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CHAD

Components: Revenue

Modules: RM II – Revenue Administration

*CHAD***Project Summary****COUNTRY:** Chad**LEAD DEPARTMENT:** FAD**REGION:** Africa**PROGRAM ID:** (To be filled out by Secretariat)**PLANNED DATES:** 5/01/2024 – 4/30/2027**FUNDING PROGRAM TITLE:** GPFP Chad**PROJECT MANAGERS:****RM II /REVENUE ADMIN:** Rene Ossa – R2 Division**PROJECT LEAD MANAGER:** Rene Ossa – R2 Division**ESTIMATED BUDGET** \$1,007,877**BUDGET FOR ENDORSEMENT** \$342,669 (through FY25)

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I. PROJECT PURPOSE

The project will aim primarily at supporting the reforms envisaged under the current extended credit facility (ECF) arrangement and be tailored to the country's fragility and exposure to external shocks. Reforms are essential in Chad to realize the untapped revenue potential and create the necessary fiscal space to scale up growth-enhancing spending. The CD program focuses on non-oil revenue mobilization, namely expanding the tax base and raise efficiency in tax collection. This project will benefit from other CD with FAD that aims to Improve spending efficiency and transparency, including through a reduction of the wage bill and a reform of fuel and electricity subsidies, and public finance management (PFM) reform, particularly implementing the 2022-2027 PFM strategy for improved budgeting procedures, expenditure control, contained use of emergency spending procedures, strengthened treasury management, and scaling up social protection.

Through the revenue administration module, this CD project will focus on strengthening core business tax administration function to strengthen domestic revenue mobilization (DRM). CD will be deployed to (1) establish an effective taxpayer identification numbering system to address compliance problems; (2) reinforce the capacity of the tax administration to cross-check data on a large scale to identify new taxpayers and broaden the tax base; (3) strengthen audit functions to extend coverage and improve audit quality; (4) improve management of tax arrears; and (5) develop a taxpayer compliance program based on risk analysis. Particular attention will be put on economic sectors with large tax potential and requiring specialist capacities.

The three-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this three-year project is \$1,007,877, but endorsement is requested for \$342,669 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

Chad is listed among fragile and conflict-affected states (FCS). A series of shocks have strongly affected Chad's economy and finances. The COVID-19 pandemic, oil price volatility, heightened insecurity, and climate-related shocks have durably impacted growth. Chad remains one of the least developed countries in the world: literacy rate of 35 percent (2021); infant mortality (0-1y): 67 deaths/1,000 live births (2020); maternal mortality: 856 deaths per 100,000 births (2020); life expectancy: 53 years (2020); GDP per capita: US\$ 666.4 (2021). Chad needs to address considerable capacity development needs and advance on crucial structural reforms for economic development and resilience,

A Fund-supported ECF program was approved on December 10, 2021, and is aimed at supporting the recovery from the COVID-19 shock, securing macroeconomic stability, restoring debt sustainability, and supporting green growth and poverty reduction. Reforms are also aimed to create fiscal space, to tackle the country's large developmental needs and to foster inclusive and sustained non-oil growth. To achieve the program's objectives, Chad requires significant CD support for priority reforms.

IMF priority areas / cross-cutting themes

The main areas of focus of CD activities in Chad, since the approval of the ECF program have been PFM and expenditure policy; domestic resource mobilization; and macroeconomic forecasting and statistics. This is in line with key reform priorities under the program including: (i) the streamlining of non-priority expenditures by strengthening wage bill controls and reducing the use of emergency spending procedures; (ii) enhancing the quality of public spending through improved budget preparation more effective public investment management and rationalizing energy subsidies; and (iii) mobilizing non-oil revenue by increasing VAT collection, reducing exemptions and strengthening the capacity of revenue administration. The government has adopted a new roadmap for the political transition which is predicted on additional oil revenue starting 2023 to reimbursing expensive domestic debt, accelerating the reimbursement of domestic arrears, and building fiscal space. The new CD program will continue to encourage the authorities to improve transparency and governance, address risks due to climate change, promote gender inclusivity, and take full advantage of investments in the digitalization.

