COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN CHAD

Mobilizing Private Investment for Inclusive Growth

Executive Summary

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Cover Art: Painting of Chadian Market Scene by Abdelkerim Mahadi.

EXECUTIVE SUMMARY

Chad, the largest landlocked country in Africa, is suffering from the confluence of three challenges: (a) weak political and economic governance as a result of elite capture, (b) endemic fragility, and (c) extreme exposure to climate change. For Chad, which ranked 187th out of 189 countries on the Human Development Index in 2020, these conditions have led to a failure to harness significant oil resources since 2000 — in spite of relative internal stability — and have perpetuated the country's status as one of the poorest performers in human development, as it has made only limited progress on poverty reduction, particularly for women and girls. Chad also remains the least electrified country in the world. The situation has further deteriorated as a result of COVID-19, which struck as the country appeared to be on the verge of a rebound — with gross domestic product (GDP) contracting by 1.6 percent in 2020 and by 1.2 percent in 2021 (respectively 4.6 percent and 4.1 per cent in per capita terms) following a 3.2 percent expansion in 2019.

Macroeconomic vulnerabilities have been further exacerbated by the COVID-19 pandemic. The latest Debt Sustainability Analysis (DSA) conducted jointly by the World Bank and the IMF in December 2021 shows a significant increase in debt vulnerabilities –as the debt service to revenue ratio will remain above the high-risk threshold. Chad is also in arrears to several creditors and was the first country to effectively reach a debt restructuring agreement with official and private creditors under the G20 Common Framework. This agreement provides Chad with adequate protection against downside risks while bringing the risk of debt distress to moderate. While the recent increase in oil prices has improved the country's fiscal stance, with total public debt expected to drop to 44.9 percent of GDP in 2022 (from 52.1 percent of GDP in 2021), a lack of macroeconomic stability remains a major impediment to private investment. Chad continues to face considerable challenges, including food insecurity, oil price volatility, climate change, and security issues, and continued reform efforts are needed to enhance growth and mobilize domestic resources to allocate to key social sectors given the low revenue base.

The oil boom of the 2000s failed to act as a development accelerator. The onset of oil production in 2003 presented Chad with a radical change in the structure of its economy, with foreign direct investment (FDI) inflows quintupling between 2000 and 2020 (and reaching a record 5 percent of GDP in 2019) and GDP per capita nearly doubling, rising from around US$897 in 2000 to US$1,519 in 2020 (purchasing power parity, constant 2017 international $). In fact, the country was receiving oil revenues that, on a per capita basis, were on par with Africa's leading oil-producing economies such as Nigeria. Yet the oil boom exacerbated some of the fragility drivers already existing in the country, including: (a) overcentralized, fractured, and non-inclusive governance; (b) regional imbalances and exclusion that fuel grievances; (c) insecurity, security sector dysfunction, and weak rule of law that prevent effective implementation of justice and mitigation of conflicts; and (d) intercommunal tensions that are aggravated by increasing natural resource scarcity and climate change.

The Chadian economy — now increasingly dependent on oil — remains largely undiversified and the country has made little progress in the area of human development. Export diversification declined over the past 10 years, even though Chad boasts significant opportunities for structural transformation to higher-value-added agricultural products. The situation further deteriorated on account of the large oil-price and security shocks of 2014–15, which led to a 15 percent decline in GDP per capita, eroding some of the gains of the past. In 2019, the country's gross national income (GNI) per capita of US$1,620 was the eighth lowest in the world.[1] With a score of 0.29, Chad ranks last out of 157 countries on the World Bank Human Capital Index (HCI). On average, Chadian children spend no more than five years in school by age 18. Chad's adult literacy rate, 22 percent of adults, is far lower than the Sub-Saharan African, low-income countries (LIC), and fragile and conflict-affected situations (FCS) averages. Chad also has one of the highest maternal mortality rates in Central Africa, with 1,140 deaths for every 100,000 live births. Given the deteriorating economic outlook and a relatively high population growth rate of 3 percent (which translates into fertility rate of six births per woman), the absolute number of poor people is expected to increase by about 700,000 to a total of 6.9 million by 2030.

Diversification and structural transformation of the Chadian economy are necessary to support sustainable economic development and to ensure a more equitable distribution of the fruits of growth. Reducing dependence on oil and cotton and enhancing conditions for other commodities in which Chad has a comparative advantage will create greater income-generating opportunities for the population at-large and build the basis for value addition in products that can assist Chad's transformation to a middle-income country. This need for diversification is why this report pays special attention to the nonoil sectors, bearing in mind that the hydrocarbon sector will continue to play a major role in generating fiscal revenue for the Chadian economy.

