CHAD

INTEGRATED FRAMEWORK FOR TRADE-RELATED TECHNICAL ASSISTANCE TO LEAST DEVELOPED COUNTRIES

Diagnostic Trade Integration Study

Concept Note

1. Introduction

Background. This Concept Note discusses the issues to be covered in the proposed Chad's Diagnostic Trade Integration Study (DTIS). The proposed DTIS is being prepared in the context of the Integrated Framework (IF), which is an initiative through which the IMF, ITC, UNDP, UNCTAD, the World Bank, and WTO combine their efforts and those of donors and Least Developed Countries (LDCs) to respond to LDCs' trade development needs. The IF was launched in October 1997 at the High-Level Meeting on LDCs' Trade Development, organized by the WTO in recognition of supply-side constraints facing LDCs. Following the designation of Chad as an IF beneficiary country, a preliminary IF launch meeting, sponsored by the ITC and the "Agence Inter-gouvernementale de la Francophonie", was held in N'djamena in September 2002. Mr. Javier Suarez (economist, The World Bank) and Prof. Olivier Cadot (consultant, DTIS team leader) visited N'djamena on the DTIS preparatory mission from February 26 to March 3, 2004.

The Chad DTIS will feature three central aspects. First, it will identify key bottlenecks in the development of trade-oriented activities. Second, it will indicate potential sources of non-oil growth, through an in-depth analysis at the sectoral level of high growth potential activities and products. Finally, it will provide an action plan to remove bottlenecks and promote high growth potential activities, involving, for national authorities, directions for reform; and, for donors, directions for technical assistance. The scope and depth of the DTIS will depend on the results of background reports and relevant inputs from other projects, as well as on the ongoing dialogue with national authorities, core participating agencies and other stakeholders.

Objectives of the study. In line with IF terms of reference, the proposed Chad DTIS will provide: *(i)* an assessment of the country's macroeconomic environment and of the specific constraints that it faces in accessing world markets ; *(ii)* an analysis of the country's trade performance and a review of the formulation and implementation of its trade policy, with particular emphasis on its integration with the national poverty-reduction strategy ; *(iii)* an assessment of the country's internal investment climate and of behind-the-border hurdles to the development of commercial activities; *(iv)* the identification of key sectors for the expansion of output, exports and employment; and *(v)* concluding recommendations for policy reforms, institutional capacity implications, and action plans to remove bottlenecks and seize opportunities identified in the diagnostic study. The study's conclusions and recommendations would be endorsed by the

Government of Chad, following broad based consultations with all stakeholders in the context of a Trade National workshop. The DTIS would subsequently be mainstreamed into the country's development strategy (PRSP) as well as donors' support instruments including World Bank CAS.

Section 2 of this Concept Note provides the socio-economic context. Section 3 highlights the major challenges faced by the country. Section 4 sketches out the critical issues identified and the analysis proposed in the DTIS. Section 5 summarizes organization of the task, the study's proposed outline, timing, and staffing.

2. Chad's socio-economic context

Chad, a country with 7.9 million people, located in Central Africa (Map 1), emerged a decade ago from a long period of violence and political instability, with its economy severely damaged. Since then, a number of critical national and regional reforms have been put in place, including privatizations, trade and price liberalization, and the CFA Franc's major devaluation in 1994. The devaluation improved Chad's competitiveness, and the country's trade balance subsequently showed a characteristic J-curve, but diversification was limited and — not surprisingly, given its initial condition — the economy's recovery was slow. GDP per capita is US$ 1,070 in Purchasing Power Parity (PPP) terms (Table 1).[1] Adverse weather and deteriorating terms of trade further complicated the process of structural adjustment. As a result, the country has depended heavily on international donors for a decade.[2]

