International Monetary Fund

Chad and the IMF

Press Release:
IMF Executive Board Completes Second Review under the ECF arrangement for Chad and Approves US$ 49.09 Million Disbursement

July 27, 2018

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Chad: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

July 13, 2018

Appendix I. Letter of Intent

N'Djamena, July 13, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

Madame Managing Director,

On June 30, 2017, the Executive Board of the IMF approved a financial program under the Extended Credit Facility (ECF) covering the period June 30, 2017 until June 29, 2020, to support Chad's stabilization and recovery strategy. On April 13, 2018, the Executive Board completed the first review under the program and approved the immediate disbursement of SDR 35.05 million, bringing total disbursements under the arrangement to SDR 70.1 million.

Despite low oil revenues, a difficult socio-economic situation, and security challenges, Chad continues to make progress under its ECF-supported program. Non-oil GDP contracted for a third consecutive year in 2017, but signs of stabilization, especially in the fiscal area, have manifested since the second half of the year. Economic activity, in both oil and non-oil sectors, is expected to recover in 2018, helped by a pick-up in oil production and in aggregate demand.

Stabilization in the fiscal area stems in large part from the government's determination to keep the reform momentum, including to raise non-oil revenue and maintain spending discipline. In addition, the following factors were key in supporting the stabilization: (i) the financial support of development partners; (ii) the debt rescheduling agreement with Glencore; and (iii) the successful rollover of domestic public debt. These developments have helped to improve the liquidity position of the Treasury, enabling the government to pay wages on time and clear some domestic arrears. Nevertheless, the government is aware that it is necessary to keep the pace of reforms to continue to firmly stabilize the country's fiscal and financial situation, as well as to ensure the effective resumption of growth in the non-oil sector.

Program implementation is broadly on track. All but one performance criteria for end-December 2017 were met. The customs revenue target was missed by a small margin, as economic activity and imports remained weak. In the first quarter of 2018 customs revenue were robust though, exceeding the indicative target for March. The indicative target on the regularization of emergency spending procedures (DAO) has been missed at end-December 2017, despite strong efforts to increase the regularization in the fourth quarter. The end-March 2018 indicative targets for the regularization of DAO and for social spending were missed, primarily due to temporary coordination issues among the relevant agencies and civil servants strikes. The PC on the accumulation of external arrears was missed as the payment of maturities due in the second quarter of 2018 were not paid. While some of the arrears were subsequently paid, a portion remains outstanding, but the government will pay it as soon as possible.

The government has continued to make progress on structural reforms, with the implementation of all four structural benchmarks, including the finalization of the terms of reference for external consultants to review and prepare a reorganization plan for two public banks, the publication of the list of tax and customs exemptions, and the ratification of the United Nations Convention against Corruption (UNCAC). These actions demonstrate the government's commitment to strengthening financial sector stability and improving governance, including by enhancing fiscal and oil sector transparency. Furthermore, the government is committed to hire external consultants by end-July to review and prepare a reorganization plan for two public banks and adopt by end-October 2018 a clearance strategy of domestic arrears based on the audit results which started in June. The audit of transfers and subsidies to identify potential areas for saving (due at end-March 2018) will be launched before the end of the year.

The government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Creating fiscal space through domestic revenue mobilization, increasing investment and social spending, and improving public financial management, notably by strictly limiting the use of DAOs, are key tenets. With adequate policies and reforms and the improvement in oil prices, we expect that non-oil GDP will recover.

The finalization of the restructuring agreement of the Glencore debt is an integral part of our stabilization and recovery strategy. Under the new terms of the contract signed on June 28, sufficient financing will be generated for the program and debt vulnerabilities have firmly declined. In addition, the agreement includes contingencies to limit the effect of lower oil revenues on the fiscal position and debt sustainability, and the economy will benefit more from oil revenue. The government is pushing forward to fulfill all the conditions precedent in the signed contract as soon as possible so that the contract will enter into effect.

The government will continue to maintain a tight spending envelop commensurate with available resources. Spending in 2018 will continue to be guided by the approved budget. The 2019 budget will be designed consistently with the parameters agreed under the program. The government will ensure that higher spending associated with the cost of the elections are fully consistent with the program supported by the Fund.

Structural reforms to diversify the economy and its competitiveness, strengthen the private sector, and steps to improve governance and fight corruption, including through the effective implementation of the UNCAC, are equally important. These goals are also enshrined in our National Development Plan 2017-21. With determined implementation efforts and the continued technical and financial support from our partners, we are confident to achieve the goal of progressively lifting economic growth and reducing poverty.

The attached memorandum of economic and financial policies (MEFP) supplements that of March 2018. It describes the economic and financial situation in 2017, sets out the economic and financial policies that the government intends to implement in 2018 and in the medium term, and establishes the performance criteria, indicative targets, and benchmarks up to March 2019.

Based on program performance, the government requests that the Executive Board of the IMF approve the completion of the second review under the ECF-supported program. The government also requests waivers for missing the PCs on customs revenue and external arrears accumulation since they were missed by small margins.

The government believes that the measures and policies set forth therein will serve to achieve the established objectives. We stand ready to take any additional measures that may prove necessary. We will consult with the IMF on the adoption of such measures and before making changes to the policies set out in the MEFP in accordance with the Fund's policies on consultations. We will provide timely information needed to monitor the economic situation and implementation of policies relevant to the program, as agreed under the accompanying Technical Memorandum of Understanding (TMU), or at the Fund's request.

In keeping with our longstanding commitment to transparency, we agree to the publication of the staff report, this letter of intent, the MEFP, and the TMU on the IMF's website.

Very truly yours,

/s/
Issa Mahamat Abdelmamout
Minister of Finance and Budget

Attachments:
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

OVERVIEW

1. The crisis that began in 2014 has had far reaching economic, financial, and social effects on Chad. While the crisis was precipitated by the oil price shock, the burden of external commercial debt has severely aggravated its financial and social effect as it necessitated deep and unsustainable fiscal contraction. In addition, the tense security situation in the Lake Chad region and Chad's active involvement in peace keeping efforts in the region has added significant pressures on the budget and the economy more generally.

2. In June 2017, the government of Chad requested a new program under the ECF arrangement to support the its reforms and stabilization strategy to lift the country out of the crisis. A three-year ECF arrangement was approved on June 30, 2017 in support of the government's medium-term economic program and the first review of the ECF was approved by the Board on April 13, 2018. The main elements of the program are to (i) reestablish debt sustainability through external commercial debt restructuring, (ii) achieve further gradual fiscal adjustment and create space for domestic arrears payment by maintaining a tight spending envelope and better mobilizing non-oil revenue, and (iii) limit reliance on domestic financing to help alleviate pressure on domestic banks.

3. After more than two years of sharp economic contraction, signs of stabilization started to appear at the end of 2017 and the beginning of 2018. Support from international partners, the agreement to reschedule the Glencore debt and the successful rollover of domestic public debt have helped ease the liquidity position of the government, which has been able to pay wages on time and clear some domestic arrears. Nonetheless, the economic, fiscal, financial, and social situation continues to be difficult. The government recognizes the need to remain focused on implementing reforms to further stabilize the fiscal and financial situation in the country, and ensure that economic growth in the non-oil sector rebounds.

