Report Number : ICRR0021505

1. Project Data

Operation ID P155480	**Operation Name** Chad-DPO Fiscal Consolidation Program	
Country Chad	**Practice Area(Lead)** Macroeconomics, Trade and Investment	
L/C/TF Number(s) IDA-D0970,IDA-D1580	**Closing Date (Original)** 30-Jun-2017	**Total Financing (USD)** 127,884,049.00
Bank Approval Date 10-Dec-2015	**Closing Date (Actual)** 31-Dec-2017	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	130,000,000.00	0.00
Actual	127,884,049.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Policy Areas

a. Objectives

The program development objectives (PDO) were "to help maintain stability on the fiscal and macroeconomic fronts including to protect critical Government programs and set the basis for medium term reforms" (Program Document, PD, p. v).

In the PD, the phrase “including to protect critical Government programs” is included in the PDO. However, “protecting critical government programs”, which refers to “maintaining minimum levels of pro-poor expenditures” (PD, p. 1), depends on achieving fiscal and macroeconomic stability and is therefore not a separate PDO. Furthermore, using “including” in the PDOs to relate medium-term reforms to the urgent issue of maintaining fiscal and macroeconomic stability arising from the decline in oil prices suggests a direct link when the link is instead indirect and, indeed, in the medium term. Nevertheless, medium-term reforms are a priority and are therefore included as part of the assessed PDOs in Section 4.

The PDOs were not included in the Financing Agreement.

b. Pillars/Policy Areas

The program had three pillars: (i) to broaden the tax base; (ii) to improve the rationalization of public spending and transparency in public resource management; and (iii) to improve new business registration.

(i) Broadening the tax base
The pillar was directed at maintaining fiscal stability by incorporating an enterprise census into the taxpayer base, with a view to increasing non-oil tax revenues and submitting to parliament a new tax code that incorporated all tax-related fiscal regulations.
(ii) Improving the rationalization of public spending and transparency in public resource management:
This pillar was directed at improving public financial management (PFM) by improving data and procedures connected with the public accounts, which were deficient in several ways, including; poor information on the number of workers on the government payroll that actually worked; and poor information on the number of firms that should be paying taxes. PFM would be improved by: (a) using civil service census data in the integrated human resource and payment management system to enhance its effectiveness; (b) undertaking payroll audits to identify and eliminate ghost workers; (c) increasing the share of procurement contracts that go to competitive bidding; (d) the Council of Ministers issuing a regulation requiring the public accounts to conform to Economic and Monetary Community of Central Africa (CEMAC) accounting standards; (e) increasing the proportion of Extraordinary Spending Procedures that were regularized within 60 days; (f) operationalizing the Court of Accounts through the Council of Ministers appointing members to the Court and providing funds for its operation; and (g) reducing the number of months taken to issue certificates of expenditures as required by the budget settlement law.
(iii) Improving new business registration:
This pillar was directed at the medium-term reform objective of improving new business registration through simplifying and reforming some of the procedures necessary to start and operate a company, including:
(a) reducing the number of procedures; (b) reducing paid in capital requirements; and (c) providing for the establishment of an online system for publishing of notices of registration, and making the use of notaries optional, which was included as a prior action and led to the online publication of registration notices.

c. Comments on Program Cost, Financing, and Dates

Project Cost: The original total commitment was SDR94.1 million; the actual cost at closure was SDR94.1 million.

Financing: The financing was provided by 2 International Development Association (IDA) grants: a Development Policy Grant of SDR35.8 million (US$50 million equivalent) and a Crisis Response Window Supplementary Grant of SDR58.3 million (US$80 million equivalent).

Dates: The original IDA grant was approved on December 10, 2015. The Crisis Response Window Supplemental Grant was approved on December 21, 2016 and closed on time on December 31, 2017.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The FY16-20 Country Partnership Framework had three themes (CPF, p. 17), one of which was strengthening management of public resources. The objectives of the DPO were consistent with this theme. The CPF (p. 17) also refers to a “proposed Development Policy Operation…to stabilize the fiscal situation in the short term."

The goals of the Chad National Development Plans 2013-15 and 2016-20 focused on creating new productive capacity and opportunities for decent jobs; human capital development and reducing inequality; environmental protection and climate change; and improved governance. The PDOs of the DPO were marginally consistent with the last of these themes, i.e., improved governance.

