

Section 206 Program Plan: Chad

I. Summary

For the past two decades intermittent civil strife, foreign incursions and recurrent drought have hampered the economic development of Chad. Compounding these problems are the country's landlocked position, long internal distances and primitive road conditions, and an economy which has been heavily dependent upon the cotton industry for its export earnings and tax revenues. The drop in the world price of cotton by fifty per cent between 1984 and 1986 has resulted in the Government of Chad (GOC) being unable to finance normal operations. This situation will continue until the price of cotton and the overall economy recover, or the conflict with Libya ends. Direct budgetary support, concessional food aid and sustained levels of development assistance will be required from the international community for the foreseeable future.

Despite a relatively bleak economic picture for the short-term, there are several positive factors which augur well for the future. These include, as noted by the World Bank, "a dynamic informal sector spurred by a liberal economic system, a good agricultural and irrigation potential due to vast expanses of arable land and two perennial rivers feeding Lake Chad...low population density, under-exploited livestock resources, oil resources and mineral reserves."

The United States' primary political objective in Chad is to help assure its territorial integrity and consolidate national unification. The key to maintenance of Chad's status as a sovereign nation, in addition to military assistance, is support for the restoration and growth of its economy. The United States development strategy focuses upon improving Chad's food security by increasing agricultural production. Grants to U.S. private voluntary organizations have provided the means to develop small-scale irrigated agriculture in chronically food-deficit areas, thus enhancing overall food security in these zones. Emphasis has been placed on using improved water-lifting and water catchment techniques, as well as provision of credit to small farmers and entrepreneurs involved in this sector. During times of acute food shortages, USAID has come forth with food aid grants to avert famine and alleviate wide-scale suffering. In the context of its disaster response to drought in Chad, USAID provided two emergency Title II grants which were monetized by the GOC during FY 1984 and 1985, with the sales proceeds going towards disaster relief and rehabilitation activities.

The rationale for emergency monetization having since passed, USAID and the GOC wish to enter into a multi-year commitment which will provide for the monetization of 15,000 MT wheat flour over a three-year period. The sale of these commodities will generate revenue with which the GOC can establish a security stock of locally-produced cereals, while it carries out a series of self-help measures aimed at increasing competition in the private sector marketing of cereals.

II. Program Description

A) Problem

Chad has been in an emergency or near-emergency food situation since the early 1970's, when cereals production dropped below 600,000 MT. During the great African drought of 1984/85, total cereal production for Chad was estimated at 315,000 MT, resulting in a deficit of 296,000 MT. In light of this significant deficit, a massive emergency food aid relief effort was organized by the GOC, with assistance from donors and relief agencies, to cover the most critical needs. Slight surpluses in cereal production were registered in 1985 and again in 1986 due to sufficient and well-timed rainfall; cereals production, however, was mediocre in 1987, with an estimated 20-30,000 MT food aid required, and Chad's overall food supply situation remains precarious. The GOC, for all intents and purposes, has no reserve stocks, while PVO's and international organizations have either decreased their food aid stocks, or else have done away with them altogether. As the plight of 1984/85 drought victims fades from memory, a great deal of donor attention in Chad is being focused on increasing agricultural output.

Chad's food supply situation can be characterized by the "emergency syndrome:" it is an LLDC with a per capita income of about \$130 (1985), ranking it among the poorest and least developed countries of the world; it faces recurring structural deficits in the sahelian zone; and, it experiences frequent food emergencies. Cereal production deficits have occurred during five of the past seven agricultural seasons (see annex A), and with a population growth rate of 2.4 per cent, the likelihood of an increasingly wide gap between supply and demand is high. The absence of an in-country food emergency reserve makes a timely response to these food crises problematic, given the lag time required for donors to mobilize their resources and arrange for overseas shipments. **One of the "underlying" causes of Chad's recurrent food supply problems which the Section 206 Program thus intends to address is the absence of a security stock.**

Generally sound economic policies result in some inter-regional movement of cereals from surplus to deficit zones.

The present state of commercialization is that of an entirely free market. Neither the state nor the ONC [National Cereals Office] sets prices; anyone can participate in cereals marketing. The private sector handles almost all of the cereal trade, including much of that which is bought and sold by the ONC.¹

Extremely primitive roads, sparse population and lack of purchasing power prevent greater inter-regional transfers.

Nonetheless, there are several actions which the GOC can take in order to stimulate private sector competition in the marketing of cereals and increase inter-regional cereal transfers. These will be described in the sections on self-help measures (SHM's) and local currency activities.

