Chad

key figures

- Land area, thousands of km^2 1 284
- Population, thousands (2004) 8 854
- GDP per capita, $ (2003) 307
- Life expectancy (2000-2005) 44.7
- Illiteracy rate (2004) 51.0

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Chad

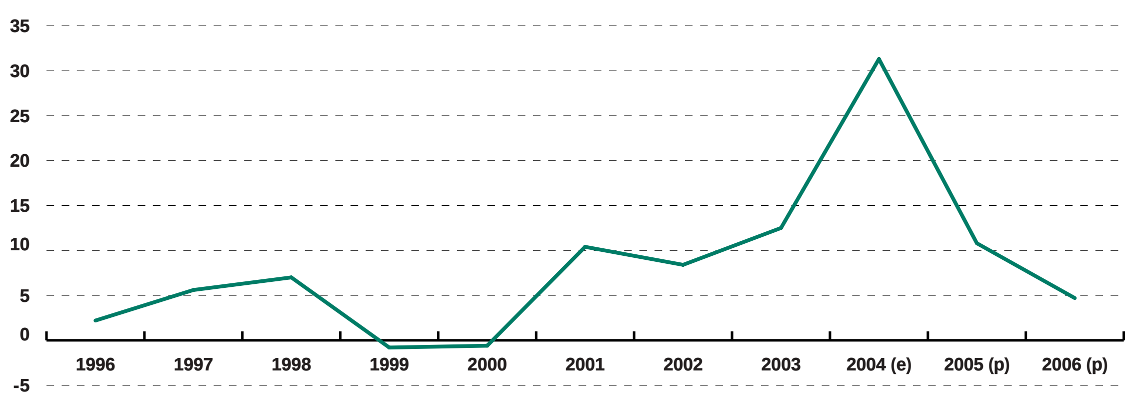
CHAD IS ONE OF AFRICA'S POOREST COUNTRIES, a landlocked state with the nearest access to the sea the Cameroonian port of Douala, 1 700 km from the capital, N'Djamena[1]. It has been torn by civil war for nearly 20 years and fighting still continues between ethnic groups and between cattle herders and crop farmers. The conflict in neighbouring Sudan also threatens Chad's security.

Good governance is vital in these circumstances, especially as the authorities must take account of the country's many languages[2] and the high rate of illiteracy (more than half the population). The economy is dominated by agriculture but the scale of livestock raising, the main export until the discovery of oil, is very hard to quantify because of the constant movement of herds and the porous frontiers. The informal sector is very large.

The financial boost from oil production has been delayed.

The economy took a decisive pace forward in 2004 when the first oil revenues made their appearance in the national budget after the mid-2003 start of production at the Doba oilfield. The government hopes for much from this new wealth, which has already begun to revolutionise the economy. The challenge is to use it to fight poverty effectively. A law on handling oil revenue was passed in 1999 in a bid to avoid the "Dutch syndrome" of countries which are heavily dependent on oil (falling non-oil exports, disruption of non-oil sectors, switch to a one-product economy and inflation).

Figure 1 - Real GDP Growth



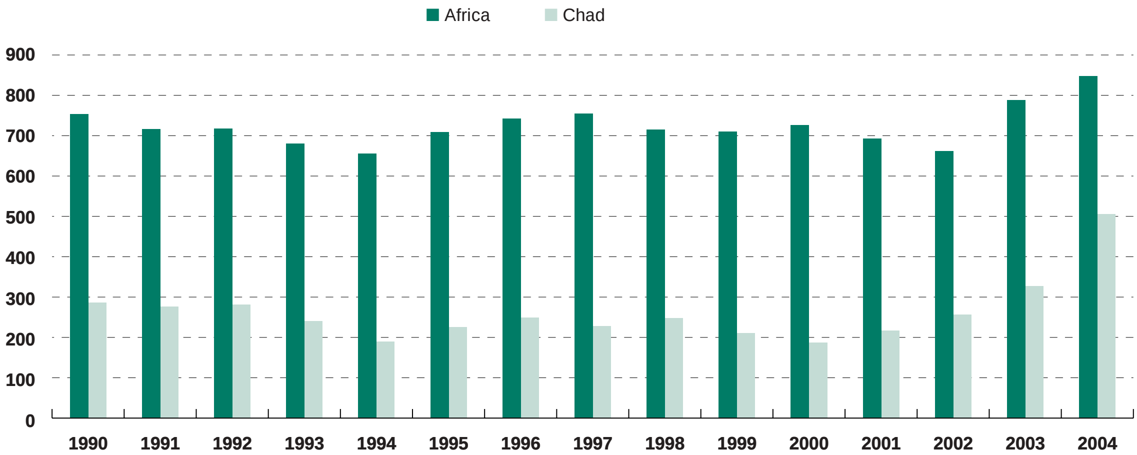
Source : Data from the national statistics institute Inseed and the IMF; estimates (e) and projections (p) based on authors' calculations.

Nevertheless Chad did not fully benefit from this new revenue in 2004 and public finances were severely stretched by non-disbursement of scheduled budget aid. Oil production has not yet reached its peak, but already the government has challenged the Doba consortium's sale price and is taking legal action over alleged lack of transparency over the quality discount and transport costs.

1. The UNDP's worldwide *Human Development Report* 2004 gives Chad a Human Development Index score of 0.379, putting it in 167th place among 177 countries.

2. Chad is officially bilingual (French and Arabic), but 150 local dialects are also used.

Figure 2 - GDP Per Capita in Chad and in Africa (current $)



Source : IMF.