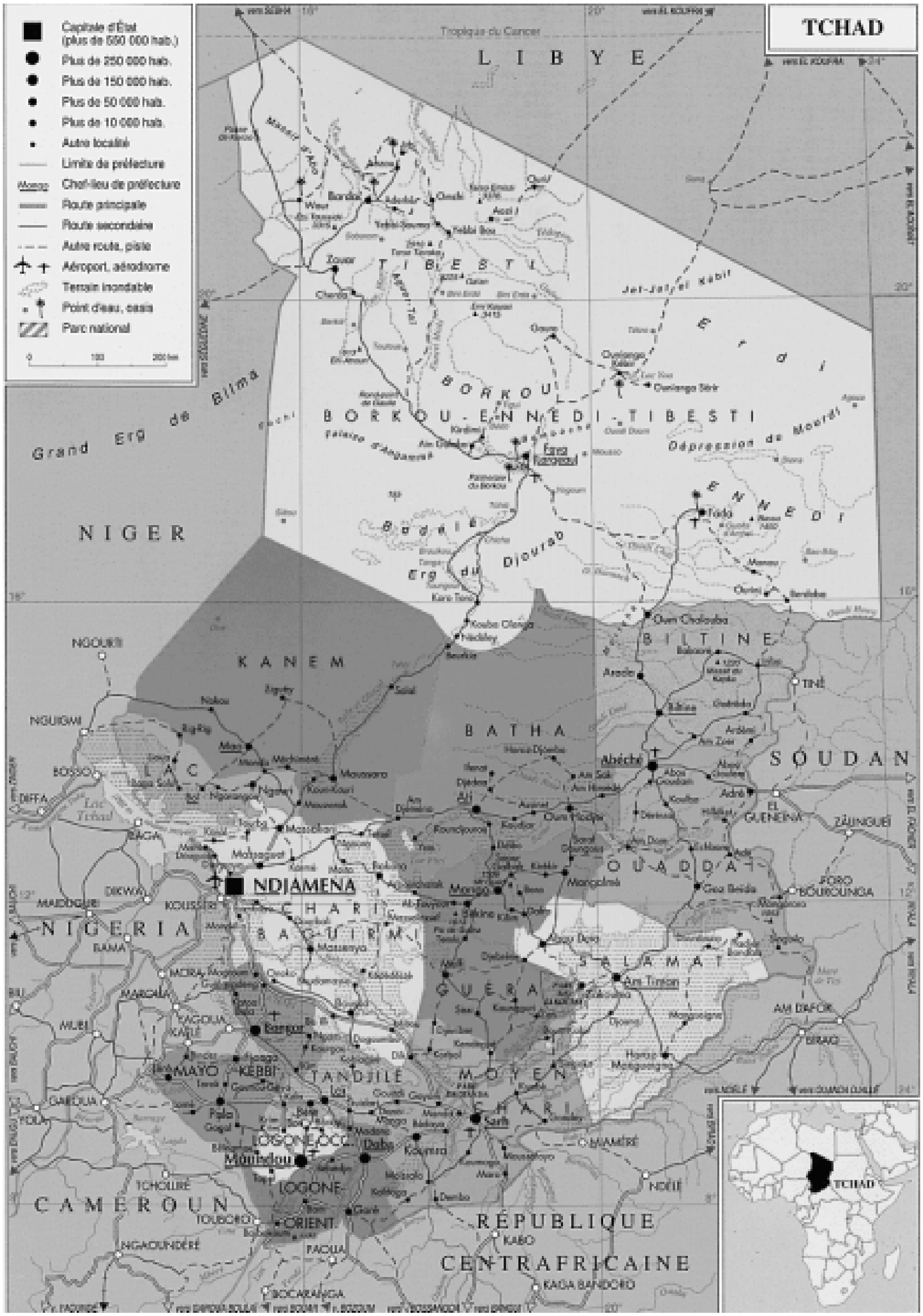
Table 1 Chad's basic data, 2001

Population (million)	7.9
Population under 15 (% of total)	47
Rural population (% of total)	76
Adult literacy rate	44
GDP at market prices (billion CFA Franc)	1,090
GDP at market prices (billion Euros)	1.66
GDP per capita (thousand CFA Francs)	134
GDP per capita (Euros)	204
GDP per capita, PPP dollars	930

Source: WB, IMF, National Authorities

[1] Real per capita GDP growth averaged 0.7 percent per year between 1995 and 2002 (MPDC 2003). Although modest, this was a substantial improvement over the negative per capita growth rates of the previous decade (over 1960-2000, Chad's per capita income shrank at the rate of 0.5 percent per year).

[2] In addition to bilateral assistance, notably from the EU, Chad benefited from the IMF's Enhanced Structural Adjustment Facility since 1995, and from four Structural Adjustment Credits from the World Bank. In 2002, 90 percent of the country's public investment program was financed by foreign donors (Zafar and Kubota, 2003).


TCHAD
Capitale d'État (plus de 500 000 hab.)
Plus de 250 000 hab.
Plus de 150 000 hab.
Plus de 50 000 hab.
Plus de 10 000 hab.
Autre localité
Limite de préfecture
Chef-lieu de préfecture
Route principale
Route secondaire
Autre route, piste
Aéroport, aérodrome
Terrain inondable
Point d'eau, oasis
Parc national
LIBYE
NIGER
NIGERIA
CAMEROUN
SOUDAN
RÉPUBLIQUE CENTRAFRICAINE
NDJAMENA
BORKOU-ENNEDI-TIBESTI
TIBESTI
BORKOU
ENNEDI
KANEM
LAC
BATHA
BILTINE
OUADDAÏ
CHARI-BAGUIRMI
GUÉRA
SALAMAT
MAYO-KEBBI
TANDJILÉ
MOYEN-CHARI
LOGONE OCC.
LOGONE ORIENT.
Grand Erg de Bilma
Erg du Djourab
Dépression du Mourdi
Abéché
Moundou
Sarh
Tropique du Cancer

3. Major challenges and overriding questions

In the near future, debt relief under the Enhanced HIPC Initiative[3], and, more important, new oil revenue will transform Chad's economy. At US$25/barrel, exports will jump by a factor of ten in dollar terms; at $35/barrel, by a factor of fifteen. In this context, Chad's key overriding issue will be how to manage the transition from a poor, agricultural/herding economy to a natural resource-based one. Along with new prospects for rapid growth,[4] increased resources for redistribution and investment,[5] and better integration into the world economy, will come daunting policy challenges.

The first such challenge is the so-called "Dutch disease," in which the development of a large-scale natural resource has damaging side effects on the economy's non-resource sectors. These typically include upward pressure on the currency's value (if the resource is exported) and price inflation as the growing natural-resource sector competes for scarce factors of production.[6]

Chad, however, may avoid Dutch disease, for two reasons. First, Chad's currency, the CFA franc, is pegged to the Euro, so nominal appreciation is not an issue. Second, employment in the oil sector is small and there are few alternative non-oil employment opportunities for Chad's limited supply of skilled manpower. In addition, there is, no intermediate-good sector to be "crowded out." In sum, competition for productive resources is likely to remain slight, despite possible local tensions on wages and on some service prices.

The second challenge arises from the possibility that the resource sector will form an "enclave" with minimal growth spillovers for the rest of the economy. This may stem from the resource sector's capital intensiveness, use of expatriate manpower and imported inputs and, more broadly, from the local economy's lack of supply response. This issue seems more relevant for Chad than the Dutch disease, and will be at the heart of the DTIS, whose central objective is to promote non-oil activities with high growth potential.

Cross-country empirical evidence suggests two cautions. First, with few exceptions (notably Chile), natural resources have rarely proved a reliable engine of growth. Resource-based economies have tended to grow, more slowly than resource-poor economies, a paradox known as the "natural-resource curse," or the "paradox of abundance." This is generally attributed to the fact that, in countries with weak

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[3] Chad's debt-to-export ratio was 214 percent in NPV terms in 2000. The country reached the decision point in May 2001 and, following Government and donor approval of the PRSP in 2003, is expected to reach the completion point in the second half of 2004. It is thus poised to benefit from substantial debt relief ($260 million, equivalent to $170 million in NPV terms, (WB 2003)).

