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**INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL FINANCE CORPORATION  
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY  
COUNTRY PARTNERSHIP FRAMEWORK  
FOR  
THE REPUBLIC OF CHAD  
FOR THE PERIOD FY16-20  
November 3, 2015**

**Country Management Unit, AFCW3  
Africa Region  
The International Finance Corporation  
The Multilateral Investment Guarantee Agency**

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## CURRENCY EQUIVALENTS

(Exchange Rate effective as of November 1, 2015)

|               |   |           |
|---------------|---|-----------|
| Currency Unit | = | CFA Franc |
| US\$1.00      | = | FCFA 585  |

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

|           |   |
|-----------|---|
| AfDB      | African Development Bank  |
| APE       | <i>Associations des Parents d'Élèves</i>                                  |
| ASA       | Advisory Services and Analytics   |
| BEAC      | <i>Banque des États de l'Afrique Centrale</i>                             |
| CBPP      | Contagious Bovine Pleuropneumonia   |
| CEMAC     | Monetary Community of Central Africa                                      |
| CLR       | Completion and Learning Review  |
| CPF       | Country Partnership Framework   |
| CPIA      | Country Policy and Institutional Assessment                               |
| CPPR      | Country Portfolio Performance Review                                      |
| CSO       | Civil Society Organization  |
| CT        | Community Teacher   |
| DHS       | Demographic and Health Survey   |
| DPO       | Development Policy Operation  |
| ECF       | Extended Credit Facility  |
| EITI      | Extractive Industries Transparency Initiative                             |
| EU        | European Union  |
| FAO       | Food and Agriculture Organization   |
| FCS       | Fragile and Conflict-affected State                                       |
| FM        | Financial Management  |
| GII       | Gender Inequality Index   |
| HIPC      | Highly Indebted Poor Countries  |
| IMF       | International Monetary Fund   |
| INT       | World Bank Department of Institutional Integrity                          |
| ISN       | Interim Strategy Note   |
| JSAN      | Joint Staff Advisory Note   |
| MDRI      | Multilateral Debt Reduction Initiative                                    |
| MIS       | Management Information System   |
| NDP       | National Development Plan   |
| NOPD      | Non-Oil Primary Deficit   |
| OHADA     | <i>Organisation pour l'Harmonisation en Afrique du Droit des Affaires</i> |
| PEFA PI-5 | Public Expenditure and Financial Accountability Performance Indicator 5   |
| PFM       | Public Financial Management   |
| PPIAF     | Public Private Infrastructure Advisory Facility                           |
| PPP       | Public-Private Partnership  |

|        |   |
|--------|---|
| SCD    | Strategic Country Diagnostic                                    |
| RMNCHN | Reproductive, Maternal, Neonatal and Child Health and Nutrition |
| SNE    | <i>Société Nationale d'Électricité</i>                          |
| SRP    | Small Ruminant Plague   |
| SSA    | Sub-Saharan Africa  |
| TA     | Technical Assistance  |
| TFP    | Total Factor Productivity                                       |
| TVET   | Technical and Vocational Education and Training                 |
| WBG    | World Bank Group  |
| WFP    | World Food Programme  |

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## TABLE OF CONTENTS

|   |    |
|---|----|
| I. INTRODUCTION   | 1  |
| II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA  | 1  |
| A. Social and Political Context   | 1  |
| B. Recent Economic Developments   | 3  |
| C. Poverty Profile  | 8  |
| D. Drivers of Poverty   | 8  |
| E. Development Challenges   | 10 |
| III. WORLD BANK GROUP PARTNERSHIP STRATEGY  | 15 |
| F. Selectivity Filters  | 15 |
| <i>Feasible Interventions to address Key Constraints as identified by the SCD</i>       | 15 |
| <i>Alignment with Government Program</i>  | 16 |
| <i>WBG Comparative Advantage</i>  | 17 |
| G. Proposed WBG Country Partnership Framework   | 17 |
| <i>Overview of World Bank Group Strategy</i>  | 17 |
| <i>Lessons from Implementation of the WBG Program in Chad, and from Other Countries</i> | 19 |
| <i>Complementarity with other Development Partner Programs</i>                          | 20 |
| <i>Coverage, Knowledge and Consultations</i>  | 21 |
| Engagement Theme 1: Strengthening management of public resources                        | 24 |
| Engagement Theme 2: Improving returns to agriculture and building value chains          | 26 |
| Engagement Theme 3: Building human capital and reducing vulnerability                   | 29 |
| H. Implementing the FY16-20 Country Partnership Framework                               | 33 |
| IV. Managing Risks to the CPF Program   | 35 |
| Annex 1: Results Monitoring Matrix  | 40 |
| Annex 2: Review of Lessons Learned  | 48 |



## I. INTRODUCTION

1. **This CPF is designed to support the forthcoming Chad Five-Year Development Plan (2016-2020). It succeeds the Interim Strategy agreed with the Government of Chad in March 2010.** The Interim Strategy Note (ISN) set out the World Bank Group's (WBG's) support to Chad for the period 2010-2012. The strategy was composed of three main pillars: strengthening governance; improving livelihoods and access to key social services; and improving regional integration and connectivity. The WBG has continued to operate on the basis of the ISN since 2012, as the conditions were put in place for a return to a full partnership framework, in particular the full resumption of an IMF program and of the dialogue towards the HIPC Completion Point. In May 2013 the Government of Chad published its National Development Plan (NDP) for the period 2013-2015, which is considered the third Poverty Reduction Plan for Chad. This included a strong results framework, with 24 strategic indicators and 65 intermediary indicators, including all HIPC Completion Point triggers. It was the subject of a Joint Staff Advisory Note (JSAN) in June 2013 in which the WBG and IMF broadly endorsed the thrust of the plan.<sup>1</sup>

2. **A JSAN issued in March 2015 on the 2013 Monitoring Report of the NDP determined that the NDP was satisfactorily implemented overall in 2013, representing a significant departure from the non-implementation of the first two poverty reduction strategies of 2003-2006 and 2008-2011.** This result may be explained in part by an improvement in security conditions and stronger ownership resulting from the broad consultative process that supported the formulation of the NDP. On April 28, 2015 the Boards of IDA and the IMF reviewed the Enhanced HIPC Initiative Completion Point report together with the March 2015 JSAN. Based on this evidence the Boards agreed that Chad had reached the Completion Point under the Enhanced HIPC Initiative.

## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### A. Social and Political Context

3. **Chad is a large (1.3 million km<sup>2</sup>) landlocked country with a population of 13 million<sup>2</sup>, facing enormous development challenges.** For decades its people have suffered from insecurity and violence, a changing climate, and widespread poverty.

4. **Since the early years of independence, Chad has experienced chronic instability, political turmoil and sporadic armed rebellions.** These have taken their toll on state legitimacy by preventing the establishment of solid accountability systems and economic competition, and resulting in a fractured society that restricts large portions of the population to the informal sector, marginalized from political decision-making and highly vulnerable to predation, extortion and corruption. As a consequence, human capital and physical infrastructure have been slow to develop. Climate change and rapid population growth have exacerbated pressure on arable lands and animal pastures, aggravating competition between farmers and herders, for which mechanisms to resolve disputes have so far proved ineffective.

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<sup>1</sup> Joint Staff Advisory Note on the National Development Plan 2013-15, Report No. 78692-TD, June 20, 2013

<sup>2</sup> Estimate based on 2009 population census

5. **Despite significant oil revenues and Government efforts, much remains to be done to improve Chad's Human Development Indicators which are among the lowest in the world.** In 2014 Chad was ranked 184 out of 187 countries on the UNDP Human Development Index. According to statistics from a UNICEF study released in 2015, 78 percent of young people and adults 15 years and older are illiterate, 68 percent of the population of 15-24 years are not in education, while 45 percent of young people of 6-24 years have never been enrolled in a modern school. The probability of going to school for a Chadian child aged 6-15 living in a rural area is 32 times less than that of a Chadian child living in urban areas. Nearly a third of children completing primary school do not acquire the basics of the curriculum, and about 35 percent of students who start primary school drop out before completing. Human capital formation is consequently insufficient to meet the needs of the labor market. The latest Demographic and Health Survey (DHS), completed in 2015, estimates child and infant mortality rates at 133 and 72 respectively (per thousand living births), compared to 171 and 98 in 2010. Infant and child deaths are mainly the result of birth complications, malaria, respiratory infections, diarrhea and malnutrition, which are among the highest in the world. Maternal mortality, among the highest in central African countries, was estimated at 860 per 100,000 living births, compared to 1,084 in 2010.

6. **Weak governance, poorly designed social programs and lack of well-defined strategies targeting the poor have meant that oil revenues have yielded smaller social dividends than might be expected,** failing to drive down poverty rates any faster than the average in Sub-Saharan Africa (SSA) as a whole, or to share prosperity or increase agricultural productivity. Oil rents, which have been significant since 2003 and are important in maintaining the current political equilibrium, are expected to be lower in 2014-2017 than in recent years.

7. **Forced displacement, much of it protracted, creates challenges for social cohesion and development, as well as in financing the humanitarian response.** Located between a number of regional hot-spots, Chad is affected by ongoing or recent conflict across its borders with Nigeria, the Central African Republic, Sudan and Libya. For the approximately two million people in Chad and neighbouring countries who depend directly on the resources of Lake Chad, these challenges are further complicated by the fluctuations of this critical water body, whose surface area is currently about ten percent of that of the 1950's, creating further pressure for displacement of this population. As a result of these factors, of more than 700,000 displaced people currently living in Chad, there are 463,000 refugees (including 366,000 from Sudan, 93,000 from the Central African Republic, and 2,000 from Nigeria), 230,000 returnees (of which 130,000 from the Central African Republic, and 100,000 from Libya), and 70,000 long-term internally displaced from the conflict in 2007 and subsequent cross-border attacks from Darfur. The number of refugees is equivalent to over 3.5 percent of the population, the third highest level in the world according to UNHCR.

8. **The 2010 peace treaty with Sudan has brought some political stability to Chad, leading to the longest period free from conflict since independence.** Chad is now perceived as a significant contributor to the effort to maintain regional stability. Following its military intervention in Northern Mali in 2013, Chad joined with Mauritania, Mali, Niger, and Burkina Faso to form the Sahel G-5 in 2014, a regional grouping aiming to counter terrorist activity, trafficking and smuggling in the Sahel-Sahara region. In early 2015, Chad joined Cameroon, Niger and Nigeria in a common front against Boko Haram. In October 2013 Chad was elected to the United Nations Security Council (as a non-voting member) for two years. This and its role as a member of the AU

Peace and Security Council, further testify to the country's re-integration into the international community, as do the approval of the Extended Credit Facility (ECF) in August 2014 and successful achievement of the Completion Point under the Enhanced HIPC Initiative in April 2015.

## **B. Recent Economic Developments**

9. **Chad's annual rate of GDP growth was high in 2013 and 2014, at 6.3 percent on average, but remains vulnerable to climatic conditions and oil sector developments.** Chad's non-oil economy relies principally on rain-fed agriculture including livestock (about 25 percent of GDP) and services (about 40 percent of GDP), demand for the latter being driven mostly by oil revenues accruing to the Government (11 percent of GDP in 2013). In 2013 and 2014, overall GDP growth was high (5.7 percent and 6.9 percent respectively – see Table 1), as a result of good rains and high oil prices in 2013, offsetting the decline in oil production. In 2014, the impact of declining oil prices was offset by the development of new fields. Consumer price inflation is mostly driven by variations in food supply, and the external sector is driven by oil exports and oil-related investments. In 2013 and 2014, consumer price inflation remained contained at 0.2 and 1.7 percent respectively, benefiting from good harvests since 2012. During this period the current account deficit, including official transfers, remained around 9 percent of GDP, reflecting significant imports of equipment goods to be invested in the oil industry. In 2014, the acquisition by the Government of equity shares in the Esso Consortium, for US\$1.4 billion, led to negative net foreign direct investments and overall balance of payments, which were financed by drawing on foreign reserves. By end-2014, Chad's imputed reserves at the CEMAC central bank stood at 1.8 months of imports, but Chad could count on the much larger pool of reserves from all CEMAC members.

10. **Security is another important source of volatility.** Public expenditure devoted to military campaigns in Mali in 2013 and Nigeria from 2015 have had direct negative implications on the fiscal space available for economic and social development. Furthermore, deteriorating security conditions around Lake Chad since 2013 have severely impacted Chad's livestock exports to Nigeria, the second source of foreign revenue after oil, as well as other commercial traffic, fishing and agricultural production. Combined with the security crisis in the Central African Republic in 2013-2014, these conditions have also entailed an economic burden as a result of the massive displacement of refugees and returnees into Chad.

11. **The attainment of the HIPC completion point in 2015 rewarded significant improvements in economic and public financial management in recent years.** Most of the period after achievement of the HIPC Decision Point in 2001 was characterized by inconsistent policies, particularly following the start of oil exports in 2003 and the inception of recurrent civil conflicts lasting until 2009. Consolidation of internal political stability paved the way for gradual but sustained improvements in economic management and positive macroeconomic outcomes. This was most notably reflected by the bold steps taken by Government since 2013 to reduce the Non-Oil Primary Deficit (NOPD, non-oil domestic revenue minus domestically financed expenditures), cancel unsustainable non-concessional debt, computerize the full expenditure chain, limit resort to extraordinary spending procedures, and render public procurement, budget execution and oil revenue management more transparent. Improved macroeconomic management is also reflected in the satisfactory implementation of IMF-sponsored programs since 2013 (see Box 1 below).

### **Box 1: The International Monetary Fund Financial Program**

Building on the track record established with satisfactory implementation of an IMF Staff Monitored Program (SMP) in 2013, a 3-year financial program under the Extended Credit Facility was approved by the IMF Board in August 2014. The program runs until mid-2017 and foresees a total disbursement of SDR 106.6 million, including an augmentation of access approved at the time of the first review in response to the oil price and security shocks. Its first review was successfully concluded in April 2015 (with Board discussions on the second review scheduled for mid-December 2015), marking a strong departure from the past decade, during which two IMF programs (respectively approved in 2000 and 2005) went off track relatively early, and attempts to reestablish a track record of good macroeconomic management through an SMP failed (2008, 2009).

Given the anticipated structural decline in oil revenues (given finite known commercial reserves, which will be exhausted around 2030 at the current rate of depletion), macroeconomic policies supported by the IMF program are anchored on a progressive reduction in the NOPD. Between 2013 and 2015, the NOPD declined from 13.2 percent to 7.6 percent of GDP, and is projected to further decline to 4.1 percent of GDP by 2017. Other performance criteria aim at preventing the accumulation of arrears and non-concessional foreign borrowing, protecting poverty-reducing expenditures, and containing domestic government financing. The IMF program also supports structural policy reforms in the areas of treasury and debt management, and oil revenue transparency.

Efforts supported by the IMF program aim at ensuring an orderly fiscal adjustment to the twin exogenous shocks (oil price collapse and security threats) that may be protracted over the foreseeable future, and are further complicated by Chad's weak public financial and debt management capacity, the high exposure of the financial sector to the Government, and still high risks of external debt distress, despite having attained the HIPC completion point. In this context, the IMF's close monitoring of the fiscal and macroeconomic situation, and its important financial contribution (160 percent of Chad's IMF quota), are expected to continue to play a catalytic role by providing assurance to other budget support providers of the adequacy of the macroeconomic framework.

Since the resumption of the HIPC dialogue in 2013, IMF and World Bank teams have worked closely together to respond swiftly and flexibly to the country's evolving macroeconomic circumstances, as reflected in the various reports produced jointly during that period, including JSAN, Debt Sustainability Analysis and the HIPC completion report. The standard institutional division of labor between the World Bank and the IMF has fostered a common understanding of the country's macroeconomic and debt sustainability situations, as well as the status of critical sectors. The clear division of labor is reflected in the complementarity between IMF performance criteria and structural benchmarks, and prior actions under the proposed World Bank Development Policy Operation.

12. **Nonetheless, large exogenous shocks are now threatening to reverse Chad's ongoing efforts to restore fiscal and debt sustainability.** While attainment of the HIPC completion point has reduced Chad's external debt burden significantly over the medium term, efforts to restore external debt sustainability have been severely challenged by two important exogenous shocks faced by Chad since late 2014 and further amplified in 2015: (i) the sudden and sharp decline in oil prices; and (ii) increased regional insecurity on Chad's borders, and within the capital city since June 2015, with the escalation of the conflict with Boko Haram.

13. **By end-2015, domestic revenues are projected to be 37 percent lower than in 2014.** While nominal oil revenues are projected to decline by 55 percent as a result of record low price levels since Chad started producing oil in 2003, non-oil revenues are also projected to decline by 14 percent, with disrupted trade and negative multiplier effects stemming from compressed public demand, leading to a 1 percent contraction in non-oil real GDP. Additional security expenditures and the scheduled amortization from 2015 of oil advance payments (granted in 2014 to acquire equity shares in the Esso Consortium) will further widen the financing gap to 13.7 percent of GDP. In 2014, Chad broadly managed to protect its primary expenditures (including a large public investment program equivalent to 9.6 percent of GDP), at the expense of exhausting most of its fiscal buffers, including drawing down Treasury deposits (2.0 percent of GDP) at the Bank of Central African States (*Banque des États de l'Afrique Centrale* – BEAC), and of using the full amount (3.5 percent of GDP) of the payment linked to the settlement of a dispute with an oil company, against its initial plans to save part of this payment for later years.

14. **Through initial and revised finance laws, the Government projects cutting primary expenditures by 22 percent in 2015 compared with 2014.** Cuts have been focused on domestically-financed investment (reduced by 50 percent compared with 2014) and operating costs of the state apparatus (goods and services, and transfers and subsidies, cut by 40 percent in 2015 compared with 2014, excluding the military sector), with the aim of minimizing the negative impact on priority social spending (which are maintained at 2014 levels, equivalent to 4.5 percent of GDP). The remaining financing gap will be closed through (i) the rescheduling of oil advance payments to be reimbursed from 2015 (3.5 percent of GDP), (ii) domestic and regional borrowing (2.1 percent of GDP), (iii) statutory advances from BEAC (3.5 percent of GDP), and (iv) exceptional financing from AfDB, EU, IMF and the World Bank (1.8 percent of GDP). Under these arrangements, arrears accumulated in the first half of 2015 would be cleared in the second half. Nonetheless, reduced public sector demand and the accumulation of expenditure arrears in the first half of 2015 (2.8 percent of GDP) prompted commercial banks to severely limit additional lending to the private sector.

