



## Chad-DPO Fiscal Consolidation Program (P155480)

AFRICA | Chad | Macro Economics & Fiscal Management Global Practice |  
IBRD/IDA | Development Policy Lending | FY 2016 | Seq No: 1 | ARCHIVED on 11-Dec-2016 | ISR25657 |

Implementing Agencies:

## Key Dates

### Key Project Dates

Bank Approval Date:10-Dec-2015

Effectiveness Date:15-Dec-2015

Planned Mid Term Review Date:--

Actual Mid-Term Review Date:--

Original Closing Date:30-Jun-2017

Revised Closing Date:30-Jun-2017

## Program Development Objectives

Program Development Objective (from Program Document)

The Program Development Objectives (PDOs) are to help maintain stability on the fiscal and macroeconomic fronts including to protect critical Government's programs and set the basis for medium term reforms.

## Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	--	● Moderately Satisfactory
Overall Implementation Progress (IP)	--	● Moderately Satisfactory
Overall Risk Rating	--	● High

## Implementation Status and Key Decisions

**The Fiscal Consolidation Program Support Grant (FCPSG) in the amount of SDR 35.8 million (US\$50 million equivalent) to the Government of Chad (GoC) was approved in December 2015.** It was designed to assist the authorities in addressing the fiscal and external impacts of large exogenous shocks while continuing to develop and implement critical public financial management (PFM) reforms and improvements in the business climate necessary to bolster the competitiveness of the nonoil economy. This single-tranche development policy operation (DPO) is a key component of the Bank's support to the GoC, as it strives to cope with both a widening fiscal deficit in the context of a continuing decrease in oil revenues as well as ongoing domestic and regional security concerns stemming from the rise of Boko Haram.

**Implementation progress is moderately satisfactory.** The government has successfully consolidated its fiscal position in response to the oil price collapse. It initiated to broaden the tax base; closer control and monitoring of payroll costs; improve the PFM through adoption of CEMAC Directives; and improve the business registration.

**There has been no roll-back in the reforms that formed the basis of the DPO.** The Government is endeavoring to scale up the reforms to ensure full and sustainable achievement of the development outcomes of the operation. The following summarizes progress achieved under each of the pillars:

### Broadening the Tax base

**Slow progress has been made in increasing the number of taxpaying firms recorded in the Government's taxpayer database, and**



**achieving the target would require additional efforts and resources.** During the early periods of 2016, following the completion of the enterprise census for taxpayer identification and registration purposes, the taxpayer database has been transmitted to the tax directorate to identify, locate and register new taxpayers. The census of the statistical office identified 30,761 potential firms to be added to the 2015 database which contains 11,200 firms. Thus far, only 23 new large enterprises and 75 small and medium enterprises (SME) have been included in the database following the preliminary matching exercise undertaken in the first quarter of 2016. The delay is caused the lack of resources to overcome the technical challenges related to the data matching exercise. The methodologies used by the INSEED (National Institute of Statistic) and the tax directorate to categorize enterprises size are different and technical assistance is needed to resolve this issue. Progress was also hampered by high staff turnover as there have been four different general managers and technical directors in charge of this task at the tax directorate during 2016. Furthermore, a lack of resources to implement the data matching activity was also a concern. A coordination committee including representatives of the INSEED and the tax directorate is being created to propose to the Government an action plan aimed at resolving the technical challenges and speed up the implementation of this task. The Government is expected to share the timeframe for this action by the end of the 2017 calendar year.

**Satisfactory progress has been made in enhancing transparency in tax legislation.** The Parliament has approved a new tax code in 2016. The new code consolidates all tax related fiscal regulations leading to a more comprehensive and transparent taxation system. This has been complemented by efforts to rationalize tax exemptions including undertaking a tax expenditure study, which will establish clear rules about exemptions management. It is expected that these reforms would improve the “clarity and comprehensiveness of tax liabilities”, to be assessed by the upcoming PEFA exercise. Transparency of tax liabilities is assessed by the clarity of legislation and administrative procedures. This contributes to the access to information for most, but not necessarily for all, major taxes. The new tax code addresses these considerations and would be enhanced by the policy to be derived from the tax expenditure study.

**Improving the rationalization of public spending and transparency in public resource management**

**Satisfactory progress has been made in enhancing the control of the payroll system.** Under the FCPSG, the authorities have completed the biometric census of the civil service, which identified a number of ghost workers, civil servants with jobs in the private sector, and civil servants receiving multiple salaries. However, the payroll management system has not been fully checked to allow it to operate efficiently, and the Government has hired 7,975 civil servants since 2014. The new audit commissioned by the Government will further enhance the control on the payroll system. The results and recommendations of this audit would help achieve the target related to the existence of payroll audits to identify control weaknesses and/or ghost workers which will be assessed by the upcoming PEFA exercise. This study will be finalized by the end of the 2017 calendar year and is expected to help assess the expected impact of this initiative on the budget.

**The Government has adopted key reforms to reduce the rate of single sourcing in public procurement.** Under the FCPSG, the Council of Ministers adopted a new procurement code that covers the public procurement process from planning to contract award, regulates the institutional framework for procurement, and defines the overall organization while providing adequate provisions for contract implementation. Furthermore, it establishes clear guidelines for the use of single-source procurement in line with international standards. As of December 2015, the available indicator on single-source procurement shows that the rate of sole source has increased from 33 percent in 2014 to 36 percent in 2015. However, an improvement in this indicator is expected with the strengthening of the ex-ante control by the Directorate of Public Procurement (DGMP), the operationalization of the new code and the ARMP (Procurement Regulation Authority) in 2016, and the development of key tools needed to guide the activities of procurement of goods and services. The operational manuals to define the operating rules of the procurement units and the standard bidding documents including especially the General Conditions have been distributed to relevant entities. The African Development Bank (AfDB) has provided support for the revision of the code and continues assisting for its implementation, including support to line the DGMP and the ARMP. These measures need to be complemented by capacity building at the level of line ministries and other public entities to ensure compliance with the code and reduce single sources.