B) Objectives

The United States development strategy for Chad has been to assist with efforts aimed at improving the country's food security. The strategy has been implemented in two manners: first, through a series of grants to American private voluntary organizations (PVO's) who are active in small-scale irrigation, reforestation and small-farmer credit activities; and secondly, through a \$27 million road maintenance project which will enhance trade between farms and markets.

The Section 206 Program will support United States development strategy by improving Chad's short and medium-term food security. This will be accomplished through a combination of the self-help measures which the GOC will agree to undertake, along with specific activities to be funded from local currency generations.

The goal of the Section 206 program is thus to improve Chad's food security. The specific objectives of the program will include:

- To enhance drought-response capabilities through the establishment of a security stock;
- To promote greater participation of the private sector in the marketing of cereals;
- To strengthen food data collection and reporting systems; and,
- To increase agricultural production.

¹Grasberg, Eugene and Hassanein, Adly. An Analysis of the Grain Marketing System in Chad (Washington, D.C.: Development Alternatives, Inc., February 1988) p.xi.

The program goal and objectives are supportive of United States development strategy for Chad, and are consistent with the GOC's top priorities as outlined in its 1986-88 Interim Development Plan.

C. Relevant Analyses

1. Sectoral analyses

Agriculture: According to the World Bank, agriculture, including livestock, forestry and fishing, provides a livelihood for about 85% of the population and generates 44% of GDP. Civil war which lasted until 1982, coupled with recurrent bouts of drought, have inhibited greater development of this sector. Planning and technical services, infrastructure and project implementation capacity have particularly suffered. The possibilities for expanding agricultural output are nonetheless considerable. Water resources, even in Chad's sahelian zone, are relatively abundant as Lake Chad, two perennial rivers, a large network of seasonal rivers, and a high water table provide the opportunity for small-scale irrigation. Only one-tenth of the land which has the potential for irrigation is effectively being irrigated. The GOC has generally maintained liberal economic policies for the rural sector, limiting public sector intervention, restricting growth of the civil service, and promoting private, small-scale, self-financing initiatives. Its financial resources are, however, insufficient even to cover partial payment of civil service salaries and minimum operating expenses of development ministries; direct budgetary assistance from the donor community has been necessary to meet these requirements. The GOC has few financial resources which it can invest in the country's economic development. All current and proposed projects in the GOC's 1988-1990 investment budget are entirely funded by the donor community, as either grants or loans on concessional terms. The Section 206 Program will contribute to the aforementioned goal of increased agricultural production by providing local currency generations in support of small-scale irrigation and reforestation activities. Marketing of agricultural produce will also be stimulated by an infusion of credit from the Section 206 counterpart fund and from the increased competition which will result from GOC implementation of self-help measures.

Private Enterprise: The GOC has, for the most part, permitted the private sector to develop without heavy-handed statist interventions. The GOC does not attempt to set producer or consumer prices for food crops, or to subsidize food production and consumption. Nonetheless, the private sector could play a larger role in balancing out some of the extreme

regional price disparities if constraints to inter-regional trade could be addressed. Among the factors which inhibit a freer movement of cereals from surplus to deficit zones are poor roads, a lack of appropriate vehicles, high transport costs, little or no inter-regional flow of market information, and insufficient capital to undertake trading operations. The Section 206 Program will attempt to alleviate the latter two shortcomings, while all the other lead donors, including the United States, are funding projects to improve the road system and allow for greater private sector competition in the transport sector, thus reducing transport costs.

2. Economic analysis

Chad continues to face a very difficult economic situation. While continuing its war against Libyan expansion in the north, it must attempt to recover from the effects of nearly two decades of civil war and recurrent drought with revenues which have been drastically reduced due to the fifty per cent drop in the world market price for cotton. Expenditures continue to outstrip revenues, and fiscal deficit relative to revenues is expected to have increased from 22% (1984 and 1985) to about 36% as of end-1987. Public expenditures nonetheless remain low relative to current needs, due to GOC restraint, particularly regarding the civil service payroll; civil servants are still receiving only 60% of their 1978 salaries in nominal terms, or about one-third in real terms.

The projected budget deficit for 1988 is \$35.6 million. The French are expected to contribute \$21.8 million and the United States \$7.0 million in direct budgetary assistance. The United States had previously provided \$10 million to meet part of the deficit during the 1984-87 period.

