation statement for the Special Account at the Banque Internationale pour l'Afrique au Tchad, and for the Disbursement Account at the Banque des Etats de l'Afrique Centrale by the appropriate officials at the General Treasury. Each reconciliation will be accompanied by the monthly account statement from the respective bank.

d. The creation of an Interministerial Commission to establish the overall guidelines for civil service reform, acquire GOC approval in policy matters related to civil service reform, and guide restructuring of the Ministry of Civil Service. This new Commission will be limited in membership, preferably to the Ministries of Civil Service (MFP), Finance and Data Processing (MFI), Plan and Cooperation (MOPC), and the General Secretariat of the Government (SGG). This commission should be newly created, separate and apart from the commission which previously gave guidance to the civil service census effort. The previous commission's authority was limited to designing and implementing the numerical and qualitative censuses of the civil service. That work has been completed. This next phase of civil service improvement, that is, the development of reform policies and the determination of organizational, training and materials needs, and setting the policy framework for implementing such, goes beyond the original commission's mandate.

e. A request to USAID for technical assistance to the Ministry of Civil Service to assist in the development of a civil service reform plan and implementation of that plan through restructuring the MFP. The attached proposed scope of work for this technical assistance has been refined with officials at the Ministry of Civil Service and the Ministry of Plan and Cooperation and is now being discussed at the ministerial level. The proposal is self-contained, and is based on the short term consultancy provided to the Ministry of Civil Service during December 1989.

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USAID PROPOSAL  
FOR TECHNICAL ASSISTANCE TO THE  
MINISTRY OF CIVIL SERVICE

The Government of Chad, with the assistance of the donor community, has made remarkable progress since 1982 to move from a crisis managed, war and drought ravaged society to a peaceful and stable nation which is rationalizing and modernizing.

In coordination with other donors, and in the context of the Government of Chad and World Bank/IMF structural adjustment program, USAID has made sustained contributions to this process. USAID has afforded budget support to the Government's development ministries as they struggle to reestablish the provision of social services. It has also encouraged the Government to improve its management of the limited resources available for national development. Among these contributions was the initiative, advanced largely with USAID financial and technical support, to start a process of rationalizing public personnel management. Beginning in 1987, and continuing through 1989, a two-phased census (of the quantity and then of the quality) of all civil service personnel was conducted. It created an accurate roster of civil servants and provided the basis for purging the payroll of phantom employees and duplicate salary payments. This process of refining the civil service roster and the Government payroll system is being further promoted during 1990 through USAID assistance in rehabilitating the Ministry of Finance computer center. The new equipment in this facility provides a tool for more rapid, improved, and varied analyses of civil service data.

This Chadian Government/USAID relationship to improve the civil service was initiated through the Program Grant Agreements for budgetary support to the Government's development-oriented Ministries. The Support to Development Ministries Project III (AID Project No. 677-0061 of May 19, 1989) called for the Government of Chad to provide a report of the preliminary findings of the Interministerial Commission analysis of the civil service census data. That report was provided in July 1989.

The data from the civil service census made a major contribution to current payroll management. However, without resources to develop a well-trained and equipped staff to maintain the civil service data bank, the census data and personnel registries would soon be out-of-date. Therefore, the Government made a request to USAID for technical assistance to work at the Ministry of Civil Service during December 1989. In the report resulting from the technical assistance provided the consultant reviewed the following categories of information and data as general background for his recommendations:

- the responsibilities and authorities of the Ministry of Civil Service,
- existing data relevant to the civil service,
- the authority and assignments of the Interministerial Commission and the Technical Subcommission created to follow-up on the May 1987 census of the civil service,
- the work of the Technical Subcommission to date.

The consultant's findings begin with the assumption that decisions on hiring and firing should not be driven solely by budgetary opportunity or constraint. On the contrary, a medium and long term Government plan for meeting program goals should drive the personnel system. For example, the broad policy and development guidelines outlined in the Government's Plan d'Orientation could serve as such a plan. As for the details and specific civil service policies, an Interministerial Commission with special powers from the Presidency would be mandated to oversee development of the detailed guidelines needed for implementation of the general strategy in the Plan d'Orientation. It is USAID understanding that the Government has already commenced some work along these lines.

The consultant then recommended that an incremental, multi-donor program be undertaken as follows:

#### Phase I

1. Conditions Necessary for Undertaking This Assistance to Improve Public Sector Personnel Management and Effectiveness: The Government of Chad is in agreement at the highest levels that it intends to develop a broad civil service improvement program, and will implement associated administrative and policy reforms where necessary. Therefore, the Government will:

a. Create a high-level Interministerial Commission, with (1) policy making authority to undertake a comprehensive reform plan, and (2) with the technical staff necessary to develop that plan; or, the Government will extend the life and mandate of the existing Interministerial Commission with its staff in the Subcommission, and that,

b. The Government will request USAID technical assistance to help this Commission prepare a sound action agenda for such reform, laying out clear priorities and an incremental action plan.

