**Folder Title:** Economic Committee Papers - Chad - EC/O/68-27 - Economic Policy Memorandum

**Folder ID:** 30275931

**Series:** Country Files

**Dates:** 02/20/1968 – 02/20/1968

**Fonds:** Records of the (Staff) Economic Committee

**ISAD Reference Code:** WB IBRD/IDA WB_IBRD/IDA_118-03

**Digitized:** 03/18/2025

FORM NO. 61-EC
(7.65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

Chad

CONFIDENTIAL

# ECONOMIC COMMITTEE



EC/O/68 - 27

February 20, 1968

Chad: Economic Policy Memorandum

1. The attached Economic Policy Memorandum on Chad from the Africa Department (EC/O/68-27/1, dated February 20, 1968) will be discussed at the Economic Committee meeting which will be held on Tuesday, February 27, 1968.

C. F. Owen
Secretary

Attachment

Secretary's Department

D I S T R I B U T I O N

| | | |
|---|---|---|
| Messrs. Friedman | Adler | Orcutt |
| Kamarck | Collier | Sacchetti |
| El Emary | de Vries | Sadove |
| Avramovic | Kalmanoff | Thompson |
| Bell | King (B.B.) | van der Mel |
| Krishnaswamy | Larsen | van der Tak |
| Rist | Lipkowitz | Weiner |
| Stevenson | McDiarmid | Wright |

Also: Mr. Woods and Mr. Knapp

CONFIDENTIAL

EC/O/ 27/1

February 20, 1968

ECONOMIC COMMITTEE

Economic Policy Memorandum from
Africa Department

Republic of Chad

## I. Introduction

1. Thus far there has been no lending operation to Chad by the Bank group. However, three projects are under active consideration:

(a) The most advanced project is one to supply road maintenance equipment and road engineering. It has been appraised and will soon be submitted to the Loan Committee. (Project cost $3.9 million).

(b) An education project for teacher training and agricultural schools is also about ready for submission to the Loan Committee. (Project cost $1.7 million).

(c) A livestock development project is scheduled for appraisal in April. (Project cost $1.8 million).

## II. Statement of Issues

2. This is the first time that the Economic Committee has reviewed the economic performance and prospects of Chad. The Committee is therefore asked to consider whether:

(a) the economic performance of Chad justifies IDA lending; and

(b) external financing of 90 to 100% of project costs is warranted.

## III. Discussion of Policy Issues

### A. Performance

3. Recent economic performance is described in detail in the report on the economy of Chad (AF-71, February 5, 1968), the summary and conclusions of which are attached. According to the mission's finding, Chad's economic performance for most of the period since independence in 1960 has been better than one might have expected considering its geographic isolation, limited resources, climate, and general poverty. Despite these obstacles, the economy has grown somewhat faster than population. Nevertheless, per capita income, estimated at about $70, remains among the lowest in Africa.

4. During the period 1961-65, estimated earnings from exports of goods and services grew at an average annual rate of almost 5%, due mainly to increased cotton and livestock trade. However, exports have followed the same variable trend as production, with the added adverse factor of declining cotton prices and the uncontrolled movement of cattle over international borders by migrant grazers. Balance of payments data are sketchy. Imports appear to have increased erratically but on the whole have contributed to an apparent deteriorating trend in the balance of payments after 1965. This deterioration resulted from an increasing trade deficit and a decline in public transfers resulting from the elimination of French subsidies to the current budget and defense support not fully offset by capital inflows. Although Chad's imputed reserves in the UDEAC system declined to a negative CFAF 0.9 billion in June 1967, the operation of the system generally leaves Chad free of payments difficulties, unless the deterioration continues over time.