Growth averaged an annual 3.8 per cent between 1986 and 1995 but has been very erratic since then, with two years of recession (1999 and 2000) and a spectacular leap forward from 2001 (when growth was 10.4 per cent), due to the building of the oil pipeline from Doba, in southern Chad, to the Cameroonian port of Kribi. Growth in 2004 was estimated at 31.3 per cent because of the start of oil production. Non-oil GDP rose 1.9 per cent, still below the estimated 2.6 per cent population growth. Growth should be 10.8 per cent in 2005, when oil output hits its stride, and then fall back to 4.7 per cent in 2006.

Recent Economic Developments

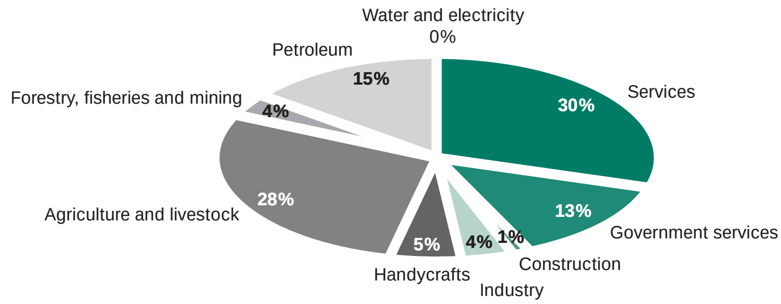
The primary sector accounts for 47 per cent of GDP, with oil representing 15 per cent in 2003 and rising. The oil extraction around Doba, which is 1 070 km from the nearest shipping point, required the building of an expensive pipeline to the port of Kribi and will also entail the drilling of 300 production wells and 25 others to inject water into the Doba Basin's three fields (Komé, Bolobo and Miandoum), at a total cost of $3.7 billion, mostly provided by a consortium of foreign oil companies and the World Bank. Proven reserves are almost 1 billion barrels, which will bring the government about $2 billion over the 25-year production period ($80 million a year).

Oil is a godsend for the economy, but presents problems. A $2-$4 per barrel quality discount had been planned but the Doba crude turned out to be more acid than expected and its high viscosity means it has to be heated to get it through the pipeline. This has pushed the quality discount up to more than $10. When prices are high, better quality will be required, which puts oil such as that from Doha at a disadvantage because it needs extra processing.

Another problem lies in the report that the consortium is selling its production to subsidiaries which could explain its lower value. Since the French firm Elf left the consortium (officially because of a policy change at headquarters), the US firms Exxon and ChevronTexaco and the Malaysian firm Petronas have been extracting oil under a 1988 agreement with the government. Oil revenue has been reaching the public coffers in stages. Production began in 2003 with 12.3 million barrels and reached 26.6 million in the first half of 2004. It should be 62.97 million for the whole of 2004 and belatedly reach full production in 2005, at 225 000 barrels a day (about 82 million a year).

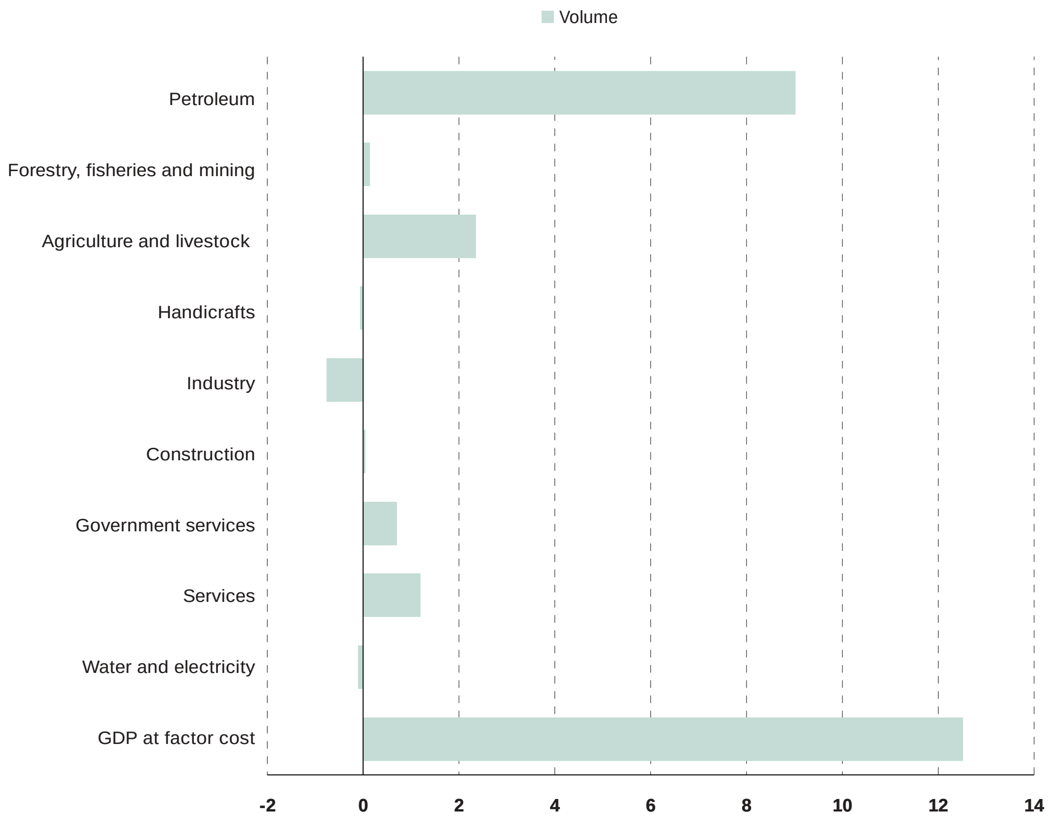
The crisis in the cotton sector, which provided a third of export revenues before the arrival of oil, began several years ago when world prices fell and management problems developed in Coton Chad, which has a sector

