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INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED DEVELOPMENT CREDIT
TO THE REPUBLIC OF CHAD
FOR AN
EDUCATION PROJECT

April 6, 1971

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REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED
DEVELOPMENT CREDIT TO THE REPUBLIC OF CHAD
FOR AN EDUCATION PROJECT

1. I submit the following report and recommendation on a proposed credit in an amount in various currencies equivalent to US\$2.2 million to the Republic of Chad to assist in financing an education project.

PART I - HISTORICAL

2. In April 1967, the Government of Chad requested financial assistance for a primary teacher training college at Moundou, an agricultural technician training center at Fort Lamy, and an extension to the existing technical secondary school at Fort Archambault. Appraisal took place in May 1968, with the result that the schools at Moundou and Fort Lamy were included in the first education project (Credit 126-CD of FY 1969).

3. The request for extending the technical secondary school at Fort Archambault was submitted again in May 1969, following the visit of a UNESCO technical education mission. The Bank appraisal mission in September 1969 found that most of the existing buildings were either unsuited to their purpose or needed major repair, and that the objectives of the school could be better met at Fort Lamy, the center of Chad's industrial activity. The cost of new construction at Fort Lamy would be of the same order as that of renovation and extension at Fort Archambault. The Government accepted the recommendation of the appraisal mission as to the re-location of the technical secondary school, but expressed concern with regard to the concentration of education at Fort Lamy. The Government accordingly requested that the site of the proposed agricultural technician training center, designed for Fort Lamy but not yet constructed, be transferred to Fort Archambault which is the principal town serving the agricultural area. The Government made a further request for assistance in converting the existing technical school at Fort Archambault into a vocational training center at Fort Archambault to provide skilled workers for the new industries planned in that area. A Bank/UNESCO mission appraised this revised project in September/October 1970.

4. Negotiations were conducted with a delegation led by Mr. Georges Diguimbaye, Minister of Planning and Cooperation, and were completed on March 19, 1971.

5. There have been no Bank loans to the Republic of Chad. The following is a summary of IDA credits extended to Chad as of February 28, 1971:

<u>Credit No.</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount (US\$ million)</u>	
				<u>IDA</u>	<u>Undisbursed</u>
125-CD	1969	Chad	Highway maintenance	4.1	3.86
126-CD	1969	Chad	Education	<u>1.8</u>	1.68
			Total now outstanding	<u>5.9</u>	—
			Total undisbursed		<u>5.55</u>

6. On both projects (125-CD and 126-CD) execution has been lagging. The security situation in the country has jeopardized road maintenance work, and orders for new equipment have had to be delayed. However, the closing date of this credit, December 31, 1973, can still be met. Implementation of the education project has suffered from administrative deficiencies and the lengthy discussions between the Government and the Association on school design and the need for economy in construction. The closing date for the education project will, however, have to be postponed from March 1972 by about 18 months.

7. Further progress with a livestock project negotiated in July 1969 has been delayed because of the security situation. However, this project could be presented to the Executive Directors early in FY 1972 if the Government receives satisfactory responses to the bidding invitations issued in January 1971.

8. Feasibility studies financed by the United Nations Development Programme (UNDP) and the French Fonds d'Aide et de Coopération (FAC) are underway on irrigation projects in the Sategui-Deressia and Lake Chad Polders regions. These studies will be available late in 1971, and may lead to requests to the Bank Group and other agencies, such as the African Development Bank, for assistance in financing an irrigation project. The Government has already requested Bank Group financing for a cotton development program which would be carried out with the assistance of the European Development Fund (FED). This proposed program is under study, and may result in a project during FY 1973. In transportation, the Bank is currently considering the possibility of financing a feasibility study for a bridge across the Chari River at Fort Lamy.

PART II - DESCRIPTION OF THE PROPOSED CREDIT

9. Borrower: Republic of Chad
- Amount: US\$2.2 million equivalent in various currencies
- Purpose: Training of middle-level technicians and semi-skilled workers for industry and commerce, and of extension agents for agriculture.
- Amortization: In 50 years including a 10-year period of grace, through semi-annual installments of one-half of one percent from June 1, 1981 through December 1, 1990, and of one and one-half percent from June 1, 1991 through December 1, 2020.
- Service Charge: 3/4 of one percent per annum.

PART III - THE PROJECT

10. An appraisal report entitled "Appraisal of Second Education Project in Chad" (PE-27a dated April 5, 1971) is attached. The project consists of:
- (a) construction of and equipment for a technical secondary school at Fort Lamy;
 - (b) construction and additional equipment for the conversion of an existing technical secondary school at Fort Archambault into a vocational training center;
 - (c) transfer of the proposed agricultural technician training center (Credit 126-CD) from Fort Lamy to Fort Archambault; and
 - (d) a study of training schemes for young farmers.
11. The project unit established within the Ministry of Education for the first project (Credit 126-CD) would also be responsible for the implementation and overall supervision of the proposed project, and for liaison with the Association. Replacement of the Project Director or the Education Adviser would continue to be subject to agreement by the Association. The project unit would be provided with adequate supporting staff, including a full-time accountant, and necessary facilities.
12. The education system in Chad begins with six years of primary school, and is followed by post-primary alternatives of varying lengths and purposes. Besides the usual secondary school program leading to higher education, the post-primary school alternatives include the training of industrial technicians and skilled workers, agricultural technicians, and primary school teachers.