**Improvement in the regularization of exceptional use of budget is expected from 2016 onwards.** The FCPSG supported the adoption of public accounting regulation “*Reglement General sur la Comptabilite Publique*” as part of the strategy to achieve compliance with CEMAC Directives on public finance. This regulation introduces the obligation to regularize emergency spending within 60 days. The proportion of regularization to be done within 60 days after payment stood at 43 percent in 2015, at the time of the FCPSG, while the target is established at 65 percent. This was mainly due to the revenue shortfall and the severe liquidity constraints. In 2016, the Government adopted additional directives including the budget nomenclature and the chart of accounting that made the public accounting regulation fully effective. Further to this, on November 11, 2016, the Government adopted a ministerial decree (128/MFB/SG/2016) creating a Committee comprising representatives of the Budget Directorate, the financial controllers and the Treasury to expedite the regularization of pending emergency spending.

**The institutional framework for external control system has been strengthened and the time for the Court of Accounts to issue compliance certificates on budget settlement laws is expected to be shortened as planned.** Following the 2013 constitutional amendment, the Court of Accounts has had its own jurisdiction, in accordance with the CEMAC directives. The establishment of the Court of Accounts created the conditions for an independent evaluation of budget execution. The ability of the Court of Accounts to issue a certificate of conformity presents opportunity to compare the accounts held by the budget administrator (budget execution report – *comptes administratifs*) with those held by the public accountants (accounting statements – *comptes de gestion*). Under the FCPSG, the members of the Court of Accounts were appointed and the Government allocated budget to this entity to ensure its operationalization. The UNDP, the French Embassy and the EU are providing technical assistance to the Court of Account. In 2015, the Government made important progress to obtain the certificate of conformity of the 2013 Budget Settlement Law from the Court of Accounts. The Ministry of Finance completed the draft 2014 budget settlement Law with a 12-months lag in August 2016 due to a high turn-over at the Ministry of Finance. It was submitted to the Court of Account in mid-November 2016.

**The Government has deepened efforts to improve regulatory reforms for business registration with satisfactory results.** Under the FCPSG, the Government has streamlined business registration by reducing the procedural requirements to establish a firm including reducing the paid-in minimum capital requirement to start a business, allowing for the establishment of an online system for publishing registration notice of companies, and the use of notary services for physical publication of a newly created company in Recipient’s Gazettes and Newspapers as optional. In 2016, the Government has deepened reforms aimed at improving business registration procedures. The authorities have operationalized a one-stop shop business registration. Steps previously taken under different structures are now housed under one entity, significantly speeding up the registration process. Available standard company statutes, including new ones can also be easily accessed in electronic form. According to Government, the number of newly registered firms in the first quarter of 2016 has been estimated at 1148. As a result, that the FCPSG target of 5,000 registered firms



has been exceeded. According to the 2017 World Bank Doing Business Report, these reforms helped improve Chad's ranking 186 to 182 out of 189 countries in terms of 'Starting a Business'.

## Risks

### Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● High	--	● High
Macroeconomic	● High	--	● High
Sector Strategies and Policies	● Moderate	--	● Moderate
Technical Design of Project or Program	● Moderate	--	● Moderate
Institutional Capacity for Implementation and Sustainability	● High	--	● High
Fiduciary	● Substantial	--	● Substantial
Environment and Social	● Low	--	● Low
Stakeholders	● Substantial	--	● Substantial
Other	--	--	--
Overall	● High	--	● High

## Results

### Results Indicators

► An increase in the number of taxpaying firms recorded in the government's taxpayer database. (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	11200.00	--	11298.00	15000.00
Date	31-Dec-2014	--	31-Mar-2016	31-Dec-2017



► PEFA Indicator P13-I: Clarity and comprehensiveness of tax liabilities (\*) (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	D	--	NA	B
Date	31-Dec-2014	--	31-Oct-2016	31-Dec-2017

► PEFA indicator P18-IV: Existence of payroll audits to identify control weaknesses and/or ghost workers (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	D	--	NA	B
Date	31-Dec-2014	--	31-Oct-2016	31-Dec-2017

► A reduction in the value of single-source procurement contracts as a share of total contracts. (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	33.00	--	36.00	25.00
Date	31-Dec-2014	--	31-Dec-2015	31-Dec-2017

► The proportion of Extraordinary Spending Procedures (DAO) regularized after payment within 60 days (Percentage, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	55.00	--	43.00	65.00
Date	31-Dec-2014	--	31-Dec-2015	31-Dec-2017



► Number of months to issue compliance certificates on budget settlement laws (Months, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	4.00	--	4.00	1.00
Date	31-Dec-2014	--	31-Dec-2015	31-Dec-2017

► Number of newly registered businesses (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	3959.00	--	5107.00	5000.00
Date	31-Dec-2014	--	31-Mar-2016	31-Dec-2017

Overall Comments

## Data on Financial Performance

### Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P155480	IDA-D0970	Effective	XDR	35.80	35.80	0.00	35.80	0.00	100%

### Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P155480	IDA-D0970	Effective	10-Dec-2015	11-Dec-2015	15-Dec-2015	30-Jun-2017	30-Jun-2017

## Tranches

### Restructuring History

There has been no restructuring to date.



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## Related Operations

There are no related projects.

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