Despite the overall lack of progress, the onset of oil production in Chad in 2003 was associated with some improvement in development indicators. While poverty between 2011 and 2018 remained relatively stable at around 41 percent in the North Sahelian Zone and slightly increased to 14 percent in the capital city, N'Djamena, it declined markedly in the Saharan and South Sudanian zones by over 15 percentage points. In addition, inequality seems to have declined between 2011 and 2018 and signs of pro-poor growth are emerging. The consumption-based Gini coefficient fell from 42 percent in 2011 to 33 percent in 2018. Inequality fell across the board but faster in rural areas, where the Gini coefficient declined from 42 to 30 percent, compared with a decline from 36 percent to 34 percent in urban zones.[2] The growth incidence curves for 2011–18, which show the percentage change in average consumption for each percentile of the income distribution, are downwardly sloped, indicating higher growth among the poorest population groups. This pattern is observed mostly in rural areas, whereas the pro-poor benefits are quite limited in urban areas, particularly in the capital city.

As in other comparable Sub-Saharan countries, Chad's formal private sector is embryonic and characterized by a dual structure: a few large companies, mostly in agribusiness (cotton) and services (banking, telecommunications), coexist with a large number of informal firms. Market-based competition is weak despite formal regulation of monopolies, with significant state participation in key sectors of the economy – notwithstanding recent progress achieved in privatizing some state-owned or controlled enterprises. For example, in 2018 CotonTchad – the formerly state-owned enterprise with monopoly control of the country's cotton industry—was sold to Olam, with the state retaining 35 percent of the company.

OPPORTUNITIES FOR PRIVATE SECTOR INVESTMENT

Notwithstanding various challenges, Chad boasts considerable opportunities for private sector investment in sectors that can drive structural transformation, notably in livestock, sesame seed, and gum arabic as well as in cotton production—the historic cash crop. These sectors or products seem to present the largest opportunities for commercial success and development impact, determined on the basis of six criteria: (a) revealed comparative advantage;[3] (b) projected evolution of global demand; (c) employment elasticity; (d) prospects for domestic value addition; (e) private sector track record and interest; and (f) resilience to fragility drivers such as climate change and political governance. Political economy considerations also favor the selection of these sectors, as their exposure to political interference is limited—with the possible exception of livestock, for which significant interest from politically connected investors may affect the bargaining power and standing of pastoralists.

In livestock, Chad has a large revealed comparative advantage and enjoys a growing regional market. Already recognized as a priority in the National Development Plan, the sector offers potential for substantial domestic value addition in the production of meat, dairy, hides and skins. The technical requirements for success, however, are stringent, because modern slaughterhouses require both reliable electricity and throughput. The requirement that slaughterhouses process approximately 100–150 cattle per hour means that they could be operated profitably only with complementary investments in industrial-scale breeding and in pens that will ensure a consistent supply of livestock.

In sesame seed and gum arabic, Chad has a strong revealed comparative advantage. In the case of sesame, the global and regional markets are growing more rapidly than for any other sector. Sesame seed and gum arabic have demonstrated a potential to increase the purchasing power of rural farmers and entrepreneurs. Farmers have increasingly switched from cotton production to sesame, given that the two crops use similar nutrients and, as a result, cannot be farmed together on the same land. In contrast to cotton, sesame seed trading is decentralized, meaning it is being bought by multiple buyers and thereby offers a greater likelihood of competitive prices. Another advantage of investment in the sesame sector is that traders, wholesalers, and exporters of the product typically also export gum arabic, a product in which Chad also has a strong revealed comparative advantage. Although the global market for gum arabic has been stagnant, there are substantial opportunities for domestic value addition following the example of neighboring Sudan.

Cotton has been Chad's flagship export product since it was first promoted by the French colonial government in the early 20th century, though today the country's revealed competitive advantage is less than for other crops. Compared to gum arabic, livestock, and sesame seed, Chad's revealed competitive advantage in cotton exports is small, reflecting a highly competitive global export market. Exports collapsed in 2016, with export values falling below those of gum arabic or sesame, after the state-owned monopsony *CotonTchad Société Nouvelle* (CotonTchad) failed to pay farmers for output. Since the government sold a 65 percent equity stake in CotonTchad to Olam International, production has recovered somewhat, though it is still below historical highs. Global import demand for cotton has declined by 5 percent per annum, though imports by Chad's neighbors Nigeria and Cameroon have been growing over the past decade.

