

PDBBS 294

CLASSIFICATION:

<p>AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p>PROGRAM ASSISTANCE</p> <p>APPROVAL DOCUMENT</p> <p>(PAAD)</p>		1. PAAD Number 677-K-603 (677-0055)	
		2. Country Chad	
		3. Category Budgetary Support Assistance	
		4. Date February 22, 1988	
5. To Charles L. Gladson Assistant Administrator		6. OYB Change Number	
7. From Bernard L. Wilder A.I.D. Representative		8. OYB Increase To be taken from:	
9. Approval Requested for Commitment of \$		10. Appropriation Budget Plan Code 72-118/91037 ESF GESA-88-31677-KG31 (870-61-677-00-50-81)	
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 2/88 - 1/89	14. Transaction Eligibility Date
15. Commodities Financed			

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local \$7.0 million
Cash \$7.0 million	Other

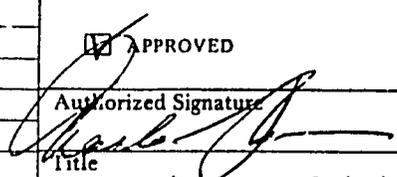
18. Summary Description

The purpose of this \$7.0 million cash transfer is to provide budgetary support to the Government of Chad.

Subject to availability of funds and the mutual agreement of the parties to the terms and conditions set forth herein, A.I.D. will disburse the FCFA franc equivalent of \$7.0 million in two separate tranches of \$3.5 million.

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

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

19. Clearances	Date	20. Action
DAA/AFR:WBollinger	3/11/88	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
DAA/AFR:ELSaiers	3/11/88	
GC/AFR:GBisson	March, '88	Authorized Signature: 
AFR/DP:JRWestley	3/7/88	
AFR/SWA:PDichter	3/7/88	Date: 4-13-88
AFR/CONT:RKing	3/8/88	Title: Assistant Administrator for Africa
AFR/PD/SWAP:BBurnett	3/3/88	
AFR/PD/C:RMaushammer	Date 3/14/88	CLASSIFICATION: M/FM/PAFD: SOWENS 72X Date 8/1/88
AFR/PD:CPeasley	Date 3/11/88	AF/C:JRDobrin Date 3/7/88

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley *CPeasley*

SUBJECT: Chad, Support to Development Ministries III
(677-0055) - Program Grant Authorization

I. Problem: Your approval is requested to authorize a Program Grant of \$7.0 million under the Economic Support Fund (Section 531 of the Foreign Assistance Act of 1961, as amended) to the Government of Chad.

II. Discussion

A. Background: Chad, one of the world's poorest countries, faces a very difficult economic situation. It is fighting aggression by the Libyans and recovering from a civil war. The price of cotton, Chad's principal export and traditionally its main source of tax revenue, dropped by 50 percent between 1984 and 1986. Also, since cotton is priced on the world market in U.S. dollars, which has been devalued relative to the CFA franc, Chad's cotton industry has continued to be unable to recover and pay taxes. As a result of declines in revenues, the Government of Chad (GOC) lacks the means even to finance normal operations. This situation will continue until the price of cotton and the overall economy recover or the conflict with Libya ends.

The GOC has made strong efforts to hold down expenditures. For example, government employees are paid at only 60 percent of the official scale. However, with more than three quarters of the budget earmarked for civilian salaries at the reduced level and for defense against the Libyans, there is no room for additional cuts. The projected budget deficit for 1988 is \$35.6 million. The French are expected to contribute \$21.8 million which leaves an unfunded balance of \$13.8 million. This Program Grant will help the GOC to meet this shortfall in its 1988 operating budget and complement the French program.

A.I.D. has provided two previous cash transfers, totaling \$10 million, for similar budget support over the period from 1984 to 1987. A.I.D. reviews and independent audits have not disclosed any irregularities in the use of these resources. The GOC has demonstrated a willingness to comply with past conditions precedent and covenants. For example, the GOC was required to cancel a personal car loan guarantee program in its 1986 budget and also undertake a census of public sector employment.

B. Program Description: The purpose of this \$7 million cash transfer is to assist the GOC in meeting a projected deficit in its 1988 operating budget. A.I.D. funds will be used almost exclusively

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for salary support to civilian ministries, although some funds will be eligible for locally-purchased supplies and equipment to assist the GOC with the proposed conditionality requirements. Salary support will be limited to ministries with a development focus. Assistance to the ministries of the Presidency of the Republic, the Interior and Territorial Administration, Defense, and Foreign Affairs will be prohibited. The GOC will be required to submit utilization plans showing proposed uses of funds. These plans will be reviewed and approved by A.I.D. prior to disbursement of funds.

The Mission plans to obligate the entire \$7.0 million in FY 1988. It will disburse the Grant in two separate tranches of approximately \$3.5 million in March and May 1988, times when the GOC has projected shortfalls.

Procedures for disbursements will be similar to those successfully used under the FY 1986 Support to Development Ministries II. Disbursements will be made in CFA francs to an interest-bearing "Disbursement Account" maintained by the GOC Treasury at a local commercial bank. Both the principal and the accrued interest of this Disbursement Account will be reserved exclusively for expenses identified in the utilization plans. Each month the Treasury will transfer an amount equivalent to its estimated expenses under the utilization plan for that month from the Disbursement Account to a Special Account at the Central Bank of Chad, from which actual payments to employees and suppliers will be made. Payment through the Central Bank will be in accordance with normal Treasury procedures and will thus be simpler and less prone to bookkeeping and other errors than making payments directly from the account at the commercial bank. As with the Disbursement Account, funds in the Special Account will be reserved exclusively for the payment of expenses identified in the utilization plans.

To ensure continued high standards of financial control of A.I.D. funds by the GOC, the Chad Mission will conduct monthly reviews of disbursements from the Special Account, using methods recommended by the accounting firm Price Waterhouse. The reviews will be carried out by the A.I.D.-funded Financial Policy Adviser assigned to the Ministry of Finance and by staff from the Mission Controller's Office. The reviews will require physically verifying salary payments to a sample of several dozen employees every month, and confirming, through inspection of receipts, payroll journals and other records, that payments claimed by the GOC have actually been made and received by the designated employees or suppliers. Any discrepancies found during these reviews will be immediately communicated to the Ministry of Finance for corrective action.

For external audit purposes, the Chad Mission will contract the services at the completion of the Grant, financed from the PD and S account, of an independent CPA firm to perform a non-federal audit for compliance with the terms of the Agreement.

C. Conditions and Covenants: As mentioned, an A.I.D.-approved initial utilization plan specifying the proposed purpose, amount and timing of payments will be required as a condition to the first disbursement. Subsequent disbursement will require a similar utilization plan as well as 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 funds from the previous disbursement.

A covenant will be included that addresses the GOC's efforts to improve the effectiveness of its work force. This covenant will require the GOC to submit to A.I.D., within four months of signature of the Agreement, evidence:

- (i) that an organization within the GOC, either existing or newly created, has been made responsible for in-depth analysis of all available data on its civilian work force and for formulation of recommendations for improved effectiveness in the work force, as well as a plan for implementing these recommendations;
- (ii) that the terms of reference for the work force improvement plan have been prepared in form and substance satisfactory to A.I.D.; and
- (iii) that the GOC has granted this organization the authority and resources necessary for its tasks.

The GOC will also provide A.I.D. with the preliminary findings of this organization within 12 months of signature of the Agreement and the final report and recommendations as soon as they are available.

Another special covenant is required that deals with the recurrent cost implications of development programs in Chad. This covenant will require the GOC to provide A.I.D. with copies of its operating and investment budgets for 1988 and 1989 including an analysis of the recurrent cost implications of these budgets, as soon as these documents are available. The PAAD indicates that the UNDP and the International Monetary Fund are already providing significant assistance to the GOC in this area.

D. Environmental Examination: The Africa Bureau Environmental Officer has determined that this Grant qualifies as a "Categorical Exclusion" that exempts it from further environmental examination, according to 22 CFR 216.2(c)(1)(i).

III. Justification to the Congress:

A Congressional Notification was sent to the Congress on February 24, 1988, and the waiting period expired on March 10, 1988 without objection.

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The Statutory Checklists have been satisfactorily completed and are included in Annex A of the PAAD.

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

Attachments:

- A. Cable, State 24493
- B. Cable, State 30427
- C. Project Authorization Assistance Approval Document (PAAD)

Clearances:

AFR/SWA:PDichter (draft) *PD*
AFR/PD/SWAP:BBurnett *BB*
AFR/DP:JRWestley (draft) *JRW*
GC/AFR:GBisson *GB March 7, '88*
M/FM/PAFD:SOwens *SO*
STATE/AF:JDobrin (draft) *JD*
PPC/PB/C:RMaushammer (draft) *RM*
DAA/AFR:LSaiers *LS 3/14/88*
DAA/AFR:WGBollinger *WB*

WDeese
Drafted by:USAID/Chad:AFR/PD/SWAP:WDeese:02/01/88 4539M

April 13. 1988

A D D E N D U M

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

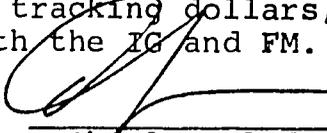
4/12/88

Note to Charles Gladson, AA/AFR
FROM: Barry Burnett, ^{NB} AFR/PD/SWAP
SUBJECT: Chad Cash Transfer

Sandy Owens (FM) has confirmed that accounting information requested by IG can be obtained from the U.S. Disbursing Officer in Paris. The Assistant USDO in Paris, Lynn Burgener, agreed to provide the details of the exchange transaction (when, where and exchange rate) when dollars under the cash transfer are exchanged for French Francs. The FFs go into a USG owned Conversion Account for subsequent purchase of CFAs.

We will request the Controller in Chad to request this accounting information when he submits the payment schedule requesting the disbursement of funds under the program in question.

This note will be included as part of the Official record representing the Africa Bureau's understanding of procedures to be followed in tracking dollars, per discussions with the IG and FM.



Charles Gladson

4-13-88
Date

LIST OF ABBREVIATIONS AND FOREIGN TERMS

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

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

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

FCFA -- Franc of the Communauté Financière Africaine, which is the currency of former French colonies in West and Central Africa. The FCFA is pegged to the French franc at 50:1 ratio. Converted to the U.S. dollar at 300 FCFA = \$1.00 in this document.

Cotontchad -- Parastatal company responsible for the production and marketing of Chad's cotton crop.

GDP -- Gross Domestic Product.

GOC -- Government of Chad.

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

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

IMF - International Monetary Fund.

PSC -- Personal Services Contractor.