5. Fiscal management has been reasonably good for the greater part of the post independence period with a relatively stronger perform- up to 1965 and some deterioration thereafter. Efforts on the revenue side resulted in annual average increases of 14% between 1961 and 1966 with current revenues rising from about 10% of GDP in 1961 to perhaps 15% of GDP in 1966. During the same period expenditures increased at an annual rate of 15%, only marginally higher than revenues. Expenditures grew less rapidly in the early years even though the Government was adding the responsibilities of a newly independent state and the current budget (before debt service) remained in surplus from 1963 to 1965. The small deficit before debt service in 1966 was largely the result of a substantial increase in defense and security expenditures brought on by the departure of French troops in 1965, the ending of related military assistance, by internal unrest, and differences with the Sudan. Defense and security expenditures reached 29% of the current budget in that year which is the main negative element in the Government's fiscal performance.

6. In 1967, when a larger deficit threatened, the Government took immediate measures to reduce current expenditures which were expected to hold them only slightly above the 1966 level compared with an increase of 26% in 1966 over 1965. The efforts of the Government to eliminate the deficit entirely have been made more difficult by a shortfall in the collection of cattle and head taxes in areas affected by the civil disturbances. On balance, the country's fiscal effort has been satisfactory up to 1965, but the emergence of deficits since then, despite the extenuating circumstances responsible for the rise of expenditures, pose problems for the future.

7. Chad's monetary policies have followed relatively conservative lines. Money supply has grown at about 3% per year. Private credit expansion has grown somewhat more rapidly related in large part to the expansion of cotton output. Central Bank credit to the public sector has been strictly limited and credit from private banks to the Government has been insignificant. 1966 saw an increase in Government

borrowing due in large part to the budget deficit. However, credit outstanding represents only about 10% of current revenues in that year and is strictly short term.

8. On the development front the new Five-Year Plan (1966-70) has allotted 44% of expenditure to the productive sectors, mainly agriculture. Although a substantial investment in roads has been included, building construction and the social services have received relatively smaller shares than in past development programs. The principal productive achievement in recent years has been the increase in cotton yields and output while unit costs of processing and handling were reduced to make cotton competitive in world markets in 1966/67 (before the payment of export duties). Development efforts in other aspects of agriculture were less successful although the groundwork has been layed for a better organization of agricultural extension and for the supply of inputs and credit. Chad has used technical assistance quite effectively in this and in other areas of the development effort. The modest industrial program, largely financed by foreign private capital, has been successful mainly in processing agricultural products and in producing consumer goods. Public utilities are in a very early stage of development, limited to a few towns. Major problems remain in the building of a transportation network (roads), in improving the country's human resources, and in motivating illiterate and backward farmers and grazers.

9. In brief, the picture that emerges is of a country that despite poverty, a limited resource base and an adverse physical location, has managed to increase output and exports, lay the foundations of development in agriculture and agro-industries, maintain monetary equilibrium, and increase resources at a rate sufficient to replace budget subsidies and cover growing current expenditures through 1965. These constitute the positive features of Chad's economic performance. The deterioration of the fiscal situation since 1965 has been the major weakness. On balance, performance has been satisfactory given the unusually difficult problems Chad has faced since independence.

B. Prospects

10. The Chad Five-Year Plan (1966-1970) features three priority areas: increasing productivity and diversification of agriculture, reducing transportation costs and developing human resources. However the mission concluded that the Five-Year Plan was too ambitious in terms of financial requirements, absorptive capacity and production targets, and proposed that the Plan investment program be extended for two more years. On the whole it is a well-balanced Plan which, with some substitution of low priority projects, deserves support. The prospects for significant growth in cotton and food crops, and, over the longer term, in livestock are promising based on the work of several agricultural agencies already created with technical assistance. Provided that project preparation and implementation continues as envisaged by the mission and the bulk of the Plan is financed, real per capita income is expected to increase by 1 to 2% annually, a not insignificant achievement for the economy. The visible trade balance is expected to improve resulting

from anticipated export growth of 3% per year and a reduction in the growth of imports to 2% per year. The latter assumes increased import taxes on luxury imports combined with import substitution in food and textiles.

