



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 30-May-2018 | Report No: PIDISDSC23429



BASIC INFORMATION

A. Basic Project Data

Country Chad	Project ID P164529	Project Name Chad Domestic Resource Mobilization and Management	Parent Project ID (if any)
Region AFRICA	Estimated Appraisal Date 02-May-2018	Estimated Board Date 06-Jul-2018	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Republic of Chad	Implementing Agency Ministère des Finances	

Proposed Development Objective(s)

To improve performance, processes, and transparency in key government entities for revenue mobilization.

Components

- Component A. Results-based Financing to Support Change Management in Customs and Tax administrations
- Component B. Technical Assistance to Strengthen Revenue Agencies
- Component C. Project Management and Coordination

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	35.00
Total Financing	35.00
of which IBRD/IDA	35.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	35.00
IDA Grant	35.00



Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Economic shocks in the past years have adversely affected economic growth and public finances in Chad.** Chad, a large, landlocked, and fragile country dependent on petroleum revenue, went into recession when oil prices plunged at end-2014 and Government expenditures had to be cut. Real gross domestic product (GDP) fell by 6.4 percent in 2016 and is expected to contract by 2.7 percent in 2017 compared to an average growth rate of 6.3 percent during 2013–14. Total Government revenue (including grants) decreased from 23.2 percent of non-oil GDP in 2014 to 14.9 percent in 2016 and, with the rise in oil prices, is expected to rise to 17.4 percent in 2017. Concurrently, deteriorating security conditions around Lake Chad adversely affected livestock exports to Nigeria—Chad’s second-largest source of foreign exchange—and the depreciation of the Nigerian naira contributed to a worsening trade balance.¹
- 2. These external and fiscal pressures portend a reversal of some of the poverty gains made in the recent past.** Persistently low oil price and the deterioration of the security situation is expected to raise the poverty rate from 34.3 percent in 2015 to an estimated 40.7 percent by 2019. A 3 percent annual population growth between 2003 and 2011 has resulted in a 15 percent increase in the absolute number of poor people. Over the same period, an increase in inequality has been estimated (the Gini coefficient in Chad was 0.43 in 2011). Against this backdrop, the World Bank projects that the absolute number of poor people will rise from 4.7 million to 6.3 million between 2012 and 2019².
- 3. Chad has an immediate and persistent need to further improve liquidity and receive substantial external support to close its financing gap, especially for 2018–20.** The estimated 2016 fiscal deficit (including grants) amounted to 5.5 percent of non-oil GDP and is estimated to –1.5 percent of non-oil GDP in 2017 due to rising oil revenues and improved budget management. The repayment of an oil collateralized loan, amounting to 85 percent of oil revenues in 2016, has left the Government illiquid, with external and domestic arrears buildup and Chad is officially in external debt distress³. Given the fiscal space and the constraints of the Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l’Afrique Centrale*, CEMAC), Chad relies exclusively on debt restructuring and

¹ Figures taken from the recent macroeconomic assessment as provided by the Economic Recovery and Resilience Development Policy Operation (DPO) series.

² Country Partnership Framework for the Period FY16–20. Report No. 95277-TD.

³ World Bank and IMF 2017 Debt Sustainability Analysis



development partners to close its substantial 2018–20 financing gap. Even with budget support from multilateral and bilateral donors, Chad will need to postpone arrears payments, receive additional external financing or reduce expenditures to close its 2017 financing gap.

4. **The Government has responded to the challenges facing the country by pursuing an aggressive fiscal consolidation program.** In early 2016, the authorities introduced cash-based budgeting and adopted an Emergency Fiscal Plan aimed at mitigating the short-term impact of the crisis. The Government cut total public spending from 29.4 percent of non-oil GDP in 2014 to 18 percent in 2016. Domestically financed public investment fell from 9.8 percent of non-oil GDP in 2014 to 1.1 percent in 2016, while recurrent spending dropped from 16.6 percent to 14.3 percent. The payment of civil-service salaries was delayed by three months at the end of 2016. Domestic arrears increased to about 3 percent of non-oil GDP at end-2016, reflecting the contraction of non-oil GDP as nominal stock of arrears remained at about US\$340 million, broadly unchanged from end-2015. In 2017, domestic arrears are expected to stand at about XAF 138 billion which is about 2.37 percent of GDP.

