

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA4298

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Project Name	Competitiveness and Value Chain Support (P133021)
Region	AFRICA
Country	Chad
Sector(s)	General industry and trade sector (60%), Public administration-Industry and trade (20%), SME Finance (20%)
Theme(s)	Regulation and competition policy (35%), Micro, Small and Medium Enterprise support (30%), Other Private Sector Development (20%), Trade facilitation and market access (15%)
Lending Instrument	Specific Investment Loan
Project ID	P133021
Borrower(s)	Ministry of Planning, Economy and International Cooperation
Implementing Agency	Ministry of Commerce and Industry
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	22-Mar-2014
Date PID Approved/Disclosed	24-Mar-2014
Estimated Date of Appraisal Completion	26-Mar-2014
Estimated Date of Board Approval	22-May-2014
Decision	

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I. Project Context

Country Context

Chad is one of the poorest countries in the world with an economic growth mainly driven by the oil sector. Chronic political instability, periodic bouts of civil conflict, a shortage of resources, weak institutional capacity, and challenging agro-climatic conditions have undermined the efforts of successive governments of the Republic of Chad to boost economic growth. Chad is a low-income country with per capita Gross National Income (GNI) of US\$740 in 2012. Since 2003, with the advent of the oil era and the high-level of investment in this sector, the country is highly dependent on oil. Oil accounts for about 90 percent of total exports of goods (exports earnings reached US\$4 billion in 2011), and about 35 percent of Gross Domestic Product (GDP). In 2012, real GDP growth increased to 5.4 percent (from 2 percent in 2011) and was largely driven by the coming on stream of several industrial projects, including the impact of a full year of operation of the first oil refinery in the country, which started production in mid-2011, and the opening of a new cement plant.

Despite this recent performance, Chad was ranked 184 out of 187 on the UNDP Human

Development Index (HDI) (2013). The second National Poverty Reduction Strategy 2008-11 (NPRS-II) reported that poverty in Chad is disproportionately rural, with 87 percent of the poor living in rural areas. As Chad enjoys the fruits of a strong hydrocarbon sector, the challenge of generating broad based economic growth and stable and well-paid jobs remains. The country needs to develop the non-oil sector and diversify its economy which is now vulnerable to terms of trade and shocks.

Agriculture is the one of the most promising non-oil sector and is the second source of export earnings in Chad. It provides the bulk of non-oil export revenues, with commodities such as cotton, cattle and gum arabic. In late 2011, a severe drought provoked a decline in agricultural production (cotton, cereals, oil seeds, sugar, cattle etc...) causing a food security crisis and a sharp increase in inflation. Favorable weather conditions spurred a recovery in agricultural output, which should yield an increase in the main crops in the coming years. It is estimated that only six percent of arable land is cultivated and that water resources remain largely untapped, with only nine percent of the potential used.

The country now finds itself at a crossroads, with a need to diversify its economy. Existing sources of growth have to be strengthened through support to high value chains products. The agriculture sector has a considerable potential and continue to be the major engine of growth, jobs creation and poverty reduction.

Sectoral and institutional Context

Chad's competitiveness in the non-oil sector is weak due a lack of market and goods diversification in its exporting sectors. The country's current national value proposition focuses on its 'comparative' advantages (oil resources) rather than on its ability to be competitive in select export sectors. Low-skilled labor and low value addition rates are highly present in Chad's current productive sectors, creating a path that undermines the country's growth potential and is a fundamentally unsustainable way forward.

The country needs to pursue a two pronged strategy of improving its business environment, repositioning traditional sectors and diversifying its export products. The proposed project is at the heart of this strategy through its focus on one of the most important sectors in the country and on business environment issues. Agriculture is the cornerstone of the Chadian economy, with the largest part of the Chadian population living in rural areas and, as a consequence, heavily depending on subsistence farming and livestock for its livelihood. In the new 2013-2015 National Development Plan (NDP), the government identified specific agricultural value chains in which the country can be competitive and whose impacts on the economy would be substantial.

Several potential value chains were considered during project identification during consultations with the Government and private sector. Building on the analysis and recommendations of the 2014 World Bank Group's Chad Livestock and Gum Arabic Value Chain study, priorities highlighted in the Government's PND and field consultations, the project's initial focus will be to support the development of the meat value chain and dairy subsector in the capital Ndjama and surroundings. The project would aim to stimulate private investments in those sectors, through targeted reforms aiming to improve the business environment, rehabilitation of critical public infrastructure, support to improve technical capabilities of workers and subventions to develop micro-projects. These sectors have significant potential to generate strong economic and social benefits and increased food security. Project interventions would also bring the meat and dairy sectors to address domestic

market needs in the short term, with a medium to long objective of developing exports towards regional and international markets.

Meat value chain overview and challenges

Despite having the largest bovine livestock in Sub-Saharan Africa, with more than 16 million cattle heads, of which 7 million of bovine cattle, Chad's potential of generating remunerative activities from livestock, is under-exploited. Three value chains (meat, dairy, hides and skins) were investigated during the project's preparation. The meat industry is way more mature than the milk industry or the hides and skins value chain.