[4] Note however that the extremely rapid growth generated by the oil project's construction phase will be short-lived. Real GDP growth is forecast to average 2.4 percent per year over 2006-2010 (WB 2003).

[5] Based on a crude price of $25 a barrel, Chad stands to earn about $5 billion dollars over the project's thirty-year life cycle ($2.7 billion in NPV terms at a 5% discount rate; see also BDF 2003, p. 259, footnote 3, referring to WB data). On the basis of an initial extraction rate of 225K barrels a day (the peak rate may be higher), government revenue would increase by about half (WB 2003).

[6] One prominent case of the Dutch disease in the region is Cameroon, whose non-oil economy contracted severely during the 1978-1986 oil boom (see Zafar and Kobuta, 2003).

institutional capabilities, the extraction of natural resources generates negative side-effects, including skewed distribution of benefits, social tensions, over-borrowing, and deteriorated governance.[7] A critical issue for Chad will be to establish policies and institutional arrangements to mitigate the natural-resource curse.[8]

Second, recent evidence shows that few short-run growth accelerations (out of sixty-four since 1950, twelve in sub-Saharan Africa) have translated into sustainable long-run growth.[9]

Without oil, igniting growth was difficult; with oil, Chad's second overriding challenge is how to sustain growth by integrating broad sectors of society into the global economy.

In sum, Chad's main challenges now are: *(i)* to create institutional conditions ensuring that the additional resources (oil and debt relief) effectively contribute to poverty alleviation; and *(ii)* to enhance the non-oil economy's long-run supply response, its integration into global markets, and its diversification into sectors with potential for high growth and direct poverty alleviation.

4. Main issues

(a) Macroeconomic management

Chad's economy recently suffered conflicting shocks: on the positive side, the Doba site construction, on the negative, the extreme weather conditions of the 1999/2000 harvest. Real GDP growth was 9.9 percent in 2003 (GOC 2003) and is forecast to be 37.8 percent in 2004, and 13.2 percent in 2005, corresponding to non-oil GDP growth of 5.6 percent and 5.1 percent respectively for those two years (GOC 2003). Longer-term growth is projected to stabilize at between 2.4 percent and 2.7 percent (Table 2).

Chad is part of a currency union, the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC), created in 1994 to replace the UDEAC, itself in existence since 1964.[10] The area's common currency, the CFA franc, has been pegged to the French

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[7] It is worth noting that the Government of Chad has put in place, with donor assistance, an unprecedented array of safeguards whose centerpiece is the 1999 Petroleum Revenue Management Law, approved by Parliament in 2000. The Law set up an oversight body, the *Collège de Contrôle et de Surveillance des Resources Pétrolières*, whose mandate is to control the budget use of oil proceeds. However, the Law is expected to cover only about 55 percent of actual oil revenue (royalties and an upstream production tax), as corporate and pipeline taxes are beyond its scope (EIU 2003).

[8] Recent work (de Ferrranti et al, 2002) suggests that natural resources can stimulate development, if used to finance sustained investments in human capital. Indeed, the presence of a fiber-optic cable alongside the Chad-Cameroon pipeline makes it in principle possible to develop service outsourcing activities in Moundou. However, Chad's initial educational conditions make the transition *From Natural Resources To The Knowledge Economy* (the book's title) a very long-term objective.

[9] Rodrik (2003), Table 9. Chad is one of them, with a short-lived growth acceleration over 4% a year around 1971.

[10] CEMAC comprises Cameroon, the Central African Republic, the Republic of Congo, Gabon, Equatorial Guinea, and Chad, which accounts for a quarter of its population but 7 percent of its GDP. CEMAC's secretariat, financed since 2002 by a 1-percent tax on imports from the rest of the world, has struggled with funding and staffing issues.

Franc, and then to the Euro at CFA Franc 6.56 : €1 since the 1994 devaluation. The devaluation improved CEMAC's price competitiveness, and the ensuing inflationary pressures have been effectively contained. However, despite prudent monetary management, signs of real currency appreciation have recently[11] offsetting some of the last decade's competitiveness gains.

Table 2 Chad's macroeconomic indicators

	1994-1996[c]	1997-2000[c]	2001	2002[d]	2003[e]	2004[e]	2005[e]	2006-2010[f]	2011-2015[f]
Real GDP growth[b]	4.7	3.1	8.5	9.7	11.2	42.4	15.3	2.4	2.7
Gov. revenue[a]	6.1	7.8	7.8	8.0	8.3	9.2	9.9	12.5	15.6
Of which oil revenue					*0.5*	*3.2*	*3.5*	*4.1*	*2.7*
Primary balance[a]	n.a.	-2.0	-1.7	-2.4	-2.8	1.7	2.0	2.3	0.7
Gov. expenditure[a]	18.2	18.0	18.8	20.2	20.0	13.9	13.6	15.3	19.5
Overall fisc. bal.[a]	-12.1	-10.1	-11.0	-12.2	-11.7	-4.7	-3.8	-2.8	-3.9
Export Growth[b,g]	31.0	2.8	0.7	-5.7	67.8	388.6	13.8	-4.7	-7.3
Current account[a]	-8.6	-11.9	-38.3	-56.5	-35.4	-10.2	-3.7	-2.7	-5.1
Inflation rate[b]	20.6	1.4	12.4	5.2	4.3	4.0	4.0	3.0	3.0

a) in percent of GDP
b) in percent.
c) averages
d) estimates
e) projections
f) average projections.
g) Cotton and livestock exports were unusually low in 1994 (CFA Franc 26.4m and 14.7m respectively, GOC 2002).

Source: World Bank (WB 2003), Tables 1 and 3 (combined)

In the short run, Chad's new oil exports present CEMAC's monetary authorities with an "asymmetric shock" (affecting one member state but not others), and raises special issues.[12] With monetary policy constrained by the regional agreement, the burden of adjustment falls onto fiscal policy. However, government revenue is only about 8 percent of GDP (see Table 2), and the GOC has little leeway for fiscal adjustment. In

[11] The REER appreciated by 9.1% in the twelve months to August 2003 (GOC 2003).