11. The Plan calls for development expenditures of about CFAF 47 billion, of which 95% is in the public sector. The modest private investment share appears to be realistic based on existing commitments. Excluding Plan costs already included in the recurrent budget and local contributions in kind, the net capital requirements for the public sector Plan is about CFAF 41 billion. Financial prospects depend on the solution to the cotton support program, recovery from the current budget squeeze, and the availability of external finance. Cotton production has been supported from abroad, first from France, currently from the FED. This assistance has enabled the Government to provide a guaranteed floor price to the farmers and to continue collection of the export duty. The former is an important incentive to the farmer and the latter is an important source of revenue. In effect this external aid has been a disguised but necessary budget support. The FED subsidy is scheduled to terminate in 1968. However, some form of subsidy will be necessary during an iterim period until the benefits from the cotton improvement programs have been realized. This problem is well known to the Government, France and FED, and negotiations are underway to extend the support program. However, if further cotton support does not materialize, the already limited contribution of the Government to financing the Plan will be further reduced and the resource gap increased by a corresponding amount.

12. Chad's fiscal situation, although expected to improve, cannot provide large budget surpluses for development purposes. Revenues are expected to grow, but at about three-fourths of the past rate. Current expenditures will inevitably expand as development programs are undertaken and completed, but the mission believes the rate of increase can be restrained to one-half of the past rate. This assumes that security expenditures can be leveled off after the 135% increase over the last two years, an increase swollen by the withdrawal of French forces. The Government has maintained control in all of the economically important areas of the country and there are indications that security forces need not further expand. If the disturbances should subside, some reduction might be made in security expenditures. Based on these assumptions, budget surpluses are estimated at CFAF 3 billion, after debt service.

13. Domestic borrowing offers very limited opportunities to the Government especially in the light of the experience from the First National Bond issue. Institutional holdings of Government bonds may be expanded but within narrow limits. Government borrowing from the Central Bank is limited to short term credits intended to carry the Government over seasonal fluctuations in revenue receipts and interim financing of budget deficits. The Government expects to float a CFAF 1.4 billion long-term bond issue and, on balance, this appears to be the maximum that could be mobilized from this source. Domestic borrowing along with budget surpluses can provide CFAF 4.4 billion or over 10% of the net capital

requirements of the public sector Plan. Thus external financial assistance will be required to cover the balance of CFAF 36.7 billion.

14. Almost 30% of the requirements for external public assistance for the Plan were committed in the first year of the Plan, including projects in the pipeline. Projects equivalent to over 40% of requirements have good prospects of approval, a large share of which are already under discussion. This will leave a resource gap of about 30%, e.g. CFAF 11 billion. Some additional aid from new sources may be forthcoming but filling the gap completely will require an increased pace of aid utilization by Chad with productive results which might elicit additional commitments from present major sources. To the extent that Chad can obtain external finance for recurrent costs during the development period of the project, this will reduce the uncovered external financing gap. To the extent that domestic resources are less than anticipated or external finance falls short of the target, Chad would have no alternative but to reduce the development program. This would be unfortunate given the poverty of the country and the character of its development problems.

C. Creditworthiness

15. Chad's external debt burden is not high. The debt service ratio on present debt will fall from 12% in 1966 to 3.6% in 1975, including service on debt agreed but not formally signed. Chad has depended almost entirely on grants or borrowing on concessionary terms. Suppliers' credits have represented only about 11% of total debt, largely for two recent projects. However, in the context of the monetary system of the CFA franc area the problem of debt servicing and of creditworthiness in general lies with the Central Government budget rather than the balance of payments. Because of the fiscal restraints described above it would be unwise for Chad to undertake further borrowing on conventional terms which would quickly diminish its small contribution to public sector investment. The country's economic performance has been reasonably satisfactory considering the difficulties which it has faced. On this ground and because of the fiscal restraints on conventional borrowing, the country's poverty and the difficulty of achieving rapid economic growth, Chad is considered suitable only for IDA credits.

D. Cost Sharing

16. In the past most public sector investment has taken place outside the Central Government budget. Autonomous agencies have been the major instruments of project management and implementation. These agencies have depended almost entirely upon external support to carry out their programs. The Plan includes certain projects which because of their character or small size may not easily find external support. If the required average external contribution of 90% of total project costs is to be achieved most projects eligible for foreign financing will require more than 90% of financing from external sources.

