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Report No: PAD2575

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 24.4 MILLION

(US$35 MILLION EQUIVALENT)

TO THE

REPUBLIC OF CHAD

FOR THE

DOMESTIC RESOURCE MOBILIZATION AND MANAGEMENT PROJECT

May 30, 2018

Governance Global Practice
Energy and Extractive Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2018)

Currency Unit =	XAF
XAF 793.41 =	US$1
US$1 =	SDR 0.6954

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADETIC	Agency for the Development of Information Technology and Communication *(Agence de Développement des Technologies de l'Information et de la Communication)*
AFD	French Development Agency *(Agence Française de Développement)*
AfDB	African Development Bank
ANIE	National Agency for Investment and Exports *(Agence Nationale des Investissements et des Exportations)*
ANTS	National Securities Agency *(Agence Nationale des Titres Securisés)*
ARCEP	Electronic Communications and Posts Regulatory Authority *(Autorité de Régulation des Communications Électroniques et des Postes)*
ASYCUDA	Automated System for Customs Data
CEMAC	Central African Economic and Monetary Community (*Communauté Économique et Monétaire de l'Afrique Centrale*)
CIT	Corporate Incomes Tax
CPF	Country Partnership Framework
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DG	Director General
DGDDI	Directorate General of Customs and Excise *(Direction Générale des Douanes et Droits Indirects)*
DGI	Directorate General of Taxes *(Direction Générale des Impôts)*
DGTCP	Directorate General of the Treasury and Public Accounting *(Direction Générale du Trésor et de la Comptabilité Publique)*
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DPO	Development Policy Operation
DRMM	Domestic Resource Mobilization and Management
ECF	Extended Credit Facility

EU	European Union
FM	Financial Management
FSUCE	Universal Service Fund for Electronic Communication *(Fonds de Service Universel pour les Communications Electroniques)*
GDP	Gross Domestic Product
GIS	Geographic Information System
GoC	Government of Chad
HRM	Human Resources Management
ICR	Implementation Completion and Results Report
ICT	Information and Communication Technology
IEG	Independent Evaluation Group
IFR	Interim Financial Report
IGF	Inspector General of Finance
IMF	International Monetary Fund
IPF	Investment Project Financing
IT	Information Technology
LMI	Logistics Performance Index
M&E	Monitoring and Evaluation
MIS	Management Information System
MoF	Ministry of Finance
MoFB	Ministry of Finance and Budget
MPE	Ministry of Petroleum and Energy
MPNTIC	Ministry of Post, New Information Technology, and Communication
MTR	Midterm Review
NPV	Net Present Value
PAYE	Pay-as-you-earn
PDO	Project Development Objective
PFM	Public Financial Management
PIM	Project Implementation Manual
PIT	Personal Income Tax
PPA	Project Preparation Advance
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
SCD	Systematic Country Diagnostic
SHT	Hydrocarbons Company of Chad *(Société des Hydrocarbures du Tchad)*
SIGTAS	Standard Integrated Government Tax Administration System
SoE	Statement of Expenditures
STEP	Systematic Tracking and Exchanges in Procurement
ST-PAMFIP	Permanent Technical Secretariat of the Action Plan for the Modernisation of the Management of Public Finances *(Secrétariat Technique Permanent* du *Plan d'Action pour la Modernisation de la Gestion des Finances Publiques)*
TA	Technical Assistance

TADAT	Tax Administration Diagnostic Assessment Tool
TIP	Trade Information Portal
ToRs	Terms of Reference
TTL	Task Team Leader
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organization

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BASIC INFORMATION

Country(ies)	Project Name	
Chad	Chad Domestic Resource Mobilization and Management	
Project ID	**Financing Instrument**	**Environmental Assessment Category**
P164529	Investment Project Financing	C-Not Required

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[✓] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
20-Jun-2018	02-Nov-2023

Bank/IFC Collaboration

No

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)
Component A. Results-based Financing to Support Change Management in Customs and Tax administrations	12,000,000.00

Component B.Technical Assistance to Strengthen Revenue Agencies	21,250,000.00
Component C. Project Management and Coordination	1,750,000.00

Organizations

Borrower:	Republic of Chad
Implementing Agency:	Ministère des Finances

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

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Total Amount
National PBA	0.00	35.00	35.00
Total	**0.00**	**35.00**	**35.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	7.01	7.55	8.55	8.45	3.45	0.00
Cumulative	0.00	7.01	14.56	23.11	31.55	35.00	35.00

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Energy & Extractives

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	No
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	No
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	No

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	High
9. Other	Substantial

10. Overall	● High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

The Recipient shall:

(a) no later than three (3) months after the Effective Date:

(i) have acquired and installed a computerized accounting software capable of correctly recording and automatically generating financial statements (interim and annual);

(ii) have hired an external auditor; and

(iii) hire an independent verification entity or independent verification entities, as the case may be ("Verification Entity"), with capacity and under terms of reference satisfactory to the Association, to be responsible for preparing and providing DLR verifications reports in accordance with the Verification Protocol and the PIM, certifying the achievement of those DLRs indicated to be verified by the Verification Entity in the Verification Protocol; and (b) furnish the DLR verification reports to the Association in such scope and in such details as the Association shall request.

Conditions

Type	Description
Effectiveness	The Additional Conditions of Effectiveness consist of the following: (a) The Steering Committee has been created and staffed with membership satisfactory to the Association, and is fully functional. (b) The PIU has been staffed with staffing satisfactory to theAssociation, and is fully functional. (c) The Recipient has adopted the Project Manuals, in form and substance satisfactory to the Association.

Type	Description
Disbursement	1. No withdrawal shall be made: (a) for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed SDR 210,000 may be made for payments made prior to this date but on or after October 1, 2017, for Eligible Expenditures under Category (2); or (b) for payments made under Category (1) unless evidence has been furnished in a manner satisfactory to the Association: (i) that payments under the EEP have been made in accordance with the Recipient's applicable legislation and that the amount allocated to the Disbursement Linked Result (DLR) under the Disbursement-Linked Indicators (DLIs) for the respective time period corresponds to the extent of EEP execution; and (ii) of the Recipient's achievement of the respective DLR under the DLIs for the respective time period as referred to in Schedule 3 to the Financing Agreement and in form and substance satisfactory to the Association and as verified by the Verification Entity and in accordance with the PIM and Verification Protocol. 2. Notwithstanding the provisions of part B.1(b), Schedule 2, Section III of the Financing Agreement, (a) if the Association is not satisfied that any of the DLR under the DLIs has been achieved by the date by which said DLR under the DLI is set to be achieved, the Association may, at any time, by notice to the Recipient, decide, in its sole discretion, to: (a) authorize

	the withdrawal of such lesser amount of the unwithdrawn proceeds of the Financing then allocated to the respective DLR which, in the opinion of the Association, corresponds to the extent of EEP execution and achievement of said DLR under the DLI; (b) when satisfied that said DLR under the DLI has been complied with, authorize that the unwithdrawn amount by which the corresponding disbursement had been reduced be carried forward to the immediately subsequent withdrawal; and/or (c) cancel all or a portion of the proceeds of the Financing then allocated to said DLR under the DLI. (b) if the Association is satisfied that a DLR under a DLI has been achieved before the date by which said DLR under a DLI is set to be achieved, the Association may decide, at its sole discretion and at any time, by notice to the Recipient, to authorize the withdrawal of such amount of the unwithdrawn proceeds of the Financing then allocated to the respective DLR which, in the opinion of the Association, corresponds to the extent of EEP execution and achievement of said DLR under the DLI. (c) if, at any time, the Association determines that any portion of the amounts disbursed by the Recipient under Category (1) was made: (i) for expenditures which are not eligible under the EEP; or (ii) not in compliance with the provisions of Part B.1(b), Schedule 2, Section III of the Financing Agreement and the PIM, the Recipient shall promptly refund any such amount to the Association as the Association shall specify by notice to the Recipient.

CHAD

CHAD DOMESTIC RESOURCE MOBILIZATION AND MANAGEMENT

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I. STRATEGIC CONTEXT

A. 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, it is expected to reach 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.** The drastic fall in oil prices in 2014 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 43.3 percent in 2011 versus 39.80 percent in 2003). 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 2019[2].

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 5.2 percent of non-oil GDP but recovered somewhat to 2.3 percent 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 Chad is officially in external debt distress[3]. Given the limited fiscal space and the constraints of the Central African Economic and Monetary Community *(Communauté Économique et Monétaire de l'Afrique Centrale*, CEMAC), Chad is relying exclusively on debt restructuring and 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

[1] Figures taken from the macroeconomic assessment as provided by the Economic Recovery and Resilience Development Policy Operation (DPO) series dated May 2018.
[2] Country Partnership Framework for the Period FY16–20. Report No. 95277-TD.
3 World Bank and IMF 2017 Debt Sustainability Analysis

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, recognized domestic arrears continued to accumulate (to the tune of an estimated CFAF 41 billion or about US$69 million) mainly to close the 2017 financing gap. By end 2017, they accounted for CFAF 219 billion or about US$370 million (3.8 percent of GDP).

B. Sectoral and Institutional Context

5. **Raising domestic revenues as well as harnessing the potential of 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 was 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 granted before the entry into force of the new tax code 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 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

[4] Article 154 of the Tax Code and Order establishing a tripartite commission (*Arrêté portant creation 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.

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 ineffectiveness of customs administration further impedes revenue collection.** In 2016, the overall shortfall recorded by the *Directorate General for Customs and Excise* (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] Imports of goods in Chad undergo a complex system of overlapping inspections: physical inspections are made for 100 percent of imports 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 (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 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.

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

[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.

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 (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 in taxation of the sector has worsened the situation. 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 Hydrocarbons Company of Chad (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. Higher Level Objectives to which the Project Contributes

12. **The proposed Domestic Resource Mobilization and Management (DRMM) Project (P164529) responds to the priorities of the 2015 Systematic Country Diagnostic (SCD)[8] and the 2016–20 Country Partnership Framework (CPF).[9]** The World Bank Group program in the FY16–20 CPF focuses on three themes of engagement: (a) strengthening management of public resources, (b) improving returns to

[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).
[8] Report No. 96531-TD, September 2, 2015.
[9] Report No. 95277-TD.

agriculture and building value chains, and (c) building human capital and reducing vulnerability. The proposed project focuses on strengthening management of public resources and reducing vulnerability to exogenous shocks and is therefore consistent with the World Bank Group engagement program in Chad.

13. **The proposed project complements ongoing initiatives, thus enhancing the impact of the World Bank's portfolio of projects.** The project builds on the Fiscal Consolidation Program and the follow-on Economic Recovery and Resilience DPO series (US$65 million equivalent DPO[10] and the follow-on DPO series for FY18–19).[11] Specifically, the proposed project supports Pillar I (improving the management of fiscal risk), Pillar II (strengthening the transparency and management of the petroleum sector), and Pillar III (strengthening the contribution of the ICT sector to inclusive growth) of the Economic Recovery and Resilience DPO series. The project will provide TA and capacity-building support to ongoing World Bank engagements, including in the ICT and oil sectors and to the Treasury for improved debt management.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The Project Development Objective (PDO) is "To improve performance, processes, and transparency in Recipient's key government entities for revenue mobilization."

B. Project Beneficiaries

15. The main direct project beneficiaries include (a) the MoFB and its key departments including the tax department (*DGI*) and customs (*DGDDI*), 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 a 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.

16. 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.

C. PDO-Level Results Indicators

17. The PDO level Results Indicators which will be used to track the key results expected from the

[10] Chad-DPO Fiscal Consolidation Program approved December 15, 2015 (P155480).
[11] Fiscal Consolidation Support Grant approved December 21, 2016 (P162548).

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.[12]

III. PROJECT DESCRIPTION

18. The project includes three components: A. Results-based financing to support change management in customs and tax administrations (US$12,000,000) through the provision of incentives to achieve results along two subcomponents: improved tax administration and policy and improved 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 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; SDR 8,365,714.29)

19. **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.

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

(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 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 percent 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. Reduction in the number of physical custom 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. Reduction in the 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.

20. The disbursement-linked indicators matrix is provided in Table 2.

Table 2: Disbursement-linked indicators

DLI	Amount of the IDA Grant allocated to DLI (US $ 1,000)	*Baseline (December 29, 2017)*	*Indicative DLI Period for DLI achievement*				
			Year[a] 1	**Year[a] 2**	**Year[a] 3**	**Year[a] 4**	**Year[a] 5**
DLI 1: Support the utilization of a unified taxpayers' registry for enterprises	1,300	No unified registry	A census of taxpayers has been conducted and the census report has been issued.	A regulation defining the responsibility for the establishment and management of the unified taxpayers' registry and the procedure for registration is adopted by the Recipient's MCI.	At least 50 percent of the large taxpayers estimated in the census are registered in the unified tax registry		
DLI Value (US$ 1,000)			500	500	300		
DLI 2: Support the gradual adoption of electronic filing by large taxpayers[b]	1,200	5 percent of large taxpayers file electronically		The DGI has: a) mandated electronic filing by regulation; b) has issued guiding procedures to ensure that large taxpayers file electronically; and at least 6 percent of large taxpayers file electronically	At least 10 percent of large taxpayers file electronically	At least 15 percent of large taxpayers file electronically	At least 20 percent of large taxpayers file electronically
DLI Value (US$ 1,000)				300	300	300	300
DLI 3: Support the roll out of mandatory tax payment by large taxpayers through the banking system	1,500	20 percent of large taxpayers use the banking system		The MoFB issues mandatory payment instructions for large taxpayers to pay trough the banking system	At least 40 percent of large taxpayers pay through the banking system	At least 70 percent of large taxpayers pay through the banking system	100 percent of large taxpayers pay through the banking system
DLI Value (US$ 1,000)				300	400	400	400
DLI 4: Support the gradual adoption of pay-by-phone by Small Tax payers[c]	1,000	0 percent of small taxpayers use pay-by-phone	At least 4 percent of small taxpayers use pay-by-phone	At least 10 percent of small taxpayers use pay-by-phone	At least 20 percent of small taxpayers use pay-by-phone		
DLI Value (US$ 1,000)			400	300	300		
DLI 5: Reduction in the Number of Physical Customs Inspections	3,500	100 percent of merchandise is subjected to multiple physical inspection by Customs authorities	No more than 90 percent of imported merchandise is physically inspected by Customs authorities	No more than 80 percent of imported merchandise is physically inspected by Customs authorities	No more than 70 percent of imported merchandise is physically inspected by Customs authorities	No more than 60 percent of imported merchandise is physically inspected by Customs authorities	No more than 50 percent of imported merchandise is physically inspected by Customs authorities
DLI Value (US$ 1,000)			550	700	750	750	750
DLI 6: Reduction in Imported Merchandise Release Time	3,500	242 hours on average to clear imported merchandise	Regulation issued by the MoFB mandating the adoption of the procedure for risk-based Customs inspection	229 hours on average to clear imported merchandise	216 hours on average to clear imported merchandise	203 hours on average to clear imported merchandise	190 hours on average to clear imported merchandise
DLI Value (US$ 1,000)			550	700	750	750	750
Total Financing Allocated (US$ 1,000)	**12,000**		**2,000**	**2,800**	**2,800**	**2,200**	**2,200**

Notes:
[a] Year 1 is a period of 12 calendar months starting on the day of project effectiveness, and each subsequent year is calculated by adding 12 calendar months to the end of the previous year.
[b] Large taxpayers are defined as taxpayers managed by the Large Taxpayers' Directorate (*Direction des Grandes Enterprises*), who are subject to the normal Tax regime and VAT, in accordance with the General Tax Code 2017.
[c] Small taxpayers are defined as taxpayers who are subject to the Income Tax for Small Entities (*Impôt Général Libératoire*), in accordance with article 31 of the General Tax Code., in accordance with Article 31 of the General Tax Code 2017.