Yet cotton remains a pillar of Chad's economy and has two main outputs, seed cotton and cotton lint, each providing a distinct opportunity for value addition. Cotton lint is the raw fiber, which is ginned and then used as an input into textile manufacturing. The government is currently considering privatization of the state-owned textile manufacturer, the New Textile Society of Chad (NSTT). Seed cotton, the other output of cotton production, has a variety of uses in food and beverages and in pharmaceutical and cosmetic manufacturing; the kernels may also be used as a high-protein animal feed. Several processing facilities exist in the country.

SECTOR-SPECIFIC CONSTRAINTS

There are significant sector-specific and cross-cutting constraints that hinder growth in the chosen value chains. This section discusses sector-specific constraints first, followed by cross-cutting constraints.

- **Cotton**: CotonTchad's legal monopsony remains in place even under private ownership, with no clear timeline for liberalization, thus restricting farmers' bargaining power when prices are set and reducing the benefit to households from cotton production. Further, low productivity and inadequate water management make production challenging and costly, requiring input subsidies that are funded by CotonTchad's corporate tax revenue. These subsidies deter farmers from switching to other crops, such as sesame, in which Chad has a stronger comparative advantage and which are less input intensive.
- **Gum arabic**: Chad lacks quality grading and traceability (such as hand-picked-selected (HPS) grade) and has no program of forestry management, thus contributing to the overexploitation of wild trees (such as Acacia Senegal). Weak sector organization contributes to the limited bargaining power of producers.

- **Livestock:** Chad lacks the reliable electricity and cattle supplies needed to achieve scale economies for slaughterhouses. The levels of health inspections and veterinary services are insufficient. Under-resourced customs facilities at border points lead to congestion and informal trade. Policies such as a proposed ban on the export of live cattle could harm the bargaining power of pastoralists.
- **Sesame:** Government programs (for inputs, fertilizers, and for training) have been skewed toward cotton rather than sesame. Supporting sesame farmers is against the interests of CotonTchad because sesame and cotton are mutually exclusive crops. Exporters face significant local taxes, sometimes in each canton through which goods are being transited. The absence of sorting facilities reduces quality.

TABLE ES.1. TABLE OF RECOMMENDATIONS: PRIORITY INTERVENTIONS IN SELECT VALUE CHAINS

SECTORS	PRIORITY INTERVENTIONS	TIMING
Gum arabic	• Invest in a quality-grading and traceability system (such as hand-picked-selected, or HPS grade), and forestry management, working through exporter and trader associations.	MT
	• Support the professionalization of the value chain through collective action (such as for price negotia-tion, repayment collection, and community welfare).	MT
Livestock	• Ensure livestock exports are unrestricted in order to ensure export price parity for pastoralists selling to slaughterhouses. The reliable supply of livestock must come from breeding and pen operations, and unrestricted exports will ensure they offer slaughterhouses competitive prices.	ST
	• Expand and train a network of veterinary assistants; ensure the quality of imported veterinary pharmaceuticals.	MT
	• Invest in cold-chain infrastructure/Temperature-Controlled Logistics (TCL) services and promote the use of quality standards and certification.	MT
Sesame Seed	• Divert some subsidies for cotton exports to sesame to promote the use of fertilizers, certified seeds, or herbicides, potentially using e-vouchers, to promote the resilience of farmers through diversifica-tion of their crop portfolio.	MT
	• Exempt traders from taxes in multiple cantons.	ST
	• Invest in sorting facilities at key trading points, working through exporter and farmer associations.	ST
Cotton	• Articulate a clear timeline for liberalization of the cotton sector, in which new players are allowed to enter ginning in specific zones, as specified by the convention between CotonTchad and the govern-ment of Chad. The World Bank and IFC could provide inputs into a zoning arrangement based on the experiences in other countries.	ST
	• Invest in water management and yield improvement rather than deploying input subsidies through CotonTchad, which ties the use of subsidies to a specific crop. Subsidies could be diverted to the gen-eral input subsidy program run by the National Agency for Rural Development, ANADER (*Agence Nationale d'Appui au Développement Rural*), which allows farmers to choose the crop on which subsi-dies are used.	MT
	Support expansion of sesame seed production through the previously stated interven-tions in order to improve farmers' options outside of cotton and to increase farmers' bargaining power with CotonTchad if it remains a monopsony.	MT

Note: MT = medium term; ST = short term.