Under World Bank auspices, the GOC is in the process of implementing a structural adjustment program which consists of economic policy reforms focusing on public finances and the cotton sector. In connection with the program, the Bank will lend more than \$30 million, on concessional terms, as a financial rehabilitation credit that will be used for balance of payments support and as a counterpart fund to finance certain central government operating expenses. The reforms in the area of public finances include: 1) closer GOC scrutiny of investment projects proposed by the donor community to ensure that appropriate sectoral focus, recurrent cost implications, economic viability and degree of concessionality in financing have been considered, 2) examination of the fiscal system to find means of improving the collection of taxes and import duties, and 3) commitment from the World Bank to provide funding for basic operating expenses of

development ministries. The need for restructuring stems from physical factors -- isolation, erratic climate and the effects of war -- rather than inappropriate economic policies.

The Section 206 Program will effect the economy in three ways: first, the local currency generated from sales will provide the GOC with monetary resources to be used in support of activities which will improve the country's food security; secondly, the GOC's implementation of self-help measures will stimulate private sector participation in cereals marketing; and, thirdly, the importation of 5,000 MT wheat flour/year will ensure the availability of a relatively inexpensive food item, bread, to low-income consumers. As noted above, with civil servants still receiving only 60% of their 1978 salaries, the availability of affordable food is crucial, not just for this segment of the population, but for the poorest segments as well.

3. Social Analysis

The Section 206 Program goal for Chad is to improve the country's food security. All segments of society thus stand to benefit from this program. Food security will be enhanced by the local currency activities funded from commodity sales, by GOC self-help measures which will invigorate private sector marketing of cereals and by the insurance of 5,000 MT wheat flour/year as provided by the multi-year Section 206 program agreement. All three program components (local currency activities, SHM's and the Title II commodities) will focus upon different population groups, but the overall impact, to be achieved by increased food security, will benefit the population as a whole.

- A) Commodities: The Section 206 Program will provide 5,000 MT Title II wheat flour per year for three years. The wheat flour will be consigned to the National Cereals Office (ONC) and will be marketed through private sector grain wholesalers at prices determined by the market. Thus, the private sector grain merchants will benefit from the commercial activity generated by the sales. Much of the flour will be baked into bread at local bakeries and sold to the urban population. Bread is not a luxury food item. It is consumed by all segments of the population, from the daily laborer whose lunch consists of a stick of bread with grilled meat, to the civil servant who must feed an extended family of 15-20 members on 60% of his prewar salary. Flour is also used in making fritters which are widely-consumed by all segments of the urban population for their breakfast, and in making other indigenous food items (kissar, a type of crepe) which figure in the normal

dietary habits of urban dwellers. The imported flour will find its way to many up-country urban markets and will thus impact on a wide spectrum of the population, both socially and geographically.

- B) Local Currency Activities and Self-Help Measures: While contributing to a greater measure of overall food security, the local currency activities and self-help measures will have a direct impact particularly on farmers and private sector merchants. The self-help measures (section II D.2 below) will allow for greater private sector participation in the marketing of cereals by increasing access to regional price information and opening up market channels with the ONC; the local currency activities (section II D.3 below) will effect the neediest segments of the population by ensuring targetted food aid deliveries to at-risk groups in rural zones and by providing the necessary inputs for small-scale irrigated agriculture/reforestation activities benefitting small farmers.

4. Technical Analysis

The Section 206 Program for Chad has been designed to provide the optimal combination of GOC and USAID technical resources to ensure effective implementation. The ONC, which will have the responsibility for commodity control, commodity sales and local currency deposits has already established itself as a viable institution for these purposes. In 1984, and again in 1985, USAID provided emergency Title II commodity grants to the ONC for monetization. Commodity management was exemplary, as was accountability for local currency generations. A 1985 evaluation performed by REDSO/WCA indicated that, "ONC has developed into a viable and effective organization in its present AID-supported role as wholesale grain marketeer."² The amount of wheat flour which will be imported under the Section 206 Program, 5,000 MT per year, is well within the logistical and technical capacities of ONC to manage effectively. As was the practice for the 1984-85 monetization projects, sales will be structured so that only wholesale transactions will be permitted, and the locale for such sales will be limited to N'Djamena. Thus, ONC will not transport commodities between regional warehouses or transfer sales receipts between banks. Inter-regional transfers, to the extent that they are economically justified, will be the responsibility of the private sector.

²Schneider, John D. "Chad PL-480 Managerial and Financial Support Activity Evaluation" (Internal Memorandum) (N'Djamena: July 24, 1985) p.6.

Local currency generations will be deposited into a segregated bank account which will be jointly managed by USAID and the Ministry of Planning and Cooperation. Withdrawal of local currencies from this account must be authorized by USAID, and must be for the purposes set forth in the Transfer Authorization. Technical oversight of local currency management will be provided by USAID and the Sahel Regional Financial Management Project.

No new entities will be created by the Section 206 Program, nor will new skills be required. Local currency activities will be designed and implemented only by those host country institutions and PVO's which have had prior experience with such activities.