Sectoral and Institutional Context

5. **Raising domestic revenues as well as harnessing the Information and Communication Technology (ICT) and the petroleum sectors remain critical challenges to the achievement of the Vision 2030 and the 2017–21 National Development Plan.** In 2016, non-oil revenue represented only 6.8 percent of GDP, significantly lower than the CEMAC and Sub-Saharan Africa averages (11.3 percent and 13 percent, respectively). This reflects weaknesses in tax policy and administration as well as lack of capacity and insufficient oversight in the customs administration resulting in significantly under-collected tax and customs revenues. Governance challenges hinder the development of the Information and Communication Technology (ICT) sector and its revenue generation potential. Finally, poor governance of the petroleum sector has resulted in loss of revenue and inefficiency. The institutional context of these four key areas is further developed below and addressed as the core components of the proposed project.

6. **The Government has since 2016 introduced tax policy reforms to simplify the system, reduce tax rates, and broaden the tax base.** The new tax code enacted in July 2016 to simplify an overly complex tax legislation, reduce high tax rates and improve transparency by providing a consolidated tax law available to taxpayers. Tax exemptions are significant and reduce the tax base. An audit of exemptions to assess the fiscal losses embedded in the Tax Exoneration Agreements revealed significant anomalies and losses amounting to US\$277 million (XAF 166 billion, equivalent to 2.7 percent of 2015 GDP) worth of tax exemptions granted in 2015 and multiple anomalies in their application. In response to the audit, the Government terminated some of the agreements and strengthened the conditions under which such new exemptions are granted. These legal and administrative arrangements have yet to yield results. Also, the investment code, still needs to be aligned with the general tax code and/or CEMAC directives.⁴

7. **The tax administration's capacity to identify taxpayers, collect payments, and manage risks remains limited.** The Doing Business Report ranks Chad 189 out of 190 on the ease of paying taxes, with firms making an annual average of 54 tax payments and spending 766 hours preparing, filing, and paying taxes. Underlying this poor performance is the fact that computerization of Tax Administration is still very

⁴ Article 154 of the Tax Code and *Arrêté portant création d'une commission tripartite*. It is not clear today whether the new legal and administrative arrangements recently adopted offer a substantial improvement in this regard.



limited and is not wholly interfaced with the department responsible for the collection of the main taxes (*Direction Générale du Trésor et de la Comptabilité Publique* [DGTCP]). Likewise, the launching of the Standard Integrated Government Tax Administration System (SIGTAS) in 2015, financed by the Government of Chad (GoC), remains incomplete. Finally, human resources management (HRM) is poor because of the high turnover of management from director level and above, low investment in professional training, and lack of internal control and performance-based management. A poorly administered value added tax (VAT) compounded by an overly complex tax legislation and a plethora of exemptions also contributes to the low collection

8. **The effectiveness of customs administration further impedes revenue collection.** In 2016, the overall shortfall recorded by the *Direction Générale des Douanes et Droits Indirects* (DGDDI), through Customs ICT Management System (Automated SYstem for CUstoms Data [ASYCUDA])⁺⁺ or through manual procedures, amounted to XAF 140 billion (or 2.34 percent of GDP), while for the same year, overall customs revenue was XAF 123.5 billion (representing 2.06 percent of GDP).⁵ Import of goods in Chad undergoes a complex system of overlapping inspections: physical inspections are made for 100 percent of import and exports and the same goods may be inspected by border control officers, regional customs branches, and the special customs police (brigade mobile) manual procedures, including manual collections, are the norm since not all branches and border crossing are equipped with ASYCUDA. Such practices generate opportunities for irregular procedures, bypassing efforts for correct collection and significantly increasing costs for traders, with long delays in merchandise clearance. The Logistics Performance Index (LPI)⁶ ranks Chad 145 out of 147 countries surveyed and the lowest performer on customs in Africa. Chad also stands at 171 out of 190 in the 2017 Doing Business Indicators on the ease of trading across borders, as shown in Table 1.

Table 1. 2017 Doing Business Report: Chad’s Customs Performance

	Chad	Sub-Saharan Africa
Time to export: Border compliance (hours)	106	103
Cost to export: Border compliance (USD)	319	583
Time to export: Documentary compliance (hours)	87	93
Cost to export: Documentary compliance (USD)	188	230
Time to import: Border compliance (hours)	242	144
Cost to import: Border compliance (USD)	669	676
Time to import: Documentary compliance (hours)	172	107
Cost to import: Documentary compliance (USD)	500	320

Source: Doing Business database.

Note: Although Chad performs better than the region on export procedures, it is lagging on imports’. The latter are usually more complex and costly than those of exports. It is also often the case that main importers are the same main exporters thus increasing trading complexity and costs of Chadian exports/imports among the other countries in the region.

⁵ The ++ indicates software upgrades to the original system.

⁶ Source: www.worldbank.org/lpi. The LPI is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI 2016 allows for comparisons across 160 countries, including specific data for customs performance.