4. A new constitution launching the fourth republic for Chad came into effect on May 4, 2018. In preparation of the new constitution, the inclusive Forum was held March 19-27, to study and recommend institutional and political reforms based on campaign promises by the president in 2016. The new constitution moves Chad to a full presidential system, without a prime minister and extends the term of the president to six years, with a limit of two terms. The president expressed a strong commitment to fight corruption and to improve the administration efficiency following the approval of the new constitution by the National Assembly. Parliamentary elections originally planned for November are likely to be postponed given the time needed to secure the financing and prepare for the elections.

5. This memorandum is an update and a supplement to that of March 2018. It lays out the specific elements of the government's reform strategy under the ECF arrangement. It describes the recent economic developments, the government's efforts to implement policies agreed under the existing program supported by the current arrangement, the macroeconomic prospects, as well as the government policies and reforms agenda particularly for 2018 and the medium term.

RECENT ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE 2017 ECF ARRANGEMENT

A. Recent Economic Developments

6. **Economic activity is estimated to have contracted by about 3 percent in 2017, but signs of stabilization started to appear at end 2017 and early 2018**. Oil production sharply declined in 2017 following technical problems faced by the second largest oil producer in Chad. While non-oil activity remains weak it appears to have started to stabilize in the second half of the year as government spending was broadly in line with the budget. Economic activity is expected to start to recover in 2018 thanks mainly to a pick-up in oil production and higher government spending. Deflationary pressures seem to have abated in the last few months of 2017 and the first two months of 2018, although demand remains relatively weak including because cross border trade continues to be disrupted by security concerns.

7. **Fiscal performance in 2017 turned out to be better than expected due to the government's strong efforts to control spending and increase non-oil revenues especially at the end of the year**. The last month of 2017 was marked by a strong performance of non-oil revenues (about CFAF 55 billion compared to the monthly average in 2017 of about CFAF 35 billion, some of which is expected to be temporary increase) as well as the regularization of some old tax arrears (for about CFAF 20 billion). The spending was globally under control except for the wage bill that overshot in the first half of the year. Nonetheless, the government took strong measures in the context of the revised 2017 budget to cut bonuses and benefits which helped reduce the average monthly wage bill from about CFAF 32 billion in the first half of the year to about CFAF 30 billion in the second half. This has helped the government direct more resources to other priority areas.

8. **The government started to repay domestic arrears in the second half of 2017**. After increasing to about CFAF 270 billion in the first quarter of 2017, the stock of domestic arrears declined significantly, reaching about CFAF 195 billion at end-December 2017, much lower than initially assessed. In addition, the government repaid about CFAF 13 billion in domestic arrears not recorded within the so-called "Reste-à-Payer" at Treasury, to help support the resumption of economic activity.

9. **Oil revenues increased in 2017 despite lower production**. Higher oil prices and a rebound of oil tax revenues offset the impact of lower oil production and exports that were due to technical problems faced by the second largest oil operator resulting in an increase of oil revenues by around 17 percent relative to 2016.

10. **The first three months of 2018 were marked by a pick-up in non-oil revenues and a considerable reduction in the wage bill in spite of a rather fragile social and economic**

situation. Non-oil revenue performance was encouraging, with tax revenue exceeding expectation. This reflects strong efforts to secure revenues, including (i) channeling revenues through commercial banks (in which the Treasury opened four different accounts for tax, customs, land and non-tax revenues) rather than directly to the Treasury and (ii) reforms to improve VAT collection notably by increasing the threshold above which companies are considered large and handling VAT collection through a dedicated unit. The decline of the wage bill reflects further cuts in bonuses and benefits in the 2018 budget as well as efforts to update the payroll file. Domestic treasury bills and bonds rollover rate during the first 5 months of 2018 has been broadly in line with program objective (around 90 percent), although through shorter maturities.

11. The government made considerable progress in clearing its arrears to external creditors. In particular, the government signed an agreement in principle with the Libyan Foreign Bank to clear arrears (which includes repayment of outstanding principal of $17.3 million in 3 instalments in 2018, and of interest of $4.2 million over four installments – one in 2018 and three in 2019) and reschedule upcoming maturities with 18 months grace period. The government also cleared all outstanding arrears to the Islamic Development Bank. As a result, external arrears declined from $102 million at end-2017 to $55 million at end March 2018. The government has reached out to the authorities of the Republic of Congo, Equatorial Guinea, and India to discuss payments plans for outstanding arrears.

12. In spite of this progress, temporary external arrears accumulated in the first two quarters of 2018. The arrears accumulated primarily because of coordination weaknesses in the debt management and reporting system, aggravated by staff turnover, which resulted in payment orders not being sent to the Treasury on time and a failure by the office of the Paymaster General to inform the Debt Directorate promptly about missed payments.

13. The liquidity position of the banking sector is still under stress. While banks remain solvent, the economic recession and the fiscal constraints have contributed to their vulnerabilities. Credit to the private sector and deposits continued their downward trend during the first quarter of 2018 (declining by 1.3 percent and 0.7 percent respectively in March 2018 (y-o-y) and by 0.9 percent and 2.5 percent relative to December 2017). At end-March 2018, overdue loans accounted for 30 percent of gross loans, against 28 percent in December. The interim emergency liquidity facility introduced by the BEAC has helped prevent further liquidity position deterioration for banks that rolled over government domestic securities. BEAC refinancing still accounts for 16.8 percent of bank liquidity on average, and is much larger for some banks at end-March. However, despite their difficult liquidity situation, Chadian banks remain adequately capitalized with a capital adequacy ratio of 19.1 percent at end-March 2018.

14. The government has resolved the large arrears accumulated by the cotton public enterprise (CotonTchad) over the past few years and privatized it. Privatization of CotonTchad aims to improve the competitiveness of the cotton sector. This public enterprise had been accumulating arrears to banks for many years which has undermined the position of banks as well as its ability to effectively support the production of cotton. Against this background, the government decided to clear the enterprise's arrears to banks which led to an increase in the government domestic debt by about CFAF 54 billion (about 0.9 percent of GDP to be repaid over the next 5 years). Following the clearance of these arrears, 60 percent of the enterprise was privatized to OLAM, a global leading agri-business company for about CFAF 9.8 billion (35 percent is owned by the state and 5 percent by farmers).

B. Program Implementation

15. Despite the continued difficult environment in 2017, the government has demonstrated a strong determination to implement the program. All but one performance criteria at end-December were met, and only one indicative target was not met. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed.

- The ceiling on non-oil primary balance (NOPB) for end-December has been met with a large margin. The deficit stood at CFAF 183 billion compared to the quantitative performance criterion of CFAF 221 billion set in the program. This result was achieved primarily because of the good performance of non-oil revenues at the end of year in addition to the government's efforts to contain current expenditure, mainly, public investment and transfers and subsidies relative to the budget.

- The floor on customs revenue has been missed by a small margin (CFAF 108 billion versus a target of CFAF 110 billion). Despite still weak economic activity and imports, the government strengthened its customs collection efforts to help achieve the target.

- The criterion on net domestic government financing from BEAC has been met with a large margin.

- The criterion on net domestic government financing excluding BEAC was met, as net domestic government financing excluding BEAC was below the program ceiling adjusted to take into account lower budgetary receipts. This reflects the government's efforts to reduce progressively its reliance on domestic market financing to alleviate liquidity pressures on banks.