SDM -- Support to Development Ministries

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CONDITIONS PRECEDENT

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

- (a) A statement of the names and titles of the persons who will act as representatives of the Grantee as defined in the appropriate section of the Grant Agreement, together with a specimen signature of each person named in such statement;
- (b) A statement designating the bank and account number into which the disbursement is to be made;
- (c) A statement certifying that a Special Account, from which disbursements for the purposes identified in the utilization plans submitted by the Grantee will be made, has been opened at the Central Bank of Chad; and
- (d) 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.

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

- (a) A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for a subsequent period not to exceed three months and
- (b) An interim utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of funds from the Special Account.

COVENANTS

Completeness of Information. The Grantee will confirm:

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

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

Special Covenants

- (a) The Agreement and the Special Account will be free from any taxation or fees imposed under the laws in effect in Chad.
- (b) The Special Account will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or military, paramilitary or police activities of any kind, including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to the military or police.
- (c) The Grantee will submit to A.I.D., within four months of signature of the Agreement, evidence:
 - (i) That an organization within the GOC, either existing or newly created, has been made responsible for in-depth analysis of all available data on its civilian work force and for formulation of recommendations for improved effectiveness in the work force, as well as a plan for implementing these recommendations;
 - (ii) That the terms of reference for producing the work force improvement plan have been prepared in form and substance satisfactory to A.I.D.; and
 - (iii) That the GOC has granted this organization the authority and resources necessary for its task.
- (d) The Grantee will provide A.I.D. with preliminary findings from the organization described in section (c) above within 12 months of signature of the Agreement and its final report and recommendations as soon as they are available.
- (e) The Grantee will provide A.I.D. with copies of the operating and investment budgets for 1988 and 1989 and the recurrent cost implications of these budgets and any other studies it may produce on the recurrent costs associated with development projects, as soon as these documents are available.

- (f) Except as the Parties may otherwise agree in writing, not later than four months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., a final utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control, setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of interim utilization reports previously submitted to A.I.D. under the Grant Agreement.
- (g) The Grantee will furnish to A.I.D. such other reports and information relating to the Grant, the Operating and Investment Budgets of the Government of Chad and the performance of the Grantee's obligations under the Agreement as A.I.D. may reasonably request.

DISBURSEMENT PROCEDURES

1. Disbursement of the Grant. After satisfying the conditions precedent to disbursement of one of the tranches of the Grant, the GOC, acting through the Ministry of Finance, will request A.I.D. to disburse the tranche. The conditions precedent will include submission of a utilization plan for the tranche and, for the second tranche, submission of a report on the utilization of the first tranche. After USAID/Chad reviews and approves the documentation submitted by the GOC, it will request the U.S. Government's Regional Accounting Management Center (RAMC) in Paris to deposit CFA francs by wire into the Disbursement Account maintained by the GOC's Central Treasury for this purpose at one of the commercial banks in N'Djamena.
2. Date of Disbursement. Disbursement of funds by A.I.D. will be deemed to occur on the date A.I.D. deposits the funds in accordance with the Grant Agreement.
3. Disbursement Account. The GOC will maintain a Disbursement Account reserved exclusively for the receipt of A.I.D. funds provided under this Grant. This account will be an interest bearing account maintained by the GOC's Treasury at a local commercial bank. A.I.D. will transfer grant funds in CFA francs directly into this account. Interest accruing to this account will be exempted from the usual GOC withholding taxes on interest payments.
4. Special Account. Actual payment of expenses identified in the GOC's utilization plans will be made from a Special Account held by the GOC's Treasury at the Central Bank of

Chad. Approximately once a month, the GOC Treasury will deposit into the Special Account an amount equivalent to its estimated expenses under the utilization plan for that month. The total amount deposited by the GOC into the Special Account will be equal to the amounts transferred by A.I.D. into the Disbursement Account plus all interest accruing to the Disbursement Account. All funds deposited into the Special Account will be expended by the GOC on items identified in the Utilization plans submitted to and approved by A.I.D.

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

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

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I. EXECUTIVE SUMMARY AND OVERVIEW

One of the poorest countries in the world, Chad is facing a difficult period of economic adjustment and recovery from years of civil war and the Libyan invasion. The price of cotton, the principal export product and traditionally the chief source of tax revenue, dropped by 50% between 1984 and 1986. This combined with the recent sharp drop in the value of the dollar, in which cotton exports are priced, has crippled the cotton industry to the point that it is unable to continue to pay taxes. As a result, Chad will lack the means to finance vital imports and normal government operations or to invest in its own economic development until the early 1990s.

Even before the cotton crisis, the newly reestablished Government of Chad faced substantial budget deficits, which reached 3.8 billion CFA (\$13 million) in 1985. Since then, tax and other revenues have declined from 21.3 billion CFA francs (\$71 million) to a projected level of 18.9 billion FCFA (\$63 million) in 1987, while the deficit has nearly doubled to 7.8 billion FCFA (\$26 million). Until cotton and the overall economy recover from the current recession, increases in GOC revenues will be marginal ones resulting from improved administrative efficiency. Total GOC expenditures are projected to total 26.7 billion FCFA (\$89 million) this year. With more than three-quarters of the budget earmarked for civilian salaries (paid at only 60% of the official scale) and defense against Libyan aggression, there is no room for cuts. The GOC must therefore rely on donors, notably France, the United States, the International Monetary Fund and the World Bank, for help in overcoming its budget deficits. The purpose of the proposed assistance is to provide the GOC with a \$7.0 million cash transfer to help finance its 1988 fiscal deficit. It will complement a more substantial French budget support effort as well as adjustment credits being accorded by the International Monetary Fund and the World Bank. A.I.D. funds will almost exclusively be earmarked for salaries in civilian ministries.

Two previous A.I.D. budget support activities have demonstrated the reliability of the GOC's financial management systems. Therefore, this program will require limited management time from U.S.A.I.D./Chad. Funds will be released in two tranches, subject to Mission approval of GOC utilization plans, and disbursements will be reviewed by the U.S.A.I.D./Chad Controller's Office and the A.I.D.-funded contractor assigned to the Ministry of Finance. At the end of the program, the GOC's compliance with the Grant Agreement and A.I.D.-approved utilization plans will be audited by an independent accounting firm.

The GOC's economic and financial policies are already strongly market oriented and in little need of fundamental revision.

The policy conditionality attached to this activity will continue A.I.D. support of GOC efforts to improve control and planning of its budgetary expenditures. Covenants in the Grant Agreement will require the GOC to show progress towards improving the quality and efficiency of its civilian work force.

II. MACROECONOMIC JUSTIFICATION FOR BUDGET SUPPORT

A. OVERALL PERFORMANCE

Chad's remote and isolated economy is one of the poorest in the world. Civil war has brought in its wake not only the task of reestablishing the public sector's normal administrative and public service operations, which largely ceased to function between 1979 and 1982, but the reconstruction of a major portion of the country's meager capital stock as well.

Economic growth since 1982 has been uneven. As noted in Table I, a record cotton crop, combined with an initial surge of industrial recovery, fueled a 5.6% rate of growth in the GDP in 1983. One of the most severe droughts in this century, however, served to reduce the rate of growth for the following year to a negative 4.5%. Recovery and growth in industry and construction were nonetheless impressive. In 1985 the economy rebounded on an unprecedented scale. Grain production more than doubled, offsetting the initial downturn in world cotton prices. Real growth in the GDP for the year was an extraordinary 29%, and total economic activity surpassed for the first time the peak 1977 level. The continuing downward spiral in cotton prices led to a 2.0% decline in the GDP in 1986, however. Fortunately, the strong negative effect of cotton was mitigated by another excellent cereal harvest. Together with the partial reconstitution of the livestock herd, the food grain performance prevented the decline from being far worse. Based upon events thus far, the IBRD is projecting a positive rate of growth of 1.8% for 1987 followed by slightly higher rates of 2.2% and 2.0% for 1988 and 1989, respectively.

B. GOVERNMENT OPERATIONS

1. Expenditures. As noted above, the Government's first task in the postwar period was to reestablish its regular administrative and public service functions. Ministries and other offices gradually resumed their previous activities as former employees were reintegrated and temporary workers were hired.

The number of GOC civilian employees stood at approximately 9,000 by early 1985, rose to 18,000 early the following year, and was 22,561 at the time of the May 1987 census of public

sector employment. The great bulk of the initial increase in public sector employment took place in the ministries that provide essential services and implement development projects, such as Education, Public Health, Agriculture, and Tourism and Environmental Protection, as efforts were made to overcome severe shortages of teachers and health, forestry and agricultural workers. The public wage bill has expanded apace. Aggregate monthly wages of the GOC's civilian employees have increased from an initial figure of about 400 million FCFA to approximately 600 million FCFA at present. These figures, it should be mentioned, reflect payments of only 50% of the prewar GOC salary scale until early 1986 and 60% thereafter.

Expenditures by ministry and by category appear in Table II. Two politically sensitive items, military outlays and civilian salaries, together account for more than 75% of all expenditures. With the continued Libyan threat along Chad's northern frontier, the military portion of the budget cannot prudently be reduced. Any decrease in the modest civilian salaries now paid would be immensely unpopular and reverse the gains made in administrative efficiency. Expenditures on goods and services are minimal. The IBRD, for example, recently noted in its country economic memorandum "the generalized lack of basic equipment and supplies (e.g., desks, chairs, paper, simple office machines) in Government offices."

The GOC has attempted to reconstruct its official and officially guaranteed external indebtedness, service a growing proportion of maturing debt and avoid accumulating any additional arrears. Foreign debt service is the task of the Autonomous Repayment Fund (Caisse Autonome d'Amortissement -- CAA), whose operations are separate from the general GOC budget and which has its own sources of revenue from excise and petroleum import taxes. The CAA has not been altogether successful. A total of \$4.4 million was paid on the \$8.7 million that fell due in 1985. For 1986 the figure was \$2.9 million out of \$10.1 million.

To summarize, a glance at the aggregate expenditure figures since 1984 discloses the GOC's ability to maintain tight budgetary control in the face of an active Libyan menace along its northern frontier, a notable drought, and the collapse of cotton prices. Total current expenditures have risen from 22.6 billion FCFA in 1984 (\$75.3 million) to only 25.4 billion FCFA (\$84.7 million) in 1987. The annual rate of nominal increase of 4.0% is equal to Chad's inflation rate during this period, which means that budgetary expenditures have been frozen in real terms.

2. Revenues. Revenues are listed in Table IV. Taxes are the overwhelming source of GOC income, accounting for between

roughly 86% and 93% of total revenue in recent years. Of these, taxes on international trade are the most important, totaling between 40% and 57% of all tax revenues. Of the two categories of taxes on trade, levies on imported goods bring in the larger share; since 1986, revenues from export duties have been virtually nil. This absence of revenues from export taxes reflects the GOC's waiver of taxes on cotton, owing to the extremely difficult situation in which the industry is now operating. No further income is expected from this source until the early 1990s. Other leading sources of revenues are income tax and taxes on goods and services. Each of these contributes an additional 15% or so of total tax revenues.

