

CLASSIFICATION:

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b>  <b>PROGRAM ASSISTANCE</b>  <b>APPROVAL DOCUMENT</b>  <b>(PAAD)</b>		1. PAAD Number 677-K-602 (677-0052)	
		2. Country Chad	
		3. Category Budgetary Support Assistance	
		4. Date	
5. To Mark L. Edelman Assistant Administrator		6. OYB Change Number	
7. From John B. Woods AID Representative		8. OYB Increase To be taken from:	
9. Approval Requested for Commitment of \$ 7.0 million		10. Appropriation Budget Plan Code 637-61-677-00-50-61 ESF GESA-86-31677-KG31	
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 7/86 - 11/87	14. Transaction Eligibility Date
15. Commodities Financed			
16. Permitted Source U.S. only Limited F.W. Free World Cash \$7.0 million		17. Estimated Source U.S. Industrialized Countries Local \$7.0 million Other	
18. Summary Description			

To provide budgetary support assistance 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, AID will disburse the CFA equivalent of \$7.0 million in approximately four quarterly tranches of \$1,750,000.

Upon disbursement of the U.S. grant, the GOC will deposit in a special account an equivalent amount of local currency, which will be used to finance salary and other priority operating costs of specified civilian development ministries.

(Continued)

19. Clearances	Date	20. Action
GC/AFR:BBryant (draft)	7/17/86	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
AFR/CONT:TRattan (draft)	7/2/86	
AFR/SWA:PDichter (draft)	7/3/86	Authorized Signature <i>Mark L. Edelman</i> Date <i>9/9/86</i> Title Assistant Administrator
AFR/PD:LHausman (CP for)	7/18/86	
AFR/DP:HAPatterson (draft)	7/3/86	
PPC/PB:RMaushammer (draft)	7/2/86	
DAA/AFR/CWA:LRichards	9/9/86	

AID 1120-1 (5-82)  
M/FM/PAFD:ESOWENS Date 9-9-86  
AFR/PD/SWAP:JHradsky Date (draft)

CLASSIFICATION:

The substance of the following conditions precedent and covenants and disbursements procedures will be included in the agreement:

Conditions Precedent:

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

- (a) A statement of the names and titles of the persons who will act as representatives of the Grantee under Section 8.2 of the Grant Agreement, together with a specimen signature of each person named in such statement;
- (b) A statement designating the bank and account number into which the disbursement is to be made;
- (c) An initial utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for an initial period not to exceed three months; and
- (d) An initial statement certifying that the Government of Chad not finance from the national budget a car loan or guarantee program for personal vehicles.

Conditions Precedent to Subsequent Disbursements - Prior to disbursement of each subsequent tranche under the Grant, or to the issuance by AID of documentation pursuant to which such disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

- (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 Inspector of State setting forth the actual use of funds from the Special Account;
- (c) (For the third tranche only of the Grant) a copy of the completed census of Government of Chad employees, setting forth the total numbers of civil servants employed by ministries and parastatal organizations; and
- (d) A subsequent statement certifying that the Government of Chad not finance from the national budget a car loan or guarantee program for personal vehicles.

Covenants:

- (a) That the facts and circumstances of which it has informed AID, or caused AID to be informed, in the course of reaching Agreement with AID 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 AID 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 Agreement.

Special Covenants

- (a) The Agreement and the special Account will be free from any taxation or fees imposed under the laws in effect in Chad.
- (b) The Special Account will not be used to finance military paramilitary or police requirements 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 1987 budget will not include a budget line item to finance a vehicle loan or guarantee program for civil servants or others in government bodies.
- (d) 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 AID, in form and substance satisfactory to AID:
  - (1) A report setting forth the final budget for the Government of Chad for its fiscal year 1986; and
  - (2) A final utilization report certified by the Minister of Finance and Data Processing and the Inspector of State 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 AID under the Grant Agreement.
- (e) The Grantee will furnish to AID such other reports and information relating to the Grant, the budget of the Government of Chad and the performance of the

Grantee's obligations under the Agreement as AID may reasonably request.

#### Disbursement Procedures

1. Disbursement of the Grant - After satisfaction of the conditions precedent, the Grantee will request AID to disburse funds under the Grant. After review and approval of the documentation submitted by the Grantee, AID will deposit CFA funds into the Government of Chad's Federal Reserve account in Paris.

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

3. Special Account - Within one week after deposit of funds to the GOC's Federal Reserve Account, the GOC will deposit an equivalent amount of CFA into a Special Account at the Central Bank of Chad in N'Djamena.

4. Rate of Exchange - The rate of exchange that will be used to compute the amount of CFA francs to be deposited in the Special Account by the GOC 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 units of FCFA per U.S. dollar.

3346M

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, Carol Peasley *CS for*  
SUBJECT: Chad - Strengthening Development Ministries II  
(677-0052)

Problem: Your approval is requested to authorize a program grant of \$7.0 million from Section 531 of the Foreign Assistance Act of 1951, as amended, Economic Support Fund (ESF) appropriation, to the Government of Chad (GOC). It is planned to obligate the entire \$7.0 million in FY 1986 and to disburse in four separate tranches of \$1,750,000, each subject to certain conditions precedent.

Discussion: Chad has been the scene of intermittent civil war for the past 21 years. Libyan support of the opposition National Union Transition Government (GUNT) forces has now turned into a virtual occupation of the northern third of the country by the Libyan army. The threat of a new Libyan/GUNT offensive southward is ever present. Despite its preoccupation with security concerns, the Chadian government has made steady progress in its national reconstruction effort following the war years from 1979-82 and two catastrophic droughts. Having survived these crises, the country now faces a new threat to its stability: insufficient revenues to keep the government functioning effectively. Based on planned revenues of 18.786 billion FCFA for 1986, the projected budgetary deficit is 9 billion FCFA (\$22.4 million). This two billion FCFA increase over the 1985 deficit is, according to Chad, IBRD and IMF sources, the result of revenue shortfalls caused by a precipitous drop of almost 50 percent in the world market price of cotton. Historically, cotton has been Chad's most important source of export earnings and Government tax revenues.

In order to ensure that salary and other priority operating costs of the civilian development ministries are covered, your approval is requested for a program grant level of \$7 million. Upon disbursement of the U.S. grant, the GOC will deposit in a Special Account an equivalent amount in local currency to contribute to salary and other operating expenses of the GOC ministries of agriculture, health, public works, education and finance. Excluded from the list of eligible recipients of local currency are the military and police forces. The program will provide a cushion to partially offset fiscal losses caused by the drop in cotton prices and to give Chad's civil government the means to continue to operate and to provide basic services to its citizens. It will directly complement a similar French Government assistance program which will also contribute to offsetting of fiscal losses.