5. Environmental Analysis

Activities undertaken under the Section 206 Program will be limited to, A) the importing/marketing of wheat flour and the establishment of a security stock of local cereals, and B) the implementation of local currency activities which will be the continuation of on-going, previously-approved activities. An environmental analysis is therefore not required.

D) Program Elements

1. Commodity Selection/Levels

The Section 206 Program will provide 5,000 MT Title II wheat flour per year for three years. A USAID-sponsored grain marketing study which was completed in February 1988 suggested that wheat flour, in addition to several other Title II commodities, could be imported under a food aid sales program without disrupting the economy: rice, powdered milk, and cooking oil. Wheat flour was selected on the basis of its suitability to local tastes (see above discussion of this issue in the social analysis section) and to the absence of similar locally-produced commodities. The Mission also concurs with the recommendation appearing in the grain marketing study for food aid rice imports; however, there is a perception on the part of the GOC and donors alike that food aid rice imports are competing with local production. Therefore, the Mission has opted for wheat flour which is non-controversial. Other Title II commodities which were considered and rejected include: sorghum, due to the likely displacement of sales of local millet and sorghum; corn and wheat, because of limited consumption; cooking oil, due to possible competition with local cottonseed oil; and, powdered milk, due to the health issues which would be raised.

The quantity of wheat flour requested under the Section 206 Program is based upon Mission estimate of ONC's management and logistical capacities, and upon the absorptive capacity of N'Djamena grain wholesalers. Although the current volume of wheat flour sales is unknown, an FAO assessment team estimated that 1985 commercial grain imports through the informal sector amounted to 75,000 MT. Given that these imports are comprised largely of wheat flour and rice from Nigeria and Cameroon, the proposed marketing of 5,000 MT Title II wheat flour/year through the ONC represents only a small percentage of wheat flour imports. An initial consignment of 2,000-2,500 MT will be called forward in order to gauge the rate of sales.

2. Self-Help Measures

As noted in the economic analysis above, constraints to Chad's development generally stem from physical factors -- isolation, erratic climate and the effects of war -- rather than inappropriate economic policies. The February 1988 grain marketing study funded by USAID suggests that the GOC has chosen a wise policy in avoiding restrictions and price fixing with respect to the cereals trade and recommends that the private sector be maintained as the principal vehicle for marketing grain in Chad. The ONC should continue playing its supportive role of a major grain wholesaler, buying and selling at market prices, guided ultimately in its transactions by its profit and loss statement. It also has a significant role to play in the management of security stocks.

There nonetheless are several actions which can be taken to increase competitiveness in the marketplace. Two such recommended actions were included in the February 1988 grain marketing study and will be incorporated into the Section 206 Transfer Authorization as self-help measures (SHM'S). They are described below, along with a third SHM which will allow for greater targetting of food aid.

SHM No. 1: Food Data System

Discussion: The World Bank suggests that greater competition in the marketing of cereals would be enhanced by improving the availability of regional price data to private sector traders. Similarly, the February 1988 grain marketing study recommends that ONC institute a weekly radio broadcast of information on cereal prices at various locations across the country.

Benchmarks:

A. The ONC will establish a system for weekly monitoring and reporting of cereal prices by region (within 6 months following execution of the Transfer Authorization).

B. The ONC will arrange to have this information aired over the national radio network on a weekly basis (within 12 months following execution of the Transfer Authorization).

SHM No. 2: Market Competition

Discussion: The February 1988 grain marketing study also found that the ONC practice of dealing with a relatively small group of licensed merchants tended to limit competition. The study team therefore ~~recommended that the ONC be more flexible with regard to the criteria it has established in selecting its merchants and that it admit any bona fide merchant who can meet the minimum volume of transaction in which ONC deals.~~ This minimum volume per transaction will be specified in the Transfer Authorization.

Benchmarks:

A. The ONC will advertise in the local media the availability of Title II wheat flour to all wholesale merchants who are capable of buying a minimum volume (at least one week prior to initiation of sales).

B. The ONC will provide to USAID a monthly list of wholesale grain merchants who have purchased Title II wheat flour (to start one month following initiation of sales).

C. The ONC will provide to USAID a quarterly list of wholesale grain merchants with whom it has conducted transactions (buying and selling) on all coarse grains (beginning four months following initiation of Title II wheat flour sales).