Figure 3 - – GDP by Sector in 2003 (percentage)



Note: The oil sector comprises extraction itself and other oil activity; traded services include commerce, transport and others, such as hotels and restaurants.
Source: Authors' estimates based on Inseed data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: Authors' estimates based on budget data.

monopoly. The growing area had already shrunk by a third between 1970 and 1988, from 300 000 to 200 000 hectares. After a poor harvest in 2003 due to the smaller area sown, the 2004/05 one should be better. Good weather and much higher prices to the farmer at the start of the season should push output of cottonseed from 126 800 to 180 000 tonnes (195 000 according to the agricultural statistics office), a jump of more than 40 per cent after a 19 per cent drop in 2003/04.

However, the April 2004 countercyclical increase in prices paid to farmers[3], from 160 CFA francs ($0.3) to 190 ($0.35) a kilo at a time when world prices were falling after two better years, is unlikely to remedy the crisis in the long term. The government may not be able to subsidise production every year and anyway that would not necessarily make Coton Chad more profitable.

Since the cotton crisis and before oil production started, livestock had become the main export in a country that had 16.7 million animals in 2004, according to the Bank of Central African States (BEAC). But these figures are not very reliable in the absence of recent surveys. It is very hard to give precise figures for nomadic livestock, in northern Chad. The government gets virtually no taxes from the sector, most of whose profits come from the export of cattle on the hoof and, to a lesser extent, of fresh meat (Chad has three slaughterhouses, but one is not operating). Cattle are sold mainly to Nigeria but it is hard to put a figure on the number, despite better staffing of borders and checkpoints. Live exports were put at 314 800 animals in 2004, up from 307 100 in 2003.

Cereals (mainly sorghum, maize and rice) are the household food staple of Chadians and after a very good 2003/04 harvest (up 33.4 per cent, at 1 612 500 tonnes), the results for 2004/05 are expected to be lower, at 1 226 900 tonnes (1 038 500, according to official figures). This 20 per cent drop is due to lack of rain, since desert locust damage was not great, according the UN Food and Agriculture Organisation (FAO). Other food production (manioc, sweet potato, groundnuts, sesame, fruit and other vegetables), mostly grown for home consumption, fell 15 per cent in 2004 to 1 061 million tonnes (1 250 million in 2003).

The secondary sector held back growth in 2003, mainly because of a shortage of energy supplies. Chad is the world's second biggest producer of gum Arabic (after Sudan) for which international demand has grown 40 per cent over a decade, with Chad's share rising from 10 to 25 per cent. The sub-sector has fewer than a dozen exporting firms providing 200 000 direct and indirect jobs, with collection still done manually. Exports increased to 17 100 tonnes in 2004 (16 000 in 2003) but local production remained steady at 12 000 in 2003 and 2004, suggesting that some of the exports were not of Chadian origin.

Sugar production has risen after major productivity investment by the state sugar firm CST, which in June 2004 forecast its output for the year at 33 800 tonnes, up 6.4 per cent from 31 700 in 2003, which was a stagnant year. Progress in the sugar industry is handicapped by extensive fraud from competing suppliers in neighbouring Cameroon and especially Nigeria.

Beer sales by the Logone Breweries (BDL) continued to fall, by 12.6 per cent from 111 388 hectolitres (2003) to 97 324 (2004), after two boom years in 2001 and 2002 reflecting construction work on the pipeline. Soft-drink output also fell, by 2 per cent, according to the national beverage company BGT, from 90 354 hectolitres (2003) to 88 280 (2004). But cigarette production rose a hefty 32.1 per cent (compared with only 2 per cent in 2003), with the national firm MCT turning out 48.3 million packets (36.6 million in 2003) due to increased demand.

Secondary sector activity shrank nearly 12 per cent in 2004, as a result of the end of oil prospecting (which peaked between 2000 and 2002) and the cotton crisis, which slowed down ginning. Construction again boomed (up 25 per cent) after expanding only 4 per cent in 2003. Electricity production still failed to keep pace with demand but increased 10.8 per cent, after falling 13.4 per cent in 2003.

The services sector remained very buoyant, growing more than 8 per cent (3 per cent in 2003) largely due to expanding commerce and public sector jobs. Transport and telecommunications grew by 7.6 per cent because of investment to enlarge the mobile phone network in the provinces.

3. In 2004, this price was close to those of the main cotton-producing countries in Africa's Franc Zone.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**17.4**	**39.0**	**57.4**	**44.1**	**22.9**	**15.6**	**15.1**
Public	6.1	5.5	8.5	7.9	6.7	6.2	6.2
Private	11.2	33.5	48.9	36.2	16.2	9.5	8.9
Consumption	**101.4**	**92.7**	**90.0**	**79.1**	**60.7**	**56.4**	**60.4**
Public	39.8	37.4	39.8	32.9	27.5	24.6	29.0
Private	61.7	55.4	50.2	46.2	33.2	31.8	31.5
External sector	**-18.8**	**-31.7**	**-47.5**	**-23.2**	**16.3**	**28.0**	**24.5**
Exports	18.5	19.3	17.5	25.7	55.0	62.2	56.3
Imports	-37.3	-51.0	-64.9	-48.9	-38.7	-34.2	-31.8

Source: Inseed and IMF data; estimates (e) and projections (p) based on authors' calculations.