13. Education in Chad faces the difficulties expected in a country with a population lacking homogeneity and partly nomadic, a vast, thinly populated area, and a school administration inexperienced and subject to severe financial constraints. With foreign assistance, mainly by French experts, the education system is being built up gradually, and some expansion is taking place. However, the literacy rate is still low - about 7 percent - and enrollments in primary and secondary education shown as proportions of the relevant age groups are only 33 percent and 2 percent respectively. In primary schools the proportion of repeaters is 30 percent, and only 10 percent of the primary school entrants complete the full six-year course. At the secondary level, less than 11 percent of some 10,000 pupils are attending technical and commercial courses. The result is a noticeable shortage of skilled manpower which is a severe hindrance to economic development. The proposed project focuses on key aspects of technical and vocational training.

14. For budgetary reasons, Chad looks mainly to foreign assistance to finance capital investment in education. Many sources of assistance are being tapped. The ILO is providing assistance for the training of semi-skilled workers. FED is helping to train technicians for agricultural services such as veterinary care and animal husbandry. Besides its usual program, FAC is providing technical assistance to help carry out the Association's first education project. Recently, Chad, Gabon, the Central African Republic and the People's Republic of the Congo make a joint request to UNDP to finance a regional Technical Teacher Training College in Libreville (Gabon); this request is presently under consideration.

15. About 15 percent of the Government's budget is allocated to running the education system. Public funds covered only 57 percent of education expenditures for the years 1963 to 1968, and the remaining 43 percent was provided by foreign assistance which came almost exclusively from France. Nearly three-fourths of this foreign aid was spent on recurrent expenditures, while the remainder made up 93 percent of capital expenditure on education over the same period. For recurrent expenditures, the Government intends to increase its outlays by 7 - 8 percent in the 1970's. This modest rate of increase is due to the limited growth prospects of the economy and continuous deficits in the Government's budget.

16. The total cost of the project is \$3.1 million, of which \$2.1 million (68 percent) represents the foreign exchange component, \$0.6 million import duties, and \$0.4 million other local expenditure. The Association's credit of \$2.2 million (88 percent of the project cost, net of import duties) would cover \$2.1 million of foreign exchange costs and \$0.1 million of local expenditure.

17. Procurement and contracts for civil works would conform to Bank Group guidelines on international competitive bidding. The credit would be disbursed over four years.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

18. The draft Development Credit Agreement between the Republic of Chad and the Association, the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association, and the text of a Resolution approving the proposed credit, are being distributed to the Executive Directors separately. The draft Development Credit Agreement follows the normal pattern of agreements for projects of this kind. In the Development Credit Agreement, the Government has agreed to take necessary steps to secure adequate technical assistance for the project before September 30, 1972, and to provide adequate training for staff for the schools prior to September 30, 1974.

PART V - THE ECONOMY

19. An economic report entitled "The Current Economic Situation and Prospects of Chad" (AW-24a dated April 9, 1971) is being distributed to the Executive Directors shortly. A basic data sheet is annexed.

20. Chad is the largest land-locked country of Africa. Its natural resources are very scarce. Only in the southern one-tenth of the country, south of the Chari River, are soils really suitable and rainfall sufficient for settled agriculture. It is there that all the cotton, Chad's most important cash crop, is grown. In the rest of the country where livestock-raising is the main activity, subsistence absorbs practically all resources. Extremely high transportation costs are particularly burdensome for foreign trade.

21. In addition to these natural handicaps, Chad has been beset by serious political strife between populations north and south of the Chari River, which are approximately equal in numbers. Tension between the two groups erupted in open rebellion in 1969. Since July 1970, the situation has been improving; negotiations between the Government and the leaders of the rebellion are underway.

22. Because of Chad's geographical position and difficult political situation, the economy has expanded slowly. The balance of payments has suffered from a serious deterioration of the terms of trade, and from sharply increasing imports, partially due to the political situation. As a result, the Government has had to draw US\$3.8 million from the International Monetary Fund. The fiscal position is also weak and is unlikely to improve rapidly, given the meager resources and the political problems of Chad. The decision to withdraw from the Central African Customs and Economic Union (UDEAC) has further reduced public revenues, and has had little positive results except to promote closer relations between Chad and the Democratic Republic of Congo.

23. To curtail the growing budget deficit, the Government has negotiated the deferment beyond 1971 of debt service on suppliers' credits of almost CFAF 1 billion. The budget for 1970 still foresees an overall deficit of CFAF 1.64 billion. The authorities expect to receive budget support from France amounting to CFAF 1.7 billion. If it is received, it might be possible to liquidate some of the CFAF 2 billion in commercial arrears.

