

8. The **2004 budget approved by Parliament** continues to differ from the recommendations of the staff in the aspects mentioned in the staff report. The budget also implies a higher overall deficit, of 13.4 percent of GNP, compared with the authorities' projection of a deficit of 12.4 percent of GNP reported in the staff report. This reflects, inter alia, the postponement of HIPC and oil bonus-financed expenditures in the additional budget (equivalent to 0.8 percent of GNP) from 2003 to 2004. The higher budget deficit now envisaged for 2004 would have to be financed through a larger accumulation of domestic arrears and/or additional budgetary support.

**Statement by Damian Ondo Mañe, Executive Director for Chad**  
**March 19, 2004**

We would like to thank staff for the comprehensive and well-written report on Chad. It gives a thorough description of the country's economic situation and the challenges it faces. We are appreciative of the staff's continued commitment to helping the authorities meet these challenges especially on the onset of the oil era. The Chadian economy has grown by an average of 10 percent annually in the past three years, owing not only to the boom in activities related to the construction of the oil pipeline but also to the expansion of the non-oil sectors which have grown significantly by regional standards (close to 7 percent in the same period). Chad remains nevertheless a very poor country with weak institutions, and will require the continued support of the international community, both at the financial and technical levels, to carry successfully the needed reforms.

**I. Overview of the Chad's Economic Environment and Situation**

Chad is a landlocked country whose climate is partly tropical, partly semi-arid, and mostly desertic. Under the combined pressure of political turmoil and frequent droughts, Chad has remained one of the most impoverished countries in the world.

Infrastructure remains deficient in many areas, including education, health, transportation, energy and telecommunications. As a result, all social indicators of Chad today lag the sub-Saharan African country averages. Limited institutional and administrative capacities also carry weight in the difficulties encountered by my authorities to sustain appropriate policy implementation and structural reform agenda, highlighting the need for financial and technical support for their current efforts. Faced with this difficult environment, and especially following decades-long political turbulence, civil unrest, and widespread poverty, the country has held presidential and parliamentary elections in 1996-97. As part of consolidating the peace process, the authorities are undertaking the integration of former rebels into the regular army.

My authorities have engaged in policies to maintain macroeconomic stability, and they have initiated a national strategy to reduce poverty. The economic developments in 2002 and 2003 have been in large part driven by the oil pipeline construction. Real GDP has grown by almost 10 percent on annual average in the period 2001-03, while inflation has been contained in the last two years following a year of high inflation in 2001. The past two years have also seen the achievement by the authorities of the fiscal deficit targets, despite capacity problems that hamper revenue collection.

Appropriate measures to boost revenue include action plans in the customs area and the strengthening of the income and indirect tax collection, many of which have started to be implemented. Although the revenue objective for 2003 has been barely missed owing to shortfalls in taxes from companies with reduced activities following the end of Doba pipeline construction, efforts to mobilize non-oil revenue are apparent as the ratio of non-oil revenue to the fast-growing GNP has increased notably in 2002 and 2003.

On the expenditure front, my Chadian authorities acknowledge that the composition of fiscal spending can be improved towards increased outlays in priority sectors. However, despite capacity weaknesses as outlined by staff, there have been unexpected security and peace-related developments that have prompted the Chadian authorities to undertake the integration of former rebels into the national army so as to ensure a smooth implementation of the “*Accords de Paix*”.

The design and adoption of a set of mechanisms that ensure transparency in the use of oil resources as well as an appropriate use of these resources put Chad at the forefront of many oil producing developing countries. These include stabilization and sterilization mechanisms, additionality of spending in the priority sectors financed by oil proceeds, the Fund for Future Generations (FFG), and a resource allocation system to ensure the development of the oil producing region. There have been delays in the adoption of implementation decrees for the last two measures, owing to administrative constraints and slowness, but my authorities have recently given assurances that the decrees are at the final stage of the signature process and will be promulgated in a very short time lapse.

The encouraging results obtained recently have followed more diverse outcomes in the past. As regard the 2000-03 PRGF-supported program, the macroeconomic record and policy implementation have given some encouraging outcomes amid difficulties often stemming from the country’s weak capacities. Indeed, much of this outcome is the result of budget execution difficulties, limited resources, and events outside the control of the authorities such as the historically low world cotton prices in the 2002-03 campaign.

Much progress remains to be done to improve the institutional, infrastructure and administrative capacities of the country, and strengthen the circuit of spending and public expenditure management. My authorities are greatly appreciative of the technical assistance from the Fund on these matters. While they recognize that strengthening governance, better coordinating fiscal agencies, and improving the business environment, my authorities are also eager to see technical assistance augmented in these areas and others. As acknowledged factors have hindered the implementation of TA recommendations in the fiscal area, notably the insufficient physical and human capital, limited budgetary resources to significantly improve the latter and need for private sector to develop. As for governance, corrective actions have been taken. Nevertheless, my authorities indicate that there is a need to induce appropriate budgetary allocations for TA implementation and that conditionality design should take this aspect into consideration.