21. *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 3.

Table 3: Eligible Expenditure Programs[a]

Identified Eligible Expenditure Program	Revised Finance Law 2017	Eligible Expenditure Amount (US$ million)					
EEP Budget	**Calendar Year 2017**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Tax Administration:	**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	2,409.0
Other Expenditure (XAF billion)	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**	**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	9,066.5
Other Expenditure (XAF billion)	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**	**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%**

[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; SDR 14,814,285.71)

22. **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. The component will involve the main activities described in the following paragraphs.

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

23. 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. Development and implementation of 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. Supporting 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.[13]

(c) **B.1.3**. **Reinforcement of 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 numbers 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. Supporting 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 other tax withheld)[14] 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.1.5. Conducting tax policy surveys to support the MoFB' efforts to help address gaps in the Recipient's tax legislative framework, including through the forthcoming 2018 Finance Law.** This activity is included in the Project Preparation Advance (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 Investment Code (*Charte des Investissements*).

(f) **B.1.6**. **Provision of Technical assistance and activities coordination to DGI in tax administration policy**. 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)

24. 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

[13] See, for instance, governance notes September 2017, number 2 'Preliminary Report on the Implementation of Performance Contracts in the Customs Administration in Madagascar'.
[14] CIT, VAT, PIT, PAYE, that is, income tax withheld by the employer and deducted from wages.

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 the Recipient's Revenue Agencies (US$2,150,000)

25. 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. Strengthening the internal audit function in DGDDI and DGI.** This activity finances TA and capacity building to improve the internal audit function of the DGDDI.

(b) **B.3.2. Improving 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. Improving taxpayers outreach through** communication campaigns on tax and customs obligations and procedures. This is expected to improve voluntary compliance and tax and customs management.

(d) **B.3.4. e-Payments.** Development of an electronic payments mechanism for tax and customs declarations.

(e) **B.3.5. Implementation of service performance surveys for the tax and customs administration.**

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

26. 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 assessing the adequacy of the current fiscal regime for telecom service revenue, and supporting the expansion of rural services. These areas are expected to contribute to improving Chad's ability to generate and manage fiscal revenues. To achieve these results, the following activities have been identified:

(a) **B.4.1. Carrying out an inter-ministerial fiscal regime performance assessment on the**

telecommunications sector. This will involve the MoFB and the MPNTIC, and will assess the impact of the current fiscal regime on the private sector and on sectoral agencies.

(b) **B.4.2. Support for the operationalization of the Recipient's universal service fund with the implementation of pilot projects to extend the geographical coverage of mobile services in uncovered rural areas.** This activity aims 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. This activity will** 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 Recipient'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)

27. **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.

(h) **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; SDR 1,220,000)

28. **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 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: Reduction in the number of physical custom inspection of imported merchandise	3,500,000	3,500,000	0	0
Subcomponent A.6: Reduction in imported	3,500,000	3,500,000	0	0

Project Component	Project Cost (US$)	IBRD or IDA Financing (US$)	Trust Funds (US$)	Counterpart Funding (US$)
Merchandise Release Time				
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 the Recipient's 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**

C. Lessons Learned and Reflected in the Project Design

29. This project builds on lessons learned by the World Bank on revenue mobilization projects, the Chad portfolio, the Chad PFM Capacity Building Project (PARCAFIP - P090265), and projects in fragile context.

(a) **Flexible project design requires realistic assessment and selectivity.** While public-sector reform projects in fragile contexts tend to be designed to address a wide variety of institutional needs,[15] experience shows that this needs to be balanced by realistically assessing capacity, avoiding overambitious design, developing focused problem-solving solutions, and ultimately ensuring selectivity. Drawing on this lesson, the design of the proposed operation has adopted a problem-driven approach focusing on key institutional issues aligned with the GoC's priorities and supported by the DPO series.

(b) **Close donor coordination and alignment to the Government development objectives is critical to the success of reforms in fragile context.** Donor coordination helps focusing resources on reforms and alignment with Government policy contributes to ownership and commitment. The Government also needs to lead the dialogue with partners and ensure the design of mutually reinforcing programs. The project is closely linked to the objectives of GoC's recently released Vision 2030 (see annex 3), and the 2017–21 National Development

[15] Evaluation of World Bank Support for Public Sector Reform, Report Number 42948, Independent Evaluation Group, 2012.

Plan. The project has also been designed and prepared in close coordination with the AfDB, United Nations Development Program, EU, AFD, and the IMF, including AFRITAC support.

(c) **Large-scale ICT systems upgrades need to address incentive and behavioral changes.** Lessons learned from similar projects show that successful systems' upgrade and rollout need to address staff incentives and behaviors through capacity building and change management activities. To this end, this project relies on problem-driven iterative adaptation approaches in the rollout of reforms (consolidating, adapting, and reapplying approaches at each stage of the integration process) with significant levels of training and considering change management dimensions.

(d) **Political economy analysis is critical to project design, implementation arrangements, and risk assessment.** In a context of high turnover of Government officials and priorities, a project needs to be flexible to remain relevant and address contextual, communication, capacity building and sustainability challenges.[16] Accordingly, project design incorporated the results of political economy analyses, and activities include a communication strategy to widely sensitize Government officials; large scale in-country training combined with training of trainers; and a multi-stakeholder leadership approach to help the client address complex development challenges (Rapid Result Initiative).

(e) **Adequate M&E arrangements and streamlining tax payment and administration procedures for businesses are critical to achieving outcomes in tax compliance and for DRM effectiveness.** In 2017, the World Bank Group's IEG evaluated 65 World Bank-supported Investment Climate Reform operations on tax and highlighted the critical importance of streamlining burdensome tax payment and administrative procedures for businesses: about 70 percent of selected projects had adequate M&E arrangements and achieved their development outcomes. Meanwhile, projects without adequate M&E embedded in the design saw a decrease of 25 percent in achievement of their outcomes. Accordingly, the project design includes strong M&E arrangements and supports the streamlining of procedures in tax and customs for taxpayers. The project includes several surveys related to the quality of services offered by the DGDDI, the DGI, the MPNTIC to guage feedback on effectiveness and efficiency of tax, customs, and telecommunications, and to improve service delivery. The project includes baseline customs and tax surveys and ICT fiscal regime assessments in addition to the development of portals for tax and customs administrations. The portals will include a feature to collect a report on citizens feedback on the quality of service and responsiveness of the DGDDI, DGI, and MPNTIC.

(f) **Importance of Government ownership.** High-level ownership is a critical element to implementation success. The World Bank has been supporting public finance reforms in Chad over the past 15 years and has developed a strong partnership with the MoFB. Besides, the GoC considers sound public finance critical to sustainable development and the 2018 Budget Law shows a clear commitment to strengthening domestic resources mobilization. The design of this project sought to leveraging GoC commitment through identifying critical

[16] ICR of Chad PFM Capacity Building Project, Report Number ICR00004186 (PARCAFIP - P090265).

activities underpinning GoC's policy.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

30. 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.

31. **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 have final responsibility for quality assurance of deliverables. The MoFB will prepare implementation progress 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.

32. **A Steering Committee will be in place to oversee the project, facilitate its sustainability and mainstreaming of its activities in the relevant ministries, departments, and agencies.** The committee, which will be created and staffed by project effectiveness, 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.

33. **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 ToRs, 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 semester basis.

34. **PPA.** A US$1,660,000 PPA was signed by the Recipient on April 18, 2018. It will finance the following activities: (a) the preparation of a baseline study, (b) the preparation of the Operations Manual, (c) the recruitment of key staff and experts and strengthening of the STP-PAMFIP, and (d) the preparation of ToRs 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 the management of the fiduciary aspects of the PPA while the ST-PAMFIP is being strengthened.

B. Results Monitoring and Evaluation

35. **M&E is a key activity in the project and will be carried out by the ST-PAMFIP at the MoFB based on the indicators and milestones developed in the Results Framework (section VII).** A robust M&E system will be developed early on in project implementation to monitor progress and ensure impact. Where applicable, M&E will include gender-disaggregated data. Strengthening client capacity for M&E for the sector will be an integral part of the project to enable the relevant institutions to keep track of environmental and social safeguards implementation and compliance. An end-of-project analysis of the efficiency and impacts of the project will contribute to (a) better assessing the quality and efficiency of final outputs, with focus on training activities and institutional measures, and (b) identifying areas where additional support is required.

36. **With the assistance of its M&E specialist, the ST-PAMFIP will have overall responsibility for monitoring and evaluating the project subcomponents/activities in accordance with the indicators and benchmarks included in the Results Framework (section VII).** The other beneficiary agencies will be responsible for collecting, analyzing, and supplying to the ST-PAMFIP the data necessary to measure the indicators relevant to the project components/activities under their implementation. The mechanism of feeding the indicator data into a centrally managed system in the MoFB will be described in the PIM.

37. **No later than 45 days after each quarter, the MoFB will submit to the World Bank the consolidated quarterly progress reports covering all project activities, including a procurement and a financial summary report.** Biannual reviews, the first one to take place six months after effectiveness, should provide detailed analysis of implementation progress toward achieving the Project Development Objectives (PDOs) and include evaluation of the FM and a post review of procurement aspects.

C. Sustainability

38. **The GoC is committed to the implementation of the project.** The authorities and stakeholders realize that a modern administration and increased oversight capacity are critical tools for revenue mobilization. Key parameters for sustainability include the GoC’s commitment to implementing the reform agenda, including through the first Economic Recovery and Resilience DPO. The GoC is conscious of the importance of diversifying sources of revenue for economic resilience and of the role of modern tax and customs administrations in securing a more reliable and varied tax base through the contribution of all economic sectors.

39. **Petroleum is a critical economic sector to bring about development and improvement of socioeconomic conditions in the Chad and the GoC is fully committed to implementing the activities supported by this project.** In the long run, better governance will contribute to attracting investment in the sector and provide sustained revenues for wider development purposes as well as for sustaining sector oversight and management systems set up in this project. At the national level, the project will help improve the Government's capacity to (a) manage petroleum resources transparently and rationally; (b) ensure that the revenues due to the GoC by petroleum companies, including the SHT, are collected; and (c) support the SHT's management capacity for increased value addition in the petroleum sector.

40. **The design of the project includes an in-built sustainability arrangement.** The activities whose implementation the project supports are essentially Government led and are mainstreamed within a broad range of stakeholders whose capacity and ownership of reforms will be strengthened, including using performance contracts and targeted, on-the-job training. The project will also develop and nurture core skills necessary for the design and management of control and oversight procedures with the use of ICT. The package of training and change management activities included in the design of the project for all stakeholders (state and non-state) will help ensure that adequate capacity is retained after the project closure.

D. Role of Partners

41. **Since the launch of the petroleum sector in Chad in 2000, the World Bank has been supporting the GoC on strengthening public finance management processes and building associated human capital.** The project capitalizes on this long-standing collaboration. Complementarity and synergy with the European Union's program on public finance management reforms, and the French Development Agency's projects in the field of informatization of the Treasury, also increase the value addition of this project. Furthermore, the project was designed in collaboration with the AfDB, the United Nations Development Program, and the IMF.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

42. **The overall risk rating for the proposed operation is High because of several interrelated risks that could impact the achievement of the PDO.** All High and Substantial risks are discussed in the following paragraphs and described in the Systematic Operations Risk-rating Tool (SORT) framework.

43. **Political and governance risk is High.** Chad's SCD shows that political and governance systems present significant risks for the implementation of World Bank Group-supported operations: Chad's governance indicators have deteriorated between 2003 and 2013, and are lower than Sub-Saharan average; institutions' effectiveness is limited. This risk has been mitigated by relying on political economy analysis to identify entry points and ensure alignment of incentives in project design; ensuring adaptability to the context; and using DLIs to potentially unlock critical challenges.

44. **Macroeconomic risk is High.** Uncertainty regarding future oil prices and the volatile security situation are major sources of macroeconomic risk. A further decline in oil prices would put additional pressure on the fiscal accounts, compromising the GoC's ability to finance vital expenditures and service

the public debt. In addition, unpredictable security costs and potential economic disruptions could divert resources from priority social programs and structural reforms. This could threaten Chad's recovery and lower medium-term growth prospects. These risks are mitigated through improving cost-efficiency and effectiveness in petroleum operations; achieving important progress in PFM reform; and establishing foundations for sound macroeconomic policy through ensuring policy consistency between 2014–17 ECF program and CEMAC macroeconomic anchor; and ongoing dialogue with the World Bank in the context of the Economic Resilience and Recovery DPO series.