The need for additional revenues, particularly since the loss of cotton export duties, is manifest. The search for increased fiscal intake, however, particularly in the wake of the cotton crisis, has run up against certain weaknesses in the fiscal system. The World Bank classifies them as follows:

1. Revenues rest on a narrow, undiversified base, for which the yield is reduced by inadequate tax administration.
2. The GOC has only a limited capacity to analyze the economic and social impact of fiscal options -- a factor leading to a rather unintegrated, ad hoc system of taxation. Often, this system proves too cumbersome and complex, or too distortionary, causing consumption switching toward smuggled goods, which creates significant disincentives to domestic production and/or to marketing through official channels. This, in turn, undercuts the very revenues the GOC seeks to tax. According to the directors of Chad's major industries, consumption-switching has been a particularly serious problem in the manufacture of cigarettes, soft drinks, sugar, oil and soap. The GOC urgently needs additional sources of revenues, but it must try to broaden the tax base to the greatest extent possible and improve yields. This, in turn, requires increased capacity to analyze fiscal options and to administer the resulting taxes.

Despite these structural weaknesses in the fiscal system, one promising area for increasing revenues is duties on petroleum imports. Until 1987 petroleum imports, which come from Nigeria and Cameroon, were subject to a variety of taxes collected by several GOC agencies. These imports were also regulated by a complex price stabilization scheme intended to prevent Chad from becoming dependent on a single, potentially unreliable source of fuel products. The complicated interstices of these administrative arrangements allowed a great deal of petroleum to be fraudulently imported duty free. Now, with advice from the IMF and the French cooperation program, the GOC is simplifying the petroleum import system in order to make

revenue collections more efficient. It is hoped that this reform will yield an additional 2.0 billion FCFA (\$6.7 million) in revenues in 1987 and another 4.5 billion FCFA (\$15.0 million) in 1988.

3. The Fiscal Deficit. Table V shows that despite salary payments of no more than 60% of the 1967 schedule, minimal allocations for supplies and equipment and almost no provision for maintenance, expenditures have still consistently exceeded revenues by a substantial margin. Moreover, with the exception of 1985, when there was a substantial reduction, the deficits have increased in absolute amount with the passage of time. As a percentage of GDP the deficits have varied, according to the figures in Table I, from 1.6% to 2.7%. The latter figure is not especially alarming until one realizes that it represented one-third of GOC revenues for that year. The GOC has relied thus far on a variety of sources, both domestic and foreign, to finance the deficits. The chief domestic source has been the Banque des Etats de l'Afrique Centrale, the regional central bank. Leading foreign sources, as reported in Table VI, have been budgetary support from France and the United States. The French program is the larger of the two by a considerable margin, accounting for slightly over 86% of all external budget support between 1983 and 1986. The United States contributed 10% and the World Bank's International Development Association slightly less than 4%.

C. THE EXTERNAL SECTOR

Recent trends in Chad's balance of payments, together with projections through 1992, appear in Tables VII and VIII. The extent to which the usually negative trade balance is dependent upon developments in the cotton industry is striking. It was only during 1984, when a record level of production combined with unusually favorable marketing conditions, that Chad managed to generate a small trade surplus. Likewise, the collapse of world cotton prices in 1985 and 1986 led, in turn, to record high trade deficits. The huge deficits were also aggravated by rapid increases in payments for nonfactor services associated with petroleum exploration. Despite substantial direct investments by the Esso Oil Exploration and Production Company and increasing levels of official development assistance, net reserves were drawn down by \$32 million in 1985 and by an additional \$24 million in 1986. By the end of 1986 Chad's official reserves were reduced to the equivalent of one month's exports.

The recent recovery in the dollar price of cotton has been largely offset for Chad by the simultaneous rise in the value of the CFA franc. With no hope for relief on the cotton front,

and with the outlook for substantial increases in foreign investment not being particularly bright, there is an urgent need for substantial increases in foreign economic assistance. As shown in Table VIII, the IBRD estimates that Chad's total external financing requirements for its current account deficits between 1987 and 1989 amount to about \$950 million. Medium and long term capital inflows, including direct investments, should cover \$278 million. The IBRD considers it possible that Chad will receive external grants, including those from the United States, for a total of \$440 million over this period; this would represent a sustained annual increase over the 1986 level of 18%. The resulting financial gap of \$12 million could then be covered with relative ease by resources from the International Monetary Fund's Structural Adjustment Facility, described below.

D. ADJUSTMENT PROGRAMS

Prospects for economic growth during the next few years are fairly modest -- no more than 2% per year until 1990. Output in the cotton industry is unlikely to expand and prospects for other sectors appear to be lackluster as well. Within this context, the GOC has collaborated with the World Bank and the IMF in defining a policy strategy that would be jointly financed by a \$42 million financial rehabilitation credit from the former and a \$25.2 million Structural Adjustment Facility, or SAF, from the latter. The program's overall goals are (i) in the short term, to rehabilitate the cotton sector, (ii) in the medium and long term, to diversify into other sources of export earnings, such as livestock production, and (iii) to keep the country's fiscal and external trade deficits within sustainable levels. The specific features of the program are summarized below:

- The cotton sector: This is considered to be the principal area in which structural change is needed. Although the cotton production and marketing parastatal, Cotontchad, is the country's largest industry, with revenues roughly equal to the GOC's, it has suffered severe losses since 1986 and as a result has been unable to pay taxes. The strategy here is, in the short term, to reduce Cotontchad's costs as far as possible and secure the financing required to cover its inevitable losses, while considering alternative long-term strategies such as privatization. Since early 1986 it has released half of its work force and closed five of its 12 ginneries, among other drastic cost-cutting measures. Operating losses are to be reduced to 6.5 billion FCFA (\$21.7 million) by the company's 1988 fiscal year. IDA has already lent \$15 million to

support this restructuring, as part of a \$47 million package also supported by France, the Netherlands, and the European Development Fund. Donor funds are being used for production inputs, technical assistance and seasonal credit.

- Other sectors: Emphasis will be placed on developing the livestock sector, which has significant potential to expand its export markets. Also, since the limited and poorly maintained domestic transportation network is a major constraint on economic growth, the IBRD is collaborating with the GOC to formulate a strategy focused on the selection and maintenance of a priority road network, as well as an increasing competition between the trucking companies operating in the sector.
- Fiscal Policy:
 - * Strict limits on public sector recourse to domestic bank borrowing, which is to be reduced to 7.6 billion FCFA (\$25 million) by December 31, 1987, and to 7.4 billion FCFA (\$24 million) by June 30, 1988;
 - * Better enforcement of existing taxes;
 - * New petroleum import taxes to yield 2.0 billion FCFA for July-December 1987 and 4.5 billion FCFA for January-June 1988;
 - * Fiscal and non-fiscal receipts of the GOC, including off-budget agencies, to increase by 12.6% in 1988 over 1987, to a minimum of 12.6 billion FCFA;
 - * Strict austerity on the expenditure side, with total budgetary expenditures increasing by 0.9% in 1988 over 1987, to no more than 25.6 billion FCFA;
 - * Ordinary budget deficit, on a commitment basis, not to exceed 2.9% of GDP (7.8 billion FCFA) in 1987 and 1.9% of GDP (6.0 billion FCFA) in 1988;
 - * GOC salaries to continue at 60% of the 1967 schedule;
 - * Reduce domestic payment arrears by 3.2 billion FCFA by June 30, 1988, and external arrears by nearly 2.0 billion FCFA by December 31, 1987;

- * Prepare annual investment budgets, starting in 1987, and a three year investment plan for the period 1988-1990; and
- * GOC to contract no new debt on non-concessional terms, with the exception of short-term trade credit.

- Credit and Monetary Policies:

- * Domestic credit growth to be limited to 5% for 1987 and to 10% for 1988 and 1989; and
- * Money supply to be frozen during 1987, and growth limited to 10% in 1988 and 1989.

E. OTHER DONORS

As noted above, France provided 5.0 billion FCFA (about \$14.7 million) in general budget support during 1986 and plans to provide 8.0 billion FCFA (\$27.0 million) in 1987. The 1988 level will probably be around 6.0 billion FCFA (\$21.8 million). No significant restrictions are placed on the GOC's use of these funds. While the French have acted as the funding source of last resort in the past, they have proven unwilling or unable to shoulder the GOC's entire budget deficit themselves. France actively encourages the Chadians to seek supplementary sources for such financing.

III. PROJECT DESCRIPTION

A. BACKGROUND: PREVIOUS A.I.D. BUDGETARY SUPPORT PROGRAMS IN CHAD

1. Cash Transfer (677-0047). The proposed budget support program is the third in a series that began in 1984. Responding to the growing deficit between GOC revenues and the expenditures required to maintain a minimal acceptable level of public services, the United States moved to supplement similar, albeit larger scale, budget support operations that the French had begun to carry out in late 1982, with a \$3,000,000 grant. The agreement for the first program, entitled simply "Cash Transfer" (677-0047), was signed in April 1984. The grant was released in three \$1,000,000 tranches, in May 1984, November 1984 and July 1985.

Owing to the urgent nature of the requirement for budget support, the serious drought then under way, the chaotic state of the country's economic and social data base, and the GOC's consequent inability to articulate its objectives and

strategies other than in very broad, general terms, conditionality was deliberately minimized. U.S.A.I.D./Chad sought only to assure that the funds provided were used by the GOC to pay the salaries of civil servants working in non-military activities, together with the necessary supporting equipment to enable them to carry out their tasks productively. As a consequence, other than the standard provisions, conditionality was limited to conditions precedent to each tranche requiring a utilization plan for local currency deposited in the special account and interim utilization reports submitted by the Minister of Finance and the State Secretary for General Inspection and State Control.

In addition to the usual reviews performed by the U.S.A.I.D./Chad Controller's Office on utilization of funds, the GOC's use of the first tranche was independently audited by Price Waterhouse. No significant irregularities were found in the way in which the funds had been disbursed.

Given the general nature of the budget support provided, it is difficult to attribute specific results to the program. This is particularly true because A.I.D. resources were commingled with significantly larger amounts of funds provided by the GOC and France. Nonetheless, it is useful to recall that the GOC was rapidly rebuilding its civilian work force while the funds were being disbursed. A rapid increase in public sector employment would, under ordinary circumstances, be contrary to A.I.D. policy. The circumstances of that period, however, were far from ordinary. The GOC was in the midst of mounting a concerted postwar reconstruction effort while simultaneously coping with one of the worst droughts of the century, the after effects of civil war, and foreign occupation. Regularizing salary payments during this period, at least for N'Djamena and most areas to the south, undoubtedly served to boost employee morale and attendance, thus increasing public sector productivity.