Country engagement and alignment to reform priorities

The new CD program will aim primarily at supporting the reforms envisaged under the current ECF arrangement and be tailored to the country's fragility and exposure to external shocks. The main weaknesses in domestic tax administration include: (1) a taxpayer register bloated with inactive taxpayers, that does not accurately reflect the active business community; (2) a pervasive informal sector; (3) the team's practice of operating in silos; and (4) difficulties with broadening the tax base due to the weak capacity of the tax offices to exploit available data.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

This project is aligned with the government's priorities and the IMF program to fast-track structural reforms, to increase expenditure quality and enable Chad to mobilize resources more effectively for high priority spending in the medium term.

Through the revenue administration module, this CD project will focus on strengthening core business tax administration function to strengthen domestic revenue mobilization (DRM). CD will be deployed to (1) establish an effective taxpayer identification numbering system to address compliance problems; (2) reinforce the capacity of the tax administration to cross-check data on a large scale to identify new taxpayers and broaden the tax base; (3) strengthen audit functions to extend coverage and improve audit quality; (4) improve management of tax arrears; and (5) develop a taxpayer compliance program based on risk analysis. Particular attention will be put on economic sectors with large tax potential and requiring specialist capacities. Further digitalization of the tax system will support these actions.

This objective will be unfolded by the outcomes summarized below, which will guide the CD strategy.

Objective: Strengthened core tax administration functions:

- A larger proportion of taxpayers meet their filing obligations as required by law;
- A larger proportion of taxpayers meet their payment obligations as required by law;
- Audit and other verification programs more effectively ensure accuracy of reporting; and
- The integrity of the taxpayer base and ledger is strengthened.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue administration (tax)	• Strengthened revenue administration management and governance arrangements (SDG 17.1) • Strengthened core tax administration functions

B. Country Engagement

Chad has achieved successful progress benefiting from two consecutive FAD's Capacity Development (CD) projects: the Tax Policy and Administration Topical Trust Fund (TPA-TTF) one, from FY15 to FY17, and the Revenue Mobilization Thematic Fund (RMTF) one, from FY18 to FY24, which supported a series of reforms in core tax administration functions and revenue administration management and governance arrangements. As a result, the tax administration made evident progress in implementing its reform plan, including: (1) adopting an organization structured along functional lines with strong headquarters functions; (2) extending e-procedures to large and medium-taxpayers; (3) simplifying the tax system for small taxpayers; (4) launching an excess VAT credit refund system; and (5) introducing an online registration procedure. The most notable is the digitalization of the tax system. An e-tax system is in place since January 2023 for the enrollment, declaration, and payment of taxes. Mobile money solutions for tax payments, including for the personal income tax are deployed. A pilot of connected cash registries in about 50 shops for the electronic registration and payment of VAT as well as an e-invoice system is implemented. Connection between the customs and tax IT systems and databases, allowing for the synchronization and simultaneous exchange of information between administrations is developed.

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Authorities have expressed their full appreciation for the continued support from FAD and indicated their strong commitment to reform, notably through the digitalization.

C. Delivery Modalities

The CD delivery will mainly be in-person activities due to internet connection issues. Low capacity of staff will require LTX resources to provide a continued on-the-ground assistance and more hands-on support. The following CD activities will be delivered as a package:

Headquarters-led (HQ) missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other CD providers, and adjust reform implementation plans.

Short-term expert (STX) visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.

Long-term expert (LTX). Two peripatetic LTX will support Chad reforms: (i) a digitalization LTX (serving five African countries including Chad) will assist with furthering the digitalization program, and (ii) a second LTX (covering three countries including Chad) will provide advice and guidance on strengthening tax administration in critical sectors including natural resource, telecommunications, banking and insurance.

D. Coordination / Cooperation

The tax administration is currently receiving FAD CD in tax and customs through AFRITAC Centre. In addition, the World Bank and Rwanda cooperation agency support the ministry of finance respectively in the areas of customs and taxes. Appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. When designing specific country-based activities and workplans, this program will seek to define the emerging challenges in an integrated and coordinated manner.

