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Economic Committee Papers - EC/O/68-35 - Chad - Development Strategy and Action Program

ECONOMIC COMMITTEE

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April 10, 1968

Chad: Development Strategy and Action Program

1. At the close of the Economic Committee meeting on Chad (February 27, 1968), Mr. Friedman stated that, in view of the difficulties that the country faced in its economic development, the Africa Department should formulate a proposed development strategy for Chad which would be

(a) discussed with the Government as a possible basis for its economic policies; and

(b) provide a framework for the Bank Group's operational relations with Chad over the next few years.

2. The attached memorandum "The Development Strategy and Action Program of Chad" has now been prepared by the Africa Department and will be discussed at a Special Meeting on Tuesday, April 16, 1968 at 3:00 p.m. in Mr. Friedman's office. In the light of this memorandum, the meeting will also consider the policy issues, as stated in the Economic Policy Memorandum from the Africa Department (EC/O/68-27/1, dated February 20, 1968), which were left unresolved at the Economic Committee meeting.

3. Committee members wishing to attend the Special Meeting should inform the Economic Committee Secretariat (extension 3985).

4. Oral comments on the attached memorandum should be conveyed directly to Mr. Hansen (extension 4226). Written comments (two copies) on the memorandum should be sent to me, with additional copies to Mr. Hansen and Mr. Collier, by the close of business on Tuesday, April 16, 1968.

C. F. Owen
Secretary

Attachment: "Criteria for Bank/IDA Lending to Chad and Similar Countries", covering memorandum dated April 10, 1968, from Mr. El Emary to Mr. Friedman, and "The Development Strategy and Action Program of Chad".

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

Members of the Economic Committee

Also: Mr. McNamara, Mr. Knapp, Sir Denis Rickett, Mr. Shoaib and Mr. El Emary

MEMORANDUM

To: Mr. Irving S. Friedman

DATE: April 10, 1968

From: A. G. El Emary

Subject: Criteria for Bank/IDA Lending to Chad and Similar Countries

1. During the recent Economic Committee Meeting on Chad (February 27, 1968) a number of participants emphasized that performance criteria should be adapted to the circumstances of Chad and a number of other countries in a similar stage of development. In weighing a country's suitability for Bank/IDA lending, it was felt that more attention should be given to each country's overall development strategy and action program to implement that strategy. Proceeding from this concern and the request of the Chairman for further consideration of this view, the following steps are being taken:

- (1) The summary of the Chad report has been amended to include a more explicit discussion of Chad's development strategy and the related action program;
- (2) A short memorandum has been prepared which sets out in more orderly fashion the development strategy and action program of Chad, including the points made in the meeting of the Economic Committee. This can be treated as a supplement to the Economic Policy paper. (See attached).
- (3) These views on the appropriate performance criteria for Chad type countries will be submitted to the working group which has been set up to study IDA policies including "the general conditions under which a country may be considered eligible for IDA funds".

2. The discussion in the Economic Committee meeting left the level of project cost financing somewhat open. You indicated a desire to pursue this point further in a later special meeting.

ECONOMIC COMMITTEE

SUPPLEMENT TO ECONOMIC POLICY MEMORANDUM FROM AFRICA DEPARTMENT

CHAD

The Development Strategy and Action Program of Chad

1. In the Economic Committee meeting on Chad (February 27, 1968), several participants suggested that in judging its performance (and that of similar countries, i.e., Upper Volta, Niger, CAR) the usual criteria related to past growth, fiscal and monetary policy etc. were insufficient. It was felt that more emphasis should be given to whether the country's overall development strategy for the future and the action program and policies necessary to its implementation were appropriate to the existing circumstances. During the discussion it was indicated that on the basis of such criteria Chad's performance has been relatively good. It was also indicated that continued satisfactory performances in Chad would depend upon the Government's continued adherence to this strategy not only in using its own resources, but also in taking steps to assure, as much as possible, that external assistance complemented their development program. This was in recognition of the unusually difficult circumstances for development in Chad and the crucial role that external assistance is likely to play in what is by its very nature, a long-haul development problem. This brief note is intended to set out in a more orderly fashion the basis for this judgment and the implications for Bank Group Operations in Chad. This note may serve as a supplement to the original policy memorandum on Chad (EC/O/68-27/1, dated February 20, 1968).
2. The overall development strategy of Chad is directed toward three broad objectives. The first is the expansion and diversification of agriculture. This includes the development of livestock for its promising long-term contribution to output and favorable side effects on nation building by indicating the Government's positive interest in the welfare of the livestock areas. Diversification of crop production is to expand local consumption and calorie intakes, substitute for imports and provide some exports, especially to neighboring countries. Finally, emphasis is being given to increase cotton productivity and reduce costs of handling and processing.
3. The second general objective is to improve the transport system, internal and external, with a consequent reduction of transport costs throughout the economy.
4. Finally, there is the aim of developing human resources through education and training programs geared to Chad's needs and capacity to staff and finance. Emphasis is being given to teacher training and the training of technicians in agriculture.