As a result of its recent reestablishment and limited administrative resources, the GOC remains small, relative both to its size in the prewar economy and to the current economy as a whole. In 1977 total revenues amounted to 9.0% of GDP while total expenditures represented 11.0%. These figures had fallen to approximately 6.0% and 8.6%, respectively, by the end of 1985. Likewise, with 22,651 employees in mid-1987, the GOC labor force is comparable in size to the estimated 22,000 employees on its payrolls in 1977. Moreover, during the period of this first cash transfer program, civil servants were still receiving only 50% of their prewar salaries; salaries were not raised to 60% until early 1986. The GOC's small size also reflects its preference for a liberal economy in which the

government serves as a complement to, rather than a substitute for, private sector activity.

2. Support to Development Ministries II (677-0052). The Grant Agreement for the second budgetary support program was signed in September 1986. While similar in many ways to the first, it also differed in some important features. The total amount was increased to \$7,000,000, which was disbursed in four equal tranches of \$1,750,000. A number of substantive conditions to the assistance were added. These consisted particularly of two conditions precedent (CPs): first, certification by the GOC prior to release of each tranche that no loan or guarantee program for personal vehicles would be financed from the national budget, and second, the requirement that, before release of the third tranche, a census of GOC public sector employment would be undertaken. The GOC complied fully with both CPs, and the last tranche was released in September 1987. As with the first budgetary support program, U.S.A.I.D./Chad reviews of expenditures under all four tranches and Price Waterhouse audits of the first and third tranches failed to disclose any irregularities in GOC use of the funds. Salary payments are now regularly made within two or three weeks of the end of each month in the N'Djamena area. Due to continuing tremendous logistical difficulties caused by Chad's underdeveloped transportation and communications networks, salary payments in the provinces are still made with greater delays and with less regularity than in N'Djaména.

The second program also differed from the first with respect to the GOC ministries' funding eligibility. Due to a hold on the Congressional Notification for the program, several ministries were excluded from receiving budget support due to the limited developmental content of their activities. These were the Office of the Presidency, the Ministry of Foreign Affairs, the Ministry of Defense and the Ministry of the Interior and Territorial Administration.

During the two prior programs, U.S.A.I.D./Chad was struck by the degree to which, insofar as its resources permit, the GOC acted responsibly and quickly to implement A.I.D.'s requests. If convinced of the logic, equity and economic and political practicality of any condition precedent, covenant or more informal request, the GOC is willing to go to extraordinary lengths to cooperate and meet the condition. This cooperative spirit abounds in other A.I.D.-funded activities in Chad, both project and non-project, and has been reported by other donors as well. The World Bank, for example, cites the following

cases in its recently released country economic memorandum:

"In the aftermath of the 1984 drought, Chad has often been cited as a model for the effective use of food aid."

". . . the Government, in cooperation with the donor community, acted swiftly to implement an emergency program to support the cotton industry through a period of adjustment, thereby allowing the continuation of cotton operations and banking activities in the short term."

"While placing top priority on resolving crisis situations . . . the Government has also made considerable progress in creating a healthy environment for the recovery of economic activity."

B. OVERVIEW OF THE PROPOSED PROGRAM

Funds from the Economic Support Fund granted under this program will be used for direct budgetary support to the Government of Chad. The proposed program will continue the focus of the earlier Cash Transfer and Support to Development Ministries II activities on assuring salary payments to the civilian employees of ministerial departments with development responsibilities. Table IX lists the GOC departments which will be eligible for support under this program; Table X lists the ineligible departments.

Disbursements will be made in two equal tranches. Procedures for disbursements, as detailed in section III.C below, will be similar to those successfully used under Support to Development Ministries II. Disbursements will be made in CFA francs to an interest-bearing "Disbursement Account" maintained by the GOC Treasury at a local commercial bank as general budget support. Both the principal and the accrued interest of this Disbursement Account will be reserved exclusively for goods and services identified in the utilization plans. Each month the Treasury will transfer an amount equivalent to its estimated expenses under the utilization plan for that month, from the Disbursement Account to a Special Account at the Central Bank of Chad, from which actual payments to employees and suppliers will be made. Payment through the Central Bank will be in accordance with normal Treasury procedures and will thus be simpler and less prone to book-keeping and other errors than making payments directly from the account at the commercial bank. As with the Disbursement Account, funds in the Special Account will be reserved exclusively for the payment of goods and services identified in the utilization plans.

Each tranche is expected to cover three months of the salaries of the N'Djaména employees of the eligible departments. It is

anticipated that disbursements will be made in March 1988 and May 1988, at periods when the GOC will be experiencing a cash flow deficit. Table XI shows the monthly cumulative cash flow of the GOC operating budget in 1987 and provides an estimate of cash flows in 1988.

C. DISBURSEMENT PROCEDURES

1. Disbursement of the Grant. After satisfying the conditions precedent to disbursement of one of the tranches of the Grant, the GOC, acting through the Ministry of Finance, will request A.I.D. to disburse the tranche. The conditions precedent will include submission of a utilization plan for the tranche and, for the second tranche, submission of a report on the utilization of the first tranche. After U.S.A.I.D./Chad reviews and approves the documentation submitted by the GOC, it will request the U.S. Government's Regional Accounting Management Center (RAMC) in Paris to deposit CFA francs by wire into the Disbursement Account maintained by the GOC's Central Treasury for this purpose at one of the commercial banks in N'Djamena.
2. Date of Disbursement. Disbursement of funds by A.I.D. will be deemed to occur on the date A.I.D. deposits the funds in accordance with the Grant Agreement.
3. Disbursement Account. The GOC will maintain a Disbursement Account reserved exclusively for the receipt of A.I.D. funds provided under this Grant. This account will be an interest bearing account maintained by the GOC's Treasury at a local commercial bank. A.I.D. will transfer grant funds in CFA francs directly to this account. Interest accruing to this account will be deducted from the usual GOC withholding taxes on interest payments.
4. Special Account. Actual payment of goods and services identified in the GOC's utilization plans will be made from a Special Account held by the GOC's Treasury at the Central Bank of Chad. Approximately once a month, the GOC Treasury will deposit into the Special Account an amount equivalent to its estimated expenses under the utilization plan for that month. The total amount deposited by the GOC into the Special Account will be equal to the amounts transferred by A.I.D. into the Disbursement Account plus all interest accruing to the Disbursement Account. All funds deposited into the Special Account will be expended by the GOC on expenses identified in the utilization plans submitted to and approved by A.I.D.
5. Rate of Exchange. The rate of exchange used to compute the amount of CFA francs to be disbursed by RAMC at U.S.A.I.D./-

Chad's request into the GOC's account at the local commercial bank will be the highest rate of exchange not unlawful in Chad on the date of disbursement. "Highest rate" means the rate yielding the greatest number of CFA francs per U.S. dollar.

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

D. FINANCIAL ACCOUNTABILITY

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

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

2. U.S.A.I.D./Chad Reviews. U.S.A.I.D./Chad will conduct monthly reviews of disbursements from the Special Account, using methods recommended by the accounting firm Price Waterhouse. The reviews will be carried out by the PSC Financial Policy Adviser assigned to the Ministry of Finance and by staff from the U.S.A.I.D./Chad Controller's Office. The reviews will require physically verifying salary payments to a

sample of several dozen employees every month, and confirming for each tranche, through inspection of receipts, payroll journals and other records, that payments claimed by the GOC have actually been effected and received by the indicated employees or suppliers. Any discrepancies found during these reviews will be immediately communicated to the Ministry of Finance for corrective action.

3. Outside Audit. After the GOC has completed disbursement of the second tranche, U.S.A.I.D./Chad will engage the services of an independent audit firm for a compliance audit of the entire program. Similar audits under the two previous budgetary support programs found no deviations from the terms of the respective Grant Agreements, although they did recommend minor improvements in management and control procedures, which the GOC subsequently adopted. The audit will be funded from PM&R. Its scope of work audit will be the following:

- (i) Assess the GOC's compliance with the utilization plans submitted by the Ministry of Finance and approved by U.S.A.I.D./Chad, through examination of supporting documentation and physical verification as well as reviewing and reconciling the GOC's Disbursement Account at the local commercial bank and its Special Account at the Central Bank of Chad.
- (ii) Assess the accuracy of the interim utilizations reports submitted by the GOC.
- (iii) Review the monthly reviews of disbursements conducted by the Financial Policy Adviser and U.S.A.I.D./Chad Controller's Office staff.
- (iv) Deliver an opinion concerning the internal controls observed in the course of the above examination, and suggest improvements to the extent warranted; point out any evidence of fraud or misuse of funds; and clearly document the basis for these conclusions.
- (v) Prepare a brief report covering the findings resulting from the above examination, and offer action oriented recommendations for whatever corrective measures need to be taken.

E. IMPLEMENTATION SCHEDULE

<u>Estimated Date</u>	<u>Activity</u>
March 1988 --	Grant Agreement signed.

- GOC meets initial Conditions Precedent.
- A.I.D. deposits first tranche of CFA francs to GOC Disbursement Account at local commercial bank.
- GOC begins monthly deposits of CFA francs equivalent to monthly needs under A.I.D.-approved utilization plans into Special Account at Central Bank and begins disbursements.
- April 1988
 - GOC completes disbursement of first tranche.
- May 1988
 - GOC meets second set of Conditions Precedent.
 - GOC submits to A.I.D. its plans for studies/analyses to improve quality/efficiency of the civil service, per covenant.
 - A.I.D. deposits second tranche of CFA francs to GOC account at local commercial bank.
 - GOC continues monthly deposits of CFA francs equivalent to monthly needs under utilization plans into Special Account at Central Bank and begins disbursements.
- August 1988
 - GOC completes disbursement of second tranche.
- September 1988
 - GOC submits final utilization report to A.I.D.
 - Compliance audit of all GOC disbursements under the Grant by an outside accounting firm.

February 1989

GOC submits preliminary analysis of data on civilian work force and plans for improvement, per covenant.

F. POLICY CONDITIONALITY

In addition to providing budgetary support, the proposed program will help the GOC improve its ability to execute effective economic and financial policies. This will continue the policy dialogue between A.I.D. and the GOC which began under Support to Development Ministries II. In order to meet conditions precedent to disbursements under that program, the GOC was required to annul a personal car loan guarantee program in its 1986 budget and also undertake a census of public sector employment; A.I.D. assisted the census by funding technical assistance and commodities from the regional Sahel Policy Analysis Project (625-0970). For Support to Development Ministries III, two possible areas of policy-related conditionality have been suggested: improving the effectiveness of the GOC's work force and analyzing the recurrent cost implications of current and planned donor-financed development projects in Chad.