24. To further reduce the deficit in the 1971 budget, the Government has increased import duties and consumption taxes, and intends to keep expenditures at the same level as in 1970. In addition, it has decided to reduce the wages and the salaries of the members of the Cabinet, to eliminate transport allowances for civil servants, and to release more than 800 civil servants. Despite these measures, the 1971 budget is expected to show a deficit of about CFAF 800 million, which presumably will be covered in part from the Banque Centrale des Etats d'Afrique Equatoriale et du Cameroun (BCEAEC) and possibly from the French Treasury.

25. The Government is preparing a Development Plan for 1971-1975. Early drafts envisage investments of CFAF 10 billion (\$36 million) per year, substantially higher than actual investments under the 1966-1970 Plan (CFAF 4 billion or \$14 million). Most projects are at an early stage of preparation, and it is therefore unlikely that the planned investment level could be attained, even if resources were available. If the security situation develops favorably, and if the fiscal reform envisioned gives momentum to the Government's current efforts to reduce the budgetary deficit, the absorptive capacity of the country might gradually increase to the target level of the Plan by 1975, especially because investment possibilities for livestock are good.

26. The Government's capacity to carry out these development projects and to provide the related current expenditures is indeed limited. The present budgetary situation is not the result of bad economic management. Rather, it is the country's poor resource base with few development opportunities, combined with other factors which are beyond the Government's control, such as the loss of livestock tax revenues due to the rebellion, worsening of the terms of trade in the wake of the French and CFA franc devaluation, and sub-average results of the 1969/70 cotton crop that explain the Government's fiscal position. The country will therefore continue to depend almost entirely on external aid to meet development costs. Moreover, the capacity to contract and service external debt is almost non-existent. In these circumstances, Chad should be regarded as eligible for financing on concessionary terms, including the provision of IDA funds for the proposed project.

27. In addition, since the Government will be able to finance only a very small part of investment, external lenders have to be prepared to finance a high proportion of project costs, including local expenditures. In view of Chad's basic poverty, the high priority of this project, and the Government's budgetary difficulties, the financing by IDA of some local expenditure is justified.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

28. I am satisfied that the proposed development credit would comply with the Articles of Agreement of the Association.

PART VII - RECOMMENDATION

29. I recommend that the Executive Directors approve the proposed development credit.

Robert S. McNamara
President

Attachments.
Washington, D.C.
April 6, 1971.

BASIC DATA

<u>Area</u>	1,284,000 sq. km.
<u>Political Status</u>	Independent Republic since August 11, 1960
<u>Population</u> (estimate 1970)	3.6 million
Rate of growth	Around 2.0 percent per year

<u>Gross Domestic Product</u> (1967):	CFAF 59,600 million
Per capita	CFAF 17,250 (\$70)
Growth rate, real terms (1960-69)	About 2-3 percent per year

<u>Government Finance</u> :(CFAF billion)	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>Budget</u> <u>1970</u>
Domestic revenue	10.2	9.5	11.2	11.8
Current expenditure	<u>10.2</u>	<u>10.8</u>	<u>12.8</u>	<u>12.9</u>
Savings	0.0	-1.3	-1.6	-1.1
Investment expenditure	<u>0.7</u>	<u>1.2</u>	<u>1.1</u>	<u>0.5</u>
Overall deficit	<u>-0.7</u>	<u>-2.5</u>	<u>-2.7</u>	<u>-1.6</u>

Financed by:

French subsidies	0.4	0.5	0.3
Drawings on liquidities and accumulation of arrears	0.3	2.0	2.4

Money and Credit: Chad is a member of the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (BCEAEC).

(CFAF billion)	<u>Dec. 1966</u>	<u>Feb. 1970</u>
Money supply	6.57	9.02
Domestic Credit	6.84	12.56
Foreign assets (net)	-2.88	-1.39

Balance of Payments:

(CFAF billion)	<u>1969</u>
Exports	9.1
Imports	11.0
Trade deficit	-1.9
Services (net)	-6.1
Current account deficit	-8.0
Transfers	5.7
Capital	1.2
Monetary movements and errors	1.1

Commodity Concentration of Exports

	<u>Average</u> <u>1967-1969</u>
Cotton	64% of exports
Livestock and meat	28% " "

External Public Debt:

(in millions of dollars)

	<u>Disbursed</u>	<u>Including</u> <u>Undisbursed</u>
Total outstanding as of Dec.31,1969	33.4	50.00
Total debt service (1969)	3.0	
Debt service ratio (goods and services)	4.5 percent	

Bank Group Operations

IDA Credit (1968): US\$ 4.1 million for highway maintenance
IDA Credit (1968): US\$ 1.8 million for education

IMF Position (July 1970):

Quota: \$ 10.0 million
Drawings: 3.8 "

April 6, 1971.