SHM No. 3: Targetting Food Aid

Discussion: The GOC established in 1982 a coordinating mechanism for food aid distributions to maximize the effectiveness of limited food aid resources by avoiding duplication of effort and targetting commodities to the most vulnerable population groups. The Food Aid Action Committee continues to meet weekly. It relies heavily on field reports from nutritional surveillance teams and the EEC-funded early warning project, "Systeme d'Alerte Precoce" (SAP), to set priorities and mobilize food aid resources for emergency distributions. On occasion, the Food Aid Action Committee will send a team of Committee members to verify reports from civil administrators regarding the presence of at-risk groups. Although this policy of targetted food distributions is already being implemented by the GOC, the continuity of the program is in jeopardy because of the likelihood that donor funding for SAP and for the nutritional surveillance teams will be discontinued. ~~The GOC has no resources of its own to fund either of these programs, nor can it fund assessment missions of the Food Aid Action Committee to verify reports from local administrators.~~ Earmarking local currency generations for this

purpose will confirm the GOC's continued commitment to targetting food aid resources, thus meeting USAID's criteria of additionality for SHM's.

Benchmarks:

A. The Ministry for Food Security and Disaster Victims (MSAPS) will provide USAID with an annual report which not only details the use of funds earmarked for this purpose, but also identifies the specific at-risk groups (numbers, location and vulnerability indicators) who benefitted from the implementation of this SHM.

3. Local Currency Uses

The proposed local currency uses will contribute to USAID's development strategy in Chad by supplementing Development Assistance resources being used to enhance food security. It is estimated that the monetization of 5,000 MT wheat flour per year will generate \$2.6 million (average N'Djamena price for wheat flour in 1987 was \$532/MT as compared to CCC value \$228/MT). Thus, over the three year life of project, the Section 206 program may result in \$7.8 million in sales proceeds. Specifically, these sales proceeds will be earmarked for the following purposes:

A. Food Distributions: Improve the effectiveness of food distributions to the neediest. Local currencies will be set aside to cover transportation, storage and handling costs associated with the delivery of P.L. 480 Title II emergency food grants, as well as to cover those costs associated with the proper targetting of resources, as mentioned in the above section on SHM's (30% of the local currency generations will be earmarked for this purpose).

B. Security Stock: The World Bank and the February grain marketing study funded by USAID both call for the establishment of a security stock. The grain marketing study suggests that a food security cereal reserve of about 30,000 MT would improve Chad's ability to deal with catastrophic droughts and similar disasters. This is a high priority of the GOC, with both FAO and the European Economic Community having agreed to participate in this endeavor. Both the FAO and the EEC provide funds to the ONC for local procurement of cereals. At present, however, the level of ONC stocks remains perilously low at around 8,000 MT. The establishment of a modest cereal reserve will thus be a multi-donor effort (30% of the local currency generations will be earmarked for this purpose).

C. Small and Medium Enterprise (SME) Credit Program: USAID is currently funding an SME credit and promotion program which is implemented by an American PVO. Local currency generations will be added to this existing program and earmarked specifically for small farmers and individuals interested in participating in the production and marketing of cereals and other food crops. The World Bank has confirmed that credit and business advisory services are needed to open up marketing channels and stimulate private sector marketing. This proposed use of local currencies will offer credit and technical assistance through the PVO network, enabling farmers and merchants to expand production and marketing areas through the purchase of agricultural inputs and vehicles (10% of the local currency generations will be earmarked for this purpose).

D. Food and Agricultural Data Systems: The FEWS Project has identified a number of activities which would strengthen the capacity of host country institutions whose task is to gather and analyze agricultural production data. Funding for such activities will not be available in the follow-on FEWS project, and missions have been advised to consider buy-ins. Earmarking a portion of local currencies for this purpose would provide the Mission with the resources to do this. Despite recurrent cost implications for activities aimed at strengthening host country institutions, it is important to note that no new institutions will be created; rather, local currencies will be used to strengthen existing ones (10% of the local currency generations will be earmarked for this purpose).

E. Small-scale Irrigation and Reforestation: Three American PVO'S are receiving USAID funding in support of small-scale irrigation activities, all of which include a reforestation component. Earmarking local currency generations will provide the Mission with the flexibility to respond to possible requests for geographic expansion of these activities, or to fund new proposals from other PVO's who may wish to participate (5% of the local currency generations will be earmarked for this purpose).

F. ONC Handling and Administrative Costs: ONC will have the responsibility for receiving, storing and selling the 15,000 MT wheat flour provided under the Section 206 Program. It will also be responsible for depositing the sales receipts into the special account. Were these tasks to be handled by private sector grain merchants or a PVO, they would be justified in requesting adequate compensation. The ONC, which receives no GOC subsidies, will similarly be performing tasks necessitating compensation (15% of the local currency generations will be earmarked for this purpose).