Factors boosting demand in 2004 included completion of the Bisney-Ngoura-Bokoro road, the start of road improvements elsewhere in the country, the beginning of crude oil sales and recruitment in key areas of government services. Non-oil activity slowed however due to the fall in investment in the oil sector, layoffs throughout 2003 by the contractors working with the oil consortium and lower agricultural revenue, the result of less cottonseed being bought and smaller output of food crops.

Macroeconomic Policies

Fiscal and Monetary Policy

As a member of the Central African Economic and Monetary Community (CEMAC), Chad has to comply with various convergence criteria concerning inflation, budget balance, debt ratios and absence of debt arrears. It appears to have met them all in 2004, notably in respect of arrears, unlike in 2003.

The Chadian government collects few taxes (the 2004 non-oil tax burden was 9 per cent), but oil revenue is rising (though it will only be 4.2 per cent of GDP in 2006). The economy is highly dependent on foreign aid, which in 2003 equalled tax and oil revenue combined. Oil revenue will increase budget revenue (excluding grants) by half in 2005 and 41 per cent in 2006.

Revenue was very high in 2003, the year before oil income began, thanks to the pipeline project, which paid substantial taxes during construction. However tax-breaks (notably on imports) for the consortium and its

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**13.4**	**12.9**	**14.9**	**16.6**	**14.8**	**14.6**	**15.8**
Tax revenue	6.5	6.3	7.1	7.6	9.0	9.5	10.4
Oil revenue	0.1	0.1	0.1	0.5	2.4	3.3	4.2
Total expenditure and net lending[a]	**17.6**	**17.7**	**20.1**	**22.2**	**18.9**	**17.2**	**18.3**
Current expenditure	8.5	8.8	9.9	9.4	8.0	7.2	8.2
Excluding interest	*8.4*	*8.1*	*9.1*	*8.8*	*7.4*	*6.6*	*7.8*
Wages and salaries	3.7	3.6	3.5	3.6	2.9	2.8	2.8
Interest	0.2	0.7	0.9	0.6	0.6	0.6	0.4
Capital expenditure	9.1	8.9	10.1	12.8	10.9	10.0	10.0
Primary balance	**-4.0**	**-4.1**	**-4.3**	**-5.0**	**-3.5**	**-2.0**	**-2.0**
Overall balance	**-4.2**	**-4.8**	**-5.2**	**-5.6**	**-4.1**	**-2.6**	**-2.4**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

sub-contractors cost the government several tens of billions of CFA francs. The share of taxes in GDP has risen steadily, reaching 7.6 per cent in 2003, though this is still too low for the country's needs. But with the help of oil, the figure could top 15 per cent in 2006.

By 30 September 2004, the tax authorities had collected 53.5 billion CFA francs ($101.1 million) for the year, 75.1 per cent of the budgeted amount, while customs duties totalled 25 billion (70.5 per cent). Customs have little room for improvement because they have little capacity to modernise and national frontiers are very porous, a problem aggravated by the security situation. The best performing tax sector was pay-as-you-earn income tax which brought in 20.7 billion CFA francs ($39.1 million), more than company tax (15.9 billion CFA francs , $30 million).

Oil extraction began at the end of 2003, but the first oil revenue did not reach the national budget until July 2004. This delay was due to technical problems over signing an accounting agreement relative to the offshore account (where sales proceeds go) and the national accounts held at the BEAC. After a second tax payment in November 2004 that brought total oil revenue to 37.4 billion CFA francs, payments speeded up at the end of the year.

The provisional total of 2004 oil taxes (for February 2004 to January 2005) was 69 billion CFA francs ($130 million) against a revised projection of 81.4 billion ($70.6 million) – an 85 per cent collection rate. The oil revenue monitoring authority said 26.6 billion CFA francs ($50.2 million) had been allotted in December 2004 to nine priority sectors, a 72.4 per cent execution rate. Most of the projects were for public works, education and health.

Because it has no agreement with the International Monetary Fund (IMF), Chad has received much less loan income than expected – 57.7 billion CFA francs ($109 million), down from 81.1 billion ($139.9 million) in 2003. The tax authorities had failed to collect more than 7 billion CFA francs ($13.2 million) in taxes due by the end of September 2004, including about 1.2 billion ($2.3 million) from Coton Chad and 1.7 billion ($3.2 million) from the water and electricity company STEE, the two biggest state-run firms.

This revenue shortfall – lack of budget aid and poor performance of tax bodies – caused serious budget problems in 2004, including a build-up of 26.2 billion CFA francs ($49.5 million) in domestic arrears, 2 billion ($3.8 million) in external arrears and continued late payment of public sector salaries that began in last-quarter 2003.

The theoretical price[4] paid to cotton farmers in 2004 was 150 CFA francs ($0.28) a kilo, but the government pledged to pay 190 ($0.35) to get farmers to grow more. For a harvest estimated at 250 000 tonnes, the state subsidy would thus come to 10 billion CFA francs ($19.8 million) but only half that has been earmarked. The gap will add pressure on the budget again in 2005. The government's 2004 funding needs of 144.9 billion CFA francs ($273.8 million) should be largely met by external agencies, notably as grants. The overall budget deficit is slowly falling and was 4.1 per cent of GDP in 2004 and is estimated at 2.6 per cent in 2005, when oil extraction will be in full swing.

The 2005 budget includes 161.9 billion CFA francs ($320 million) for investment of oil revenue (2005 amounts plus rolled-over sums). After debt repayments and a payment to the Future Generations Fund (set up under the 1999 oil revenue management law), most of the money will go first to the public works ministry, then to the ministries of education and mines and energy. A quarter of interim Heavily Indebted Poor Countries (HIPC) initiative aid of 20.6 billion CFA francs ($40.7 million) will be spent on public works and the rest on health and infrastructure.