It is planned that four tranches of approximately equal amounts will be made available on a quarterly basis. As with the previous budgetary support assistance, a plan for the utilization of the Special Account will be reviewed and approved prior to the disbursement of each tranche of the AID grant. Each utilization plan will specify the purpose and estimate the amount and timing of the release of funds from the Special Account for a period not greater than three months. An independent audit firm will conduct audits prior to the second and fourth tranches and will conduct a post audit and close-out report at the end of the program.

A Congressional hold on the Congressional Notification (CN) was lifted subject to AID/W agreement to the following:

- 1) Budget support assistance will be provided (under the Special Account) for salaries of all civilian ministries except: the Office of the Presidency; the Ministry of Foreign Affairs, and the Ministry of Cooperation and Interior.
- 2) Prior to release of the second and subsequent tranches, certification will be provided by the Chad Minister of Finance and the Inspector of State stating that (special account) funds were utilized by the Government of Chad to pay 60 percent of GOC employees' salary levels.
- 3) Examination of all records will be undertaken by the USAID Controller and the two other U.S. financial contractors situated in Chad to verify that the (special account) funds were used for intended purposes consistent with the requirements of section 121(d) of the Foreign Assistance Act; and
- 4) an audit will be carried out at the end of the first and the third tranches by a private audit firm contracted for this purpose to verify that the (special account) funds were utilized as intended and with proper financial controls.

GC/AFR notes that because U.S. assistance under the program is to be provided in the form of a cash transfer under the Economic Support Fund, FAA Section 121(d) is not applicable. However, we assume that the reference to Section 121(d) merely means that Section 121(d)-like standards will be applied to the release of local currency from the special account.

We assume that elements as previously stated in the Grant can be addressed by and incorporated in implementation letters, and that no revision in the Program Agreement is required.

Human Rights: A human rights memorandum was approved by the Human Rights Officer on June 5, 1986.

Environmental Examination: The Africa Bureau Environmental Officer has granted a "Categorical Exclusion" from further environmental examination as the activity meets the conditions set forth in a 22 CFR 216.2(c)(1)(i).

At the Africa Bureau's ECPR meeting held on June 26, 1986, the program was recommended for approval. It was also recommended that the Mission strengthen its analytical capability by obtaining the services of a contract economist to assist it to monitor this and potentially other, similar activities in the future.

Recommendation: That you sign the attached PAAD authorizing a \$7 million program grant for the Government of Chad.

Attachments:

- A) Cable, Ndjamena 00628
- B) Project Assistance Approval Document (PAAD)
- C) Human Rights Memorandum

Clearances:

DAA/WCA/AFR:LRichards                       
AFR/DP:JPatterson                      (draft)  
AFR/SWA:PDichter                      (draft)  
AFR/PD/SWAP:JHradsky                      (draft)  
GC/AFR:BBryant                      (draft)  
M/FM/PAFD:SOWens                      (phone)  
State/AF/C:RAYling                      (draft)

drafted by:AFR/PD/SWAP:MEBrown:9/08 /86:faf:3279M

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### Annexes:

- A. Statutory Checklists
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## Abbreviations, Acronyms and Foreign Words

- BEAC - Central Bank for French Speaking Countries of Chad, Congo, Cameroon, Central African Republic, Gabon and the Spanish Speaking Country of Equatorial Guinea
- Caisse Centrale - French Development Loan Agency
- CIP - Commodity Import Program
- CotonTchad - Parastatal Agri-Business Company devoted to Cotton Production
- FAC - French Agency for Development Assistance
- FED - European Economic Community Development Assistance Agency
- GOC - Government of Chad
- IBRD - International Bank for Reconstruction and Development
- IMF - International Monetary Fund
- ONDR - Office of National Rural Development
- PAAD - Program Assistance Approval Document
- PAIP - Program Assistance Initial Proposal

## I. DEVELOPMENT OVERVIEW AND EXECUTIVE SUMMARY

Chad is among the poorest countries in the world (less than \$80 annual per capita GNP). The present pro-Western government, which came to power in 1982, is strongly resisting continuing Libyan armed aggression, while at the same time making substantial progress toward achieving national reconciliation to end the country's more than twenty years of civil war, repairing from war damages, and rebuilding after the ravages of the severe 1984/85 drought.

Libyan troops invaded Chad in 1983 and continue to occupy the northern 40 percent of the country. In February and March 1986, Chadian government troops decisively defeated a renewed military offensive by Libyan-backed dissident forces. In response to the request of the Chadian Government, France has sent troops and aircraft to assist in Chad's defense and the United States has provided additional military equipment assistance.

France has the leading Western economic and security assistance role in Chad. U.S. efforts are designed to complement those of the French. France has assumed the major burden of helping Chad with its current budgetary crisis and will provide \$12 million in budgetary assistance for the civilian government operations alone during 1986. The U.S. "Strengthening Development Ministries II" program will be carefully coordinated with the French aid program to obtain the maximum effective assistance for Chad.

Despite the lack of rain in 1984 and severely inadequate government finances, the economy began slowly to recover in some areas. The Government of Chad, now more politically stable, has made steady progress in reestablishing security, fostering a national consensus, rebuilding the civil service and promoting reconstruction of the country's infrastructure and institutions while doing its best to meet the needs of a diverse population. Economic activity has increased and agricultural production in 1985 was at record levels. Livestock owners have also been able to begin rebuilding their herds.

The 1986 budget deficit is projected to reach nearly \$28 million. The international donor community discussed Chad's growing budgetary crisis at the December 1985 Second Round Table Conference and reconfirmed its commitment to continued support for Chad. This \$7,000,000 program is part of a multi-donor effort to provide urgently needed budget support to Chad. AID will provide \$7,000,000 in four equal tranches (over

approximately twelve months). The Government of Chad will agree to place an equivalent amount of local currency (CFA) into a Special Account in Chad and to permit comprehensive monitoring and auditing of these funds in the Special Account. In order to ensure that priority salary and other operating costs of the civilian development ministries are covered, the Government of Chad will agree to use the Special Account to finance the needs of these civilian ministries. The disbursement of AID funds will be linked to compliance with certain conditions precedent including -- (1) that the Government will not finance from the national budget any type of car loan or guarantee program for personal vehicles for Government employees, and (2) that the Government will complete a census of Government employees prior to the third tranche disbursement of funds. These measures will help to lay the groundwork for controlling the growth of public expenditures over the long-term.