45. **Sector strategy and policy risk is High.** While revenue diversification and public-sector efficiency are part of the GoC's new medium-term development plan, experience with World Bank-financed activities in Chad shows high risk of slow reform progress. Also, the ICR of the closed PFM Capacity Building Project (P090265) indicated a low level of high level ownership of Public-Sector reforms in Chad, high turnover of senior officials, and changing political priorities. To this end, the World Bank will target areas benefiting from high support or strengthened by other Government commitments, such as those related to the IMF ECF and World Bank DPOs. The project will also include communications and change management activities to inform and align interests.

46. **Institutional capacity for implementation and sustainability risk is High.** Chad's limited institutional capacity may generate potential obstacles to project implementation. There is also a limited capacity to identify priority actions resulting from financial and cost audits, which can be addressed in audits' terms of reference. Large-scale system upgrades and migration also have an inherent risk of implementation due to a variety of reasons such as inadequate stakeholders' coordination, incomplete requirements analysis, and lack of necessary infrastructure, data security, and disaster recovery. Lessons learned from similar projects inform that successful systems' rollout need to address staff incentives and behaviors through capacity building and change management activities. Sustainability after project completion may also be affected by high-level officials' frequent turnover and GoC's financial ability to regularly finance audits. The project will mitigate system upgrade risks through (a) need assessment activities; (b) provision of IT expertise to oversee the development and implementation phases; and (c) training on system administration and rollout. The project will adopt a modular approach, consolidating, adapting, and reapplying approaches during each phase of implementation. More broadly, mitigation measures will also include TA and capacity building at the lower managerial and technical levels; leveraging ongoing and planned World Bank projects (e.g. DPOs); and cooperation with Chad's development partners.

47. **The project may finance the establishment of a biometric ID system to reinforce the capacity of DGI to identify taxpayers and secure the taxpayer registry, for which there is a need to ensure privacy of data collected.** The National Securities Agency (*Agence Nationale des Titres Securisés* - ANTS) was created in 2016 to collect biometric data needed for the identification of individuals and assist the civil service reform in the collection of biometric data of civil servants. This agency is also responsible for developing the legal framework for the collection and securitization of this data. Thus, the project will work in close collaboration with the relevant actors, including the ANTS, to ensure that an adequate legal framework exists regarding the entitlement, use, and protection of personal information. Once such framework is in place, the project could support the establishment of a biometric ID system.

48. **Fiduciary risk is Substantial.** The closed PFM Capacity Building Project (P090265) experienced serious delays in procurement processes which may also affect the proposed project. To mitigate this risk,

the team will ensure that: (i) the ST-PAMFIP has the appropriate fiduciary capacity, through the recruitment of fiduciary staff and the adoption of Project Manuals as the Recipient's capacity.

49. **Stakeholders risk is High.** The GoC and private sector stakeholders to public finance, petroleum and ICT sectors, may develop resistance to the changes introduced by the proposed project. International experience shows that the restructuring of state-owned companies may involve political and social challenges, which may prevent from completing necessary reforms. Strong and consistent commitment will also be needed to overcome vested interests in the ICT sector (e.g. revenues generated for Sotel, which has a monopoly in managing the existing fiber to Cameroon, and for ICT institutional agencies. Staff unions and pressure groups may also deploy considerable political weight and the GoC needs to account for the potential resistance to any restructuring plan of the ICT sector, especially if linked to fiscal revenue distribution. To mitigate this risk, the project includes consensus-building and change management activities to build a wide coalition of key actors, including development partners.

50. **Other risk (security) is Substantial.** Regional instability presents substantial risks to the GoC's ability to implement its development program. Since 2013, Chad has hosted a significant number of refugees from neighboring Central African Republic. In 2015, Chad joined a regional coalition in confronting the Boko Haram insurgency, and has suffered reprisals on Chadian territory. Ongoing violence by Boko Haram has increased insecurity along Chad's borders with Nigeria and Cameroon, compounding an already fragile situation at the borders with Libya, Central African Republic, and, to a lesser extent, Sudan. Chad also provided a continued support to regional security. External and domestic security challenges could divert scarce resources from reform programs and pro-poor spending, and even destabilize public finances. Although these risks cannot be directly mitigated by this project, World Bank and donor engagement are contributing to better prepare GoC for security threats.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

51. **Revenue mobilization, particularly in the nonoil economy, is a high priority for the Government of Chad.** Nonoil revenue mobilization constitutes a central challenge to Chad's fiscal sustainability and resilience in the face of oil price fluctuations. Through this operation, the World Bank provides substantial support on revenue mobilization with the goal of increasing the efficiency of nonoil revenue collection independent of economic cycles. This operation is the largest in this policy space and will complement existing TA from other partners. It supports the implementation of reforms and investments by the GoC to improve the efficiency of revenue agencies and revenue collection. Challenging political decisions and change management are supported through DLIs and related change management tools.

52. **A basic economic and financial analysis of the proposed project suggests important improvements in terms of nonoil revenue collection and overall fiscal space for Chad by 2023.** It is anticipated that activities supported under the project will result in a compounded increase in nonoil revenue collection between 2017 and 2023 of at least 6.6 percent of nonoil GDP. Taking a longer run perspective, this project is expected to help increase average nonoil revenue collection from around 8.7 percent of nonoil GDP (2017-2019) to around 13.7 percent of nonoil GDP (2020-2023). Box 1 summarizes the baseline assumptions used in the calculation of the project's expected outcomes. The increase in non-oil revenue collection is estimated at 267.7 XAF billion over the economic life of the project (equivalent to

approximately US$ 451.7 million) against an investment of US$35 million in project activities. The NPV, at 8 percent discount rate, will yield more than 182.5 XAF billion in financial benefits to the GoC (equivalent to approximately US$307.9) . This is a conservative estimate since it accounts for non-oil tax revenue only, and does not take into consideration efficiency gains beyond the life of the project.

53. **In addition to generating financial benefits for the GoC through increased tax and customs revenues, the project is expected to generate several economic benefits, which are difficult to quantify, and that will make the Chadian society, as a whole, better-off.** These potential benefits include (a) improved business environment due to reduction in time and costs to comply with tax procedures; (b) greater consistency in procedures, resulting in predictability, and transparency in tax administration; (c) reduction in rent seeking and corrupt practices, strengthening citizens' trust.

54. **With respect to the ICT sector, the economic literature suggests that many socioeconomic benefits are associated with increasing mobile and broadband coverage.** Examples of benefits include (a) time saving and reduction in travel costs by performing administrative and business activities online, (b) increased use of mobile banking and mobile pay, (c) reduced transaction costs through online shopping, and (d) cost savings for the public sector. The increased use of e-commerce and e-banking services, especially in rural disadvantaged areas, is an important driver of economic growth and reduction of territorial disparities and social exclusion. The availability of a ICT connectivity infrastructure is also a key element to improve competitiveness of businesses in remote areas and helps reverse the trend of relocation of economic activity and depopulation. Some of these benefits will gradually accrue to the Chadian economy and citizens.

55. **The project will strengthen the capacity of Government staff to administer and regulate petroleum projects.** It will finance the assessment of effectiveness of the current petroleum revenue management law and the establishment of an enhanced revenue management framework. Given the economic importance of the SHT in the petroleum sector, the project will look at its business processes and help to establish an effective and transparent information and reporting system. All these activities will strengthen the Government's ability to promote the sustainable development of petroleum resources and further its positive economic contribution.

Box 1. Baseline Assumptions

The underlying macro and fiscal assumptions can be summarized as follows:

MACRO ASSUMPTIONS	2017	2018	2019	2020	2021	2022	2023
GDP Growth (WBG)	-3%	2.6%	2.5%	5.8%	4.8%	4%	4%
GDP (XAF bn)	5,122.9	5,256.1	5,387.5	5,700.0	5,973.6	6,212.6	6,461.1
Oil GDP	818.3	946.8	988.4	1,211.8	1,320.9	1,466.2	1,539.5
Oil GDP growth (based on production forecasts)		15.7%	4.4%	22.6%	9.0%	11.0%	5.0%
Nonoil GDP	4,304.6	4,309.3	4,399.1	4,488.2	4,652.7	4,746.3	4,921.5
Nonoil GDP growth		0%	2.1%	2.0%	3.7%	2%	4%
ASSUMPTIONS on collection increases							
nonoil revenue (percent of GDP)	7.2%	7.2%	7.2%	8.7%	10.2%	11.7%	11.7%
revenue increases per year (XAF bn)				85.5	89.6	92.6	0.0
Total (nonoil) revenue collection (XAF bn)	368.0	377.6	387.0	495.0	608.3	725.2	754.2
in percent of nonoil GDP							
total revenue	8.5%	8.8%	8.8%	11.0%	13.1%	15.3%	15.3%
revenue increase				1.9%	1.93%	1.95%	0.0%
Average measure (baseline versus target)			8.7%				13.7%
Net Present Value @ 8%							
Investment in (UD$ mil)		-	7.01	7.55	8.55	8.45	3.45
Investment in (XAF bn)		-	4.2	4.5	5.1	5.0	2.0
Net benefit (XAF bn)		- -	4.2	81.0	84.5	87.6 -	2.0
NPV (XAF bn)		**182.5**					

- Macroeconomic data, including oil and nonoil GDP growth rates are based on current World Bank staff projections.
- Oil GDP growth is approximated by oil production growth rates as currently estimated by the joint WBG IMF DSA (April 2018).
- The team suggests denominating revenue collection as a share of nonoil GDP to
  - Control for economic cycles affecting revenue collection independently of the expected positive impact of this project,
  - Avoid introducing oil economy fluctuations into the denominator, thereby expressing nonoil revenue collection in an effective and oil independent measurement unit. Note that there may be dynamic spill over effects between oil GDP/revenues and the nonoil economy/revenue collection. The main channel connecting the two is government consumption expenditure, however, the team does not expect spill overs to significantly disturb nonoil GDP as a proper unit of measurement for fiscal (nonoil) revenues.
- The key assumption regarding the project impact is a gradual increase in the revenue to GDP ratio of 1.5 percent over three years (2020-2022). This would correspond to elevating the average nonoil revenue to nonoil GDP ratio from 8.7 percent (2017-2019) to 13.7 percent (2020-2023).
- In revenue terms this would amount to additional revenue collected over the period 2020-2023 of 267.7 billion XAF or 5.2 percent of 2017 GDP (or 6.2 percent of 2017 nonoil GDP).
- The NPV of the project is estimated at 182.5 billion XAF. The discount rate used in this calculation is 8 percent, consistent with the World Bank's 2016 Guidance Note on estimating discount rates in World Bank's projects.
- To be noted that economic data are available up to 2021. Additional years have been estimated by the task team and will be update at mid-term review, or earlier if appropriate.

B. Technical

56. **In the aftermath of the financial crisis, the GoC has seen a drastic decline in revenue, particularly from the leading commodity sector (petroleum), exposing the vulnerability of its economy.** This project is designed to address inefficiency in revenue collection agencies and critical revenue generation

institutions in the petroleum sector and telecommunications. The design is inspired by similar projects in other countries, as assessed by the World Bank Group's IEG in their 2017 report on Tax Revenue Mobilization.[17] The IEG evaluated 65 World Bank-supported Investment Climate Reform operations and highlighted the critical importance of tax operations for streamlining burdensome tax payment and administrative procedures for businesses (70 percent of tax projects that did so achieved their development outcomes).

57. **Similarly, the customs-related activities are designed based on good international practice, including World Customs Organization and WTO frameworks for border management modernization.** Most Trade Facilitation Agreements' measures also improve control and transparency aspects, including Trade Information Portal (TIP), use of risk management for selectivity, electronic processing of declarations, interchange of information with other agencies and customs, National Trade Facilitation Committee, and Economic Authorized Operator. These measures are included in the Project. The Project design has also benefited from World Bank experience in more than 40 customs modernization projects financed in the last 15 years.

58. **The petroleum-related activities build on the Extractive Industries Value Chain framework, which provides a sound basis to support reforms to accelerate the creation of sustainable development settings for the extractive sectors.** An important activity of the project addresses the need for transparent and accurate management of petroleum blocks and contracts through the establishment of a petroleum cadaster and contract management system. The World Bank has extensive experience in petroleum and mining cadasters, which have been a normal component in over 40 TA projects in the last 20 years. The most recent include Democratic Republic of Congo, Mauritania, Madagascar, Nigeria, Cameroon, Togo, Myanmar, Lao People's Democratic Republic, and Malawi.

C. Financial Management

59. **The FM aspects of the project will be managed by the ST-PAMFIP.** The ST-PAMFIP has recently hosted the IDA-funded Public Financial Management Capacity Building project (P090265; IDA Grant H9490: US$10.2 million and IDA Grant H2920: US$10.0 million) which closed in December 2016.

60. **Fiduciary compliance for the Public Financial Management Capacity Building was deemed satisfactory.** For example, the unaudited IFRs were submitted on time and found acceptable; the last audited financial statements, for the period ending April 30, 2017, including the grace period, were submitted to the World Bank on time with an unqualified audit opinion; and the audit reports were found acceptable to the World Bank. However, the assessment concluded that the current arrangements will need to be strengthened to meet the Bank's minimum requirements under Bank Policy Investment Project Financing. As a result, ST-PAMFIP will be reinforced by complementing its existing structure with necessary external resources and the implementation of the mitigation measures. In order to accommodate the project in the existing financial management system and ensure an adequate segregation of duties, the following measures will be taken by effectiveness: the appointment of an additional financial management officer and a procurement officer. In addition, no later than three (3) months after effectiveness: the ST-PAMFIP need to (i) acquire an accounting software to record the project accounting transactions, generate interim financial reports, and financial statements; and (ii)

[17] http://ieg.worldbankgroup.org/sites/default/files/Data/reports/lp_taxrevenue_03152017.pdf

appoint an independent external auditor.

61. **Disbursement for Component A is conditional on the achievement of reform actions and results measured by the DLIs.** Under this component, IDA will reimburse the GoC for expenses incurred under pre-identified budget lines or eligible expenditure in the annual budget of the implementing agencies (tax and customs administrations). The eligible expenditure will include base salaries and non-procurable budget line items. Disbursement under this component will be made based on evidence upon achievement of agreed results as per agreed DLIs.

62. **External verification.** Decisions over compliance and disbursement against DLIs will be made based on reports prepared, and by validation carried out by a contracted verification agent (VA) and presented to the World Bank with the necessary documentation verifying that they have been satisfied. A detailed verification protocol is provided in Annex 5. The annual cost of external verification is included in Component C.

