OVERVIEW: ECONOMIC SITUATION IN CHAD AND POTENTIAL IMPACT ON FOOD SECURITY

Rapid food security and market investigation
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VAM/HQ and VAM/RBD
Key Message:

The Chadian economy is at the verge of a collapse. More than four million people are at immediate and elevated risk of severe food insecurity. It is critically important to help strengthen Chadian economy so that regional security and stability is not jeopardized. The severe liquidity constraints faced by the country could realistically lead to near-term default on internal and external debt, sharply reduce government’s ability to import essential food and non-food commodities, and fund the public sector departments including health, education and social services.

The multinational partners have recognized the gravity of the situation and IMF recently approved a new three year US$312.1 million extended credit facility to lessen at least the macro-economic burdens. Similarly African Development Bank, the EU and the World Bank are also expected to continue their budgetary support operations in 2017 amounting to approximately US$139.1 million. Despite these intervention the near to medium-term economic outlook remains bleak due to structural and geo-political situation within and surrounding the country.

The decline in oil production and export prices, non-performing cotton sector and restricted livestock export markets, particularly Nigeria due to insecurity and the depreciation of the Naira, are some of the critical factors impacting Chadian economic growth and stability. The government is compelled to maintain disproportionately higher defense expenditures to maintain and ensure internal on several borders, NE Nigeria, Libya, Sudan, South Sudan and Central African Republic, which burden overall domestic public spending, particularly in the social sectors. The current fiscal crisis has also deeply cut into agriculture sector financing which could negatively impact the next harvest and further fuel food insecurity. The government has been implementing austerity measures since September 2016, which include reducing salaries by up to 30 percent, cutting civil servants’ allowances by 50 percent, as well as reducing health and education benefits including suspension of university scholarships.

Agriculture, livestock and commercial trade sector, the main life line for most households in the country, are the hardest hit by the economic crisis and the austerity measures. Signs of an early lean season are evident with falling livestock and rising cereal prices make for unfavorable terms of trade for most Chadian households. The Nigerian export market for cattle has come to a near standstill thereby disrupting incomes for the Chadian pastoralists.

Surrounding security crises continue to put Chad’s stability in danger. Young people are especially at risk due to displacements, lack of education opportunities and high unemployment in rural areas. This cocktail of poverty, illiteracy and displacement plays directly into the hands of the terrorist organizations that lure vulnerable young people with promises of large bounties. Internal displacements as well as migrations from neighboring countries are also putting additional pressure on the local host communities.
Humanitarian and development partners must continue to scale-up support to the most vulnerable people, particularly crisis affected IDPs, refugees, returnees and the most vulnerable host communities. There is an urgent need for live-saving and resilience building activities throughout the country to tackle immediate food security challenges as well as the longer term structural poverty issues faced by the country. Critically important is adequate investment in the youth who are looking for ways out through migration in search of better life.

I. Context

In May 2017, WFP Chad country office requested a mission to analyze the impact of the Chadian economic and security crises on the food security situation. This report summarizes the key findings of a four-day mission which benefited from in-depth discussions with regional and national Chadian authorities, donors, UN agencies and international financial institutions as well as focus group and key informant interviews during field visits to Mao, Bol and Baga Sola.

II. Background

**Fiscal Crisis: Poor economic performance threatens food security and regional stability**

Chad’s economy continues to be strongly impacted by two main factors: declining oil production and prices and regional insecurity. These challenges together with high external debt service burden have put significant pressure on budgetary resources. Sharp reduction in government expenditures, coupled with significant investment cuts and layoffs by oil companies have caused wide ranging negative spillover effects for the rest of the economy. Non-oil output has significantly contracted for a second year in a row and inflation was negative last year.

The drop in oil prices shrunk annual revenues from US$2 billion in 2014 to US$100 million in 2016. External debt estimated at approximately CFAF 2,000 billion and internal debts at about CFA 1,050 billion (in 2015) are limiting government spending.\(^1\) According to IMF, “Chad’s external debt risk outlook remains high” in 2016.\(^2\)

Two additional non-oil sector key revenue sources are also in downward economic spiral. First, the cotton sector which supports up to four million people is facing important structural failures including high production costs as well as low volatile international cotton prices. The delayed salary payments by cotton growers over two successive marketing years have reduced their ability to source food products from markets. Second, the livestock sector, which is a key income source for almost the entire rural population is suffering from a severe

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\(^2\) ibid
reduction in exports. The combined effect of insecurity, border closure and a weak Naira has devastated the livestock sector which led the government to declare a livestock crisis in June 2017. There is an estimated over-supply of 20 million cattle in Kanem, Lac and Bar El Ghazal alone. Livestock prices have plunged by up to 60 percent since 2014.