Chad was faced with three external shocks in the form of: (i) a significant decline in the price of oil (on which the economy and budget were heavily dependent); (ii) a recession in the Nigerian economy; and (iii) a serious drought. The program was designed to assist with offsetting some of the negative effects of these factors.

The program addressed the urgent needs of the country arising from external shocks. Although there was only partial alignment between the operation's objectives and the longer-term country strategy in the National Development Plan, the proposed DPO was envisaged in the CPF, leads to a rating of Substantial.

Rating
Substantial

b. Relevance of Design

The strength of the causal chain between policy actions and activities supported by the original and supplemental grants is tenuous and represents a less than robust theory of change as is illustrated below.

The measures to help maintain stability on the fiscal front included incorporating an enterprise census into the taxpayer base and submitting to parliament a new tax code that incorporated all tax-related fiscal regulations. Presumably, this measure was aimed at broadening the tax base, which in turn was expected to increase non-oil tax revenue. However, this is a necessary but not sufficient measure to raise revenue. The PD (p. 8) notes that: “despite efforts to widen the tax base, implementation capacity constraints and weak nonoil GDP growth prospects limit the scope for expanding non-oil revenue." A successful effort would also require enhancing capacity in the tax office, enforcement of collections from delinquent tax payers, reducing the complexity of the tax code, and adjusting rates to reduce tax evasion. The PD (p. 15) itself recognizes that: “Chad’s tax rates are high by regional and international standards…the value added tax (VAT) regime…is weakened by numerous exemptions…the multiplication of taxes, fees and charges is inefficient and incompatible with a healthy business climate." These issues were not addressed despite being identified as high priority in the IMF 2016 Article IV Consultation report, and the 2017 and 2018 Reviews of the arrangement under the Extended Fund Facility.

While the measures to remove ghost workers, expand competitive bidding, improve accounting standards, and strengthen the institutional foundations of public accounts all contribute to improving budgetary balances, they do not separately address macroeconomic stabilization, nor do they protect critical government programs, although they contribute to both. Nevertheless, as the ICR (p. 15) points out, the PDOs did not identify the medium-term programs that were supposed to be protected. While they are mentioned in other parts of the program documents (and consisted of security and pro-poor expenditures), the relationship between the social programs goals and the reforms is nowhere articulated.

The program had serious gaps. The fiscal situation arose, at least partly, because of poor debt management; inefficient and costly state-owned enterprises (SOEs), support to which negatively impacted the budget; and poor management of oil revenues. These were all important areas that required longer term reforms, and it is difficult to envision sustained improvement in the overall fiscal situation without these issues being addressed.

A third pillar, improving the registration process for new businesses has limited connection to the more urgent issues related to fiscal and macroeconomic stability. It is difficult to see how business registration relates to the urgent priority of maintaining fiscal or macroeconomic stability in the face of the external shocks the Chad economy was experiencing. Presumably, the rationale for this measure was directed at increasing the number of formal firms, thereby enlarging the tax base, although it is doubtful that bringing small firms into the formal sector would have had a great impact on tax collections, and certainly not in the short term.

Furthermore, the measures that were implemented to increase business registration fail to conform to modern business reform practices. Minimum capital requirements are archaic obligations for business registration. They have been abandoned in most modern jurisdictions as requirements for business registration (See, for example, “Why are Minimum Capital Requirements a Concern for Entrepreneurs”, World Bank 2014). One possible justification suggested by the project team was that this would discourage firms from formalizing to bid on government contracts and then go dormant. However, imposing an annual report requirement might have been a preferable solution. Making use of notaries optional is a step in the right direction, but eliminating notarial requirements altogether would have been a more desirable reform. Publishing registration notices online is no more than an intermediate step in the creation of a system of online registration. In areas where Internet facilities are not available, various work arounds that deal with this have been developed in a number of jurisdictions, which are far preferable to paper-based systems, notices of which are then published online.