- The criterion on domestic arrears has been met. The stock of domestic arrears reached CFAF 195 billion at end-December 2017 which will constitute the basis for assessing the performance of this variable in the period ahead.

- The zero ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises was met as the government continues to resist pressures to access nonconcessional financing.

- The indicative target on poverty-reducing social spending has been met, taking into account the adjustor built in the program. In a context of spending restraints, the government remains strongly committed to protect spending on social sectors in line with the program.

- The indicative target on the regularization of emergency spending procedures (DAO) has been missed, in spite of strong efforts to increase the regularization in the fourth quarter (from 49 percent at end-September to 64 percent at end-December) to meet the target of 90 percent.

16. The continuous zero ceiling on new external arrears of the government and non-financial public enterprises has been missed, as payments due to an official creditor in the second quarter were not made. During the second quarter of 2018, arrears accumulated to an official creditor for a small amount of US$0.74 million, some of which was subsequently paid. The emergence of this arrears is primarily due coordination problems within the administration.

17. Most indicative targets at end-March 2018 have been met. The non-oil primary deficit remained significantly below the program ceiling as non-oil revenues continue to outperform while all categories of domestically financed spending were low. The IT on custom revenue was also met with a margin, thanks to sustained efforts by the government to improve custom administration and limit fraud. The IT on net domestic financing from the BEAC was met as government deposits at the BEAC increased, and the IT on net domestic financing from banks was also met as the rollover of public securities was broadly in line with the program. Repayment of domestic arrears was less than projected but met the adjusted target. However, the IT on the regularization of DAO was missed by a large margin primarily because of temporary coordination issues among the relevant agencies, as was the IT on poverty reducing social spending because of liquidity constraints and civil servants strikes.

18. The government continued to make progress on the structural reform agenda in line with program objectives. The final Glencore debt restructuring agreement was signed in June (prior action) and all 4 structural benchmarks were implemented on time. The terms of reference for external consultants to review and prepare a reorganization plan for two public banks were finalized, the United Nations Convention Against Corruption was ratified, and the list of tax and customs exemptions was published on the Ministry of Finance website. In addition, to enhance transparency in the oil sector, the government continues to publish quarterly notes on the oil sector, in line with the template agreed with IMF staff. The audit of domestic arrears which was due by end-October 2017 was launched in June. The audit of transfers and subsidies to identify potential areas for saving (due at end-March 2018) is expected to be launched before the end of the year.

C. Glencore Debt Restructuring

19. The government signed the final agreement to restructure the Glencore debt. The restructuring is set to restore debt sustainability and generate the necessary financing for the program. The final agreement, in line with the agreement in principal that was reached on February, includes a significant extension of maturity, a large reduction in restructuring fees, and lower interest rate. Specific contingencies are included to provide protection to Chad in case of lower oil receipts. Debt service payment will now be made on a quarterly basis, including additional debt service (amortization and interest) through the cash sweep mechanism if average year-to-date oil prices are higher than the baseline set in the new contract. A floor on the applicable LIBOR of 1 percent for the whole contract period has been agreed between the parties and added to the new contract, along with an adjustment in waiver on the applicable collateral to exclude military assets, and an agreement to outsource (to a company other than Glencore) the financial accounting related to the government oil exports, operating cost, and debt service to Glencore.

ECONOMIC AND FINANCIAL POLICIES FOR THE REMAINDER OF THE PROGRAM

20. The government's economic reform strategy remains focused on stabilizing the economy and supporting a resumption in non-oil growth. Fiscal policy will continue to preserve much of the adjustment in current spending of the past two years, focus on redirecting resources to social sectors and public investment, while reducing domestic debt to banks and arrears to suppliers. The government considers that controlling the wage bill is necessary to bring it to a sustainable level over the medium term. At the same time, efforts to raise non-oil revenue will need to be sustained to ensure that the government has a steady and reliable source of income.

A. Fiscal Policy in 2018 and the Medium-Term

21. While significant challenges remain in 2018 and the medium term, the government considers that 2018 will be a critical year in its efforts to durably lift the economy out of the crisis. With adequate policies and reforms and the improvement in oil prices it expects that non-oil GDP will recover, and that the economy will benefit more from oil revenue that are set to accrue to the treasury following the restructuring of the Glencore debt.

22. Fiscal policy for the remainder of 2018 should continue to focus on maintaining spending discipline and on improving non-oil revenue mobilization while reducing reliance on domestic bank financing. The government will build on the measures introduced early this year to further strengthen non-oil revenue collection, and ensure the wage bill is sustainable.

23. The government is determined to improve the management of the wage bill and keep it within the budget envelop. While the Government recognizes the importance of the wage bill for the livelihood of public sector employees, it also fully understands that keeping it at a sustainable level is necessary to allow the government to effectively implement fiscal policy and meet the developments and social spending needs of all Chadians. As such the government has already taken measures to reduce bonuses and benefits earlier this year. These measures have led to a significant reduction in wage bill in the first four months of 2018, but they also intensified social tension and led to resumptions of strikes by civil servants who are demanding that the cuts be rescinded. While discussions are ongoing with labor unions, the government is committed to keep strong control over the wage bill and improve its management. In particular, the government intends to continue its efforts to: (i) further eliminate ghost workers, civil servants that reached retirement age, and those that are under age; (ii) update the payroll file following the audit of the payroll and further improve workers' information with comprehensive data for public employees to ensure benefits and bonuses are only paid to rightful employees; (iii) improve the budgeting and monitoring of the wage bill; and (iv) implement the recommendations of the planned audit of diplomas of the civil service.

24. The government will continue to maintain a tight spending envelop commensurate with available resources. Spending in 2018 will be guided by the approved budget. For 2019, the government is committed to design a budget consistent with the parameters agreed under the program. Given that parliamentary elections are likely to take place in 2019, the government will ensure that higher spending associated with the cost of the elections are fully consistent with the program supported by the Fund. In addition, if necessary the government will increase social and security spending (where needs are large), only if adequate resources are available in a way consistent with the program. The efforts to increase non-oil tax revenues in percent of non-oil GDP will be sustained, so will the efforts to control the wage bill (to reduce its share in government spending) and increase the share of other spending in non-oil GDP, particularly investment spending.

25. With regard to domestic financing, the government will continue its budget financing strategy of limiting recourse to domestic banks to rolling over maturing treasury bills and bonds in close collaboration with the BEAC and banks. In addition to paying maturities related to non-securitized debt (Emprunt Obligataire, the new debt associated with the clearance of CotonTchad arrears, and Convention de prêt 60 villas), it will aim to repay at least 10 percent of maturing treasuries depending on resource availability. It will aim to use additional budgetary revenues to further reduce domestic debt in 2018 and 2019 consistent with program targets and objectives. The relief obtained from the restructuring of BEAC debt which was finalized in September 2017 (4-year grace period, maturity of 14 years and interest of 2 percent) will be used to build buffers and reduce debt to domestic banks in 2019 and beyond.

26. The government considers the payment of domestic arrears as a priority and aims to reduce the stock of recognized arrears by at least the amount set under the program. The government firmly believes that the payment of arrears is key to the recovery of the non-oil sector and will therefore aim to pay more domestic arrears than programmed especially if additional resources are available. Payments of yet to be validated arrears will await the result of the audit of domestic arrears and will be guided by the strategy described in section C below.

