TO: Mahamat Déby, Chairman of the Transitionary Military Council

FROM: Clayton W. Caldwell, Minister of Development and Social Policy

RE: Addressing Chad’s Resource Curse with Universal Basic Income

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**Abstract**

Chad’s ineffective development strategy reflects a common misunderstanding of poverty. Analyzing *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* shows that the poor often make suboptimal economic decisions in response to ineffective governance. Chad should direct resources away from the microfinancing present in Law No.001/PR/1999 and into a modest universal basic income program. This would allow the poor to invest resources efficiently and set a precedent for inclusive development.

**Analysis**

*Nutritional Decisions*

Global development is plagued by a common belief that the poor lack the resources necessary to feed themselves and that the solution is providing more calories.[[1]](#endnote-1) This is logical given that current evidence suggests prevalent undernourishment in impoverished areas. For example, the poorest populations in India may eat as little as 1,400 calories a day compared to the recommended daily intake of more than 2,000 for most adults.[[2]](#endnote-2) Unfortunately, the data lead many to assume that undernourished people are eating as much food as they can.[[3]](#endnote-3) In reality, food expenditures increase much less than one-to-one with budget, being spent on various pleasantries like better-tasting food and entertainment. [[4]](#endnote-4) In fact, nations with large domestic economies capable of supplying many cheap consumer goods like Mexico and India are the places where food spending is lowest.[[5]](#endnote-5) This represents a careful economic calculation by the poor where nutrition is foregone in the face of other competing needs.[[6]](#endnote-6) It also suggests that investing in nutrition is most effective when supporting the decisions of the poor, such as sprinkling micronutrients onto food or cultivating more nutritious vegetable types already popular in an area.[[7]](#endnote-7) Nutrition-based development has repeatedly failed the poor because they rarely consider their actual consumption needs. Chad’s future nutritional investments should let consumer preferences guide investment decisions instead of imposing behaviors onto the poor.

*Medical Decisions*

Low uptake of highly affordable and lifesaving medical services is a persistent problem in developing and low-income areas. For example, 1/5 of all poor Sub-Saharan African children die of diarrhea and most of these deaths could be prevented by using chlorine bleach to purify the water.[[8]](#endnote-8) Despite a subsidized price of $.18 for enough chlorine bleach for a family of six in Zambia, only about 10% of families use it.[[9]](#endnote-9) A common trend among the poor is spending money on expensive and ineffective treatments instead of free medical services.[[10]](#endnote-10) Public health services are often unreliable, such as government health services in Udaipur only being open 56% of the time.[[11]](#endnote-11) Additionally, treatment of patients is particularly poor among public medical providers which erodes faith in public medicine.[[12]](#endnote-12) This erosion causes people to act against conventional wisdom, such as refusing vaccines out of fear of autism.[[13]](#endnote-13) The low uptake of lifesaving medical services represents a rational decision to seek alternatives when state-run healthcare services are consistently ineffective and unpleasant. Improving their uptake requires improving the reliability of state-run medical services and making their use by the poor more pleasant.[[14]](#endnote-14)

*Educational Decisions*

Education is persistently plagued with the fact that the rich will receive better and more education regardless of benefit and the poor will consistently be deprived of it.[[15]](#endnote-15) For example, The World Absenteeism survey found that in India, private school teachers were 8% more likely than public school teachers to be in school on a given day.[[16]](#endnote-16) The poor are well aware of this fact and act to maximize benefits and minimize losses in an unfair educational system. This manifests in a common misconception of education as a high-risk/high-reward investment instead of a safe one.[[17]](#endnote-17) It also fosters elitism, with teachers expecting students of certain socioeconomic classes to fail in education and students/families internalizing those beliefs.[[18]](#endnote-18) This is less a consequence of bad governance and more a consequence of income inequality creating social paradigms that waste resources and prevent promising students from receiving investment.[[19]](#endnote-19)