15. **The 2016 budget law foresees further expenditure cuts.** Though a marginal recovery in oil prices is forecasted, and oil production is projected to continue increasing, oil revenues are expected to rise by just 0.5 percent of non-oil GDP in 2016. Furthermore, despite efforts to widen the tax base, implementation capacity constraints and weak non-oil GDP growth prospects will limit the scope for expanding non-oil revenue. Chad's IMF-supported program projects a 20 percent decline in domestically financed investment due to lower oil revenues. It also anticipates an additional 17 percent reduction in current expenditures through the rationalization of transfers and subsidies based on the findings of an audit undertaken in 2015, which aimed to provide a comprehensive identification of beneficiaries, and assess the policy basis and performance of such transfers and subsidies. Real wages and salaries are projected to remain unchanged to maintain social stability during the legislative and presidential elections scheduled in 2016. To address the oil revenue shortfall the Government is committed to maintaining an active program of domestic bond issuances in the regional market following its success over the past year in issuing both short- and medium-term securities.

16. **Chad's macroeconomic outlook will continue to be influenced by current factors, and its growth patterns are unlikely to change in the near future.** As underlined in the Systematic

Country Diagnosis (SCD), while efforts to improve the investment climate and to support private sector linkages are necessary, structural transformation is at an early stage. The continued fiscal adjustment needed in coming years will further reduce the financial resources available to establish the conditions for transformation (skills, and rural infrastructure in particular); as a result, little economic diversification can be expected in the short term. Chad will thus continue to be highly exposed to climatic and oil-price shocks, which could force an even sharper fiscal adjustment, a significant investment slowdown, an increase in domestic arrears, and unsustainable accumulation of public debt, in a context of already high risks of external debt distress. A rise in arrears to Government suppliers could destabilize the banking sector, and banks' high level of direct and indirect exposure to public sector finances remains a source of substantial risk. Regional insecurity and the ongoing conflict with Boko Haram present serious additional risks, and the risk of damage to the Doba – Douala oil pipeline or disruptions in trade along the Douala – N'djamena corridor represent potential threats to macroeconomic stability. A worsening security situation could negatively affect Chad's institutional, social and economic development prospects and could precipitate a fiscal, financial or balance-of-payments crisis.

17. **Such an outlook calls for continued attention to risks and efforts to achieve fiscal consolidation.** Efforts to diversify sources of revenue, and to strengthen public financial and debt management, will be instrumental to protect the vital functions of the State, necessary for citizens' security, social cohesion, and continued poverty reduction. Such efforts could be sustained through a combination of responsible domestic policy and active international support. Chad's fiscal position remained sound during the global financial crisis, and its membership in CEMAC, along with recent Public Financial Management (PFM) reforms and continued economic and financial oversight via the IMF's ECF program, will help support its continued macroeconomic stability. Despite recent shocks the second review of the ECF in September 2015 indicated that the program is broadly satisfactory. Risk-mitigating factors include Chad's active role in the regional money market and its relatively liquid domestic banking sector, which could support the Government in the event of a liquidity crunch, as well as the pooling of CEMAC's foreign currency reserves which could help finance the balance of payments, including debt service. Nevertheless, the use of statutory advances from the BEAC to cover the financing gap could increase regional macroeconomic vulnerabilities over the medium term.

**Table 1: Selected Economic Indicators, 2013-19**

|  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
|--|---|-------|-------|-------|-------|-------|-------|
| Real economy   | (annual change in percentage)                 |       |       |       |       |       |       |
| GDP at constant prices                                 | 5.7   | 6.9   | 4.1   | 2.6   | 6.1   | 6.5   | 6.4   |
| Oil GDP  | -7.1  | 5.7   | 37.6  | 5.0   | 15.1  | 13.9  | 12.5  |
| Non-oil GDP  | 8.0   | 7.1   | -1.0  | 2.1   | 4.1   | 4.7   | 4.8   |
| Consumer price index (annual average)                  | 0.2   | 1.7   | 4.6   | 3.3   | 3.0   | 3.0   | 3.0   |
| Money and credit                                       | (contribution to broad money growth)          |       |       |       |       |       |       |
| Net foreign assets                                     | -2.6  | -1.8  | -23.8 | 4.8   | 0.3   | 2.5   | 1.6   |
| Net domestic assets                                    | 11.2  | 28.2  | 29.6  | 0.5   | 7.2   | 3.9   | 8.4   |
| <i>Of which</i> : net claims on central government     | 10.0  | 18.0  | 19.6  | -0.5  | -4.1  | -2.8  | 4.2   |
| <i>Of which</i> : credit to private sector             | 2.8   | 17.3  | 0.1   | 1.6   | 4.7   | 3.7   | 4.3   |
| Broad money  | 8.6   | 26.5  | 5.8   | 5.3   | 7.5   | 6.4   | 10.0  |
| External sector  | (in FCFA Billion, unless otherwise indicated) |       |       |       |       |       |       |
| Current account deficit (excluding official transfers) | -687  | -916  | -899  | -710  | -764  | -523  | -344  |
| Official transfers                                     | 98  | 303   | 161   | 159   | 135   | 129   | 130   |
| Financial and capital account                          | 583   | 560   | 500   | 562   | 670   | 487   | 222   |
| Change in reserves                                     | 5   | 53    | 219   | -42   | -71   | -120  | -34   |
| Debt relief  | 0   | 0     | 20    | 30    | 30    | 28    | 27    |
| External debt (percent of GDP)                         | 21.2  | 30.8  | 26.4  | 24.3  | 21.1  | 19.3  | 16.8  |
| Government finance                                     | (in % of GDP)                                 |       |       |       |       |       |       |
| Revenue and grants                                     | 20.2  | 17.5  | 13.2  | 13.5  | 14.4  | 17.1  | 17.9  |
| <i>Of which</i> : non-oil                              | 6.8   | 7.1   | 6.3   | 6.6   | 6.8   | 6.9   | 7.1   |
| Expenditure  | 22.9  | 22.2  | 17.7  | 15.0  | 15.8  | 17.4  | 18.7  |
| Current  | 12.9  | 12.5  | 10.8  | 9.1   | 9.2   | 9.3   | 9.3   |
| Capital  | 10.0  | 9.6   | 6.9   | 5.9   | 6.6   | 8.1   | 9.4   |
| Overall fiscal balance (incl. grants, cash basis)      | -4.8  | -4.4  | -5.7  | -0.9  | -1.0  | -0.7  | -0.6  |
| Central Bank Financing (net)                           | 0.6   | 1.6   | 3.4   | 0.9   | 0.4   | 0.1   | 1.6   |
| Commercial Banks financing (net)                       | 0.0   | 1.1   | 0.9   | 0.8   | 0.3   | 0.1   | 0.1   |
| Non-bank financing (net)                               | 0.7   | 3.6   | 1.8   | 0.8   | 0.4   | 0.2   | 0.2   |
| Foreign financing (net)                                | 3.6   | -1.8  | -0.4  | -1.6  | -0.1  | 0.2   | -1.3  |
| Total debt (in percent of GDP)                         | 30.1  | 38.2  | 34.8  | 34.0  | 30.6  | 28.0  | 24.7  |
| <i>Of which</i> : domestic debt                        | 8.9   | 7.4   | 8.4   | 9.7   | 9.5   | 8.7   | 7.9   |
| <i>Memorandum items:</i>                               |   |       |       |       |       |       |       |
| Nominal GDP (billions of CFA francs)                   | 6,397   | 6,883 | 6,680 | 7,099 | 7,903 | 8,688 | 9,606 |
| <i>Of which</i> : non-oil GDP                          | 4,661   | 5,150 | 5,301 | 5,582 | 5,999 | 6,383 | 6,946 |
| Nominal GDP (billions of US\$)                         | 13.0  | 13.9  | 11.3  | 12.1  | 13.6  | 15.1  | 16.9  |
| <i>Of which</i> : non-oil GDP                          | 9.4   | 10.4  | 9.0   | 9.5   | 10.3  | 11.1  | 12.2  |

Sources: Chadian authorities, IMF and World Bank staff estimates (2013-14) and projections (2015-19).

### C. Poverty Profile

18. **Nearly half (47 percent) of the population lives below the national poverty line**, based on an estimate derived from the most recent household consumption survey conducted in 2011. Food consumption represents 62 percent of the poor's total consumption, and 66 percent of non-poor consumption, suggesting (consistent with the definition of the poverty line) that the poor sacrifice food consumption for other essential items, and would strongly benefit from higher food consumption.

19. **Poverty is overwhelmingly a rural and agricultural phenomenon:** 52 percent of rural households are poor, compared with 21 percent of urban households. With a majority (78 percent) of the population living in rural areas this means that most of the poor (92 percent in 2011) are in rural areas of which 40 percent live in five administrative regions located in the Sudanese belt. There are also high concentrations of poverty in Southern Chad as well as pockets of poverty to the north of the capital N'Djamena, the east of Abeche and in the Central Guera region. Most heads of poor households work (73 percent) whether they live in rural or urban areas. Poverty for these households is therefore a result of low earnings.

#### *Poverty dynamics and trends in inequality*

20. **Between 2003 and 2011, the poverty rate dropped from 55 to 47 percent.** While this decline is in line with the average for Sub-Saharan Africa, Chad's rapid population growth rate of 3 percent per annum means the reduction in the proportion of poor was insufficient to cause a decline in the absolute number of poor, which increased by 15 percent over this period. Poverty rates declined faster in urban areas (10 percentage points) than in rural areas (8 percentage points). Over this period, however, the process of urbanization (mainly through rural-urban migration), contributed only marginally to overall poverty reduction, likely through demand for unskilled labor in construction, trade and transport, fuelled by oil rents.

21. **Inequalities increased between 2003 and 2011, at the expense of the poorest rural households.** Income inequality in Chad is broadly in line with the average for developing countries. The Gini Coefficient in Chad was 0.42 in 2011, with inequality becoming more pronounced at the upper ends of the income distribution and in urban areas. The Gini coefficient rose from 0.39 in 2003, however, almost entirely as a result of increased inequalities within rural areas. In rural areas, the per capita consumption growth of the poorest 35 percent households was negative between 2003 and 2011. In contrast, growth was slightly pro-poor in urban areas.

### D. Drivers of Poverty

22. **Despite oil revenues, overall total factor productivity growth rates, which averaged 0.4 percent during 2003-2010, have not changed significantly relative to previous decades.** As detailed in the SCD, while oil revenues financed high rates of growth in non-tradable sectors of the economy such as non-oil construction, utilities and administration (with respective real GDP growth rates of 47, 14 and 10 percent per year from 2005-13) the food crops sector grew by less than 5 percent, livestock by less than 2 percent and industrial agriculture (cotton) shrank. As discussed in the SCD, stagnating cereal yields and the continued slow accumulation of human capital are the result of poor effectiveness and efficiency in public investment projects, and the failure to leverage

significant amounts of private investment, other than in the transport sector. Very limited water resource management means a significant portion of the population remains vulnerable and unable to effectively exploit the agricultural potential. Poor access to finance and electricity significantly limits production capacity, income generating activities and improvements in living conditions. Unless oil revenues can be used to finance investments to diversify and bring lasting improvements to Chad's economy, oil could turn out to be no more than a temporary windfall rather than a lasting legacy.

23. **Conflict on the borders with Nigeria and Cameroon further exacerbates Chad's already significant regional connectivity challenges.** Ninety percent of Chad's imports transit through the Douala – N'Djamena corridor, and livestock, the second source of exports after oil, almost entirely transits through Northern Cameroon and North Eastern Nigeria. Chad's cost to export and import containers are among the highest in the world, reflecting both infrastructure constraints and governance problems in the management of the corridor, including collusion between transport firms and the monopolistic position of the Douala port.<sup>3</sup> Extremely high international transport costs and an overvalued currency limit export opportunities, but at the same time provide scope for greater competition with imports of bulky products from more distant markets, principally in the rural sector. In this regard, the recently updated Diagnostic Trade Integrated Study<sup>4</sup> identifies the domestic production of corn and rice as sectors that could compete with foreign wheat and flour. Removing constraints to growth in these sectors would open new markets for Chadian farmers, while also reinforcing food security and welfare of the vast majority of farmers who do not participate in international value chains.

24. **High levels of population growth present a significant economic and social challenge.** Chad has among the highest fertility rates in the world with 6.4 children per women (DHS 2015) resulting in an annual population growth rate of 3 percent. This growth rate is expected to continue, given the country's young age structure (65 percent of the population in Chad is under the age of 25), low levels of female education and low levels of contraceptive use. According to the latest DHS (2015), 5 percent of women use modern methods of family planning. The age-dependency ratio is among the highest in Africa (97.2 percent) and represents a heavy economic burden on active adults. The high rate of population growth means that the labor market will need to absorb millions of new workers over the coming years, and there will be significant pressure on basic infrastructure and social services, as well as on land and water resources.

25. **High fertility rates are linked to low levels of female empowerment.** Chad is one of the few countries in the world where gender parity in primary education has not significantly improved in the last decade with only 75 girls enrolled for every 100 boys. Although primary education itself does not reduce the likelihood of poverty it has important indirect impacts on women through its impact on fertility and labor market participation. In addition to lower participation rates in education, women also have less access to productive assets including land, chemical inputs, opportunities for paid labor, and community support. Women are more commonly confined to

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<sup>3</sup> World Trade Organization (2013), "Trade Policy Review: CEMAC countries", Geneva; Terivaninthorn, S., and G. Raballand (2009), "Transport Prices and Costs in Africa: A Review of International Corridors", World Bank, Washington D.C.

<sup>4</sup> Enhanced Integrated Framework (2014), Diagnostic Trade Integration Study, Chad.

cultivation of subsistence crops and traditional farming. A high incidence of domestic violence<sup>5</sup> also places women at an added disadvantage which is exacerbated by poor access to health and justice services. Efforts to address female empowerment have been undertaken by the Government in recent years with the help of a number of development partners, including UNICEF, the World Bank and the EU. A Situation Analysis of Children and Women in Chad was prepared by UNICEF in 2010, providing an inventory of the achievement of the rights of women and children, identifying challenges and providing recommendations to improve the situation. An important step was taken in 2015 with the adoption of a law establishing 18 as the minimum age for marriage.

26. **The poor and near-poor are vulnerable to a wide variety of shocks.** Household income is vulnerable to a range of risks, including climatic shocks (droughts and floods), invasions of crickets and grain-eating birds, health shocks affecting labor productivity (malaria, maternal mortality, poor nutrition), corruption and insecurity. Household consumption is affected by variations in prices and availability of goods and services (food items in particular), and sudden essential expenses such as urgent health care. Most Chadian households cannot rely on transfers (public and private) or formal social protection mechanisms. Access to formal and micro financing is marginal and collective agricultural insurance mechanisms almost non-existent. To mitigate these risks, households often adopt coping mechanisms such as income diversification and extensive farming, both of which require large households, though often at the expense of per capita consumption growth over time. With more than 700,000 displaced people living in Chad (see above), crises in neighboring countries further increase the vulnerability of people living in border regions.

## **E. Development Challenges**

*Weak and inequitable management of public resources: an over-arching constraint*

27. **Continued improvements in the efficiency and equity of public resource management are needed to further poverty reduction in Chad.** Evidence also suggests that effective spending is highly concentrated in urban areas (more than 50 percent of public works are for N’Djamena region), and is unequally distributed across regions, at the expense of the poorest (there is an inverse correlation between poverty level and public investment level). High urban concentration is also observed in service delivery, particularly in the health and education sectors, as well as in the low and highly centralized levels of public expenditure in the agricultural sector given its relative importance in terms of employment and income. Unit costs in public sector spending are also extremely high and variable, reflecting severe shortcomings and the arbitrary exercise of discretion in public procurement.

28. **Protecting pro-poor expenditures (health, education and social expenditures) is an ongoing challenge.** From 5.2 percent of GDP in 2013, pro-poor expenditure declined to 4.5 percent of GDP in 2014, and is projected to continue at the same low level in 2015, given current fiscal constraints. Such levels of expenditure are not only extremely low given Chad’s demographic structure and related pressing needs in terms of maternal health and education, but their efficiency is further reduced by their volatility, which creates severe disruptions in service delivery.

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<sup>5</sup> United Nations (2010), “Report of the Secretary General on the UN Mission in the Central African Republic and in Chad (MINURCAT), April 29, New York.

29. **Improved transparency, while not sufficient, is a necessary condition to foster change.** Recent progress has been made in strengthening Public Financial Management (PFM), for example through the computerization of the expenditure chain, and most recently with the adoption in September 2015 of new procurement and tax codes. Nevertheless, consultations held in Chad and evidence gained from past budget and project execution suggest that the effective implementation of reform programs tackling, for example, procurement, customs or utilities reforms, face significant challenges to success in Chad.

30. **There may be a greater chance of addressing weak management capacity at local and community levels than at central levels.** During consultations on the SCD many participants expressed the wish to be informed about what they should expect from their municipal and local leaders, to strengthen their capacity to engage in activities and demand an account of the implementation of projects for which they were the intended beneficiaries. In addition, they emphasized that governance would be improved if the funding of WBG projects was directly oriented towards local communities. Consequently, as noted in the SCD, initiatives to strengthen governance in local service delivery (agriculture, water, education, health, local electricity mini-grids) have a greater chance of succeeding than those directed at central institutions. Nevertheless, insufficient local capacity to develop strategies, implement projects and settle disputes remains a major constraint to improved service delivery, reflecting both a pure capacity issue and the continued need to reinforce social accountability mechanisms.

31. **With unchanged income distribution, household consumption will not realistically increase sufficiently to eradicate poverty by 2030.** Given the high prevalence of rural poverty, growth in rural areas is needed relatively more urgently than in urban areas; however, recent trends have shown growing inequalities, particularly in rural areas. A more effective redistribution of growth dividends could help tremendously. While economic growth alone will not suffice to eradicate poverty, redistribution efforts could make a significant difference, and are affordable from a macroeconomic perspective, even if ambitious in terms of implementation. Under a scenario of 2 percent annual growth in per capita private consumption, additional transfers to the poor to eradicate poverty would cost 2.1 percent of GDP, and 3.3 percent of the average value of consumption of the non-poor by 2030. Given the current low level of tax revenues compared to potential (8 percent of non-oil GDP, against an estimated potential of 24 percent of non-oil GDP)<sup>6</sup>, significant scope exists for fiscal redistribution. Such redistribution would require improved tax collection combined with cash transfers, social protection initiatives, and public investment programs targeting pro-poor economic sectors and regions.

