



## CONCEPT NOTE

### Economic diversification and business climate improvement

Chad's economy, which is mainly based on cash crops and oil extraction, is prone to adverse weather conditions and fluctuating commodity prices. Economic growth of almost 8% between 2003 and 2010 was mainly due to the exploitation of oil resources. This shift in the production base has increased the vulnerability of the economy to exogenous shocks, including lower commodity prices. The weight of the primary sector still prevails. It represents nearly 47.4% of the activity of all economic units over the period 2010-2015, followed by the secondary sector (12.3%) and the service sector (40.3%) (Ministry of Finance and Budget (MFB), 2017).

#### Background

The analysis of the national production system reveals the prospects and opportunities regarding the comparative advantages of the country. These prospects concern the industries within the agro-sylvo-pastoral sector as well as the tourist, handicraft and mining sectors whose development would allow a real diversification of the country's production structure. Despite the efforts already made to modernise these sectors, the development of the "filier" approach in these sectors is restricted by the existence of the following four categories of constraints.

The first category of constraint is related to the weak performance of the public sector. Indeed, bureaucracy hinders the rational development of business. Moreover, the inadequacies of the public sector and the inefficiency of the legal system significantly hinder business development and the diversification of the national economy.

The second constraint is related to the economic environment. Indeed, the Chadian economy is characterised by low purchasing power and a limited domestic market, as well as an intermittent water supply; limited access to electricity and the high costs associated therewith; a limited network of paved and developed roads; unreliable telecommunications networks – and its prices are among the highest in the world. The combination of these constraints damages the economy, discourages potential investors and jeopardises the viability of existing firms by increasing their production costs.

The third category of constraint is related to financing difficulties. In Chad, as in other developing countries, most businesses in the informal sector face enormous difficulties in obtaining loans in general and, above all, in the medium and long-term, the credit required to finance their investments. Moreover, banks set high interest rates based on a realistic perception of the risks incurred, which lead to growing uncertainty in the banking system. Exercising such extreme caution when dealing with requests from companies and especially SMEs/SMIs leads to the exclusion of small businesses. Statistics show that barely two adult Chadians out of seven have access to a formal financial product.



According to data from the Bank of Central African States (BCAS), as far as the financing of the economy is concerned, the ratio of credit allocated to the private sector never reached 6% of GDP over the period 1990-2013 (half of CEMAC's average).

The financing difficulties of SMEs are largely due to their inability to provide collateral, the insufficient training of promoters to manage their businesses efficiently and securing title deeds as collateral. The lack of appropriate structures and specialised credit lines for SME financing and the lack of guarantee and mutual guarantee institutions lending to SMEs also hinder investment.

The last category of constraints is inherent in the minds of economic operators. Local private operators, most of whom operate as sole traders, prefer general trade (import-export), transport and services. Conversely, they find it more difficult to form groups of companies with large capital to create large industries and thus share risks. With little education and no formal training whatsoever, they employ basic management techniques. The absence of approved management centres, plans for the establishment of which have been in the pipeline for several years, combined with the lack of support in accounting and management consultancy means business leaders cannot think strategically or draw up medium- or long-term business plans.

### **Measures already implemented by the Government**

The major efforts employed by the authorities have improved the country's ranking in the Doing Business 2017 report, moving it up three places to 180<sup>th</sup> out of 190. This improvement was achieved thanks to the establishment of the High Inter-ministerial Committee for the Monitoring and Control of Measurement Indicators for Regulating the Business Environment in Chad by Decree No. 652/PR/PM/2015 of 3 February 2015. The Government's efforts also extend to the National Agency of Investments and Exports (ANIE) which works to improve and diversify the Chadian economy. The Government has also undertaken efforts to improve the legislative and regulatory framework, including supporting the implementation and promotion of the Organisation for the Harmonisation of Business Law in Africa (OHADA). Measures have also been taken to speed up the process of setting up businesses. In 2016, the number of days required to set up a business and the minimum capital required for creating a limited liability company (LLC) were reduced. The capital of private limited companies has thus increased from CFAF 1,000,000 to CFAF 100,000 and registering with a notary is now optional. However, procedural costs are still very high. In 2015, they reached nearly 150.6% of the per capita income (Doing Business Report, 2016).



From a strategic perspective, the Government has created, thanks to the Diagnostic Trade Integration Study 2015 (EDIC II), a document outlining the diversification of the country's economy through the development of very high value-added industries that generate employment.