The measures related to tax revenues only address improving tax registration and do not address several fundamental issues. Business registration reforms fails to incorporate modern business registration practices. Relevance of design is therefore rated modest.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
To help maintain stability on the fiscal front

Rationale

Under the operation and Supplementary Financing, the first prior action for the first pillar required the Ministry of Finance (MoF) to adopt the results of the survey of business enterprises by entering them into the taxpayer base. The outcome indicator was an increase in the number of enterprises registered therein from 11,200 in 2014 to 15,000 by December 2017. This was not achieved. The ICR (p. 5) reports that the database was being overhauled during the ICR mission and that “complementary data on the number of firms being actively monitored by the General Tax Directorate suggested that the target was not met."
The second prior action under the first pillar was the adoption by the Council of Ministers and the submission to parliament of a comprehensive tax code that would consolidate all tax-related regulations in a transparent manner. The ICR (p. 5) reports that there was an electronic version available on the MoF Web site. Although passage of the tax code was not a prior action, the ICR (p. 12) reports that it was approved on September 11, 2015. While the code was a significant improvement on the earlier (2006) code, the ICR (pp. 19-20) states that “the code is still not sufficiently clear on several points.” Furthermore, a budget law passed in 2018 introduced important new tax provisions, which require clarification because it superseded the 2016 tax code. Nevertheless, the indicator for this measure was the Public Expenditure and Financial Accountability (PEFA) rating, which was to improve from a baseline of D to B, and the subsequent PEFA assessment

proved a B rating. However, an additional issue was that the basis for PEFA assessments was changed in 2016 (ICR p. 16) so that comparison of the baseline and the final ratings is tenuous.

However, more relevant indicators would have measured the improvement, if any, in tax collection resulting from the prior actions (see Section 9 below).

Pillar 2, which focused on improving the rationalization of public spending and transparency in public resource management, was also directed at this PDO. The first prior action under this pillar was the validation of a civil service census and its inclusion into the government's resource and payroll management database. The indicator was the PEFA rating in this category improving from a baseline of D to B, which was achieved in the subsequent PEFA assessment. A more relevant indicator would have measured the number of ghost workers that had been identified and removed from government payrolls.

A second prior action under this pillar was the adoption by the Council of Ministers of a procurement code that "separated the procurement regulation function from the control function" (ICR, p. 11). The indicator was the reduction in the value of single-source procurement contracts as a share of the total from a baseline of 33% to less than 25%. This was not achieved. In the three calendar quarters ending in December 2017, the value of single-source contracts increased substantially to 57% of the total.

The third prior action under this pillar was for the Council of Ministers to adopt a public accounting regulation on Extraordinary Spending Procedures that were regularized within 60 days as part of its goal of conforming to accounting procedures of CEMAC. The indicator was the number of conforming procedures increasing from a baseline of 55% to 65% by December 2017. The actual proportion achieved was 75%.

The fourth prior action under this pillar was the number of months to issue compliance certificates on budget settlement laws; the PD does not provide a rationale for this indicator, nor does the ICR. However, the ICR does report (p. 6) that there were extensive delays in issuing the compliance certificates. The target for this indicator was to reduce the number of months from a baseline of four to less than one. This was not achieved. The draft 2014 budget settlement for 2014 was only issued in August 2016, and replies on potential irregularities submitted by the Court of Accounts had not been received. The ICR further reports (p. 6) that work on compliance certification for the 2015 budget only started in early 2018 and had not been completed by the middle of that year.

While these prior actions were clearly directed at improving the institutional framework for the budget and surrounding processes, it is hard to discern how they relate to maintaining fiscal stability or why they should receive priority attention as prior actions in the DPO. Maintaining fiscal stability requires increased tax collections and expenditure rationalization, which these measures address only indirectly. There is no evidence that either were achieved by the prior actions, and there is no evidence that the measures improved tax collections or reduced expenditure. The 2016 IMF Article IV consultation report states (p. 11): "the outlook for non-oil revenue remains subdued due to a deterioration in economic conditions and regional security, aggravated by a proliferation of VAT exemptions and numerous specific tax agreements that have seriously eroded the tax base."

While the DPO provided financing to assist with the fiscal gap and Bank staff coordinated with the IMF, the actual prior actions can only be expected to contribute to fiscal stability in the long run. This objective is therefore rated modest.

Rating
Modest

Objective 2

Objective
To help maintain stability on the macroeconomic front

Rationale
There does not appear to be any discussion of how this PDO was to be achieved. Furthermore, the word “stability” in the PDO implies that macroeconomic stability had already been achieved. However, this was not the case. The IMF Article IV report for 2016 points out (p.5) that although spending had been retrenched, liquidity problems abounded and domestic arrears payments on the part of the public sector were “accruing on a large scale.” As Section 3 pointed out, macroeconomic stabilization requires action on both the fiscal and monetary front. PDO1 covers fiscal stabilization, but for PDO2 to be meaningful, an additional instrument would be required, so there was a mismatch between targets and instruments. The design of the program ignores this issue

This objective is therefore rated negligible.