[12] For instance, a shock in one country may call for a monetary-policy stance differing from the one the regional central bank considers appropriate given its wider jurisdiction. So far inflationary pressures in Chad have been muted (see Table 1). However, as noted by the PRSP (MPDC 2003) in the presence of money and product market segmentation in the CEMAC zone, excess liquidity locally generated by Chad's oil shock may call for a policy response (sterilization in some form or other) in order to prevent lasting deviations of Chad's prices from the zone's.

addition, the oil windfall is likely to generate expectations of substantial wage increases in the poorly paid civil service, with adverse budget consequences.[13]

In the long run, Chad's transition to an oil-based economy will make its export structure more similar to CEMAC's: oil accounts for about two-thirds of CEMAC's export revenue since 1990 (Zafar and Kubota 2003). As oil supersedes cotton and livestock as Chad's main export item, oil-price fluctuations will translate into more symmetric shocks for the CEMAC zone, making regional macroeconomic coordination somewhat feasible.[14]

Finally, large swings in exchange rates between major currencies have substantial implications for Chad's price competitiveness and export earnings. For example, the euro's recent rise relative to the dollar reduces the domestic value of dollar-denominated oil exports, while potentially mirroring the pre-1994 real appreciation for the rest of the economy.

Therefore, the high-priority macroeconomic policy challenges for GOC authorities stem from: *(i)* the constraints on macroeconomic policy implied by regional arrangements; and *(ii)* the effect of oil on the Chadian economy.

The chapter that covers these challenges in the DTIS may be contributed by IMF staff or the WB's macro unit, and the analysis will be based on the staff's assessment. It will examine the evolution of the real effective exchange rate (REER), monetary and fiscal policy, balance-of-payment issues, and debt (public and external). The chapter will also survey Chad's formal banking sector, and outline recommendations for improved access to credit for the private sector.

(b) Trade policy

i) Trade performance

Chad's trade statistics are virtually non-existent; the customs administration sends basic trade figures to the Ministry of Commerce on an episodic basis. The country's trade pattern can therefore be analyzed essentially through mirroring (i.e., using partner trade statistics).

The 1994 CFA franc devaluation produced only very limited diversification for Chad. The country's non-oil exports are heavily dominated by cotton and livestock, which, together with gum arabic, account for more than 80 percent of the country's non-oil exports (see Table 3). Livestock overtook cotton as the country's main non-oil export when cotton exports went down by a third between 1998 and 2001. After a short-lived post-devaluation boom in 1994-96, export growth has been disappointing.

Chad's imports, once primarily from France ($141 million in 2002 out of a total of $437 million), have massively shifted their source as imports from the US jumped from $3 million in 200 to $140 million in 2002 as a result of the Doba site's construction. This

[13] Chad's budget deficit was 13.6 percent of GDP in 2000. The PRSP projects a real annual increase in the government civilian wage bill of 8.3 percent.

[14] CEMAC's terms of trade are heavily correlated with oil prices.

redirection, however, is likely to be transient. In the longer run, anecdotal evidence suggests that informal imports from the Middle East and North Africa (MENA) zone, transiting via Dubai, are underestimated in Chad's statistics (because most of the trade is undocumented) and will rise.

Table 3 Chad's foreign trade

	1997	1998	1999	2000	2001
Exports	138.1	154.3	140.2	130.2	129.6
Livestock	41.8	48.8	42.9	48.8	51.2
Cotton	63.2	77.7	60.1	50.6	48.2
Others	33.1	27.8	37.2	30.8	30.2
Imports	143.9	165.8	162.4	165.7	328.7
Oil sector	13.9	30.8	50.7	52.1	201.5
Non-oil sector	41.5	46.6	45.0	44.1	51.8
Public sector	40.1	27.9	23.6	32.7	34.4
Others	48.4	60.5	43.1	36.8	41.0

Notes: - Billion CFA Franc fob; CFAfr 656 = € 1.00.
- With oil exports forecast to reach about USD 2 billion per year starting in 2004, exports will then be ten times as much, in dollars, as the average over the five years to 2001.

Source: EIU 2003 (from BDF 2002)

Chad is part of CEMAC's regional integration agreement and is eligible for preferential treatment from the US under the Africa Growth and Opportunity Act (AGOA) and from the EU under the "Everything But Arms" (EBA) initiative and the Cotonou Agreement. However, Chad has yet to make use of these opportunities.

The disappointing effect of trade preferences is not specific to Chad. Empirical evidence shows that Africa's regional integration agreements have by and large failed to deliver on their promises, as intra-regional trade liberalization regularly fell behind schedule and inland transportation costs remained prohibitive. CEMAC's intra-regional trade, for instance, represents barely 5 percent of the zone's total trade (Zafar and Kubota 2003). However, regional integration has encouraged an otherwise slow process of fiscal simplification and harmonization.[15]

[15] A major tax and tariff reform, the *Réforme Fiscalo-Douanière* (RFD), was introduced by CEMAC in 1994, with the objective of streamlining the member states' tax systems. The RFD introduced a Common External Tariff with the usual escalating structure and a *Tariff Préférentiel Généralisé* (TPG) for intra-bloc trade. The TPG was originally seen as a temporary tariff to be phased out by 2000 for a complete liberalization of intra-zone trade. A VAT and a corporate income tax (*Taxe sur le Chiffre d'Affaires*) were also introduced.