1. Improving the Effectiveness of the GOC Work Force.

Salaries and related payments to the 22,500 GOC civilian employees will amount to 10.2 billion FCFA (\$34.0 million) in 1987, or 40% of the ordinary budget. However, the GOC is still putting into place a coherent system for managing and planning the use of its human resources. For example, there is no coordinated administration of the different personnel categories (such as civil servants, contractors, and traditional chiefs) managed by various ministries. Nor are there budgetary encumbrance controls on salaries paid from the GOC's own funds (although documented payrolls are kept). This often leads to the accumulation of substantial arrears in the payment of salaries, particularly outside of N'Djaména.

This lack of organization is a consequence of the 1979-1982 civil war, during which many personnel records were destroyed. It has been compounded by other factors, such as the national reconciliation policy of President Habré's government, under which all prewar civil servants who return from exile are guaranteed employment. In many cases, though, the returning exiles have been reintegrated into the civil service without necessarily matching the returnees' skills with the GOC's needs. At the same time, because of limited tax revenues,

salaries have been limited to only 60% of prewar levels, which has had unavoidable effects on employee morale.

The GOC is acutely aware of the need to improve the planning and management of its employees and has already taken steps in this direction. In May 1987 an inter-ministerial commission conducted a census of all categories of civilian employees, which was required and assisted by A.I.D. Concurrently with that effort, the Ministry of the Civil Service conducted a nationwide survey of the administrative status of civil servants ("fonctionnaires"); other ministries, such as Public Health and Public Works, have been updating their personnel dossiers. All of these activities have provided important and previously unavailable information on the total number of GOC employees, as well as their distribution by ministry, locality, and employment grade and category.

Improved efficiency in the GOC's work force and better control of this category of expenditure will only come after, first, the results of these censuses and surveys have been synthesized and analyzed, and second, the analysis has been integrated into the GOC's planning and budgeting processes. As shown by the steps already taken and as corroborated by discussions with officials of the Ministries of Finance, Civil Service and Planning during the PAAD design, the GOC knows what needs to be done in this area. These Ministries are currently studying whether the interministerial commission which carried out the May 1987 census should be extended or whether a new body should be created to analyze the studies mentioned above and, on this basis, make policy planning recommendations.

It is appropriate for A.I.D. to further the GOC's interest in improving the effectiveness of its work force, by including two covenants to this effect in the Grant Agreement for the proposed program. The first covenant will require the GOC to submit to A.I.D., within three months of signature of the Agreement, proof: (a) that an organization within the GOC, either existing or newly created, has been made responsible for indepth analysis of all available data on its work force and for formulation, by a date to be agreed upon by A.I.D. and the GOC, of an action oriented set of recommendations for improved effectiveness of the work force; (b) that the terms of reference for producing the work force improvement plan have been prepared in form and substance satisfactory to A.I.D.; and (c) that the GOC has granted this organization the authority and resources necessary for its task. The second covenant will require the GOC to provide A.I.D. with preliminary findings from the work force effectiveness commission within 12 months of signature of the Agreement and its final report and recommendations as soon as they are available.

2. Recurrent Costs of Development Projects. The second area of policy related conditionality is analysis of the recurrent cost implications of donor-financed development projects. This is a salient issue in Chad, where the GOC has no funds of its own to invest in development projects and where, according to World Bank estimates, 30-40% of donor project financing is used for recurrent costs.

The GOC, however, has taken steps to address this problem. For 1987, the Ministries of Planning and Finance have produced Chad's first Investment Budget since the end of the civil war. This document provides valuable information on all active and proposed projects by sector, donor, location, funding level, and expenditures. The GOC plans to refine the process so that recurrent costs will be separated from capital and technical assistance costs in the 1988 or 1989 Investment Budget. Under a UNDP-funded project, the World Bank is providing a technical assistance team to help the Ministry of Planning with the Investment Budget and also with preparation for the overall economic development plan for 1988-1990. An IMF adviser in the Ministry of Finance has helped the Budget Office develop a system for tracking and committing investment project costs.

Because the GOC has already made considerable progress in this area and is receiving active donor support, including conditionality in the SDM III Grant Agreement tied to analysis of development project recurrent costs is not necessary. It is proposed, however, that a covenant be included requiring the GOC to provide A.I.D. with copies of its 1988 and 1989 Investment Budgets and their recurrent cost implications when they become available, as well as with copies of any other studies which address the recurrent cost issue. This will enable A.I.D. to evaluate the GOC's progress in this area.

C. CONDITIONS PRECEDENT TO DISBURSEMENT

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

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

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

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

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

- (a) A subsequent utilization plan specifying the proposed purpose, amount and timing of payments from the Special Account for a subsequent period not to exceed three months and
- (b) An interim utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of funds from the Special Account.

H. COVENANTS

Completeness of Information. The Grantee will confirm:

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

Special Covenants

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

- (b) The Special Account will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or military, paramilitary or police activities of any kind, including the procurement of commodities or services to be used by the military or police, or to pay principal or interest on loans to the military or police.
- (c) The Grantee will submit to A.I.D., within four months of signature of the Agreement, evidence:
 - (i) That an organization within the GOC, either existing or newly created, has been made responsible for in-depth analysis of all available data on its civilian work force and for formulation of recommendations for improved effectiveness in the work force, as well as a plan for implementing these recommendations;
 - (ii) That the terms of reference for producing the work force improvement plan have been prepared in form and substance satisfactory to A.I.D.; and
 - (iii) That the GOC has granted this organization the authority and resources necessary for its task.
- (d) The Grantee will provide A.I.D. with preliminary findings from the organization described in section 2.(c) above within 12 months of signature of the Agreement and its final report and recommendations as soon as they are available.
- (e) The Grantee will provide A.I.D. with copies of the operating and investment budgets for 1988 and 1989 and the recurrent cost implications of these budgets and any other studies it may produce on the recurrent costs associated with development projects, as soon as these documents are available.
- (f) Except as the Parties may otherwise agree in writing, not later than four months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D., a final utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control, setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of interim utilization

reports previously submitted to A.I.D. under the Grant Agreement.

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

I. ENVIRONMENTAL CONSIDERATIONS

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

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TABLE 1: CHAD - KEY INDICATORS
(in percent, except where indicated)

	1983	1984	1985	1986	1987	1988	1989	1987-89 ann. avg.
	-----projected-----							
GDP growth rate (constant 1977 prices)	5.6	-4.5	23.4	-2.0	1.8	2.2	2.0	2.0
GDP per capita growth rate	3.3	-8.1	20.9	-3.9	-0.2	-1.6	0.0	-0.6
GDY growth rate	n.a.	n.a.	n.a.	-3.2	4.0	2.0	2.2	2.7
GDY per capita growth rate	n.a.	n.a.	n.a.	-5.1	2.0	-1.8	0.3	0.2
Consumption per capita growth rate	n.a.	n.a.	n.a.	-10.0	-3.5	-3.0	0.4	-2.0
Debt service (US\$)	n.a.	n.a.	9.0	10.0	10.0	8.0	9.0	9.0
Debt service/XBS	n.a.	n.a.	7.1	7.2	6.3	4.3	4.5	5.0
Debt service/GDP	n.a.	n.a.	1.3	1.2	1.1	0.8	0.8	0.9
Gross investment/GDP	n.a.	n.a.	6.1	10.7	15.6	16.0	16.5	16.0
Domestic savings/GDP	n.a.	n.a.	-32.2	-25.1	-19.0	-17.5	-17.7	-18.1
National savings/GDP	n.a.	n.a.	-24.6	-19.8	-15.4	-14.2	-14.4	-14.7
Public investment/GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Private investment/GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ratio of public/private investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government current revenue/GDP	4.3	8.2	7.5	5.9	7.0	6.9	6.9	6.9
Government current expenditure/GDP	6.6	10.3	9.1	8.6	9.4	8.8	8.7	9.0
Deficit or surplus/GDP (1)	-2.3	-2.1	-1.6	-2.7	-2.4	-1.9	-1.8	-2.0
Export growth rate (2)	122.0	48.2	-39.9	20.4	11.0	6.9	6.4	8.1
Exports/GDP	19.1	24.5	15.0	16.9	18.1	18.1	18.0	18.1
Import growth rate (3)	101.0	4.2	63.1	4.6	3.6	6.9	7.0	5.8
Imports/GDP	36.2	29.7	49.3	48.5	48.4	48.4	48.4	48.4
Current account (US\$)								
with public transfers	-39.8	-37.9	-155.3	-195.1	-228.3	-247.1	-269.2	-248.2
without public transfers	-102.5	-89.2	-199.0	-270.8	-293.9	-315.0	-340.3	-316.4
Current account without public transfers/GDP	-18.2	-17.5	-29.1	-32.9	-32.0	-31.9	-32.2	-32.0
World price of cotton fiber (US\$/kg)	1.85	1.79	1.32	1.06	1.41	1.54	1.66	1.54
World price of cotton fiber (CFAF/kg)	705.0	782.0	593.0	369.0	451.0	493.0	531.0	492.0
Exchange rate CFAF/US\$	381.1	437.0	449.3	349.0	320.0	320.0	320.0	320.0

Notes: (1) Deficit or surplus on a commitment basis.
(2) Exports of goods and services in SDRs.
(3) Imports of goods and services in SDRs.

TABLE II
Chad: Budgetary Expenditures of the Central Government, 1983-1987 (1)
(millions of CFA francs)

	1983	1984	1985	1986	1987 (proj.)
CURRENT EXPENDITURES (2)	11,855	22,601	23,543	24,803	25,400
Salaries (civilian)	6,599	6,294	8,238	10,657	10,196
Central administration	6,180	5,756	6,572	8,650	9,751
Foreign service	147	160	385	403	405
General staff expenses	272	378	688	969	40
Counterpart funds (3)	0	0	593	635	0
Goods and Services	3,322	2,418	4,750	3,664	5,574
Central administration	1,184	767	1,511	693	3,241
Embassies	220	272	577	476	546
General supplies	392	656	1,176	602	0
Building maintenance	321	89	309	622	0
Emergency action fund	53	21	115	510	800
Conference expenses (4)	0	0	0	0	500
Miscellaneous expenses	1,152	613	1,062	261	487
Military	2,050	9,000	9,397	8,649	8,200
Transfers	980	972	1,500	1,211	880
Social transfers	61	122	247	487	320
Contrib. to organizations	210	303	924	664	500
Pensions	683	268	329	0	0
Other transfers	26	279	0	60	60
Interest on Dom. Pub. Debt	0	0	0	0	0
Other Expenditures	(1,096)	3,917	(342)	622	550
Net Lending	0	0	0	0	0

- Notes: (1) All capital expenditures in this period have been externally financed. Budgetary expenditures do not include Foreign Debt Fund.
 (2) Slight differences from Treasury figures in Table VI.
 (3) Counterpart funds to A.I.D. budget support. Does not include budget support itself.
 (4) Summit conferences of Customs and Economic Union of Central African States, Niger Basin Authority and Lake Chad Basin Commission.