Since September 2016, the government has implemented strict austerity measures across many sectors. Civil servants allowances were reduced by 50 percent; salaries were cut by up to 30 percent; and university scholarships were suspended. Schools were closed during this period as were most government-run hospitals. The most recent development was suspension of any free basic health services—a severe hardship particularly for the most vulnerable.

It is unlikely that the government will provide any agricultural support during this season—particularly seeds and fertilizer. This decision will negatively affect agricultural production for the upcoming season with sever food security consequences. Given the current economic challenges and lack of adequate investments in the agriculture sector, it is inevitable that the food security situation will substantially deteriorate over the upcoming months. Furthermore, it must be noted that a drought is due in the Sahel given that the long-term average suggest a drought every three years and the last significant drought occurred more than four years ago.

It is likely that without significant external financial assistance the government could default on its external debt payments causing further economic instability as well as raising the cost of future internal and external borrowing. The recent IMF Extended Credit Facility together with the settlement of the loan dispute with ExxonMobil are steps in the right direction to narrow the national fiscal deficit but still the debt burden remains high.

**Security crisis: Conflict driven displacement puts Chadian stability at risk**

While Chad itself may not be facing any direct internal security threats, it is surrounded by several new and protracted conflicts creating significant potential security and stability challenges for the country. The issue of refugees from Central African Republic, currently estimated at 70,000 people, is yet to be resolved sustainably. In the East, approximately 310,000 Sudanese refugees have arrived over the past ten years. In the North, security threats along the Libyan border (only recently the border has been reopened) are significant. Instability in Libya has also led to the return of Chadian workforce therefore not only reducing foreign exchange through remittances but also raising unemployment.

The Boko Haram crisis has led to displacement of approximately 2.7 million people around Lake Chad. In Chad approximately 130,000 people have been internally displaced and 8,500 refugees have arrived from Nigeria. More specifically, a large number of fishermen had to

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3 In 2015 it was estimated that: “Chad risks losing 41% of the GDP associated with the trade of animals, which has been thwarted by the crisis” (Source: WFP/OCHA - [http://bit.ly/1sPOcDy](http://bit.ly/1sPOcDy))

4 Key informant discussions, May 2017- see also related article “la campagne agricole s’annonce encore difficile” in Le Progres n 4599, page 2

5 WFP Chad background information: Refugees and Returnees (Internal Aril
leave their islands and resettle on the main land cutting them off from their main source of income. The vast majority are young men (15-25 ages) who are constantly in search of work and vulnerable to be lured by the terrorist groups.

Combined with the fiscal crisis, Chad is facing is disproportionately high risk in terms of national instability which could in turn further aggravate the food security situation for millions of people in the sub-region.

**Drought: An overdue drought could push millions into severe insecurity**

Despite overall improvement in the food security situation in Chad following a good 2016 harvest in most parts of the country—a 14 percent increase in agricultural production compared to the 5-year average,⁶ populations in the Sahel belt continue to face a critical situation. Acute and chronic malnutrition rates are at alert levels and over four million people⁷ endure food insecurity due to changing weather patterns, regional instability, poverty and lack of Government insecurity resources to assist vulnerable people in a meaningful way.

The key risk in addition to the current fiscal and security crisis pertains to the fact that Chad and the Sahel region as a whole are always susceptible to localized and large-scale droughts. Thus far above average cumulative rainfall in southern Chad and eastern Cameroon are expected. Early onset of rains also extended to the agricultural zone of Central Chad. Yet it is too early to determine the performance of the next cropping season as water deficits associated with early season cessation or dry spells at the beginning or towards the end of the season could all affect planting, growth and crop yields, as well as pasture conditions.

Given that almost 80 percent of the rural population practice rain-fed agriculture, any localized drought can push additional households into a more difficult food security situation. Especially vulnerable are the refugees and internally displaced households who have lost all their durable economic assets. Widespread structural poverty together with little or no government capacity to assist the most vulnerable due to continuing fiscal and economic crises means that food insecure population could easily surpass four million by the end of the lean season.

