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OFFICE MEMORANDUM

TO : Mr. Roger Chaufournier April 21, 1969.

FROM : Messrs A. Byl, P. Th. Grosjean, K. Haasjes (PMWA) and C.R. Wilkinson

SUBJECT: Economic Mission to Chad - Back to Office Report

1. The economic mission visited Chad during March 16/April 10 1969 in accordance with terms of reference dated February 19, 1969. The mission was accompanied by Messrs. Pouliquen of the Transportation Projects Department and Aubrey of FAO, Rome.

Recent economic developments

2. Millet sorghum and groundnuts remain the basic staple food of the Chad population and their production is increasing slightly in the framework of a subsistence economy which trades only a small percentage of the total production. There are no major programs to develop the production of groundnuts but a project to increase the production of rice is being considered for the South.

3. The main exports are cotton and cattle which together with their derived products represent some 75% and 20% of the total exports of the country. Total exports of cattle on the hoof are estimated to have decreased from 170,000 heads (about 25,000 tons of carcass weight) in 1966 to 135,000 (about 20,000 tons) in 1968. This decrease was partially compensated by increased exports of carcasses by air (4,727 tons in 1966, 7,917 tons in 1968).

4. Cotton's share of the total exports is likely to remain important during the next five years. The 1968-69 harvest will be a record (138,000 tons of seed cotton versus 102,000 in 1967-68 and 122,500 tons in 1966-67), but the marketing of the corresponding 52,000 tons of ginned cotton will create some difficulties because storage capacity on the two main export routes (Bangui - Pointe-Noire and Ngaoundere-Douala) is not sufficient to allow evacuation of the whole of the production before the next rainy season begins at the end of May.

5. The government expects to reach a production of 200,000 tons of seed cotton (±76,000 tons of cotton fiber) by 1974-75. This increase implies a productivity campaign and expansion of ginning capacity. During the current 10 year period, which comes to an end on October 31, 1970, Cotonfran, a private company, is in charge of all cotton processing operations and has a marketing monopoly. It is understood that the government

has agreed, in principle, to renew Cotonfran's "Convention d'Exploitation", but up to now no discussions have taken place, and it is likely that Cotonfran will have to become a "Société mixte" with an increased government participation. At present the government has 15 percent of the shares but Cotonfran would like to attract a third partner (eventually IFC) and divide its shares equally among the three partners.

6. The total FOB price of cotton of some CFAF 140 (including an export tax of CFAF 17.30 per kg and transport costs to the sea of CFAF 15 per kg) is above the current world market price for the quality of cotton produced by Chad (between CFAF 125 and 135 per kg). Therefore the need for a price subsidy, which was provided by the EEC under the terms of the Yaounde convention, will continue to exist, particularly since world cotton prices are tending to decline. If the EEC does not accept the same or even a larger level of support under the new convention of association, the Chad Government may be forced to reduce either the level of the export tax or the price to the producer. The resulting reduction of income for the government would have to be compensated by an increase in total production and the reduction of the producer price would have to be compensated by increased yields per hectare.

7. In <u>the transport and industrial fields</u> it is worth noting the considerable improvement in the operation of the Cooperative des Transporteurs Tchadiens (CTT), resulting in a decline of transport costs, and the successful operation, from a technical point of view, of the Société de Textile du Tchad (STT). The latter, however, is costing the government about CFAF 500 million a year in loss of revenue from import duties on textiles, large electricity subsidies and long tax holidays granted under the investment code. As a result, the government is discouraging further increase in textile production for the time being.

8. No detailed data on the <u>balance of payments</u> for 1968 are available yet, except for monetary data which indicate a further decrease in net foreign assets by about CFAF 1 billion to CFAF - 2.35 billion in October 1968. The Central Bank (BCEAEC Tchad) promised to send 1968 balance of payments data by the end of April.