63. Disbursement of Component B will be made against eligible expenditure according to applicable Bank procedures.

64. The GoC requested a PPA to help, among other things, in recruiting key staff including (a) one FM specialist, (b) one procurement specialist, and (c) one M&E specialist and to put in place the necessary elements of an FM system (see the mitigations measures proposed in Annex 2). Thus, by the date of effectiveness of the project, subject to the implementation of the plan to strengthen ST-PAMFIP with the resources available under the PPA, ST-PAMFIP's FM system will meet the World Bank's minimum requirements.

65. Given that ST-PAMFIP will be reinforced by complementing its existing structure with necessary external resources and the implementation of the mitigation measures, as specified in annex 2, the FM assessment notes that the FM residual risk for ST-PAMFIP is Substantial.

D. Procurement

66. **A summary procurement risk assessment of the ST-PAMFIP (based in the MoFB) was carried out and the procurement risk is rated 'Substantial'.** It is important to note that the ST-PAMFIP was created 10 years ago and has experience working with the World Bank and applying related policies and procedures. In addition, this will be the second project to be implemented in Chad under the World Bank New Procurement Framework. A Project Procurement Strategy for Development (PPSD) has been prepared to ensure that the procurement activities are packaged and prepared in such a way as to minimize the risk.

67. Due to existing weaknesses in the Chad's national procurement system, which tend to cause substantial delay in the procurement process, the World Bank team recommended the following measures for speedy implementation of project activities and to mitigate risks identified: (a) strengthening of the ST-PAMFIP, particularly the fiduciary team, before the date of effectiveness through the implementation of PPA activities; (b) anticipating all procurement activities as indicated in the PPSD and the Procurement Plan; (c) ensuring the procurement plan is consolidated and adapted to counterpart capacity; and (d) closely supervising all procurement activities. To mitigate the risk of procurement delays, the Recipient will ensure the recruitment of the procurement specialist and the FM specialist, and the preparation of the PIM by effectiveness.

68. The Recipient shall use the World Bank's online procurement planning and tracking tools to prepare, clear, and update its Procurement Plans and conduct all procurement transactions.

E. Social and Environmental (including Safeguards)

69. **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.

F. Other Safeguard Policies (if applicable)

70. **N/A**.

H. World Bank Grievance Redress

71. **Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service.
For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

Project Development Objective(s)

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

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets					End Target
					1	2	3	4	5	
Improve performance, processes, and transparency in key government revenue mobilization entities.										
Increase in Tax and Customs revenue collection relative to non-oil GDP			Percentage	8.50	8.80	8.80	11.00	13.10	15.30	15.30
Increase transparency of the SHT's operations in the petroleum sector			Text	No automatically generated financial statements	Feasibility study for the establishment of an integrated accounting and	Acquisition and configuration of the system is completed and test phase	Generation of financial statements using the new system	Audited financial statements of year (t-1) are published	Audited financial statements of year (t-1) are published	Financial statements are produced by an integrated accounting and management system

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets					End Target
					1	2	3	4	5	
					management system completed	is started				

Intermediate Results Indicators by Components	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets				End Target
					1	2	3	4	
Component A: Results-based financing to support change management in customs and tax administrations									
Support the utilization of a unified taxpayers' registry for enterprises (DLI)			Text	No unified registry	A census of taxpayers has been conducted and the census report	A regulation defining the responsibility for the establishment and management	At least 50 percent of the large taxpayers estimated in the census are		The unified tax registry is operational

					has been issued	nt of the unified taxpayers' registry and the procedure for registration is adopted by the Recipient's MCI.	registered in the unified tax registry		
Support the gradual adoption of electronic filing by large taxpayers (DLI)			Text	5.00	The DGI has: a) mandated electronic filing by regulation; b)	At least 10 percent of large taxpayers file electronically	At least 15 percent of large taxpayers file electronically		At least 20 percent of large taxpayers file electronically

					issued guiding procedures to ensure that large taxpayers file electronically; and at least 6 percent of large taxpayers file electronically				
Support the rollout of mandatory taxpayment by large taxpayers through the banking system (DLI)			Text	20.00	The MoFB issues mandatory payment	At least 40 percent of large taxpa	At least 70 percent of large taxpa		At least 100 percent of large taxpayers pay through the banking system

					instructions for large taxpayers to pay through the banking system	yers pay through the banking system	yers pay through the banking system		
Support the gradual adoption of pay-by-phone by small tax payers (DLI)			Text	0.00	At least 4 percent of small taxpayers use pay-by-phone	At least 10 percent of small taxpayers use pay-by-phone	At least 20 percent of small taxpayers use pay-by-phone		At least 20 percent of small taxpayers use pay-by-phone
Reduce the Number of Physical Inspections (DLI)			Text	100.00	No more than 90 percent of imported merch	No more than 80 percent of imported merch	No more than 70 percent of imported merch	No more than 60 percent of imported merch	No more than 50 percent of imported merchandise is physically inspected

					andise is physically inspected	andise is physically inspected	andise is physically inspected	andise is physically inspected	
Reduce release time for imported merchandise decreased (DLI)			Text	242.00	Regulation issued by the MoFB mandating the adoption of the procedure for risk-based inspection	229.00	216.00	203.00	190.00
Component B: Technical assistance to strengthen revenue agencies									
Establishment of unique identification number for enteprises for all administrations			Text	Multiple taxpayers identification number are used across the administration	Report on the accuracy of information held	Connectivity and interface with relevant			All administrations use the same identification number for taxpayers

					in the registration database	agencies (ANIE, Treasury, Customs)			
Risk-based procedures and audits are adopted in tax and customs administration			Text	No risk-based audits	Procedures for risk based audits are developed.	Annual work program for risk-based audits is developed	Annual work program for risk-based audits is developed	Annual work program for risk-based audits is developed	Risk based audits procedures are adopted
Ratio of risk-based audits performed on large and medium taxpayers			Percentage	0.00	10.00	30.00	50.00		70.00
Number of tax offices in N'Djamena in which SIGTAS upgraded version has been rolled out			Number	0.00	1.00	3.00			3.00
Number of customs offices in which ASYCUDA upgraded version has been rolled out			Number	0.00	1.00	3.00			4.00
Users traffic on the tax and trade information portals			Number	100.00	5,000.00	10,000.00			15,000.00
Petroleum costs benchmarks are established			Text	No comparator identified	Cost comparators are identif	Cost comparators are updat			Cost comparators established

					ied	ed			
Petroleum contracts are recorded in a cadastral system			Percentage	0.00	30.00	60.00			100.00
Mobile Rural Connectivity Operation Manual is developed			Yes/No	N					Y
Taxpayers' satisfaction with DGI quality of taxpayers services			Text	Baseline established through survey	At least 30 percent of surveyed users express satisfaction with the DGI taxpayers' services				At least 50 percent of surveyed users express satisfaction with the DGI taxpayers' services
Taxpayers' satisfaction with DGDDI quality of customs services			Text	Baseline established through suvery	At least 30 percent of surveyed users of the custo				At least 50 percent of surveyed users express satisfaction with the DGDDI services

					ms' portal declare satisfied				
Improve the use of the USF to expand mobile telephony coverage to rural areas			Number	0.00	1.00				1.00

Monitoring & Evaluation Plan: PDO Indicators	
Indicator Name	Increase in Tax and Customs revenue collection relative to non-oil GDP
Definition/Description	Tax and Customs revenue collection (excluding revenue from property taxes) as percentage of non-oil GDP
Frequency	Annually form year 3
Data Source	DGB/report
Methodology for Data Collection	SYGTAS generated report
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Increase transparency of the SHT's operations in the petroleum sector
Definition/Description	Integrated financial statements (OHADA compliant) are system generated, audited, and published annually on the SHT's website
Frequency	Annually
Data Source	SHT/report
Methodology for Data Collection	Activity reports from the SHT and, starting in year 4 copy of audited financial statements
Responsibility for Data Collection	ST-PAMFIP

Monitoring & Evaluation Plan: Intermediate Results Indicators	
Indicator Name	Support the utilization of a unified taxpayers' registry for enterprises (DLI)
Definition/Description	A regulation is issued that defines the responsibility for the establishment and management of the unified taxpayers registry, and the procedures for registration, and the unified taxpayers registry contains at least fifty percent of the census population of large taxpayers
Frequency	Annually until year 3
Data Source	Ministry of Commerce and Industry
Methodology for Data Collection	Copy of census report and SIGTAS reports from year 2
Responsibility for Data Collection	ST-PAMFIP
Indicator Name	Support the gradual adoption of electronic filing by large taxpayers (DLI)
Definition/Description	Number of tax returns filed electronically divided by total number of tax returns during the relevant year
Frequency	Annual from year 2
Data Source	DGI/Treasury
Methodology for Data Collection	SIGTAS report
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Support the rollout of mandatory taxpayment by large taxpayers through the banking system (DLI)
Definition/Description	Tax declarations paid through commercial banks divided by total tax declarations
Frequency	Annually from year 2
Data Source	DGI
Methodology for Data Collection	SIGTAS reports
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Support the gradual adoption of pay-by-phone by small tax payers (DLI)
Definition/Description	Tax payments by phone by small taxpayers divided by total tax payments by small taxpayers
Frequency	Year 1 to 3
Data Source	DGI/Treasury
Methodology for Data Collection	SIGTAS Report
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Reduce the Number of Physical Inspections (DLI)
Definition/Description	Number of physical inspections of imported merchandise divided by total number of merchandise imported
Frequency	Annually
Data Source	DGDDI
Methodology for Data Collection	ASYCUDA Report
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Reduce release time for imported merchandise decreased (DLI)
Definition/Description	Average time to import (border compliance hours)
Frequency	Annually
Data Source	DGDDI
Methodology for Data Collection	report from ASYCUDA
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Establishment of unique identification number for entepises for all administrations
Definition/Description	The information included in the taxpayer registry is accurate, and complete, and all government agencies users of the database are connected
Frequency	Year 2 and year 3
Data Source	Ministry of Commerce and Industry
Methodology for Data Collection	Certification by ANIE
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Risk-based procedures and audits are adopted in tax and customs administration
Definition/Description	Administrative guidelines for risk-based audits are issued; annual work programs are developed by DGI and DGDDI
Frequency	Annually
Data Source	DGI, DGDDI
Methodology for Data Collection	Copy of guidelines, manuals, and annual work-programs
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Ratio of risk-based audits performed on large and medium taxpayers
Definition/Description	Number of large and medium taxpayer audited divided by total number of large and medium taxpayers subject to risk-based audit per the system generated list of taxpayers to be audited
Frequency	Annually from year 2
Data Source	DGI/DGDDI
Methodology for Data Collection	SIGTAS and ASYCUDA reports
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Number of tax offices in N'Djamena in which SIGTAS upgraded version has been rolled out
Definition/Description	Number of N'Djamena tax offices that upgraded their SIGTAS divided total number of tax offices in N'Djamena
Frequency	Annually from year 1
Data Source	DGI
Methodology for Data Collection	Status report from DGI
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Number of customs offices in which ASYCUDA upgraded version has been rolled out
Definition/Description	Number of customs office that have upgraded their ASYCUDA divided total number of customs offices
Frequency	Annually from year 3
Data Source	DGDDI
Methodology for Data Collection	Status report from DGDDI
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Users traffic on the tax and trade information portals
Definition/Description	Portals traffic statistics
Frequency	Annually from year 3
Data Source	DGDDI and DGI
Methodology for Data Collection	Portals usage survey
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Petroleum costs benchmarks are established
Definition/Description	Cost assessment and benchmark reports are developed based on cost audits and international practice
Frequency	Annually from year 3
Data Source	MPE
Methodology for Data Collection	Status report from MPE
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Petroleum contracts are recorded in a cadastral system
Definition/Description	Petroleum contracts archived in the cadastral system divided total number of petroleum contracts
Frequency	Annually from year 3
Data Source	MPE
Methodology for Data Collection	Cadaster's statistics and report from MPE
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Mobile Rural Connectivity Operation Manual is developed
Definition/Description	ADETIC's board of directors approves the procedures manual
Frequency	Year 3
Data Source	ADTIC
Methodology for Data Collection	Copy of the Board of Directors' approved manual
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Taxpayers' satisfaction with DGI quality of taxpayers services
Definition/Description	A survey will be designed and rolled out to measure taxpayers' satisfaction with the DGI's services offered through the DGI's taxpayers' portal. The survey will be rolled out when the portal is functioning to establish the baseline and will thereafter be carried out each year.
Frequency	Annually from year 3
Data Source	DGI
Methodology for Data Collection	DGI report.
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Taxpayers' satisfaction with DGDDI quality of customs services
Definition/Description	A survey will be designed and rolled out to measure custom's users satisfaction with DGDDI services offered through the customs' portal. The survey will be rolled out when the portal is functioning to establish the baseline, and subsequently be carried out each year.
Frequency	Annually from year 3
Data Source	DGDDI
Methodology for Data Collection	Report from DGDDI
Responsibility for Data Collection	ST-PAMFIP

Indicator Name	Improve the use of the USF to expand mobile telephony coverage to rural areas
Definition/Description	Pilot roll out of mobile services in target rural areas as measured by the contract award made by ADETIC following a call for tender
Frequency	Year 3
Data Source	ADETIC
Methodology for Data Collection	Status report by ADETIC
Responsibility for Data Collection	ST-PAMFIP

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Chad
Chad Domestic Resource Mobilization and Management

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

1. **This component will disburse upon achievement of key results as measured by DLIs against the execution of agreed eligible expenditure.** This component will finance a share of tax and customs administration operating expenditure to incentivize the achievement of agreed results. Achievement of the DLIs and eligibility of related expenditures will be subject to an independent verification before the World Bank's disbursement. ST-PAMFIP will hire the independent verifier annually to that end. Details on the verification protocol will be included in the PIM. This results-based component builds on all the TA support provided to DGI and DGDDI under Component B. The six DLI programs in this component are described in the following paragraphs, and summarized in the disbursement-linked indicators matrix in Table A.1.1.