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⁶ [http://reliefweb.int/sites/reliefweb.int/files/resources/Chad_CB_Mar-17%20OIM.pdf](http://reliefweb.int/sites/reliefweb.int/files/resources/Chad_CB_Mar-17%20OIM.pdf)
An early lean season emerging: Rising cereal prices and declining livestock prices create unfavorable terms of trade for majority of the population

Although the cereal (mostly sorghum) prices behaved normally in the first quarter 2017, early lean season signs became evident in April 2017. Compared to March, prices for dry cereals, beans and oil increased in all Sahelian markets (see figure 1). In the South-West (Sudanese climate zone, main production areas) prices increased in every second market.

In contrast, livestock prices have continued to decline - a 25 percent y/y drop for goats; and a 33 percent y/y drop for sheep. In Mao and Lac regional traders confirmed that cattle prices dropped from approximately CFA 400,000 to CFA 150,000. This sharp decline in cattle prices is explained by the over-supply—an estimated 20 million cattle heads in Kanem, Lac and Bar el Ghazal region. Livestock markets are also fed by the surrounding communities. The flow of animals to neighboring countries like Libya and Nigeria fell sharply due to the closure of the border and the depreciation of the Nigerian Naira.

In the coming months food prices are likely to increase which will worsen the terms of trade for the pastoral households.

Field Visits: Informal economy is the life line for people across the country

Kanem is heavily depending on food imports from Libya and Wadis – a fragile ecosystem

Kanem receives less than 200 mm of average rainfall per year. Informal economy is the lifeline for the entire population that revolves around small holder agricultural production, livestock rearing and petty trade.

Discussions with traders in Mao suggest that markets are relatively well established. Key informants suggested that own food stocks have already diminished and households are now relying on the markets. It is important to stress the role of Libya market as a point of origin for wheat flour, fuel and pasta. Trade with Libya is officially open except for fuel imports. Moreover, it must be underlined that products imported from Libya are heavily subsidized allowing traders/transporters to make profits of up to US$2500 per 40mt truck. Border closures with Libya had directly impacted the markets in Mao leading to a significant decrease

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8 See PREGEC results, March 2017
9 mVAM April 2016, to be published
10 State by President of the livestock association of Kanem on 22 May 2017 in Mao
in trade from 10 trucks per day to 2 trucks per day. Currently approximately 4 trucks per day reach Mao.

Like other parts of the country cattle and camels are the two most important exports for Kanem. Cattle is normally exported to Nigeria, while camels are exported to Libya. Both export products are facing tremendous challenges. The entire Nigeria cattle market system has collapsed due to the weakened Naira, insecurity and border closure. Alternative routes through Niger are an option for some traders, but are linked to higher cost (expressed in longer distances), higher risks (banditry) and increased risk of livestock death as cattle are not able to survive longer period of heat without water.

In the past, cattle herds used to cross Lac Chad on foot. With the increased presence of livestock in Kanem and southern regions, some tensions between pastoralist and agro-pastoralist are rising. Camel exports have also lagged due to border closure with Libya and overall decreased demand from Libya.

Wadi (Oasis), where cereals (maize, millet, etc) and cash crops (dates) are produced, represent an important food source for majority of the population. These very fragile ecosystems are one the major water and food sources. It is estimated that there are approximately 500 Wadis covering 17,000 hectares in Kanem. The full use of the Wadis is often constrained due to access and property rights issues. Yet, ACF and other partners have successfully developed projects allowing vulnerable households led by women’s association to work in the Wadis to produce food throughout the year.

Discussion with partners during visits to Wadi clearly show the vast potential for investments that would strengthen food access and build small holder farmer capacities.
Lac region: Resources and capacity constraints limit its vast agricultural potential

In Lac region, the entire (regional) population benefits from year-long access to water and fertile lands areas (see also figure 1)\(^{11}\). The main challenges remain the overall weak capacity of producers, poor infrastructure, weak governance\(^{12}\) and the insecurity in the interior parts of the lake disrupting entire livelihood activities.

Currently only 10 percent of the 300,000 hectares of cultivatable lands are used. Market access is non-existent due to absence of road infrastructure. Cereal production is therefore only locally consumed.