9. Neither the monetary nor the fiscal authorities mentioned an eventual change in the rate of the CFAFranc as a potential policy objective. In fact, attempts on our behalf to discuss the rate of the CFAF met with no response, neither in the public nor in the private sector. Discussions with the BCEAEC in Paris centered on the fact that, although theoretically a change in the rate of the CFAF might improve the countries' export and government finance situation, it is excluded that one could come to an agreement on a uniform rate of devaluation for all the member countries of each central bank, which is a precondition for further operation of a common central bank. The BCEAEC also refused, in principle, to accept that the rate of the CFAFranc is not a healthy one.

10. An INSEE expert from France is preparing 1967 national accounts data which tentatively indicate that in 1967 GDP has reached the CFAF 58 billion level which is still one billion less than the level that was predicted for 1965 in the first five-year development plan.

11. The budgetary situation has deteriorated considerably during the last 12 months. The provisional 1967 ordinary and equipment budget deficit of CFAF 400 million increased to almost CFAF 2.5 billion in 1968, if the accounts would have been closed at the end of February 1969. Receipts in 1968 amounted to CFAF 8.5 billion only with CFAF 11 billion expenditures. Apart from the shortfall in revenue collection from head and cattle taxes, the backlog in receipts from the UDEAC alone (mainly Solidarity Fund) accounts for about CFAF 1.5 billion. The French authorities are at present urging Chad's former UDEAC partners (Cameroun, Congo (B) and Gabon) to pay Chad as early as possible and full settlement is expected within a few weeks, which will decrease the deficit to about CFAF 1 billion.

12. Budgeted tax revenue in Chad amounts to about 15 percent of GDP and more than 30 percent of monetary GDP. Defense expenditures have constantly increased since independence and account now for about 30 percent of Chad's current expenditures (not counting the additional French military expenditures). Much of this expenditure is for support of tax collecting missions by the administration.

13. Chad's foreign debt repayments (much of it short term) have grown to about CFAF 1 billion annually for the next five years and present an almost intolerable burden for the budget.

14. The first five-year development plan period runs until the end of 1970. Of a total of CFAF 47 billion planned investment over the whole period, about CFAF 13 billion were actually invested by the end of 1968, and a further investment of 13 billion was expected during the 1969-1970 period, according to the revised investment targets of the government, adopted in the middle of 1968. In other words, it is expected that about 56% of the original investment target will be reached at the end of the plan period. While in general the pattern of investments has not been unwise, there have been a certain number of dubious investment decisions, particularly in the field of meat processing and vegetable oil production, tourism and housing.

15. Preparation of the second five-year plan (1971-1975) is just beginning and no quantitative targets are available yet. The government is in an advanced stage of negotiation with UNDP and the French authorities for reinforcement of the technical staff in the planning ministry. The Ministry of Planning appears to be loosing momentum, and the political future of the Minister himself seems to be unsure, particularly in view of the fact that his Ministry is at least partly responsible for the unwise investment decisions referred to above.

Political Developments

16. The Government of Chad is struggling at present with very serious internal and external problems. A weak central administration, mostly of southern ethnic origin, has increasing difficulty to keep public order and to collect taxes in large areas of central Chad, north of the Chari river, where roving bands make road transportation unsafe. The resulting supply problems have caused serious increases in the prices of basic staple foods in the southern markets and have prevented the build up of the necessary stocks for the rainy season. The execution of several development projects in the area north of the Chari river has also been seriously hindered or stopped completely. The French army has intervened occasionally and the French government is at present working out an emergency program of technical assistance for the regional administrations (prefectures and sous-prefectures). This program not only requires French military support, but will be mainly staffed by the French army, as the French army administrated the North until 1964.

17. Chad's external problem stems from its departure from UDEAC and the subsequent desertion of the CAR from the newly formed UEAC with Congo Kinshasa. At present Chad does not intend to return to UDEAC but it wants to remain a member of the regional BCEAEC. Chad is now collecting its own customs duties and measures have been taken to increase customs revenues in 1969 by augmenting duties on certain goods. We think that these measures will not be sufficient to compensate for revenue formerly collected from the UDEAC Solidarity Fund. Chad is also trying to solve problems resulting from leaving UDEAC through bilateral arrangements, particularly with Congo Brazzaville and Cameroon. It has received unofficial financial aid from Congo Kinshasa.