Proposals for utilization of local currencies may be submitted by host country entities and PVO'S. In addition to meeting the sectoral criteria indicated above, the proposed activities will be limited in duration and in funding levels. Specific criteria for activity proposals, and the format for submissions, will be included in the Transfer Authorization.

III. Financial Plan

A. Financial Management:

The ONC will be responsible for generating local currencies and ensuring that they are deposited into a special account. The ONC will use the standard accounting procedures which were established for it in 1984 by Price-Waterhouse, an independent accounting firm. To avoid multiple, small transactions which increase the likelihood of accounting errors, ONC will require that transactions be above a minimum volume. A single sales outlet will be established in N'Djamena. A monthly report of the stock situation, sales, and local currencies deposited in the special account will be provided to USAID by ONC. In addition, a monthly report on the status of the special account summarizing deposits, obligations, debits for each local currency activity, and funds remaining to be programmed will be submitted to USAID by the Ministry of Planning and Cooperation (MinPlan). These two reports will be compared by MinPlan to the monthly bank statement to ensure that there are no discrepancies. The Sahel Regional Financial Management Project (SRFMP) will ensure that ONC reporting on commodity sales, as well as MinPlan reporting on the local currency account, are performed regularly and in accordance with normal accounting procedures.

Special procedures for withdrawal of counterpart funds appear below:

1) Activity Approval

- Local currency activity is proposed by implementing agency to MinPlan or USAID;
- MinPlan confirms availability of funds for proposed activity;
- Activity proposal is reviewed by MinPlan and program officer at USAID for appropriateness and conformity to format;
- Revisions are made to activity proposal by implementing agency as recommended by MinPlan and USAID;
- Revised copy of activity proposal presented by implementing agency to MinPlan for approval;
- MinPlan approves activity and transmits it to USAID for final approval;
- MinPlan accountant obligates funds for the activity.

- 2) Request for initial advance
- Implementing agency requests advance of funds from MinPlan for initial period as outlined in approved activity budget;
 - MinPlan confirms accordance with budget, signs the check and sends it to USAID for review/signature;
 - USAID project officer confirms accordance with budget and forwards to USAID controller for countersignature;
 - USAID controller confirms accordance with budget, signs check;
 - MinPlan records advance of funds, reducing amount remaining available for the activity, and delivers check to implementing agency.

- 3) Request for additional advance
- Implementing agency presents original receipts from expenditure of previous advance to MinPlan, copies to USAID;
 - MinPlan verifies receipts and signs check for additional advance in accordance with approved activity budget;
 - A.I.D. approves disbursement and countersigns check;
 - MinPlan records advance of funds, reducing amount remaining available for the activity, and delivers check to implementing agency.

B. Recurrent Cost Implications:

The recurrent cost problem for Chad is largely attributable to its inability to raise adequate revenues. One measure which could be taken to help remedy this situation is to tighten tax collection procedures; the World Bank intends to assist the GOC focus on this problem. The major cause for inadequate revenues, however, is the lack of export earnings. Cotton, the nation's principal export crop, has decreased in value more than 50% in recent years, resulting in sizable budget deficits which France and the United States have tried to compensate for by providing cash transfers. Along with the fall in the world price of cotton, the major contributing factors to Chad's economic problems are isolation, erratic climate and the effects of war, not inappropriate policies.

Thus, there is a general inability on the part of the host country to undertake recurrent cost financing at this time.

Of the six categories of activities eligible for counterpart funding, only two involve recurrent costs which the GOC will be unable to assume in the near to medium term: A) food aid distributions/disaster relief, and B) food and agricultural data systems. Both groups of activities are related to the prevention of famine, costs which the international community will have to cover for the foreseeable future (as evidenced by the open-ended nature of the centrally-funded FEWS project for Africa). The

remaining four groups of local currency activities will not result in recurrent costs for the GOC: security stock, SME credit program, small-scale irrigation/reforestation, and the national cereals office. The security stock will be managed by the ONC, which receives no GOC subsidies. Once established, the security stock should be self-sustaining. The SME credit program, already being implemented by an American PVO, is expected to be transferred to a local, non-governmental institution and be self-financing. Small-scale irrigation and reforestation activities will incur capital costs, and operation/maintenance costs, but will be designed so that the beneficiaries will assume these costs.

IV. Bellmon Determination

A. Storage: The ONC, which will have responsibility for receiving, storing and selling the Title II wheat flour, has a N'Djamena storage capacity of its own totaling 2,600 MT and access to approximately 5,000 MT additional warehouse space. Emergency food aid is handled by the Directorate for Food Security and Disaster Victims (DSAPS), not by the ONC. Thus, emergency food aid does not compete for warehouse space with commodities earmarked for sales. Both DSAPS and ONC have their own warehouses. No other donors have stated an intent to import commodities for monetization purposes. Finally, experience gained during 1984-85 famine relief efforts indicates that ONC has priority use of warehouse space over all other food aid arrivals.