Moreover, the Government launched an ambitious National Programme for Food Security (NPFS) in 2006 at a cost of CFAF 103 billion to modernise Chadian agriculture. In addition to its objective of ensuring food security, one of the mandates of the NPFS was to strengthen farmers' resilience to climate change.

President of the Republic at the wheel of a tractor



## **Strategic Guidelines**

Within the framework of the NDP 2017-2021, the Government intends to pursue its economic diversification and business climate improvement policy by increasing support for existing production chains and by creating new value-added industries that generate employment, particularly in the agro-sylvo-pastoral sector (arabic gum, peanut, rice products, shea, spirulina, fish and livestock products) as well as in the mining, tourism and handicraft sectors. The Chadian private sector will play an enhanced role in diversifying the economy through the development of Public Private Partnerships (PPPs) and the integration of certain activities into value chains at regional, continental and global levels, with the objective of stepping up trade and increasing the country's economic growth. To this end, the effective implementation of the White Paper for the promotion of the private sector is urgently required.

The success of this structural transformation also depends on the greater involvement and engagement of economic operators, especially business leaders in the field of industrial development in Chad. This process of industrialisation will take place through the implementation of a support policy, in particular for women and young people, and by increasing financing (banks and Agricultural Mutual Assistance Funds) in the agro-sylvo-pastoral sectors.

In order to develop these industries, other measures will be taken to improve the business climate and the quality of infrastructure in the areas of transport, energy and ICT.

Development and implementation of a formalisation strategy for informal sector businesses

**2.2.2 Implementation of the reforms proposed by the CNPT in the White Paper and the private sector benefits from a supportive trade environment**

Implement incentives for business start-ups, transfer of ownership, building permits, contract enforcement and cross-border trade

Implement a mechanism to monitor the effectiveness of the implementation of the White Paper reforms

Effective trade administration

Improve aspects related to integration and facilitation of trade

Boost the competitiveness of Chadian exports

Support the participation of Chadian women in trade

[Sub-axis 2.2](#)

Promoting economic and financial governance

Develop an economic industrialisation and diversification strategy

Satisfactory implementation of the industrialisation and diversification strategy

Development and implementation of the tourism development strategy

Strengthening of the institutional and steering framework of the tourism sector

Strengthening of Chad's hotel infrastructure

Development and implementation of the National Strategy for the Development of Handicrafts (SNDA)

The strengthening of the institutional, material and technical capabilities of the staff in the handicrafts sub-sector

The creation of an environment conducive to business in the handicrafts sector

[Sub-axis 3.1](#)

A diversified and fast-growing economy

Improved governance and human resources in the agricultural sector

Improved animal productivity  
Effective implementation of the National Investment Programme in the Rural Sector (PNISR)

Implementation of the National Strategy for Inclusive Finance  
Creation of banking structures specialised in financing specific sectors (agriculture, handicrafts, culture, etc.) and specific population groups  
Significant increase in the amount of economy financing economy on local resources

Increase in amount of foreign private capital for financing productive investments  
Introduction of alternative financing methods to bank lending

[Sub-axis 3.2](#)

Financing of the economy, mainly by domestic saving, credits to the economy and foreign private capital

Support for national private shareholders  
Swift formalisation of the informal sector



## Funding

The total cost of the shares relating to economic diversification and business climate improvement is CFAF 767,763,763,300. The measures related to improving the business climate are estimated at CFAF 62.87 billion, those contributing to the promotion of the mining, tourism and handicraft sub-sectors at CFAF 88.89 billion, those related to the development of supply chains in the growth centres at CFAF 479.21 billion, those related to developing the offer of services adapted to the needs of business operators at CFAF 134.36 billion and those related to promoting the emergence of new private shareholders at CFAF 2.43 billion. For the financing of investment projects linked to economic diversification, PPPs will fundamentally be sought through the private sector.

Improved economic governance	62, 867, 500, 000	8.2
Increased contribution by the mining, tourism and handicraft sub-sectors to GDP	88, 893, 063, 333	11.6
Use of growth centres to develop high-growth industries in the agro-sylvo-pastoral sub-sectors	479, 210, 000, 000	62.4
Improved supply of financial services to better meet the needs of business operators	134, 359, 950, 000	17.5
Promotion of the emergence of new national private shareholders	2, 433, 250, 000	0.3