In the 1970s, the country was one of the main meat exporters in Central Africa with about 12,000 tons of meat exported every year. Today, Chad is not exporting anymore and beef meat produced in the country is mostly consumed by the local population. The top-quality live cattle is sent to Nigeria (about 240,000 heads annually), while about 140,000 cattle heads of lower quality are slaughtered in the main slaughterhouse of Farcha-N'Djamena and in about 40 specific slaughter areas in the country. The informal sector is dominant and it has been estimated that only half of the exported cattle and 20 % of the meat produced in Chad are officially declared. Overall, 90,000 tons of meat (including in the informal sector) is produced annually, which represents nearly half the yearly production of Cameroon, a country with a smaller livestock than Chad.

A number of bottlenecks undermine the country's ability to export value-added products (meat and other transformed byproducts rather than live animals). Low quality or lack of accreditation services to enable the industry to implement food safety systems such as Hazard Analysis and Critical Control Points (HACCP) prevent the meat produced domestically to meet international food safety standards.

Dairy subsector overview and challenges

Like the meat value chain, the dairy subsector faces similar cold chain and storage capacity challenges. Culturally in Chadian villages, while the animal itself belongs to the household and therefore to the man, head of the family, women are responsible for milking the cows and are considered as owners of the milk and its subproducts. According to FAO stat, milk production in Chad was estimated at 272,000 tons in 2010, used without or little processing, and mainly for local consumption (60%). Challenges in the dairy sector are compounded with low milk productivity. Chadian cows produce an average of 2 liters of milk per/day. Global milk production standards are estimated between 30-50 liters per cow, which represents 15 to 25 times more output per cow than in Chad.

To reach global milk production standards, challenges are numerous and complex. Included are the poor quality and quantity of animal inputs (feed mill and animal health), the lack of modern production methods and subproducts quality management, and the lack of sufficient organization between the different stakeholders.

Investment climate overview and challenges

The country's investment climate and business environment are widely perceived as unfavorable to the development of the private sector. The 2014 Doing Business report rated the ease of starting a

business, paying taxes and trading across borders. Although Chad made starting a business easier in 2012 by eliminating one procedure and by setting up a one-stop shop for business creation in the National Investment and Export Agency (ANIE) in 2013, the cost and time for starting a business in Chad remain high, compared to similar countries. The country remains in the lowest range in the ease of doing business rankings.

Administrative burden of complying with taxes and trading across borders remain high and constitute an obstacle to value chains' competitiveness. The DB 2014 shows that firms make 54 tax payments a year on average (compared to a sub-Saharan average of 39 payments), spend 732 hours a year filing, preparing and paying taxes and pay total taxes amounting to 73.8 percent of profit. On the logistics side, the country made trading across borders more difficult by introducing a new export and import document in 2013. Exporting a standard container of goods requires 8 documents, takes 73 days and costs US\$6,615. Importing the same container of goods requires 11 documents, takes 98 days and costs US\$9,025. Improving the business environment, especially issues related to trade logistics and procedures would therefore have a significant positive effect on the country value chains' competitiveness, resulting in increased private investment in key tradable sectors, encouraging exports and creating employment.

Given the above context, the private sector and producers in the meat and dairy value chains need to be supported in order for them to reach a competitive level. The proposed project will help the Government in its efforts to enhance its capacity to attract private investors in these sectors, strengthen the capacity of local SMEs to be able to respond to demand and market needs and improve the business environment.

Relationship to CAS

This project is aligned with the Bank's FY10-FY12 Interim Strategy Note (ISN) which has three main axes of engagement: (i) strengthening governance and public financial management (a cross-cutting element); (ii) improving livelihoods and access to key social services; and (iii) improving regional integration and connectivity. In line with the ISN approach of developing and delivering of extensive knowledge and analytical and advisory activities (AAA) in select sectors, a value chain analysis was initiated in 2012 with the aim to create the knowledge base that would inform the country's economic diversification strategy and provide the analytical basis for the project.

II. Proposed Development Objectives

The proposed project development objective is to improve targeted aspects of the business environment and the performance of agro-pastoral value chains in Chad.

III. Project Description

Component Name

Component 1: Improving the business-related environment

Comments (optional)

The objective is to help advance specific reforms in the business environment, in a selective manner, focusing on a few priority areas that have potential to show results quickly.

Component Name

Component 2: Support to the value chains

Comments (optional)

The objective is to strengthen the meat and milk value chains by upgrading and expanding critical infrastructure facilities in Ndjamena and surroundings.

Component Name

Component 3: Project Management

Comments (optional)

The aim of this component is to build capacity of the national institutions, especially the coordination unit that will be in charge of project management, monitoring and evaluation.

IV. Financing (in USD Million)

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			10.00
Total			10.00

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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