Subcomponent A.1. Support the utilization of a unified taxpayers' registry for enterprises (US$1,300,000)

2. **An effective tax system encourages taxpayer compliance with registration obligations.** This activity rewards the gradual use of the unified taxpayers' registry and complements the technical assistance activity provided under component B which aims to put in place procedures to manage the registry. This sub-component supports the design and implementation of a unified taxpayers' registry and 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 operations of the registry. In the second year, the regulatory framework will be finalized. From the third year, the DGI is expected to progressively populate the registry. Eligible expenditure will be determined as an agreed percentage of salaries of the DGI (it will be re-assessed every 12 months), payable upon achievement of annual targets.

Subcomponent A.2. Support the gradual adoption of electronic filing by large taxpayers (US$1,200,000)

3. **Electronic tax payments are an effective tool towards reducing administrative and compliance cost for both the administration and taxpayers.** This sub-component rewards the adoption and implementation by the DGI of procedures for the automation of tax payments by large taxpayers. Electronic payments will reduce the processing time of reconciliation of tax collections between the Treasury and the DGI. Eligible expenditure will be determined as an agreed percentage of salaries of the DGI, payable upon achievement of annual targets. This approach creates an incentive for DGI to modernize its payment system for efficiency gains. It is equally an incentive for the MoFB which will realize savings in salary expenditure due to this subcomponent's contribution.

Subcomponent A.3. Support the roll out of mandatory tax payment by large taxpayers through the banking system (US$1,500,000)

4. **Payment through the banking system will reduce the public sector's administrative costs linked to the registration, certification, and reconciliation of payments by taxpayers.** During year 3, the subcomponent will reward the preparation and issuance by MoFB of mandatory payment instructions for large taxpayers to pay trough the banking system. In subsequent years, this sub-component incentivizes the progressive uptake of tax payment through the banking system. This measure will ensure that treasury, tax, and customs payment systems are automatically updated. The elimination of cash payment will also reduce rent-seeking opportunities

Subcomponent A.4. Support the gradual adoption of pay-by-phone by Small Taxpayers (US$1,000,000)

5. **Pay-by-phone for small taxpayers 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. 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 by small taxpayers, targeting an increase from zero to 20 percent by end of project.

Subcomponent A.5. Reduction in the number of physical inspection of imported merchandise (US$3,500,000)

6. **This sub-component rewards 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 component B will support enhanced customs' controls activities, through in particular, the 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 rewards the gradual relinquishing of the parallel redundant physical inspections. This sub-component is expected to lead to the increase in customs revenue, owing to the automated cross-check between the voluntary value declaration by importers (usually under-reported) and the value assessment by DGDDI.

Subcomponent A.6. Reduction in imported merchandise release time (US$3,500,000)

(g) Inefficient merchandise handling procedures and controls also result in long delays in clearance, which increase the cost of cross-border trade. Currently imported merchandise is subject to several redundant inspections, often made by different authorities, leading to long delays in the clearance process. Inefficient merchandise handling and control procedures also increase the cost of cross-border trade. As noted, while component B will support the introduction of modern risk management procedures, and close coordination among the various stakeholders, there is a risk that parallel processes and lack of observance of good practice standards perpetuates redundancies in procedures and does not eliminate entirely the parallel processes in clearing merchandise. This sub-component incentivizes the DGDDI to improve administrative efficiency, and eliminate redundant processes, by rewarding the preparation and issuance of regulation mandating the adoption of the procedure for risk-based inspection and elimination of the parallel processes and the gradual elimination of parallel and redundant controls, which is expected to lead to a reduction in merchandise release time by 21 percent over the duration of the project. This activity aims to incentivize the DGDDI to improve administrative efficiency, and is expected to lead to a reduction in the number of days for merchandise clearance by 21 percent over the project duration.

7. *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 A.1.2.

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

8. **This component will provide specialized TA, including technical experts for each area of revenue mobilization, to improve transparency and increase accountability of the tax and customs administrations, petroleum, and telecom for revenue mobilization and management.** This will involve the activities described in the following paragraphs. 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.

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

9. **The objective of this subcomponent is to provide the tax administration (DGI) with the foundations it currently lacks and to consolidate the recent progress regarding tax policy.**[18] Accordingly, the project will support the activities described in the following paragraphs.

(a) **B.1.1. Develop and implement a tailored IT strategy aimed at computerizing tax offices in N'Djamena with substantial revenue potential; interfacing the sites; and developing an automated exchange of data between DGI, DGDDI, and DGTCP.** The project will support the acquisition of additional SIGTAS software modules by DGI which will provide for complete informatization of the main functions performed by the tax administration, including audit and litigation, VAT refunds, interface with banks, management of land taxes, and covering all the taxes collected by DGI.[19] The deployment of the IT system will be linked with performance contracts and supported by training sessions, internal communication, and the reinforcement of the internal audit function. The first six months will focus on TA to assess the needs, help and draft specifications, and support DGI in the negotiations with the software provider. The following year will be dedicated to the implementation of the fully integrated system in the large business division, which is responsible for 72 percent of the revenue collected by DGI. TA, training and internal communication, hardware, and other equipment acquisition will be financed by the project during the implementation phase of this activity. The subsequent year will extend the coverage of informatization to all units located in N'Djamena by the end of 2020. In addition, SIGTAS is a web-based application with Oracle database and therefore connecting the sites within N'Djamena will not necessitate infrastructure since the sites are already connected via radio link. Moreover, the adoption of the integrated system will greatly facilitate the interconnection with customs

[18] The opportunity to merge the functions currently performed by tax and customs under the authority of a single agency is not addressed under the project. Such reform generally involves important social consequences for the personnel of tax and customs administrations and requires high level of investments in human resources, notably training. It is doubtful that the current situation in Chad allows for the implementation of such reform: tax and customs administrations currently lack basic features that are necessary whatever the institutional framework, and a change in such a framework could divert resources that could be dedicated to the implementation of more basic reforms. The project therefore focuses on improving computerization of revenue agencies, improving reliability of the taxpayers' registry, and improving cooperation between tax, customs, and Treasury by implementing exchange of information between them.

[19] The assessment of the DGI informatization strategy, which lays the foundation for the acquisition of additional software modules, is included in the PPA.

and Treasury.

(b) **B.1.2. Support the design and implementation of tailored performance contracts between the DGI and the MoFB.** Considering past experiences in the tax administration, notably IT reforms, and given the low level of financial resources available to DGI, one of the critical conditions for the success of the activities in the project is a strong change management and the appropriation of reforms by a majority of DGI staff and executives. Given the fiscal situation and the need to increase revenue, DGI and the GoC have developed a project of performance contract. Performance contracts can help DGI address some of the difficulties faced concerning HRM and the financing of its activities. This tool can be an effective leverage for the introduction of a performance culture in substitution of a rent-seeking one.[20] 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 ministry's commitment to grant DGI adequate budget to support its activities and reward good performance. Performance contracts will be implemented in two phases: in the first two years model contracts and M&E mechanisms will be established. During the following three years, the performance contracts will be fully implemented.

(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 the object of DLRs under sub-component A.1 will not be financed under this component, 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.

(i) **B.1.3.1. Harmonize the identification number for enterprises used by the administration (for example, customs, treasury, procurement) to identify enterprises.** This activity aims at ensuring the generation and usage of a unique identification number for enterprises used by various entities within the administration. Today, enterprises make all the formalities linked with their creation at the National Investment and Exports Agency (*Agence Nationale des Investissements et des Exportations*, ANIE), which issues the Tax Identification Number (*Numéro d'Identification Fiscal*, NIF) and other identification numbers. However, different parts of the administration manage their portfolio based on different identification numbers with almost no exchange of data between them. Ultimately, the project aims at creating a single publicly available database of enterprises, each registered with a unique identification number. This will help each of these administrations to better manage their portfolio and allow for an exchange of information between them (for instance, the wages taxed under PAYE and social contributions payed by employers).

[20] See, for instance, governance notes September 2017 number 2 'Preliminary Report on the Implementation of Performance Contracts in the Customs Administration in Madagascar'.

Such an outcome will also simplify enterprises' registration formalities. The activity requires some level of political involvement given that it implies the participation of administrations outside the MoFB. Coordination with the ANIE will be key in conducting the project.

(ii) **B.1.3.2. Scoping and potential implementation of a biometric ID system for sole proprietors in N'Djamena.** This activity aims to determine the feasibility and opportunity of establishing a biometric ID system for individual taxpayers in N'Djamena, and, if so, establish such a system. According to tax administration, with the national ID card being unreliable in Chad, some individuals regularly embark on short-lived enterprises aimed at avoiding the payment of taxes. The biometric ID of individual entrepreneurs is aimed at resolving this issue. Other projects aiming at biometrically identify individuals are being considered by the GoC, including a project aiming at identifying civil servants. This activity will focus on securing the taxpayer's registry before considering other applications. It will build upon other projects in the field of biometric identification. The population concerned should approach 10,000–15,000 individuals and the modalities of identification would depend on the level of progress of other biometric ID projects in Chad. The activity may entail the addition or update of the information regulatory framework concerning biometric data storage and sharing to international standards. Implementation of biometric identification maybe based on technology available in SIGTAS or separately integrated.

(d) **B.1.4. Support the introduction of modern modalities for filing and payment of taxes.** This activity will support the electronic filing of core taxes (for example, CIT, VAT, PIT, PAYE, and other tax withheld)[21] for large taxpayers as well as mobile payment of taxes for small taxpayers**.** Electronic filing of core taxes for large taxpayers can strongly contribute to the efficiency of the large business division of the tax administration. This activity could start once the integrated tax system is implemented in the large business division. The mobile payment activity is designed to ensure the payment of taxes for small taxpayers (Income Tax for Small Entitites or *Impôt Général Libératoire* in French) while reducing the opportunity for corruption, avoiding cash transactions and the recourse to intermediaries in remote regions of Chad. The activity does not involve a significant budget since the technology and infrastructure required is in place by telecom companies that operate in Chad (for instance, it is already possible to pay electricity bills by phone or to transfer money through this system in Chad). The activity mainly consists in a preparation phase (TA for the technical design of the project, negotiation with IT companies on the level of fee retained, and security requirements) and trainings for GoC officials. The implementation phase will build upon the progress made on informatization of DGI and securing of the taxpayers' registry and other projects of the same nature (for example, the mobile payment of fines) in Chad. The preparation and issuance of mandatory payment instructions for large tax payers that are the object of DLRs under sub-component A.2 will not be subject of this TA sub-component.

(e) **B.1.5. Conduct a tax policy survey to support the MoFB' efforts to address gaps in the tax**

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

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 Investment Code.

(f) **B.1.6**. **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)

10. **The objective of this subcomponent is to strengthen the effectiveness of the customs administration including through the wider use of a more robust ICT system, strengthening human resource reseeding processes.** 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), and manual procedures and manual collections are the norm since not all branches and border crossing are equipped with communication with ASYCUDA++.[22] Such practices generate opportunities for irregular procedures, bypassing efforts for correct collection, and significantly increasing costs for traders, with long delays in merchandise release. Being part of CEMAC, Chad is required to implement specific transit procedures, Economic Authorized Operators, and interchange of information with other customs. To tackle these challenges the project will finance several activities bringing good international practices to customs performance, including aligning procedures and practices with WTO Trade Facilitation Agreement. The preparation of regulation to be issued by the MoFB mandating the adoption of risk based inspections procedures, which is the object of DLRs under sub-components A.5 and A.6, will not be financed by this this sub-component. These activities are described in the following paragraphs.

(a) **B.2.1. Technical assistance to the DGDDI to redesign the main customs processes, and customs procedures manuals; capacity-building training in technical customs functions (for example, valuation, origin, audit, physical inspections, and so on) and feasibility assessments of performance evaluation systems and career design schemes.** This activity will include a staff workload and skills assessment study (to be funded by the PPA); the elaboration of procedure manuals on key customs functions; the elaboration of curriculum for staff training; training associated with basic curriculum; support for change management process; and the establishment of performance evaluation for customs staff.

(b) **B.2.2. Connection of regional branches and border posts to the central systems, including branch equipment, upon feasibility study.** There are 6 sites in N'Djamena that are

[22] ASYCUDA is a customs system developed by the United Nations Conference on Trade and Development (UNCTAD). UNCTAD's system is operating in many developing countries, including at least eight countries of West Africa regions, including Chad, Burkina Faso, Cote D'Ivoire, Mauritania, Benin, Senegal, Mali, and Togo

connected via radio link to the central customs' system and an additional 13 sites and posts have been requested for interconnection. The project will also finance VSAT equipment and monthly recurring bandwidth costs for a period of two years maximum with the expectation that the fiber optic connectivity for regions will be completed and the Government will take the responsibility of internet-related costs after the specified period of two years.

(c) **B.2.3. Upgrade and migration of the ASYCUDA++ system to the latest Web-based version, called ASYCUDA World.** UNCTAD has submitted a proposal for implementing a new version of the Web-based version of ASYCUDA, including piloting it training users, and adaptating the system to Chadian customs procedures. The duration is estimated as 18 months and includes source code of system, Oracle license, and a total of 20 missions from UNCTAD experts, for development and implementation purposes. The proposal also includes the setup of information sharing links between sites, customs, treasury, taxation, and the bank.

(d) **B.2.4. Implement critical Customs Union procedures for CEMAC, including procedures for Economic Authorized Operators and a legislative framework for the post-audit function, interchange of information between customs.** In the case of transit procedures, this activity will support the Chadian side connection with Cameroon customs, as Douala Port is the main entry point for Chadian imports.

(e) **B.2.5. Redesign control procedures (including a feasibility analysis for use of scanner and study for electronic GPS-based seals implementation, including preventive measures for emission, need of physical platforms for devices, location and rotation policy) for the use of scanners, risk management for selectivity, electronic seals and post audits.** Currently, Chadian customs owns four mobile scanners, which have not been used in five years owing to lack of resources to maintain the devices. This activity will support a feasibility analysis, the design of the governance model to ensure that resources are available for the use of scanners (including through fees in each import declaration or similar measure), the connection of the image from scanners to ASYCUDA, and the development of a risk management system to ensure dropping of physical inspections. Following the completion of the feasibility study, and before the implementation of the new governance model, the project will finance the rehabilitation of scanners and recurrent costs; implement the current existing ASYCUDA module of risk management and populate the users' profiles.