3295M

## II. MACROECONOMIC JUSTIFICATION FOR BUDGET SUPPORT

The combined impact of adverse external factors and the war which is continuing in the northern region of the country has led to the emergence of a serious economic crisis which for the most part will probably worsen throughout the remainder of the current decade.

The statistics used for this exercise reflect an attempt by the IMF to establish a data base for a possible adjustment program in Chad. To the extent possible, USAID/Chad has tried to confirm these statistics with the appropriate Government officials. These statistics on finance suffer from serious problems of coverage, the discussion of budgetary performance refers mainly to the situation in N'Djamena which tends to understate actual expenditures, and only limited information is available on the share of government receipts and expenditures collected and disbursed by administrative units outside the capital.

Following a successful campaign to increase cotton exports, which is the main foreign exchange earner for the country, the world market prices turned downward precipitously, and the future outlook for cotton as the major revenue earner is not very promising. In an effort to keep CotonTchad, the parastatal responsible for marketing cotton, afloat, the Government has agreed to forego \$10 million per year in tax receipts on cotton exports over the next two to three years on a de-facto basis. The impact of this decision will be felt immediately as the Government tries to meet its day-to-day expenditure requirements for items such as salaries and wages.

### A. Government Operations

The Central Government's current budget includes provisions for wages and salaries for some 21,000 government employees and a corresponding level of expenditures on goods and services.

#### 1. Revenues

Taxes on exports and imports are the major source of revenues, followed by taxes on goods and services. Total tax receipts were projected to increase over 27 percent between 1984 and 1986, reflecting an impressive effort on the part of the Government to improve its tax collection.

#### 2. Expenditures

Budgetary expenditures increased 12 percent in 1985 from \$61.6 million (CFAF 21.0 billion) to \$69.1 million (CFAF 23.5 billion) and are projected to increase 10 percent in 1986. Government expenses for salaries and wages which is estimated to be approximately \$27.7 million in 1986, represent the largest nonmilitary expenditure item in the Government's budget. This salary and wages figure represents only part of scheduled salaries for civil servants as government employees are currently receiving only 60% of what they are legally entitled to.

TABLE I  
CHAD  
CENTRAL GOVERNMENT FINANCIAL OPERATIONS  
(1984-1986)  
(IN MILLIONS OF FCFA)

	1984	1985	1986	1986	1986
		PROJ.	GOC BUDGET	GOC REV. PROJ.	WITH IMF PROG.
1. TOTAL RECEIPTS	20042	20848	21194	20099	21599
FISCAL RECEIPTS	13038	15127	17086	16597	18097
OF WHICH: EXPORTS	2742	2938	2733	579	579
NON FISCAL RECEIPTS	939	1604	1123	1123	1123
BEAC BENEFITS	581	542	580	542	542
FXCHANGE GUARANTEE	2107	1658			
EXTRA BUDGETARY (CAA + CONTRIBUTION TO NATIONAL CAMPAIGN)	3377	1917	2405	1837	1837
2. EXPENSES AND LOANS (NET)	24367	25622	25466	26763	26525
EXPENSES	24367	25622	25228	26525	26525
BUDGETARY	20953	23495	24501	25707	25709
EXTRA BUDGETARY	3414	2127	727	816	816
CAA	855	1415	727	816	816
LOANS	0	0	238	238	0
3. OVERALL DEFICIT (COMMIT- MENTS) (1 - 2)	-4325	-4774	-4272	-6664	-4926
4. CHANGE IN ARREARS					
(INCREASING +)	1362	1908	0	-2758	-3241
DOMESTIC	107	1397	0	-1789	-2272
TREASURY	107	1397	0	-1789	-1789
OTHER		0	0	0	-483
EXTERNAL	1255	-511	0	-969	-969
5. OVERALL DEFICIT (DIS- BURSEMENT) (3 + 4)	-2963	-2886	-4272	-9422	-8167

SOURCE: DATA PROVIDED BY CHADIAN AUTHORITIES; AND IMF  
PROJECTIONS AS OF FEBRUARY 1986

### 3. Deficits

The period between 1984 and 1986 marked a rapid deterioration in government financial operations. The deficit on a commitment basis increased from \$12.7 million (CFAF 4.3 billion) in 1984 and \$13.9 million (CFAF 4.7 billion) in 1985 to a projected \$19.6 million (CFAF 6.7 billion) in 1986 (Table I). Since the Government has been running a deficit, it has accumulated arrears despite the supply of external resources which were intended to eliminate them. The resulting overall deficit on a cash basis is projected to increase from \$8.82 million (3.0 billion CFAF) in 1985 to \$27.7 million (9.0 billion CFAF) in 1986 (Table I).

#### B. External Trade and Payments

The increasing current account deficit reflected in Table II mirrors the increasing trade deficit. Exports increased at a remarkable rate between 1982 and 1984, reflecting the successful effort on the part of the Government to increase cotton production. The projections for 1986 to 1988, however, reflect a scenario wherein the country's ability to revive its exports to the levels achieved earlier, especially in the cotton sector, will be marginal at best.

In reviewing the other elements of the current account, it is easy to conclude that irrespective of the drop in world market prices for cotton, Chad would still be facing enormous financial difficulties. Imports, which increased 63 percent in 1983 are projected to remain above \$147 million (CFAF 50 billion) at least through the end of the decade. An even greater cause for concern in reviewing the current accounts of the Government is the increase which has taken place in net service payments. This increase reflects a rapid increase in debt service over the four year period beginning in 1982. As can be seen in Table II, Net Service Payments to be made on debt almost tripled in 1983, increased over 30 percent in 1984, with estimates that it increased at least 40 percent in 1985. Although data is sketchy, informed speculation holds that this increase reflects the necessity of the Government to borrow on relatively hard terms to support its military operations.

The current account deficit is projected to remain in the \$120 million (40 billion CFAF) range through 1986, declining only slightly over the remainder of the decade. Exports are projected to stagnate at about \$60 million (20 billion CFAF) and cotton exports, which increased from \$66 million (22.5 billion CFAF) in 1983 to \$125 million (42.4 billion CFAF) in 1984 and plummeted over 50 percent in 1985, are projected to decline even further before the end of the decade. Although imports are expected to remain relatively high, the projections could increase if the Government has to use more of its own resources to support military operations or if there is a recurrence of drought.