The authorities will be advised on the need to coordinate CD agencies' support for implementing revenue administration reform. In this respect, concerted actions will be taken to take a full advantage of the Donor Management Matrix for the coordination of development partner CD that has been developed with FAD's assistance.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
General	Resurgence of pandemic hinders CD delivery and changes CD priorities	High	High	Build on progress achieved with remote delivery of CD.
Political Support				
General	Political instability may slow down and even stop implementation of reforms	Very High	High	Focus on both strategic advice and hands-on capacity building to have a more permanent impact. Close consultation with the IM African Department team and the authorities.
Management and Technical Staff Support and Commitment				
Revenue administration (RM II)	Continuous rotation of managers and staff undermine the absorptive capacity and provoke permanent discontinuity.	Very High	High	Encourage authorities to implement administrative reforms and closely monitor projects.
Resource Adequacy				
Revenue administration (RM II)	Resources are misused, nor properly accounted for, do not achieve value for money.	Low	Low	Project resources will be employed in accordance with IMF policies and procedures.
Other risks				
Revenue administration (RM II)	The reform momentum is based on the availability of a modern IT system that is able to support reform management and implementation	Very High	High	Maintain close coordination and collaboration with other technical assistance providers, especially the World Bank to ensure delivery of a modern IT system.

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	Total FY24	Total FY25	Total FY26	Total FY27	Grand Total
RM II - Revenue / Revenue Administration					
HQ-led CD mission	-	1	1	1	3
STX visits	-	3	3	2	8

Note: Regional LTX activities not included

Table 3. First year workplan

Timing		CD Delivery	Proposed Topics of CD
RM II - Revenue / Revenue Administration			
FY25 – Q2	Follow-up	3 STXs (FB)	Modernization of audit function and processes
FY25 – Q3	Follow-up	1 HQ mission (FB)	Assessing the implementation of the reform program

VI. PROGRAM FINANCIALS

	FY25	FY26	FY27	TOTAL (USD)
Direct Delivery	320,251	329,859	291,831	941,941
Module RM I - Tax Policy	0	0	0	0
Module RM II - Revenue Administration	320,251	329,859	291,831	941,941
Module SM I - Spending Policy	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0
Subtotal	320,251	329,859	291,831	941,941
Trust fund management fee (7%)	22,418	23,090	20,428	65,936
TOTAL	342,669	352,949	312,260	1,007,877

The estimated budget for this three-year project is \$1,007,877, but endorsement is requested for \$342,669 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

The CD program will aim at strengthening core administration functions, improving revenue collection and streamlining the way the tax administration interacts with taxpayers. A specific focus is planned on both digitalization and tax enforcement in key sectors. The project will focus its advice on five areas:

- Building a high-integrity taxpayer register. Support will be provided to modernize registration processes and to build a modern and effective registration system.
- Improving on-time filing rates. Substantive work is needed to streamline the filing procedure, riddled with administrative assessment processes. Efforts will be required to reduce compliance costs by providing a more taxpayer friendlier electronic filing system.
- Improving on-time payment rates. The current payment system, based on an unintegrated payment and taxpayer accounting processes, is compromising effective taxpayer and revenue accounting objectives.
- Strengthening the recovery of overdue taxes. Assistance will be provided to strengthen the payment process and to develop a robust arrears collection procedure. The current tax arrears system is compromised by delays to identify debt and cumbersome procedures to enforce payment.
- Improve audit management. To provide the community assurances that the tax system can detect and deal with noncompliant behavior in a timely manner, the DGI will need to quickly build its capacity (numbers of staff, capability of staff, tools available to auditors and audit management) and improve its current efficiency and effectiveness. Strategies will be developed to redirecting tax audits towards taxpayers with the highest risks such illegal exemptions claim, unregistered businesses, unreported business income and over-claimed deductions and rebates, discrepancies from crosschecking amounts reported in tax declarations with information obtained from third parties.

B. Expected Results (outcomes)

The project is expected to achieve the following operational results:

- The integrity of the taxpayer base and ledger is strengthened.
- A larger proportion of taxpayers meet their filing obligations as required by law.
- Audit and other verification programs more effectively ensure accuracy of reporting.
- A larger proportion of taxpayers meet their payment obligations as required by law.

C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1)	
Outcomes	Indicators
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration.
Objective	
Strengthened core tax administration functions	
Outcomes	Indicators
The integrity of the taxpayer base and ledger is strengthened.	Knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures (TADAT POA1-2)
A larger proportion of taxpayers meet their filing obligations as required by law.	On-time filing ratio improved (TADAT 2019 POA4-12).
A larger proportion of taxpayers meet their payment obligations as required by law.	On-time payment ratio improved (TADAT 2019 POA5-17)
Audit and other verification programs more effectively ensure accuracy of reporting.	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2019 POA6-19)