CROSS-CUTTING CONSTRAINTS

In order for Chad to reap the full benefits of these high-growth sectors and boost overall private sector activity, the CPSD has identified the following seven economy-wide bottlenecks as binding constraints hindering the sectors' development:

- **Access to Electricity**: Lack of reliable and affordable access to energy represents the number one bottleneck for doing business in Chad. Chad's national power grid does not extend beyond the capital city, N'Djamena, and some provinces such as Sarh, Moundou, Abeche and Faya. Access to energy is cited by Chadian firms as the top constraint they face after political instability. The country suffers from high power generation costs (about 43 US cents per billed kilowatt-hour, which places Chad's tariffs among the highest in Sub-Saharan Africa), and the potential in renewable energy resources is untapped.
- **Access to Markets**: Poor transport and logistics services, including lack of temperature-controlled logistics (TCL), are major constraints to doing business in a landlocked country unfavored by geography, with the closest sea outlet located over 1,700 kilometers away. Chad has among the highest costs and longest handling periods in the transportation of goods in Sub-Saharan Africa. At the national level, Chad's road network (especially in rural areas) is in bad condition. Chad is also highly dependent on the N'Djamena-Douala rail/road transit corridor, which suffers from under-investment, while transportation and logistics services are offered by individuals or companies with only a few trucks.
- **Access to Digital Economy**: Despite recent government efforts to reduce the cost of digital connectivity, the digital sector in Chad is nascent with significant gaps in access to quality digital connectivity (36 percent of the population has a mobile phone subscription and 15 percent has a mobile internet subscription, compared with 47 percent and 24 percent in Sub-Saharan, respectively). Fixed broadband penetration in Chad is very low and access to digital services for businesses remains limited, with the country ranking among the worst performers in terms of e-commerce development.
- **Access to Water and Irrigation**: Chad is largely arid / semi-arid, but it has significant untapped water resources. These could be harnessed by increasing the contribution of the private sector to exploit these resources, including by strengthening the public-private partnership framework.

- **Access to Financ**e: Firms in Chad suffer from limited access to financing (including bank financing for micro, small, and medium enterprises) and the slow progress in digitizing financial services. Chad's financial sector is one of the shallowest in the sub-region, with limited long-term resources and services to fund private enterprise and credit favoring a small number of large corporates. Financial inclusion lags other countries, with only 9 percent and 4 percent of Chadians having access to a formal bank account or to credit, respectively, the lowest ratio within the Central African Economic and Monetary Community.
- **Business Environment**: Enhancing transparency in public procurement, ensuring robust governance of tax policy and tax administration (such as tax exemptions and value added tax reform), and reforming the process of securing land titles and property registration are all part of a compelling agenda to stamp out corruption and foster a more favorable investment climate.
- **Access to Health Care**: Providing a better enabling environment for investments by the private sector in health care could be a win-win: with segments of the population able to afford obtaining health care abroad, greater availability of higher-quality private sector run facilities could make some evacuations abroad unnecessary. Experience shows that better-run private sector facilities attract high-income segments of the population. Key measures in support of greater investment by the private sector are the development of a clearer vision for collaboration between the public and the private sectors and updating the regulatory framework. In addition, performance-based management payments that aim to reward well-performing facilities can be an important element of a financial framework for the health system that incentivizes greater investment from the private sector. Furthermore, the outdated medical education system needs to be updated.

Finally, efforts to diversify the Chadian economy and boost private sector activity could also benefit from untapped resources within Chad's hydrocarbon industry. Specifically, three key competencies of Chad's oil and gas value chain could potentially create cross-industry linkages and positive spillover effects for the rest of the economy: (a) advanced data management based on the wealth of geospatial data collected that has the potential to help identify cross-sector opportunities and develop robust land-use strategies; (b) water management, with the effective management of "produced water" as a byproduct of oil and gas exploration; and (c) shared infrastructure and logistics, capitalizing on new and existing pipelines to bring utilities closer to rural communities (including electricity, fiber optics, and water).