(f) **B.2.6. Adopt good practices set forth in WTO Trade Facilitation Agreement, including interchange of information with foreign customs, before arrival declaration and advance ruling, and express cargo procedures.** This activity includes support for designing procedures and training. System support will be provided by ASYCUDA World implementation.

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

11. **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 the DGDDI and DGI.** This activity finances TA and capacity building to improve the internal audit function of the DGDDI. This will include the elaboration of a risk map to assess opportunity for leakages; the definition and filing of profile for internal auditors and organization of internal audit (Inspection General of Customs Services or *Inspection General des Services Douaniers* in French), considering international good practices; the elaboration of a Responsibility Manual for inspectors and staff in the field; the elaboration of annual internal audit plans; the dissemination of the Code of Ethics; and the establishment of procedures and training to carry out internal investigations. Similar activities will be implemented within DGI.

(b) **B.3.2. Improve transparency.** This will include supporting 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). Regarding the DGDDI, this activity will include the development of a TIP (design of governance model; establishment of a Steering Committee; inventory of border procedures; and upload updated inventory information in the website).[23] Regarding DGI, activities supported will include the assessment of current website, the design of a new DGI portal, the inclusion of tax law and procedures information, online access to tax form, link to process declarations, report of main tax collection statistics, information about tax organization, and contact information for different services and support. This activity will also support the launch of a pilot portal and a survey from selected users to test the portal and support for the portal's upgrade on a yearly basis for the duration of the project.

(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.** Implement an electronic payments system for tax and customs declarations.

(g) **B.3.5. Surveys on service performance.** This activity will support the implementation of Service Performance Surveys for the tax and customs administrations, including the development of survey methodology and accountability measures, level of service, and perception of key performance indicators.

As part accountability and **citizen engagement**, the project will also include effectiveness and efficiency surveys for tax, customs, and telecommunications to improve service delivery. The project also includes baseline customs and tax surveys and ICT fiscal regime assessments in addition to the development of portals for tax and customs administrations. The portals will include a feature to collect a report on citizens feedback.

[23] The TIP is a website with an inventory of customs and border procedures description for imports and exports. The TIP will include relevant information for destination countries, like tariffs and general requisites. The TIP will be aligned with WTO Trade Facilitation Agreement provisions.

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

12. **This subcomponent is designed to address two important barriers that hamper the penetration and competitiveness of mobile telephony in Chad and its ability to generate adequate fiscal revenue: fiscal constraints related to the expansion of international connectivity and low access in rural areas.** Increasing access to mobile telephony throughout the territory (particularly in rural areas) and increasing the traffic (particularly, international incoming and outgoing) will boost the sector revenue, resulting in increased tax revenue. To achieve these results, the following activities have been identified:

(a) **B.4.1. ICT fiscal regime performance assessment.** Carry out an inter-ministerial (MoFB and MPNTIC) fiscal performance assessment of the telecommunications sector. The fiscal performance assessment will cover the following topics: review of past fiscal studies of the ICT sector in Chad (including the 2016 fiscal review by the IMF); compilation of all the recent changes of the ICT fiscal regime and potential future changes envisaged by the Government; assessment of the impact of the change of the fiscal regime on the performance of the sector; review and assessment of objectives and priorities of the ICT sectoral agencies in the context of budgetary constraints and assessment of the budget requirements to achieve their mandates; provision of regional and international benchmarks on best practices and lessons learned on improving the ICT fiscal regime and on auditing telecom revenues by public authorities; and provision of recommendations in line with international best practices and guidance by international organizations while considering the national socioeconomic context. These activities are expected to lead to a more efficient taxation regime through the reduction in the number of entities other than the MoFB levying taxes on the sector, as well as the definition of the tax regime in a legal document. Activities financed by this sub-component include:

   (i) **B.4.1.1.** Impact assessment of the current fiscal regime on the private sector to identify areas for improvement; and

   (ii) **B.4.1.2.** Institutional assessment of the sectoral agencies to review the relevance and urgency of their objectives and duties and assess their budget needs to fulfill them (focused mainly on the ADETIC and the ARCEP).

(b) **B.4.2. Operationalization of the universal service fund.** Support the operationalization of the universal service fund managed by the public agency ADETIC, with the implementation of pilot projects to extend the geographical coverage of mobile networks in uncovered rural area. As this proposed activity implies the use of universal service funds to support the extension of ICT infrastructures, it will be guided by three key principles, in line with international best practices and the World Bank's Maximizing Finance for Development approach: principle of market failure, as the pilot projects should only target rural areas that are suffering from a market failure, that is, operators do not currently cover and do not intend to do so in the medium term; principle of public fund limited to the minimum necessary by ensuring the best 'value for money' usage of universal service funds through a competitive tender process that will select the 'most economically advantageous offer';[24] and principle of 'Open Access', with the private entity deploying and managing the infrastructure providing effective wholesale access under fair and non-discriminatory conditions to all operators authorized to operate in the market. The technical support provided to the ADETIC will cover the following activities: (i) mapping the ICT availability situation in the country, and more specifically, in the rural areas, with a focus on infrastructure mapping, service mapping, demand mapping, and investment -mapping;[25] (ii) elaborating the 'Mobile Rural Connectivity Operation Manual' to describe the transaction cycles and fund flow processes, authorization procedures for transactions, financial and accounting policies budgeting procedures, financial forecasting procedures, procurement and contract administration monitoring procedures, and auditing arrangements; (iii) assisting the ADETIC in launching a call for tenders to increase mobile rural connectivity in offline areas; and iv) any other activities aimed at enhancing the performance of the USF to achieve its objectives. These activities are expected to ensure that the amount collected for the universal service fund purposes is used transparently, and for its intended purpose according to the legal and regulatory framework, with focus on extending the coverage of mobile networks to unprofitable areas.

(c) **B.4.3. Institutional strengthening and capacity-building to support the implementation and oversight capacity of the MPNTIC to foster national and international connectivity.** The current sector organization is not in line with international best practice (overlap of roles and responsibilities among the sector's stakeholders), and limits the government's ability to generate revenue from the use of the sector's infrastructure as the regulator has no expertise and staffing to engage in commercial activities. This sub-component supports the increase in national and international connectivity which will in turn benefit customs administration at the borders. The activity will ensure close collaboration and synergy with the AfDB and the EU (the donors financing the upcoming fiber to Niger) to avoid duplication of the efforts. As such this activity will complement the ongoing TA provided by AfDB and will deliver specific advisory services focused on assisting the Government in identifying, drafting, and implementing the ownership structure model, the governance model and mechanism to oversee the PPP contract, the financial model with a business plan assessing revenues and costs, the legal and regulatory documentations, the bidding documentation and process, and the oversight model of the PPP. This activity includes:

[24] It should be clear from the outset that the 'most economically advantageous offer' will not be solely based on final bid price to select the bidder requesting the lowest amount of public funds; rather price and indicators measuring the different quality aspects of the offer will be considered.

[25] - Infrastructure mapping: current status of the ICT infrastructure itself as well as power electricity availability, trackway access, and backhauling availability;
- Service mapping: supply-side mapping of 2G and 3G availability, bandwidth availability, and so on;
- Demand mapping: demand typology and quantification for ICT services; and
- Investment mapping: existing and potentially planned investments in ICT infrastructure by the private and public sector such as fiber optic backbone extension.

(i) **B.4.3.1.** Strengthening the MPNTIC's institutional capacity to oversee the implementation and the open access wholesale PPP for all the GoC's fiber optics infrastructure, in close collaboration with the donors financing the upcoming fiber connection to Niger (the AfDB and the EU); [26]

(ii) **B.4.3.2.** Support the liberalization of the international gateway (currently a monopoly) to break a critical bottleneck for international connectivity; and

(iii) **B.4.3.3.** Technical assistance to review and revise the ICT legal and regulatory framework to ensure it is consistent with the evolutions above.

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

13. **The petroleum sector in Chad has developed rapidly over the past 10 years, with new producers, two types of regime (concessions and petroleum sharing contract), and important institutional changes (particularly the establishment of the SHT).** Consequently, the complexity of the transactions associated with the petroleum sector has increased, posing a challenge to effective oversight of revenue generation and to the Government's forecasting ability. Since its establishment in 2006, the SHT has grown in influence and level of participation in the petroleum sector and other activities, increasing the complexity and risk profile of revenue accruing to the GoC, requiring more sophisticated business processes, an adequate reporting and information system, and increased transparency. This component is designed to strengthen the GoC's capacity to assess and manage petroleum revenue and modernize the SHT's internal accounting and MIS, which is 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.** Law N. 2/214 does not include a stabilization or saving function. The current revenue management mechanism is a simple budget earmarking to channel petroleum revenue to a list of priority sectors and to support general Government expenditure. The expected rebound in oil production, robust indication of further production potential from ongoing exploration activities, and the expectation of increased fiscal space resulting from structural reforms and debt restructuring, set the stage for petroleum revenue to once again play a central role in supporting fiscally sustainable and inclusive growth. A petroleum revenue management mechanism (fully integrated with the budget process and the medium-term fiscal framework) would provide resources to allow for the smoothing of expenditure, insulate expenditure from unforeseen oil revenue fluctuations, sterilize the impact of saving, and protect priority programs for poverty reduction and investment in the non-oil economy. This activity will assess the performance of Law N.2/2014, and its adequacy to support fiscal

[26] In September 2017, the Government published a '*Communiqué*' to commit that the fiber PPP would respect the open access principles, characterized by and access to the fiber that is (a) at the wholesale level; (b) transparent; (c) non-discriminatory; (d) fair and reasonable; and (e) effective.

policy in alternative revenue scenarios and identify and develop a new revenue management mechanism, or amend the current mechanism.

(b) **B.5.2. Establishment of a petroleum revenue model.** Currently, the MoFB uses an Excel-based revenue model that covers the principal petroleum operations. Results from the model are integrated by information collected from the relevant private sector operator, MPE, and the SHT. Automation of data input through the petroleum cadaster system will permit to streamline the data acquisition process and to improve the accuracy of forecast through a field-level architecture. The ability to accurately forecast revenue generated from petroleum activities is critical to the design of sustainable fiscal policies. This activity will comprise the following elements:

(i) **B.5.2.1. Petroleum Revenue Model feasibility and Needs Assessment, to determine the scope, information needs, and users to be covered by the model, and prepare terms of reference for its development.** This activity will be carried out in strict coordination with the scoping study on the petroleum cadaster and petroleum contract management system.

(ii) **B.5.2.2. Development and establishment of the Petroleum Revenue Model.** This activity will include users training.

(iii) **B.5.2.3. Petroleum Revenue Model upgrades.** Based on an evaluation of accuracy to be carried out by the MoFB, this activity will fund model or process improvements necessary to address identified shortcomings.

(c) **B.5.3. Establishment of a petroleum cadaster and petroleum contract management system.** A functioning petroleum cadaster is a critical tool for the allocation and management of petroleum exploration and production rights and the monitoring of compliance with petroleum contracts. The MPE currently relies on manual procedures for the archiving and management of contracts and licensing procedures. This activity will support the development and implementation of a platform that will incorporate a digital cadaster linked to a GIS to allow coherent and efficient management of both data (geoscience and blocks/titles), and petroleum information. This would allow the MPE to manage and oversee petroleum activities, as well as to provide access to information to interested parties. Box 1.1 summarizes the objectives for the development of an integrated digital cadaster and a GIS.

Box 1.1. Objectives of an Integrated Digital Cadaster and GIS

- Proper storage and management of all national oil- and gas fields-related data in one databank controlled by the MPE
- Ability to download data on request and further visualization based on either a geographic data browser or a GIS platform
- Ability to use subsurface information (from wells and geophysical surveys) through an easy-to-use 3D analysis and viewing system
- Online access to operating companies to stream line reporting and data provision requirement
- Perform in-house processing on available data stored. This service would include simpler operations like the merging of navigation to seismic, and simultaneous editing of the data for redundancies and noise. It would allow the preparation of basic data packs resulting from available interpreted data (mainly geophysical surveys) which would include different types of standard processing algorithms.
- Promotion of Chad's petroleum exploration potential, including planning and land management.

(d) **B.5.4. Audit of petroleum operations.** Regular audits of petroleum operations improve accountability and helps the MPE to build its understanding of industry and practices. Often petroleum contracts have a time limit on the rights of audit of the GoC. Regular audits avoid the risk of loss of audit rights. 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 the SHT.** The SHT is currently not an operator. However, it holds a minority participation in several petroleum operations, including 25 percent of the Doba consortium; 15 percent share in Caracal, the contract holder of exploration and production rights for the DOI (Badila), DOB (Mangara), DOH (N'Donambo), Chari West (Borogop), and Chari East (Doséo) blocks; 10 percent of existing production from block H operated by China National Petroleum Corporation International (CNPCI); and 100 percent of the Sedigui field. As such, it must pay its share of exploration, development, production, and abandonment costs. 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.** The availability of reference brackets for petroleum costs allow the GoC to benchmark the performance of petroleum companies and facilitates oversight of value for cost considerations. 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.** Currently, the SHT does not have an integrated accounting and reporting system capable of supporting the growing complexity of its business. Management accounting has yet to be established, and sales and production statistics are held manually offline. This activity will support the following elements:

(i) **B.5.7.1. Needs Assessment.** This activity will review the current business processes and systems, with the objective to determine their adequacy to the SHT's current and planned business and needs. Through business process reengineering, this activity will identify business processes that are critical to the SHT's efficient and transparent management and their implications for its information system (scoping and basic architecture) and internal procedures. This activity includes the preparation of the new SHT accounting plan for general and management accounting, information sharing, and reporting. ToRs for the procurement of the new system will also be prepared during this activity.

(ii) **B.5.7.2. Implementation of accounting and management information system.** This activity will finance the upgrade of the existing accounting and reporting software or the acquisition and operationalization of a new software in accordance with the findings of the needs assessment, field testing, operationalization, and trainings for system users and administrators. This activity includes the financing of a backup server, and interconnectivity among SHT offices. The current accounting system will remain in place until the end of system testing and integrity audit. Targeted training and the preparation of relevant operations manuals are also included in this activity.

(h) **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)

14. **This component will support the ST-PAMFIP 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 advisers 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, and Procurement Plan for the first 18 months, and will include a contingency for unanticipated costs and project activities.