27. Strengthening non-oil revenue mobilization is a major element of the government program to improve fiscal sustainability. Within the 2018 budget, the government has taken measures to improve non-oil tax revenue. These measures (notably channeling tax revenues through banks) have started to show some satisfactory results, and new measures are planned before the end of the year to modernize the excise duties collection and better secure revenues. In addition, expiring exemptions (notable in the construction and hotel sectors) will not be renewed, and personal income tax scale has been reformed to enhance its progressive nature. In addition, the government will aim to progressively reduce exemptions in the energy sector starting 2019. Ongoing efforts to improve the efficiency of customs collections (like enhanced efforts to limit fraud with the introduction of a call-free number) are also expected to improve revenue performance. Under its economic program, the government is targeting a gradual increase in non-oil tax revenue of about 2 percent of non-oil GDP by 2020, to a level equivalent to about 9 percent of non-oil GDP. Additional discussion of tax and customs reforms is in section B.

28. In its efforts to raise additional financing including to finance the 2017-21 National Development Plan, the government is committed to refrain from contracting or guaranteeing new non-concessional external loans until external debt vulnerabilities are firmly reduced. Recognizing the heavy burden of non-concessional external loan, the government will ensure that all external financing agreements, including for externally financed investment projects, will be concessional (have at least 35 percent grant element, see TMU) and are consistent with debt sustainability. The government will respect the same parameters for potential budget loans. All draft loan agreements will continue to be submitted for prior approval to the National Commission for Debt Analysis (CONAD), which is supported by the technical and financial analysis of the Technical Team for Debt Sustainability Analysis (ETAVID). Given the scarcity of concessional financing, the government considers that some nonconcessional financing will be necessary to finance economically profitable projects. The government is committed to consult with IMF staff before contracting such debt which it would only seek on an exceptional basis for specific highly profitable projects after the risk rating improves from 'in debt distress'.

B. Tax and Customs Reforms and Policies

29. The government will continue to pursue measures to improve tax and customs revenues.

- Non-oil tax revenues. The government expects that the measure implemented in January 2018 that require taxes to be paid through the banking system (so called "bancarisation des recettes") will reduce leakages and boost non-oil tax revenues collection. To build on the early success of these measures, the government is considering ways for better taxation of financial services and information and communication technologies. It has also requested an IMF TA to ensure the efficiency of the recent reform at the tax administration.

- Customs revenues. The government welcomes the results of recent IMF technical assistance missions, and will follow up on their recommendations. The government will continue to (i) focus on improving the control of transit operations, (ii) enhance the control of the value of imports, (iii) strengthen the control of customs exemptions and (iv) reinforce the control ex-post of the use of goods that benefitted from exemptions. In addition, in line with the workshop organized with the Fiscal Affairs Department and the Cameroonian authorities in Yaoundé, the government will better follow customs performance, enhance the collaboration between tax and customs administrations and pursue the computerization of customs offices.

30. Going forward, concrete reforms will be pursued in the following areas:

- Tackling the prevalence of tax and customs exemptions which deprive the budget of important resources. The cost of exemptions is particularly high. Based on a sample of 39 (out of a total of 150–250) "conventions d'établissement", an EU study estimates the cost of exemptions for the

Tax Directorate at about CFAF 45 billion in 2015. To begin dealing with these losses, the government has started to implement recommendations of the audit of 47 tax conventions, aiming to reduce the scope for discretionary extension of exemptions and eliminate inefficient exemptions. On this basis, the government will identify exemptions for removal or amendment if those are expired or have not been implemented correctly (proposed new structural benchmark). This would help generate a meaningful increase in revenue. Requests for new and renewal of tax exemptions will be assessed by the ministry of finance taking into consideration their effect on tax revenues.

- Widening the tax base, and prioritizing reforms of the VAT, and the property tax. The government understands that revenue from the VAT, which stands at about 1 percent of non-oil GDP, is the lowest in Africa. The government is therefore developing a plan with timebound measures to improve VAT collection (proposed new structural benchmark). This plan will include among others measures to (i) set-up a VAT refund mechanism, the absence of which has partly been responsible for the weak performance of the VAT and (ii) reduce VAT exemptions. In addition, the government will aim to ensure that companies that collect VAT transfer the revenues to the tax administration and to improve collaboration between the customs and the tax administrations through the integration of DGI database and the customs computer system (ASYCUDA). In addition, efforts are underway to strengthen the collection of property tax, as the government sees a significant potential gain from improvements in this area through better land and property registration and tax collection procedures. Currently there are fewer than 5,000 land titles registered in Chad and revenue from tax on land ownership represents less than 1 percent of total tax revenue. Building up the creation of a dedicated Direction in charge mainly of land and property tax ("Direction Générale des Domaines"), within the General Tax Directorate, the government intends to launch a census to update and improve the land registry.

C. Structural Reforms on Public Financial Management

31. The government reaffirms that achieving the objectives of its economic program depends on sound and transparent public financial management. The government emphasizes the recent progress made in terms of budget execution, monitoring, and reporting, as well as the integration of CEMAC directives within the Chadian legislation. The government intends to continue the strong collaboration with its development partners to further improve PFM, including with further TA missions and long-term resident experts within the Budget and Treasury Directorate.

32. The improvement of the expenditure chain is a high priority for the government.

- The use of emergency spending procedures ("dépenses avant ordonnancement", DAO), has been extensive in the past two years. The government is committed to both reduce the use of DAO and to regularize them as soon as possible after they occur to limit the risks of over-spending and the accumulation of arrears. In order to achieve this objective, and recognizing the existing capacity constraints, the government is committed to regularize within 45 days, 70, 75, and 80 percent of DAO after the second, third, and fourth quarter of 2018 respectively. This objective will be monitored through an indicative target (Table 1). Should the regularization of DAO be insufficient, the government will consider introducing a nominal limit on the use of DAO.

- More broadly, the expenditure chain should be better applied. The four phases of the expenditure chain (commitment, validation, authorization of payment order, and cash payment) are now implemented and monitored through the computerized system (CID).

33. Beyond the repayment of recognized arrears, the government is firmly determined to implement a comprehensive strategy to clear other potential existing arrears. The government is committed to adopt a holistic approach to clear arrears which will include a well-defined and well-communicated clearance strategy. It expects that such a strategy will help rebuild confidence of the private sector by reducing a key source of uncertainty regarding the repayment of arrears. Reforms envisaged to improve PFM (described above) would help avoid the recurrence of new arrears.

- In addition to the already validated arrears (CFAF 195 billion by end-December 2017) which are reported in the "Reste à Payer" table prepared by the Treasury, other potential claims that could be sizeable exist. In this regard, an FAD technical assistance mission on managing and preventing domestic payment arrears took place in September 15-28, 2016. The TA mission estimates the size of potential additional claims at CFAF 300 billion although this estimate is subject to a wide variation. They include but may not be limited to: (i) claims related to capital expenditures incurred under public procurement contracts but which have not gone through the standard spending chain, (for instance "décomptes", which are an acknowledgement by line ministries that a tranche of a public procurement contract has to be paid, but has not been transmitted to the Treasury for commitment and payment); (ii) claims related to goods and services expenditures that have not gone through the standard spending chain; (iii) claims related to public procurement contracts for capital expenditures that have not generated any "décomptes"; and (iv) debt not approved by the Debt Directorate (under litigation process), which includes some liabilities of public enterprises.