## IV. Recommendations

17. I recommend that

(a) Chad be considered eligible for IDA lending on the basis of her economic performance, poverty and lack of creditworthiness; and

(b) IDA financing be provided to cover up to 100% of project costs.

A.G. El Emary
Director
Africa Department

Attachment:

Summary and Conclusions from Economic Report "The Economy of the Republic of Chad" (AF-71) dated February 5, 1968.

SUMMARY AND CONCLUSIONS

(from draft economic report "The Economy of the Republic of Chad")

1. Chad, the largest landlocked country of Africa, provides a harsh physical environment for about 3.4 million inhabitants. The northern part of the country is largely desert with isolated areas adapted to livestock raising. In the southern one-tenth of the country soils and adequate rainfall combine to provide the basis for sedentary agriculture in which cotton, as well as subsistence crops, are cultivated. In between these two extremes lies an area in which subsistence agriculture is blended with livestock grazing by settled farmers and semi-nomadic grazers, the blend becoming more purely livestock as one moves north. Rainfall varies widely from season to season and year to year, which makes for a precarious existence for man and beast. During the rainy season low lying areas particularly south and east of Fort Lamy become catchments for flood waters which cut off communications by road during several months each year.

2. The Chad population is mainly rural, only 8% of the total live in towns. Ninety percent are occupied in agriculture, including livestock grazing and fishing. Population is growing at about 1.5% per year, a low rate which is expected to rise to 1.8% by 1970. Life expectancy is only 31 years due to the prevalence of malaria, dysentery, bilharzia, tuberculosis and venereal diseases and the low level of the health services. Nutrition levels have been high by African standard until recently. Only about 7% of the population are literate, though education has been expanding rapidly.

3. The country is divided broadly into two socio-economic political and geographical blocks with different religions, customs and languages. The southern population speak a variety of dialects, are animist or Christian and are settled cultivators. The population in the north and east are Arabic speaking Muslims, many of whom are nomadic or semi-nomadic. Political traditions vary greatly. In the north a number of sultanates were dominant in the past while in the south political authority was diffused, residing with tribal chiefs. The rivalry between the two cultures has a long historical background--the northern nomad or "Arab", as they call themselves, were traditionally dominant until French intervention. Formal annexation to France occurred during the First World War. The French contribution to the social, economic and cultural advancement of the country was naturally felt mainly in the settled areas of the south. As a result the limited educated class is largely from that area and over the years prior to independence the southerners became the clerks, civil servants, soldiers and politicians who were in position to take over power when nationhood was achieved in 1960. Political life is further complicated by personal and group rivalries, very often with a geographical rather than ideological basis.

4. The shift of power has been exploited by the administrators and is resented in the north. High livestock taxes and pressure to purchase the National Bond issue of 1965 have provided other sources of civil unrest resulting in sporadic raids by armed nomadic bands on villages and occasional encounters between the "bandits" and Government

forces. The raiding bands are said to take refuge in Sudan when hard pressed; this has been the basis for the deterioration in relations between Chad and the Sudan. This guerilla-type activity has not yet offered any serious threat to the Government in the settled and economically important areas. Relations with Sudan have improved in recent months after a meeting of heads of state. Nevertheless, the unrest is a serious drain on resources and can divert the Government from the important long term task of development.

5. Chad has maintained close ties with France; the last unit of the French army left in 1965, but it continues to depend heavily on France for financial and technical assistance. About 650 French technicians, including 300 teachers are assisting the Government and most public agencies. Chad is associated with the Common Market and is a member of the Union Africaine et Malgache de Coopération Economique. Its most important regional tie is as a member of the Customs and Economic Union of Equatorial Africa and its common Central Bank. Chad joined the IBRD in July 1963 and IDA in November of the same year.