5. In Chad there is the complementary objective of integration into the broader economic unit of the regional customs union (UDEAC) and central bank (BCEAEC). This integration covers customs duties, fiscal system, investment codes, and development plans, especially in the sectors of industry and transport.

6. Chad's action program to achieve the major priority objectives outlined above focuses on "centers" or "building blocks" of development within, where possible, manageable geographic limits. The concept is to coordinate and concentrate both domestic and external resources on the most promising areas of development rather than dispersing activities widely over the large area of the country. This implies that investment projects will be selected that are of strategic importance in removing the constraints on existing development, and, wherever possible, these projects will support, if not actually integrate with, each other. Although the program of action emphasizes the public sector, it visualizes a growing role for the nascent private sector; e.g. road transport and bulk of trade and industry will be in private hands.

7. Projects in agriculture are concentrated in areas from which experience will be gained for expansion at a later date. These include the productivity effort in cotton which is concentrated in project areas in the southern part of the country being administered by the CFDT, a French technical assistance agency. Emphasis is on improved seed varieties, use of fertilizers, pesticides and introduction of animal draft power and improved implements. Related to this effort are the investments by: (a) COTONFRAN in improved gins which will reduce ginning costs and (b) the FED in a system of feeder roads in the cotton growing areas.

8. A second project area is concerned with the improvement of subsistence crops including groundnuts and diversification through the introduction of new crops. This project is being administered by BDPA, another technical assistance agency, and is located in the central part of the country.

9. In the nature of the case, livestock development is fairly dispersed geographically. However, priority is being given to the drilling of wells and the addition of ranches in areas where grazing is limited by inadequate water supplies, e.g. along cattle routes in the central and northern parts of the country.

10. The Lake Chad area is the focus of activities to improve output from both fishing and agriculture. The latter will be centered on newly poldered and irrigated areas with emphasis on both new crops and the expansion of traditional crops. Tied in with this development is a transport connection from the Lake to Fort Lamy which will facilitate marketing and the provision of supplies to the area.

11. In the field of transport, in addition to those related to the above projects, priority is being given to improved maintenance of the major national road links. The most important national links which connect major cities and areas of economic activities are to be upgraded. The Economic

Report recommends that emphasis should be on raising road levels, providing bridges and drainage so that roads are passable throughout the year rather than the more expensive paving of a necessarily smaller mileage of roads. Studies have also been initiated for an international route via Cameroon to determine whether a road or rail link should be constructed.

12. The investment in human resources is aimed at improving the levels of primary education through investment in teacher training and expansion of secondary education to meet needs for middle level staff and to provide graduates for higher technical training. Priority is being given to technical education in agriculture (including animal husbandry) although attention is also being given to other technical and commercial skills necessary to industry, commerce and government. However, it is interesting to note that for higher training the countries of the UDEAC have agreed to a division of labor so that they will not all duplicate institutions in medicine, engineering, agriculture, forestry, livestock, etc., at the college and university level.

13. Regional integration has already been achieved within the UDEAC in certain areas. The countries of the UDEAC have a common customs schedule and have also agreed on an investment code which is more or less the same for each country. A beginning has been made in a common tax schedule, the most important step being the application of a single tax ("taxe unique") on goods produced within the UDEAC. The single tax replaced the national customs duties and other taxes. A beginning has also been made in the coordination of development. At the present time a group of technicians are working within the UDEAC secretariat to prepare an integrated investment program for the industrial sector of the region. Transport is to be covered next; already certain multi-country transportation projects are under study. These include a Cameroon-CAR road, expansion of the Congo (B) - Gabon railway, and a study of the Chad-Cameroon link mentioned above. The effort at regional integration is not aimed at the creation of an exclusive economic unit. For example, Chad will continue to seek close relations with Nigeria not only as a transport channel but also as a market for its livestock. Recent developments in air transport might open the possibility of expanding processed meat exports to Libya as well as the existing trade with Congo (K).