As for unilateral trade preferences granted by OECD countries, high compliance costs, rules of origin and exceptions for sensitive products have led to uneven utilization rates (Mattoo et al. 2003).[16] Chad, which did not use AGOA at all in 2001, is no exception.

ii) High-priority issues

Two key issues here are: *(i)* whether and how trade preferences can help Chad's integration into world trading networks; and *(ii)* how important is regional integration. Regional trade integration could benefit a landlocked country like Chad, 40 percent of whose exports reportedly go to neighboring countries (GOC 2002). However, it is difficult to assess Chad's application of CEMAC preferences, given the present state of customs administration; policy progress in this area is conditional on customs reform. Moreover, fragmentary evidence suggests that a large part of Chad's trade is with Nigeria and the MENA region, neither of which is in CEMAC. Although Chad's large border trade with Cameroon suggests that CEMAC is a "natural trading partner," it is not clear how much policy attention it should command, from a pure trade-policy perspective.[17]

It is probably safe to assume that the current state of Chad's energy, transportation and telecom infrastructure (see below) precludes its participation in international supply chains in the manufacturing sector (garment or other).[18] It is an open question whether Chad can, even in the long term, benefit directly from AGOA to the same extent as have other SSA countries, like Nigeria, Cameroon, or Lesotho. However, new rules of origin requiring higher regional content for garments to be eligible for AGOA treatment could, if set at non-prohibitive levels and if credible supply chains were in place (admittedly, an ambitious target), encourage intra-regional trade in cotton, from which Chad might benefit.

In the short to medium run, any expansion in non-oil trade is likely to come from traditional agricultural exports (cotton and livestock), largely unaffected by AGOA-type preferences. Those exports currently suffer both from the severe disorganization of internal marketing channels (Verardo et al. 2003) and from world price distortions due to subsidies in producing countries (Dough and Goreux 2003). However, their modernization remains a key policy priority.

The DTIS will focus on three high-priority issues. First, using COMTRADE and the IMF's DOT mirror statistics, it will provide a descriptive analysis of the geographic and sectoral composition of Chad's foreign trade. This analysis will inform a discussion of Chad's revealed comparative advantage, linked to the agricultural policy discussion, and

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[16] In 2001, the average rate of utilization of AGOA preferences by eligible countries was 9.8 percent (USITC statistics).

[17] Much will depend on the next round of CEMAC trade reforms. As suggested by Zafar and Kubota (2003), one option integrate ECOWAS (which includes Nigeria) and CEMAC in a larger FTA. However, should regional trade genuinely take off, experience elsewhere suggests that non-overlapping trade and monetary integration arrangements create problems of their own.

[18] Although some bottlenecks can be expected to be eliminated in the future, the intensification of international competition in garments after the ATC's phase-out in 2005 is likely to raise substantially the hurdle for entry into the garment sector.

to priorities for sectoral promotion. This discussion should also emphasize the implications of sectoral policy options for poverty reduction.

Second, the report will assess preferential trade arrangements, the potential for improved trade integration they offer, what priority they deserve, and what progress should be aimed for. The report will evaluate the impact of CEMAC's preferential trade regime (internal and external), including analysis of the CET's structure and the implications of trade-policy options for poverty reduction. The report will also explore how regional integration can generate "non-traditional gains" in governance and policy coordination, in particular with respect to transit arrangements.

Third, the report will evaluate the policies and processes of Chad's MFN trade regime. It will identify remaining anti-trade biases, as well as implementation issues for international trade agreements, including WTO commitments. It will assess trade-policy formulation and implementation procedures. This should lead to an assessment of TA needs for policy formulation and participation in international negotiations and forums, in particular EPA negotiations with the EU.[19]

Throughout, the report will link with others (trade facilitation, transport, and competitiveness) to discuss domestic issues, including trade-oriented public goods, private-sector development, and governance issues such as roadblocks, and discretionary changes in tax rates and bases.[20]

(c) Trade and poverty reduction

Trade integration, broad trade policy, and poverty reduction will be linked as the DTIS's common thread and bridge to the PRSP. However, poverty measurement and understanding, and some policy issues, warrant separate treatment.

i) Measurement and understanding

Incomplete quantitative data on poverty in Chad is available from three surveys: the 1995-96 Survey of Consumption and the Informal Sector in Chad (ECOSIT),[21] the 1997 Demography and Health Survey (EDST), and the 1998 nationwide Migration Survey. A household survey launched in January 2003 is underway, but its results will not be available in time for use in the DTIS.

Average indicators of poverty and human development are extreme in Chad. For example, according to the PRSP, based on ECOSIT and EDST data, as of the mid-1990s 41.6 percent of the population lived under the food-related poverty line.[22] Forty percent

[19] Together with Benin, Burkina-Faso and Mali, Chad recently promoted at the WTO an initiative in favor of the elimination of cotton subsidies by OECD countries (WTO 2003).

[20] Chad eliminated export taxes on agricultural products and livestock in 1995 and most non-tariff barriers have been phased out (GOC 2002).

[21] ECOSIT's sample is biased because coverage was limited to 4 of the country's 14 prefectures and those prefectures (old administrative divisions) have, according to the PRSP, higher-than-average human development indices.

[22] The food-related poverty line is defined as the expenditure necessary to purchase foodstuffs delivering a daily calorie intake of about two thousand calories. It is thus a subsistence level of income. This expenditure level was in the 1990s around $0.40 a day for the area covered by ECOSIT.

of children under the age of five suffer from malnutrition and the infant mortality rate is over 100 per thousand. Life expectancy at birth is 44 years, and three quarters of the population do not have access to safe water.

ii) High-priority issues

When credit markets are deficient, liquidity constraints prevent poor households from making the capital investments (in tools, seeds, fertilizers, cattle, and other inputs) required for integration into commercial networks.[23] In addition, extreme poverty hampers the accumulation of human capital (as shown by Chad's low schooling rates, in particular for girls), and hence long-run growth. In the presence of such market failures, income redistribution via taxation can have either pro-growth or anti-growth effects (and, relatedly, pro-trade or anti-trade effects) depending on how it affects credit-constrained households. Heavy taxation of goods consumed by the poor can reduce trade not just via a direct price effect, but also via an indirect income effect. These considerations are important because the oil windfall creates an opportunity for reductions in border taxes, if warranted on poverty-reduction grounds.

To improve the choices for poor households, it is necessary to understand: *(i)* their household characteristics; and *(ii)* how trade taxes affect their income and expenditure. Trade policy is an imperfect instrument of redistribution but, in the presence of government failures, import protection for goods produced by the poor may, in the short run, be an expedient way of increasing low incomes.