The exchange rate in Chad, as in other CEMAC member-states, is pegged to the euro and monetary

4. The price paid to farmers is calculated each year from 16 monthly indices covering two years (thus two harvests) on the Liverpool cotton market, with 5 CFA francs added for processing the seed.

Good Use of Oil Revenue Despite Smaller Amount than Expected in 2004

The 1999 law (n° 001/PR/99 of 11 January) governing use of oil revenue only concerns direct income from it in the form of taxes and dividends. Under a 1988 agreement between the government and the oil consortium, Chad gets 12.5 per cent of the wellhead value of total production, before quality discount and the cost of sending it through the pipeline to the Kribi terminal. Of the money received 10 per cent goes to the Future Generations Fund and the rest to priority sectors – 80 per cent to development projects after debt repayments, 15 per cent to the national budget and 5 per cent to the oil-producing region to compensate the local population.

A key part of the law is creation of an oil revenue monitoring authority that ensures transparent handling of the spending on priority sectors. The body ensures openness on the expenditure side, spending commitments and the use of disbursements. This seems to be working well, as at the end of November 2004, more than 70 per cent of direct oil revenue had been spent, mostly on the transport sector.

Nonetheless direct tax revenue has been much less than expected. Out of every 100 CFA francs of oil sold, fewer than 12.5 go to Chad because the quality discount and transport costs have to be deducted. Transport costs are set by the Chadian and Cameroonian firms in the consortium, the Chad Oil Transportation Company (Totco) and the Cameroon Oil Transportation Company (Cotco), and the quality discount started off at between $2.50 and $4.20 a barrel. In fact the price of Doba crude includes a discount of $10.12 a barrel in relation to the Brent crude benchmark price, a unit transport cost (according to volume transported and fixed costs) as high as $10.52 some months of 2004, and an average $25 base price proposed by the consortium, when Brent crude was around $40 on the world market.

By 30 September 2004, about 50 million barrels had been sold, earning the state $70 million in tax revenue. By comparison, Gabon will earn, for 99.6 million barrels production in 2004 (and taking into account the quality discount), nearly 640 billion CFA francs ($1 209.1 million) in taxes, almost ten times more per barrel than Chad.

policy is in the hands of the Bank of Central African States (BEAC), leaving fiscal policy as the country's main economic instrument.

Inflation in Chad is closely tied to agricultural production, which in turn is very dependent on the weather. High inflation was expected in 2003 because of the economy's transition to oil and because of past bad cereal harvests. But a good 2003/04 harvest was declared likely in mid-2003 as a result of adequate rainfall and inflation was minus 1.8 per cent year-on-year in 2003.

But inflation developed in the oil region in the south and in the housing sector in N'Djamena because of heavy demand by oil industry staff. The price of petrol at the pump twice rose slightly in 2004 because of the increase in the Brent price. The cost of building materials went up by 2.9 per cent and rents by 16.7 per cent between September 2003 and September 2004. Food crop prices (legumes, tubers and fruit) fell 4.4 per cent in September 2004 year-on-year but the cost of cereals rose 9.9 per cent.

The weak US dollar meant imports (much of Chad's consumer goods are imported) were 7.7 per cent cheaper and the annual general price index down by 3.6 per cent, both year-on-year in September 2004. Over the whole year, inflation should be minus 4.8 per cent. But prices are expected to rise again with the influx of oil revenue and a fall in agriculture production (especially cereals) in the 2004/05 harvest – by 4.5 per cent in 2005 and 2.7 per cent in 2006.

External Position

Chad's structurally negative trade balance was positive in 2004 for the first time thanks to oil earnings. Total exports by value quadrupled while imports fell 20 per cent (as in 2003) with completion of the Doba oilfield work. The trade balance went from an 800 billion CFA francs ($1 379.7 million) deficit to a surplus of 260.4 billion ($492 million). Oil became the chief export, bringing in 90 per cent of export earnings, rising from 8.6 million barrels in 2003 to 61.3 million in 2004, boosting sales from 130 billion CFA francs ($224.2 million) to 1 008.8 billion ($1 905.9 million).