TABLE II  
CHAD: BALANCE OF PAYMENTS (1982-88)  
(IN MILLIONS OF FCFA)

	1982	1983	1984	PROJECTIONS			
				1985	1986	1987	1988
A. TRADE BALANCE	-10257	-16388	-7656	-30240	-32406	-31338	-31106
EXPORTS, F.O.B.	17010	28124	48584	26144	20602	21231	21720
OF WHICH: COTTON	10050	22485	42364	20887	14937	15113	15112
IMPORTS, F.O.B.	-27267	-44512	-56240	-56384	-53008	-52569	-52826
B. SERVICES (NET)	-9786	-20234	-27119	-46017	-41790	-35995	-31691
CREDIT	1410	12727	16611	15425	16692	18027	19470
DEBT	-11196	-32961	-43730	-61442	-58482	-53971	-51160
OF WHICH: INTEREST ON EXTERNAL DEBT	-1329	-1780	-1619	-1372	-1584	-1765	-1834
C. TRANSFER (NET)	20130	33311	37348	36862	34467	37286	33309
PRIVATE	-1701	-2453	-916	-1925	-1877	-1000	-1000
PUBLIC	18429	35764	38264	38787	36344	33786	34309
D. CURRENT ACCOUNT (A+B+C)	87	-3311	-2573	-39395	-39729	-34496	-29487
E. MEDIUM AND LONG-TERM CAPITAL (NET)	-1088	-1174	2722	29038	27691	20574	15027
EXTERNAL LOANS (NET)	-1088	-742	-450	5543	9691	8574	9027
DRAWINGS	160	938	1704	8025	11969	10760	11157
COMMITMENTS	NA	NA	NA	6394	8000	6980	6057
COTONICHAD	NA	NA	NA	1631	3969	0	0
NOUVEAU 1/ AMORTIZATION	-1248	-1680	-2154	-2481	-2278	-2186	-2130
ESSO	0	0	3226	23614	18000	12000	6000
F. SHORT-TERM CAPITAL	1580	7788	1121	3943	0	9807	10494
G. EXCHANGE GARANTEE	1125	1223	2107	1658	0	0	0
H. IMF - DSC	0	0	0	0	1900	1900	1900
I. OVERALL BALANCE (D+E+F+G+H)	1705	4527	8523	-12642	-10138	-2215	-2067
J. FINANCING	-1705	-4527	-8523	12642	10138	2215	2067
CENTRAL BANK	-3472	-7030	-10245	11552	11480	-2215	-2067
ARREARS (NET)	1768	2503	1723	1090	-1342	0	0

1/ ACCORDING TO IMF STAFF THIS REFLECTS IMF ESTIMATE OF FLOW OF FUNDS  
FROM UNDP ROUNDTABLES.

SOURCE: DATA PROVIDED BY CHADIAN AUTHORITIES; AND IMF PROJECTIONS  
AS OF FEBRUARY 1986

### C. Proposed Adjustment Programs

#### World Bank

Cotton plays a dominant role in Chad in terms of its contribution to the market economy, export earnings and government revenue. The cotton sector accounts for approximately 80 percent of export earnings, 25 percent of government revenues, and 13 percent of the value of agricultural production (crops only). In addition to being the source of income for two-fifths of Chad's population, the cotton sector accounts for more than one-third of national industrial production (ginning, oil extraction, and textile manufacturing). The cotton sector has been a major source of funding for the Debt Amortization Fund (CAA). In 1985, the CAA received 42 percent of its revenues from cotton. Activities in the cotton sector are organized by CotonTchad, a majority-government owned company which is solely responsible for purchasing, processing and marketing Chad's cotton.

World cotton production has greatly exceeded consumption since 1983/84, raising estimated end-season stocks (July 31, 1986) to 10.2 million tons from 5.4 million tons two years earlier. This estimated stock level is equivalent to about 7.7 months of current consumption, compared to international agreements that cotton stocks equivalent to 4.5 to 5.0 months' consumption are desirable to accommodate trading without exerting undue pressure on prices. Taking that as a guide, the liquidation of 3.6 to 4.3 million tons of cotton stocks from 1986/87 forward would appear to be an appropriate goal for the restoration of cotton supply/demand balance on a worldwide basis.

This disequilibrium in the world cotton market caused the world price of this commodity, in dollar terms, to drop by 40 percent between mid-1984 and mid-1985. In conjunction with the depreciation of the dollar, this fall has brought about a drop in the CFAF price of Chad's cotton exports from nearly CFAF 800/kg to less than CFAF 400/kg. The hitherto profitable CotonTchad company is now operating at a loss, with annual operating deficits of CFAF 18.1 billion ( \$40.0 million) in 1984/85 and CFAF 19.2 billion (\$53.3 million) in 1985/86. These deficits surpass estimated Government revenues for 1985 and 1986 and are, therefore, beyond the ability of the company or the Government to support or correct: given market prospects, i.e., the high level of world stocks, little price recovery is expected before 1992.

The Bank has taken the lead in working with the Chadian authorities to assess the impact of the collapse of world cotton prices on the Chadian economy. Understandably, the focal point of that attention has been CotonTchad. As part of a multi-donor package, the Bank is expected to provide at least \$10 million to CotonTchad to help cover operating costs for the upcoming planting season.

The resolution of the crisis in the cotton sector in Chad is dependent on two factors. First, as projected by the IBRD, cotton prices will rebound. Second, and of equal importance, is the implementation of the adjustment program agreed to in March 1986. Examples of the measures agreed to by the Government include:

- Elimination of all production subsidies by 1988;
- Stabilizing farmgate prices for the duration of the crisis;
- Limiting total production to 75,000 hectares;
- Closing distant collection points;
- Closing five obsolete factories;
- Reducing field staff at Garage operations;
- Reducing general expenditures.
- Ending all unessential plane and trailer truck fleet expenses.
- Increasing the price for cotton sold to local textile company by 28 percent.
- Increasing the quantity of product ginned by upgrading the cotton variety.
- Improving the quality of fiber cultivated beginning in 1986-through 1987/88.

The International Monetary Fund: The IMF has been providing technical assistance in the fiscal area and in monitoring external debt over the past two years. In the Fall of 1985, Chad made a purchase under the fund's compensatory financing facility equivalent to SDR 7.0 million.