*Low quality primary education and lack of post-basic skills limit human capital formation*

32. **Poor quality has eroded the returns to primary education.** Six million people live in households headed by males and females with no education, while 2.4 million live in households where the head has primary education. There is little difference in average poverty rates between the two types of households. It is well-documented<sup>7</sup> that the quality of primary education in Chad is

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<sup>6</sup> International Monetary Fund (2014), “Chad – Staff Report for the 2013 Article IV Consultation and Assessment of Performance under the Staff-Monitored Program”, February, Washington D.C.

<sup>7</sup> World Bank (2013), “Chad Education and Employment Review”, mimeo, AFTHD, Washington D.C.

very poor, which helps to explain this finding. Poor quality education is a result of poor quality teachers, particularly those hired at community level, as well as the low quality and efficiency of service delivery. The minority of households in which the household head has completed secondary education or more on average fares much better.<sup>8</sup>

**33. Improving post-basic skills, if targeted to the agriculture sector, could have a direct impact on poverty.** Econometric analysis suggests that rural households with secondary or vocational education have significantly higher levels of consumption. This finding, largely driven by the wage sector, is consistent with the fact that substantial natural resources tend to lead to production structures in which returns to general education are limited, while the returns to some forms of specialized technical education may be high. It suggests that improving the education of wage workers (with possibly a combination of post-basic cognitive, non-cognitive and technical skills) in the agricultural sector could improve productivity and earnings within this sector. Examples of technical skills which could support productivity gains are animal health, land and crop management, and use of techniques for more intensive farming (including small scale irrigation).

*Uncertainty, ill health and poor nutrition constrain household investment and productivity*

**34. Lack of effective social protection mechanisms creates uncertainty and insecurity, and discourages household investment.** The political and social context in Chad means that many poor households, especially in rural areas, often do not know how to benefit from the assistance of officials in charge of the management of public resources for vulnerable populations. Moreover, between 4 and 10 percent of the population suffer catastrophic health expenditures each year, leading to impoverishment in many cases. Most do not have access to social protection mechanisms, such as productive safety nets and livelihood support in rural communities, and lack access to adequate security and justice services. As a result they may be deterred from investing in high value, but risky, productive activity and instead engage in low return but relatively secure activities and strategies (e.g. extensive agriculture, high fertility rates) which do not offer significant opportunities to escape poverty.

**35. Poor health and access to health facilities are correlated with poverty.** In Chad 45 percent of primary care service users are suffering from malaria, followed by acute respiratory infections and diarrhea. Malaria transmission generally coincides with the planting and harvesting seasons making the impact of malaria particularly damaging. Diarrhea is estimated to have a negative impact on returns to education in Chad. Distance to health services is quite strongly correlated with poverty: for example, the probability of an individual working the week before is negatively correlated with the distance it takes to the nearest clinic in rural areas.<sup>9</sup>

**36. Failure to meet minimum nutrition requirements has a negative impact on education, health and productivity.** Insufficient nutrition has been shown to be an important driver of poor educational attainment, health outcomes and productivity particularly in the rural sector. Overall food supply in Chad improved significantly after the 2008-2009 global food crisis. Nevertheless 23 percent of the total population in 2013 was considered food insecure; 23 percent of children below

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<sup>8</sup> World Bank staff calculations based on the Chadian Consumption and Informal Sector Survey, 2011 (ECOSIT3).

<sup>9</sup> Ibid.

the age of 5 years old lacked the minimum daily caloric intake. According to the latest DHS (2015), 40 percent of children suffer from chronic malnutrition and 13 percent from acute malnutrition. Behind these average rates, food insecurity varies with geography and over time, depending on local climatic conditions and the occurrence of conflict. Among the poor, households relying on self-consumption of staple food are better able to cope with food supply shocks than households depending on markets to satisfy their nutrition needs.

### *Low productivity in the agricultural sector*

37. **Productivity in the agricultural sector has stagnated.** During 2005-2011 agricultural productivity in Chad stagnated even as it grew at an annual average rate of 1.4 percent in Sub-Saharan Africa (SSA) as a whole. Low rates of agricultural Total Factor Productivity (TFP) suggest that labor and other productive inputs in agriculture and livestock are combining no more effectively than a decade ago. Cereal yields have remained lower than average for SSA, have not converged, and are highly volatile. Cotton output has fallen by 75 percent in the last decade.<sup>10</sup> Despite the large size of the national herd, the contribution of livestock to GDP growth has been modest.

38. **A combination of factors reduces productivity in the agricultural sector.** These include: (i) the risky and variable production environment; (ii) a lack of effective public investment, extension services, and post-basic skills, which are associated with the limited uptake of new technologies; (iii) a lack of improved water and land management, which would help to increase yields and reduce climate-related risks; (iv) a lack of value-chain integration (both up- and downstream); (v) limited connectivity to local and international markets; and (vi) high transaction costs in the livestock sector. The general lack of basic infrastructure services in rural areas (electricity, water, storage, and transport) also constrains the development of on- and off-farm activities.

39. **Environmental degradation has further contributed to slow growth in productivity.** Bank estimates suggest that the annualized costs of environmental degradation, in the absence of mitigation, could range between 3 and 4 percent of total GDP. In addition to losses arising from the human health consequences of poor indoor air quality caused by the widespread use of charcoal, ambient pollution resulting from emissions in urban areas, and poor water quality, further economic losses arise from land degradation (due to overgrazing), deforestation caused by clearance for cultivation and wood harvesting, as well as soil depletion and erosion caused by poor crop management. With agriculture (crops and livestock) accounting for about a third of non-oil GDP, Chad cannot afford to degrade the capacity of its natural resources to sustain production. In this regard, the management of Lake Chad demands particular attention, as this fragile wetland, currently the setting for rising insecurity, provides livelihoods for millions in Chad and neighboring countries. In addition, pastoralism (herding on natural grazing lands involving some transhumance often, with a regional dimension) accounts for 80 percent of the national herd, and is particularly affected by changing climatic conditions. Since 1975, Chad has become hotter and drier, with precipitation levels in the eastern part of the country falling substantially, and rainfall patterns increasingly erratic nationwide. As the country becomes drier, pastoralists must push their herds further south earlier in the year in order to find adequate forage. Longer herding routes have serious negative implications for the welfare of pastoralist groups, and frequently cause them to come into conflict with farming communities in the south.

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<sup>10</sup> World Development Indicators

*A weak business environment and poor urban services are constraints to private investment*

40. **The business environment remains a major barrier to development of the private sector.** The World Bank’s Doing Business Survey ranked Chad 185th out of 189 countries in 2014. Particularly problematic areas for doing business include starting a business (185th), paying taxes (186th), and trading across borders (182nd). In the formal business sector, private sector organizations point to fiscal and administrative harassment, weaknesses in the commercial judicial system, poor infrastructure (energy, trade, and communication) and lack of human capital. Access to finance also poses a significant constraint to private investment given the low level of formal financial intermediation, with banks’ credit to the economy reaching only about 7 percent of GDP. In the non-rural informal sector, about 30 percent of informal enterprises declare that registration (to the fiscal, business and social security administrations) is too costly, too long and too complex, while another 50 percent claim to be “unaware” that registration is a requirement.

41. **Energy and water supply services are particularly under-developed.** Installed nominal electricity generating capacity is approximately 130 MW but most of it is not functional due to inadequate operation and maintenance by the national utility company, the Société Nationale d’Electricité (SNE). The sector is crippled by weak governance and capacity issues, which in turn have discouraged private sector participation. In addition to mismanagement, high costs of service provision are also related to the limited scope for connecting to regional grids, and low population density which reduces economies of scale. Given the difficulty of recovering costs through tariff increases and the absence of effective collection, electricity provision is heavily reliant on government subsidies. This dependency on continued financial transfer is an additional source of supply disruption, especially in regional towns which experience much more frequent load-shedding. In the water sector the situation is only slightly better. In urban areas 72 percent of the population had access to improved drinking water sources (most of which from public standpoints) in 2012, and 49 percent had access to improved (including shared) sanitation.

*Women’s empowerment could help create the conditions for a future demographic dividend*

42. **Women and girls are particularly vulnerable to poor health and have worse access to education.** Evidence from across the Sahel and beyond shows that women are often disempowered as consumers in the health market and in their interactions with health service providers. Furthermore, the share of women (particularly young women) who face opposition from husbands or family members over the use of contraception remains significant in many countries. The most recent Chad DHS (2015) shows that only 17.6 percent of the demand for modern family planning methods is currently being satisfied. Adolescent girls in the Sahel bear extreme and disproportionate health and development consequences of early marriage and childbearing. An adolescent’s chances of dying due to pregnancy-related complications are twice as high as that of a woman who waits until her twenties to begin childbearing. Early marriage and childbearing can also limit young women’s education and economic opportunities.

43. **Raising women’s empowerment could help Chad create the conditions to reap the benefits of a future demographic dividend.** The demographic dividend is the accelerated economic growth that can result from a decline in a country’s mortality, a rapid decline in its fertility

and the subsequent change in the age structure of the population. If fertility declines rapidly, Chad's young dependent population will grow smaller in relation to the working-age population, resulting in a reduction of the current high dependency ratio of 104 children under age 15 for every 100 adults of working age (compared to the SSA average of 80). With fewer people to support and reduced demand for expanding social services, Chad will have a window of opportunity for more rapid economic growth. Further, lower fertility – including higher age at first birth, better birth spacing and fewer children – is not only necessary for reaping the demographic dividend but also associated with better maternal and child health outcomes. With the recent adoption of a law establishing eighteen years as the minimum age for marriage, and considering the personal commitment of the President of the Republic and the First Lady to promoting girls' education, an opportunity exists to start addressing these challenges.

### III. WORLD BANK GROUP PARTNERSHIP STRATEGY

44. The World Bank Group (WBG) engagement supports the Government's efforts to improve governance and productivity, build human capital, and reduce inequality, taking into account the immediate need to ensure fiscal stability, while at the same time addressing medium-term constraints to poverty reduction. Drawing on the analysis presented in the SCD, a series of selectivity filters were used to define the themes of engagement and objectives of the WBG program.

#### F. Selectivity Filters

45. **Starting from the analysis of the drivers of poverty and development challenges summarized above, three selectivity filters were applied to identify the WBG program:** (i) a focus on feasible interventions to address key constraints, as identified by the SCD; (ii) alignment with the Government's own program; and (iii) the comparative advantage of the WBG.

#### *Feasible Interventions to address Key Constraints as identified in the SCD*

46. **Having presented a set of poverty reduction opportunities, the SCD identified binding constraints to realizing these opportunities,** and assessed the feasibility of addressing these constraints against a number of criteria. Under each of the development challenges described above, Table 2 lists the key constraints identified in the SCD. The choice of themes of engagement and objectives for the WBG program draws on the SCD's assessment of the potential for implementation given capacity limitations, affordability, and the political feasibility of successfully addressing each constraint.

**Table 2: Development Challenges and Key Constraints to Poverty Reduction as identified in the SCD**

| <b>Development Challenges</b>                                      | <b>Key Constraints</b>  |
|--|---|
| <i>Weak and inequitable management of public resources</i>         | • Insufficient budget stability   |
|  | • Lack of community driven development strategies, capacity to implement projects and settle disputes                 |
| <i>Low quality primary education and lack of post-basic skills</i> | • Lack of post basic skills for rural activities  |
|  | • Poor management of education services   |
| <i>Uncertainty, ill health and poor nutrition</i>                  | • Poor access to health care  |
|  | • Lack of social protection mechanisms such as productive safety nets and livelihood support in rural communities     |
|  | • Poor management of health services  |
|  | • Insufficient use of clean energy for heating and cooking  |
| <i>Low productivity in the agricultural sector</i>                 | • Insufficient use of techniques for sustainable management of natural resource (land, water) for crops and livestock |
|  | • Lack of organization and integration of poor farmers around market-based clusters in value chains                   |
|  | • Lack of agricultural insurance mechanisms   |
| <i>Weak business environment and poor urban services</i>           | • Ineffective justice and security  |
|  | • High costs of international transport and distribution services   |
|  | • Insufficient supply of basic infrastructure   |
| <i>Women's empowerment</i>   | • Women's weak land tenure  |
|  | • Women's insufficient time for economic activities   |

*Alignment with Government Program*

47. **Chad approved its National Development Plan (NDP) for the period 2013-2015 in May 2013.** The NDP is considered the third poverty reduction strategy for Chad, following the ones adopted for the periods 2003-2006 and 2008-2011. The NDP focuses on: (i) the creation of new productive capacities and opportunities for decent jobs, (ii) human capital development and the fight against inequality, poverty and social exclusion; (iii) environmental protection and climate change adaptation; and (iv) improved governance.

48. **The March 2015 JSAN concluded that the NDP was overall satisfactorily implemented in 2013.** By end-2013, around two thirds of strategic indicators and one half of intermediary indicators retained in the results framework recorded progress in line with retained targets. In addition, the contribution of the 2013 national budget to the NDP implementation was close to initial plans, reflecting structural progress in terms of budget execution; and the adoption of a robust Results Framework allowed the authorities to effectively monitor NDP implementation, in terms of inputs, outputs and outcomes. A reliable poverty survey available in 2012 provided the analytical foundation to design the NDP, and a new survey to be conducted in 2015-2016 will allow assessment of the impact of the NDP on poverty trends. A new demographic and health survey to be conducted in 2014-2015 will complement this picture.

49. **The forthcoming Chad Five-Year Development Plan for 2016-2020**, while at an early stage of development, will continue to focus on the strategic themes of the previous NDP 2013-2015, especially those targets which have yet to be fully achieved. In particular, the Government has indicated that these will include efforts to improve governance and productivity (with a particular emphasis on the development of renewable energy sources), build human capital, and reduce inequality.

#### *WBG Comparative Advantage*

50. **In supporting the achievement of the Government's development goals, the WBG offers comparative advantage** in (i) providing integrated solutions that bring together global knowledge, technical assistance, finance, and policy dialogue, (ii) drawing on recent experience with program implementation in Chad, and (iii) applying global experience with operating in fragile and conflict-affected environments. The WBG's ability to combine technical assistance with policy-linked budget support is of particular importance in helping the Government of Chad meet its targets for improved governance, as is the WBG's capacity to provide cross-sectoral expertise and private sector finance to increase productivity, and its international experience in strengthening health, education and social protection systems to build human capital and reduce inequality. Experience with operations in Chad over the last ten years, as well as in other fragile and conflict-affected states, has provided valuable lessons regarding flexibility of approach that further inform the design and implementation of the WBG's engagement.

### **G. Proposed WBG Country Partnership Framework**

#### *Overview of World Bank Group Strategy*

51. **The WBG program in the FY16-20 CPF will focus on three themes of engagement:** (i) strengthening management of public resources; (ii) improving returns to agriculture and building value chains; and, (iii) building human capital and reducing vulnerability. These themes draw on the WBG's comparative advantage in responding to key poverty reduction constraints as highlighted by the SCD, and are aligned with the Government's goals of improving governance and productivity, building human capital, and reducing inequality, as indicated in Table 3 below.

52. **The proposed strategy builds on and further focuses the program that was launched in 2010<sup>11</sup>**, recognizing the continued importance of ongoing operations to the new program. Emphasis on the importance of governance is sustained. The focus on improving returns to agriculture and building value chains is more specific than the range of growth-related activities targeted by the ISN, and there is a renewed emphasis on social services, with a focus on basic health, education and social protection.

53. **A core element of the program is a proposed Development Policy Operation (DPO)**, which forms an essential part of the strategy developed with the IMF, AfDB and EU to stabilize the fiscal situation in the short term. The urgent need to protect pro-poor expenditures and avoid the accumulation of massive arrears justifies the high risks taken with processing DPOs, when

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<sup>11</sup> FY11-12 ISN

compared with the likely consequences of severe fiscal destabilization in a context of high fragility. Ongoing technical assistance for PFM and improvement of the investment climate provides the basis for a DPO supporting policy actions in these domains, essential for fiscal stabilization in the short-term and diversification of revenue sources in the longer-term. Given available resources, a stand-alone DPO is budgeted for FY16, and presented along with the proposed CPF. The World Bank will explore possibilities to mobilize resources and partnerships for possible future DPOs aimed at deepening reforms in these areas, and at further stabilizing the fiscal situation.

**Table 3: CPF Engagement Themes  
Correspondence with Development Challenges and Alignment with Government Program**

| <b>Development Challenges</b>  | <b>CPF Engagement Theme</b>                    |  |   |                          |
|--|--|--|---|--------------------------|
| <i>(For links to key poverty reduction constraints, see Table 2)</i> | Strengthening management of public resources   | Improving returns to agriculture and building value chains | Building human capital and reducing vulnerability |                          |
|  | <b>Alignment with Government Program Goals</b> |  |   |                          |
|  | Improved Governance                            | Increased productive capacity                              | Human capital development                         | Fight against inequality |
| Weak and inequitable management of public resources                  |  |  |   |                          |
| Low quality primary education and lack of post-basic skills          |  |  |   |                          |
| Uncertainty, ill health and poor nutrition                           |  |  |   |                          |
| Low productivity in the agricultural sector                          |  |  |   |                          |
| A weak business environment and poor urban services                  |  |  |   |                          |
| Women’s empowerment  |  |  |   |                          |

54. **The proposed areas of engagement address the twin goals** by recognizing that the elimination of extreme poverty in Chad will require public and private resources to be more effectively managed in favor of the 92 percent of the poor that live in rural areas, and that basic health, education and social protection programs lie at the heart of the more equitable allocation of public resources that is required to share prosperity more broadly. As noted above, recent robust economic growth has been offset by rising inequality and population growth, so that while the poverty rate has dropped, the absolute number of poor has continued to grow, and per capita consumption of the poorest rural households has declined. In alignment with the Government’s program, the WBG strategy is intended to help reverse this trend, by focusing on more effective management of public resources under the first engagement theme, supporting higher returns and investment in agricultural activities under the second, and improving access to better health, education and social protection services under the third theme.