9. **Supported by the IMF, the customs directorate has developed a 2017–21 performance action plan.** Key activities include (a) upgrading to a web-based customs management system, connecting all branches and control points; (b) building capacity of staff, including training on system use, customs matters, and audit capacities; (c) implementing controls based on risk management and post-audit efforts; (d) interfacing with the tax administration to improve VAT control; and (e) improving infrastructure, particularly in regional offices and border posts. Concurrently, the Government is working with the World Bank to address infrastructure challenges through an ongoing project for west and central Africa to link customs transits, including the Chad-Cameroon corridor electronic connection and the central office and borders' crossing in N'Djamena.

10. **The performance of the ICT sector in Chad is among the poorest in the world and in Sub-Saharan Africa due to limited institutional capacity, inadequate tax policies and insufficient international connectivity.** At least 15 percent of the population is not covered by any mobile signal while around 75 percent is not covered by mobile broadband; the mobile penetration rate is increasing at a relatively moderate pace, going from 40 percent to 60 percent in four years (end of 2013 to end of 2017).⁷ Mobile phone services dominate the ICT sector, but prices remain high and quality of service is poor. The public institutions tasked with governing the sector are characterized by low institutional capacity. The Universal Service Fund (*Fonds de Service Universel pour les Communications Electroniques*, FSUCE) has not fulfilled its mission to extend rural mobile connectivity. The ICT tax system is suboptimal given the size of the sector and a recent increase on the taxation of the sector has worsened the situation. and the lack of options for international connectivity has led to high prices. Finally, international connectivity is limited, with only one operational fiber linking Chad to the SAT-3 submarine cable via Cameroon.

11. **Revenue mobilization from the petroleum sector is hampered by insufficient sector oversight, limited financial management and the absence of a cadaster.** The transactions associated with the petroleum sector are large and technically complex. Weak oversight results in information asymmetry and lack of knowledge for the relevant Government entities, which in turn leads to suboptimal transactions and increased opportunities for revenue leakages. The direct participation of the *Société des Hydrocarbures du Tchad* (SHT) in petroleum operations should help reduce information asymmetries in relation to private operators. By gaining first-hand information on the operational and financial conditions facing private operators, the SHT could establish a benchmark against which to assess private operators' performance. However weak internal controls and limited experience greatly diminish the SHT's ability to play this role effectively. The lack of a functioning accounting and reporting system greatly hampers the SHT's ability to effectively and efficiently manage petroleum operations. Furthermore, infrequent and inadequate audits do not allow to ascertain the accuracy of the information provided by companies. Finally, the absence of a functioning petroleum cadaster and contract management system hampers the GoC's capacity to ensure the rational and transparent exploitation of the country's petroleum potential.

C. Proposed Development Objective(s)

A. PDO

12. The Project Development Objective (PDO) is "To improve performance, procedures, and

⁷ As points of comparison, the Sub-Saharan Africa region as a whole went from 40 percent to 60 percent penetration rate in three years (40 percent in Q2 2010–60 percent in Q2 2013), which is the same pace for the Central Africa region (40 percent in Q3 2012–60 percent in Q3 2015).



transparency in key government entities for revenue mobilization.”

B. Project Beneficiaries

13. The main direct project beneficiaries include (a) the MoFB and its key departments including the tax department (*Direction des Impôts*) and customs (*Direction des Douanes*), who will develop, with the support of the project, information and oversight tools for revenue mobilization; (b) the MPE whose capacity to oversee petroleum operators will be boosted through audits and the development of a petroleum cadaster and contract management system; (c) the SHT, who will benefit from improved decision making and oversight capacity through the establishment of an integrated management information system (MIS); (d) the MPNTIC and its agencies who will benefit from TA to improve the fiscal performance of the sector and increase their decision-making capacities; and (e) taxpayers who will benefit from enhanced services through the DGI and DGDDI portals.

14. Indirect beneficiaries will include (a) the general population of the Chad, who will benefit from increased tax and revenue collection and affordable access to mobile telephony; (b) communities in rural areas who will benefit from enhanced mobile penetration rate; and (c) the private sector through their participation in the National Trade Facilitation Committee, to facilitate both domestic coordination and implementation of provisions of the World Trade Organization (WTO) Trade Facilitation Agreement and through performance satisfaction surveys on key aspects of tax and customs administration.

Development Objective(s) (From PAD)

To improve performance, procedures, and transparency in key government entities for revenue mobilization.