In February 1986, the IMF identified thirty-seven measures which would form the basis of a structural adjustment program for Chad. The IMF, in addition to encouraging the GOC to adopt the reform plan for CotonTchad, places a ceiling on credit, Government expenditures and Government arrears. The Government would be expected to pay off treasury arrears due to multilateral organizations. In addition, unlike the past, the 1987 budget is to include the entire investment program. Public enterprises are to be allowed to set flexible price policies which will enable them to establish processes which adequately cover their costs. When it is necessary to establish prices, the Government is to make sure that the price levels do not hinder production. Also under the agreement, the Government is expected to introduce a tax on production which is projected to yield the State 2.1 billion CFAF, and a surtax on government salaries. This latter measure would further reduce salaries already at 60 percent of the scale which was in use in 1979 when the war began.

The projected impact of the Fund program can be seen in Table I. The column labeled "with IMF program" represents the budget after the policy adjustments called for by the Fund. Fiscal receipts would increase an additional 10 percent from CFAF 16.60 as

projected by the Government to CFAF 18.10 as projected by the IMF program. The overall deficit on a commitment basis would be reduced by 26 percent from CFAF 6.66 billion to CFAF 4.93 billion. The deficit on a cash basis which is projected by the Government to be CFAF 9.4 billion would be reduced by 13 percent to CFAF 8.17 billion.

France: In 1985, the FAC provided CFAF 4.9 billion (about \$10 million) in budget support and has informed the AID Mission that the amount for 1986 will likely reach about \$12 million. While the French have acted as the funding source of last resort in the past, they realize that the Chadian deficit is beyond their financial resources. France is actively encouraging Chad to reach an agreement with the IMF.

#### D. Financing the Deficit

Table III looks at possible financing for the 1986 deficit. Scenario 1 reflects the financing requirement without an IMF program wherein the deficit is projected to be CFAF 9.4 billion (\$27.71 million). External financing from the U.S and France as currently proposed for 1986 would include \$7.0 million and \$12.0 million respectively thereby reducing the gap to \$9.16 million (CFAF 3.115 billion).

The financing required under Scenario 2 in Table III reflects a budget deficit of \$24.00 million (8.17 billion CFAF) wherein net external budgetary support would cover at least 60 percent of the deficit with \$19 million (6.4 billion CFAF) in budgetary support coming from France and the United States. Taking into consideration the increased receipts as a result of the measures undertaken by the government under the auspices of a Fund structural adjustment program and purchases from the Fund of CFAF 1900 billion (\$5.59 million), the financing deficit would be closed.

In May 1986, during the World Bank coordinated meetings held in Washington, D.C., to discuss Chad's cotton sector, the Government of Chad informed the IMF of its progress in implementing the requested measures. According to IMF sources, the GOC accepted the spending ceilings. However, the revenue generation measures required by the IMF appeared to be giving the GOC problems. The IMF is scheduled to return to Chad in July to review the Government's progress in implementing the measures suggested during the February visit and perhaps at that time the Fund Mission will be able to ascertain the possibility of the GOC coming to terms with some type of adjustment program this fiscal year. An appropriate program could be supported with the resources of the Structural Adjustment Facility. Under this Facility, Chad would be able to make drawings of 20 percent, 13.5 percent, and 13.5 percent of its quota over the next three years (Chad's quota in the Fund is SDR 30.6 million).

TABLE III  
 CHAD: FINANCING FOR THE 1986 DEFICIT  
 (IN MILLIONS OF FCFA)

	SCENARIO 1 1986	SCENARIO 2 1986
	GOC PROJ	WITH IMF PROGRAM
FINANCING (DEFICIT)	9422	8167
NET EXTERNAL FINANCING	-1127	4873
BUDGETARY SUPPORT	0	6000 1/
AMORTIZATION	-1127	-1127
NET DOMESTIC FINANCING	1394	3294
BANKING SYSTEM	1394	3294
CENTRAL BANK	1394	3294
IMF	-815	1085
PURCHASES	0	1900
REPURCHASES AND PAYMENTS	-815	-815
EXCEPTIONAL ADVANCE SDRS (CFF)	-885	-885
ADVANCE UNDER CEILING	2121	2121
DEPOSITS	973	973
FINANCING NEEDED	9115	0

1/ WITHOUT LISTING AMOUNTS, THE IMF LISTED FRANC. AND THE US AS  
 THE SOURCE FOR FINANCING. 6 BILLION CFA = ABOUT \$17,647,000

SOURCE: DATA PROVIDED BY CHADIAN AUTHORITIES; AND IMF PROJECTIONS  
 AS OF FEBRUARY 1986

1/

TABLE IV  
 GOVERNMENT EXPENDITURES  
 FOR  
 CIVILIAN MINISTRIES  
 (IN CFAF MILLIONS)

MINISTRY	1984 (ACTUAL EXPENDITURES)			1985 (ACTUAL EXPENDITURES)			1986 (BUDGETED EXPENDITURES)		
	SALARIES	MATERIALS	OTHER	SALARIES	MATERIALS	OTHER	SALARIES	MATERIALS	OTHER
PRESIDENCY*	246.1	164.2		262.1	227.3		215.0	300.0	
ADVISORY COUNCIL	88.3	22.0		100.1	25.0		95.0	295.0	
INFORMATION	105.8	25.0		140.8	40.0		188.0	171.0	
AUDIT/INSPECTION	47.5	15.0		106.7	20.0		140.0	82.0	
AGRICULTURE	117.5	30.0		279.8	30.0		678.0	130.0	
FOREIGN AFFAIRS*	67.5	363.0		80.3	370.0		499.0	652.0	
INTERIOR*	708.7	117.4		901.4	124.7		1144.0	457.0	
JUSTICE	58.1	15.0		105.1	15.0		125.0	120.0	
ECONOMICS	42.9	4.5		63.1	5.0		71.0	17.0	
NATURAL RESOURCES	41.7	2.4		43.1	2.4		49.0		
ANIMAL HUSBANDRY	106.1	6.0		214.8	8.0		351.0	75.0	
FINANCE AND EQUIPMENT	193.3	35.0		310.0	40.0		760.0	535.0	
PLAN AND RECONSTRUCTION	40.8	3.5		80.9	5.0		97.0	29.0	
PUBLIC WORKS	125.5	10.0		137.1	15.0		330.0	98.0	
TRANSPORT	18.8	2.0		30.9	3.0		32.0	18.0	
POST AND TELECOM	12.4	5.0		20.1	9.0		25.0	4.0	
CIVIL SERVICES	28.3	5.0		41.7	10.0		117.0	11.0	
NATIONAL EDUCATION	452.6	70.0		1230.5	90.0		4206.0	608.0	
SOCIAL AFFAIRS AND LABOR	58.2	2.6		51.2	3.0		115.0	4.0	
WATER AND FORESTS	246.2	22.0		146.8	10.0		341.0	88.0	
PUBLIC HEALTH	90.5	4.0		400.0	30.0		964.0	104.0	
LABOR				25.3	4.6		37.0	10.0	
OTHER			8170.0			7223.0			2865.0
TOTAL	2495.5	723.6	8170.0	4602.1	1112.0	7223.0	9511.0	3975.0	2865.0

CATEGORY OTHER WHICH INCLUDES PENSIONS, EMERGENCY OPERATIONS, BUILDING MAINTENANCE, ELECTRICITY, FUEL AND CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS ARE NOT MINISTRY-SPECIFIC AND ARE CONSIDERED INTER-MINISTERIAL EXPENSES. MILITARY AND POLICE EXPENDITURES ARE NOT INCLUDED.