Source: IBRD; Ministry of Finance, Budget Office.

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TABLE III
Government of Chad
Non-Military Budgetary Expenditures 1984-1987
(Millions of CFA francs)

Ministry/Function	1984(*) (Estimated Expenditures)			1985 (Actual Expenditures)			1986 (Actual Expenditures)			1987 (Budget)		
	Salaries	Supplies	Other	Salaries	Supplies	Other	Salaries	Supplies	Other	Salaries	Supplies	Other
Presidency	720.3	164.2	--	1,988.1	278.7	--	2,691.6	209.9	--	2,537.2	426.1	--
Government Secretariat	18.1	--	--	59.8	--	--	65.7	13.7	--	147.1	358.2	--
Nat'l Advisory Council	88.2	22.0	--	99.9	27.0	--	112.1	6.4	--	129.0	24.7	--
Planning	44.0	3.5	--	87.3	6.1	--	54.0	2.0	--	86.5	27.1	--
Information	69.4	25.0	--	140.6	49.0	--	163.6	52.9	--	164.1	85.3	--
Audit & Inspection	46.4	15.0	--	106.5	24.5	--	97.5	10.7	--	119.1	38.7	--
Ministry of State	--	--	--	--	--	--	--	--	--	12.0	4.5	--
Foreign Affairs	71.6	363.0	--	80.2	577.0	--	86.4	423.6	--	152.2	478.1	--
Finance	187.8	35.0	--	310.2	49.0	--	469.7	521.6	--	658.7	346.6	--
Civil Service	27.8	5.0	--	43.6	12.3	--	42.1	0.9	--	53.0	13.2	--
Justice	58.9	15.0	--	105.3	18.4	--	146.8	66.2	--	198.3	119.1	--
Interior	495.1	117.4	--	924.0	152.9	--	1,363.0	265.8	--	1,621.1	254.2	--
Education	627.3	70.0	--	1,130.6	110.4	--	1,895.8	102.1	--	2,567.5	115.7	--
Public Health	222.4	4.0	--	439.2	36.8	--	547.1	69.3	--	617.4	122.3	--
Social Affairs	47.2	2.6	--	81.9	3.7	--	87.0	--	--	106.8	22.7	--
Labor	--	--	--	25.2	5.6	--	29.1	2.0	--	45.2	13.3	--
Food Security	41.7	2.4	--	43.1	2.9	--	39.2	--	--	44.8	11.0	--
Agriculture	117.5	30.0	--	279.9	36.8	--	371.2	38.4	--	470.0	75.5	--
Livestock	106.1	6.0	--	214.9	9.8	--	240.3	14.6	--	316.0	39.6	--
Tourism & Environment	102.5	22.0	--	146.9	12.3	--	211.8	4.6	--	243.2	42.8	--
Culture, Youth & Sports	--	--	--	--	--	--	--	--	--	194.1	53.2	--
Commerce & Industry	46.0	4.5	--	63.0	6.1	--	60.3	--	--	73.4	17.1	--
Mines & Energy	--	--	--	--	--	--	--	--	--	58.9	23.5	--
Public Works	139.1	10.0	--	136.9	18.4	--	169.1	12.2	--	170.2	62.3	--
Post Office	10.2	5.0	--	20.2	11.0	--	20.1	--	--	30.3	9.5	--
Transportation	19.5	2.0	--	30.7	9.8	--	28.0	--	--	37.0	7.0	--
Provinces (**)	2,872.9	--	--	--	--	--	--	--	--	--	--	--
Other (***)	157.8	656.0	14,683.6	92.9	1,176.0	14,257.5	57.7	3,540.7	10,529.5	54.5	1,462.0	10,239.9
Total	6,337.8	1,579.6	14,683.6	6,650.8	2,634.6	14,257.5	9,059.2	5,357.4	10,529.5	10,907.4	4,253.3	10,239.9

Source: Ministry of Finance and Computer Services, Budget Office
All figures are on a commitment basis.

Notes: (*) Detailed salary figures are for N'Djamena only.

(**) All employees of all departments outside of the capital.

(***) Includes expenditures for defense, embassies, general supplies, contributions to international organizations and subsidies to local schools and social organizations.

TABLE IV
Chad: Budgetary Revenues of the Central Government, 1983-1987 (1)
(millions of CFA francs)

	1983	1984	1985	1986 (prov.)	1987 (proj.)
TOTAL REVENUES	8,119	16,528	20,033	15,265	15,399
TAX REVENUES	6,089	13,076	15,916	12,675	12,915
Taxes on income & profits	658	1,360	3,050	3,021	2,550
Personal taxes	609	1,195	2,088	2,087	1,600
Income tax	442	918	1,620	1,177	1,000
Other	167	277	468	910	600
Corporate taxes	49	165	962	934	950
Profit tax	2	79	104	340	600
Minimum tax	47	86	858	594	350
Flat tax	139	310	536	391	250
Taxes on goods & services	2,195	3,118	3,707	3,124	3,915
Domestic turnover tax	142	573	1,342	997	900
Unitary tax	1,440	1,379	1,402	976	2,000
Livestock sales tax	1	89	208	100	240
Insurance tax	38	57	135	152	150
Registration fees	209	183	168	224	275
Stamp tax	144	152	243	205	300
Other	221	685	209	470	50
Civic tax	0	0	0	703	900
International trade	3,412	7,865	8,905	5,863	5,300
Import duties	3,131	5,126	5,540	5,757	4,950
Export duties	281	2,739	3,365	106	350
Other tax revenues	(315)	423	(282)	(427)	0
NON-TAX REVENUES	2,030	3,452	4,117	2,590	2,484
Property rents	137	125	241	171	200
Administrative fees	0	0	107	147	220
Non-industrial sales	180	407	629	591	884
Fines	5	27	56	33	40
Windfall revenues	0	172	317	0	0
Central Bank profits	445	581	1,008	641	540
Exchange guarantee	1,223	2,107	1,247	0	0
Other non-tax revenues	40	33	512	1,007	600

Note: (1) Does not include off-budget revenues of the Foreign Debt Fund.

Source: IBRD; Ministry of Finance, Central Treasury

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TABLE U
Chad: Central Government Operations 1983-1988
(Government Budget plus Foreign Debt Fund)
(Millions of CFA francs)

	1983	1984	1985	1986	Budget	1987		1988
	Actual	Actual	Actual	Prov.		1st 6 Mos (Actual)	12 Mos (Proj.)	(Proj.)
1. Total Revenue	8,495	18,266	21,341	16,836	20,550	7,234	18,860	20,830
Tax Revenues	6,089	13,076	15,916	12,675	14,280	4,850	12,916	15,217
Export duties:	281	2,739	3,365	106	300	55	132	138
Nontax revenues	2,030	3,452	4,117	2,590	2,370	586	2,484	2,123
Foreign debt fund (CAA)	376	1,738	1,308	1,571	3,900	1,798	3,460	3,490
2. Expenditures & Net Lend'g	13,197	23,875	25,167	24,345	26,928	11,265	26,705	26,823
Expenditures	13,197	23,875	25,167	24,345	26,928	11,265	26,705	26,823
Budgetary	11,899	22,662	24,014	22,910	25,401	10,627	25,400	25,629
Foreign debt fund (CAA)	1,298	1,213	1,153	1,435	1,527	638	1,305	1,194
Net Lending	0	0	0	0	0	0	0	0
3. Overall deficit (commitment basis)	(4,702)	(5,609)	(3,826)	(7,509)	(6,378)	(4,031)	(7,845)	(5,993)
4. Change in arrears	802	518	691	700	0	959	(2,172)	(3,796)
Domestic	202	107	1,008	535	0	988	(2,012)	(1,500)
External	600	411	(317)	165	0	(29)	(160)	(2,296)
5. Cash deficit	(3,900)	(5,091)	(3,135)	(6,809)	(6,378)	(3,072)	(10,017)	(9,789)

Sources: IMF and IBRD reports; Ministry of Finance, Central Treasury

TABLE VI
Chad: financing of Central Government Fiscal Deficit 1983-1988
(Government Budget plus Foreign Debt Fund)
(Millions of CFA francs)

Amount of financing	1983	1984	1985	1986	1987		1988	
	Actual	Actual	Actual	Prov.	Budget	1st 6 Mos (Actual)	12 Mos (Proj.)	(Proj.)
	(3,900)	(5,091)	(3,135)	(6,809)	(6,378)	(3,072)	(10,017)	(9,789)
1. Net external financing	3,723	4,246	5,242	5,087	(2,261)	2,304	6,860	6,374
Budgetary support	3,723	4,381	5,641	6,321	0	3,229	9,590	7,500
France	3,723	3,400	5,180	5,000	0	2,700	8,000	6,000
USAID	0	981	462	572	0	529	1,590	1,500
Other	0	0	0	748	0	0	0	0
Amortization	0	(135)	(399)	(1,234)	(2,261)	(925)	(2,730)	(1,126)
2. Net domestic financing	177	845	(2,107)	1,722	(624)	386	1,586	2,108
Banking system	(1,176)	1,200	(2,016)	1,631	(624)	212	1,412	2,108
Central Bank	(1,143)	1,359	(2,042)	1,592	(624)	212	1,412	2,108
IMF (net)	468	(1,015)	1,185	(509)	0	0	2,400	3,259
Exc. SDR advance	0	2,003	(1,118)	(691)	0	0	(200)	0
Adv. under cred. ceil.	(955)	1,981	(2,186)	2,238	0	212	212	(651)
Deposits	(656)	(1,610)	77	554	(624)	0	(1,000)	(500)
Commercial banks	(33)	(159)	26	39	0	0	0	0
Nonbanking sector	1,353	(355)	(91)	91	0	174	174	0
3. Financing need	0	0	0	(0)	(9,263)	(383)	(1,571)	(1,307)

Sources: IMF and IBRD reports; Ministry of Finance, Central Treasury

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TABLE VII
Chad: Balance of Payments 1983-1988
(Millions of US dollars)