6. The economy of Chad is one of very narrow range because of its isolation, climate and limited physical resources. Almost 50% of GDP is still outside the monetary sector, deriving from subsistence agriculture, of which the major crops are millet, sorghum and groundnuts. Much of livestock raising and fishing are also at the subsistence level. Medium staple cotton is the main commercial crop and along with the value added by transport and ginning, provides about 10% of GDP and 55% of total exports.

7. Cotton is grown on about 300,000 hectares by about 500,000 families on small plots, usually in rotation with millet or groundnuts. Output and yields vary greatly but in the last four years output has averaged 100,000 tons of raw cotton compared with 70,000 tons in the previous four year period. Ginning yields have improved with the introduction of new varieties and still better seed varieties are now being distributed to growers which will further improve the yields and quality of raw cotton. The growth of cotton production has been due to the joint action of COTONFRAN and the Government Price Stabilization Board. COTONFRAN is a private company in charge of purchasing, ginning and marketing of cotton. The company has operated under a convention which has assured it a reasonable profit in which the Government shares in good years. Although the Government has guaranteed cotton prices to the farmer, the level of support declined in the early 1960's. The overall real income of the cotton farmer has undoubtedly declined in the last ten years.

8. Chad's cotton has not been competitive at world prices, which have continued to decline for medium grades. The price gap has been reduced by improved yields and by reduced ginning and transport costs, nevertheless cotton production has required support from abroad, first from France and more recently from the European Economic Community. In 1966/67 Chad's cotton would have been competitive without the export duty of about 11%. However, the duty has provided an important share

of Government revenues which cannot be eliminated easily in the present fiscal situation. There are good prospects that the productivity program which is underway with EEC and French support will make Chad's cotton competitive in a few years. In the interim further cotton support from abroad will be required.

9. Livestock raising is the mainstay of the northern population. Livestock herds were estimated in 1966 to include 4.5 million cattle, over 4 million sheep and goats, 355 thousand camels and 450 thousand horses and donkeys. The annual value of production of the livestock sector including milk, milk products, meat, live animal and hides and skins amounted in 1965 to about 27.5% of total production of all agricultural commodities and foodstuffs.

10. Livestock and livestock products also rank second in exports, about 40% of which was the unrecorded exports of live animals. Marketing problems are serious. Cattle must be moved long distances with insufficient watering points en route which results in overgrazing around existing wells. Exports on the hoof yield relatively low returns to the Chad economy due to the poor condition of the animals and the owner's weak bargaining position. However, this clandestine trade appears to be advantageous to the individual seller by providing an escape from taxes and customs duties. Local consumption of meat has increased but most of the slaughtering is uncontrolled, also to escape taxes. The infrastructure serving the livestock sector is limited to several hundred wells, two modern ranches and two modern slaughterhouses, one of which is working at one-third of capacity. Cattle offtake is low but where sufficient water has been provided and pastures are not overgrazed offtake has risen and the weight and quality of animals has improved. Cattle health is good on the whole, diseases being fairly well controlled. In the industrial sector meat processing remained fairly stable from 1960 to 1966.

11. Chad has the least developed industrial sector of any of the countries of the Central African region. Its industry is almost entirely based upon the processing of agricultural products and is organized in small private or autonomous semi-public units. The most important industrial activities are cotton ginning, meat processing, brewing, rice and wheat milling, and edible oil production. The few mechanical and electrical industries are mainly concerned with repairs and maintenance work. Mining is practically non-existent. Total energy production amounts to only 1.5% of GDP, of which less than 50% is electric power. Commerce and transport account for about 20% of Chad's GDP and about 40% of GDP in the monetary sector. Government services have provided an increasing share of GDP accounting for about 10% in 1965.

12. The GDP data for Chad are not very reliable and are not fully comparable from year to year. Data on price trends have limited validity. Under these circumstances the estimates of real growth are cited with some reservations. The annual growth of GDP at current prices has been estimated at 5.8% between 1958 and 1965. Per capita income is said to have grown from $60 in 1961 to $71 in 1965. In the Five Year Plan per capita real

income is estimated to have grown at an annual rate of 2.6% from 1961 to 1965. This estimate is believed to be high. In 1966 there was undoubtedly a decline in real per capita income because of the poor millet and cotton crops. Some recovery, perhaps slightly above the 1965 level is expected for 1967. Sectors of relatively rapid growth in recent years have been government and private services, construction, commerce and industry.