\*Excluded from the AID list of ministries to receive budget support

### III. Program Description

#### A. Overview

The \$7,000,000 of ESF will be used for budgetary support to the Government of Chad. Because approximately 60% of the planned 1986 budget is targetted for civilian ministries and because these are the costs which are most likely to be uncovered during a period of severe fiscal deficits combined with the Libyan invasion of the North and some continuing but declining level of rebel activity in the south, the AID program has been designed to focus on the budgetary requirements of civilian development ministries. Table IV provides a USAID/Chad update on the actual expenditures of the civilian ministries for materials and personnel from 1984 and 1985 with government projections for 1986. Given the Government's commitment to hire people from the political opposition groups and returning college graduates, USAID/Chad anticipates that government expenditures for salaries will increase at least 20 percent in 1987.

Table V shows how the AID contributions of \$7 million will be used over a twelve-month period beginning about September 1986 to finance expenditures for the civilian ministries. Included in the chart are the expected contributions totalling about \$12 million in local currency which the French government is planning to provide over a twelve-month period beginning about July 1986. Personnel and operating costs for these ministries are projected to be CFA 17.6 billion (\$50 million) in 1986.

AID will disburse the CFA equivalent of \$7,000,000 in four tranches at a rate of \$1,750,000 per quarter. These disbursements will be made as general budget support to the Government of Chad. Nonetheless, because of the need to ensure sufficient budgetary resources for priority development ministries, the Government of Chad will agree to deposit in a Special Account within one week an equivalent amount of CFA to be used exclusively for salary and general operating costs of the civilian development ministries.

Funds within this special Government of Chad local currency account (Special Account) will be carefully monitored. As with previous budgetary assistance from AID, a utilization plan will be prepared by the GOC and submitted to USAID for review and approval prior to the drawdown of any funds from the Special Account. Each utilization plan will specify the purpose of the disbursement, estimate the amount and timing for the release of funds for a period not greater than three months, and for each three-month period thereafter. A professional audit firm will be contracted to audit and verify all GOC funds expenditures as intended.

Any approved utilization plan assumes that all previous utilization plans and reports were approved. If particular budget items or subsequent expenses are denied, program implementation may be delayed 14 to 30 days while the GOC, the USAID/Chad Project Manager and his staff determine how the discrepancy is to be resolved.

TABLE U  
AID BUDGETARY SUPPORT  
FOR CHAD  
CIVILIAN MINISTRIES

	<u>1986</u>			<u>1987</u>		Totals	%
	1st Qtr: July Aug Sept.	2nd Qtr: Oct Nov Dec.	3rd Qtr: Jan Feb Mar.	4th Qtr: Apr May June			
Salaries	8,352,950	8,352,940	10,023,528	10,023,520	36,752,936		
Materials	<u>4,624,264</u>	<u>4,624,264</u>	<u>4,624,264</u>	<u>4,624,264</u>	<u>18,497,058</u>		
Sub-totals	12,977,204	12,977,204	14,647,792	14,647,792	55,249,992		
GOC Expenditures	8,227,204	8,227,204	9,897,792	9,897,792	36,249,992	65	
AID Contributions	1,750,000	1,750,000	1,750,000	1,750,000	7,000,000	13	
French	3,000,000	3,000,000	3,000,000	3,000,000	12,000,000	22	

N.B.: Salary levels estimated to increase by 20% beginning Jan. 1 1987;  
materials costs are budgeted at same level in 1986 and 87.

Disbursement Procedures

1. Disbursement of the Grant - After satisfaction of the conditions precedent, the Grantee will request AID to disburse funds under the Grant. After review and approval of the documentation submitted by the Grantee, AID will deposit CFA funds into the Government of Chad's Federal Reserve account in Paris.

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

3. Special Account - Within one week after deposit of funds to the GOC's Federal Reserve Account, the GOC will deposit an equivalent amount of CFA into a Special Account at the Central Bank of Chad in N'Djamena.

4. Rate of Exchange - The rate of exchange that will be used to compute the amount of CFA francs to be deposited in the Special Account by the GOC 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 units of FCFA per U.S. dollar.

C. Implementation Schedule:

<u>Estimated Date</u>	<u>Activity</u>
September 1986	Grant Agreement signed
September	Initial Conditions Precedent met
September	First Tranche - funds received by Chadian Government in Federal Reserve Account
September	First Tranche - Equivalent amount deposited in Special Account and Utilization Plan submitted by the GOC to USAID/Chad - USAID approval within one week
November	First Tranche - Funds completely expended by GOC
December	First Tranche - Utilization Report submitted for the first tranche to USAID/Chad
December	First Tranche - Utilization Report reviewed and approved by USAID/Chad

December	Second Tranche - Utilization Plan submitted for 2nd Tranche
December	Second Tranche - Utilization Plan approved
December	Public accounting firm is engaged to audit documentation and procedures used during the expenditure of the First Tranche
December	Second Tranche - Funds received by the Chadian Government in Federal Reserve Account
December	Second Tranche - Equivalent amount deposited in Special Account
March 1987	Second Tranche funds completely expended by GOC
March	Recommendations made by audit firm are implemented
March	Second Tranche - Utilization Report submitted to USAID/Chad
March	Third Tranche - Utilization Plan is submitted to USAID/Chad
March	Public accounting firm is engaged to audit documentation and procedures used during the expenditure of the Second Tranche
March	Census of civil servants submitted to USAID/Chad
April	Second Tranche Utilization Report, Third Tranche Utilization Plan, and Census are approved by USAID/Chad
April	Third Tranche funds are received by the GOC in Federal Reserve account
April	Equivalent amount deposited in Special Account
July	Third Tranche funds completely expended