	1983	1984	1985	----- (projected) -----		
				1986	1987	1988
Trade Balance	(32.2)	15.7	(73.1)	(117.9)	(140.9)	(150.4)
Exports	73.8	131.3	85.6	95.6	113.8	123.3
of which: cotton fiber	59.0	97.0	44.5	42.4	53.1	58.1
Imports	106.0	115.6	158.7	213.5	254.7	273.7
Non-factor Services	(24.2)	(42.4)	(110.1)	(133.6)	(126.6)	(138.8)
Receipts	36.6	35.3	36.2	38.6	46.2	49.7
Payments	60.8	77.7	146.3	172.2	172.8	188.5
Factor Services	(7.0)	(9.1)	(7.0)	(6.2)	(10.5)	(10.3)
Receipts	0.4	0.4	0.3	3.5	3.4	3.8
Payments	7.4	9.5	7.3	9.7	13.9	14.1
of which: interest	4.7	3.7	3.1	4.0	4.6	4.1
Transfers	87.4	49.2	58.2	61.9	48.7	49.8
Private (net)	(6.4)	(2.1)	(9.9)	(13.6)	(16.9)	(18.1)
Public (net)	93.8	51.3	68.1	75.5	65.6	67.9
food aid	11.8	21.6	48.0	19.7	17.2	15.5
budget support	9.8	15.3	12.6	20.7	28.3	30.3
other	72.2	14.4	7.6	35.1	20.1	22.1
Current Account Balance	24.0	13.4	(132.0)	(195.8)	(229.3)	(249.7)
CAB excl. public transfers	(69.8)	(37.9)	(200.1)	(271.3)	(294.9)	(317.6)
Official Capital Grants	0.0	27.6	43.3	84.5	141.4	151.3
Direct Investment	(1.1)	7.3	53.4	31.1	3.6	3.6
of which: Esso	0.0	7.4	53.7	34.7	n/a	n/a
Medium- and Long-term Lending (net)	(1.8)	(1.0)	14.1	43.8	72.4	86.4
Disbursement	2.5	3.9	19.6	49.9	78.2	89.9
Amortization	4.3	4.9	5.5	6.1	5.8	3.5
Short-Term Lending (net), Errors and Omissions	(15.7)	(32.6)	(5.9)	11.8	0.0	0.0
Exchange Rate Guarantee	3.2	4.8	2.7	0.0	0.0	0.0
Change in Net Reserves	8.6	19.5	(24.4)	(24.6)	(11.9)	(8.4)
Change in Arrears	6.5	3.9	2.4	3.0	0.0	0.0
Interest	2.6	0.8	(0.6)	0.5		
Principal	3.9	3.1	3.0	2.5		
Central Bank Financing	(15.1)	(23.4)	22.0	21.6	4.4	1.2
Net IMF Resources					7.8	5.2
Change in Other Reserves					(3.4)	(4.0)
Financing Gap	0.0	0.0	0.0	0.0	7.5	7.2

Source: IBRD Economic Memorandum for Chad (draft)

TABLE VIII
Chad: External financing Requirements, 1986-90
(millions of US \$)

	Estimated	-----Projected-----			
	1986	1987	1988	1989	1990
Current account, excluding official transfers	(270.8)	(293.9)	(315.0)	(340.3)	(366.0)
Amortization	(6.1)	(5.8)	(3.5)	(3.7)	(3.9)
Change in arrears	3.0	0.0	0.0	0.0	0.0
Change in reserves	20.9	0.0	0.0	0.0	0.0
Repurchases	(1.0)	-0.0	(1.0)	(3.8)	0.0
Total financing requirement	(254.0)	(299.7)	(319.5)	(347.8)	(369.9)
Disbursements: Existing Commitments					
Grants	186.9	143.0	105.0	76.0	31.0
Loans	24.0	47.6	35.5	25.2	8.3
Bilateral creditors	10.0	10.3	9.2	6.2	5.1
Multilateral creditors	14.0	37.3	26.3	19.0	3.2
of which: World Bank	11.0	35.0	20.0	16.0	1.4
of which: adjustment lending	0.0	0.0	0.0	0.0	0.0
Private capital flows [1]	43.1	3.8	3.8	0.0	0.0
IMF purchases	0.0	0.0	0.0	0.0	0.0
Disbursements: Expected New Commitments (Excl. IMF SAF [2])					
Grants	0.0	66.0	114.0	157.0	215.2
Loans	0.0	30.5	54.5	78.2	110.5
Bilateral creditors	0.0	24.8	25.5	25.2	38.2
Multilateral creditors	0.0	5.7	29.0	53.0	72.3
of which: World Bank [3]	0.0	0.0	22.0	46.0	50.0
of which: adj. lending [3]	0.0	0.0	17.0	26.0	18.0
Private capital flows	0.0	0.0	0.0	0.0	0.0
IMF purchases	0.0	0.0	0.0	0.0	0.0
Total	254.0	290.9	312.8	336.4	365.0
Financing gap, before IMF SAF and debt rescheduling	0.0	(8.8)	(6.7)	(11.4)	(4.9)
IMF Structural Adjustment Facility	0.0	7.5	5.5	3.0	2.5
Debt rescheduling	0.0	1.3	1.2	0.0	0.0
Remaining gap, after SAF	0.0	0.0	.0	(8.4)	(2.4)

Notes: (1) Mostly direct investment for oil exploration.
(2) Structural Adjustment Facility of the International Monetary Fund.
(3) Including World Bank's Special Facility for Africa.

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TABLE IX
List of Ministerial Departments Eligible for SDM III Financing

Ministerial Department	N'DJAMENA		PROVINCES		TOTAL	
	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)
Ministry of State	6	830,000	0	0	6	830,000
Posts and Telecommunications	11	1,415,725	5	320,800	16	1,736,525
National Consultative Committee	44	9,712,553	0	0	44	9,712,553
Labor	39	2,732,593	7	153,507	46	2,886,100
Food Security and Disaster Victims	65	2,616,335	0	0	65	2,616,335
Transportation and Civil Aviation	42	2,627,081	0	0	42	2,627,081
Social Affairs and Advancement of Women	188	5,754,020	108	1,947,006	296	7,701,026
General Secretariat of the Government	122	6,968,679	0	0	122	6,968,679
Culture, Youth and Sports	129	5,959,604	101	3,209,963	230	9,169,567
General Inspection and State Control	111	8,697,485	0	0	111	8,697,485
Mines and Energy	79	3,357,290	0	0	79	3,357,290
Commerce and Industry	104	6,101,253	7	169,955	111	6,271,208
Agriculture	491	17,404,703	748	14,429,785	1,239	31,834,488
Planning and Cooperation	121	6,707,824	0	0	121	6,707,824
Information	372	23,471,620	24	523,000	396	23,994,620
Finance and Data Processing	728	28,583,070	707	18,473,488	1,435	47,056,558
National Education	400	48,470,128	3,913	97,519,368	5,313	145,989,496
Tourism and Environmental Protection	579	11,050,988	548	6,817,945	1,127	17,868,933
Livestock and Pastoral Water Supply	354	12,517,250	481	10,098,884	835	22,616,134
Public Works	378	10,860,526	134	1,869,374	512	12,729,900
Civil Service	93	4,573,405	0	0	93	4,573,405
Public Health	1,087	28,894,780	1,491	25,514,249	2,578	54,409,029
Justice	180	11,820,225	439	4,346,709	619	16,166,934
TOTAL	6,723	261,127,137	8,713	185,394,033	15,436	446,521,170

Source: Ministry of Finance and Data Processing, Budget Office -- September 1987 Payroll.

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TABLE X
List of Ministerial Departments Ineligible for SDM III Financing

Ministerial Department	N'DJAMENA		PROVINCES		TOTAL	
	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)	Number of Employees	Monthly Payroll (CFA francs)
Presidency of the Republic (1)	1,223	57,985,000	0	0		
Interior and Territorial Administration	1,582	77,665,323	2,783	36,744,936	4,365	114,410,259
Defense (2)	227	4,404,399	4	50,760	231	4,455,159
Foreign Affairs (3)	131	6,807,409	0	0	131	6,807,409
TOTAL	3,163	146,862,131	2,787	36,795,696	4,727	125,672,827

Source: Ministry of Finance and Data Processing, Budget Office -- September 1987 Payroll.

- Notes: (1) Presidential Guard not included.
 (2) Chad National Army (FANT) not included.
 (3) Personnel in embassies abroad not included.

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TABLE XI
1987 -- Government of Chad Operating Budget -- Cash Flow Analysis
(Millions of CFA francs)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	-----Estimated-----		
										Oct	Nov	Dec
Receipts	469	937	1,406	2,850	4,087	5,252	6,951	8,017	9,361	11,374	13,387	15,400
Expenditures	1,467	2,935	4,402	6,383	8,427	10,170	12,382	14,281	15,849	19,033	22,216	25,400
Deficit (commitment basis)	(999)	(1,997)	(2,996)	(3,533)	(4,340)	(4,918)	(5,431)	(6,264)	(6,488)	(7,659)	(8,829)	(10,000)
Arrears	253	506	759	740	925	988	607	708	188	0	0	0
Deficit (cash basis)	(746)	(1,491)	(2,237)	(2,793)	(3,415)	(3,930)	(4,824)	(5,556)	(6,300)	(7,659)	(8,829)	(10,000)
External financing												
France	0	0	1,000	1,750	2,500	2,500	3,250	3,750	4,250	5,500	6,750	8,000
USAID	0	528	528	528	528	528	1,062	1,062	1,609	1,609	1,609	1,609
	0	528	1,528	2,278	3,028	3,028	4,312	4,812	5,859	7,109	8,359	9,609
Internal financing	746	963	709	515	387	902	512	744	441	550	470	391

1988 -- Government of Chad Operating Budget -- Cash Flow Analysis
(Millions of CFA francs)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Expenditures	1,481	2,961	4,442	6,440	8,503	10,262	12,493	14,410	15,992	19,204	22,416	25,629 (2)
Deficit (commitment basis)	(953)	(1,906)	(2,858)	(3,231)	(3,901)	(4,348)	(4,667)	(5,382)	(5,451)	(6,397)	(7,343)	(8,288)
Arrears (3)	(125)	(250)	(375)	(500)	(625)	(750)	(875)	(1,000)	(1,125)	(1,250)	(1,375)	(1,500)
Deficit (cash basis)	(1,078)	(2,156)	(3,233)	(3,731)	(4,526)	(5,098)	(5,542)	(6,382)	(6,576)	(7,647)	(8,718)	(9,788)
External financing												
France	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500	5,000	5,500	6,000
USAID	0	750	750	750	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
	500	1,750	2,250	2,750	4,000	4,500	5,000	5,500	6,000	6,500	7,000	7,500
Internal financing	578	406	983	981	526	598	542	882	576	1,147	1,718	2,288

Notes: (1) 12.6% Increase over 1987, per IMF adjustment program.
(2) 0.9% Increase over 1987, per IMF adjustment program.
(3) Repayment of pre-1987 arrears.

Source: Ministry of Finance and Data Processing, Central Treasury

5C(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. No
 Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Not Applicable

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

Not Applicable

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No
6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? No
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No, agreement signed on May 12, 1965.