Key Results

15. The key results expected from the implementation of this project are the following:
- (a) Increase in tax and customs revenue collection (excluding revenue from property taxes) relative to non-oil GDP
 - (b) Increase transparency of the SHT’s operations in the petroleum sector.⁸

D. Project Description

16. The project includes three components: (a) Results-based financing to support change management in customs and tax administration (US\$12,000,000) through the provision of incentives to achieve results along two subcomponents: improve tax administration and policy and improve customs’ administration; (b) Technical assistance to strengthen revenue agencies (US\$21,250,000) namely tax, customs, petroleum, and telecom administrations; and (c) Project management and coordination (US\$1,750,000). Component A will disburse against agreed eligible expenditures upon achievement of Disbursement-linked Indicators (DLIs). Component B will disburse against eligible expenditures in accordance with applicable procedures. The two Components are complementary, and combine technical assistance to build capacity, establish systems and procedures (Component B), with incentives for the use of such systems and procedures to achieve the project’s results (Component A). Activities that are the

⁸ Which will lead to and be measured by the publication of audited financial statements starting in year 4 of the project.



object of DLRs in Component A will not be financed under Component B.

A. Project Components

Component A. Results-based Financing to Support Change Management in Customs and Tax administrations (US\$12,000,000)

17. **This component is designed to support the implementation of critical tax and customs reforms, by creating incentives for DGI, DGDDI, and the MoFB to achieve agreed results as described below.** A detailed description of the mechanisms is provided in Annex 1. Achievement of the DLIs and eligibility of related expenditures will be subject to an independent verification before the World Bank's disbursement as detailed in Annex 2. The Technical Secretariat of the Action Plan for the Modernization of Public Finance Management (ST-PAMFIP) will hire the independent verifier annually to that end. Details on the verification protocol are set forth in Annex 2, and will be included in the Project Implementation Manual (PIM).

- (a) **A.1. Support the utilization of a unified taxpayers' registry for enterprises (US\$1,300,000).** This activity incentivizes the gradual use of the unified taxpayers' registry and complements the technical assistance activity provided under component B to put in place procedures to manage the registry. It is intended to overcome the difficulty associated with the current proliferation of taxpayers' registries and their reliability. This activity comprises three phases: in the first year a census of taxpayers will be carried out to provide the baseline for the design and operation of the registry. In the second year the regulatory framework will be finalized and. From the third year, the DGI is expected to progressively populate the registry.
- (b) **A.2. Support the gradual adoption of electronic filing by large taxpayers (US\$1,200,000).** This activity incentivizes the gradual adoption and implementation by the DGI of procedures for the automation of tax filing made by large taxpayers. Electronic filing will be implemented in two phases: in the second year, mechanisms for electronic filing will be set up by the DGI through the project TA (component B). During the following two years, electronic filing will be progressively rolled out among large taxpayers. This will contribute to reducing administrative and compliance cost, as well as improving the efficiency of tax reconciliation and collection. Efficiency gains and taxpayers' convenience brought about by this sub-component are expected to result in a cultural change, which will be self-supporting in subsequent years.
- (c) **A.3. Support the roll out of mandatory tax payment by large taxpayers through the banking system (US\$ 1,500,000).** The sub-component incentivizes the preparation and issuance by MoFB of mandatory payment instructions for large taxpayers to pay through the banking system, and the progressive uptake of tax payment through the banking system in year 3 through 5 of the project. This measure will reduce the public sector's administrative costs linked to the registration, certification, and reconciliation of payments by taxpayers, and will ensure that treasury, tax, and customs payment systems are automatically updated. The elimination of cash payment will also reduce rent-seeking opportunities.
- (d) **A.4. Support the gradual adoption of pay-by-phone by Small Taxpayers (US\$1,000,000).** This activity incentivizes the progressive use of pay-by-phone mechanisms to facilitate the payment of taxes by small taxpayers. Under component B, the project will support the development of pay-by-phone mechanism, while this sub-component will reward the gradual use of pay-by-



phone from zero to 20% by end of project. This tool will improve efficiency of tax collection, particularly in rural and geographically dispersed areas. This together with taxpayers' convenience brought about by this sub-component, are expected to result in a cultural change, which will be self-supporting in subsequent years.

- (e) **A.5. Reduce the number of physical inspections of imported merchandise (US\$ 3,500,000).** This activity incentivizes the gradual achievement of results in reducing the number of physical inspections of merchandise from the current high level of more than 200 percent to no more than 50 percent by end of the project period. While the technical assistance under component B will support enhanced customs' controls activities, through in particular, the design and adoption of risk management-based procedures, the utilization of scanners, on line filing, and enhancing the coordination among the various border control authorities, this sub-component will reward the gradual relinquishing of the parallel redundant physical inspections.
- (f) **A.6. Reduce release time for imported merchandise (US\$3,500,000).** Inefficient merchandise handling and control procedures also result in long delays in clearance, which increase the cost of cross-border trade. While component B will support the introduction of modern controls and the close coordination among the various stakeholders, there is a risk that parallel processes and lack of observance of good practice standards perpetuate redundancies in procedures and continue the parallel processes in clearing merchandise. This sub-component incentivizes the adoption of regulations mandating the use of procedures for risk-based inspection, and the gradual elimination of parallel and redundant controls and is expected to lead to a reduction in merchandise release time by 21 percent over the duration of the project.