2. Recommended Scope of Work For Technical Assistance: USAID will provide a highly qualified team of technical experts to assist the Commission. The team should include advisors with ample experience in:

- administrative reform planning
- executive agency reorganization
- performance and program budgeting
- workforce management and planning
- training needs analysis
- position classification and registry management
- payroll and personnel records management
- retirement system planning

Several of the above listed areas of expertise could be combined in a single advisor, therefore, it is estimated that a 2-3 person team could cover the indicated specialized fields necessary.

It is initially estimated that a three year period will be necessary to carry out a reform program in two distinct phases. Planning and some implementation efforts will constitute Phase I, beginning at the Ministry of Civil Service. Phase II would include moving ahead with implementing reform and improvements in other ministries as scheduled by the Government. Perhaps the earliest priorities in Phase II would include focusing on the Ministry of Plan and Cooperation, and the Ministry of Finance and Data Processing.

The technical assistance team to be provided would initially be available in Chad for approximately six months to implement Phase I. The first two months of the team's work in-country would be devoted to developing, with Interministerial Commission support and concurrence, alternatives and priorities for a broadly-based reform of the civil service. During the third month the team would assist USAID and the

Government to negotiate an implementation schedule for the reform plan which would have the full commitment of the Government. This same team would be expected to begin the reform implementation in the Ministry of Civil Service (MFP) during the following three months.

The December 1989 consultant's report emphasized there should be priorities in this work schedule, at the MFP during this Phase I, and later in Phase II at the beginning of work in each of the other Ministries. The first priority of the technical assistance team should be to make an analysis of the program agenda and work responsibilities of each unit in the Ministry, with a corresponding assessment of the personnel available and of the personnel needed to carry out those assigned responsibilities. The results of this assessment would be the basis for designing the plans for restructuring, and for personnel and capacity improvements. It is proposed that this type of assessment be done at the Ministry level, rather than trying to deal with the entire civil service all at one time. The gap between available resources and needs could thus be identified and addressed in units that are manageable. In-service and pre-service training agendas could also be derived from this type of human-resources needs analysis.

The objective of this last part of Phase I would be to improve the skills and management planning capabilities of the Ministry of Civil Service through the provision of technical assistance, analysis of the Ministry's capacities and needs, and planning for training and materials to be provided during Phase II. Phase I work will include restructuring of the MFP along functional lines. The MFP would then be better equipped, and in a stronger position, to assist the other Ministries with the technical expertise necessary to modernize the personnel system.

Finally, the Phase I team would also assist USAID and the Government obtain broadly-based donor support for providing the training, materials and technical assistance necessary to successful implementation of the Government approved civil service reform during Phase II.

## Phase II

1. Conditions Necessary for Undertaking this Phase of the Assistance: Based on the above work of Phase I, an acceptable range of reforms will have been selected and accepted by the Government of Chad; the Ministry of Civil Service would have been restructured according to the reform plan guidelines; and, there would be an improvement in MFP capacity to manage the public administration and to support reform in the other

ministries. A general division of labor among donors and a coordinating mechanism for directing this assistance will have been established.

2. Recommended Response: It is assumed that USAID will have the resources necessary for a medium-term assistance effort, as part of its continuing budgetary support program, and that the Government is amenable to this utilization of these resources. Under those circumstances it would be appropriate, given the history of U.S. involvement in Chad, to respond favorably to a request from the Government with technical assistance to strengthen the public personnel system and contribute further toward actualization of the overall reform program designed in Phase I.

With this Phase I and early Phase II experience, that is, the work with the Ministry of Civil Service and one or two other Ministries, the Government would have a sound basis for proceeding during Phase II to plan for improvements at the National School of Administrators and Magistrates (ENAM). Improved facilities, curriculum and capabilities at ENAM could serve as the Government's primary tool for the long term improvement of civil service administrative capacity.

There is Government support to address this area of civil service reform and improvement directly. The National Assembly of Chad, in its consultative capacity, did call for such a program in its 1989 session. Among other matters it resolved that the administration should, "pursue administrative reform; simplify administrative procedures; rigorously apply regulations and adhere to administrative hierarchy; adopt rules to combat lethargy, chronic absenteeism, lack of professional standards, laxity in public management and personal enrichment with no apparent source or cause; and give to the staffs appropriate and sufficient means to do their work." (From the text, "Travaux du deuxieme Congres Ordinaire: le Rassemblement pour la Paix et le Developpement - Resolutions, Motions et Recommendations" pp. 80-81, resolution dated 27 November 1989.)

IV. G. CONDITIONS PRECEDENT TO DISBURSEMENT

5. Representative Budget/Utilization Plan.

The GOC utilization plan for disbursement of the Grant under this Amendment will comprise a budget with the details listed below (the dollar amounts are illustrative, based on an exchange rate of 300 CFAF/\$1):

-For the Third Disbursement:	<u>U.S. Dollars</u>
--Government Salaries (to include a listing by Ministry)	\$2,615,463
--Support to the Ministry of Civil Service (MFP) to implement its restructuring plan:	
-Training	
-Materials	
-Travel	
-Miscellaneous	
Sub-Total (10% of the tranche)	295,000
--Maintenance Contract and Materials Expenses for the Ministry of Finance and Data Processing Computer Center	<u>33,400</u>
Total	\$2,943,863

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