- The government is committed to adopt a clearance strategy of domestic arrears by end-October 2018 (existing structural benchmark) based on the audit results. The clearance of arrears will proceed at a pace consistent with resource availability and the medium-term fiscal framework. The government is committed to prioritize the payments on the basis of their economic and social impact, and the effect they are expected to have on the banking sector. It will establish clear modalities for repayment after the audit is completed, which could include cash payment, securitization of arrears, and potential discounts. The government will endeavor to publicly communicate its repayment strategy.

34. The government continues to work towards a more efficient cash management system. The Cash Plan Committee is now fully operational. The committee is in charge of cash flow forecasts and management, monitoring the current Treasury account at the BEAC, and centralizing public accounting operations, cash flow and public debt. A cash management plan, including monthly forecast of revenue and main expenditure (notably the wage bill, and domestic and external debt service) has been developed. Moving forward, efforts would focus on refining the monthly cash flow plan and strengthening the responsiveness of the Committee to update revenue and expenditure forecasts.

35. Strengthening public debt recording and monitoring capacity remains an important objective of the reform agenda. The government is cognizant of its weak public debt management, monitoring and reporting, which led to recent misreporting of information on debt service to the IMF. To further improve public debt management, the government intends to draw on the ongoing AFRITAC Center's technical assistance missions to develop a medium-term debt strategy and strengthen debt monitoring. It will also seek follow-up TA support to improve debt management. Meanwhile, the government will continue to publish the annual public debt management report and will incorporate a section to elaborate on the short to medium term debt management strategy and a risk analysis. In addition, with a view to ensure that external debt service is paid on time and is adequately reported to the Fund, the ministry of finance will ensure that all the relevant officials meet on a monthly basis (with the participation of the IMF resident representative) to take stock of previous payments and plan for forthcoming ones.

36. The government intends to improve the efficiency and transparency of public procurement management. To this end, it plans to strengthen the capacity of the Public Procurement Regulatory Authority. The General Directorate of control of public procurement continues to publish a quarterly bulletin. The last report shows that in 2016, only 7 of the 146 markets (for a total of CFAF 250 billion) were attributed without public tendering.

D. Banking Sector Reforms

37. The ongoing reform of the regional monetary policy framework represents an opportunity to develop the interbank market and improve banks access to refinancing, but carries some risks that should be carefully monitored. In general, the removal of existing ceilings on the use of government securities and the introduction of competitive bidding for the BEAC's open market operations is expected to improve the overall access of Chadian banks to BEAC refinancing. However, some banks risk further shortage of eligible collateral, due to the introduction of a new haircut system or the lifting of reserve requirement exemption, scheduled for July. This may further exacerbate the liquidity stress of these banks. Nonetheless, with the expected improvement in economic conditions in the country and the government's effort to pay domestic arrears and reduce domestic debt, the liquidity position of banks is likely to improve as their deposits begin to recover, and they extend credit that could be eligible for refinance at the BEAC.

38. With regard to the public banks, the government started to implement its strategy to strengthen their position. Reforms aim to ensure that these banks play their proper financial intermediation role, including deposit collection, proper allocation of resources to economic sectors and monitoring of risks related to credit, liquidity and solvency. In this regard, the terms of reference for the review of public banks' strategy and the adoption of a reorganization plan, were finalized, in coordination with the COBAC and with support from IMF staff. The external consultant is expected will be hired by end-July 2018 (existing structural benchmark) with a view to completing and sharing the report on the review and the reorganization plan by end-January 2019 to the IMF staff and the COBAC (existing structural benchmark). With regard to the newly established state-owned "Banque de L'habitat", the government is aware of the need to set safeguards for a better risk assessment and management to limit potential contingent liabilities for the state. Concerning the BAC, a small non-operational bank, The Chadian and Sudanese authorities (the two shareholders) decided to recapitalize the bank and presented its strategic plan to the COBAC. The government aims to build on this plan to ensure that the bank has proper resources and a viable business plan. It was also decided to expand the BAC's activity to conventional intermediation in addition to Islamic finance.

E. Other Structural Reforms

39. The government is keen on implementing the 2017-21 National Development Plan (NDP) to improve the economy's competitiveness. While the NDP represents an opportunity for Chad to overcome its development bottlenecks, its implementation is expected to be challenging. In this regard, the government decided to set-up a single committee in charge of the NDP monitoring with the purpose to improve the transparency of the monitoring framework and to facilitate implementation.

40. Improving governance is a key element of the government's strategy to revive the private sector. In this regard, the government is committed to implement the United Nations Convention against Corruption (UNCAC), which was recently ratified by the National Assembly. Becoming party to the Convention represents an initial step to advance the fight against corruption. Notably, the government is committed to identify areas to improve the effectiveness of the legislation in criminalizing acts of corruption in line with the UNCAC. The government is also considering ways for a strong implementation of asset declaration obligations set forth in the Constitution for example by adopting implementing legislation in line with international best practices. Going forward, the government will evaluate options for reinforcing domestic capacity of institutions in charge of detection, investigation, prosecution, and adjudication of cases of corruption.

MONITORING THE IMPLEMENTATION OF THE PROGRAM

41. To monitor the implementation of measures and attainment of objectives under the program, the government will continue to rely on the Negotiation Committee based in the Ministry of Finance and Budget. The Committee is in constant communication with IMF staff in Washington and its Resident Representative in Chad.

42. The program will be monitored through bi–annual reviews by the IMF Executive Board on the basis of performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2 attached). The indicators are outlined in the attached Technical Memorandum of Understanding (TMU). The third review will be based on end-June 2018 test dates, and the fourth review on end-December 2018. The government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

Table 1. Quantitative Performance Criteria (QPC) and Indicative Targets (IT) under the ECF arrangement

(in billions of CFAF, unless otherwise indicated)

	End-June 2018 QPC	End-Sept 2018 IT	End-Dec 2018 QPC	End-Mar 2019 IT	End-June 2019 Proj.
1. Floor on non-oil primary budget balance (NOPB)	-125	-175	-218	-80	-125
2. Floor on customs revenue	45	85	118	25	50
3. Ceiling on net domestic government financing excluding BEAC	-5	-15	-55	-5	-10
4. Ceiling on net government financing from the BEAC	70	35	35	110	120
5. Ceiling on the stock of domestic payment arrears by the government	170	155	150	145	130
6. Ceiling on new external arrears of the government and non-financial public enterprises	0	0	0	0	0
7. Ceiling on contracting or guaranteeing new non-concessional external debt by the government and non-financial public enterprises	0	0	0	0	0
	IT	**IT**	**IT**	**IT**	**IT**
8. Floor on the regularization of emergency spending procedures-DAO (Percent of total DAO)	70	75	80	50	70
9. Floor for poverty-reducing social spending	107	160	214	58	116
Memo item:					
10. Ceiling on new domestic payment arrears by the government	*0*	*0*	*0*	*0*	*0*
11. External concessional borrowing (US$ million)	*52*	*103*	*155*	*...*	*...*
12. Oil Revenue	*161*	*239*	*318*	*78*	*156*
13. Grants	*45*	*114*	*150*	*0*	*28*

Sources: Chadian authorities; and IMF Staff.