The DTIS chapter on trade and poverty will complement the descriptive analysis of Chapter 3 of the PRSP by assessing, through formal regression analysis of ECOSIT-I data, household income and poverty indicators as functions of household characteristics including crop specialization, production for export (as opposed to competition with imports), degree of market participation, remoteness, region, and literacy.

To formally link determinants of poverty with policy options discussed in the agriculture and trade chapters, the DTIS chapter will also calculate net rates of trade protection by income levels, distinguish between protection of earnings and taxation of consumption, and, where relevant, simulate the effect of trade-policy reforms on poverty.

Coordination with the consultants working on the trade policy and agriculture chapters will ensure that trade policy and sectoral recommendations focus on poverty reduction.

(d) Transport, Transit and Trade facilitation Constraints

i) Major bottlenecks

Landlocked countries face extra obstacles to long-term growth (see Sachs and Warner, 1997). Chad is an extreme case; Douala, the nearest port, is over 1,700 km from N'djamena. Other routes are even longer: 2,100 km to Lagos; 2,220 to Cotonou; 2,950

[23] Vertical integration of the commercial-crop sector, as is the case for cotton, can in principle be a vehicle to overcome credit constraints if the marketing firm provides inputs (seeds, fertilizers and pesticides) and credit to farmers. However, the PSIA (Verardo et al., 2003) underscores how deeply dysfunctional Cotontchad is in this regard.

km to Port Soudan; and 3,560 km and 4,300 km respectively to Tripoli and Algiers in the north. The relative unattractiveness of most alternatives to Douala (with the possible exception of Lagos) creates a heavy dependence on one single route.

In addition, Chad's internal road network is embryonic, with only 300 km of paved roads (some in such need of maintenance that traffic flows alongside the road instead of on it), and around 4,000 km of dust roads, most of which are barely passable during the rainy season. There is no railway, and the Chari and Logone rivers are too shallow for heavy merchandise transport.

CEMAC's secretariat has made transport investment a policy priority. A master plan for 10,000 km of all-season highways between the zone's capitals has been drawn up with EU and other donor assistance. Following the Geneva Round Tables, the GOC has also drawn up a transport investment strategy (GOC 1999a, b, c, d; Berger 1999).

ii) High-priority issues

It is important to separate "hard" infrastructure investment issues from "soft" management and governance ones. One consultant study (Louis Berger 1999) revealed that out of an average transit time of 47 days between N'djamena and Douala, transportation itself accounted for only ten days, the rest being customs clearing (10 to 15 days in Douala, 3 to 6 days at the Chadian border), and waiting for railway cars (10 to 30 days).[24] These numbers illustrate the familiar point that the return on new infrastructure investments depends largely on governance improvement; indeed, infrastructure investments may serve primarily to build political support for critical reforms.

Customs reform is crucial, as any substantial reduction in transit times will require reduced customs clearance delays. Information gathered as part of the preliminary mission suggests that, as of early 2004, customs reform is proceeding slowly. Technical assistance has apparently led to modest improvements in customs administration, including the introduction of the SYDONIA database management system, but electricity shortages have slowed progress in customs computerization. Although GOC authorities have started issuing identification badges and reorganizing administrative services, "informal customs" barriers (border checkpoints manned by unauthorized individuals) are still widely reported, as are smuggling and tariff evasion.

Based on this preliminary diagnosis, and drawing on previous work (in particular, the IMF's recent audit of the customs) the DTIS transportation chapter will first identify extent of bottlenecks in terms of costs and time to market, separating those due to infrastructure deficiencies from those due to governance issues. Second, it will recommend technical assistance, infrastructure investment needs, and matching reform efforts in high-priority areas as determined by the GOC and the DTIS's own diagnosis, including reduction of transit time on the Douala corridor, diversification of export routes, and improvements in the domestic transportation sector.

Specifically, the chapter will update the data collected in the 1999 Louis Berger report on the performance of the Douala corridor in terms of costs (such as administrative costs,

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[24] According to the same report, the transportation time itself is artificially increased by unofficial roadblocks involving substantial payments in addition to waiting time.

taxes, and informal payments at roadblocks) and transit times to port (for exports such as cotton and gum arabic), and back (for imports including seeds and fertilizers). In addition, the chapter will also discuss potential for diversification of Chad's export routes, with particular attention to the Lagos route.

Using existing data, the chapter will rate the performance of Douala as an embarkation port compared to other ports in the area (such as Abidjan, Dakar, and Conakry) in terms of maritime freight rates, port charges, and administrative and other formal and informal costs. It will suggest areas for cooperation with Cameroonian authorities to smooth transit operations. If relevant, the chapter will assess the feasibility of other routes to seaports.

(e). Competitiveness and behind-the-border issues

The private sector in Chad has strongly voiced two particular concerns: high input prices and high transaction costs.

The prices of critical inputs, telecommunications and energy in particular, are traditionally very high in Chad.[25] Their availability has also been severely limited; for example, the power grid reaches barely one percent of the population. Chad's energy situation was particularly critical in 1998 when fuel supplies from Nigeria were disrupted. Chronic shortage, and vulnerability to short-term shocks, are major obstacles to economic and social activities.

The GOC and donors have considered several energy remedies, including oil extraction and refining from the Sédigui field for use in electricity generation,[26] and connection to the Cameroonian grid. The latter option, appealing from an economic perspective, has won little political support.

Opposition to urgent energy remedies illustrates the linkages between market-structure (competition) issues and infrastructure-investment ones. Chad needs to generate efficiency gains without eroding perceived rent for established interests. Similar, less critical issues arise in the telecom sector.

The DTIS chapter on public services will build on existing feasibility studies to identify clearly defined scenarios for infrastructure investments and modes of governance. It will review the achievements of past privatizations and assess plans for future ones (in particular STEE and Sotelchad).