Insofar as the Section 206 Program will result in only 5,000 MT wheat flour per year, and given that this amount will be called forward in two-three consignments (tranches), in-country storage facilities will be adequate.

B. Disincentive: Significant quantities of flour are sold on the N'Djamena market. However, it is all imported from northern Nigeria through the informal sector. The flour mill in N'Djamena has not operated since 1979 when hostilities disrupted normal economic activities in N'Djamena and put the physical plant out of order. The mill has not been repaired, thus necessitating flour imports. The small amount of wheat which is produced around Lake Chad (1987 production estimated at 1,000 MT) is consumed locally. The import of 5,000 MT wheat flour per year under the Section 206 Program will not therefore compete with or otherwise serve as a disincentive to local wheat production.

V. UMF Analysis: The GOC does not import cereals or wheat flour. All imports and exports are handled through the informal sector, but no reliable data exists for cross-border movement.

Insofar as the GOC does not use its budgetary resources for cereal imports, there will be no displacement of official sales by importing 5,000 MT wheat flour per year under the Section 206 Program.

VI. Implementation Plan

A. Implementation Responsibilities:

- 1) **ONC:**
 - Receive, store and organize the sale of Title II wheat flour;
 - Deposit sales proceeds into a segregated bank account;
 - Report monthly to USAID on stocks, volume of sales and local currency deposits.
- 2) **USAID:**
 - Arrange for overseas and overland (West African port to N'Djamena) shipment of commodities;
 - Monitor receipt, storage and sales;
 - Review monthly reports on stocks, sales deposits and status of funds in the segregated bank account;
 - Review and provide final approval on activity proposals for use of the counterpart fund;
 - Countersign checks for withdrawals from the segregated bank account;
 - Monitor implementation of local currency activities;
 - Provide an annual progress report.
- 3) **MinPlan:**
 - Establish a segregated bank account for the deposit of sales proceeds;
 - Review and approve activity proposals for use of counterpart fund;
 - Provide a monthly report to USAID on the status of funds in the segregated account, specifying total deposits, obligations, debits for each local currency activity, and funds remaining to be programmed.
 - Obtain monthly bank statement and reconcile any discrepancies in the local currency account.
- 4) **SRFMP:**
 - Ensure that ONC reporting on commodity sales, as well as MinPlan reporting on the local currency account, are performed regularly and in accordance with normal accounting procedures.
- 5) **Line Ministries and PVO's:**
 - Design and implement counterpart fund activities.

B) Implementation Schedule

- June 1988:- Submission of Section 206 Program Plan by Mission to AID/W;
- Aug. - AID/W approval of Program Plan;
- Sep. - Mission drafts Transfer Authorization (TA) and negotiates terms with GCC;
- Oct. - Mission submits TA to AID/W for review/approval
- Jan. 1989 - AID/W approval of TA;
- Feb. - Execution of TA by United States and GOC
- Jul. - ONC and Mission issue FY 1989 call-forward;
- In-country arrival of FY 1989 call-forward;
- MinPlan establishes segregated bank account;
- Aug. - Sales begin;
- Sep. - Local currency proposals are drafted and submitted by implementing agencies;
- Jan. 1990 - Mission drafts and submits first annual report;
- Feb. - ONC and Mission issue first FY 1990 call forward;
- Jun. - ONC and Mission issue second FY 1990 call forward;
- Jul. - In-country arrival of first FY 1990 call-forward;
- Nov. 1990 - In-country arrival of second FY 1990 call-forward;
- Nov. - Mid-term audit;
- Jan. 1991 - Mission drafts and submits second annual report;
- Feb. - ONC and Mission issue first FY 1991 call-forward;
- Jun. - ONC and Mission issue second FY 1991 call-forward;
- Jul. - In-country arrival of first FY 1991 call-forward;
- Nov. - In-country arrival of second FY 1991 call-forward;
- Jan. 1992 - Mission drafts and submits third annual report;
- Feb. - ONC and Mission issue FY 1992 call-forward;
- Jul. - In-country arrival of FY 1992 call-forward;
- Nov. - Final evaluation and audit.

Call-forwards will be based on rate of sales. The above implementation plan assumes that the first call-forward arrives in-country July 1989 and that sales proceed at the rate of approximately 500 MT/month; the final consignment for this three-year Section 206 Program would thus arrive around July 1992. Sales would continue into the first quarter of FY 1993, with local currencies being programmed into FY 1994. A final evaluation and audit will occur when ONC has completed the sale of 15,000 MT wheat flour. The evaluation will examine both the commodity and local currency components of the program.