1. NOPB: Non-oil revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

2. Customs revenue as given by the Treasury in the Table "Situation des Regies financières".

3. Includes Treasury bills / bonds and domestic banks direct loans net of amortization, see Technical memorandum of understanding.

5. Stock of verified arrears, as given in the Table "Restes à payer". In line with the TMU, the target for end-June 2018 is 170 (reflecting the actual end-December 2017 stock of domestic arrears of CFAF 195 billion). Starting end-March 2019, the target will be adjusted to reflect actual end-December 2018 stock.

6. Applies continuously.

7. Applies continuously.

8.DAO is defined as all expenditures which do not go through the standard spending procedure. Regularization of DAO consists in recording the expenditure in the correspondent line of the budget. This will be done within 45 days after the end of the quarter.

9. Expenditure of Ministries in charge of social sectors, as recommended by the World Bank in the absence of a budgetary functional classification. An adjustor will be defined in case of expenditure cuts, which will ensure an increase of the share of poverty-reducing social spending in the total of primary current expenditure (see TMU for details).

12. Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

13. Budget grants.

Table 2. Structural Benchmarks for the Program 2018- 2019	
Measures	Due Dates
1. Publication of a quarterly note on the oil sector, in line with the template agreed with the authorities, including detailed information on debt service to Glencore.	Quarterly, starting end-June 2018
2. Hire external consultants to review and prepare a reorganization plan for two public banks	End-July 2018
3. Adopt a clearance strategy of domestic arrears based on the audit results	End-October 2018
4. Develop an action plan with timebound measure to improve VAT collection	End-December 2018
5. Deliver report of external consultants on the review and reorganization plan for two public banks	End-January, 2019
6. Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented.	End-February 2019
Sources: Chadian authorities; and IMF staff.	

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of July 13, 2018.** It describes the information requirements to monitor performance under the ECF arrangement. The authorities will consult with the IMF before modifying measures contained in this TMU, or adopting new measures that would deviate from the goals of the program. It describes more specifically:

a) reporting procedures;

b) definitions and computation methods;

c) quantitative performance criteria;

d) indicative targets;

e) adjusters to the quantitative performance criteria and indicative targets; and

f) structural benchmarks.

A. Reporting Procedures to the IMF

2. **Data on all the variables subject to quantitative performance criteria (QPC) and indicative targets (ITs) and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith**. With respect to continuous QPCs, the authorities will report any non-observance to the IMF promptly. For the purpose of this TMU, days refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 14 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

B. Definitions and Computation Methods

3. **Unless otherwise indicated, the term Government refers to the central government of the Republic of Chad comprising all the executive bodies**, institutions and any structure receiving special public funds and whose competence is included in the definition of central government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

4. **A public nonfinancial enterprise is a government–controlled corporations[1] whose principal activity is the production of goods or nonfinancial services**. For the purpose of the

[1] Control of a corporation is defined as the ability to make key financial and operating decisions (see GFSM 2014 paragraph 2.104 – 2.114).

program monitoring, these include: Société Tchadienne des Eaux (STE), Société Nationale d'Electricité (SNE), Société des télécommunications du Tchad (SOTEL), Société Tchadienne des Postes et de l'Epargne (STPE), Société des Hydrocarbures du Tchad (SHT), Compagnie Tchadienne de Textiles (COTEX), Socièté Nationale de Ciment (SONACIM Tchad), CimenTchad, Société Industrielle de Materiels Agricoles et d'Assemblage des Tracteurs (SIMATRAC), Société Tchadienne d'Hydraulique (STH), Fonds d'Entretien Routier (FER).

5. Oil revenue is defined as the sum of (i) the gross sales revenue of government's crude oils obtained through government's equity participation in oil companies minus all costs incurred due to the equity participation (cash-call) and transportation cost associated with the sales of government's crude oils, (ii) royalties, (iii) statistical fees, (iv) profit tax, (v) dividends, (vi) bonuses, (vii) revenues from exploration duties, (viii) surface tax, (ix) access rights to the pipe and (x) any other flows of revenue paid by oil companies (settled in-kind and in-cash), except indirect duty and taxes. The authorities will notify IMF staff of changes in the oil taxation systems and laws that may impact revenue flows. Exceptional receipts paid by oil companies, whose definition is given in Paragraph 7 below, are excluded from oil revenue.

6. Customs revenue is defined as the revenue generated from all levies and duties payable on goods of a particular kind because they are entering the country or services because they are delivered by nonresidents to residents (as defined in GFSM 2014, paragraph 5.84). Customs revenue is recorded on a cash basis. For the purpose of the program monitoring, customs revenues are those recorded in the table "Situation des régies financières" of the Treasury.

7. Exceptional receipts are defined as payments to the government that include:

- Payments from resolution of protracted disputes between foreign companies operating in Chad and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations.
- Payments from the sale or placement or privatization of Government's assets, granting or renewal of licenses.

8. Total government revenue is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5). Oil revenue, as defined in paragraph 5 and custom revenue as defined in paragraph 6, and exceptional receipts as defined in paragraph 7. These items will be shown in the breakdown of total government revenue report.

9. Total government expenditure is understood to be the sum of expenditure on wages and salaries of government employees (as provided in the document "*Masse salariale*", see Paragraph 11 for details), goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Except for capital expenditure, which is defined as shown in the Government Finance Statistics Manual 1986 (GFSM 1986)[2], all other spending items are defined as in GFSM 2014 (Chapter 6). Total government expenditure also includes "*dépenses avant ordonnancement*" (DAO) which are not yet regularized (see paragraph 10 for details).

10. *Dépenses avant ordonnancement* (DAO) is defined as all expenditures which do not go through the standard spending procedure. A standard procedure entails a chain which includes the commitment ("engagement"), the validation ("liquidation"), the authorization of payment order ("ordonnance"), and the cash payment. There are two categories of DAOs:

- The first category consists of DAOs which are made relative to a credit line in the budget. These DAOs can be regularized (i.e., recorded in the correspondent line of the budget) without difficulties.

- The second category consists of DAOs which are made regardless of the existence of a credit line in the budget. Their regularization requires either an adjustment in the revised budget, i.e., Amended Financial Law (LFR), or a ministerial order to transfer credit allocation within the budget.

11. Wages and salaries correspond to the compensation of all government employees, including civil servants and members of the armed and security forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non–monetary payment. For the purpose of program monitoring, data are computed from the document "Masse salariale", which excludes compensations to staff under certain contracts that are classified as Transfers (see Paragraph 13 for details).

12. Subsidies are defined as government current expenditure that are made to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. For the purpose of program monitoring, subsidies refers to those reported in "Tableau de 4 Phases".

13. Transfers are defined as government current expenditure to individuals, private nonprofit institutions, nongovernmental foundations, corporations, or government units that are not included in other categories of transfers. For the purpose of program monitoring, transfers refer to those reported in "Tableau de 4 Phases".

[2] Capital Expenditure - expenditure for acquisition of land, intangible assets, government stocks, and nonmilitary, nonfinancial assets, of more than a minimum value and to be used for more than one year in the process of production. Capital expenditure is frequently separated (in some cases along with certain revenue) into a separate section or capital account of the budget or into an entirely separate budget for expenditure, i.e., the capital budget. This separation may sometimes follow different criteria, however.

