

Chad



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Brief History of Chad:

Chad is one of the largest and most sparsely populated countries in Africa. It is bordered on the north by Libya, to the east by Sudan, and to the west by Niger and Cameroun. Chad was part of France's African holdings until 1960 and endured three decades of warfare and invasions by Libya until peace was restored in 1990. The government drafted a democratic constitution and held elections in 1996 and 2001. On several occasions, rebel groups have flared up and made probing attacks into the country despite signing peace agreements. In 2005, President Idriss Deby held a referendum successfully removing constitutional term limits and won another controversial election in 2006. Sporadic rebel campaigns have continued in the country and the capital experienced significant rebel threat in early 2008.

The Economy:

Chad is one of the poorest countries in the world and ranks 170 out of 179 countries on the UN Development Program's human development index. About 80% of the population lives below the poverty line on less than 1 dollar a day.

Chad's economy is dominated by the agricultural sector with about 80% of the population relying on agriculture for its livelihood. As such, the country is especially vulnerable to external shocks and climatic problems. Economic growth improved in Chad due to the development of the Doba Basin oil fields and the construction of the Chad-Cameroon pipeline. Given rising oil revenues, the government created a state-controlled oil firm in 2006 to take over majority control from the existing foreign consortium. In 2007, activity in the oil sector contracted due to a fall in output despite substantial investments to deal with water flooding in wells and a new oil field (Maikeri) that came into production in the second half of 2007.

Political Climate:

Tensions between the government and opposition groups persist despite cease fires signed by the president, who has survived a number of coup attempts and ongoing political violence. Also, the influx of thousands of Sudanese as a result of problems in Dafur adds to this instability. Lastly, disagreements about international boundaries around Lake Chad has led to border incidents in the past and a ruling by the International Court on these issues is yet to be ratified by Cameroun, Chad, Niger, and Nigeria.

Business Climate and Privatization:

Most state-owned enterprises have been privatized but the energy and telecommunications sectors remain under state control. The weak rule of law and rampant corruption remain a serious impediment to developing a more dynamic and vibrant private sector. Corporate and Individual tax rates are as high as 40% and 60% respectively. Other taxes include Value Added Tax (VAT), property taxes, and apprenticeship taxes. Starting a business takes over two months and both licensing and closing a business are time consuming and

costly. Burdensome employment regulations hinder job creation and productivity growth. Restrictive labor laws and legal uncertainty discourage entrepreneurial activity.

Chad does not limit foreign ownership and provides equal treatment to foreign investors. Both residents and non residents may hold foreign exchange accounts with government approval. Capital transactions, payments, and transfers to certain countries are not subject to restrictions but are subject to controls when made to other countries. Protection of private property is weak and disputes are settled privately.

Monetary and Fiscal Policy:

Chad is a member of the six-country Central Africa Economic and Monetary Union (CEMAC), which was created in 1991 to improve economic and political cooperation in the region. Monetary stability remains under control but the government influences prices through state-owned enterprises and regulation of key goods and services.

Fiscal policy is run at the regional level by the Bank of Central African States (BEAC) whose priorities are controlling inflation and keeping the CFA Franc pegged to the Euro. Monetary supply was set to increase by 8.9% in 2007. Average inflation was about 8% in 2006 and is expected to drop about 3% in the next few years due to road improvements and strong competition limiting import prices. According to the BEAC, inflation should be held at 4% in 2007, down from 8.1% in 2006.

Chad has a cautious external-debt policy and most of the loans it gets are on very soft terms. The break with the World Bank between November 2005 and July 2006 means that it has not yet reached the HIPC completion point.

Overview of CEMAC

Chad is a member of the Central African Economic and Monetary Community (Communauté Economique et Monétaire de l'Afrique Centrale-CEMAC), which is comprised of six member countries: Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon. CEMAC is comprised of the following four institutions:

- Central African Economic Union (Union Economique de l'Afrique Centrale - UEAC)
- Central African Monetary Union (Union Monétaire de l'Afrique Centrale - UMAC)
- Community Parliament
- CEMAC court of justice

UMAC

The UMAC, headquartered in Yaoundé, is responsible for the monetary policy of the CEMAC member countries. It is also involved, along the UEAC, in the coordination of economic policy to

ensure consistency between national budget policies and the common monetary policy. The UMAC is administered through:

- The Conference of Heads of States: created through the Agreement establishing CEMAC, the supreme authority of the UMAC
- The Council of Ministers
- Bank of Central African States (Banque des Etats de l'Afrique Centrale - BEAC): the common independent central bank
- The Banking Commission, (Commission Bancaire de l'Afrique Centrale (COBAC) : harmonizes and controls banking activities
- The stock market, Bourse des valeurs mobilières

As at February 2007, there were 29 banks operating in the CEMAC region (10 in Cameroon, 3 in Central African Republic, 5 in Chad, 4 in Congo, 2 in Equatorial Guinea and 5 in Gabon) with total assets of XAF 659 billion.