ROADMAP FOR ACTION

Short- to medium-term actions that could alleviate these constraints include the following:

TABLE ES.2. PRIORITY INTERVENTIONS TO ALLEVIATE CROSS-CUTTING CONSTRAINTS

GAP	PRIORITY INTERVENTIONS	TIMING
Access to Electricity	• Support the development of alternative power generation solutions such as (a) renewables (large-scale solar) by adopting tax and duty exemptions and by introducing quality standards, (b) mini-grids / off-grid by devel-oping a regulatory framework, and (c) competitive procurement of independent power producer projects.	ST
	• Liberalize the distribution grid and encourage private sector entry into the distribution segment.	ST
	• Assist SNE (the national electricity company) in improving financial and operational performance by producing independent financial statements, clearing arrears to the public sector, and developing a least-cost energy generation plan.	MT
Access to Markets	• Modernize Chad's customs administration by automating customs clearance, improving information technol-ogy system interconnection with Cameroon, and upgrading the Douala Single Foreign Trade Window.	MT
	• Improve transit infrastructure and backbone services along the N'Djamena-Douala Corridor, including road maintenance and safety.	MT
	• Professionalize the trucking industry through fleet renewal programs and strict enforcement of rules (axle-loading).	MT
Access to Digital Economy	• Restructure or privatize the incumbent state-owned enterprise (Sotel) and introduce a wholesale open access model.	MT
	• Foster sector competition by enabling the entry of a third mobile network operator (such as by issuing licens-es for independent tower operators, allowing internet service providers to be facilities-based, and introducing specialized universal service providers).	MT
	• Reduce the cost of digital connectivity by promoting infrastructure-sharing (such as wholesale broadband li-censes) and reviewing taxation of the information and communications technology (ICT) sector.	ST
Access to Water	• Strengthen the institutional and regulatory framework for private participation in water and irrigation, includ-ing through public-private partnership provisions in the Public Procurement Code.	MT
	• Improve the enabling environment for irrigation investments, including by securing a productive environ-ment for irrigators, such as land and water rights.	MT
	• Develop regulations by determining potential uses for produced water, considering shared use of pipeline infrastructure, and providing for sound management of geospatial data collected through oil and gas explora-tion.	MT
Access to Finance	• Set up a risk-sharing facility (or MSME guarantee fund) to provide partial credit guarantee to financial institu-tions for increased MSME lending.	ST
	• Institutionalize mobile money as a means of payments, including for government payments (taxes, fines, so-cial cash transfers, bill payments, salaries, merchant payments, and so on).	ST
	• Develop leasing and warehouse receipt legislation and fiscal treatment to support agriculture finance.	MT

Note: MT = medium term; ST = short term. MSME = micro, small, and medium-sized enterprise.

GAP	PRIORITY INTERVENTIONS	TIMING
Business Environment	• Ensure effective protection of land titles (including customary rights) and design an alternative land dispute resolution mechanism to avert conflicts between herders and pastoralists. • Pursue VAT reform to increase the number of VAT payers by broadening the tax net and introduce a VAT refund mechanism, streamline tax exemptions, and monitor tax expenditure. • Adopt a framework for mandatory asset declarations by elected and public officials with a view to fighting corruption and strengthening governance in public institutions. • Strengthen the legal framework and adopt information technology solutions for transparent public procure-ment.	MT MT MT ST
Health	• Develop a regulatory framework for private sector participation (including financial incentives)—for example, by establishing universal health insurance, such as in Côte d'Ivoire. • Update the medical curriculum and expand training and skills-enhancing programs for health care workers. • Implement a performance-based financing mechanism in the health care sector.	MT MT MT

Note: MT = medium term; ST = short term. MSME = micro, small, and medium-sized enterprise; VAT = value added tax.

Map of Chad

MAP ES.1. MAP OF CHAD

Map No. 3788 Rev. 10 United Nations / March 2014 Department of Field Support / Cartographic Section

NOTES

1 World Bank, Republic of Chad Systematic Country Diagnostic: Priorities for Ending Poverty and Boosting Shared Prosperity (Washington, DC: World Bank, 2015).

2 It is conceivable that the decline in the Gini coefficient is overstated on account of noise in the 2011 data that exaggerated the extent of inequality.

3 Revealed comparative advantage (RCA) is based on Ricardian trade theory, which posits that patterns of trade among countries are governed by their relative differences in productivity. Although such productivity differences are difficult to observe, an RCA metric can be readily calculated using trade data to "reveal" such differences. The metric can be used to provide a general indication and first approximation of a country's competitive export strengths—without prejudice to applied national measures that affect competitiveness such as tariff/nontariff measures, subsidies, and others. When a country has a revealed comparative advantage for a given product (RCA >1), it is inferred to be a competitive producer and exporter of that product relative to a country producing and exporting that good at or below the world average. A country with a revealed comparative advantage in product i is considered to have an export strength in that product. The higher the value of a country's RCA for product i, the higher its export strength in product i.

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