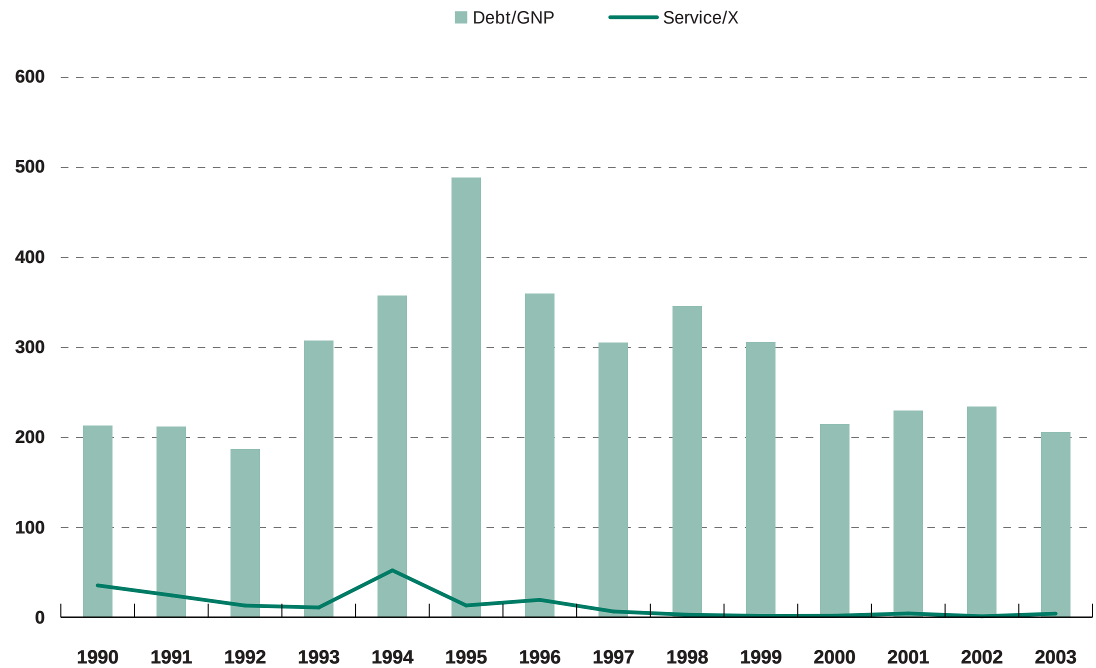
Volume exports of livestock rose by10.4 per cent and of gum Arabic by 6.7 per cent in 2004, but cotton fibre exports fell 20 per cent from 58 000 to 46 000 tonnes and the national statistics institute, Inseed, said sales were down to 40.02 billion CFA francs ($75.6 million) from 44.65 billion in 2003

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-0.3	-19.4	-32.2	-15.9	21.0	31.4	28.2
Exports of goods (f.o.b.)	14.8	11.1	8.6	17.6	48.7	56.6	51.3
Imports of goods (f.o.b.)	-15.1	-30.5	-40.8	-33.5	-27.7	-25.2	-23.0
Services	-11.2	-16.4	-20.5	-17.6			
Factor income	-0.6	-1.4	-1.5	-10.2			
Current transfers	3.8	2.7	1.9	3.2			
Current account balance	**-8.3**	**-34.5**	**-52.3**	**-40.4**			

Source: Inseed and IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

($77 million), 10 per cent of it due to lower world prices. The services balance suffered from the end of haulage activity linked to the pipeline construction.

Chad's total debt, 88.9 per cent of it multilateral, stood at 772 billion CFA francs ($1 458.5 million) at the end of September 2004. The country achieved decision point under the HIPC initiative in May 2001 and a month later obtained rescheduling of its public external debt from the Paris Club of nations. Under the enhanced HIPC initiative, this interim arrangement was converted into immediate cancellation by Club members of about $10 million of Chad's external debt, which reduced the cost of bilateral debt servicing from $17 million on 1 May 2001 to $2.4 million on 31 March 2003.

Structural Issues

Lawlessness and bad governance are hard to measure but they make it difficult to do business and discourage personal initiative. Questions about the safety of property and people will remain as long as the legal system lacks professionalism and material resources. But some legal and procedural improvements have been made, such as approving a sub-regional investment code, setting up commercial courts and standardising business law as part of Chad's membership of the Organisation for the Harmonization of Business Law in Africa (OHADA). The trade ministry, responsible for promoting the private sector, takes a regional approach as a way of getting round local constraints.

The private sector is sluggish and the economic weight of SMEs and SMIs (small and medium-sized enterprises and industries) is hard to assess for lack of data. Chad defines an SME as any firm with majority Chadian ownership and capital of less than 100 million CFA francs ($188 900). Anything bigger becomes one of the country's 30 or so large firms.

Red tape for starting a business is considerable and the World Bank database Doing Business says its takes 19 steps over 75 days to do so, compared with an African average of 11 in 63 days. The ministry in charge of SME/SMIs says most of such firms are in agro-industry. In 2004, 89 new firms were set up (and 65 renewed their registration), against 227 in 2003, when it was not yet obligatory to renew registration. Since there is no monitoring of firms, these figures are rough ones based on declarations of intent.

Growth of SMEs is obstructed by the landlocked nature of the country and by very high production factor costs. Electricity costs more than in most places

New Links Between Oil and the Private Sector

Chad signed an agreement with the International Finance Corporation (IFC) in December 2004 to help local firms take advantage of business opportunities in the oil sector.

It includes setting up, with the national chamber of commerce, a business development centre to strengthen local entrepreneurial skills and helping to improve SME access to funding. Very small firms (with two to five employees) will be able to get funding from micro-credit institutions such as Finadev (the country's main one), in which the IFC and Financial Bank have shares (IFC 25 per cent). The IFC opened up a guarantee line with two local banks in 2003 of 1 million for each, for maximum loans of 400 000 per firm. Technical experts will be provided to help run Finadev and manage the credit lines. A review is currently under way because one of the banks has not used the funding for lack of suitable loan applications.

The project will also put local firms into contact with the oil sector, an experiment to reduce costly imports, including food, largely from Cameroon, that currently meets the needs of most oil workers and is available locally. The goal is to identify markets and adapt local firms to the demanding time and quality requirements of the oil companies.

in Africa – an average 197 CFA francs ($0.37) a KWh before tax – and real estate is extremely expensive. Putting up a building can account for as much as 70 per cent of a firm's costs. Most businesses are run by individuals who nearly all start off with their own funds. Subsequently, the financial system provides few loans (for example, for harvests, storage or operating costs) or investment funding (for farm machinery, suitable transport, food-processing equipment or small-scale manufacture). Micro-credit, which is not very common, would help meet some of these needs.

The cotton sector, once the engine of national growth, has been in crisis for several years for a variety of reasons. The price of cotton in Chad, already one of the lowest in the world, has been hit by poor international prices and the weakness of the US dollar and has thus become less and less profitable for growers.