Fishing activities are restricted due to security measures put in place by the government. Furthermore, a vast majority of the fishing communities was forced to leave their islands without fishing equipment. Hence, most of the internally displaced people rely on humanitarian assistance.

Since the reopening of the Libyan border, flows of commodities, particularly wheat flour, have not undergone major changes from their usual channels, with the exception of (non-food) products imported from Nigeria (Border closure/ Weak Naira). Discussion with traders in Bol, Mao and Ndjamena show that the informal local economies are just barely surviving the national fiscal crisis.

Who are the most vulnerable?

While chronic poverty overrides the overall food security situation in Chad, specific challenges for the following population categories need to be highlighted:

Refugees: Chad counts amongst host nations with largest number of refugees within the region.\(^ {13}\) As of April 2017, more than half a million refugees, returnees and IDPs resided in the country.\(^ {14}\) They are spread across the country which poses an enormous challenge for the governments and partners to ensure even the very basic services. Some of the refugees are


\(^{12}\) Already in 1980 van der Meeren pointed out that the Lake Chad Basin is a virtual melting pot with little forms of real authority. In the basin, people are governed by relationships, rather than by rights or obligations, which tend to determine social control in home villages. See [http://bit.ly/1sPOcDy](http://bit.ly/1sPOcDy)

\(^{13}\) According to Chad’s minister of foreign affairs, it hosts the 7th largest refugee population in the world, some 3,500 people from Darfur and the Central African Republic. See [http://bit.ly/1sPOcDy](http://bit.ly/1sPOcDy)

considered Chadian returnees, particularly those arriving from CAR. They have endured extremely difficult conditions in camps which they are unable to leave unless the verification process is completed which could take several years. They generally lack any access to basic humanitarian services. Refugees are one of the most vulnerable people in the Chadian context. Humanitarian support needs to continue throughout the lean season.

**IDPs:** The Boko Haram is the main for large scale displacements in the Lake region. Essentially all fishermen families living on islands in the Lake Chad have been forced to move to the outer rim of the Lake (North bound) on the mainland. While IDPs do benefit from increased security and access to some basic services (which they have never witnessed before), they have lost their most important income source, namely fishing. Similar to refugees, IDPs will be exposed to increased hardship during the lean season. Full humanitarian support is needed. A transition package (through FFA) needs to be put in place. In parallel a pro-active dialogue between IDPs and host communities (in the lac chad area) needs to occur, should IDPs be unwilling to return to their places of origin.

**Youth:** Discussion with elders and local government officials in Mao and Bol underlined the importance of paying special attention to the needs of the youth. Young people lack employment opportunities as instability in Libya and in Nigeria has drastically diminished their work opportunities. If the government is unable to keep the schools and universities open due to financial constraints will further decrease their future economic viability. School meals programmes and FFA activities targeting youth need to be diligently considered as soon as possible.

**Pastoralist:** Cattle pastoralist are particularly suffering from the border closure with Nigeria. Declining revenues have put this group under tremendous stress. Increasing cereal prices in the coming weeks will put pastoralists at increased risk of food insecurity.

**Conclusion**

The food security situation in Chad will evolve depending on three interlinked factors:

- **External fiscal support:** Chad’s overall economic stability is dependent on its ability to pay public sector salaries, honor domestic and external debt obligations, continue to maintain internal security and provide basic social services to the Chadian population. Any defaults will significantly and directly impact the food and nutrition security of the masses.
- **Security/Stability:** Current conflicts surrounding the country can continue to cause internal and external displacements which will impact the host communities inside of Chad. It is critically important to ensure that adequate assistance is provided to the host communities as well so as to minimize any chances of host and displaced community conflict over economic resources.
- **Drought:** It is essential to continue to invest in irrigated agriculture for small holder farmers. There is a high likelihood of a significant localized and regional drought as it
is overdue within the Sahel context. A significant drought anytime soon will be devastating for Chad as the coping capacities of the population are at a minimum and the government lacks the resources to effectively respond to a significant natural or manmade shock.

The following key indicators should be monitored:

- Cereal and livestock markets
- Payment of salaries and benefits
- Status of health and education facilities
- Regional trade patterns and border closures
- Changes in external and domestic financing
- Rainfall progression
- Admission rates at health centers
- Security incidents national/regional
- Population movement

All above indicators need to be discussed and reviewed during the monthly Food Security Cluster meeting.