Mission's Advice to the Authorities

18. Chad's local political problems seem to originate partly in its taxation system. The main taxation problem seems to be that Chadians who derive their subsistence primarily from agriculture are taxed by a head tax, while Chadians who live from subsistence herding have to pay, not only the same head tax, but also an additional tax on each animal they possess. We were informed by the French Government that the President of Chad has ordered the formation of a mixed (Chadian-French) commission of fiscal and budgetary reform. The first meeting of this commission is expected in 3 or 4 weeks. The mission encouraged the Government to seek competent advise on fiscal reform. The French authorities consider that the mixed commission, of which they will be part, may call upon the IMF for an expert in taxation matters.

Bank Project Possibilities

A. Agriculture

19. The Government's request to IDA for agricultural credit for the whole of the country could be concentrated in the Mandoul Valley and the Moundou area and could lead to an integrated project for regional development, possibly to be financed jointly with FAC or FED, with cotton as the main cash crop. We have requested FAC if it could send an expert to Chad for a fact finding mission, as it did recently in Dahomey, Upper Volta and Ivory Coast.

20. Cotonfran is considering to approach the Bank for financing of five or six new ginneries (capacity 20,000 tons of seed cotton each) representing some CFAF 1.5 billion ($6 million) of investment. If the new convention entrusts Cotonfran also with the transport of seed cotton, which is at present carried out by private transporters, the acquisition of the required trucks could represent another CFAF 500 million which could be submitted to the Bank for financing.

21. The mission felt favorably inclined to the financing of the Sategui-Deressia irrigated rice project if a study shows that the project is feasible. The Chadian Government requested a grant from the Italian Government for this study but the Italian Government is only ready to grant a maximum of 40 percent of the required amount. The remainder should be financed for 10 percent by Chad and the rest by a loan, Chad is unwilling to finance the study on this basis and is exploring alternative sources: UNDP has reacted negatively, and the Government has now approached the Bank.

22. The economic feasibility of the polders project at Bol is under study and detailed data may be expected by the end of 1970. The mission considers this an area for continued Bank interest.

23. Sooner or later and political circumstances permitting, increased efforts will have to be made in the livestock sector. For Chad, the potential advantage of the economic union with Congo (Kinshasa) lies in the possibility of supplying the latter with livestock. This involves the organization of a livestock route through the CAR. In the opinion of the Chadian authorities the presently strained relations with the CAR make cooperation for the realization of this project very difficult. FAC is proceeding with a desk study of this project.

B. Transport

24. In his back-to-office report to be submitted to Mr. R. Sadove, Mr. Pouliquen will point out two potential projects which might be considered for Bank financing:

(i) a feasibility study of a road from Moundou, the center of the cotton production area in Chad, to Ngaoundere, the head station of the Transcameroon Railway in Cameroon; and

(ii) a study of the possibilities of development of internal air transport and a possible reconstruction program for about a dozen secondary airstrips to all-weather standards.

C. Fisheries

25. A potential market for about 40,000 tons of salted and dried fish exists in Nigeria, which has stopped all imports of stockfish from Norway for BOP reasons. FAC is already mounting a project for production of "salé séché" in the Lake Chad area, but a small additional project involving an annual output of about 3,000 tons of dried fish from a catch of about 10,000 tons of fresh fish in the Logone and Chari rivers has been identified by the FAO fisheries expert who accompanied us. His report has been received by the Bank.

D. Telecommunications

26. During the mission the home office received a request from Chad to study a telecommunications project. The authorities did not mention this request to us but we discussed in general the potential intervention of the Bank in the telecommunications field through a project in one of the larger cities, during the second plan period (1974), and this met with the approval of the authorities.

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