## *Lessons from Implementation of the WBG Program in Chad, and from Other Countries*

55. **The WBG program in Chad was defined by a CAS for the period 2004-2006, and an ISN for 2010-2012.** World Bank-Chad relations suffered during the period January 2006 to January 2009, as a result of changing national priorities in response to regional insecurity, and the lack of an agreed policy basis for readjusting cooperation. From January 2009 relations improved, such that following a CPPR in November 2009, the Bank agreed an ISN in March 2010 which has since formed the basis for Bank activity in Chad. The main outcomes targeted under the 2010 ISN were:

- *Strengthened governance*: increased efficiency and transparency in the use of public funds; increased planning and management capacity at decentralized levels; improved access to reliable poverty data; improved understanding of security and political economy.
- *Improved access and quality of key social services*: improved access to and quality of health services with a focus on maternal and child health; improved access to and quality of primary education; improved access to water supply; improved gender equality.
- *Sustainable and diverse growth*: improved business climate; increased employment and business opportunities for vulnerable groups, including women entrepreneurs; increased agriculture productivity; improved transport infrastructure; improved connectivity.

The World Bank has continued to operate on the basis of the ISN since 2012, as the conditions were put in place for a return to a full partnership framework, in particular the full resumption of an IMF program and of the dialogue towards the HIPC Completion Point. The SCD has confirmed the continued relevance of the broad outcomes targeted by the ISN, helping identify specific areas of renewed focus for the CPF.

56. **The attached Review of Lessons Learned (Annex 2) highlights a number of lessons emerging from the CAS 2004-2006, through the ISN 2010-2012, to the present.** First, experience implementing these strategies shows the importance of alignment with the Borrower's expectations to sustain commitment for the successful achievement of the goals of the CPF. Second, it also demonstrates the need for flexibility and a willingness to revisit the rules of engagement when the priorities and practices of the Borrower are no longer sufficiently aligned with those of the Bank. This lesson is particularly pertinent given ongoing regional instability, resulting in the continued risk of unforeseen security expenditures. Third, because Chad will continue to confront challenging governance-related issues, project design and implementation under the new CPF should be based on careful consideration of political economy concerns and reinforced fiduciary controls, combined with a communications effort to ensure that policy achievements and development results are recognized and valued. Key measures to mitigate fiduciary risks include ensuring that WBG financial arrangements operate in synergy with country systems, and a strong presence of WBG FM staff. A fourth lesson is that community-based projects can deliver long-term benefits provided immediate gains can be achieved, and they can improve the livelihoods of vulnerable groups provided these are subject to specific targeting and training. Sensitivity to culture and values is also of particular importance in achieving results through community-based operations. Fifth, complex operations and those that do not address capacity-building in a comprehensive and timely manner are likely to have disappointing results. Sixth, closer WBG collaboration could help better leverage IFC investments and advice for achievement of the Corporate Goals. Finally, monitoring and

evaluation systems must be results-based and realistic (taking into account data availability and local capacity constraints).

57. **Lessons from Bank engagement in other fragile countries have also been taken into consideration in the formulation of the WBG strategy for Chad.** Particularly relevant cases include countries that have implemented development programs in a security-constrained environment; countries that are highly dependent on aid with limited absorptive capacity; and economies seeking to evolve from subsistence agriculture to more sustainable and productive agricultural production capable of providing food security and growth.

58. **One key lesson is to put risk management at the center of Bank interventions.** This includes assessing the conditions under which it is realistic – or not - to plan for WBG interventions and ensuring close monitoring. For example in South Sudan there are relevant lessons with regard to the importance of continuously monitoring the impact of different stresses and incorporating risk management mechanisms in the design of all individual operations. These approaches should be reflected in the design of any new operation in Chad and in coordination mechanisms with other partners.

59. **Another lesson is the importance of building flexibility into the design of country programs and implementation mechanisms,** in particular the importance of carefully assessing the government’s capacity. The Bank and its partners have at times been over-optimistic in their assessment of the extent to which capacity building programs could build the institutional capacity needed to absorb donor resources. Instead, upfront institutional and capacity building, including strengthening internal coordination within government, is necessary to foster absorptive and execution capacity.

### *Complementarity with other Development Partner Programs*

60. **The WBG works alongside a variety of other development partners in Chad.** These include the IMF, agencies affiliated to the UN System, the AfDB, the Bank for the Development of Central African Countries (BDEAC), the EU, Members of the Coordination Group of Arab Funds and Development Institutions, and a number of bilateral donors such as the French Development Agency (AFD), the German Agency for International Cooperation (GIZ), USAID, and Swiss Cooperation. In recent years, cooperation with the IMF has been particularly close, as part of the HIPC process. The proposed DPO has also been prepared in strong coordination with the EU and AfDB, with a view to harmonizing as much as possible policy matrices and monitoring processes. Key elements of partner strategies that are relevant for the CPF period are summarized below.

61. **UNDP’s 2012-2015 Chad strategy has three main objectives.**<sup>12</sup> The first objective comprises the consolidation of peace and strengthening crisis management capacity, through strengthening of government bodies that are dealing with crisis prevention and management, promoting social reconciliation in local communities, and working with national and regional catastrophe risk and mitigation bodies. The second objective is to strengthen the rule of law, justice and security, particularly in the eastern part of the country, including through improved access of

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<sup>12</sup> UNDP, “Gouvernement de la République du Tchad et Programme des Nations Unies pour le Développement Plan d’Action du Programme Pays, 2012-2015”

vulnerable populations, to formal and traditional security and justice services. The third objective is to rebuild livelihoods, particularly for women and young people, in communities affected by insecurity and violence, notably in the east of the country and in N'Djamena, including through local economic development and cash transfers to local communities. UNDP is also providing technical assistance to facilitate the electoral process.

62. **The European Union (EU) has published its National Indicative Program 2014-2020 for Chad.** The Program, which amounts to 415 million EUR, has three main objectives. First the EU will seek to reduce significantly food and nutritional insecurity. It will do this by targeting three sub-objectives: a) strengthening governance and budgeting in the sector; b) ensuring sustainable access to adequate food supplies; and c) improving the nutritional intake of under 5 year olds and pregnant and nursing mothers. Second the EU will support sustainable management of natural resources notably protected and fragile areas, and pastoral resources. The third overall objective is to help establish a functional and transparent public administration capable of ensuring the rule of law and provision of public goods including through the strengthening of public financial management.

63. **The most recent African Development Bank Country Strategy Paper** covered the period 2010-2014.<sup>13</sup> It focused on basic infrastructure and governance. The current portfolio comprises a number of ongoing projects in Chad primarily in the areas of rural transport, urban electrification, public financial management, capacity building in the extractives sector and irrigation.

64. **Other donors active in Chad** include AFD, notably in the areas of Technical and Vocational Education and Training (TVET), health, urban water and sanitation, and pastoralism. Swiss Cooperation has been actively engaged in mapping ground water resources livestock, and is supporting the development of pastoralism and oilseeds value chains. The World Food Programme (WFP) and the Food and Agriculture Organization (FAO) are active in supporting emergency safety nets and resilience-building programs. Many members of the Coordination Group of Arab Funds and Development Institutions (including the Islamic Development Bank, Kuwait Fund, the Arab Bank for Economic Development in Africa, the OPEC Fund, and Saudi Fund for Development) have been actively engaged in funding infrastructure projects, in particular roads and water supply, as well as human development and private sector investment projects. The Islamic Development Bank, for example, intends to cover the debt financing needs of Chad's leading local importer and distributor of food and beverage products, who is now seeking to diversify into food processing using locally sourced products, including milk.

### *Coverage, Knowledge and Consultations*

65. **Given available resources, the WBG program is strategic in its choices, reflecting the special themes selected for IDA17** of gender, climate change, fragile and conflict-affected states (FCSs), and inclusive growth (including good governance of natural resource wealth), all of which are pertinent for Chad. The program also seeks to leverage to the extent possible complementary financing from the Government and other development partners. As a result of this selectivity, there remain a few constraints to poverty reduction that were identified in the SCD (see Table 2) that will not be addressed by the WBG program, and are not currently receiving significant attention from

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<sup>13</sup> African Development Bank, Chad, Country Strategy Paper, 2010-2014

other development partners. As indicated in Table 4 below, these gaps include: (i) the lack of stabilization mechanisms to hedge against oil-price fluctuations, a constraint identified in the SCD as being politically challenging to address, although the proposed DPO will contribute to budget stability both directly, and indirectly by encouraging non-oil revenue collection and greater expenditure efficiency; (ii) the lack of formal mechanisms to reduce investment risks in agriculture, identified in the SCD as being challenging in terms of implementation capacity; and (iii) the insufficient use of clean energy for heating and cooking, for which affordability was considered a concern in the SCD.

**Table 4: WBG and Development Partner Program Coverage, and Remaining Gaps**

| CPF Engagement Theme  | Ongoing and New Investment Operations, and Remaining Gaps   |   |
|---|---|---|
| <b>Engagement Theme 1: Strengthening management of public resources</b>               | <b>WBG ongoing operations</b>   | <b>Other Partners</b>   |
|   | <ul style="list-style-type: none"> <li>• Public Financial Management Capacity Building (P090265)</li> <li>• Strengthening CSOs (P129137)</li> <li>• EITI Post-Compliance Phase 1 TA</li> </ul>  | <b>EU:</b> <ul style="list-style-type: none"> <li>• strengthening governance and budgeting;</li> <li>• public financial management</li> </ul>   |
|   | <b>Proposed WBG new operations</b>  | <b>AfDB:</b>  |
|   | <ul style="list-style-type: none"> <li>• Possible DPOs</li> <li>• Poverty surveys and tools to monitor poverty on a high-frequency basis</li> <li>• TA for petroleum sector management</li> <li>• Possible EITI Post-Compliance Phase 2 TA</li> </ul>   | <ul style="list-style-type: none"> <li>• public financial management</li> </ul>   |
| <b>Engagement Theme 2: Improving returns to agriculture and building value chains</b> | <b>WBG ongoing operations</b>   | <b>Other Partners</b>   |
|   | <ul style="list-style-type: none"> <li>• Agricultural Production Support Project (P126576)</li> <li>• Emergency Food and Livestock Crisis Response (P151215)</li> <li>• Regional Sahel Pastoralism Support Project (P147674)</li> <li>• Value Chain Support Project (P133021)</li> <li>• CEMAC Transp Transit Facil (P079736)</li> <li>• Central African Backbone (P108368)</li> <li>• Millicom Chad (IFC)</li> <li>• Geysers SA (IFC)</li> </ul> | <b>UNDP:</b> <ul style="list-style-type: none"> <li>• livelihoods interventions especially in east of Chad.</li> </ul>  |
|   | <b>Proposed WBG new operations</b>  | <b>AfDB:</b>  |
|   | <ul style="list-style-type: none"> <li>• Possible agricultural productivity project</li> <li>• Sahel Regional Irrigation Initiative Project (P154482)</li> <li>• Risk Sharing Facility with ETI (IFC)</li> </ul>  | <ul style="list-style-type: none"> <li>• rural transport;</li> <li>• capacity building in irrigation.</li> </ul>  |
| <b>Engagement Theme 3: Building human capital and reducing vulnerability</b>          | <b>WBG ongoing operations</b>   | <b>Other Partners</b>   |
|   | <ul style="list-style-type: none"> <li>• Mother &amp; Child Health Services Strengthening (P148052)</li> <li>• Education Sector Reform Project (P132617)</li> <li>• Sahel Women’s Empowerment and Demographic Dividend Project (P150080)</li> <li>• Sahel Adaptive Social Protection Program (P148332)</li> <li>• Clinic La Providence (IFC)</li> <li>• Aubaine Graphic (IFC)</li> </ul>  | <b>UNDP:</b> <ul style="list-style-type: none"> <li>• strengthening rule of law</li> <li>• community social reconciliation</li> </ul> <b>UNICEF/UNESCO:</b> <ul style="list-style-type: none"> <li>• Global Partnership for Education and Educate a Child (Qatar);</li> </ul> |
|   | <ul style="list-style-type: none"> <li>• Possible safety net project</li> <li>• Possible TVET and post-basic skills project</li> </ul>  | <b>WFP and FAO:</b> <ul style="list-style-type: none"> <li>• resilience-building programs</li> <li>• emergency safety nets</li> </ul>   |

| CPF Engagement Theme | Ongoing and New Investment Operations, and Remaining Gaps  |   |
|----------------------|--|---|
|                      | <b>Remaining gaps not addressed</b> <ul style="list-style-type: none"> <li>Clean energy for heating and cooking</li> </ul> | <b>EU:</b> <ul style="list-style-type: none"> <li>sustainable access to food supplies</li> </ul> <b>French Cooperation:</b> <ul style="list-style-type: none"> <li>TVET;</li> <li>health;</li> <li>water and sanitation.</li> </ul> |

66. **Several knowledge gaps were highlighted in the SCD**, falling into two categories: (i) data gaps (related among others to consumption surveys focusing on agricultural activities, and the dissemination of public financial management data); and (ii) analytical gaps (related to the need for qualitative and quantitative work on local government capacity, access to energy services, the establishment of a PPP framework, forced displacement, and agricultural land rights, productivity and investment). The identification of these gaps provides the basis for the definition of a knowledge agenda to be pursued through the provision of Advisory Services and Analytics (ASA) as part of the WBG program, as indicated in Table 5, and described in more detail below under each of the themes of engagement.

**Table 5: WBG Advisory Services and Analytics**

| CPF Engagement Theme  | Ongoing and Proposed Advisory Services and Analytics  |
|---|---|
| <b>Engagement Theme 1: Strengthening management of public resources</b>               | <b>Proposed ASA</b>   |
|   | <ul style="list-style-type: none"> <li>PEFA assessment, PFM data on local budget allocations, and local government capacity assessment</li> <li>Energy sector diagnostic (IFC)</li> <li>PPP framework (IFC and WB)</li> </ul> |
| <b>Engagement Theme 2: Improving returns to agriculture and building value chains</b> | <b>Ongoing ASA</b>  |
|   | <ul style="list-style-type: none"> <li>Leasing investment TA (IFC)</li> <li>Investment climate TA</li> </ul>  |
|   | <b>Proposed ASA</b>   |
| <b>Engagement Theme 3: Building human capital and reducing vulnerability</b>          | <ul style="list-style-type: none"> <li>Regional TA for Lake Chad Policy Dialogue</li> <li>Agricultural land rights and conflicts, productivity and investment ESW</li> </ul>  |
|   | <b>Ongoing ASA</b>  |
|   | <ul style="list-style-type: none"> <li>Education and Skills Development ESW (P132615)</li> <li>Social Safety Nets Assessment (P151966)</li> </ul>   |
|   | <b>Proposed ASA</b>   |
|   | <ul style="list-style-type: none"> <li>Regional TA for Chad country study under the Lake Chad Basin Forced Displacement Program</li> </ul>  |

67. **The proposed CPF was developed in dialogue with the Chadian authorities, and is based on the SCD, which was discussed and validated through consultations with civil society stakeholders and development partners.** Consultations on the SCD included associations from Ndjama and surrounding regions, covering a broad spectrum of civil society (teachers, women, disabled people, orphans, pharmacists, potters, midwives, and veterinarians, among others). Various Members of Parliament and of the administration also participated in the discussions, and separate consultations were held with development partners and the private sector, notably the Chamber of Commerce and commercial banks.

68. **Consultations on the draft CPF were held in Ndjamena from May 21 – 26 and 22 July 2015, with participation from Government officials, elected representatives, the private sector, civil society, and development partners, and demonstrated broad support for the preparation process and proposed structure of the CPF.** Participants welcomed the recognition of the investment Chad has made in regional security, the burden posed by high numbers of refugees and IDPs, and the willingness to consider budget support. Development partners noted that coordination is particularly important regarding the policy dialogue linked to development policy operations. Elected representatives were appreciative of continuing WBG efforts to consult them, and recommended the further use of the WBG parliamentarians’ network to increase accountability in the delivery of the program, noting the need to better integrate project implementation into government systems of control and oversight. Private sector participants noted the importance of strengthening weak links in the agricultural value chain, emphasizing that this should be approached in a manner that maximizes private sector involvement. The crucial importance of justice and security for the business environment was also highlighted, together with the need for efforts to reduce conflict between farmers and pastoralists, and to ease legal restrictions on land ownership for agricultural production.

### **Engagement Theme 1: Strengthening management of public resources**

69. This theme has two objectives: first, more effective and transparent public financial management; and second, the development of capacity for more effective management of hydrocarbon resources.

70. **Objective 1.1: More effective and transparent public financial management.** In the face of a significant financing gap in 2015, there is an urgent need to strengthen PFM at the central level. Combined with declining oil prices, Chad’s expenditure on regional security is placing pressure on the government’s budget. In tandem with budget support to help close the expected financing gap, continued strengthening of PFM systems is necessary, if politically challenging, as highlighted by the SCD. Overall, the risks of ignoring weak PFM systems appear greater than the risks of tackling these and failing. Likewise, the urgent need to protect pro-poor expenditures and avoid the accumulation of massive arrears justifies the high risks taken with processing DPOs, when compared with the likely consequences of severe fiscal destabilization in a context of high fragility.

71. **Weak public resource management is caused by a number of factors.** These include inadequate non-oil resource mobilization, high budget volatility, insufficient integration of current and capital expenditure, and excessive concentration of spending decisions. This leads to limited effectiveness and efficiency of pro-poor spending. In particular, the SCD identifies weaknesses in the management of health and education services, lack of budget stabilization mechanisms, and poor procurement practices as major “actionable” constraints.

72. **While supply side interventions in PFM will help address these shortcomings, they will remain insufficient without strong complementary efforts to raise demand for good governance and executive accountability,** through improved transparency in public resource management and procurement. Significant recent progress has been made with the adoption of a public procurement code and the quarterly publication of procurement bulletins. Operationalization

of the code will require coordinated effort among development partners to assist the Government in building the necessary institutional architecture. Ongoing efforts to computerize the public expenditure chain and adopt a transparency code provide the opportunity to further strengthen transparency in public financial management. In addition, public financial management information systems need to be strengthened to better assess the distribution of fiscal and human resources across the country, through local governments and de-concentrated structures. Operating at the level of central government will be high risk, but potentially high reward.