18. *Eligible Expenditure Programs (EEPs).* An analysis of the program budget identified the following EEPs as suitable for project financing: salary and wages, training, and operating costs. EEPs comprise non-procurable items only. Total EEPs and disbursement by year is shown in Table 2.

Table 2: Eligible Expenditure Programs^a

Identified Eligible Expenditure Program	Revised Finance Law 2017	Eligible Expenditure Amount (US\$ million)						
		CY 17	Year 1	Year 2	Year 3	Year 4	Year 5	Total
EEP Budget								
Tax Administration:	690.1	690.1	690.1	690.1	690.1	690.1	690.1	3,450.5
Salaries and Benefits (XAF billion)	481.8	481.8	481.8	481.8	481.8	481.8	481.8	2,409.0
Other Expenditure (XAF billion)	209.1	209.1	209.1	209.1	209.1	209.1	209.1	1,045.5
Customs Administration	1,885.6	1,885.6	1,885.6	1,885.6	1,885.6	1,885.6	1,885.6	9,428.0
Salaries and Benefits (XAF billion)	1,813.3	1,813.3	1,813.3	1,813.3	1,813.3	1,813.3	1,813.3	9,066.5
Other Expenditure (XAF billion)	72.3	72.3	72.3	72.3	72.3	72.3	72.3	361.5
Total (XAF billion)	2,575.7	2,575.7	2,575.7	2,575.7	2,575.7	2,575.7	2,575.7	12,878.5
Disbursements of Grant Component 1^b								
US\$ Million		2.0	2.8	2.8	2.2	2.2		12
XAF Billion		1,185.40	1,659.56	1,659.56	1,303.94	1,303.94		7,112.40



DLI as percentage of EEP		46%	64%	64%	51%	51%	55%
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^a The table assumes zero increase in expenditure from the revised budget law 2017.

^b Grant disbursement is converted using a constant exchange rate of 592.7 XAF to US\$.

Component B. Technical Assistance to Strengthen Revenue Agencies (US\$21,250,000)

19. This component will provide specialized TA, including technical experts for each area of intervention, to improve transparency, and increase accountability of the tax and customs administrations, petroleum, and telecom for revenue mobilization and management. This component will also support and track citizen’s engagement through the various surveys embedded in the tax, customs, and ICT activities, and will establish robust mechanisms to ensure that the feedback will be acted upon. This component will involve the main activities described in the following paragraphs.

Subcomponent B.1. Improve Tax Administration and Policy (US\$5,350,000)

20. This subcomponent brings TA and support to Chad’s tax administration to modernize its organization and processes, improve the quality of service, and expand its revenue base through the following activities:

- (a) **B.1.1. Develop and implement a tailored information technology (IT) strategy** aimed at computerizing tax offices in N’Djamena with substantial revenue potential, interface sites, and develop an automated exchange of data between DGI, DGDDI, and DGTCP.
- (b) **B.1.2. Support the design and implementation of a tailored performance contract between the DGI and the MoFB.** This activity supports the design and implementation of performance contracts intended to contractually commit DGI to a certain level of performance, in return for the MoFB’s commitment to grant DGI adequate budget to support its activities and reward high-performance agents. This tool can be an effective leverage for the introduction of a performance culture.⁹
- (c) **B.1.3. Reinforce the capacity of DGI to manage the taxpayers’ registry.** Reinforce the capacity of DGI to identify taxpayers and to manage and secure the taxpayer registry, which will involve the harmonization of enterprises identification number used by the Chadian administration, and scoping and potential implementation of a biometric ID system for sole proprietors in N’Djamena. Activities that are object of DLRs under sub-component A.1 (namely, the conduct of a taxpayer census in N’Djamena, the preparation and issuance of regulation mandating the use of a unified identification number for tax payers and the use of a single taxpayer registry by all agencies in the country) will not be financed by this activity.
- (d) **B.1.4. Support the introduction of modern modalities for filing and payment of taxes.** This activity will support the development of electronic filing system of core taxes (for example, corporate incomes tax [CIT], VAT, personal income tax [PIT], pay-as-you-earn [PAYE], and

⁹ See, for instance, governance notes September 2017, number 2 ‘Preliminary Report on the Implementation of Performance Contracts in the Customs Administration in Madagascar’.



other tax withheld)¹⁰ for large-scale taxpayers as well as payment by phone of taxes for smaller-scale taxpayers. The preparation and issuance of mandatory payment instructions for large tax payers that are object of DLRs under sub-component A.2 will not be financed under this activity.