The industry processing firm, Coton Chad (set up in 1971), which carries out ginning – 90 per cent of it through nine factories that can handle 230 000 tonnes of cottonseed a year – has serious management and cashflow problems and has been losing money since 2002. Its deficit increased from 10 billion CFA francs ($14.4 million) to 22 billion ($37.9 million) in 2003 and then 30 billion ($56.7 million) in 2004.

The crisis worsened during the 2002/03 season, when it was unable to buy the entire harvest from farmers. Officially this was because the remaining 18 000 tonnes of cottonseed could not be collected because roads had been flooded by early rains. However a November 2004 report to parliament said nearly 8 billion CFA francs ($15.1 million) of the loan to fund the 2003/04 season had been diverted by the firm to repay supplier debts incurred in previous seasons. The quality inspection and sorting of the cottonseed by the firm also hurt growers and its ginneries and fleet of lorries are in poor condition and often break down because of poor maintenance. But bad roads are also a major problem, especially as farmers are widely scattered.

Privatisation in 2000 of the profitable oil-based soap business attached to Coton Chad deprived the firm of a major source of income as it produced for the local and sub-regional market and was thus sheltered from world price fluctuations. Farmers have also begun to turn away from cotton-growing with the arrival of oil, which offers better paid jobs, and also because the oilfields are next to the cotton areas in the wealthy south of the country.

OHADA rules would recommend closure of Coton Chad as uneconomic but privatisation is still planned for the state firm, in which the French company Dagris and small investors have a quarter of the shares. Tenders will be launched in 2005 for a sale of assets and the division of the firm into two parts, one in the east and one in the west. Farming structures will be organised so producers can possibly buy up to a third of the shares in the privatised company. About 162 million CFA francs ($306 100) has been raised for this so far. A $2 million World Bank funded cotton sector reform action plan was adopted at the end of 2004 after delays and could further postpone the privatisation planned for 2005.

Chad has suffered from severe electricity shortages for several years and firms and individuals mostly use private generators. The priority of the water and electricity production and distribution firm STEE is to improve supply to N'Djamena. The government is to repair some generating plants and to buy new ones to meet the demand. A long-planned new 25 MW power station is to be built in Farcha with a soft loan from the Islamic Development Bank since a projected link-up with the Cameroonian national grid has not yet materialised.

STEE is owned by the government (81.2 per cent) and the French Development Agency (AFD) (18.8 per cent) and employs 460 people. It was renationalised after the original buyer Veolia Water pulled out in August 2004 after only four months of managing it. STEE, which has been on the government's planned divestment list since 1997, had found a potential buyer in Vivendi after long negotiations. The privatisation was to be in two main steps with gradually increasing involvement of Vivendi, but things did not go beyond step one and the firm's accounts were not balanced.

The country's banks have been completely privatised, though the government has kept minority shares in some. The five original commercial banks – the BCC, CBT, BIAT, SGTB and the Financial Bank-Chad – were joined in 2004 by the Banque Soudano-Sahélienne pour l'investissement et le commerce. Customer deposits in these banks were 110.2 billion CFA francs ($208.2 million) at the end of July 2004. The SGTB is the biggest, with 27 per cent of the deposits, and dominates the market for current accounts by private bodies and private and public firms. The deposit/loan rate was 216 per cent in July 2004. Only 46.2 per cent of bank funds were used for loans, mainly short-term. The professional loan institutions association said 6.3 per cent of commercial bank loans were unsafe in mid-2004.

Access to clean water doubled from 16 per cent in 1990 to 34 per cent in 2002, but sewerage networks are still very poor. About 95 per cent of urban homes have no piped sewerage facilities and in 2000/01, only 37.6 per cent of town dwellers and 2.8 per cent in the countryside had running water. Urban access to clean water actually declined from 44 per cent in 1990 to 40 per cent in 2002.

Political and Social Context

The 1966 national constitution was significantly amended by parliament in 2004 to allow the president unlimited re-election instead of a maximum of two consecutive five-year terms and a referendum on the change is to be held on 6 June 2005 which the opposition has threatened to boycott. An attempt to kill President Idriss Deby failed on 16 May 2004 and was followed by government changes but no-one was prosecuted for the attack. Press freedom is quite good despite some setbacks but public demonstrations are often blocked by refusal of the legal permission required to stage them.

Chad was named as one of the world's most corrupt countries in Transparency International's 2004 report, which noted that corruption tended to be very high in oil-producing states, especially in the area of oil sector procurement. Chad was placed 142nd out of 145 countries on the corruption index, equal with Myanmar, just above Nigeria and below Cameroon (129th).

A year after oil production began, the government announced on 7 October 2004 it was suing the oil consortium for breach of contract and demanded more openness about the quality discount and transport costs, as well as the return to Chad of insurance policies established outside the country in violation of the rules of the Inter-African Conference on Insurance Markets (CIMA). The $25 base price used to calculate January 2004 oil revenue is also being disputed. Despite unprecedented official monitoring of the oil income, not all financial procedures are transparent, but inspection of government ministries that began in 2004 displayed a certain will to promote openness.

An increase in 2003 and 2004 in the number of local government units has not been matched by transfer of real responsibility and a building up of local infrastructure. Regional and general councils are not operating and municipal elections have still not been held. The government's intentions here will be tested in 2005. Good governance is the priority of the World Bank's upcoming Institutional Reform Support Credit programme in Chad.