14. As indicated in the report, the balance and direction of Chad's development effort is on the whole sensible. The action program includes a reasonable effort on Chad's part to raise domestic capital resources. The success of the development strategy also depends as much or more upon Chad's being willing to maintain the conditions to attract and effectively use technical assistance. Chad has foreseen this need for large inputs of technical assistance. Almost all projects, both new and ongoing, include provision for the foreign technical and managerial staff necessary to their implementation. Other technicians are provided for in the plan to undertake necessary studies and project preparation for the future. On the basis of past performance Chad is expected to make good use of such technical assistance. Nevertheless, it is obvious that some form of coordination of external aid, however informal it may be, will be necessary to insure that such assistance complements and enhances the development strategy in Chad and avoids dispersion of resources.

Program of Bank Activities

15. How can the Bank fit into the action program and IDA contribute to Chad's development? Since Chad's development is a long-term matter, I suggest that we visualize developing a long standing relationship with Chad. Our initial efforts will focus on implementing our first lending operations in Chad which will provide the context to nurture a long-term dialogue with the Government. The lending program under consideration by the Bank at this time might involve about \$8 million over the next two to three years. The projects under consideration are among the building blocks which fit into the selected centers of development: in livestock (water points), in education (teacher training and agricultural technicians), and in transport (road maintenance equipment). Other areas in which the Bank/IDA might become interested include (a) irrigated areas producing rice in the South, (b) pol-dered areas of Lake Chad, (c) regional transport link between Chad and Cameroon, and (d) technical education. Our operational work will be designed to complement the development strategy appropriate to Chad. In addition to fitting into the building block concept, several of the projects would contribute to developing the regional links of Chad. For example, developing the Cameroon-Chad transport link involves consideration of the most economically feasible alternative modes of transport between Chad and Cameroon as well as the effects this would have on Chad traffic through Nigeria where we already have substantial investments in transport facilities. It is conceivable that some projects being developed in the UDEAC framework might result in an integrated project sponsored by and benefiting several countries.

16. Implementation of some of the Bank projects will require cooperation with other aid-givers to ensure that our respective projects complement each other within the framework of the Chad development strategy. We therefore propose to pursue our discussions with the Government and major aid agencies already involved, particularly France and the European Economic Community, where our efforts, both short range and long range, would be most effective.

17. It is clear that continued Government effort will be necessary to alleviate the severe shortage of domestic finance for development since effective long term Bank group relations with Chad will require a local contribution, however small. Chad's fiscal performance has been reasonably satisfactory. Serious and successful efforts have been made to increase government revenues; the burden may even be too heavy in certain economic sectors, e.g. cattle tax. Since future increases in revenues depend primarily upon growth in the economy, especially of taxable cash crops, our discussions with the Government regarding revenues will have to evolve over future years. On the expenditure side, the problem will be to restrain defense expenditures. The economic implication of defense costs will be raised with the Government to the extent possible given the sensitive character of this subject.

18. As noted in the report and in the policy paper (EC/O/68-27; February 27, 1968, para. 16) the possibility of initiating a Bank/IDA operational program in Chad confronts the problem of the severe shortage of domestic finance, e.g. on average Chad must attract external assistance for 90% of total project costs if the bulk of the investment program, already stretched

out an additional two years as recommended by the mission, is to be implemented. Although the foreign exchange content of projects is on average much higher in Chad because of the cost of its remote location, external financing of only the foreign exchange component will not be sufficient to meet this average requirement of external finance. Furthermore, given the high marginal propensity to import, local cost finance in effect covers indirect foreign costs resulting from the project. To the extent that other aid agencies provide 100% financing, this will make additional domestic finance available for other projects, but the magnitudes are such that we should not expect a substantial contribution, as conventionally measured, from Chad to an IDA project. I therefore recommend that IDA financing be provided for a high proportion of project costs; in the present circumstances of Chad, this percentage would normally need to be as high as 90%, but will of course vary depending on the type of projects to be financed.

A. G. El Emary
Director
Africa Department

April 10, 1968