July	Third Tranche - Utilization Report and Fourth Tranche Utilization Plan are submitted to USAID/Chad
July	Public accounting firm is engaged to audit first three tranches including special spot check to verify that 60% of GOC employee salary level was attained
July	Third Tranche Utilization Report and Fourth Tranche Utilization Plan are approved by USAID/Chad
July	Fourth Tranche funds are received by the GOC in Federal Reserve account
July	Equivalent amount deposited in Special Account
November	Fourth Tranche funds are completely expended
November	Fourth Tranche - Utilization Report is submitted to USAID/Chad
December	Fourth Tranche - Utilization Report is approved by USAID/Chad
Nov - Dec 87	Evaluation/Program Completion Report  Program Completed
Early 1988	Final audit

D. Conditions Precedent:

1. Alternative Conditions Precedent Considered

AID/Washington in its approval of the PAIP suggested the following conditions for Mission consideration in the non-project agreement. The Mission's assessment of the suggested conditions is discussed below, along with the justification for retention of two of the three conditions:

a. Census of Government Employees:

Conformance with this recommendation will be insured by stipulating in the Program Agreement, disbursement procedures section, that a census must be completed before the third of the four \$1,750,000 tranches is disbursed.

USAID/Chad believes a census of employees is needed to improve personnel planning and to better estimate total yearly salary budgets. USAID/Chad has been advised by the GOC that the census is underway but will take some time to complete given both the lack of electronic data processing equipment available to the Government, and the need to travel throughout the country to complete the employee count and verification process. The census is expected to be complete by February 1987.

b. Removal of GOC Car Loan Guarantee for Personal Vehicles from the Budget:

USAID/Chad has already discussed the issue of the proposed personal car loan program with the Minister of Finance. He advised that, while the 1986 budget did include a line item for such loans the GOC has not issued a decree approving the expenditures; therefore the budgeted item has no legal status and the funds cannot be used in this way. The Program Agreement will include a condition precedent to initial and subsequent disbursements that the GOC will not adopt a car loan or guarantee program.

Recommendation will be enforced by stipulating in the Grant Agreement that each GOC request for a disbursement tranche (\$1,750,000) be accompanied by a certification from the Minister of Finance that the GOC has not published a decree funding the car loan guarantee or other personal car loan program from the national budget.

c. Civil Servant Employment Freeze:

GOC policy is not to hire new employees except in the following cases: the reintegration of ralliers (former members of the opposition) into the Government and persons already abroad for training for which the Government has an employment commitment. As a part of its national reconstruction and reconciliation effort, the Government has offered amnesty to Chadians (former civil servants and military personnel) willing to abandon rival political factions and guerrilla movements. Thus, the GOC is expected to employ some of these returning citizens. Also, the GOC has a policy of employing returning university graduates trained outside the country if they do not find jobs elsewhere. Under these circumstances the GOC cannot agree to an employment freeze. The employment commitment does not apply to most students finishing studies at the University of N'Djamena since only a few departments offer a full three year degree.

The Mission has carefully reviewed this consideration and determined that it should not be a condition to the assistance discussed in this document. National reconciliation cannot occur without the inclusion of Chadians who are beginning to pledge allegiance to the present government and seeking to regain their former civil servant or military status.

2. Proposed Conditions Precedent to Disbursement:

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 8.2 of the Grant Agreement, together with a specimen signature of each person named in such statement;

(b) A statement designating the bank and account number into which the disbursement is to be made;

(c) An initial utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for an initial period not to exceed three months; and

(d) A initial statement certifying that the Government of Chad has not financed from the national budget a car loan or guarantee program for personal vehicles.

Conditions Precedent to Subsequent Disbursements - Prior to disbursement of each subsequent 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 Inspector of State setting forth the actual use of funds from the Special Account;

(c) (For the third tranche only of the Grant) a copy of the completed census of Government of Chad employees, setting forth the total numbers of civil servants employed by ministries and parastatal organizations; and

(d) A subsequent statement certifying that the Government of Chad has not financed from the national budget a car loan or guarantee program for personal vehicles.

E. Proposed 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 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 or fees imposed under the laws in effect in Chad.

(b) The Special Account will not be used to finance military, paramilitary or police requirements 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.

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(c) The 1987 budget will not include a budget line item to finance a vehicle loan or guarantee program for civil servants or others in government bodies.

(d) 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 AID, in form and substance satisfactory to AID:

(1) A report setting forth the final budget for the Government of Chad for its fiscal year 1986; and

(2) A final utilization report certified by the Minister of Finance and Data Processing and the Inspector of State 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 AID under the Grant Agreement.

(d) The Grantee will furnish to AID such other reports and information relating to the Grant, the budget of the Government of Chad and the performance of the Grantee's obligations under the Agreement as AID may reasonably request.

F. Financial Accountability:

Financial accountability will be assured for funds from the GOC's Special Account by utilizing procedures already in place and similar to those used successfully in the implementation of the 1984 budget support activity. In order to insure that the 1984 grant was properly executed by the host government and documentation procedures implemented to improve the expenditure verification process, the firm of Price Waterhouse provided the following audit service to USAID/Chad for the first tranche of the 1984 program:

- ascertained that the preconditions for the first withdrawal from the grant were met;

- reviewed on a test basis the nature of expenses for the first disbursement tranche;

- depth tested a certain number of expenses by checking the supporting documents (statement of expenses, consultation and selection of suppliers, administrative work order, invoice, engaging of the expense, approvals, reception of goods, payment, etc.);

- performed a reconciliation of the total amount expensed and recorded the total amount disbursed from the bank account;

- reviewed of the bank reconciliation prepared August 31, 1984 for the special account No 4171 at the Banque des Etats de l'Afrique Centrale in Ndjamena and obtained direct confirmation of the balance at the same date.

The final conclusion of the audit was that except for recommendations concerning: (1) the use of "receiving statements" for all transactions passed between suppliers and contractors, (2) authorized signatures for expenditures required on all transactions, and (3) tax free treatment of funds provided by the cash grant, GOC procedures reviewed by the audit were satisfactory. In each case where the audit teams took issue with how funds were used, these funds were reimbursed to the grant by the Central Bank and the recommended procedures adopted by the GOC for subsequent transactions. The final unexplained difference from the cash grant found by Price Waterhouse was a mere \$26.90 (9,149 FCFA) out of \$1,202,941 (409,966,795 FCFA) between May 15 and August 31, 1984.

The 1984 Budget Support activity was successfully implemented. It used a USAID/Chad procedure of general oversight of the disbursements divided into tranches which allowed the AID Controller, assisted by his staff, and the Sahel Regional Financial Management team to review GOC financial performance and procedures for conformance with AID requirements that the use of the cash grant be limited to civil servant salaries and some materials procurement (operating expenses) as mutually agreed to by AID and the GOC.