## **II. Medium- to Long-term Prospects and Responding to the Challenges Ahead**

My authorities have made it clear that maintaining peace and security is of paramount importance to the country, in order to create conditions favorable to macroeconomic stability and sustained development. They stand ready to make their utmost efforts to ensure peace and security in the country so as to maintain an environment favorable to the successful implementation of sound policies and appropriate reforms oriented towards sustained growth and development.

My authorities' commitment to make as much efficient and effective the use of oil resources as possible has induced the elaboration of the modalities under the Law on Petroleum Revenue Management (LPRM) and their implementation decrees which puts Chad at the forefront among oil producing countries. My authorities are aware of the risks of Dutch Disease effects and the crowding-out of yet weak non-oil sector activities. They have expressed their appreciation of the decisive contribution of the Fund and the Bank in the preparation of their national strategy of poverty reduction on the one hand, and on the other hand the elaboration of the modalities pertaining to the oil-related legislation. They remain fully committed to this core law as they have confirmed at the highest level, and they are equally committed to improving the living conditions of the Chadian population, with the building of human and physical capital and the fight against poverty. As for the use of resources from future oil fields, there is a need to take into account the tremendous social and infrastructure needs of the country highlighted above, while maintaining the spirit of the legislation on the use of oil revenue.

My authorities have also expressed their desire to improve the composition of expenditures, effectively giving more weight to priority sectors. Preparation of expenditure will be made with the view to contributing more effectively to the objectives of the national strategy of poverty reduction, ensuing macroeconomic stability and long-term fiscal sustainability while taking account of actual sectoral needs.

My authorities have been confronted with the problem of external arrears, which partially find its source in the limited budgetary resources and the non-disbursement of external assistance. As a result, the authorities have often faced the daunting prioritization choice between domestic obligations (payments of civil service salaries) and external debt servicing. More predictable external financing will alleviate these difficulties and reduce the risks associated with the closing of recurrent financial gaps. In the same vein, exogenous shocks related to events such as abrupt decline in worldwide cotton and oil prices, cotton subsidies in developed countries and other impediments to fair trade hamper the growth prospects of Chad. We call on the international community to advance multilateral - or bilateral as a second-best solution - negotiations to create the conditions for fair and efficient trade. On their part, my authorities will pursue their efforts towards regional integration within the Central African Economic and Monetary Community (CEMAC), strengthen the financial sector in the context of the satisfactory situation of the Chadian banking system as discussed with staff, advance the reform of the cotton sector, and in particular they remain committed to fulfilling their external financial obligations.

Amid these daunting challenges, my authorities have renewed their commitment to sound economic policies and appropriate structural reforms that are needed to put the country on a sustained path to growth, development and poverty alleviation. To this end however, the support of the international community and the Fund in particular will be of crucial importance. An illustration of the critical need for international support to prepare the country today for the oil era and thereafter is the exponentially-growing priority sector expenditure in contrast to the abrupt decline in oil revenues after 2010 as depicted in staff's long-term macroeconomic framework (Figure 2 of staff report). This is even more so in light

of the relatively small contribution of oil revenue to the government budget, which will amount to less than one-third of total revenue in the next three years.

#### **Policies for 2004**

The 2004 budget submitted to parliament reflects in large part the discussions with and recommendations by staff. In particular, the authorities will commit to the 12.6 percent growth ceiling for the wage bill as outlined in their June 2003 Memorandum of Economic and Financial Policies. They will address the equipment problems of Société Tchadienne d'Eau et d'Electricité (STEE) which hamper electricity and water delivery, and the need to put resources in Cotontchad; as well as the financing of peace accord process.

As for the use of oil resources, the two decrees related to the Fund for Future Generations and the oil-producing region will be promulgated very soon. In this regard, the authorities will commit to the spirit of legislation governing the use of oil resources. As regard savings of earmarked oil revenue under the stabilization mechanism, the authorities have already made CFAF 6.7 billion of reserves in the fund as of mid-March 2004.

#### **The Structural Reform Agenda**

The authorities intend to pursue their broad-based agenda of structural reforms as outlined in their last MEFP, including measures aimed at strengthening expenditure management and improving accountability and transparency in the use of public resources; actions to strengthen the financial sector within the regional BEAC framework towards new financial instruments and appropriate regulatory and accounting standards; and the continuation of macroeconomic policy convergence within the CEMAC.

Concerning the strengthening of governance and transparency, my authorities have already promulgated the implementation decrees on the new procurement code which is being implemented. The authorities have also indicated that the two remaining decrees on the use of oil revenue according to the petroleum legislation will be promulgated shortly.

#### **III. Implementation of the National Strategy of Poverty Reduction and HIPC Initiative Completion Point**

My authorities have started to implement their national strategy of poverty reduction which was endorsed by the Board of the Fund. The PRSP monitoring mechanism is being finalized. As regard the HIPC Initiative Completion Point conditions, progress has been made in priority sectors. Indeed, the outcomes in health, education, basic infrastructure and rural development have either reached the objectives or are in progress since 1998, including in 2003.

Concerning governance, a functional expenditure-tracking system for education and health is operational; a treasury plan will be finalized soon; commercial courts are being built and judges are already being trained abroad. The code on public procurement has been finalized and has been promulgated; audits of the some big contracts awarded in 2002 have been