13. Chad is one of the five member countries of the Equatorial Customs and Economic Union (UDEAC) who also share membership in a common central bank, the Banque Central des Etats de l'Afrique Equatoriale et du Cameroun (BCEAEC). Under an agreement with France, the CFA franc is freely convertible into French francs and the BCEAEC holds all of its reserves in French francs. Foreign exchange can be freely purchased by Chad and the other member countries even when the country shows a negative imputed balance in the operations account. Credit policy is managed by the Central Bank through the control of rediscount ceilings and moral suasion. The major credit activity of the country is in financing the marketing of cotton. There are three commercial banks and a Development Bank in Chad. The BCEAEC provides about 50% of the funds to the banking system through rediscounting privileges. The Chad Development Bank has been participating in commercial banking in (cotton marketing) almost exclusively until the last two years when loans to farmers and for house building grew in importance. Collection rates on agricultural loans have been poor but improved recently in areas where special projects are being undertaken by foreign technical assistance agencies.

14. Money supply has grown from CFAF 5.3 billion in 1960 to CFAF 6.4 billion in 1966, about 3.1% per year. Total money supply is equivalent to about 21% of monetary GDP. Credit to the economy has grown somewhat faster, especially in 1961, 1966 and early 1967. Credit expansion during these periods has been related to the size of the cotton crop, the unsettling effect of independence, the departure of French troops and a budget deficit in 1966.

15. Prices in Fort Lamy, the only available index, have shown an annual inflation of about 5.4% over the period 1960 to 1966. This is primarily due to increased prices of imported goods and increased import duties since the index is oriented to the consumption patterns of foreigners. Basic commodities such as millet show wide variations in price from season to season and year to year although a Government price control system for basic commodities was introduced in 1963. Wages, which are also regulated by Government decree, have increased about 50% since 1963.

16. Accurate and comprehensive foreign trade data are not readily available due to the substantial clandestine trade of live cattle and smoked or salted fish to Nigeria, C.A.R. and Cameroon and imports of textiles from Nigeria. Statistics of recorded trade (excluding intra-UDEAC or clandestine trade) show wide annual variations in the trade deficit due in large part to variations in cotton output. Estimates of trade with the UDEAC countries show a marked increase of imports

in 1966 over the previous two years, while recorded exports declined. Overall estimates on trading and services account have shown growing deficits, rising from CFAF 3.9 billion in 1961 to CFAF 6.5 billion in 1966. Merchandise imports alone have grown 29% during this period; exports by only 10%. The sectoral distribution of trade shows a decline in the share of food imports and slight increase in the shares of fuels and lubricants, consumer durables, non-durables and equipment. Major imports from UDEAC countries are sugar, cigarettes, soap, footwear, beer and textiles. France continues to provide about 50% of all recorded imports. Major exports are cotton, livestock and fish. On the basis of limited data the balance of payments indicates that the deficit on goods and services account have been offset in large part by public capital grants and loans and to a lesser extent by private foreign investment. However, significant losses of Chad's imputed foreign exchange reserves occurred in 1961, 1966 and early 1967. The result was a decline in imputed reserves to the lowest level since independence, a negative CFAF 0.89 billion. The decline in reserves is not crucial to Chad's monetary stability as long as the present arrangements continue within the regional Central Bank to which Chad belongs.

17. The Central Government is the only public fiscal agency of importance with its own revenues. Eight municipalities have budgets to which they contribute but total expenditures are only about 5% of those of the Central Government. Other public autonomous agencies depend mainly on foreign support for expenditures outside the budget. After independence the Central Government increased revenues quite rapidly to meet the growing requirements of new agencies and activities. The Government responded to the discontinuance of direct French support to the current budget after 1962 by raising taxes substantially in 1963. Since independence the Government has increased revenues by over 15% annually while annual expenditures have grown by 16%. Expenditures grew more slowly in the early part of the period allowing current surpluses from 1963 to 1965. A small deficit (before debt service) occurred in 1966 which was caused mainly by a doubling of defense expenditures resulting from the departure of French troops in 1965, and the internal unrest of the last two years. The latter also caused a decline in receipts from head and animal taxes.