In addition, the GOC has launched a seven-year plan (*Plan d'Orientation Révisé* 1998-2005) to improve the business environment by revising business regulations, reforming administration, creating a guarantee fund, and promoting the private sector. The DTIS chapter will review achievements under this plan, and will assess transaction costs in the private sector, considering factors such as: property rights (including land titles), contract enforcement, and translation of OHADA treaty agreements into national law.

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[25] For example, oil has been sold in Chad at a wholesale price of $400 per ton, roughly twice its Douala FOB price. At about $0.25/kWh, electric power rates are more than twice those in Côte D'Ivoire ($0.09/kWh) (PSD 2003).

[26] The Sédigui field has small reserves estimated at about 20 million barrels (MPDC 2003).

Building on the analysis carried out by the private-sector development team that visited Chad last summer, [27] the DTIS chapter will assess business development opportunities in the petroleum-producing zone, and suggest areas for improvement.

Public procurement is among the key issues here, given the scale of the investments needed and the availability of resources in unprecedented amounts. The GOC has, with donor assistance, established procedures for relatively transparent procurement, but the business sector will be the primary source of information on the actual performance of these procedures. The chapter will gather information from civil society and the business sector on key bottlenecks for institutional change, and suggest adjustments to Chad's institutional arrangements.

(f) High Potential Growth Sectors

i)Agriculture

Sector performance

Farming, stockbreeding, and fishing account for roughly 40 percent of non-oil GDP, 80 percent of employment, and 59 percent of rural incomes (MPDC 2003). Cash crops include cotton, sugar cane, peanuts, sesame, tobacco and soybeans. All except cotton are essentially produced for the domestic market; Chad's cotton output is exported ginned. Food crops include sorghum, rice, corn, and wheat.

The PRSP forecasts for 2003-2015 an annual growth of 4.6% in the output of cash crops. For cotton, this would imply a major break from past trends: cotton output declined by 31 percent in volume between 1997/98 and 2001/2, although it has recovered since.

Chad's cotton sector is vertically integrated. *Cotontchad* (75-percent state-owned, 19-percent owned by France's *Dagris*, 6-percent owned by local banks) collects, transports and markets cotton, and provides credit and inputs to farmers. The cotton sector's PSIA (Verardo 2003) highlighted severe deficiencies in *Cotontchad*'s performance: inputs are rationed; cotton is purchased from farmers at dates determined arbitrarily, implying delays and widespread allegations of favoritism; the quality evaluation process lacks transparency, leading to large discretionary discounts; and payment arrears extend more than a year, forcing villagers to borrow from local money lenders.

Chad embarked in 2000 on structural reform of its cotton sector. *Cotontchad* is slated for privatization after divestiture of its spinning unit, and the pricing system was reformed in early 2000, with a phase-out of pan-territorial pricing starting in 2002. With donor assistance, the GOC has also embarked on of rural development projects in transport, irrigation, assistance in input provision, capacity building, and health (GOC 2003b).

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[27] The PSD mission which included Elke Kreuzwieser, Papa Demba Thiam, Michaela Weber and Bertrand Loiseau (AFTPS) visited Chad from June 17 to 27, 2003.

High-priority issues

The DTIS will assess possible causes of the poor performance of Chad's cotton sector, including: mismanagement at *Cotontchad*; physical factors such as climate and soil; and market or government failures in related sectors, such as transportation. The diagnosis will recommend relative priorities between promotion of the cotton sector and diversification of production.

The DTIS's agriculture chapter will evaluate structural reform efforts, and will discuss two high-priority issues: (i) post-privatization market-structure and governance options; and (ii) sectoral policy priorities. The second discussion will articulate a clear analysis of the country's future sources of growth in non-oil sectors.

The chapter will also cover the critical issue of TA needs related to rural development.

ii) Livestock

Sector Performance

Herding is the second major rural activity, accounting for over 40 percent of rural value added. Cattle are exported live to neighboring countries through informal channels, Chad's only slaughterhouse being largely unusable. Despite stagnating domestic demand, the livestock sector could be a key engine of rural growth through increased exports of live animals, meat, and leather products.

The DTIS will assess formal and informal trade in livestock and livestock products, and will identify the main constrains to growth in the sector, including: the resource base to produce feed for the national herd; sanitary conditions; marketing mechanisms and infrastructure; support institutions; veterinary services; disease surveillance and quarantine mechanisms; and the regulatory framework and documentation procedures.

High Priority Issues.

The report will make policy recommendations and assess TA needs aimed at the following high-priority issues: a more efficient sanitary system, including an enabling environment for private animal-health providers, effective public-private partnership in disease control, and adequate quarantine and disease-free zones for export; simplifying documentation; investments in infrastructure; and empowering the main export and trade organizations to become more effective participants in product quality improvement and in international discussions of market access.

iii) Fisheries, water management & sustainable development issues

Sector Performance

Although largely unaccounted for in official statistics, fishing in the Lake Chad basin sustains over 300,000 persons, with output estimated at about US$40 million at first-sale value (up from $25 million in 2000/2001). Most of the populations concerned have few alternative sources of income. Thus, fishing has a substantial role to play in poverty reduction, in particular commercial fishing can generate surpluses for investment in income-source diversification.

Although a large part of Lake Chad's fishing resources are in Chad, most are consumed and commercialized by populations from neighboring countries, in particular Nigeria, whose southern cities are the main outlet for Lake Chad's fish. Patchy evidence suggests that although local trading networks are relatively well-established, producer prices are low because of high intermediation costs. Tailored technical assistance might raise the capacity of local populations to set up trading networks and improve access to urban or foreign markets, increase production, and raise producer prices.

However, uncoordinated promotion efforts could lead to over fishing and disrupted ecosystems. This is a particularly crucial issue given that Lake Chad is just recovering from a low point in its cyclical fluctuations, having shrunk in surface area from 25,000 square kilometers at the end of the 1960s to about 3,000 in the mid-1990s. Although the contribution of human influences such as irrigation to this shrinkage is unclear, sectoral promotion and land-use policies need to pay careful attention to sustainability.[28]

High Priority Issues.