- (e) **B.1.4. Conduct a tax policy survey to support the MoFB' efforts to address gaps in the tax legislative framework, including through the forthcoming 2018 Finance Law.** This activity is included in the PPA and involves TA through consultancy. It is aimed at ensuring that tax policy gaps are progressively closed by the MoFB consistently with the recommendations made by development partners. Special consideration should be given to the new legal and administrative framework regarding exemptions granted through the 'Charte des Investissements'.
- (f) **B.1.5. Technical assistance expertise for DGI.** A tax expert will play a strategic role and will be responsible for ensuring the coordination between the ST-PAMFIP and the focal point of the DGI. The expert will oversee the implementation and ensure quality of subcomponent B.1 and of activities related to the DGI in subcomponent B.3.

Subcomponent B.2. Improve Customs Administration (US\$6,000,000)

21. The objective of this subcomponent is to strengthen the efficacy of the customs administration including through the wider use of a more robust IT system. Currently, import of goods in Chad undergoes a complex system of overlapping inspections: physical inspections are made for 100 percent of import and exports and the same goods may be inspected by border control officers, regional customs branches, and the special customs police (brigade mobile) manual procedures, including manual collections, are the norm since not all branches and border crossing are equipped with ASYCUDA. Such practices generate opportunities for irregular procedures, bypassing efforts for correct collection and significantly increasing costs for traders, with long delays in merchandise release. To tackle these challenges the project will finance, among other things, TA to the DGDDI to redesign the main customs processes and procedures manuals, to upgrade the ASYCUDA++ system, and to finance a technical expert to oversee the implementation and quality of activities under subcomponent B.2 and activities related to the DGDDI in subcomponent B.3. The preparation of regulation to be issued by the MoFB mandating the adoption of risk based inspections procedures, which is object of DLRs in sub-component A.6, will not be financed by this component.

Subcomponent B.3. Increasing Transparency and Accountability of Revenue Agencies (US\$2,150,000)

22. The objective of this subcomponent is to address control, transparency, and corruption challenges in key revenue agencies to increase tax revenues and support an improved business climate and economic growth. To this end, this subcomponent will finance the following activities:

- (a) **B.3.1. Strengthen the internal audit function in DGDDI and DGI.** This activity finances TA and capacity building to improve the internal audit function of the DGDDI.

¹⁰ CIT, VAT, PIT, PAYE, that is, income tax withheld by the employer and deducted from wages.



- (b) **B.3.2. Improve transparency.** Support DGI/DGDDI efforts to develop and enrich their websites' content (including provision of information on the tax calendar, taxpayer obligations, customs procedures, traders' rights, and so forth).
- (c) **B.3.3. Improve taxpayers outreach.** Support communication campaigns on tax and customs obligations and procedures to improve voluntary compliance and tax and customs management.
- (d) **B.3.4. e-Payments.** develop an electronic payments mechanism for tax and customs declarations.
- (e) **B.3.5. Surveys on service performance.** This activity will support the implementation of Service Performance Surveys for the tax and customs administrations).

*Subcomponent B.4. Address Fiscal Challenges and Improve the Oversight of the ICT Sector
(US\$1,500,000)*

23. This subcomponent is designed to address two bottlenecks in the telecom sector that affect public revenue mobilization. Currently the expansion of telecom services as well as their potential to mobilize revenues are hampered by excessive taxation and levies on telecom services. Revenues are also hampered by low access in rural areas. The sub-component will contribute to assess the adequacy of the current fiscal regime for telecom service revenue, and support the expansion of rural services. These areas are expected to contribute to improve Chad's ability to generate and manage fiscal revenues. To achieve these results, the following activities have been identified:

- (a) **B.4.1. ICT fiscal regime performance assessment.** Carry out an interministerial (MoFB and MPNTIC) fiscal performance assessment on the telecommunications sector through the assessment of the current fiscal regime's impact on the private sector and of sectoral agencies.
- (b) **B.4.2. Operationalization of the universal service fund.** Support the operationalization of the FSUCE managed by the public agency ADETIC, with the implementation of pilot projects to extend the geographical coverage of mobile services in uncovered rural areas.
- (c) **B.4.3. Institutional strengthening to support the implementation and oversight capacity of the MPNTIC to foster national and international connectivity.** Support the increase in national and international connectivity by strengthening the MPNTIC's institutional capacity to oversee the implementation and the open access for all the GoC's fiber optics infrastructure and support the liberalization of the international gateway.