*Chad Demographic Info*

According to the 2021 Index of Economic Freedom, Chad ranks 38th of the 47 Sub-Saharan nations and is one of the 25 poorest nations in the world.[[20]](#endnote-20) Oil and agriculture are the two dominant industries in the nation, with oil providing 60% of Chad’s export revenues and agriculture providing 53% of overall GDP.[[21]](#endnote-21) Oil in particular dominates much of Chad’s political and economic activity, as Chad is the 5th largest oil producer in Sub-Saharan Africa.[[22]](#endnote-22) Since 2004, oil production has represented 75% of the public budget.[[23]](#endnote-23) However, agriculture is an employment staple with 80% of workers located in agriculture and 20% in industry and services.[[24]](#endnote-24) Roughly 46.7% of the current population lives below the international poverty line.[[25]](#endnote-25)

*Law No.001/PR/1999 Impacts and Microfinancing*

Like many Central African nations, Chad struggles with a resource curse where it fails to effectively reinvest profits from strong natural resources.[[26]](#endnote-26) Most African nations with a resource curse overspend during commodity booms and ineffectively invest in poverty reduction and financing expenditures.[[27]](#endnote-27) Chad’s central development policy is Law No.001/PR/1999, which allocates 70% of direct oil revenues to key sectors like education and health, 15% to public investments, 5% to regional departments, and 10% to future generations. [[28]](#endnote-28) This policy has failed because public investment strategies are less effective in nations with weak administrative capacity or high corruption.[[29]](#endnote-29) In Chad, the World Bank and the Chadian government repeatedly delayed the role of advisory panels during pipeline development by diverting funds away from hiring inspectors and postponing inspector placement until after project development.[[30]](#endnote-30) This resulted in pipeline development that prioritized cost reduction and profit maximization over environmental and social factors.[[31]](#endnote-31) This caused measurable economic harm to many people within pipeline areas due to their strong dependence on agriculture.[[32]](#endnote-32) For example, Logone Oriental increased its share of the nation’s poor by 19.3% and its poverty gap by 9.6%.[[33]](#endnote-33)

Another major failure in Chad’s development policy was in allocating roughly 4% of 001/PR/1999 funding into microfinancing.[[34]](#endnote-34) Microfinancing schemes attempt to address a market failure where entrepreneurial poor people cannot receive investment due to poverty.[[35]](#endnote-35) Microfinancing schemes are unhelpful for several reasons. First, microfinancing schemes see consistently low demand in areas using them and successes are usually limited to firms that were already successful.[[36]](#endnote-36) For the rest, microfinancing can create a poverty trap by encouraging investors to give loans with interest rates as high as 200% to financially vulnerable people, trapping them in a cycle of taking out more microloans to pay off older microloans.[[37]](#endnote-37) Microfinancing schemes also fail by attempting to grow economies that are only feasible at a small size. As Bateman and Chang put it, microfinancing fails because it “is suitable only to evolve an enterprise structure overwhelmingly composed of very tiny units operating way below minimum efficient scale.”[[38]](#endnote-38) The prevalence of microfinancing is largely due to the politics of neoliberalism instead of economic evidence, which likely influenced Chad’s use of the model.[[39]](#endnote-39)

*Direct Dividend Payments versus Universal Basic Income*

Two promising alternatives to Chad’s top-down investment strategy are direct dividend payments (DDP) and universal basic income (UBI). Both involve direct cash payments to the population instead of state investment in public resources/infrastructure. DDPs allocate a portion of revenues from state resources (oil in Chad’s case) via direct cash payments.[[40]](#endnote-40) The larger the resource windfall, the stronger the DDPs should be.[[41]](#endnote-41) However, the portion allocated depends heavily on the population relative to the windfall. For example, distributing 10% of resources via DDPs in Angola would result in $185 payments per person and effectively eliminate poverty while doing so in Chad would result in $20 payments per person.[[42]](#endnote-42) Because DDP allocation is based on state revenues, the amount distributed will change with oil prices and production.