14. For the purposes of this TMU:

- The term "debt" is as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107) but also includes contracted or guaranteed commitments for which values have not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

    i. Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

    ii. Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

    iii. Lease agreements, that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property;

- In accordance with the definition of debt set out above, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- Domestic debt is any debt as defined in above, which is denominated in Central African Franc (CFAF).

- External debt is any debt as defined in above, which is denominated in a foreign currency, i.e., a currency other than CFAF.

- Debt is considered concessional if it includes a grant element of at least 35 percent[3] and non-concessional if otherwise. The grant element is defined as the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value of the loan. The present value of the debt at the date on which it is contracted is calculated as the discounted sum of all future the debt service payments at the time of the contracting of the debt.[4] The discount rate used for this purpose is 5 percent per annum.

15. Domestic payment arrears is defined as the sum of (i) recognized expenditure payment arrears and (ii) domestic debt payment arrears, which are defined below:

- The outstanding amount in a payment order, to a private or public company, for an expenditure incurred, validated and certified by the financial controller and then created by the "*Direction of Ordonnancement*", is defined as a float after the payment authorization is issued by the Treasury. The outstanding amount of a float is classified as a recognized expenditure payment arrear 90 days after the issuance of the payment authorization. The recognized expenditures payment arrears so defined do not include domestic debt payment arrear and arrears on wage and salaries. Unrecognized expenditure payment arrears are defined as any potential expenditures payment arrears which have not gone through that standard spending procedure. The nature and the amount of those potential arrears will be determined by an audit of domestic arrears (see paragraph 23).

- Domestic debt payment arrears are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract.

16. External debt payment arrears are defined as external debt obligations of the government and public, non-financial enterprises that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government for which the creditor has accepted in writing to negotiate alternative payment schedules before the relevant payment due, and excludes technical arrears that are less than two weeks.

17. The non–oil primary balance (NOPB) is defined on a commitment basis as the difference between (i) total government revenue (not including grants, oil revenue and exceptional receipts), and (ii) primary expenditure, which is defined as the total government expenditure minus interest payments on domestic and external debt and foreign–financed capital expenditure.

---

[3] The IMF website gives an instrument (link hereafter) that allows the calculation of the grant element for a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[4] The calculation of concessionality takes into account all aspects of the loan agreement, including maturity, grace period, schedule, commitment and management fees commissions. The computation of the grant element for loans from the Islamic Development Bank (IsDB) will take into account the existing agreement between the IsDB and the IMF.

18. Poverty–reducing social spending, according to the latest general structure of Government, comprises public spending by the following ministries: (i) National Education and Civic Promotion, (ii) Public Health, (iii) Women, Early Childhood Protection and National Solidarity, (iv) Production, Irrigation and Agricultural Equipment, (v) Livestock and Animal Production, (vi) Environment Water and Sanitation, and (viii) Professional Training and small Job Promotion.

19. Domestic currency government financing is defined as the issuance of any instrument in CFAF to creditors; loans from BEAC (including support from the IMF), BDEAC, and CEMAC Member States, or any other debt contracted in CFAF. Net domestic currency financing to the government is subdivided into net bank financing, net securitized financing, net government financing from BEAC, and other non-bank financing. Net bank financing is defined as the change in the net government position towards the domestic commercial banks and includes prepaid interest. Net government financing from BEAC is defined as the change in net government position towards the BEAC.[5] Net securitized financing includes the issuance of securitized government bonds and loans in CFAF to domestic and regional banks net of related amortizations since the end of the previous year.

20. "Program reference rate", is based on staff's "average projected rate" for the six-month USD LIBOR over the following 10 years and is identified as 3.22 percent for the duration of the program. The present value of loans with flexible interest rate will be calculated using the program reference rate plus the fixed spread (in basis points) specified in the loan contract. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 basis points) will be added.

C. Quantitative Performance Criteria

21. The quantitative performance criteria and indicative targets listed below are those specified in Table 1 of the MEFP. Continuous Quantitative Performance Criteria (QPC) require that at no point in time it will be non-observed**.** Should any non-observance occur, the authorities would inform the IMF promptly. Adjusters for the QPCs are specified in Section E below. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (the assessment period) specified in Table 1 of the MEFP. The quantitative performance criteria and details on their assessment are as follows:

- A floor for the non–oil primary balance. The non–oil primary balance is defined in paragraph 17 above.

- A floor on custom revenue. The custom revenue is defined in paragraph 6 above.

[5] Net claims of the BEAC and domestic commercial banks to the State represent the difference between government debts and its deposits in the Central Bank and commercial banks. The scope of the net claims of the bank system on the State is defined by BEAC and represents the government net position.

- A ceiling on the net domestic government financing (excluding BEAC). This is the sum of net bank financing and net securitized financing as defined in para 19. This ceiling does not apply to the new agreements on internal debt restructuring and arrears securitization and to credit from the banking sector used to pay the arrears of the cotton public enterprise.

- A ceiling on net government financing from BEAC (as defined in para 19). The ceiling includes support from the IMF.

- A ceiling on the stock of domestic recognized expenditure payment arrears. Domestic recognized expenditure payment arrears are defined in paragraph 15. As of end-December 2017, the stock of recognized expenditure payment arrears was at CFAF 195 billion based on information in the Table "Reste à Payer" (prepared by the Treasury). The ceiling set for end-March 2019 onwards would be adjusted to reflect the end-December 2018 actual stock of arrears when final data is available.

- A zero ceiling on the accumulation of any new external payment arrears by the government and public non-financial enterprises. This ceiling applies continuously. Any non-observance to the ceiling will be reported promptly to the IMF with information regarding the date of the non-observance, amount of the missed payment and the creditor involved.

- A zero ceiling on new non-concessional external debt contracted or guaranteed by the government and non–financial public enterprises, with a maturity of more than one year. This ceiling applies continuously and does not include IMF financing. Debt is non-concessional if it includes a grant element of less than 35 percent, as described in Paragraph 14. Excluded from the ceiling are: (i) normal short–term credits for imports; and (ii) debt contracted before the ECF arrangement, and rescheduled during this arrangement to the extent that the rescheduling is assessed to improve the overall public debt profile.

D. Indicative Targets

22. The indicative targets listed below are those specified in Table 1 of the MEFP. Adjusters of them are specified in Section E below. Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates (the assessment period) specified in Table 1 of the MEFP. The indicative targets and details on their assessment are as follows:

- A floor on regularization of spending executed through emergency spending procedures (DAO) Regularization of DAO (as defined in paragraph 10) will be done within 45 days after the end of the quarter and as follows: 70 percent after the second quarter, 75 percent after the third quarter, and 80 percent after the fourth quarter.

- A floor on poverty–reducing social spending. Poverty–reducing social spending is defined in paragraph 18.

E. Adjustors to Performance Criteria and Indicative Targets

23. To take into account factors or changes beyond the government's control, the following quantitative performance criteria during the assessment period will be adjusted as follows:

- If the total budgetary receipts and loans are lower than the programmed amount, because of lower oil revenue or budget support, then the ceiling on the stock of domestic payment arrears can be adjusted upward up to the planned arrears repayment amount. An increase in net domestic financing (either net domestic government financing excluding BEAC or net government financing from BEAC) could be envisaged up to 25 percent of the shortfall not compensated for through reduction in arrears payment.