Subcomponent B.5. Improve the Management and Control of Revenue Generation in the Petroleum Sector (US\$6,250,000)

24. This subcomponent is designed to strengthen the GoC's capacity to assess and manage petroleum revenue and modernize the SHT's internal accounting and MIS. Activities financed under this subcomponent are expected to lead to enhanced transparency and revenue management capacity. To



achieve these objectives, the project will support the following activities:

- (a) **B.5.1. Assessment of effectiveness of Law N. 2/2014 on the management of petroleum revenue and design of alternative revenue management mechanisms.** This activity will support the assessment of the performance of Law N.2/2014 and its adequacy to support fiscal policy in alternative revenue scenarios and the development of a new revenue management mechanism or amendment to the current mechanism.
- (b) **B.5.2. Establishment of a petroleum revenue model.** The ability to forecast more accurately revenue generated from petroleum activities is critical to the design of sustainable fiscal policies. This activity will support the elaboration and establishment of a petroleum revenue model.
- (c) **B.5.3. Establishment of a petroleum cadaster and petroleum contract management system.** This activity will support the development and implementation of a petroleum cadaster and geographic information system (GIS) and integrated petroleum registry.
- (d) **B.5.4. Audit of petroleum operations.** This activity will finance the audit of petroleum operations of three major petroleum-producing companies and will include support to the MPE for the discussion of the management letters with the audited companies and implementation of agreed corrective measures.
- (e) **B.5.5. Audit of the joint accounts of SHT.** This will support the audit of the joint accounts of the SHT with four petroleum companies over the period 2015–16.
- (f) **B.5.6. Identification of cost comparators.** Based on the results of the audits financed by this project and industry experience, this activity will finance the identification of cost comparators for the main exploration, development, and production cost categories to be used for benchmarking operations and forecasting petroleum revenue.
- (g) **B.5.7. Establishment of an integrated MIS for the SHT.** This activity will support the review and assessment of reporting and information systems needs of the SHT and the implementation of an accounting and MIS.
- (g) **B.5.8. Technical assistance expertise for the MPE.** A national or international oil expert will play a strategic role and will be responsible for ensuring the coordination between the ST-PAMFIP and the focal point of the MPE. The expert will oversee the implementation and ensure quality of subcomponent B.5.

Component C. Project Management and Coordination (US\$1,750,000)

25. **This component will support the ST-PAMFIP—a dedicated Project Implementation Unit embedded in the MoFB—to undertake project management**, in accordance with the World Bank’s fiduciary and other guidelines, including incremental operating costs, equipment, training on fiduciary and project management issues, project audits, and engagement of technical experts to provide technical expertise on project performance monitoring and planning. This component will also support the development of a change management strategy, communication strategy, PIM, Procurement Plan for the



first 18 months, and will include a contingency for unanticipated costs and project activities. A technical expert will be supporting will be supporting the implementation of subcomponent B.4. The ST-PAMFIP will also be responsible for the annual hiring of the DLIs' verifier in accordance with ToRs agreed to by the World Bank.

B. Project Cost and Financing

Project Component	Project Cost (US\$)	IBRD or IDA Financing (US\$)	Trust Funds (US\$)	Counterpart Funding (US\$)
Component A: Results-based Financing to Support Change Management in Customs and Tax administrations	12,000,000	12,000,000	0	0
Subcomponent A.1: Support the utilization of a unified taxpayers' registry for enterprises	1,300,000	1,300,000	0	0
Subcomponent A.2: Support the gradual adoption of electronic filing by large taxpayers	1,200,000	1,200,000	0	0
Subcomponent A.3: Support the roll out of mandatory tax payment by large taxpayers through the banking system	1,500,000	1,500,000	0	0
Subcomponent A.4: Support the gradual adoption of pay-by-phone by Small Taxpayers	1,000,000	1,000,000	0	0
Subcomponent A.5: Reduce physical inspection of imported merchandise	3,500,000	3,500,000	0	0
Subcomponent A.6: Reduce Merchandise Release Time	3,500,000	3,500,000	0	0
Component B: Technical Assistance to Strengthen Revenue Agencies	21,250,000	21,250,000	0	0
Subcomponent B.1: Improve Tax Administration and Policy	5,350,000	5,350,000	0	0
Subcomponent B.2: Improve Customs Administration	6,000,000	6,000,000	0	0
Subcomponent B.3: Increasing Transparency and Accountability of Revenue Agencies	2,150,000	2,150,000	0	0
Subcomponent B.4: Address Fiscal Challenges and Improve the Oversight of the ICT Sector	1,500,000	1,500,000	0	0
Subcomponent B.5: Improve the Management and Control of Revenue Generation in the Petroleum Sector	6,250,000	6,250,000	0	0
Component C: Project Management and Coordination	1,750,000	1,750,000	0	0
Total Project Costs	35,000,000	35,000,000	0	0
Front-end Fee	0	0	0	0
Total Financing Required	35,000,00	35,000,00	0	0