While the present activity is similar to the 1984 budget support grant, there are important differences which will strengthen the system. In addition to the expertise available to the program from the Mission Controller's office and the Sahel Regional Financial Management team, AID has funded through a regional activity the services of a U.S. national to work at the Ministry of Finance. This person is serving as an advisor and financial analyst at the Ministry for the next two years. One of the primary tasks of this advisor is to help the GOC improve its data processing, including automation of its budgetary procedures, as well as maintain accurate records regarding the use of budgetary resources.

FOX

Receipts and payroll journals which substantiate the reported amount will be subject to review for accuracy and completeness by the Sahel Regional Financial Management (SRFM) Project team. This team will also have authority to observe payrolls and verify the Special Account balance independently of Government of Chad officials. Prior to release of the second and subsequent tranches of the Grant, USAID/Chad intends to engage the services of an independent audit firm to review all of the previous tranche documentation supporting the utilization report submitted by the Government of Chad. USAID/Chad will perform random spot checks for each disbursement to verify salary payments in N'Djamena and a limited number of sites outside of N'Djamena. Finally, auditors will seek to verify that salary payments are being made at the previous agreed upon 60 percent level. If necessary, USAID is prepared to request prompt reimbursement as required from the Government of Chad.

G. Environmental considerations:

Given the nature of this Program Grant, approval is requested for a Categorical Exclusion. The activity meets the exclusion criteria of Section 216.(c)(i) because the AID funding does not have an effect on the natural or physical environment.

STATUTORY CHECKLIST

### 3(A)2 NONPROJECT ASSISTANCE CHECKLIST

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? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

#### A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

CN will be forwarded to the Congress

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 additional action required

3. FAA Sec. 209 Is assistance more efficiently and effectively given through regional or multilateral organizations? If

NO

so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

4. FAA Sec. 601(a) Information and conclusions 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.
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).
6. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Assistance will help GOC to reduce in an orderly way the deficit expenditures or identify strategies for increasing tax revenues and diversification of agricultural sector.

N/A

N/A

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? N/A
9. FAA 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. However, the same criteria for accountability are applied to activities funded from the Economic Support Fund as would be from projects funded under Development Assistance.
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? NO

**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(c). Will assistance under this chapter be used for military, or paramilitary activities?

NO

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 such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

NO

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

N/A

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N/A

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall

assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities

which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(E) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207.  
Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

NO

g. 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?

N/A

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending 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?

N/A

b. FAA Sec. 103, 103A, 104, 105, 106, 107. 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

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(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, or 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 in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data

collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

YES

d. 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 has been designed in collaboration with the Government of Chad, the International donor community and financial agencies like the IBRD. The activity will assist the GOC find solutions to its short-term financial problems as long-term initiatives are undertaken.

e. FAA Sec. 122(b) 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

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program take into consideration the problem of the destruction of tropical forests? YES
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? Refer to pg. 3
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? NO
16. ISDCA of 1985 Sec. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? NONE

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance  
Project Criteria

- a. FAA Sec. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending 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, (e) utilize and encourage regional cooperation by developing countries?

N/A

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? N/A
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? N/A
- e. FAA Sec. 122(b). 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

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

YES

g. FAA Sec. 281(b). Describe extent to which program 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 civil education and training in skills required for effective participation in governmental processes essential to self-government.

The program has been designed in collaboration with the Government of Chad. The activity will assist the GOC in its short-term financial problems as longer term initiatives are undertaken.

2. Development Assistance Project  
Criteria (Loans Only)

a. FAA Sec. 122(b). Information an conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Economic Support Fund Project  
Criteria

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(c). Will assistance under this chapter be used for military, or paramilitary activities?

NO

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified

NO

that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

- 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?

N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? NO
  
2. FAA Sec. 604(a): Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? N/A
  
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A
  
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? N/A

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? YES
9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? N/A

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A
  
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
  
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES
  
4. Will arrangements preclude use of financing: YES
  - a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

- b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? YES
  
- c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? YES
  
- d. FAA Sec. 650. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES
  
- e. FAA Sec. 662. For CIA activities? YES
  
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES

- g. FY 1986 Continuing Resolution, Sec. 503. YES  
To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?
- h. FY 1986 Continuing Resolution, Sec. 505. YES  
To pay U.N. assessments, arrearages or dues?
- i. FY 1986 Continuing Resolution, Sec. 506. YES  
To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1986 Continuing Resolution, Sec. 510. YES  
To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1986 Continuing Resolution, Sec. 511. YES  
For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?
- l. FY 1986 Continuing Resolution, Sec. 516. YES  
To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

INITIAL ENVIRONMENTAL EXAMINATION  
OR  
CATEGORICAL EXCLUSION

Project Country: CHAD, N'DJAMENA

Project Title: Strengthening Development Ministries II, 677-0052

Funding: FY (s) 86 \$ 7.0 mil

IEE Prepared by: Mildred E. Brown, AFR/PD/SWAP

Environmental Action Recommended:

Positive Determination \_\_\_\_\_  
Negative Determination \_\_\_\_\_

Pursuant to Section 216.2(c)(1)(i) this activity does not have an effect on the natural or physical environment of Chad. The purpose of A.I.D. contribution will be used to pay the salaries of development ministries and other operating expenses.

Concurrence:  
Bureau Environmental Officer

*B. Boyd*

APPROVED X

DISAPPROVED \_\_\_\_\_

DATE 6/13/86

Clearance: GC/AFR *[Signature]* Date 6/13/86

56X

HUMAN RIGHTS PROCEDURES MEMORANDUM

DATE : June 5, 1986  
TO : HA, Fred Ashley  
FROM : AFR/PD/SWAP, James Hradsky  
SUBJECT: Human Rights Clearance

JH

sent 6/17  
no problem  
HR/SM

The following project:

Title : Development Ministries II  
Number : 677-0052  
Country: Chad  
Amount : \$7,000,000

is to be authorized in AID/W. This project was not among those reviewed by the Working Group in December 1984. The appropriate materials are attached.

HA concurrence is requested. If we are not notified within 15 days, we will assume concurrence.

=====

TO : AFR/PD/SWAP  
FROM: HA, Fred Ashley

- Proceed with authorization
- Request hold authorization pending further review.

Lawrence Stanley  
Signature

\_\_\_\_\_  
Date

cc: PPC/PDPR:Thorrel (3889, NS)  
AFR/SWA:YJohn