Longstanding disputes between nomadic herdsmen and settled farmers in the south and southeast continue to disrupt the lives of people there. The farmers, mostly Christian or animist, are in conflict with the mainly Muslim herdsmen, who covet the farmers' fertile and oil-rich land. The fighting in Darfur, across the border in Sudan, has dragged on since early 2003 and the United Nations says the conflict has killed nearly 10 000 people and driven a million from their homes. A ceasefire was signed on 8 April 2004 between the Sudanese government and the rebels but the humanitarian situation is still very worrying in the refugee camps inside Chad, to which at least 150 000 people have fled.

A poverty reduction strategy paper (PRSP) was adopted in June 2003 after a broad national consultation process and led to proposals for a national good governance strategy. A progress report on the PRSP's implementation is being finalised. But political corruption and poor quality administration are hampering implementation of the measures.

Chad's population was estimated at 8.8 million in 2004. The last census was in 1993 and the one due in 2003 was cancelled for lack of funding, but a consumption and informal sector survey (Ecosit) is under way, with a report due in 2005. Results of a demography and health survey, updating a first one held in 1996, are also being analysed.

Fertility was steady between 1992 and 2002, at 6.7 children per woman of child-bearing age (15-49). Life expectancy at birth was an overall 47.7 years in 2002, but healthy life expectancy at birth was as low as 40.7, reflecting bad living conditions (including wars, violence and poverty). Under-5 infant mortality was very high – 202 per 1000 for boys and 180 for girls. Infant mortality in the first year of life was 112 per 1000. These figures put Chad 11th on the international list of countries with the worst infant mortality, well above all its neighbours except Niger.

A government-subsidised expanded vaccination programme (EVP) covered 72 per cent of the population in 2003 for tuberculosis (BCG) and 47 per cent for diphtheria, whooping cough and tetanus (DTP3). In 2002, 67 per cent of children had been vaccinated against TB and 55 per cent against measles.

The overall HIV/AIDS infection rate was 5.3 per cent (at the end of 2003) but 11 per cent among pregnant women between 15 and 25, much of it caused by their lack of information about the disease. Chad has about 96 000 AIDS orphans and a 200 million CFA francs ($380 000) government grant provides treatment for 83 people with anti-retroviral drugs. Malaria affected 21 per cent of the population in 2001, when only 2.2 per cent of children slept under treated mosquito nets and only 26.9 per cent under any mosquito net.

Only 8 per cent of women of child-bearing age used contraception between 1995 and 2002, 42 per cent of pregnant women got ante-natal care and 15 per cent gave birth in proper medical conditions. The low figures explained why Chad was one of the countries with the highest maternal mortality (827 per 100 000 live births).

There were only 3.3 doctors, 14.7 nurses, 2.3 midwives and 0.2 dentists for every 100 000 people in 1994; traditional practices persist (45 per cent of women between 15 and 49 have been genitally mutilated) and epidemics of cholera, meningitis and hepatitis E are common, along with malnutrition (44 per cent of children did not get the minimum daily calorific intake in 2002 and 28 per cent were underweight in 2000). These figures suggest that despite the end of the civil war, health conditions will not improve quickly.

The educational level is very low in Chad and the auditing firm Mazars and Guérard said in July 2003 it was the main cause of poverty. The weakness is reflected in gender and regional disparities. Female illiteracy was 58.9 per cent and male 42.6 per cent in 2004. Enrolment by age rose from 30.4 per cent in 1999/2000 to 32.4 per cent in 2000/01, meaning two-thirds of the school-age population do not go to school. Gross enrolment of 6-11-year-olds was 75.4 per cent in 2000/01, 3.8 percentage points up on 1999/2000.

Regional enrolment varies considerably, with 154.5 per cent in Logone Oriental province and only 16.6 per cent in Ennedi. Most children in the first year of primary school are aged between six and eight. The repeat rate is very high (25.5 per cent in 2000/01, down from 27.5 per cent in 1999/2000) and affected girls (28.6 per cent) slightly more than boys (26.8 per cent) in 1999/2000.

Serious gender disparity exists at all levels and in all types of education. Basic education covers 77.7 per cent of children, but only 38.7 per cent of these are girls. In secondary education (enjoyed by 12.8 per cent of children) only 23.2 per cent of students are girls and in higher education (which accounts for only 0.5 per cent of all students) only 14.5 per cent. The number of girls has risen 1 percentage point between 1999/2000 and 2000/01.

Most primary schools are state-run (54.2 per cent) or community-run (38.4 per cent) and only a few privately-owned (7.4 per cent). Most (84.1 per cent) are in the countryside, where they are mainly community-run, while 77.8 per cent of private schools are in towns. Nearly all schools (93.9 per cent) are French-speaking, with 3.7 per cent Arabic-speaking and 2.4 per cent bilingual.

The percentage of supply teachers hired rose 87.6 per cent in 2000/01 over the previous year while the number of permanent teachers increased only 3.7 per cent in 1999/2000, mainly in community-run (+19.3 per cent) and private (+4.2 per cent) schools. But the number of professional teachers fell by 1.6 per cent in state schools, while the pupil/teacher ratio rose from 68.6 to 71.2 (and ranged from 212 in Ennedi to below 55 in Borkou and Lac).

The number of schools increased by 607 (9.2 per cent) between 1999/2000 and 2000/01 but class size remained a concern – 63 pupils on average in 2000/01 and 71.1 for normal primary schools (without the double-shift system) and as high as 84.7 in the first year of primary school, thereby compromising early learning. A World Bank funded 11 billion CFA francs ($20.8 million) plan to build 1 000 classrooms throughout the country was launched in November 2004 under an educational reform programme (Parset).