Table A.1.1: Disbursement-linked indicators

DLI	Amount of the IDA Grant allocated to DLI (US $ 1,000)	*Baseline (December 29, 2017)*	*Indicative DLI Period for DLI achievement*				
			Year[a] 1	Year[a] 2	Year[a] 3	Year[a] 4	Year[a] 5
DLI 1: Support the utilization of a unified taxpayers' registry for enterprises	1,300	No unified registry	A census of taxpayers has been conducted and the census report has been issued.	A regulation defining the responsibility for the establishment and management of the unified taxpayers' registry and the procedure for registration is adopted by the Recipient's MCI.	At least 50 percent of the large taxpayers estimated in the census are registered in the unified tax registry		
DLI Value (US$ 1,000)			500	500	300		
DLI 2: Support the gradual adoption of electronic filing by large taxpayers[b]	1,200	5 percent of large taxpayers file electronically		The DGI has: a) mandated electronic filing by regulation; b) has issued guiding procedures to ensure that large taxpayers file electronically; and at least 6 percent of large taxpayers file electronically	At least 10 percent of large taxpayers file electronically	At least 15 percent of large taxpayers file electronically	At least 20 percent of large taxpayers file electronically
DLI Value (US$ 1,000)				300	300	300	300
DLI 3: Support the roll out of mandatory tax payment by large taxpayers through the banking system	1,500	20 percent of large taxpayers use the banking system		The MoFB issues mandatory payment instructions for large taxpayers to pay trough the banking system	At least 40 percent of large taxpayers pay through the banking system	At least 70 percent of large taxpayers pay through the banking system	100 percent of large taxpayers pay through the banking system
DLI Value (US$ 1,000)				300	400	400	400
DLI 4: Support the gradual adoption of pay-by-phone by Small Tax payers[c]	1,000	0 percent of small taxpayers use pay-by-phone	At least 4 percent of small taxpayers use pay-by-phone	At least 10 percent of small taxpayers use pay-by-phone	At least 20 percent of small taxpayers use pay-by-phone		
DLI Value (US$ 1,000)			400	300	300		
DLI 5: Reduction in the Number of Physical Customs Inspections	3,500	100 percent of merchandise is subjected to multiple physical inspection by Customs authorities	No more than 90 percent of imported merchandise is physically inspected by Customs authorities	No more than 80 percent of imported merchandise is physically inspected by Customs authorities	No more than 70 percent of imported merchandise is physically inspected by Customs authorities	No more than 60 percent of imported merchandise is physically inspected by Customs authorities	No more than 50 percent of imported merchandise is physically inspected by Customs authorities
DLI Value (US$ 1,000)			550	700	750	750	750
DLI 6: Reduction in Imported Merchandise Release Time	3,500	242 hours on average to clear imported merchandise	Regulation issued by the MoFB mandating the adoption of the procedure for risk-based Customs inspection	229 hours on average to clear imported merchandise	216 hours on average to clear imported merchandise	203 hours on average to clear imported merchandise	190 hours on average to clear imported merchandise
DLI Value (US$ 1,000)			550	700	750	750	750
Total Financing Allocated (US$ 1,000)	**12,000**		**2,000**	**2,800**	**2,800**	**2,200**	**2,200**

Notes:

[a] Year 1 is a period of 12 calendar months starting on the day of project effectiveness, and each subsequent year is calculated by adding 12 calendar months to the end of the previous year.

[b] Large taxpayers are defined as taxpayers managed by the Large Taxpayers' Directorate (*Direction des Grandes Enterprises*), who are subject to the normal Tax regime and VAT, in accordance with the General Tax Code 2017.

[c] Small taxpayers are defined as taxpayers who are subject to the Income Tax for Small Entities (*Impôt Général Libératoire*), in accordance with article 31 of the General Tax Code., in accordance with Article 31 of the General Tax Code 2017.

Table A.1.2: Eligible Expenditure Programs[a]

Identified Eligible Expenditure Program	Revised Finance Law 2017	Eligible Expenditure Amount (US$ million)					
EEP Budget	**Calendar year 2017**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
Tax Administration:	**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	2,409.0
Other Expenditure (XAF billion)	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**	**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	9,066.5
Other Expenditure (XAF billion)	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**	**12,878.5**
Disbursements of Grant Component 1 [b]							
US$ Million		**2.0**	**2.8**	**2.8**	**2.2**	**2.2**	**12.0**
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%**

[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$.

Detailed Cost Table

15. Table A.1.3 provides the detailed cost table for all project activities.

Table A.1.3. Detailed Cost Table

Reference Code	Activity	Expected Cost (US$)
Component A:	**Results-based Financing to Support Change Management in Customs and Tax administrations**	**12,000,000**
Subcomponent A.1	Support the utilization of a unified taxpayers' registry for enterprises	1,300,000
Subcomponent A.2	Support the gradual adoption of electronic filing by large taxpayers	1,200,000
Subcomponent A.3	Support the roll out of mandatory tax payment by large taxpayers through the banking system	1,500,000
Subcomponent A.4	Support the gradual adoption of pay-by-phone by Small Taxpayers	1,000,000
Subcomponent A.5	Reduction in the number of physical customs inspection of imported merchandise	3,500,000
Subcomponent A.6	Reduction in imported Merchandise Release Time	3,500,000
Component B	**Technical Assistance to Strengthen Revenue Agencies**	**21,250,000**
Subcomponent B.1	Improve Tax Administration and Policy	5,350,000
B.1.1	Develop and implement a tailored IT strategy	3,300,000
B.1.2	Support the design and implementation of performance contracts	500,000
B.1.3	Reinforce the capacity of DGI to manage the taxpayers' registry	600,000
B.1.3.1	Harmonize ID number for enterprises used by the Administration	300,000

B.1.3.2	Scoping and potential implementation of biometric ID system for sole proprietors in N'Djamena.	300,000
B.1.4	Modernize the filing and paying of taxes	300,000
B.1.5	Conduct a tax policy survey.	100,000
B.1.6	Technical Assistance Expertise for Tax Administration	550,000
Subcomponent B.2	Improve Customs Administration	6,000,000
B.2.1	Technical assistance to the DGDDI to redesign the main customs processes, and customs procedures manuals	1,100,000
B.2.2	Connection of regional branches and border posts to the central systems	1,200,000
B.2.3	Upgrade and migration of the ASYCUDA++ system	1,100,000
B.2.4	Implementation of critical Customs Union procedures for CEMAC	450,000
B.2.5	Redesign control procedures (including Scanners)	950,000
B.2.6	Adopt good practices set forth in WTO Trade Facilitation agreement	650,000
B.2.7	Technical Assistance Expertise for Customs Administration	550,000
Subcomponent B.3	Increase Transparency and Accountability of Revenue Agencies	2,150,000
B.3.1	Strengthen the internal audit function in DGDDI and DGI	835,000
B.3.2	Improve transparency	600,000
B.3.3	Improve taxpayers outreach	450,000
B.3.4	e-Payment	100,000
B.3.5	Surveys on Service Performance.	165,000
Subcomponent B.4	Address Fiscal Challenges and Improve the Oversight of the ICT Sector	1,500,000
B.4.1	ICT fiscal regime performance assessment	500,000
B.4.1.1	Fiscal Regime Performance Assessment – Private-sector oriented impact assessment of the current fiscal regime to identify areas for improvement	250,000
B.4.1.2	Fiscal Regime Performance Assessment - Public-sector oriented institutional assessment of the sectoral agencies and institutions	250,000
B.4.2	Operationalize the Universal Service Fund	450,000
B.4.3	Institutional Strengthening for MPNTIC	550,000
B.4.3.1	Institutional strengthening to the MPNTIC to oversee the implementation and oversight of the open access	200,000
B.4.3.2	Technical assistance for the liberalization of the international gateway	150,000
B.4.3.3	Review of the ICT legal and regulatory framework	200,000
Subcomponent B.5	Improve the Management and Control of Revenue Generation in the Petroleum Sector	6,250,000

B.5.1	Effectiveness of Law N. 2/2014, and design of alternative revenue management mechanisms	150,000
B.5.2	Establishment of a petroleum revenue model	400,000
B.5.2.1	Petroleum Revenue Model Feasibility and Needs Assessment	50,000
B.5.2.2	Development and Establishment of the Petroleum Revenue Model	300,000
B.5.2.3	Petroleum Revenue Model Upgrades	50,000
B.5.3	Establishment of a Petroleum Cadaster and Petroleum Contract Management System.	2,000,000
B.5.4	Audit of Petroleum Operations	1,300,000
B.5.5	Audit of the Joint Accounts of the SHT	400,000
B.5.6	Identification of Cost Comparators	250,000
B.5.7	Establishment of an integrated MIS for SHT	1,200,000
B.5.7.1	Needs Assessment	300,000
B.5.7.2	Implementation	900,000
B.5.8	Technical Assistance Expertise for Petroleum Sector	550,000
Component C	**Project Management and Coordination**	**1,750,000**
	Total Project Costs	35,000,000
	Front-end Fee	0
	Total Financing Required	**35,000,000**

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Chad
Chad Domestic Resource Mobilization and Management

Project Institutional and Implementation Arrangements

1. 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 better ownership, knowledge, and sustainability among beneficiary units and ministries

2. **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 ToR, 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.

3. **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.

4. The responsibilities of the Steering Committee are to:

(a) Ensure coherence and synergies in policy-level interventions related to the project;

(b) Promote effective coordination and communication across the various agencies, ministries, and departments on a macro level and project level;

(c) Provide strategic guidance and set priorities for project implementation;

(d) Review the project’s progress in meeting its objectives and results indicators;

(e) Approve the PIM and subsequent changes;

(f) Approve on an annual basis the procurement and training plans submitted by the beneficiaries; and

(g) Approve accounts and audits reports.

5. **A dedicated unit (STP-PAMFIP, under the MoFB, which was utilized by the Public Financial Management Capacity Building Project, P090265) will be responsible for day-to-day project implementation activities, including procurement, disbursement, FM, and M&E.** The ST-PAMFIP is a Government agency under the MoF dedicated to the implementation of donor-funded operations that fall under the responsibility of the MoFB, generally related to 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 each supporting a technical subcomponent (Customs, Tax, ICT, and Petroleum). Each 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 ToRs, oversee implementation, and ensure quality control. The ST-PAMFIP will also compile implementation progress reports every six months for submission to the World Bank and IFRs. At the time of the preparation mission, the ST-PAMFIP included an assistant project coordinator, a PFM specialist, an HRM specialist, an IT specialist, and administrative support. Thus, the ST-PAMFIP will be strengthened with the recruitment of a procurement specialist, an FM specialist, and an M&E specialist, who will be recruited under the PPA. Adequate staffing of the ST-PAMFIP is a condition of effectiveness of the project.

6. **Technical expert(s).** The ST-PAMFIP will include at least four technical experts—including a tax administration expert, a customs expert, an ICT expert, and a petroleum accountant—who will support and provide advice to the relevant departments heads on developing their programs, drafting ToR, and reviewing consultant outputs during implementation. The technical expert(s) will report directly to the ST-PAMFIP coordinator.

7. **Technical focal points.** The technical departments of the main participating ministries (MoFB, MPE, and MPNT) and the SHT, through their technical focal points, will be involved in the technical aspects of project implementation and coordination. The Technical Focal Points will be appointed by the relevant member of the Steering Committee to work directly with the ST-PAMFIP and technical experts, in the drafting of ToR, the definition of technical designs, and the oversight of consultant deliverables and installation of goods. Being the ultimate beneficiaries, the technical departments will hold final responsibility for quality assurance of deliverables.

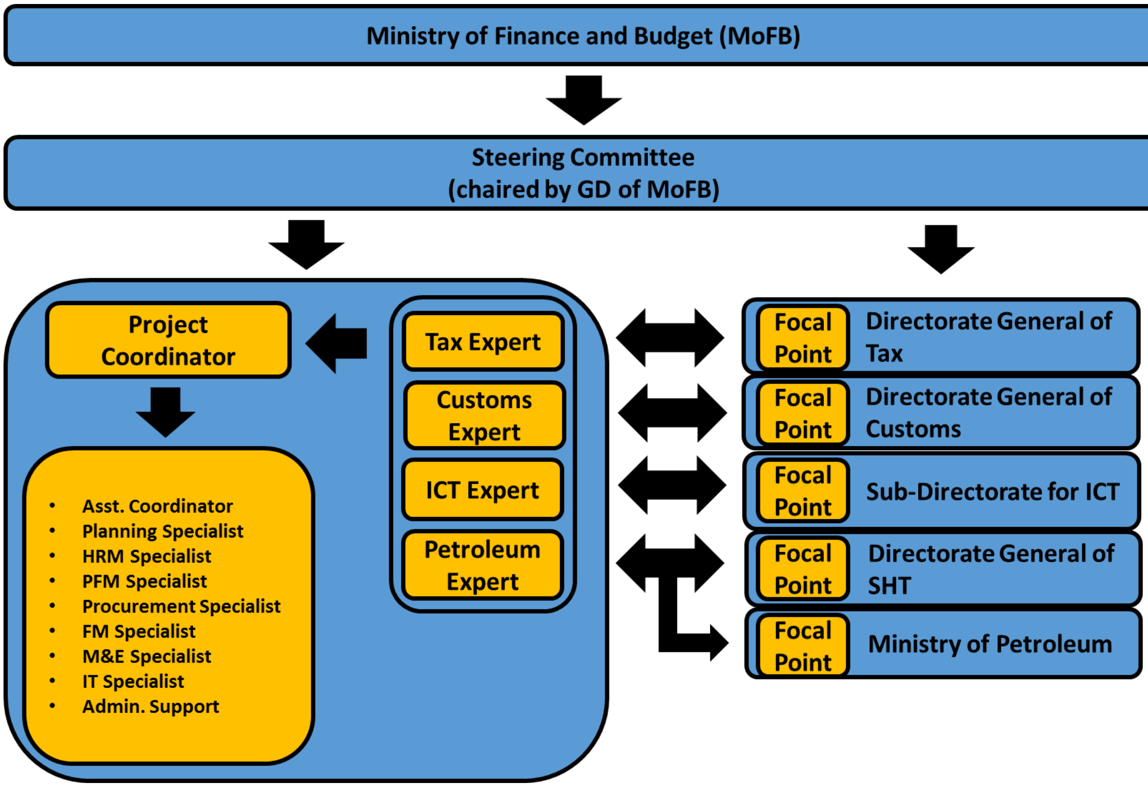
8. **PIM.** A PIM will be developed by the borrower and approved by the World Bank. The PIM will be subject to updates, as needed, throughout project execution. Development of the PIM involved a core team from the MoFB as well as representatives from all the entities involved in implementation. The PIM includes (a) a detailed description of the planned project activities; (b) the mechanism of operation and interaction among the involved entities; (c) the level of authority entrusted to the MoFB, ST-PAMFIP, and

the different committees, and the relationships among them; (d) their organization, responsibilities, and functions; and (e) detailed procurement and FM procedures. The PIM will also include details on the DLI verification protocol including the ToR and timetable of the DLI verification process.