18. Fiscal receipts have provided about 95% of total revenue; indirect taxes producing 70% and direct taxes 25% of the total. Import duties have accounted for 45-50% of receipts. The major shift in expenditures has been the increase in general services and defense, the latter accounting for 29% of total expenditures in 1966, a very high level for any country. Expenditures on economic services are only about 10% of the total since most economically important activities are financed outside the budget both on current and investment account.

19. Total investment, public and private, has been estimated at approximately CFAF 5.5 to 6 billion annually in recent years equivalent to about 10% of GDP. Annual private investment, largely from foreign sources, has ranged from 14 to 35% of total investment. The limited investment through the budget has been more than covered by total foreign

support to the current and investment budgets. Available information indicates that public investment outside the budget has also been financed in large part by foreign aid mainly from France and the EEC (FED), primarily on a grant basis. Prior to independence France had financed two programs of investment which emphasized infrastructure. After independence, preparation for the First Five Year Plan (1966-70) included a number of studies and an Interim Program of investment. Project aid continued and many projects have been carried over to the Plan.

20. Chad represents a formidable case for development. The small dispersed population and the limited output of commercial goods reduces the economic feasibility of projects for transport infrastructure. High transport costs in turn decrease the return of projects throughout the economy. Modernization in agriculture moves slowly under the burden of illiterate farmers and grazers habituated in primitive techniques. The internal political climate distracts attention from development. The First Five Year Plan (1966-70) recognizes these problems and has given priority to investment in a) human resources, education and training with an orientation toward agriculture, b) agricultural productivity and research and c) transport including studies of a more economical route to the sea. The Plan also includes provisions for a few industries adapted to Chad conditions and for the modernization of principal cities. Total cost of the Plan is estimated at CFAF 47 billion of which about CFAF 2.2 billion or 5 percent is for private investment. Forty-four percent of the Plan is for productive investment, thirty-four percent for infrastructure and twenty-two percent for social overheads. In productive terms the Plan projects an annual increase in real per capita GDP of 4.2%.

21. The Plan is too ambitious both as a program of expenditure and in estimates of production and trade to be achieved. As a result it is recommended that the Plan period be extended through 1972. Certain program targets need modification, the most important of which are the production target for millet and the target of export revenue for cotton, which has been overvalued. Most other major plan targets of output and trade should be achieved in the extended period. Under these assumptions, annual per capita GDP in real terms can be expected to grow at an annual rate ranging from 1.3 to 1.8%. It is also expected that exports will grow at an annual rate of about 3%, while import growth is restrained to 2%, compared with Plan targets of 5.2% and 2.1% over the shorter period. Such rates of growth would stop the deterioration in the balance on goods and services account and reduce the deficit from the peak of CFAF 6.5 billion in 1966 to about CFAF 4.6 billion by 1972.

22. On the whole the Plan provides a reasonably balanced program of investment. Since priorities are not indicated sector by sector and between projects and the Plan depends largely upon foreign aid, priorities will be fixed by the amount of financing obtained project by project. This is not the most rational approach to Plan financing but in the absence of some kind of coordinating mechanism by aid giving agencies, it is inevitable and will result in some competition to support the more attractive projects.

23. In agriculture the most hopeful developments are those which concentrate on priority areas and crops such as cotton, wheat, rice and livestock, where technical assistance, the supply of seeds, fertilizer, draft animals, tools, and other inputs are combined with credit and are in the hands of single agencies. The introduction of new seeds for cotton, the research on sugar cane, tobacco and other crops, and the development of the polders of Lake Chad give most promise for expanding output and modernizing agriculture. In livestock emphasis is being given to extending the grazing area by increasing the number of water points, by improved marketing facilities, and by improved animal health work.