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? No
10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? No
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Chad's defense. spending in FY-37 has raised 620(S) concerns. A response to 620(S) has been drafted and should be presented to Congress in due time. Question was taken into account by the Administrator at the time of approval of Agency OYB, (See p. 6 of the FY-88 taking into consideration memo.)
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
- As of December 31, 1987, Chad had paid 30 percent of its CY-87 obligation to the UN. Was not delinquent in its own obligations within the meaning of Article 19 of the UN Charter. (See page 7 of the FY-88 taking into consideration memo.)
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?
- No
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?
- No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?
- No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?
- No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
- No

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) No
21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No
22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No
23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntarily sterilization as a means of family planning? No

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? No.

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? Not Applicable

ANNEX A

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? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1988 Continuing Resolution Sec. 523; ✓
FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.
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?
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

The project was presented to the Congress in the 1988 Congressional Presentation. A CN has also been prepared.

No legislative action within Chad is required.

Not applicable to this budgetary support program.

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

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes.
- b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? No. Military or paramilitary uses are prohibited.
- c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? Not applicable to this budgetary support program.
- d. 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? Not applicable to this budgetary support program.
- 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? Not applicable to this budgetary support program.
- (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;

Not applicable to this budgetary support program.

(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;

Not applicable to this budgetary support program.

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

Not applicable to this budgetary support program. No imports are planned.

(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;

Not applicable to this budgetary support program.

(vi)(A) 75 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;

Not applicable to this budgetary support program.

(B) 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.

Not applicable to this budgetary support program.

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 (1) 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"), (2) cooperates fully with the IAEA, and (3) 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?

Not applicable to this budgetary support program.

h. FY 1988 Continuing Resolution. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA

Assistance is \$7 million. (a) Funds will be deposited in a special account and not commingled. (b) CFA francs will be deposited into a special account for purposes agreed to by A.I.D.

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

Yes.

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a).

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

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

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

N/A

(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, 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 programs explicitly addressing the problem of malnutrition 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 outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education.

A central focus of the program is to help the country develop proper procedures for budgets reconciliation of actual expenditures and a strong planning capacity.

makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. (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 research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

Not applicable to this budgetary support program.

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

(See iii below)

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

A central focus of the program is to help the country develop proper procedures for budgets, reconciliation of actual fiscal year expenditure and a strong planning capacity

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

Not applicable to this budgetary support program.

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

N/A

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

Not applicable to this budgetary assistance activity.

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

(a) Activity has been designed in context of economic assistance program sponsored by other organizations such as the IMF, the World Bank, and the Government of France.

(b) Yes.

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

Not applicable to this budgetary support program.

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 is designed to assist with salary payments to persons working in development ministries. A central focus of the program is to help the country develop proper procedures for national budgets, reconciliation of actual fiscal year expenditures and a strong planning capacity.

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

Yes.

f. FY 1988 Continuing Resolution. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

NA

PROGRAM GRANT AGREEMENT
BETWEEN
THE REPUBLIC OF CHAD
("GRANTEE")
AND
THE UNITED STATES OF AMERICA
("DONOR")
ACTING THROUGH THE
AGENCY FOR INTERNATIONAL
DEVELOPMENT
("A.I.D.")
FOR
BUDGETARY SUPPORT FOR DEVELOPMENT
MINISTRIES III
A.I.D. PROJECT NO. 677-0055
DATE:

PROGRAM GRANT AGREEMENT

BETWEEN

THE REPUBLIC OF CHAD

("THE GRANTEE")

AND

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

("A.I.D.")

FOR

**BUDGETARY SUPPORT FOR DEVELOPMENT
MINISTRIES III**

PROJECT NO. 677-0055

ARTICLE 1: THE GRANT

The United States pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement the local currency equivalent (CFA francs) of not to exceed seven million United States dollars (\$7,000,000) (the "Grant") to promote the economic and political stability of Chad. It is planned that the Grant will be made available to the Grantee in approximately two equal tranches upon the satisfaction of the applicable conditions precedent to disbursement.

ARTICLE 2: ESTABLISHMENT OF SEPARATE ACCOUNTS

(A) The Grantee will establish a special interest bearing account into which the Grant will be disbursed (Disbursement Account). Interest earned on this account will also be used for budget support.

(B) In addition, the Grantee will establish a Special Account in the Central Bank of Chad and deposit therein currency of Chad in amounts equal to the amount

disbursed into and interest accrued on the account described in (A) above (DisbursementAccount). Funds in the Special Account may be used to defray budgetary salary expenses and other costs of the civilian ministries listed in the Amplified Program Description only and for such other purposes as are mutually agreed upon by A.I.D. and the Grantee.

ARTICLE 3: CONDITIONS PRECEDENT TO DISBURSEMENT

Section 3.1: First Disbursement

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

(A) A statement of the names and titles of the persons who will act as representatives of the Grantee under Section 7.2, together with a specimen signature of each person named in such statement;

(B) A statement designating the bank and account number of the Disbursement Account;

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

(D) An initial utilization plan specifying the purpose, estimated amount and timing of the proposed release of funds from the Special Account by the Grantee for an initial period not to exceed four months.

Section 3.2: Conditions Precedent to Subsequent Disbursement

Prior to disbursement of the second tranche under the Grant, or to the

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

(A) A subsequent utilization plan specifying the purpose, estimated amount and timing of the proposed release of funds from the Special Account by the Grantee for a subsequent period not to exceed four months; and

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

Section 3.3: Notification

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

Section 3.4: Terminal Date for Conditions Precedent

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

ARTICLE 4: DISBURSEMENT

Section 4.1: Disbursement of the Grant

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

Grantee, A.I.D. will deposit the funds in the Disbursement Account.

Section 4.2: Date of Disbursement

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

Section 4.3: Exchange Rate

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

ARTICLE 5: COVENANTS

Section 5.1: Completeness of Information

The Grantee confirms:

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

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

Section 5.2: Books and Records

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

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

Section 5.3: Refunds

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

Section 5.4: Special Covenants

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

(B) The Grant will not be used to finance luxury goods, abortion equipment, gambling or weather modification equipment or 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) Except as the parties may otherwise agree in writing, not later than three months following the final disbursement under the Grant, the Grantee will furnish to A.I.D., in form and substance satisfactory to A.I.D.

(i) A report setting forth the final budget for the Government of Chad for its fiscal year 1988; and

(ii) A final utilization report certified by the Minister of Finance and Data Processing and the Secretary of General Inspection and State Control setting forth the actual use of all funds released from the Special Account. The final utilization report may incorporate the substance of interim utilization reports, previously submitted to A.I.D. under Section 3.2.

(D) The Grantee will submit to A.I.D., within four months of signature of the Agreement, evidence:

(i) That an organization within the Government of Chad, either existing or newly created, has been made responsible for in-depth analysis of all available data on the Grantee's civilian work force and for formulation of recommendations for improving the work force's effectiveness, as well as a plan for implementing these recommendations; and

(ii) That the terms of reference for producing the work force improvement plan have been prepared in form and substance satisfactory to A.I.D.; and

(iii) That the Grantee has granted this organization the authority and resources necessary for its task.

(E) The Grantee will provide A.I.D. with preliminary findings from the organization described in Section 5.4(D) above within 12 months of signature of the Agreement and with its final report and recommendations as soon as they are available.

(F) The Grantee will provide A.I.D. with copies of the Operating and Investment Budgets for 1988 and 1989 and the recurrent cost implications of these budgets as soon as these documents are available, as well as any other studies of the recurrent costs associated with the investment budgets.

(G) The Grantee will furnish to A.I.D. such other reports and information relating to the Grant and the Special Account and the performance of the Grantee's obligations under this Agreement as A.I.D. may reasonably request.

ARTICLE 6: TERMINATION AND REMEDIES

Section 6.1: Termination

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

Section 6.2: Suspension

If at any time:

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

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

(C) An event occurs that A.I.D. determines to be an extraordinary

situation that makes it improbable either that the purposes of this Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

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

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

Section 6.3: Cancellation by A.I.D.

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

Section 6.4: Non-waiver of Remedies

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

ARTICLE 7: MISCELLANEOUS

Section 7.1: Implementation Letters

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

Section 7.2: Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Minister of Finance and Data Processing, and any

other designated persons, and A.I.D. will be represented by the individual holding or acting in the office of A.I.D. Representative, Chad, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to authorize any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3: Communications

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

To the Grantee:

Mail/cable address:

Ministry of Finance and Data
Processing
P.O. Box 144
N'Djamena, Chad
(Telex 52-57-KD)

To A.I.D.:

Mail/cable address:

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

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

Section 7.4: Information

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

Section 7.5: Language of Agreement

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

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

For the Government of Chad

Title:

For the Government of the United States of America

Title:

Title

Date _____

AMPLIFIED PROGRAM DESCRIPTION

The purpose of the \$7,000,000 Budgetary Support to Development Ministries III program is to help the Government of Chad finance its projected budget deficit in 1988 by paying salaries and other operating expenses of civilian ministries. It is understood that all salaries paid under this program will be paid at the level of at least 60 percent of the stated salary. These ministries are: Agriculture; Tourism and Environmental Protection; Food Security and Disaster Victims; Livestock and Pastoral Water Supply; Planning and Cooperation; Public Works, Housing and Urban Development; National Education; Public Health; Social Affairs and Advancement of Women; National Consultative Council; General Inspection and State Control; Information and Orientation; Finance and Data Processing; Transport and Civil Aviation; Post and Telecommunications; Mines and Energy; Commerce and Industry; Civil Service; Labor, Employment and Professional Training; Culture, Youth and Sports; Justice; and General Secretariat of the Government.

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

The \$7,000,000 will be made available in two tranches of \$3,500,000. It is intended that each tranche be fully disbursed by the Government of Chad over a four-month period. Allowing a two-to three-week period between disbursements to confirm payments previously made, the entire \$7,000,000 should be disbursed and accounted for within ten (10) months after the signing of this document. A professional accounting firm will be engaged at the end of this period to conduct audits on payments and records.

INITIAL ENVIRONMENTAL EXAMINATION

OR

CATEGORICAL EXCLUSION

Project Country: Chad

Project Title: Support to Development Ministries, III,677-0055

Funding: FY (s) 1987 \$ 7.0 million

IEE Prepared by: Mildred E. Brown

Environmental Action Recommended:

Positive Determination _____
Negative Determination _____

Categorical Exclusion:

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

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

Concurrence: *B. Boyd*
Bureau Environmental Officer

AUG 27 1987

Bessie L. Boyd, AFR/TR/PRO

APPROVED *[Signature]*

DISAPPROVED _____

DATE 8/27/87

Clearance: GC/AFR *[Signature]* Date 8/27/87
Ted Carter 8/27/87