While DDPs are based on the state revenues from natural endowments, UBI typically is a fixed allocation of funds given to all people equally in either monthly or yearly benefits.[[43]](#endnote-43) For example, the NGO GiveDirectly gives Kenyans $22.50/mo. for a 12 year period.[[44]](#endnote-44) A unique benefit of UBI over DDPs is greater financial stability, an important benefit given that financial instability worsens poverty in a variety of ways.[[45]](#endnote-45) One example would be its impact on decision making, which *The Economist* explains that “financial insecurity constrains the ability to make rational decisions.”[[46]](#endnote-46)

**Recommendations**

Chad’s current policy on oil revenue investment fails to generate effective economic development in the country despite considerable natural resources. The country should implement the following changes to its revenue investment policy.

* Create a modest UBI program separate from 001/PR/1999 that guarantees all Chadian people $20 per month for a period of 20 years.
* All microfinancing resources should be completely reallocated to the new UBI program.

*Universal Basic Income in Chad*

Allocating resources away from 001/PR/1999 and into a UBI program would be a more effective economic investment than state investment in public infrastructure because of Chad’s history of poor investment and low state capacity. It also reduces impacts particularly relevant to low-income nations such as under-coverage among the poorest quintile and leakages created by means testing mechanisms.[[47]](#endnote-47)

Chad’s UBI program should start with minimum payments of $20/mo. guaranteed for 20 years, covering 7.3% of the poverty line. This model provides a more stable equivalent of the benefits provided by a DDP program. While restricting distributions to the poor would increase payments to $53 and cover 19% of the poverty line, doing so would not be realistic given the importance of universality in welfare systems.[[48]](#endnote-48) Also essential to effective welfare is gradual development over time, which the modest $20 payment enables.[[49]](#endnote-49) This resembles the ongoing Kenyan welfare experiment, which has reduced hunger rates from 68% to 57% and reduced likelihood of illness in households by 6%.[[50]](#endnote-50) The program should be implemented as separate from 001/PR/1999 to ensure welfare distributions are stable over time.

*Financing UBI via Reallocation of Funds*

Chad’s UBI can be funded by redirecting resources away from ineffective investments. The most obvious is the use of microfinancing schemes in the nation, which have no clear positive impact on poverty and are almost half the size of the UBI program’s budget. Additional funding can be drawn from official development assistance (ODA), where a similar allocation of 10% of Chad’s available ODA would provide another $3.70 per month. The remaining funding can be drawn from the “future generations” or “regional departments” areas of 001/PR/1999. This is particularly feasible as their combined budget consumption is far greater than the remaining funds necessary to implement the program and doing so would not eliminate these funding areas.

**Conclusion**

Global development is haunted by a persistent belief that the poor do not know how to spend their money. As the analysis of *Poor Economics* shows, the poor engage in complex economic decisions in response to social and government obstacles beyond their control. Chad’s development policy has further created obstacles by inefficiently allocating resources and employing ineffective development schemes. By reinvesting microfinancing resources into a modest universal basic income, Chad can take the first steps to creating a more equitable and healthy nation for all its people.

**Notes**

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3. Ibid, pg. 50. [↑](#endnote-ref-3)
4. Ibid, pg. 2. [↑](#endnote-ref-4)
5. Ibid, pg. 78. [↑](#endnote-ref-5)
6. Ibid, pg. 82. [↑](#endnote-ref-6)
7. Ibid, pg. 83. [↑](#endnote-ref-7)
8. Ibid, pg. 85. [↑](#endnote-ref-8)
9. Ibid, pg. 86. [↑](#endnote-ref-9)
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11. Ibid, pg. 109. [↑](#endnote-ref-11)
12. Ibid, pg. 110. [↑](#endnote-ref-12)
13. Ibid, pg. 117. [↑](#endnote-ref-13)
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15. Ibid, pg. 157. [↑](#endnote-ref-15)
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39. Ibid, pg. 14. [↑](#endnote-ref-39)
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