24. In industry most of the investment is already assured by the public and private sector except for the proposed integrated sugar mill which will depend upon favorable sugar trials. The power program includes a number of small municipal power installations which will operate at a loss and should be dropped. In transport, which accounts for 35% of the investment, the road investment program includes a number of items of low priority. Transport investment should concentrate on improved drainage, bridges, and raising roads above flood level. Asphalting can be undertaken at a later stage when traffic warrants the additional investment and maintenance costs.

25. In the educational program it is not certain that the opening of new classes is phased with the outturn of teachers. This may call for a revision downward of the school building program. Savings may also be possible by combining certain institutions to reduce both capital and recurring costs.

26. In health, much more emphasis should be given to preventive health measures and health education and less emphasis to institution building. This is especially true where shortage of staff for hospitals and infirmaries will continue.

27. Chad's financial prospects depend upon a) her capacity to recover from the current budget squeeze b) the availability of foreign assistance to finance almost ninety percent of projects in the public sector which are suitable for such assistance, and c) additional foreign aid for cotton subsidies during an interim period. Without extending the Plan period to 1972 prospects are not good that Chad can achieve sufficient budget surpluses on current accounts to cover the amortization of public external debt and contribute to the financing of the Plan. The factors which caused the budget squeeze in 1966 continue, so that a deficit is expected in 1967. A return to the very satisfactory fiscal trends of 1963-65 will require a resolution of the political problems which would allow a reduction in defense and security expenditures in relative if not in actual terms. The various taxes on animals need to be reviewed to remove any inequities of the tax system which now appear to bring negative returns in revenue terms.

28. Public sector expenditures in the Plan total CFAF 44.8 billion of which CFAF 2.7 billion are recurrent costs for ongoing projects, CFAF 1 billion for labor in kind on community development projects, leaving CFAF 41.1 billion of projects suitable for foreign public assistance. From 1967 through 1972 it is feasible for the Government to achieve aggregate budget surpluses of CFAF 6 billion. Debt repayments on current external debt will be approximately CFAF 3 billion. The balance of CFAF 3 billion plus CFAF 1.4 billion of domestic borrowing leaves CFAF 36.7 billion of the Plan to be financed from external sources. This is equivalent to 82% of total public sector expenditures and 89% of the cost of public projects suitable for foreign aid. The future rate of external aid from present sources is not expected to change greatly and should provide CFAF 23 billion over seven years. Known new sources of aid, including the World Bank Group, can be expected to provide CFAF 3 billion, leaving a resource gap of almost CFAF 11 billion. Filling this gap will require an agressive and sustained effort by Government to increase the rate of expenditure and improve performance on current projects and to speed up the preparation of projects in adequate detail for external aid agencies. The inclusion of project recurring costs during the development period might increase aggregate receipts from abroad. The Government is also expected to range more widely for sources of assistance. If these measures are only partially successful in meeting the gap, the Government will face the alternatives of undertaking new measures to generate domestic savings or reducing Plan targets.

29. Chad's outstanding external public debt amounted to CFAF 6 billion at the end of 1966, including debt guaranteed by the Government. In addition CFAF 1.5 billion of loans are in the process of being formalized. Debt service in 1967 on contracted debt will amount to 12% of 1966 export of goods and services. If debt service on unsigned loans are included, the ratio will be 6% of expected exports in 1968, 4.9% in 1972 and 3.6% in 1975. Despite this moderate debt service ratio, Chad's creditworthiness for borrowing on conventional terms is very limited. The limitation arises not from a lack of foreign exchange, since Chad, under present arrangements, has additional drawing rights within the regional Central Bank, but from the internal fiscal situation. Any addition to debt service will reduce available budget surpluses for investment which are already small. Only projects of a self liquidating nature outside the Central Government budget would justify conventional borrowing and these are very limited. Therefore, because of its poverty and fiscal position, Chad will find it expedient to rely almost exclusively on grants and loans on concessional terms for its external financial requirements.

Report AF-71
Africa Department