73. **To achieve this objective, the WBG program will include technical assistance accompanied by possible Development Policy Operations (DPOs).** Ongoing technical assistance includes support for capacity building in PFM including procurement reform, and transparency through engagement with civil society organizations. This will be supplemented with further technical assistance for (i) a repeat Public Expenditure and Financial Accountability (PEFA) assessment during the CPF period to guide the direction of PFM reforms, and (ii) information about budgetary allocations at a local level, complemented on the analytical side with an assessment of local capacity for the provision of services, project implementation, participatory budgeting, and the redress of grievances. Together, this support provides the basis for possible DPOs focusing on improved PFM. While a first stand-alone DPO is budgeted for FY16, and presented along with the proposed CPF, the World Bank will explore possibilities to mobilize resources and partnerships for possible future DPOs aimed at further deepening reforms in the domains described above, and at stabilizing the fiscal situation.

74. **The SCD identified a number of gaps in the knowledge of the WBG and Government that affect the ability to understand and address key barriers to improving the management of public resources for poverty reduction and shared prosperity,** both in the form of data gaps and analytical understanding. The need for high quality information on poverty dynamics will be addressed through consumption surveys, with a strong focus on the agricultural sector, complemented by IT-based, higher frequency light surveys.

75. **There are three expected outcomes of this objective.** WBG support will lead to more effective financial management, as measured first by a reduction in the share of domestically financed spending executed through extraordinary budget procedures, and second by a reduction in the stock of public expenditure arrears as a percentage of total public expenditure. This will be accompanied by greater transparency as measured (either formally under the PEFA Secretariat or by the WBG) by the PEFA Indicator 5 (PEFA PI-5) rating of published budget documentation.

76. **Objective 1.2: Develop capacity for more effective management of hydrocarbon resources.** While oil revenues are essential to Chad, the oil sector has not contributed to growth as much as it might have done, due to weak governance and limited sector capacity. Under the Extractive Industries Transparency Initiative (EITI), the Government of Chad has published six reconciliation reports since 2012, achieving EITI compliant status in 2014. Building on this achievement, it is critical for the country to continue improving accountability and transparency in the management of petroleum revenues, and to develop and retain in-house capacity to sustainably manage oil and gas resources. Improvements are needed to: (i) assess and manage hydrocarbon reserves; (ii) supervise field operations and ensure contract compliance, especially with regard to the management of environmental and social risks; and (iii) forecast and manage oil revenues. There

is also a need to better understand the gas potential of the country, which could help diversify away from oil, for which a first step would be to identify whether there are options for commercially viable gas development.

77. **To achieve this objective, the WBG program will include ongoing and new technical assistance** to strengthen the management of hydrocarbon resources. Ongoing EITI post-compliance technical assistance seeks to further strengthen the capacity of the multi-stakeholder group, comprising representatives of government, civil society and extractive companies, preparing the ground for possible broader WBG support for civil society engagement in extractives. This will be complemented with new technical assistance to strengthen capacity for sustainable petroleum sector management.

78. **The expected outcome of this objective is improved capacity in the petroleum sector for more transparent and effective management of hydrocarbon resources**, as indicated by the share of Petroleum Ministry staff trained to monitor contractual and regulatory compliance of petroleum field development operations, and annual public reporting on petroleum revenues (audited, current and forecasts).

## **Engagement Theme 2: Improving returns to agriculture and building value chains**

79. This theme recognizes the need to adopt an integrated approach to agricultural productivity, market access and value chains, and focuses on two objectives: first, more productive and resilient agriculture; and second, an improved environment for private sector investment.

80. **Objective 2.1: More productive and resilient agriculture.** This objective addresses a number of constraints that reduce returns in agriculture, including the limited access to improved seeds and effective extension and animal health services, as well as the need for investments to improve water and land management, both increasing yields and reducing vulnerability to climate-related risks. It will focus on cereals (particularly sorghum and millet) and livestock, although there may also be opportunities for promoting other high value vegetables and agricultural products, such as arabic gum, shea and ground nuts, onions, garlic, cotton and sesame, not least because some of these are more intensively cultivated by women, and hence offer an opportunity to empower women economically.

81. **Factors preventing agricultural productivity gains include the widespread use of extensive agricultural practices and limited public support to the agricultural sector.** Women face unique challenges with respect to owning land, accessing and supervising male farm labor, and mobilizing inputs. Yield increases will be supported through complementary investments in extension services, a wider use of improved water and land management techniques (including crop-livestock interventions, agroforestry and conservation agriculture), as well as through greater access to drought resistant improved seeds. Support for farmers associations can facilitate the exchange of information necessary for the adoption of improved technologies and seeds, help agglomerate the purchase of inputs, the management of storage, and access to markets and finance, and support efforts to improve women's secure access to land. Such interventions will also reduce the impact of yield uncertainty on agricultural investment and food security.

82. **Water variability and scarcity limits agricultural productivity.** Small-scale water management interventions, such as lowlands development and small-scale irrigation, can provide an important buffer against drought and increase household consumption by as much as 30 percent relative to rainfed production. Solar-powered drip irrigation has demonstrated its effectiveness in the Sudano-Sahel at increasing household income and nutritional outcomes, and represents a cost-effective, localized option that is well suited to Chad. Chad's most important body of water is Lake Chad, which has recently become a focus of Boko Haram activities threatening regional security and trade. The management of this resource presents a complex regional challenge affecting the livelihoods of millions.

83. **Economic returns to pastoralism are constrained by a range of factors,** including the declining availability of rangeland, limited water access, changing climatic conditions, and high transaction costs along the value chain. These will be offset by improved public services in the form of animal health services, security and water points, as well as support to the private sector for livestock processing, allowing the sector to better respond to the rapidly growing domestic and regional demand for livestock products.

84. **To achieve this objective, the proposed WBG program will build on the ongoing WBG investments currently supporting agricultural productivity,** adding a new regional irrigation operation and a possible new agricultural productivity operation. Ongoing World Bank operations supporting agricultural production include the Agricultural Production Support Project, the Emergency Food and Livestock Crisis Response, and the Regional Sahel Pastoralism Support Project. The Agriculture Production Support Project, approved in 2012, aims to support communities and producer organizations in increasing (i) the production of selected crops and livestock species in targeted areas, and (ii) the use of Sustainable Land and Water Management (SLWM) practices in climate vulnerable ecosystems. The regions targeted by the project focus on high-potential zones in which significant production increases are deemed possible, and in which food security and poverty challenges are high. The spatial targeting was influenced as well by the matrix of donor interventions established to help ensure good coordination between the various projects in the country. To ensure that environmental activities are fully blended with productive investments, support for SLWM practices focuses on the same regions and is expected to have a demonstration effect for other regions. The development objective of the Emergency Food and Livestock Crisis Response project is to improve the availability of and access to food, and improve livestock productive capacity, for Chadian communities affected by the conflict in the Central African Republic, while the Regional Sahel Pastoralism Support Project aims to improve access to essential productive assets, services, and markets for pastoralists and agro-pastoralists. This support is further complemented by an IFC loan to an indigenously-owned Chadian construction company specializing in water-well drilling, drainage, and civil engineering for water resource management, which has resulted in improved rural access to water for human consumption and cattle.

85. **The proposed program will be reinforced** through a regional irrigation operation, together with regional technical assistance for the Lake Chad dialogue, which will focus on the effective transboundary management of this key resource. As ongoing operations mature, a possible new agricultural productivity project will seek to further support an integrated approach to agricultural productivity, market access and value chains, as well as further strengthening resilience to climate change. To help define this integrated approach, cross-sectoral analytical work will be undertaken

with a particular focus on agricultural land rights, productivity and value chains, to form the basis of the next generation of WBG support for agricultural production in Chad.

86. **The three expected outcomes of this objective reflect the goal of enhancing resilient agricultural production.** First, WBG support will lead to increased production of the principal cereal crops (sorghum, millet, maize and rice) in targeted regions, and second, will improve returns to pastoralism, as measured by herd prevalence of Contagious Bovine Pleuropneumonia (CBPP) and post-vaccinal seroprevalence of Small Ruminant Plague (SRP). Third, the resilience of agricultural production will be strengthened through support for improved water management, as measured by the additional land area under SLWM practices.

87. **Objective 2.2: Improved environment for private sector investment.** This objective recognizes the need to improve the business environment to help promote private sector investment, in particular for agricultural productivity and value chains. The Doing Business survey ranked Chad 185th overall out of 189 countries in 2014. Particularly problematic areas for doing business include starting a business, paying taxes, and trading across borders. These constraints are highlighted by private sector organizations, which confirm fiscal and administrative harassment, as well as the many shortcomings of the commercial judicial system. Other important deterrents to private investments mentioned by such organizations include poor infrastructure, in particular energy, trade, and communication, as well as inadequate human capital. Private investment in rural value chains is also constrained by the absence of bankable and secure projects in agriculture and livestock, high fixed costs of banking in relation to the size of the projects, a lack of collateral, widespread informality and ineffective commercial courts.

88. **To achieve this objective, the proposed WBG program will build on ongoing operations** supporting improvements in the regulatory environment for business, building regional connectivity, developing value chains, and supporting leasing. This will be reinforced with support through the proposed DPO for reforms to enhance the business climate, together with new technical assistance for development of a PPP strategy and an energy sector diagnostic, as well as IFC investment in the banking sector. Human capital constraints will be addressed through operations under the third Engagement Theme, in particular for the development of TVET and post-basic skills.

89. **The WBG will continue an investment climate program** supporting the Government in simplifying and streamlining administrative procedures on an indicator-based approach, reinforced through the agreement of related prior actions under the proposed DPO. The proposed program aims to implement reforms in identified priority areas such as business entry, trade logistics, registering property, obtaining construction permits, and enforcing contracts, and has already resulted in the adoption of two decrees to reduce business creation procedures from nine to four and reduce the minimum capital required to register a company, as well as a decree to allow online publication of newly registered companies via a one-stop shop website. In addition, the WBG is supporting the *Organisation pour l'Harmonisation en Afrique du Droit des Affaires* (OHADA) reforms in Chad, which will significantly improve the investment climate of the sixteen member states of the organization. The program will also extend ongoing IFC support for leasing, under which a Leasing Law was endorsed by the National Assembly in December, 2014, and for which supporting texts are currently being finalized.

90. **The ongoing WBG program includes a variety of operations supporting the development of rural value chains and improved connectivity between production zones and markets.** The Value Chain Support Project targets the meat and dairy value chains, and the CEMAC Transport Transit Facilitation Project aims to improve Chad's access to regional trade, while the Central African Backbone Project seeks to extend and reduce the cost of broadband in the region. IFC has also been supporting rural access to telecommunications through direct investments and advisory initiatives. As well as financing for Millicom Chad, IFC's village phone program has covered a total of 263 village phone operators running businesses in rural areas, and provided access to improved telecommunication and financial services for about 50,000 people living in remote areas.

91. **To further facilitate private sector investment, the WBG will work with the Public Private Infrastructure Advisory Facility (PPIAF) to assist the Government in developing a PPP strategy,** as well as a pipeline of potential PPP projects in key infrastructure projects. This support may include the application of the WBG's diagnostic tools to help governments (i) assess the degree of legislative and institutional readiness for PPPs, (ii) prioritize infrastructure projects, and (iii) assess and mitigate the fiscal impact of PPPs. Preliminary discussions with the Chadian authorities focused on the need for a diagnostic of the power utility that could form the basis for implementing a restructuring program. Additional support for private investment will be provided in the form of a new Risk Sharing Facility with ETI (the parent company of Ecobank) supporting commitments to SME banking, under which IFC will provide risk mitigation and guarantee tools for Ecobank Chad.

92. **MIGA will continue to offer in Chad all of its political risk insurance product lines** (transfer restriction, expropriation, breach of contract, and war and civil disturbance). As an IDA country, Chad is a strategic priority country for MIGA, although there are no ongoing or currently planned operations. Through reassuring foreign investors with concerns about governance and political risk, MIGA's product can support private-sector led growth, encouraging participation in public-private projects, as well as supporting investors who may be looking at potential investments both in agriculture and across the private sector more broadly. MIGA's Small Investment Products (SIP), which has streamlined procedures for smaller projects, is also available to investors in Chad.

93. **The expected outcome of this objective reflects the goal of improving the environment for private sector investment,** measured by the number of reforms adopted to improve the business environment for enterprise registration, construction, and cross-border trade.

### **Engagement Theme 3: Building human capital and reducing vulnerability**

94. This theme has three objectives: to improve rural access to reproductive health services; to improve rural access to and quality of education; and to establish a social protection system targeting the most vulnerable households.

95. **Objective 3.1: Improve rural access to reproductive health services.** This objective will seek to build human capital through improving the access of poor households to good quality health care, focusing on reproductive health services. Sickness has high costs for the poor and particularly affects family farmers. Distance to health services is correlated with poverty, not only through the

frequency of consultations but also through the missed days of work associated with longer travelling time. Health crises during the planting season can be particularly devastating, and climate change induced effects, such as higher rates of malaria and diarrheal disease through increased flooding, can be expected to further intensify demands on the health care system. At the same time, high fertility, in part related to limited access to modern family planning, constrains women's health, income generation and labor market participation.

96. **To achieve this objective, the WBG program will continue ongoing operations in health**, in particular the Mother and Child Health Services Strengthening Project, which was approved in 2014 and aims to improve the use and quality of maternal and child health services in targeted areas. The WBG will maintain support for efforts to implement the National Population Policy, in strong partnership with UNFPA and other partners in order to address issues related, among others, to limited use of family planning services, early age at marriage, early childbearing and girls' limited education. It will also continue support for governance and investment to improve access to and quality of primary health care, with a particular focus on maternal health. This will include the strategic management of results in health and nutrition, including through (i) an expansion of Performance Based Financing; (ii) improvements in human resources for health by increasing the number of high-skilled health workers, and helping motivate and retain health workers in Chad through better defined human resource policies; (iii) supporting increases in the availability of quality essential medicines at all levels of the supply chain, with particular attention to facility and community levels; and (iv) strengthening the mobilization of public resources for the health sector in an equitable and sustainable manner. WBG support in health also includes a new IFC investment in the largest private hospital in Ndjamen, allowing the company to extend its healthcare services to new specialties. As the company derives 30 percent of its revenues from health insurance through local major companies, the project will support development of the health insurance market, providing improved access and quality of health services.

97. **Under the recently approved Sahel Women's Empowerment and Demographic Dividend Project** the WBG will support social and behavioral changes to generate demand for Reproductive, Maternal, Neonatal and Child Health and Nutrition (RMNCHN) services, and will strengthen advocacy and political commitment on RMNCHN at regional and national levels. The project will also build regional capacity for availability of RMNCHN commodities and qualified health workers, and strengthen the national policymaking and analytical capacity on demographic dividend issues.

98. **The three expected outcomes of this objective reflect the goal of improving rural access to reproductive health services.** First, support for efforts to implement the National Population Policy will be measured by the number of women of reproductive age using modern methods of family planning. Second, indicators of access to health care services will focus on the number of pregnant women receiving antenatal care during a visit to a health provider, as well as third, the number of births attended by skilled health personnel. As these goals will be achieved through operations that target primarily rural areas, achievement of these indicators will reflect improvements in rural access to these services.

99. **Objective 3.2: Improve rural access to and quality of education.** This objective will seek to build human capital through improving the access of poor households to good quality education.

Improving the quality of education will have an impact on poverty in the longer-run, while post-basic skills, if targeted to the agriculture sector, will have a shorter term impact on poverty.

100. **In education the WBG will continue support at community level to improve the quality of service delivery, to be complemented with a possible operation to improve post-basic skills for employability in rural areas.** Parents and communities play a crucial role in the country's education system. Parents Associations (*Associations des Parents d'Élèves*, APEs) are especially involved in: (i) the construction of new community schools; (ii) the recruitment and management of Community Teachers (CTs) working in both public and community schools; and (iii) the collection of student fees and provision of financial and in-kind support in all types of school. Through the Education Sector Reform Project Phase 2 the World Bank is providing support to improve the quality, performance management and access to resources of APEs to help them play an increasingly stronger role, as well as investing in measures to improve the quality of CTs (75 percent of all primary level teachers).

101. **Early marriage and childbearing limit young women's educational and economic opportunities,** and cause adolescent girls to suffer extreme and disproportionate health and development consequences. An additional year of girl's education in Chad is associated with a reduction of approximately 0.3 births, which in turn improves the likelihood of being active in the labor market and of receiving higher earnings. Additional maternal education is also associated with a higher likelihood of taking iron supplements during pregnancy, of giving birth at a hospital, and of giving birth to a healthier baby, suggesting strong inter-generational effects. The Sahel Women's Empowerment and Demographic Dividend (SWEDE) Project includes support for designing, financing and evaluating country programs in women and girls empowerment, which will capitalize on the law adopted in 2015 establishing eighteen years as the minimum age for marriage.

102. **Through a possible new operation the World Bank will seek to strengthen the provision of TVET and post-basic skills for young people both in and out of school,** thereby helping to both empower young women and address concerns about youth unemployment. Building on the results of recent analytical and policy work on the technical and vocational sector in Chad, this cross-sectoral initiative will involve employers in urban areas, and will support apprenticeships and sector-specific short-term skills development programs in rural areas, to address skills gaps for agricultural productivity and the promotion of increased domestic transformation. The ongoing policy dialogue regarding the need to reform basic education to ensure that the curriculum is preparing students for the transition to work will be further informed by the proposed application of a job diagnostic tool, using multidisciplinary micro and macro level data. In the education sector IFC continues to be engaged through its investment in a Chadian printing company to set up a plant to produce notebooks, exercise books, and schoolbooks. The project has allowed local production at lower cost of previously imported learning materials, with local content adapted to Chadian needs.

103. **The expected outcomes of this objective reflect the goal of improving rural access to and the quality of education,** with a particular emphasis on girls' education. This is captured by the gender-disaggregated primary completion rate in targeted regions, which reflects aspects of both access and quality, and the girls' secondary school drop-out rate. As the regions targeted by the Education Sector Reform Project Phase 2 are predominantly rural, indicators of its outcomes reflect an improvement in access and quality in rural areas.

104. **Objective 3.3: Establish a social protection system targeting the most vulnerable households.** Lack of assets and high exposure to shocks leaves little choice to poor households but to engage in low return but relatively secure activities and strategies which do not offer significant opportunities to escape poverty. It also leaves households exposed to the high cost of health care which can result either in sub-optimal usage rates or severe financial consequences. Conflict and climatic shocks affect all households, but poor households have less means to mitigate their impact, aggravating inequalities in rural areas. Forced displacement creates further challenges, including the pressure it places on host communities. Cash transfer programs can increase and sustain higher savings and investment rates of beneficiaries, and simple transfer mechanisms can constitute an effective channel of fiscal redistribution. Social protection mechanisms can help the most vulnerable households to cope with the consequence of risks, and stimulate risk taking and entrepreneurship.