VII. Monitoring and Evaluation Plan

Overall monitoring of the Section 206 Program will be performed on a continual basis by the Mission's food aid and disaster relief office comprising a long-term PSC and an HCN. Monitoring of local currency activities will be the responsibility of specific offices within the Mission:

- Agriculture Development Office: small-scale irrigation and reforestation activities;
- General Development Office: SME credit program;
- Food Aid and Disaster Relief Office: Food aid distribution and disaster relief activities, security stock and food/agricultural data systems.

Program performance will be monitored and evaluated through a system of USAID annual reports.

There will be a mid-term and final audit to be performed by RIG/Dakar or an independent accounting firm.

A final evaluation will be performed jointly by USAID and the GOC following completion of sales to determine the degree to which the objectives (Section II B) have been attained.

REVENUE REQUIREMENTS

	1978	1980	1981	1982	1983	1984	1985
1. FEDERAL PRODUCTION	500,000	450,000	450,000	515,000	490,000	714,000	570,000
2. FEDERAL RESERVE	20,000	20,000	20,000	24,000	107,500	107,500	55,000
3. FEDERAL RESERVE	470,000	430,000	430,000	491,000	597,500	821,500	625,000
4. FEDERAL RESERVE	10,000	20,000	20,000	24,000	55,500	50,000	127,500
5. COMMERCIAL EXPORTS	N/A	N/A	N/A	N/A	75,000	75,000	75,000
6. COMMERCIAL EXPORTS	N/A	N/A	N/A	N/A	50,000	50,000	50,000
TOTAL AVAILABILITY	517,000	440,000	490,000	519,000	657,000	694,000	525,000
7. POPULATION	4,240,000	4,240,000	4,240,000	4,240,000	4,440,000	4,517,000	4,640,000
8. FEDERAL NEEDS	470,000	430,000	430,000	491,000	597,500	654,000	654,000
9. SURPLUS / DEF. CIT	125,000	110,000	15,000	28,000	59,500	40,000	(29,000)

Best Available Document

Genesis of Chad's Section 206 Proposal

- 1983 - USAID/Chad suggests a food aid monetization program. AID/W recommends that we begin with an emergency sales program, to be followed by a Section 206 Program.
- 1984 - USAID/Chad implements first emergency sales program (5,000 MT rice).
- 1985 - USAID/Chad implements second emergency sales program (5,000 MT rice and 2,500 MT sorghum).
- May - Gary Moser (OMB) on TDY recommends we go forward with Section 206 Program design.
- Nov - REDSO assists USAID/Chad with Section 206 design.
- Dec - USAID/Chad submits Section 206 proposal to AID/W.
- 1986 Feb - AID/W review of proposal raises a number of issues which must be addressed prior to proceeding with PP design.
- Mar - USAID/Chad obtains input from AFR/DP economist on TDY.
- Apr - USAID/Chad attempts to address AID/W issues raised in February.
- May - AID/W advises that Section 206 Program is not an appropriate mechanism for Chad; AID/W is willing, however, to reconsider if a meaningful policy dialogue can be established.
- 1987 Feb - Food Aid Conference in Annapolis. At the end of the conference, USAID/Chad receives a cable from AID/W recommending that a Section 206 proposal be submitted for FY 1987.
- Jul - USAID/Chad drafts and submits two-page Section 206 initiating document in accordance with new, streamlined procedures. Intent is to market 15,000 MT rice over three years.
- Oct - AID/W gives conditional approval to proceed with a Section 206 Program design, with the understanding that wheat will be monetized in lieu of rice and that program start-up will not occur before FY 1989.
- Dec - USAID/Chad advises that wheat is not a marketable commodity in Chad; therefore, USAID/Chad will not go forward with the design of a Section 206 proposal.
- 1988 Feb - USAID/Chad's Grain Marketing Study performed by DAI recommends implementation of food aid monetization programs involving either rice or wheat flour.
- REDSO suggests that USAID/Chad renew its request to AID/W for rice or wheat flour in FY 1989.
- USAID/Chad queries AID/W as to the availability of wheat flour in FY 1989.
- Mar - AID/W advises that wheat flour option is under review.
- Apr - AID/W advises that wheat flour will be available in FY 1989.
- May - USAID/Chad drafts Section 206 Program Plan; USAID/Chad project review committee endorses the Program Plan; the Program Plan is transmitted by pouch to AID/W and REDSO.