Rating
Negligible

Objective 3

Objective
To set the basis for medium term reforms

Rationale
Under this PDO, the prior actions related to easing processes relate to new business registration. They constituted the following measures: (i) reduce the number of procedures necessary to start and operate a company; (ii) reduce paid-in capital requirements; (iii) allow for the establishment of an online system for publishing registration notices; and (iv) make the use of notaries and publication regarding the formation of a newly created company in the government gazette optional. Although these objectives were achieved, the prior actions ignore best practice company law reforms, which eliminate minimum capital requirements, establish on line registries and eradicate the need for notaries.

The PD states that the baseline number of newly registered businesses in December 2014 is 3,959 and that the target value is 5,000. The ICR (p. 6) points out that “the program documentation does not clearly explain how this indicator's value is to be measured." The PD indicates that 3,959 new businesses were registered in 2014, which constituted the baseline. The ICR interprets the target as being 5,000 new businesses registered between January 2015 and December 2017 and states that the actual number achieved was 12,149 and that the target was therefore achieved, which was confirmed by the project team. Given that over 3,000 new businesses were registered in 2014, setting the outcome indicator to achieve an annual registration of less than 1,700 does not suggest adequate ambition in the efficacy of the registration reforms, but in the event, this target was substantially exceeded.

This objective is rated as substantial.

Rating
Substantial

5. Outcome

The relevance of objectives was rated Substantial because of its concordance with the CPF. The relevance of design was rated modest. Efficacy under the first PDO was rated modest, the second PDO was rated as negligible, and the third was rated as substantial. The overall outcome rating is there moderately unsatisfactory.

a. Outcome Rating
Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

Chad's external debt continues to threaten the macroeconomic stability of the country. The IMF (2016 Article IV consultation report) points out that Chad requires significant spending reduction. Low oil prices had substantially impacted revenue projections, which were 40% below those estimated in 2014. The 2018 IMF Extended Credit Facility Arrangement (ECR) review (pp. 16-17) states that "the yield of the tax system remains weak and the potential for improvement is high…reducing exemptions…is a priority." The ICR (p. 22) notes that the operation contributed significantly to institutional strengthening in the form of improvements to tax and procurement systems, and that follow-up operations are planned, which will help support the government in dealing with short- and medium-term challenges.

However, further risks to development outcomes arise from Chad's security situation, the large number of refugees, its vulnerability to climate-related shocks, as well as weak governance, limited institutional capacity, and poor implementation of reforms. Although the ICR (p. 23) points out that the government commitment to reform remains strong, risks are high.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The fiscal and macroeconomic stability objectives of the program were relevant and in accordance with the strategic priorities of both the World Bank and the government. The program assisted with much-needed financing during a time of crisis and supported the efforts of other development partners.

However, the design of the reform program was overly focused on overly partial and longer-term measures, and the causal links in the program were poorly articulated. In addition, the program did not sufficiently take into account the limited capacity of the government, and the design of indicators was poor.

Quality-at-Entry Rating

Unsatisfactory

b. Quality of supervision

The speed with which the deteriorating fiscal situation was recognized, and the rapid preparation of the supplementary program were strong and positive aspects of the implementation of the program. The timely preparation of the 2016 Supplementary Operation, which was done in only a few weeks, helped close the fiscal gap at a time when the government had few options to obtain financing on reasonable terms.
In addition, proactive collaboration with other donors (ICR p. 24) also contributed to the program.

The ICR (p. 24) states, however, that apart from the preparation of the Supplementary Operation, which was undertaken against a macroeconomic policy environment that was “evolving rapidly”, supervision over other aspects of the program was not sufficiently proactive. While the early 2017 Implementation Status and Results Report did flag slow progress on tax administration, procurement improvements, and certification of budget settlement laws, corrective measures were not implemented sufficiently rapidly, and technical assistance to address the shortcomings was not provided in a timely fashion. Nevertheless, the donor collaboration flagged above did lead to a regularization of extra-budgetary expenditures (IMF), increased training to the Court of Accounts officials (United Nations Development Programme), and assistance in speeding up budget certification (European Union). All of these contributed to the program objectives.