E. Implementation



Institutional and Implementation Arrangements

26. The institutional and implementation arrangements for the project will harness the capacity created by previous projects, with some modifications aimed at better aligning responsibilities and building ownership, knowledge, and sustainability among beneficiary units and ministries

27. **The MoFB will be responsible for the overall coordination and implementation of the project, including the drafting of annual work programs and budgets of the project.** The technical departments of the main participating ministries (MoFB, MPE, MPNTIC), through their focal points, will participate in the drafting of ToRs, the definition of technical designs, and the oversight of consultant deliverables and installation of goods and works. Being the ultimate beneficiaries, the technical departments will also hold final responsibility for quality assurance of deliverables. The MoFB will prepare progress implementation reports for the project four times a year in a format and content acceptable to the World Bank. The MoFB will resolve any conflicts that may arise between the different entities involved in the implementation of the project.

28. **A Steering Committee will be in place to oversee the project, facilitate its sustainability and mainstreaming of its activities into the relevant ministries, departments, and agencies.** The committee will be responsible for overall strategic planning and overall program development, coordination across the project to ensure links in interrelated activities, and monitoring of progress. The committee will be chaired by the Director General (DG) of the MoFB. Members of the committee will include the project coordinator, technical expert(s), directors of departments and agencies of the MoFB, MPE, MPNTIC, and SHT. The committee will meet on a quarterly basis, and more frequently as needed, depending on the pace of project implementation. The committee will report to the Minister of Finance. The committee shall not intervene in day-to-day management of the project, which is the sole responsibility of the ST-PAMFIP.

29. **A dedicated project implementation unit named ST-PAMFIP (which was created under the Public Financial Management Capacity Building Project, P090265) will be responsible for day-to-day project implementation activities, including procurement, disbursement, financial management (FM), and M&E.** The ST-PAMFIP is a government entity embedded in the MoFB under the direct oversight of the DG of the MoFB. It has the responsibility of implementation of World Bank and other donor projects that are under the direct responsibility of MoFB, mainly related to public financial management (PFM) reforms. The head of the ST-PAMFIP will be the project coordinator, who will report directly to the DG of the MoFB. Key staff within the ST-PAMFIP are expected to have the required experience and skills to effectively manage the activities of the project. In addition to its fiduciary responsibilities, the ST-PAMFIP's main functions are to ensure that the project work plans are properly coordinated and implemented by the different agencies and departments involved. The ST-PAMFIP will be strengthened by additional national and international experts as necessary. Embedded within the ST-PAMFIP will be a set of technical experts who will play a coordination role between the ST-PAMFIP and the technical departments in the beneficiary units and ministries. These technical experts are expected to play a strategic role and will be responsible for working with technical departments within the relevant beneficiary unit or ministry to draft ToR, oversee implementation, and ensure quality control. The ST-PAMFIP will also compile a biannual (six months) implementation progress report for submission to the World Bank and Interim Financial Reports (IFRs) on a quarterly basis.

30. **PPA.** A PPA has been processed to finance activities that are necessary for the preparation of the



project, including (a) the preparation of a baseline study, (b) the updating of the Operations Manual, (c) the recruitment of key staff and experts and strengthening of the STP-PAMFIP, and (d) the preparation of ToR for activities whose implementation is envisaged within the first 18 months of the project. The project implementation unit of the Chad Education Sector Reform Project Phase 2 (P132617) will provide temporary assistance for project preparation and management of the fiduciary aspects of the PPA while the ST-PAMFIP is being strengthened.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Project activities will mostly take place in N'Djamena, the state capital. Activities related to trade and border control will focus on the main port of entry, Douala in Cameroon. Another location may be identified during project implementation, based on activity levels and economic relevance.

G. Environmental and Social Safeguards Specialists on the Team

Cheikh A. T. Sagna, Social Safeguards Specialist
Emeran Serge M. Menang Evouna, Environmental Safeguards Specialist
Mahamadou Ahmadou Maiga, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	



Projects in Disputed Areas OP/BP 7.60 No

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Not applicable

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The Project is identified under Safeguards Category C, implying that the environmental and social impacts are not anticipated. Based on the information provided until this stage, the Project does not trigger any World Bank safeguard policy.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Not applicable

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Not applicable

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Not applicable

B. Disclosure Requirements

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA



All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA

CONTACT POINT

World Bank

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Silvana Tordo
Lead Energy Economist

Borrower/Client/Recipient

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Implementing Agencies

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APPROVAL

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Approved By

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Country Director:	Michael Hamaide	29-Jun-2018