105. **The Government has asked for WBG support in implementing the Social Protection Strategy approved in July 2015,** following a forum on social protection and safety nets held in Ndjamena. The Forum concluded that while Chad has a wide range of social protection tools, these are strongly oriented towards emergency response, with relatively weak mechanisms for coordination between programs, and graduation mechanisms almost nonexistent. The Forum agreed that the immediate challenge is to move towards a sustainable social safety net system consisting of a set of predictable devices, well-coordinated and able to support households in reducing their vulnerabilities, enhancing their livelihoods and ultimately in supporting their exit from poverty.

106. **To achieve this objective the WBG will work to reinforce social protection mechanisms in Chad.** It will support a move from an approach that is focused on short term risk management managed by international organizations to one that focuses on longer term resilience managed by adaptable national systems, based on targeting and registration of households, pilot safety net schemes, and including a strong monitoring component. The proposed safety nets program will build on the results of a pilot project that will trial the effectiveness and efficiency of a number of approaches to social protection in Chad, drawing on regional technical assistance to help establish a safety net system through the Sahel Adaptive Social Protection Program. The program will be further informed by the Chad country study to be conducted under the Lake Chad Basin Forced Displacement Regional TA, which will help identify the mechanisms best suited to respond to the needs of displaced groups and their host communities. Outstanding issues include the trade-off between targeting efficiency and high coverage; and different targeting methodologies including geographical, proxy means testing, and community-based targeting mechanisms. The safety net program will include the design of a Management Information System (MIS) to support the implementation of two safety nets pilots (cash-for-work and cash transfers), and will facilitate the collection, registration, process management, and dissemination of the data essential for the operations. The MIS will be developed, tested and adjusted as the two sub-components are being designed and implemented, with a view to its use for a large national safety net program.

107. **The expected outcome of this objective is the establishment of a new social safety net system** as measured by the number of households entered into the new social protection system.

## H. Implementing the FY16-20 Country Partnership Framework

108. **The indicative resources currently available to Chad from IDA17 amount to \$105 million.** The proposed use of these resources (net of the amount already committed) together with proposed IFC and Trust Fund investments in FY16-17 is shown in Table 6. Beyond FY17, the amount of financing available under IDA18 will be determined by, among other things, the size of the IDA replenishment envelope and relative country performance.<sup>14</sup> In addition to the IDA allocation, the Bank will strategically draw on other resources, including:

- Regional Programs, in particular under the Sahel Initiative;
- Collaboration with the IFC, in particular to support investment in agricultural productivity and value chains;
- Collaboration and partnerships with UN agencies and other development partners, including non-traditional donors such as Arab funds and development institutions; and,
- Trust-Funds and resources to support the knowledge agenda.

109. **To achieve the objectives of the FY16-20 CPF given available IDA resources, it will be essential to take full advantage of opportunities for collaboration and partnerships with other development partners,** and to leverage WBG support to complement and strengthen Government programs, including where feasible through policy reforms targeted at key constraints to poverty reduction. In this regard, Chad’s development partners have identified the need to strengthen coordination, not only by joining forces through parallel or co-financing of initiatives of common interest and insufficient funding, but also to strengthen and take advantage of high-performing project units integrated within relevant line-Ministries. For example, a single project unit is effectively providing services to all donors engaged in infrastructure and transport, and the local donors’ committee is seeking to replicate the approach for other sectors.

**Table 6: Indicative CPF Financing Program FY16-17**

| CPF Financing Program   | Source of Financing<br>(USD million) |     |    | FY   |
|---|--------------------------------------|-----|----|------|
|   | IDA                                  | IFC | TF |      |
| <b>Engagement Theme 1: Strengthening Management of Public Resources</b>               |                                      |     |    |      |
| DPO   | 50                                   |     |    | FY16 |
| Enhanced capacity towards sustainable petroleum sector management                     |                                      |     | 3  | FY16 |
| Poverty surveys and tools to monitor poverty on a high-frequency basis                | 3                                    |     |    | FY17 |
| <b>Engagement Theme 2: Improving Returns to Agriculture and Building Value Chains</b> |                                      |     |    |      |
| Risk Sharing Facility with ETI  |                                      | tbc |    | FY16 |
| <b>Regional*</b>  |                                      |     |    |      |
| Sahel Irrigation  | 10                                   |     |    | FY17 |
| <b>Engagement Theme 3: Building Human Capital and Reducing Vulnerability</b>          |                                      |     |    |      |
| Safety Nets   | 5                                    |     | 5  | FY17 |

\*As a regional operation, the Sahel Irrigation Project is expected to receive additional financing from the Regional IDA window.

<sup>14</sup> Actual IDA allocations will depend on: (i) the total IDA resources available; (ii) Chad’s performance rating, per capita GNI, and population; (iii) the terms of IDA assistance (grants/credits); (iv) the allocation deductions associated with MDRI annual debt service foregone as applicable; (v) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (vi) the number of IDA-eligible countries.

110. **At the local level, there are opportunities to work with community-based organizations,** such as school parent associations/school management committees, farmers' organizations, and village-level associations focused on managing shared local infrastructure. Working with community-based organizations will respond to views expressed during the SCD consultations that local accountability mechanisms help ensure better governance in the use of public resources, a lesson corroborated by recent Bank engagement, and will complement ongoing efforts by other development partners to build local government capacity. Working at a community level will require a balance of building capacity to enable management of resources, while simultaneously providing some finance while capacity is being built. It will also require the identification and training of intermediary, non-governmental bodies to help manage the challenges of interacting with multiple small recipients of funding.

111. **To assist in strengthening accountability and transparency for better service delivery at the local level,** the WBG will continue to consult with national members of the Parliamentary Network on the World Bank to reinforce the role of elected representatives in oversight of the implementation of the CPF. At the local level, insufficient capacity of communities to develop strategies, implement projects and settle disputes are a major constraint to improved governance, reflecting both a pure capacity issue and the lack of sufficient social accountability mechanisms. Implementation capacity needs to be strengthened at local levels, where there may be greater scope for improved governance through social accountability (including dispute settlement mechanisms) than at the central level where accountability to beneficiaries is less direct. Similarly, initiatives to strengthen governance in service delivery sectors that operate at the local level (agriculture, water, education, health, local electricity mini grids) may have greater chances of succeeding than those directed towards institutions which do not operate at local levels.

112. **Based on the 2015 review of the fiduciary performance and execution modalities of projects and programs financed by the World Bank in Chad,** modalities that will be employed to strengthen implementation of the CPF include:

- Establishment of an Immediate Response Mechanism to accelerate response to crises;
- Integration of Project Implementation Units into line-Ministries, allowing civil servants to work on Bank-financed projects as part of a capacity building scheme and building sectoral implementation capacity and steering committees to manage and oversee all donor-supported activities within a sector;
- Gradual implementation of the use of country Financial Management (FM) systems in investment lending;
- Possible establishment of a central project support taskforce, with the necessary skills-mix to perform fiduciary and procurement tasks for all projects, based at either the Ministry of Finance or the Ministry of Planning, subject to further discussion with the Government;
- Inclusion of Results-Based or Performance-Based Financing in project design whenever possible, with performance-based contracts for project personnel;
- Reinforcement of the aid management system installed with the support of UNDP, incorporating a Geographic Information System (GIS) to track progress on project implementation and geographic coverage by sector and intervention;
- Inclusion of a beneficiary feedback mechanism in all operations, using mobile devices to the extent possible, linked to the proposed GIS interface.

113. **To address the limited visibility of Bank involvement in Chad it will also be important to implement a more effective communications strategy** that highlights progress and success stories, and promotes citizen participation to document beneficiary feedback.

#### IV. MANAGING RISKS TO THE CPF PROGRAM

114. **The risks to implementation of the proposed WBG program are discussed below based on the Systematic Operations Risk-Rating Tool (SORT).** Under each category identified by SORT, risks are assessed based on their impact on development results associated with the proposed operational engagements. While such risks are substantial in almost all categories, governance, macroeconomic, institutional capacity and fiduciary concerns are rated as presenting the highest risks to successful implementation of the CPF.

##### *Political and Governance*

115. **Chad's strong political leadership is associated with weak formal institutions, presenting a significant risk for the successful implementation of WBG-supported operations under the CPF program.** In Chad's fragile context, political stability is linked to the concentration of resources, rather than through institutional development and improved public service delivery. This is associated with a lack of transparency in tax collection and public procurement, as well as substantial subsidies and tax exemptions granted to select groups. Frequent turnover in the appointment of high-level public officials poses a significant cost in terms of policy continuity. Chad's governance indicators<sup>15</sup> (rule of law, voice and accountability, stability, control of corruption, regulatory capacity, government effectiveness) were lower by end-2013 than in 2003, and much lower than the Sub-Saharan average.

116. **Regional instability presents substantial risks to the Government's ability to implement its development program, including operations supported by the WBG.** Since late 2013 Chad has played host to tens of thousands of refugees who have fled the fighting in the neighboring Central African Republic. In 2015, Chad joined a regional coalition in confronting the Boko Haram insurgency, and suffered reprisals on Chadian territory. Continued participation in regional security groupings and further international assistance are essential to ensure that Chad is able to continue to withstand further attacks.

##### *Macroeconomic*

117. **The Chadian economy is heavily dependent on oil exports. Any negative shock to oil prices has a significant impact on revenues, and the Government's ability to maintain the pro-poor spending necessary to achieve the goals of the NDP and CPF program.** Continued commodity (oil) price volatility, and the contractionary impact of fiscal consolidation on non-oil revenue collection would affect both Government revenue and ability to finance planned expenditures without resorting to arrears accumulation. These risks would be further accentuated by a deterioration in domestic or regional security, entailing higher security expenditures and a negative

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<sup>15</sup> WBG Worldwide Governance Indicators

impact on trade. Low fiscal buffers and limited room for policy adjustment would not allow Chad to attenuate the impact of such risks.

### *Sector Strategies and Technical Design of Program*

118. **The March 2015 JSAN concluded that Chad's National Development Plan for the period 2013-2015 NDP was satisfactorily implemented in 2013.** By end-2013, around two thirds of strategic indicators were in line with retained targets. While at an early stage of development, the forthcoming Chad Five-Year Development Plan for 2016-2020 is expected to focus on strategic themes of the previous NDP 2013-2015 for which targets have yet to be fully achieved. In particular, the Government has indicated that these will include efforts to improve governance and productivity, build human capital, and reduce inequality, themes which relate closely to the analysis of constraints to poverty reduction presented in the SCD, and are reflected in the program proposed by the CPF.

### *Institutional Capacity for Implementation and Sustainability*

119. **Chad's ability to manage scarce public resources effectively directly impacts implementation of the WBG program, and faces risks from number of quarters.** First, security spending is high and diverts resources from other public goods and services. From 1-2 percent of GDP before 2003, security spending rose to 7-8 percent of GDP in 2006-2008, before returning to about 3 percent of GDP from 2011. Second, significant resources are estimated to be lost due to: (i) the prevalence of high diversion in tax collection (at customs in particular), and lucrative cross-border trafficking, (ii) the inefficient use of public funds through single sourcing and non-transparent public procurement, and (iii) substantial subsidies and exemptions granted to selected groups. The frequent turnover of high-level public officials, ministers and high-ranking civil servants has a significant cost in terms of policy continuity. Chad was ranked last (out of 178 countries) in terms of public administration capacity (Fund for Peace, 2014). Country Policy and Institutional Assessments (CPIAs) portray the same picture, with no public sector management and institutions indicator exceeding 2.5 points (in a range of 1 to 6) in 2013.

### *Fiduciary*

120. **The 2015 review of the fiduciary performance of projects financed by the World Bank in Chad identified a number of risks to both procurement and financial management** which directly impact implementation of the WBG program. Performance under the ISN FY11-12 was subject to low disbursement rates and irregularities, including the misuse of funds, ineligible expenditures, and misprocurement. Prior to the period of the ISN, the World Bank's departments of Finance and Accounting, and Institutional Integrity (INT) opened four investigations into allegations of fraud and/or corruption in Chad between 2004 and 2009. During the period of the ISN, INT received two complaints, neither of which merited further investigation. In addition to the cases referred to INT, the WBG FM team investigated three further complaints of fraud and/or corruption.

121. **A review of project implementation arrangements highlighted the following key issues and constraints:** (i) insufficient and low capacity human resources in the accountancy profession;

(ii) the ring-fencing of World Bank operations means the financial controller and other state institutions of control do not review project expenditures or accounts; and (iii) the lack of effective coordination and monitoring of project execution by the relevant line ministries. The situation is aggravated by the lack of WBG team leaders and FM staff based in the country office, which negatively impacts capacity to closely monitor project implementation and provide guidance to project teams. Starting in 2016, implementation of the new World Bank procurement framework may open new opportunities for addressing key challenges in the Chad portfolio, including the possibility of more hands-on support from Bank staff.

### *Environmental and Social*

122. **Climate change poses a substantial risk to rural development strategies and policies, including achievement of the development objectives of WBG support to enhance agricultural productivity under the CPF program.** Average temperature has already risen by 0.8°C since 1975 and is projected to continue rising. Rainfall was significantly higher between 2000-2010 than in the 1980's, although it has not recovered to levels experienced fifty years ago. Projections of future rainfall vary, with some scenarios predicting a slight increase in rainfall. Chad is also vulnerable to flooding. Heavy rains in early August 2012 caused flooding in many parts of the country, affecting some 700,000 people. The future risk of such extreme events is inherently difficult to predict but clearly remains significant. Chad is also susceptible to drought. During 2009, the lack of rain and subsequent crop failure left the central area of Chad in a critical situation of food insecurity. In 2010, five regions of the country were affected. Resources were already scarce, and the drought was intensified by poor infrastructure, such as a lack of wells.

123. **Greater variability in rainfall, more intense rainfall events,** combined with rising temperatures will have significant impacts on agriculture and food security. Rural households are particularly vulnerable to climatic shocks, reflecting the widespread dependence on rain-fed agriculture. Further, as a result of climate change, transhumant herds need to travel further south and earlier in the year to feed, significantly contributing to rising levels of conflict between pastoralists and farmers.

### *Stakeholders*

124. **Both the SCD and the draft CPF were discussed and validated through consultations with stakeholders in civil society, the private sector and Government, as well as with elected officials and development partners.** These consultations included associations from Ndjamen and surrounding regions, covering a broad spectrum of civil society associations (teachers, women, disabled people, orphans, pharmacists, midwives, and veterinarians, among others). The CPF reflects the concerns of these stakeholders regarding the importance of increasing transparency in public financial management, and of involving local governments and community groups in project implementation to reinforce accountability. Elected representatives were appreciative of continuing WBG efforts to consult them, and recommended the further use of the Parliamentary Network on the World Bank to increase accountability in the delivery of the program. Private sector participants highlighted the crucial importance of justice and security for the business environment, and the need to ease legal restrictions on land ownership for agricultural production. Development partners noted

that coordination is particularly important regarding the policy dialogue linked to development policy operations.

*Other*

125. **The CPF recognizes a number of knowledge gaps that were highlighted in the SCD,** related to both data (including the need to update poverty data through consumption surveys focusing on agricultural activities), and analytical gaps (in particular on local government capacity, access to energy services, and the establishment of a PPP framework). Given the risks that these gaps pose to the ability to design, monitor and adapt activities to achieve the objectives of the CPF program, a knowledge agenda is proposed to help address these gaps as summarized in Table 5.

*Mitigating Risks to the proposed WBG Program*

126. **The assessment of risks described above is summarized in Table 7, which indicates that the overall risk to successful implementation of the proposed WBG program is high.** The first step in mitigating these risks was the analysis presented in the SCD of the political feasibility and implementation capacity of addressing constraints to poverty reduction, which was taken into account in defining the proposed WBG program, and was a factor in identifying a few constraints that will not be tackled (see Tables 2 and 4). Nevertheless, governance, fiduciary, and institutional capacity risks to the program remain high.

127. **These risks will be tackled through a combination of the choice of activity to be supported, and the design of implementation mechanisms.** Regarding the choice of activity, the proposed program continues to place significant emphasis on improving the effectiveness of PFM and increasing transparency through access to data. In designing implementation mechanisms for sectoral interventions, particular emphasis will be given to working with community-based organizations, responding both to recommendations from the SCD consultations that local accountability mechanisms are more effective, as well as to lessons from recent Bank engagement. A number of measures will be adopted to mitigate fiduciary risks, including: (i) integration of project implementation units into line ministries, to bring them within the ambit of the Government's institutions of control, and allowing civil servants to work on Bank-financed projects as part of a capacity building scheme; (ii) gradual implementation of use of country financial management systems in investment lending; (iii) possible establishment of a central project support taskforce, with the necessary skills mix to perform fiduciary and procurement tasks for all projects; and (iv) inclusion of Results-Based or Performance-Based Financing in project design whenever possible. As discussed above, climate change poses a particular risk for rural development and agricultural operations, and the need to strengthen resilience will be a central concern in their design.

**Table 7: Standardized Operations Risk-Rating Tool for Chad**

| <b>Risk Categories</b>                                       | <b>Rating</b> |
|--|---------------|
| Political and governance                                     | High          |
| Macroeconomic  | High          |
| Sector strategies and policies                               | Moderate      |
| Technical design of project or program                       | Moderate      |
| Institutional capacity for implementation and sustainability | High          |
| Fiduciary  | High          |
| Environment and social                                       | Substantial   |
| Stakeholders   | Moderate      |
| Other  | Substantial   |
| <b>Overall</b>   | <b>High</b>   |

128. **While the WBG remains committed to supporting program implementation in Chad, the security environment is expected to remain challenging.** Risks for effective implementation and the safety of government, project and WBG personnel will be closely monitored. Moving implementation closer to communities brings heightened security risks, while promising improved longer-term stability. Continued government commitment to implement programs with support from national and international non-governmental partners will be essential. The WBG will discuss with the Government how to proceed should security conditions deteriorate, but overall the potential rewards of engaging in this high risk environment outweigh the risks of taking no action to strengthen management of public resources for inclusive growth, to improve rural livelihoods and reduce vulnerability in Chad.