- If the total budgetary receipts and loans are larger than the programmed amount, because of higher oil revenue, additional budget support, or exceptional receipt, the floor for the non-oil primary balance can be adjusted downward by 25 percent of the excess amount. The non-oil primary balance can be adjusted downward by the same amount of budget grants provided to finance the parliamentary elections. For the purpose of the TMU, baseline oil revenue, budget support and exceptional receipts are shown in the text table below.

Text Table 1. Baseline Projection of Selected Variables

(Cumulative on annual basis)

	2018			2019	
	End-Jun.	End-Sep.	End-Dec.	End-Mar.	End-Jun.
	(in CFAF Billion)				
Net Oil Revenue[1]	161	239	318	78	156
Budget Grants	45	114	150	0	28
Budget Loans	0	26	26	0	0
Exception Receipt	0	0	0	0	0
Total	205	380	494	78	184

[1] Net Oil Revenue is the sum of direct receipt and the sale revenue of government oil net of operating and transportation cost.

- Should expenditure compression be needed, poverty-reducing social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio does not decline compared to the previous year.

F. Structural Benchmarks

24. Structural benchmarks are specified in Table 2 of the MEFP. Outstanding SBs are governed by the previous TMU.

- Publication of a quarterly note on the oil sector, in line with the template agreed with the IMF staff, including detailed information on debt service to Glencore, quarterly, starting end-June 2018 (Table 2).

  i. The note will comment on the recent development in the oil sector, including information related to production, export, and new exploration over the previous quarter, and expectation and forecast for the next 6 months.

  ii. The note will also provide a detailed account of the flow of oil revenue. Oil revenue will be reported by categories and the corresponding types of payments, in-cash (payment made in cash by oil companies) and in-kind (payment made in crude oil by oil companies). Other information will include information on the sale of government-owned crude oils, such as gross sales revenue, volume sold, transaction prices, operating costs ("Cash-call") to oil companies, transportation cost, interest payments, principal repayment, other related fees paid to service the Glencore loan and the final amount of sales revenue accrued to the Treasury.

- Hire external consultant to review the financial position and strategy of BCC and CBT and develop a reorganization plan by end-July 2018.

- Adopt a clearance strategy of domestic arrears based on the audit results by end-October 2018.

- Develop an action plan with timebound measure to improve VAT collection by end-December 2018. This should include at least timebound steps to set-up of a VAT refund mechanism and a plan to reduce VAT exemptions.

- Deliver the report of external consultant on BCC and CBT to the IMF staff and regional supervisory authorities (COBAC) by end-January 2019.

- Based on the audit of 47 tax conventions, remove exemptions not in line with legal texts and ensure that others are adequately implemented by end February 2019.

Table 1. Summary of Data to be Reported		
Data	***Provider***	***Periodicity and Target Date[1]***
Oil and Non–oil revenue, by category *Collection situation* *Revenue position of the revenue–collecting agencies*	Ministry of Finance and Budget (Treasury)	Monthly, within 45 days of month–end
Quarterly Oil Sector Note	Ministry of Finance and Budget	Quarterly, within 45 days of quarter-end
Budget execution data, including on poverty–reducing social spending, showing commitments, validations, authorizations of payment order, and cash payments *Table showing the four phases; payroll table, including benefits*	Ministry of Finance and Budget General Budget Directorate DGB	Monthly, within 45 days after month–end.
Table of expenditure before payment authorization; TOFE, on a cash basis; *Comparative table on budget execution, consolidated balance tables (changes in debts, claims, etc.); and consolidated Treasury balance*	Ministry of Finance and Budget General Budget Directorate DGB DGTCP DGTCP	Monthly, within 45 days of month–end
Detailed budget execution information for transfers in the same classification as the budget	Ministry of Finance and Budget (General Budget Directorate)	Monthly, within 45 days of month–end
Details by project financed domestically, execution of the investment budget, with the information organized by Ministry	Ministry of Finance and Budget (General Budget Directorate)	Quarterly, within 45 days of the end of the quarter.
Information on DAO regularization	Ministry of Finance and Budget.	Quarterly, within 60 days after the end of the Quarter
Details, by externally financed project; investment budget execution; information organized by Ministry	Ministry of Finance and Budget (DGB) Ministry of Plan and International Cooperation (DGCI)	Quarterly, within 45 days of the end of the quarter.

Table 1. Summary of Data to be Reported (continued)		
Data	***Provider***	***Periodicity and Target Date***
Information on public procurement in the previous month and updating of payment maturity for the rest of the year.	Ministry of Finance and Budget (Financial Control)/SGG (OCMP/Procurement Directorate)	Monthly, within 45 days of month–end
Table on external debt (including those in local currency). The table should include previous month's due payments, payments made, and projected payments due for the next 3 months broken down by creditors.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
Information on external debt arrears (including those in local currency): i) updated list of stock of arrears broken down by creditors (which incorporates any rescheduling agreement with creditors); ii) information on repayment of arrears including amount paid and date on which payments were made; iii) information on any rescheduling agreement on the stock of external arrears at the beginning of the program period.	Ministry of Finance and Budget	Monthly, within 45 days of month-end
In case of missed external debt service payment the following information will be needed: i) the date of the missed payment; ii) amount of the missed payment and iii) creditor involved.	Ministry of Finance and Budget	Within 14 days of occurrence
Details on the servicing of the domestic debt and payment arrears of the government[2]	Ministry of Finance and Budget (Debt Directorate, DCP)	Quarterly, within 45 days of the end of the quarter.
Details on the servicing of the external debt of the government[3]	Ministry of Finance and Budget DGTCP (Debt Directorate)	Quarterly, within 45 days of the end of the quarter.
Details on new loans contracted or guaranteed by the government and public non-financial companies	Ministry of Finance and Budget (Debt Directorate) Ministry of Plan and International Cooperation (DGCI)	Within 45 days of transaction completion.

Table 1. Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
Monetary survey	BEAC	Monthly, within 45 days of month–end.
Provisional monetary data from the BEAC *(Exchange rates, foreign reserves, assets and liabilities of the monetary authorities, base money, broad money, central bank balance sheet, consolidated balance sheet of the banking system, interest rates[4])*	BEAC	Monthly, within 45 days of month–end.
Balance of SDR account at month end	BEAC NGP Committee	Monthly, within 3 months of month–end
Net banking system claims on the government (NGP)	BEAC	Monthly, within 30 days of month–end.
Consumer price index	INSEED	Monthly, within 45 days of month–end.
Gross domestic product and gross national product	Macroeconomic Framework Committee (SG MFB)	Annually, within 180 days of year end.
Balance of payments (External current account balance, exports and imports of goods and services, etc.)	BEAC	Annually, within 180 days of year end (preliminary data).
Gross external debt	Ministry of Finance and Budget DGT (Debt Directorate)	Annually, within 90 days of year end.

[1] For end-December fiscal data, data should be reported 45 days after the end of the complementary period.

[2] Including maturities.

[3] Including the breakdown by currency and maturity

[4] Both market-based and officially determined, including discounts, money market rates, and rates on treasury bills, and bonds and other securities.