Based on the timely preparation of the supplementary program, quality of supervision is rated moderately satisfactory.

With a moderately unsatisfactory rating for Outcome, an unsatisfactory rating for quality at entry, and a moderately satisfactory rating for quality of supervision, overall bank performance is rated moderately unsatisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

8. Assessment of Borrower Performance

a. Government Performance

The ICR (p. 25) states that political commitment to the policy agenda of the DPO was strong, despite the critical macroeconomic and fiscal situation. The ICR (p. 14) cites as examples of commitment, the adoption of “relevant laws, by-laws and regulations and the establishment of new administrative entities.” It points out that a number of laws and decrees were passed in the program areas. Nevertheless, the failure to achieve three of the seven program objectives is ascribed to weak efforts and follow-through on the part of the government. The government suggested that the Bank offered insufficient technical assistance to help it achieve these goals, and as pointed out in Section 7b above, implementation by the World Bank was not proactive, so both parties share some responsibility.

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

The Ministry of Finance was the primary implementing agency, and the ICR (p. 25) reports that it was responsible for “half of the indicators being missed by a wide margin." The ICR (p. 15) reports that there was a significant lack of capacity in the Ministry of Finance with respect to collecting data, arising because of high staff turnover and a lack of familiarity with Bank processes.

The Ministry of Economy performed well in promoting new business registration, the sole area for which it was responsible.

Implementing Agency Performance Rating
Moderately Unsatisfactory

Overall Borrower Performance Rating
Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
Monitoring and evaluation design had serious deficiencies. The relationship between the PDOs and the indicators is at best tenuous, and frequently there does not appear to be any connection between them. A program that had promoting fiscal and macroeconomic stability as its goals requires indicators that show the relationship between the goals and the reform, but the program indicators included ratings of institutional compliance, the number of taxpayers registered in the database, and payroll audits, all of which had only an indirect relationship with fiscal and macroeconomic stability. The indicator on new business registration, which is of doubtful relevance, was ambiguously specified.

b. M&E Implementation
The MoF and the Ministry of the Economy were responsible for collecting data, monitoring progress, coordinating the supervision of the program. The ICR (p. 16) reports that implementation was hampered by very high staff turnover in the MoF. At appraisal, the staff of the two ministries were expected to play an active role in the implementation of the M&E program, but very high turnover of staff, combined with little familiarity with Bank procedures, hampered them doing so.

c. M&E Utilization
The ICR states (p. 16) that “the operations’ M&E system helped support a results-oriented dialogue with the Government but was not systematically used." It suggests that, given the high staff turnover in the MoF, the Bank team should have been more proactive in monitoring data collection in order to assess progress in achieving program benchmarks.

M&E Quality Rating
Negligible

10. Other Issues

a. Environmental and Social Effects
N/A

b. Fiduciary Compliance
No fiduciary issues were mentioned in the ICR.

c. Unintended impacts (Positive or Negative)
None reported.

d. Other
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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	Substantial	High	Numerous factors, both internal and external, compound risk.
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of ICR		Modest	The ICR fails to identify weaknesses between PDOs and prior actions and rates efficacy on the basis of achieving pillars rather than PDOs

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The following lessons are taken from the ICR (p. 26), with some adaption of language:

Familiarity with Bank processes and procedures is an important component of the counterpart government's effective program implementation and should not be assumed at appraisal. This lack of familiarity can lead to implementation delays in programs where there is an urgent need for funds to be disbursed.

Program design in an environment where capacity is limited and there is high staff turnover requires PDOs and indicator design that take these factors into account. This is especially the case when other donors are actively involved and institutions such as the IMF are monitoring results. Coordinating the use of indicators adds to donor cooperation and can go some way towards offsetting the limited capacity of government counterparts.

Ensuring that prior actions are directly linked to country circumstances increases the probability of successful reform monitoring and raises reform impacts. Reflecting the issue of external shocks in program design can increase program effectiveness.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is generally of good quality and explains the issues clearly. Some of the analysis is cogent. However, it fails to identify the weak links between PDOs and prior actions, although it partly addresses this issue in its discussion of indicators. The observation in the ICR that new business registration increased, which it states was evidence of government performance, does not belong in the government performance section, but rather in the discussion of efficacy. Furthermore, the ICR does not rate efficacy based on achievements of the DPOs, but rather on the pillars of the program.

a. Quality of ICR Rating

Modest