The Bank of Central African States (BEAC)

The Banque des États de l'Afrique Centrale (BEAC) is a multinational African public entity. It was established in 1972 as the successor to the Banque Centrale de l'Afrique Equatoriale et du Cameroon (established in 1955). It formulates and implements the monetary policy of the CEMAC member countries and preserves the stability of the common currency of the member states, the Central Africa CFA Franc, which is pegged to the Euro. The French treasury guarantees the convertibility, but not the exchange rate, of the CFA Franc (Franc de la Coopération Financière). The responsibilities of the BEAC are to:

- Issue currency and guarantee stability of CEMAC member countries
- Define and manage applicable monetary policies in CEMAC member states
- Manage exchange operations
- Hold and manage the exchange reserves of member states
- Promote the smooth functioning of the Union's payment system

The BEAC uses both reserve requirements and the discount window to implement its policy. The target inflation rate for the region has been set at a maximum of 3%. Statistics covered by the BEAC include monetary and economic statistics, the accounting system of the BEAC, balance of payments, statistics on financial, monetary and credit markets, and interest rates. The BEAC also publishes monthly bulletins, studies and statistics that cover general information on primary commodities, the economic situation and international economic relationships, debt, international aid and finance, and the economic, monetary and financial situation of the six member countries.

The BEAC meets with the BCEAO at least twice a year to discuss matters dealing with the Franc zone. It shares its data with the AfDB and the IMF during their respective missions and completes questionnaires sent by these two institutions on issues related to its responsibilities.

The BEAC also participates in training programs with the IMF, the ACBF and the AfDB. With the BCEAO, it organizes four high-level seminars for the administrations of member states (two each for Central Africa and West Africa), which deal with public finances, macroeconomic modeling and econometrics. It also holds conferences in universities.

It is important to note that the BEAC is a member of the Sub-regional Statistics Committee (Comité sous-régional de la Statistique), along with CEMAC and the national statistical offices. The Studies Division is responsible for the production and dissemination of economic, monetary and financial statistics and studies.

Overview of Chad's Financial System:

Chad's financial sector is small, underdeveloped and hindered by inadequate management and political instability.

Banking:

Banking activity is supervised by the COBAC and privatization of the banking sector was completed in 1999. Seven banks are currently operating in the country, and all major banks have undergone internal reforms to reduce the volume of non-performing loans and improve lending practices. However, informal financial services are common and supervision and regulation are insufficient. The weaknesses in the financial system are a constraint to savings mobilization, investment financing and access to credit.

Banks are unwilling to extend medium to long-term loans. Also, small and medium sized enterprises are often refused loans because they cannot provide banks with solid guarantees and are inefficiently run due to lack of accounting and computerization and poor project drafting and funding requests. The government has been looking at how to boost SME capabilities while ensuring more securely based bank loans with a guarantee fund to encourage transparency and better management by SMEs.

Microfinance:

Microfinance plays a marginal role in the financial system. The objective of the government is to strengthen both the financial sector and microfinance.

Insurance:

The insurance sector is regulated and supervised CIMA. It is small and dominated by formerly state-owned Star Nationale. The industry is also served from two major sources: South African-based insurance companies offering Pan-African insurance products and European

insurance companies. The main insurance products offered include life insurance and property and casualty insurance products.

Capital Markets:

There is no capital or money market and sophisticated financial instruments are unavailable. As is the case in the CFA West Africa zone, which has a common stock exchange (Bourse Régionale des Valeurs Mobilières - BRVM), the Central African Region also sought to establish a common stock exchange. However, plans for these were temporarily shelved, as agreement could not be reached between the member countries regarding a host country.

However, Cameroon decided to create its own exchange, the Douala Stock Exchange (DSX), while a separate stock exchange, the Central African Stock Exchange (BVMAC), was established in Gabon. Under CEMAC provisions, the Financial Markets Surveillance Committee (Commission de Surveillance du Marché Financier de l'Afrique Centrale- COSUMAF) has sole jurisdiction for approving securities for listing on the BVMAC, and is the agency responsible for administering securities laws in the BVMAC member countries. Two companies, SFA Gabon and BGFI Bourse have been authorized to act as brokers for the BVMAC but operations have not yet started.

To date, Chad has no government bond market.

Banking in Chad:

There are seven banks in Chad and they include:

- Banque Agricole et Commerciale
- Banque Commerciale du Chari
- Banque Sahélo-Saharienne pour l'Investissement et le Commerce Tchad
- Commercial Bank Tchad
- ECOBANK Tchad
- Financial Bank Tchad
- Société Générale Tchadienne de Banque

Additional details on the banks can be found [here](#).