Drawing on the experience of neighboring countries, in particular Nigeria, this DTIS chapter will analyze the factors preventing Chad's fishermen from taking comparable advantage of common fish resources. It will recommend assistance and promotion efforts, and review the prospects for more commercially-oriented fishing, including infrastructure needs and urban market development. In addition, the chapter will build on GEF and other donor work, to link the promotion of fisheries to sustainable development, in particular dynamic fish-stock and water management.

Finally it will link with the chapter on agriculture to suggest what environmental constraints should be taken into account in the design of cotton irrigation plans.

5. Management of the Chad DTIS process

(a) Participation of national authorities

The Integrated Framework (IF) Steering Committee will have a major role in overseeing the IF mission activities in Chad. It is expected to coordinate dialogue between public and non-public sector organizations, as well as between various public agencies, establish working committees at a sectoral or thematic level, and organize the national seminar.

The Government of Chad informed the preliminary IF mission that the national IF Steering Committee had been established by decree and that it would hold its first meeting in March. The mission emphasized the importance of full participation of key counterparts, and encouraged the IF focal point, the Division of External Trade of the

[28] Recognizing the importance of Lake Chad's ecosystem, national authorities of riparian countries have recently started to coordinate policy responses to the Lake Chad basin's environmental degradation, with support from large donors (in particular the World Bank and UNDP under the GEF).

Ministry of Trade, to ensure that the Ministry of Finance is represented (at the time of the preliminary mission no representative from the Ministry of Finance had been appointed). The mission also encouraged the IF focal point and the donor community to work together towards the identification of a Facilitator of the IF process.

(b) Staffing, Tentative Outline, and Timing

The overall Chad IF is managed and supervised by Mr. Salomon Samen (Trade Coordinator, Africa Region). The DTIS report will be prepared by Prof. Olivier Cadot (Consultant). The remaining DTIS team members will be local and international consultants working on the different chapters of the report. Other IF core agencies are also expected to contribute to the report, notably the IMF for the macro-economics chapter. Mr. Leendert Solleveld, Trade Department, will provide support in the dialogue with donors and the IF Steering Committee.

The IF team will keep the Steering Committee fully informed of the progress of the DTIS, and will present the results of the main mission for the Committee's review. The IF focal point will coordinate meetings and keep abreast of the mission's activities during the DTIS. The mission team will work closely with the IF focal point and the chairman of the IF Steering Committee to propose trade strategies.

At the end of the main mission, the results of the DTIS will be shared with sectoral or thematic working groups in informal meetings. Once the final report is produced, it will be shared with relevant stakeholders during briefing sessions prior to and during the national validation workshop.

The DTIS should have the following outline:

Executive summary

Action plan and TA matrix

1. Introduction and Overall Context

2. Macroeconomic environment

3.Foreign Trade: Key Features, Recent Performances and Outlook

4. Trade policy

5. Trade and poverty reduction

6. Transport/ Transit and trade facilitation Constraints

7. Competitiveness and behind-the-border issues

8. Market Access Issues

9. Sectors with High potential for Growth, Exports, and Employment

    a) Agriculture
    b) Livestock
    c) Fisheries

10. Strategy and Action Program for Mainstreaming Trade

The proposed staffing is as follows:

Component	*Staff*
Team leader	Olivier Cadot (consultant)
Macroeconomic issues	Christine Richaud, Peter Osei, Joel Tokindang, and IMF team
Trade	Akiko Suwa
Trade and poverty	Maurizio Bussolo (WB staff) and Fidèle Koumtingué (local consultant)
Transport and trade facilitation	Jean-François Arvis (WB staff), Jean-Pierre Diehl (consultant) and Zeynep Ersel (WB staff)
Competitiveness/behind-the-border issues	Elke Kreuzweiser and Daniel Roseman (consultant)
Agriculture	Catherine Araujo-Bonjean (consultant)
Livestock	Dr. Boubacar Hassan
Fisheries	Jacques Lemoalle (consultant)and Arthur Neiland (consultant)

The proposed timetable is as follows:

Component	*Timing*
Preliminary mission	February 26-March 3, 2004
Circulation of draft Concept Note	April 9, 2004
Team leader to meet Geneva based agencies	End April 2004
Main mission	May 17-31, 2004
Submission of first draft by consultants	June 20, 2004
Submission of final draft by consultants	July 15, 2004
DTIS 1st draft	August 15, 2004
DTIS Final draft	August 31, 2004
National symposium	Mid-October 2004
Adoption of report by the government	t.b.d.
Donor programmatic meetings	t.b.d.

The proposed peer reviewers of the study will be:

David Tarr, DEC Trade
Marcelo Olarreaga, DEC Trade
Faezeh Foroutan, PREM Trade
Luc De Wulf, Consultant, PREM Trade
Professor Patrick Messerlin, Sciences Po, Paris, France
Professor Henri François Henner, CERDI, Clermont Ferrand

Abbreviations

ATC	Agreement on Textiles and Clothing
AGOA	Africa Growth & Opportunity Act
BEAC	Banque des Etats de l'Afrique Centrale
CEMAC	Communauté Economique et Monétaire des Etats d'Afrique Centrale
CET	Common External Tariff
CFA	Communauté Financière Africaine
DOT	Direction of Trade
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
EPA	Economic Partnership Agreements
GEF	Global Environmental Facility
GOC	Government of Chad
HIPC	Highly Indebted Poor Country
IF	Integrated Framework
IMF	International Monetary Fund
LDC	Least Developed Countries
MENA	Middle East & North Africa
MFN	Most Favored Nation
NPV	Net Present Value
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
REER	Real Effective Exchange Rate
RFD	Réforme Fiscalo-Douanière
SSA	Sub-Saharan Africa
STEE	Société Tchadienne d'Eau et d'Electricité
TPG	Taxe Préférentielle Généralisée
UNCTAD	United Nations Conference for Trade & Development
UNDP	United Nations Development Program
VAT	Value Added Tax
WTO	World Trade Organization
WWF	World Wide Fund

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