## ANNEX 1: RESULTS MONITORING MATRIX

|   |
|---|
| <b>Engagement Theme 1: Strengthening management of public resources</b>   |
| <p><b>With a significant financing gap in 2015, there is an urgent need to strengthen public financial management for more inclusive growth.</b> Combined with declining oil prices, Chad's expenditure on regional security is placing pressure on the government's budget. While politically challenging, as highlighted by the SCD, the risks of ignoring weak PFM systems appear greater than the risks of tackling these and failing. Continued attention will need to be paid to conditions for peace and stability given the highly fragile regional security environment, but at the same time the cost of maintaining stability will need to be kept under control. Factors causing weak public resource management include limited capacity to manage oil and gas resources, inadequate non-oil resource mobilization, high budget volatility, insufficient integration of current and capital expenditure, and excessive concentration of spending leading to ineffective and inefficient pro-poor spending.</p> <p><b>Complementary efforts are also necessary to raise demand for good governance and executive accountability, through improved transparency in public resource management and procurement.</b> Ongoing efforts to computerize the public expenditure chain and adopt a transparency code provide the opportunity to strengthen transparency in public financial management, through making data available to interested bodies.</p> <p>The CPF Objectives under this theme are aligned with the Government's goal of improving governance.</p>   |
| <b>CPF Objective 1.1: More effective and transparent public financial management</b>  |
| <p><b>To achieve this objective, the WBG program will include technical assistance accompanied by possible DPOs.</b> Ongoing technical assistance includes support for capacity building in public financial management including procurement reform, and transparency through engagement with civil society organizations. This will be supplemented with further technical assistance for (i) a repeat PEFA assessment during the CPF period to guide the direction of PFM reforms, and (ii) information about budgetary allocations at a local level, complemented on the analytical side with an assessment of local capacity for the provision of services, project implementation, participatory budgeting, and the redress of grievances.</p> <p><b>There are three expected outcomes of this objective.</b> WBG support will lead to more effective financial management, as measured by a reduction in the share of domestically financed spending executed through extraordinary budget procedures, and a reduction in the stock of public expenditure arrears as a percentage of total public expenditure. This will be accompanied by greater transparency as measured (either formally under the PEFA Secretariat or by the WBG) by the PEFA Indicator 5 (PEFA PI-5) rating of published budget documentation.</p> <p><b>The main on-going WBG intervention in the area of public resource management is the Public Financial Management Capacity Building Project (P090265).</b> Effective from April 2009 the project aims to improve the quality of Chad's PFM system to increase the efficient and transparent use of public resources, in particular oil revenue. This was in line with the core intervention logic set out in the FY04-06 CAS. The project has been supplemented by technical assistance for capacity building in national statistics, PFM systems and support to the Government in preparing for HIPC.</p> <p><b>Knowledge gaps identified in the SCD to be addressed under this objective include high quality information on poverty dynamics,</b> which will be addressed through consumption surveys, with a strong focus on the agricultural sector, complemented by IT-based, higher frequency light surveys.</p> |

| CPF Objective indicators  | Supplementary Progress Indicators   | WBG Ongoing Program   | WBG Planned Program  |
|---|---|---|--|
| <p><i>Indicator 1.1.1</i><br/>Share of domestically financed spending (excluding wages, debt service and security costs) executed through extraordinary budget procedures (percent)<br/><i>Baseline: 12.4</i><br/><i>Target: &lt;10 (2017)</i></p> <p><i>Indicator 1.1.2</i><br/>Stock of public expenditure arrears over total public expenditure (commitment basis)<br/><i>Baseline: 3.4</i><br/><i>Target: &lt; 3.0 (2019)</i></p> <p><i>Indicator 1.1.3</i><br/>PEFA PI-5 rating of published budget documentation:<br/><i>Baseline: C (2009)</i><br/><i>Target: B (2019)</i></p>   | <p><i>Progress Indicator 1.1.1</i><br/>Integrated Financial Management Information Systems operational<br/><i>Baseline: 0 Target: 1 (2019)</i></p> <p><i>Progress Indicator 1.1.2</i><br/>Third-party high frequency welfare and service delivery monitoring system established<br/><i>Baseline: 0 Target: 1 (2018)</i></p> | <ul style="list-style-type: none"> <li>• Public Financial Management Capacity Building (P090265)</li> <li>• Strengthening CSOs (P129137)</li> </ul> | <ul style="list-style-type: none"> <li>• Possible DPOs</li> <li>• TA for PEFA assessment, PFM data on local budget allocations, and local government capacity assessment</li> <li>• TA for poverty surveys and tools to monitor poverty on a high-frequency basis</li> </ul> |
| <b>CPF Objective 1.2: Develop capacity for more effective management of hydrocarbon resources</b>   |   |   |  |
| <p><b>To achieve this objective, the WBG program will include ongoing and new technical assistance to strengthen the management of hydrocarbon resources.</b> Ongoing EITI post-compliance technical assistance will be complemented with new technical assistance to strengthen capacity for sustainable petroleum sector management</p> <p><b>The expected outcome of this objective is improved capacity in the petroleum sector for more transparent and effective management of hydrocarbon resources,</b> as indicated by the share of Petroleum Ministry staff trained to monitor contractual and regulatory compliance of petroleum field development operations, and annual public reporting on petroleum revenues (audited, current and forecasts).</p> <p><b>Ongoing EITI post-compliance technical assistance</b> seeks to further strengthen the capacity of the multi-stakeholder group, comprising representatives of government, civil society and extractive companies.</p> <p><b>To build capacity for the management of hydrocarbon resources,</b> support will be provided to finance a training program for Government officials to: (i) assess and manage hydrocarbon reserves; (ii) supervise field operations and ensure contract compliance; (iii) forecast and manage oil revenues; and (iv) align the regulatory framework and model contract with international best practices.</p> |   |   |  |

| CPF Objective indicators   | Supplementary Progress Indicators   | WBG Ongoing Program   | WBG Planned Program  |
|--|---|---|--|
| <p><i>Indicator 1.2.1</i><br/>Petroleum Ministry staff (percent) trained to monitor contractual and regulatory compliance of petroleum field development operations:<br/><i>Baseline: 0 Target: 75 (2017)</i></p> <p><i>Indicator 1.2.2</i><br/>Annual public reporting on petroleum revenues (audited, current and forecasts):<br/><i>Baseline: 0 Target: 1 (2017)</i></p>  | <p><i>Progress Indicator 1.2.1</i><br/>Guidance note on effective stakeholder engagement adopted and published.<br/><i>Baseline: 0 Target: 1 (2017)</i></p> | <ul style="list-style-type: none"> <li>EITI Post-Compliance Phase 1 TA</li> </ul> | <ul style="list-style-type: none"> <li>TA for petroleum sector management</li> <li>Possible TA for EITI Post-Compliance Phase 2</li> </ul> |
| <b>Engagement Theme 2: Improving returns to agriculture and building value chains</b>  |   |   |  |
| <p><b>Recognizing that more than 90 percent of the poor in Chad live in rural areas, this theme addresses a number of constraints that reduce returns to agriculture and limit investment in the sector</b>, including the lack of effective extension and animal health services, limited access to improved seeds, and the need for investments aimed at improving water and land management, which both increase yields and reduce vulnerability to climate-related risks. It recognizes the need to adopt an integrated approach to agricultural productivity, market access and value chains, for which it will be necessary to support the organization and integration of poor farmers and herders around market-based clusters in value chains, and reduce the constraints to private investment. Particularly problematic areas for doing business include starting a business, paying taxes and trading across borders. Other important deterrents include poor infrastructure and inadequate human capital, as well as the absence of bankable and secure projects in agriculture and livestock, high fixed costs of banking in relation to the size of the projects, absence of collateral, widespread informality and ineffective commercial courts.</p> <p>The CPF Objectives under this theme are aligned with the Government’s goal of increasing productive capacity.</p> |   |   |  |
| <b>CPF Objective 2.1: More productive and resilient agriculture</b>  |   |   |  |
| <p><b>To achieve this objective, the proposed WBG program will build on ongoing World Bank and IFC investments</b> currently supporting agricultural productivity, adding a new regional irrigation operation, and a possible new agricultural productivity operation.</p> <p><b>The three expected outcomes of this objective reflect the goal of enhancing resilient agricultural productivity.</b> First, WBG support will lead to increased production of the principal cereal crops (sorghum, millet, maize and rice) in targeted regions, and second, it will reduce herd prevalence of contagious bovine pleuropneumonia (CBPP) and post-vaccinal seroprevalence of small ruminant plague (SRP). Thirdly, the resilience of agricultural production will be strengthened through support for improved land and water management, as measured by additional land area under Sustainable Land and Water Management (SLWM) practices.</p>  |   |   |  |

**The criteria that shape the existing agriculture portfolio in Chad stem from the FY04-06 CAS and the 2010-2012 ISN**, which included a focus on improving the effective usage of oil revenues as well as the development of non-oil economic opportunities. The Agriculture Production Support Project, approved in 2012, aims to support communities and producer organizations in increasing (i) the production of selected crops and livestock species in targeted areas, and (ii) the use of Sustainable Land and Water Management (SLWM) practices in climate vulnerable ecosystems. The regions targeted by the project focus on high-potential zones in which significant production increases are deemed possible, and in which food security and poverty challenges are high. The spatial targeting was influenced as well by the matrix of donor interventions established to help ensure good coordination between the various projects in the country. To ensure that environmental activities are fully blended with productive investments, support for SLWM practices focuses on the same regions and is expected to have a demonstration effect for other regions. This support is further complemented by IFC investment in construction services for water-well drilling, drainage, and environmental management.

**Key criteria that underpin the WBG’s approach for the FY16-20 period include:** (i) prioritisation of cereal crops and livestock; (ii) an integrated approach to productivity, value chains and market access; and (iii) the need to continue to work at community and local levels to strengthen accountability. The program’s support for improved water management will be reinforced through the regional irrigation operation currently under preparation, together with regional technical assistance for the Lake Chad dialogue, which will focus on the effective transboundary management of this key resource. As ongoing operations mature, a possible new agricultural productivity project will seek to further support an integrated approach to agricultural productivity and value chains, as well as further strengthening resilience to climate change. To help define this integrated approach, cross-sectoral analytical work will be undertaken to form the basis of the next generation of WBG support for agricultural production in Chad, focusing on constraints to investment in agricultural productivity, including land rights and conflicts.

| CPF Objective indicators  | Supplementary Progress Indicators  | WBG On-going Program   | WBG Planned Program  |
|---|--|--|--|
| <p><i>Indicator 2.1.1</i><br/>Volume of production of sorghum, millet, maize and rice by beneficiaries in targeted regions (tons)<br/><i>Baseline:</i> 759,800<br/><i>Target:</i> 905,900 (2017)</p> <p><i>Indicator 2.1.2</i><br/>Herd prevalence of CBPP and post-vaccinal seroprevalence of SRP (percent)<br/><i>Baseline:</i> 80 (CBPP) 30 (SRP)<br/><i>Target:</i> 50 (CBPP) 45 (SRP) (2019)</p> | <p><i>Progress Indicator 2.1.1</i><br/>Number of community projects financed on productive assets, rural infrastructure, and SLWM (of which women’s groups)<br/><i>Baseline:</i> 0 <i>Target:</i> 490 (160) (2017)</p> <p><i>Progress Indicator 2.1.2</i><br/>Share of animals vaccinated against CBPP and SRP (percent)<br/><i>Baseline:</i> 10 (CBPP) 0 (SRP)<br/><i>Target:</i> 30 (CBPP) 15 (SRP) (2019)</p> | <ul style="list-style-type: none"> <li>• Ag. Production Support Project (P126576)</li> <li>• Regional Sahel Pastoralism Support Project (P147674)</li> <li>• Emergency Food and Livestock Crisis Resp (P151215)</li> <li>• Geysers SA (IFC)</li> </ul> | <ul style="list-style-type: none"> <li>• Possible agricultural productivity project</li> <li>• Sahel Regional Irrigation Initiative Project (P154482)</li> <li>• Regional TA for Lake Chad Policy Dialogue</li> <li>• Agricultural land rights and conflicts, productivity and investment ESW</li> </ul> |

|  |   |   |  |
|--|---|---|--|
| <p><i>Indicator 2.1.3</i><br/>Additional area (ha) under SLWM practices<br/><i>Baseline: 0 Target: 6000 (2017)</i></p>   |   |   |  |
| <p><b>CPF Objective 2.2: Improved environment for private sector investment</b></p>  |   |   |  |
| <p><b>To achieve this objective, the proposed WBG program will build on ongoing operations supporting improvements in the regulatory environment for business, building regional connectivity, developing value chains in the livestock sector, and supporting leasing.</b> This will be reinforced with support through the proposed DPO for reforms to enhance the business climate, together with new technical assistance for development of a PPP strategy and an energy sector diagnostic, and IFC investment in the banking sector.</p> <p><b>The expected outcome of this objective reflects the goal of improving the environment for private sector investment</b> as indicated by the number of reforms adopted for enterprise registration, construction and cross-border trade.</p> <p><b>The WBG will continue an investment climate program</b> supporting the Government in simplifying and streamlining administrative procedures on an indicator-based approach. The proposed program aims to implement reforms in identified priority areas of the investment climate such as business entry, trade logistics, registering property, obtaining construction permits, and enforcing contracts. Through the leasing program currently under implementation a Leasing Law was endorsed in 2014, and additional supporting texts are being finalized.</p> <p><b>The ongoing program also includes support for the development of agro-pastoral value chains through the Value Chain Support Project, and improved connectivity between production zones and markets</b> through the CEMAC Transport Transit Facilitation Project, which aims to improve Chad's access to regional trade, and the Central African Backbone Project, which aims to extend and reduce the cost of broadband in the region, as well as IFC investment in telecommunications.</p> <p><b>To further facilitate private sector investment, the WBG will work with the PPIAF to assist the Government in developing a PPP strategy,</b> as well as a pipeline of potential PPP projects in key infrastructure projects. Preliminary discussions with the Chadian authorities focused on the need for a diagnostic of the power utility that can be the basis for implementing a restructuring program.</p> <p><b>Key criteria that underpin the WBG's approach for the FY16-20 period</b> include the need to improve the business environment to help promote private sector investment, in particular for agricultural productivity and value chains.</p> |   |   |  |
| <p><b>CPF Objective indicators</b></p>   | <p><b>Supplementary Progress Indicators</b></p> | <p><b>WBG On-going Program</b></p>  | <p><b>WBG Planned Program</b></p>  |
| <p><i>Indicator 2.2.1</i><br/>Number of reforms adopted to improve the business environment for enterprise registration, construction and cross-border trade<br/><i>Baseline: 0 Target: 8 (2017)</i></p>   |   | <ul style="list-style-type: none"> <li>• Investment climate TA</li> <li>• Leasing investment (IFC)</li> <li>• Value Chain Support Project (P133021)</li> <li>• 3A-CEMAC Transp Transit Facil (P079736)</li> <li>• AFR:Central African Backbone - APL1A (P108368)</li> </ul> | <ul style="list-style-type: none"> <li>• Possible DPO</li> <li>• PPP framework (IFC and WB)</li> <li>• Energy sector diagnostic (IFC)</li> <li>• Risk Sharing Facility with ETI (IFC)</li> </ul> |

|   |   |  |
|---|---|--|
|   | <ul style="list-style-type: none"> <li>• Millicom Chad (IFC)</li> </ul> |  |
| <b>Engagement Theme 3: Building human capital and reducing vulnerability</b>  |   |  |
| <p><b>The proposed WBG program will contribute to building human capital and reducing vulnerability to alleviate poverty</b>, through three objectives.</p> <p><b>The first objective seeks to improve the access of rural households to reproductive health services.</b> Sickness has high costs for the poor and particularly affects family farmers. At the same time, high fertility constrains women’s health and labour market participation.</p> <p><b>The second objective aims to improve rural access to and quality of education</b>, with a focus on primary education, reducing the drop-out rate of girls from secondary school, and post-basic skills. Improving the quality of education will have an impact on poverty in the longer-run, while TVET and post-basic skills, if targeted to the agriculture and livestock sectors, will have a more immediate impact on poverty.</p> <p><b>The third objective aims to establish a social protection system targeting the most vulnerable households.</b> Lack of assets and high exposure to shocks leaves little choice to poor households but to engage in low return but relatively secure activities and strategies which do not offer significant opportunities to escape poverty. Forced displacement creates further challenges. Social protection mechanisms can help the most vulnerable households to cope with the consequence of risks, and stimulate risk taking and entrepreneurship.</p> <p>The CPF Objectives under this theme are aligned with the Government’s goals of human capital development and the fight against inequality.</p>   |   |  |
| <b>CPF Objective 3.1: Improve rural access to reproductive health services</b>  |   |  |
| <p><b>To achieve this objective, the WBG program will build on the ongoing operation in health and the Regional Sahel Women’s Empowerment and Demographic Dividend Project.</b> The three expected outcomes of this objective reflect the goal of improving access to and the quality of basic human development services in rural areas, with an emphasis on maternal health care. Support for efforts to implement the National Population Policy will be measured by the number of women of reproductive age using modern methods of family planning. Indicators of access to health care services will focus on the number of pregnant women receiving antenatal care during a visit to a health provider, and the number of births attended by skilled health personnel. As the regions targeted by WBG interventions are predominantly rural, indicators of their outcomes reflect an improvement in rural access to reproductive health services.</p> <p><b>Key criteria that underpin the WBG’s approach include a strong focus on access to basic services for women and girls.</b> The Mother and Child Health Services Strengthening Project was approved in 2014 and aims to improve the use and quality of maternal and child health services in targeted areas. The Regional Sahel Women’s Empowerment and Demographic Dividend Project provides support to increase demand for Reproductive, Maternal, Neonatal and Child Health and Nutrition (RMNCHN) services, and the availability of RMNCHN commodities and midwifery skills. The portfolio also includes the health country status report, aimed at building the knowledge base for health service provision, and IFC investment in private health care provision.</p> |   |  |