Microfinance in Chad:

The following microfinance institutions exist in Chad:

Finadev Tchad: subsidiary of Financial Bank Tchad; established in 2003 to take over all microfinance activity from parent. Customers are people unable to access the banking system but are in search of small-size funds – women traders, micro-entrepreneurs, etc.

Overview of the Insurance Industry and CIMA:

Prior to CIMA, insurance business was managed by individual countries in very rudimentary and incomplete ways. Regulation was practically non-existent and solvency requirements were limited solely to investments. There were no defined accounting rules applicable to insurance companies and the sector underwent severe financial deterioration. By 1995, the insurance market had a significant deficit of about 38% in the coverage of regulated commitments. As a result, governments felt a strong need to establish a rule of law capable of ensuring the legal and financial security of investments and consumers.

Creation of CIMA:

CIMA was developed with a main objective to create a wider and healthier market - the first step towards establishing a single insurance market. The following organizations were also created at the same time:

- Organization for the Harmonization of Business Law in Africa (Organisation pour l'harmonisation du droit des affaires en Afrique, OHADA)
- The Inter-African Conference on Social Security (Conférence Interafricaine de la Prévoyance Sociale, CIPRES): deals with social security issues
- The Observatory for Economics and Statistics in Sub-Saharan Africa (Observatoire statistique africain, AFRISTAT): gathers and analyzes economic and financial statistics

The treaty setting up the Conference Interafricaine des Marchés d'Assurances (CIMA) was ratified by thirteen francophone African countries namely Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Equatorial Guinea, Congo, Gabon, Ivory Coast, Mali, Niger, Senegal and Togo in July 1992. The countries agreed to be bound by the insurance legislation (the CIMA Code) that formed an annex to the treaty. The Federal Islamic Republic of Comoros also signed the treaty, but has not yet ratified it.

CIMA replaced the Conference Internationale des Contrôles d'Assurances des Etats Africains (CICA) and collaborates closely with insurance authorities in individual member countries, notably the local controller of insurance. CIMA operates according to the following objectives:

- Building up the insurance industry
- Safeguarding the interests of policyholders
- Protecting the technical reserves of insurers
- Advising national governments on insurance matters
- Supervising insurance markets - the treaty created a supranational supervisory body, the Commission Régionale de Contrôle des Assurances (CRCA), which is widely credited with bringing discipline to the insurance markets it supervises

The proposal to implement "single approval" for the entire CIMA zone, effectively a freedom of services provision, was postponed to allow time for a closer examination of the consolidated accounts of insurers.

Key figures on insurance in the CIMA region can be found [here](#).

The CIMA Code

The CIMA code went into effect in February 1995 and consists of six “books”, covering life and non-life insurance. Important areas regulated by the code include:

- **Licensing:** conditions that must be fulfilled in order to obtain a license are clearly defined
- **Governance of insurance companies:** the code is very explicit on mutual companies (sociétés mutuelles) but less so on public limited insurance companies (société anonyme d’assurance). For areas not covered by the code, the oversight authority refers to the Uniform Act of the OHADA
- **Solvency of a functioning insurance company:** all companies operating in CIMA territory must cover their regulated commitments according to CIMA rules
- **Liquidation:** the commission gets involved in the choice of a liquidator and in overseeing the conduct of the liquidation up to the point of closure

CIMA Constituent Bodies

Council of Ministers

This is the governing body of CIMA and is composed of finance ministers of the CIMA member states. Chairmanship is rotated among member countries and the body holds two regular meetings each year. The council:

- Ensures political coherence of the institutional mechanisms
- Establishes the CIMA budget
- Appoints members of the Regional Commission for Insurance Supervision (Commission régionale de contrôle des assurances – CRCA) and the managers of the General Secretariat
- Defines, modifies or augments common regulations
- Interprets the provisions of the Insurance Code
- Hears appeals filed by companies against decisions rendered by the CRCA

Regional Commission for Insurance Supervision

The Regional Commission for Insurance Supervision (Commission régionale de contrôle des assurances - CRCA) is the regulatory body of the Conference. Each member state has a National Insurance Directorate (Direction Nationale des Assurances, DNA) that exists alongside CRCA.

CRCA:

- Provides document-based and on-site monitoring of insurance companies
- Provides general oversight and helps organize national insurance markets
- Expresses an opinion on licensing requests from insurance companies and their managers
- Ensures that provisions of the law are respected
- Possesses the widest sanctioning powers: e.g., warnings, reprimands, limitation or interdiction of some or all operations, all other limitations in the conduct of the

statutory promotion, elimination or removal of managers, statutory transfer of the policy portfolio, and revocation of licenses

The General Secretariat:

The General Secretariat, permanent body of CIMA, prepares, organizes, implements and monitors the work of the Council of Ministers and CRCA. It leverages a cadre of inspectors (commissaires contrôleurs) to monitor and submit reports on insurance companies to the commission. The reports are first examined by a committee of experts, comprised of one representative per member state and two representatives of the industry.

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