| CPF Objective indicators   | Supplementary Progress Indicators   | WBG On-going Program   | WBG Planned Program |
|--|---|--|---------------------|
| <p><i>Indicator 3.1.1:</i><br/>Women of reproductive age in targeted regions using modern methods of family planning<br/><i>Baseline:</i> 7,916<br/><i>Target:</i> 14,000 (2018)</p> <p><i>Indicator 3.1.2:</i><br/>Pregnant women in targeted regions receiving antenatal care during a visit to a health provider<br/><i>Baseline:</i> 48,300<br/><i>Target:</i> 80,000 (2018)</p> <p><i>Indicator 3.1.3:</i><br/>Births (deliveries) in targeted regions attended by skilled health personnel<br/><i>Baseline:</i> 20,836<br/><i>Target:</i> 35,000 (2018)</p>  | <p><i>Progress Indicator 3.1.1:</i><br/>Community Health Workers trained for delivering an integrated preventive and curative package at household level<br/><i>Baseline:</i> 0, <i>Target:</i> 500 (2018)</p> <p><i>Progress Indicator 3.1.2:</i><br/>Health facilities reporting monthly activities using standard report forms (percent)<br/><i>Baseline:</i> 65, <i>Target:</i> 95 (2018)</p> <p><i>Progress Indicator 3.1.3:</i><br/>Percentage of participating girls and women (10-19) with improved knowledge on RMNCHN<br/><i>Baseline:</i> 32.2, <i>Target:</i> 58.5 (2018)</p> | <ul style="list-style-type: none"> <li>• Mother &amp; Child Health Services Strengthening (P148052)</li> <li>• Sahel Women’s Empowerment and Demographic Dividend (SWEDE) Project (P150080)</li> <li>• Clinic La Providence (IFC)</li> </ul> |                     |
| <p><b>CPF Objective 3.2: Improve rural access to and quality of education</b></p>  |   |  |                     |
| <p><b>To achieve this objective, the WBG program will include ongoing operations in education and women’s empowerment, combined with possible new investment in TVET and post-basic skills.</b> The expected outcomes of this objective reflect the goal of improving access to and the quality of education in rural areas, with a particular emphasis on girls’ education. This is captured by the gender-disaggregated primary completion rate in targeted regions, which reflects aspects of both access and quality, and the girls’ secondary school drop-out rate. As the regions targeted by the Education Sector Reform Project are predominantly rural, indicators of its outcomes reflect an improvement in access and quality in rural areas.</p> <p><b>Key criteria that underpin the WBG’s approach include</b> a strong focus on access to basic services for women and girls, working through local communities and actors, especially in education. The Education Sector Reform Project Phase 2 became effective in 2014 and aims to improve teaching and learning conditions in primary and upper secondary education in selected areas, and to strengthen evidence-based decision making in the education sector. The Sahel Women’s Empowerment and Demographic Dividend (SWEDE) Project includes support for designing, financing and evaluating country programs in women and girls empowerment, which will capitalize on the law adopted in 2015 establishing eighteen years as the minimum age for marriage, aiming to protect girls and promote their education. The portfolio also includes ASA work aimed at building the knowledge base for education, and IFC investment in domestic capacity to produce learning materials. These operations will be complemented with a possible post-basic skills project, to help address the skills gap for agricultural productivity and increased domestic transformation.</p> |   |  |                     |

| CPF Objective indicators  | Supplementary Progress Indicators   | WBG On-going Program  | WBG Planned Program   |
|---|---|---|---|
| <p><i>Indicator 3.2.1:</i><br/>Primary completion rate in targeted regions (percent)<br/><i>Baseline:</i> 37 (all), 29 (girls), 48 (boys)<br/><i>Target:</i> 40 (all), 32 (girls), 51 (boys) (2018)</p> <p><i>Indicator 3.2.2:</i><br/>Percentage of drop-out from secondary schools in participating adolescent girls<br/><i>Baseline:</i> 5.5<br/><i>Target:</i> 2.2 (2018)</p>   | <p><i>Progress Indicator 3.2.1:</i><br/>Number of additional qualified Community Teachers (CTs) resulting from project interventions<br/><i>Baseline:</i> 0, <i>Target:</i> 1,620 (2018)</p> <p><i>Progress Indicator 3.2.2:</i><br/>Number of primary level CTs receiving their subsidy payment through cell phone<br/><i>Baseline:</i> 0, <i>Target:</i> 4,500 (2018)</p> | <ul style="list-style-type: none"> <li>• Education Sector Reform Project P2 (P132617)</li> <li>• Sahel Women’s Empowerment and Demographic Dividend (SWEDE) Project (P150080)</li> <li>• Aubaine Graphic (IFC)</li> <li>• Education and Skills Development ESW (P132615)</li> </ul> | <ul style="list-style-type: none"> <li>• Possible TVET and post-basic skills project</li> </ul>   |
| <b>CPF Objective 3.3: Establish a social protection system targeting the most vulnerable households</b>   |   |   |   |
| <p><b>To achieve this objective the WBG will work to embed social protection in Chad</b>, following the Government’s request for WBG support in implementing the Social Protection Strategy approved in July 2015. This will move from an approach that is focused on short term risk management to one that focuses on longer term resilience managed by national systems. The proposed social protection program will build on the results of a pilot and will include the design of a Management Information System (MIS). Given the particular challenges posed by the high number of refugees and IDPs in Chad, the work on social protection will be complemented with regional technical assistance to support an assessment of forced displacement in the Lake Chad Basin.</p> <p><b>The expected outcome of this objective is the establishment of a new social safety net system</b> as measured by the number of households entered into the new social protection system.</p> |   |   |   |
| CPF Objective indicators  | Supplementary Progress Indicators   | WBG On-going Program  | WBG Planned Program   |
| <p><i>Indicator 3.3.1:</i><br/>Households entered into the new social protection system<br/><i>Baseline:</i> 0<br/><i>Target:</i> 5,000 (2019)</p>  | <p><i>Progress Indicator 3.3.1:</i><br/>Social Safety Net Cell established<br/><i>Baseline:</i> 0<br/><i>Target:</i> 1 (2019)</p>   | <ul style="list-style-type: none"> <li>• Sahel Adaptive Social Protection Program (P148332)</li> <li>• Social Safety Nets Assessment (P151966)</li> </ul>   | <ul style="list-style-type: none"> <li>• Possible Safety Net Project</li> <li>• Regional TA for Chad country study under the Lake Chad Basin Forced Displacement program</li> </ul> |

**ANNEX 2: REVIEW OF LESSONS LEARNED**  
**COVERING THE PERIOD FROM THE CAS FY04-06,**  
**THROUGH THE ISN FY11-12, TO THE PRESENT**

**I. INTRODUCTION**

1. **This Review of lessons learned examines experience from implementing the Country Assistance Strategy (CAS) for the Republic of Chad FY04-06 (Report No. 26938-CD, Board Date November 12, 2003), through the period of the Interim Strategy Note (ISN) FY11-12 (Report No. 54335-TD, Board Date May 25, 2010) to the present.** The ISN is the most recent World Bank Group (WBG) assistance strategy for Chad, before which the FY04-06 Country Assistance Strategy (CAS) was the WBG's last full-fledged assistance strategy for Chad. No formal Completion Report was undertaken for the FY04-06 CAS at the time of its completion, due to the suspension of WBG activity in Chad in 2006 and again in 2008. High level reflections on the experience of implementing the FY04-06 CAS were included in the FY11-12 ISN, and key lessons from implementation of the FY04-06 CAS are reflected in this Review and have informed preparation of the new Country Partnership Framework (CPF) for FY16-20. In order to draw lessons that are useful for the CPF, this Review also assesses program performance since the ISN formally ended in June 2012, since when there has been no formal WBG country assistance strategy for Chad, although the WBG has continued to support the Government of Chad through its portfolio and in preparation for the Highly Indebted Poor Countries (HIPC) Completion Point. A formal Completion and Learning Review (CLR) was not prepared, taking into consideration that a CLR is not always required following an ISN.
2. **Chad's development progress suffered repeated setbacks during 2000-2010.** In May 2001 Chad reached the Decision Point under the HIPC Initiative and was expected to reach the Completion Point by 2004. The Government published its first National Poverty Reduction Strategy (NPRS1) in June 2003, covering the period 2003-2006, and the Board of the World Bank approved a CAS covering the same period. Government strategy aimed to strengthen governance and encourage economic growth; invest in human capital; and protect vulnerable people and fragile ecosystems. The overarching aim of the Bank's engagement was to help the Government to make the best possible developmental use of its new oil revenues by strengthening the overall legal, regulatory and institutional framework and by encouraging non-oil growth opportunities.
3. **The results of NPRS1, however, were mixed.** By the end of NPRS1 it became clear that while overall economic growth was strong, it was still driven by the oil sector, and many other Government objectives – for example in the area of health – had not been achieved. The unstable security situation had hampered Government action, and weak governance and a lack of commitment to the reform program had resulted in major deviations of budgetary spending from the original aims of the Program. Slower than expected completion of reforms and the deteriorating policy and security environment also meant that the HIPC Completion Point was delayed.

4. **The Government published a second NPRS in June 2008 (NPRS2).** This covered the period 2008-2011. Implementation of NPRS2 was also subject to disruption. Rebel attacks on the capital, civil and military strife, and economic crisis combined to create an unfavourable environment. These conditions persisted in an acute form until 2010 when a peace settlement between Chad and Sudan was agreed. While some progress was achieved in terms of growth, employment, and improvement of public services, most of the goals of NPRS2 were not met.
5. **The Bank's engagement with Chad between 2003 and 2010, therefore, was severely and negatively affected by the political and security environment.** In 2006 and again in 2008 the Bank suspended its engagement in Chad. This reflected recurring disagreements over the appropriate use of oil revenues and the causes of slow reform progress as well as security concerns. Dialogue between the Bank and the Government of Chad recommenced in 2009 based on an agreement on the need to make progress towards achieving the Millennium Development Goals (MDGs).
6. **In 2010 the Board of the WBG approved an ISN covering the period July 2010 to June 2012 (FY11-12).** The ISN was intended to serve as a bridge to the third NPRS, which was originally scheduled to cover the years 2012-2016. In fact the Government published its National Development Plan (NDP), which was considered the third NPRS, in April 2013, covering the period 2013 to 2015. The Strategy included a strong results framework, with 24 strategic indicators and 65 intermediary indicators, including all HIPC Completion Point triggers. On April 28, 2015 the Boards of IDA and the IMF reviewed the Enhanced HIPC Initiative Completion Point report together with a Joint Staff Advisory Note evidencing satisfactory implementation of the NDP 2013-15 during its first year of implementation (2013). Based on this evidence the Boards agreed that Chad had reached the Completion Point under the Enhanced HIPC Initiative.
7. **This review draws lessons based on the Bank's involvement in Chad since the early 2000's, including implementation of the ISN FY11-12 and more recent performance.** Given the country's recent history, the Bank's principal goal upon re-engaging in Chad in FY10 was to adopt a gradualist approach and to try at a minimum to support an improvement in the use of public resources for the benefit of the Chadian people. While the scope of the ISN FY11-12 was appropriately limited given the challenges facing Chad at that time, the lack of alignment between Bank activities and the ISN, and the short (two year) implementation period of the ISN, significantly reduced the impact of the Strategy. Several projects implemented during the ISN period showed satisfactory progress towards their project development objectives, however in some instances results only became apparent following the formal end of the two year period covered by the ISN. This in part reflected the time required to regain momentum following the hiatus in relations between Chad and the Bank between 2006 and 2010.

## II. LESSONS LEARNED

8. **The Bank's last full-fledged assistance strategy in Chad was the FY04-06 CAS.** No formal Completion Report was undertaken for that strategy due to the suspension of Bank activity in Chad in 2006 and again in 2008, however, a Bank mission to Chad in February 2007

highlighted the following problems in the portfolio: (i) excessive delays in central processing of revenue receipts; (ii) slow disbursement of counterpart funds; (iii) lengthy procurement procedures; (iv) poor management and coordination of projects; (v) weak monitoring and evaluation of projects; (vi) slow settlement of payments by Treasury; and (vii) non-engagement by line ministries in projects. High level reflections on the experience of implementing the CAS, as well as lessons from the 2009 CPPR and IEG's review of the Chad-Cameroon Pipeline Project were included in the ISN, among which were the following:

- there were some isolated successes including: a) the Chad-Cameroon pipeline project which was seen as a physical, technical and financial success; and b) an increase in social sector spending – at least in the years to 2005 before military spending increased;
- overall, however, the evolving political and security environment reduced Government commitment to the Program, which no amount of re-design could have offset. Rather than being symptomatic of lack of dialogue or due diligence, reduced Government commitment was mainly due to divergent views about how to prioritize security and development concerns;
- there were significant problems with the quality of spending and impact on poverty, although a lack of data prevented detailed monitoring;
- the Bank should have devoted more attention to capacity building and particularly to the challenge of absorbing and managing the growth in oil revenues; and,
- political instability has a highly negative impact on portfolio performance. Disruptions in World Bank-Chad relations during the period 2003-2010, ongoing security issues, and the lack of in-country supervision, negatively affected portfolio performance.

9. **Implementation of the ISN program over the period FY11-12** and subsequent experience implementing the WBG portfolio allow a number of further lessons to be drawn, as set out below.

### **Strengthening governance**

10. **Experience has shown that the Government is ready to make strong commitments and take tough decisions when such measures have been jointly developed.** This requires a sustained dialogue to build trust and a common understanding of policy direction, rationale, and associated assistance. It is also critical to plan a strong public relations and communications campaign to ensure a broad dissemination of all efforts being engaged, as policy achievements are otherwise likely to be under-valued and unrecognized.

### **Community participation**

11. **Community-based projects are likely to play an important role in the FY16-20 CPF.** Two lessons emerge from experience implementing the Community Based Ecosystem Management Project in Chad. First, community projects can deliver longer term benefits as long as they also generate immediate benefits for communities as well. The Community Based Ecosystem Management Project demonstrated that this combination is possible in the case of integrated ecosystem management. Second it is possible to empower vulnerable groups such as women and youth (as well as other underrepresented groups, like herders in the case of Chad) by

encouraging them to participate actively in sub-projects. This in turn can lead to an improvement in the livelihoods of these groups and enhance their status in society. Training should target vulnerable groups. The involvement of vulnerable groups can also be made a condition for sub-project approval. For example, in the Ecosystem Project sub-projects dealing with pasture management and cattle corridors had to involve the participation of herders.

## **Cultural issues**

- 12. Closely related to the challenge of community participation is the importance of recognizing the role of culture and values.** Implementation of the Second Population and Aids Control Project (PACP2) demonstrates the importance of working with the cultural grain rather than against it. Though both matters of population control and aids raise sensitive cultural issues, mobilizing support in the PACP2 project was easier to achieve when personal interests (e.g. avoidance of HIV) were at stake and more difficult to obtain with respect to changing long-standing traditional attitudes and practices (such as the demand for large families). The case of religious leaders in Chad offers the example of how their support for HIV/AIDS prevention strengthened the project's actions but (despite project efforts to raise awareness) their opposition to family planning and population weakened the project's achievements. The achievements of the PACP2 thus reflect the fact that mobile teams were able to offer people in remote areas a combination of health services, and the focus on women allowed them to raise the awareness of their husbands who were generally more skeptical.

## **Project design**

- 13. The Education Sector Reform Project demonstrates the critical importance of keeping things simple in a context such as that in Chad.** Soon after ESRP achieved effectiveness, the country experienced insecurity and instability slowing down implementation of activities, and limiting donors' contributions to fill the funding gap estimated at appraisal. A project design with fewer and more focused components would have been more appropriate given the volatile and insecure country context and limited implementation capacity in Chad. Similarly IFC's experience in Chad shows that significant additional support is needed to prepare projects which add to project processing times. The "Program for Small Investments in Fragile and Conflict Situations (PSIF)", which is intended to increase investment by simplifying project processing and requirements in FCS countries like Chad, should be applied more consistently.

## **IFC/WB synergy**

- 14. A number of IFC investments achieved a variety of results during the period of the ISN that did not fall within the results framework of the ISN, and consequently did not contribute to achievement of the Program Development Outcome.** Closer WBG collaboration in the preparation of the CPF should ensure a more concerted effort for achievement of the Corporate Goals, which will also help to leverage the strong ownership and more determined drive for results often arising from the private sector focus of IFC investments.

## **Business environment**

- 15. IFC faces a number of challenges investing in Chad including: a difficult business environment, small project sizes, an economy that is dominated by trade rather than production; the difficulty of finding strong sponsors and administrative bottlenecks.** Weak information systems and the low quality of financial statements increase the difficulty of understanding companies' financial performance.

## **Financial management**

- 16. FM performance of the portfolio suffered from a variety of irregularities (e.g. misuse of funds, ineligible expenditures, mis-procurement), and INT was involved in a number of investigations in Chad, although not during the period of the ISN.** Prior to the period of the ISN, INT opened four investigations into allegations of fraud and/or corruption in Chad between 2004 and 2009. During the period of the ISN, INT received two complaints, neither of which merited further investigation. In addition to the cases referred to INT, the WBG FM team investigated three further complaints of fraud and/or corruption.
- 17. These weaknesses in FM performance were related to the following issues:** (i) insufficient HR in the accountancy profession and low capacity; (ii) the fact that WBG FM arrangements for its portfolio of projects operated independently of country FM systems (through ring-fenced mechanisms), and therefore the financial controller and other state control institutions did not review expenditures or accounts related to WBG-supported operations; (iii) a lack of effective coordination and monitoring of project execution by the authorities and line ministries that were beneficiaries of project activities, including the fact that many project steering committees were not effective; and, (iv) the fact that the WBG had no team leaders or FMS staff in the Ndjamea Office during the ISN period, which impacted the capacity of the WBG to monitor implementation of project activities, and provide hands-on support and advice to the project teams. Key mitigation measures to consider under the new CPF include ensuring that the WBG's financial management arrangements operate in better synergy with country systems, and the need to reinforce the presence of WBG FM staff.

## **Results, monitoring and evaluation**

- 18. The lack of a results framework that aligned with Bank instruments was a design weakness of the ISN.** Without a framework closely linked to operational targets, it is not possible to assess whether the Bank's program as a whole is contributing toward the achievement of broader development goals or not. It is also important to adjust course mid-term if objectives, targets or instruments are clearly not aligned or fall out of alignment.

## **Risk assessments**

- 19. Experience implementing the Second Population and Aids Control Project (PACP2) demonstrates the importance of thorough risk assessments at project level.** In the case of PACP2 a more thorough risk assessment might have highlighted that: (i) significant risks (political, socio-cultural, technical, and financial) existed; (ii) potential mitigation measures

were likely to be insufficient; and (iii) the feasibility of completing the project as designed was questionable. In addition, it should also have comprised risk assessments for institutional arrangements and financing, both of which underpin stakeholder commitment to a project. Where roles and responsibilities are insufficiently defined and/or overlap, implementation will suffer; where future financing is uncertain, sustainability will suffer (even with adequate institutional arrangements).