9. **Annual work plan.** The ST-PAMFIP will prepare, not later than November 15 each year throughout the implementation of the project, an annual work plan endorsed by the beneficiary ministries found satisfactory by the MoFB and approved by the World Bank for the period January 1 to December 31 of the next calendar year, together with a budget for such activities and a timetable for their implementation. Work plans will also include an annual training plan that specifies the trainings to be financed through the project for that year, who will be trained (name and title), duration and date of the training, place (Chad or abroad), objective of the training, and proposed budget. When necessary, training can be approved by the World Bank on an ad hoc basis. These work plans will be reviewed and approved by the World Bank.

10. **PPA.** The project implementation unit of the Chad Education Sector Reform Project Phase 2 (P132617) is providing temporary assistance to the ST-PAMFIP until Project effectiveness, particularly with respect to fiduciary management of the PPA. While the recruitment of these positions is ongoing, an interim arrangement will govern the support of the fiduciary staff of the project implementation unit of the Chad Education Sector Reform Project Phase 2 (P132617) for the implementation of activities which financing is envisaged under the PPA.

Figure 2.1. DRMM Project Implementation Arrangements



Financial Management

Summary

11. **The FM aspects of the project will be managed by the ST-PAMFIP.** ST-PAMFIP has recently hosted the IDA-funded Public Financial Management Capacity Building project (P090265; IDA Grant H9490: US$10.2 million and IDA Grant H2920: US$10.0 million) which closed on December 2016. Fiduciary compliance for the Public Financial Management Capacity Building (P090265) was deemed satisfactory; for example, the unaudited IFRs were submitted on time, and found acceptable, the last audited financial statements, for the period ending April 30, 2017, including the grace period, were submitted to the World Bank on time with an unqualified audit opinion and the audit reports were found acceptable to the World Bank. The assessment concluded that the existing arrangements will need to be strengthened to meet Bank's minimum requirements. To accommodate the project in the existing financial management system and ensure an adequate segregation of duties, the following measures will be taken by effectiveness: the appointment of: (i) an additional financial management officer; and (ii) a procurement officer. In addition, no later than three (3) months after effectiveness: the ST-PAMFIP shall (i) acquire an accounting software to record the project accounting transactions, generate interim financial reports, and financial statements; and (ii) appoint an independent external auditor.

12. To this end, the GoC requested a PPA to help, among other things, to recruit key staff including (a) one FM specialist, (b) one procurement specialist, and one M&E specialist and establish the necessary elements of an FM system (see the mitigation measures proposed in the following paragraphs). Thus, by the date of effectiveness of the project, subject to the implementation of the plan to strengthen ST-PAMFIP with the resources available under the PPA, ST-PAMFIP's FM system will meet the World Bank's minimum requirements. The FM assessment concluded that the FM residual risk for ST-PAMFIP is Substantial.

13. The proposed mitigation measures are identified as described in the following paragraphs.

Staffing

(a) The recruitment on a contractual basis, of one qualified FM specialist according to ToR to be agreed on with the World Bank. The FM specialist will ensure day-to-day transactions process and accounting.

(b) The capacity building of the fiduciary team dedicated to the project. In addition, disbursement procedures and other World Bank procedures, and a dedicated project FM will be set up.

Internal Control

(a) The Administrative, Financial, and Accounting Procedures Manual used under the IDA-financed Public Financial Management Capacity Building Project (P09065) recently managed by ST-PAMFIP will be updated by effectiveness by an independent consultant to fit the project needs. The manual will describe the role and responsibility of implementing entity and the beneficiaries, the applicable fiduciary procedures, the reporting procedures, the funds flow arrangements, the budget management cycle and procedures, and so on.

(b) The installation of an appropriate accounting software under a multiproject, multidonor, and multisite version is required no later than three (3) months after effectiveness. The team will keep records on Excel spreadsheets until then.

Internal Audit

(a) The mandate of the Office of the Inspector General of Finance (IGF), designated as the internal auditor for ST-PAMFIP, will also cover the project activities. The periodic missions to be undertaken by the IGF will support the improvement of the effectiveness and efficiency of the internal control system of the entity and the project during implementation.

External audit

(a) The audit of the annual financial statements of the project will be carried out by a reputable auditing firm according to the ToRs to be agreed upon with the World Bank.

DLIs - Verification

(a) ST-PAMFIP will hire the independent verifier annually to verify the achievement of DLI indicators. Details on the verification protocol will be included in the PIM.

Supervision Plan

(a) Regarding the current overall residual FM risk level, the project will be supervised at least twice a year in addition to routine desk-based reviews to ensure that the project's FM arrangements operate as intended and that funds are used efficiently for the intended purposes.

FM Conditions and FM Covenants

(a) The recruitment of one qualified FM specialist on a contractual basis is a condition of effectiveness

(b) The update of the administrative, financial and accounting procedures manual is a condition of effectiveness

(c) The recruitment of an external auditor to annually audit the project's financial statements according to ToRs acceptable to the World Bank is a dated covenant (no later than three (3) months after project effectiveness)

(d) The acquisition and installation of an adequate accounting information system for the entity is a dated covenant (no later than three (3) months after project effectiveness)

Detailed Financial Management Arrangements

Budgeting Arrangements

14. **The project's transactions for component B and C will be ring-fenced and will not go through the Chad Public Accounts.** The budgeting process will be clearly defined in the updated Administrative, Financial, and Accounting Procedures Manual and the budget will be reviewed and adopted by the project Steering Committee before the beginning of the year, that is, not later than November 30 each year. Annual budgets adopted by the Steering Committee will be submitted to the World Bank's no-objection before implementation. Budgets should be regularly monitored at all levels. The approved annual budget of the project should be at least quarterly monitored against actual expenditure by ST-PAMFIP. The budget variances will be adequately explained and justified through the semiannual IFRs.

Accounting Arrangements

15. **Accounting policies and procedures.** The current accounting standards in use in West and Central African Francophone countries for ongoing World Bank-financed projects will be applicable. SYSCOHADA is the assigned accounting system in West and Central African Francophone countries. Project accounts will be maintained on an accrual basis, supported with appropriate records and procedures to track commitments and to safeguard assets. Annual financial statements will be prepared by each project implementing agency in accordance with the SYSCOHADA and World Bank requirements. Accounting and control procedures will be documented in the Administrative, Financial, and Accounting Procedures Manual.

16. **FM manuals.** ST-PAMFIP used an Administrative, Financial, and Accounting Procedures Manual for the IDA-financed Public Financial Management Capacity Building Project (P09065). However, the procedures manual needs to be updated by a consultant to be recruited under the PPA managed by the project implementation unit of the Chad Education Sector Reform Project Phase 2 (P132617). The updated procedures manual will be adopted before the project effectiveness.

17. **Accounting staff.** Although ST-PAMFIP had recently managed the IDA Public Financial Management Capacity Building Project (P09065), there is no FM staff in place to handle the project activities. Thus, the borrower will recruit one qualified and experienced FM specialist, based on ToRs acceptable to the World Bank, to be dedicated to the project. The staff who will be handling this project will have to be specially trained in World Bank financial management and disbursement guidelines and this training will be done by the World Bank FM specialist.

18. **Accounting software.** Under the IDA-financed Public Financial Management Capacity Building Project (P09065), ST-PAMFIP used TOMPRO Accounting, version 5.9. However, for the needs of the proposed project, the borrower will acquire and install within three (3) months of the project effectiveness, a multiproject, multidonor, and multisite accounting software which will be capable of recording transactions and reporting project operations timely, including preparation of withdrawal applications and periodic financial reports (IFRs and annual financial statements).

Internal Control and Internal Audit Arrangements

19. **Internal control systems.** Internal control comprises the whole system of control, financial or otherwise, established by management to (a) carry out the project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the project. Under the IDA-financed Public Financial Management Capacity Building Project, ST-PAMFIP has developed an adequate internal control system which will be used for this proposed project. There is segregation of duties where by authorization to execute transaction, recording of the transaction and custody of assets involved in the transaction are performed by different persons. Ordering, receiving, accounting for, and paying for goods and services are appropriately segregated. However, the existing Administrative, Financial, and Accounting Procedures Manual will be updated as condition for effectiveness to fit the project needs. The updated Administrative, Financial, and Accounting Procedures Manual will document the FM and disbursement arrangements including internal controls, budget process, and assets safeguards, and clarify roles and responsibilities of all the stakeholders.

20. **Internal audit.** ST-PAMFIP does not have internal audit functions. In March 2007, the Office of the IGF has been designed by the Minister of Finance and IT as the internal auditor of ST-PAMFIP. Thus, the project would rely on the internal audit system in place at ST-PAMFIP. During the project implementation, the World Bank and the MoFB would decide whether or not to recruit a qualified and experienced internal auditor to be dedicated to the project. In both cases, the internal auditor will oversee the proper functioning of ST-PAMFIP’s internal control and will be the focal point to develop an annual risk-based audit plan to help the project coordinator identify, among other things, key risks and weaknesses in the operations and internal control systems. Internal audits shall be conducted in compliance with the annual risk-based audit plan. Quarterly internal audit reports for the project will be prepared and submitted to the Chair of the Steering Committee for action. The internal auditor will have to be trained in World Bank Financial Management Guidelines and this will be done by the respective FM specialist. In addition, the internal auditor will include the project’s internal audit requirements in his/her annual audit plan.

Financial Reporting Arrangements

21. **For this project, ST-PAMFIP will prepare semiannual unaudited IFRs.** These will be submitted to the World Bank within 45 days of the end of the semester. The format and the content, consistent with the World Bank’s standards, has been agreed between the World Bank and the borrower during project negotiations. At a minimum, the financial report will include (a) a statement of sources and uses of funds and opening and closing balances for the quarter and cumulative; (b) a statement of uses of fund that shows actual expenditures appropriately classified by main project activities (categories, subcomponents) including comparison with budget for the semester and cumulative; (c) a statement on movements (inflows and outflows) of the project Designated Account (DA) including opening and closing balances; (d) a statement of expenditure forecast for the next semester together with the cash requirement; (e) notes and explanations; and (f) other supporting schedules and documents.

22. **The project will also prepare the projects annual accounts/financial statements within three months after the end of the accounting year in accordance with the accounting system implemented in the subregion (SYSCOHADA).** The audited financial statements should be submitted to the World Bank within three (3) months after the end of the accounting year.

Auditing Arrangements

23. **The annual audited financial statements and audit reports (including Management Letter) will be submitted to the World Bank no later than six months from the end of the fiscal year by ST-PAMFIP.** The annual financial statements will be prepared in accordance with the standards indicated in the audit ToRs agreed with the World Bank. The audit will be carried out by an independent external auditor with qualification and experience satisfactory to IDA.

24. **The audit will be carried out in accordance with the International Standards of Auditing issued by the International Federation of Accountants.** The auditor will prepare a work plan to cover all the major risk areas and all project expenditures under all components. The following mechanisms are proposed to systematically monitor the timing of audit reports and the timely action on audit findings: (a) ST-PAMFIP has the responsibility to prepare a consolidated audit action plans within one month of the receipt of the annual audit report; and (b) within two months of the receipt of the audit report action plan, action must be taken on all audit findings and notified to the IDA.

25. In accordance with the World Bank Policy on Access to Information, the borrower is required to make its audited financial statements publicly available in a manner acceptable to the Association; following the World Bank's formal receipt of these statements from the borrower, the World Bank also makes them available to the public.

26. **A review of ST-PAMFIP's audit status reveals that audit reports were received on time under the IDA-financed Public Financial Management Capacity Building Project (P09065) recently managed by ST-PAMFIP.** The last audited financial statements, for the period ending April 30, 2017 including the grace period, were submitted to the World Bank on time and the auditors had issued an unqualified audit opinion.

27. The audit reports that will be required to be submitted by ST-PAMFIP with due dates for submission are described in table 2.1.

Table 2.1. Audit Reports to be Submitted

Audit Report	Due Date
Project-specific Financial Statements and management letter to be submitted by ST-PAMFIP	Submitted within six months after the end of each financial year

Disbursements

28. **Disbursements arrangements.** The disbursement methods that would be used under this project will be based on the Disbursement Guidelines for Investment Project Financing, dated February 2017. For Component B, disbursement methods that are commonly used will be (a) advances; (b) direct payments to a third party for works, goods and services upon the borrower's request; (c) special commitments, letters of credit; (d) reimbursements for expenditures incurred under the project, and so on. Further details about disbursements to the project will be included in the disbursement procedures described in the Disbursement and Financial Information Letter (DFIL) and the Administrative, Financial, and Accounting Procedures Manual. As the implementing agency of the project, ST-PAMFIP will maintain the project DA in an eligible commercial bank. If ineligible expenditures are found to have been made from the DA, the borrower will be obligated to refund the same. If the DA remains inactive for more than six

months, the borrower may be requested to refund to IDA, amounts advanced to the DA. IDA will have the right, as reflected in the Financing Agreement, to suspend disbursement of the funds if reporting requirements are not complied with.

29. **Component A.** This component, for a total of US$12,000,000, will finance a share of tax and customs administration operating expense not exceeding 64.0 percent. Achievement of the DLIs and eligibility of related expenditures will be subject to an independent verification before the World Bank's disbursement. ST-PAMFIP will hire the independent verifier annually to that end. Details on the verification protocol is provided in Annex 5, and will be further detailed in the PIM. This results-based subcomponent builds on all the TA activities provided to DGI and DGDDI under Component B. The disbursement method for component A will be on a reimbursement basis of GoC expenditures incurred under pre-identified budget lines.

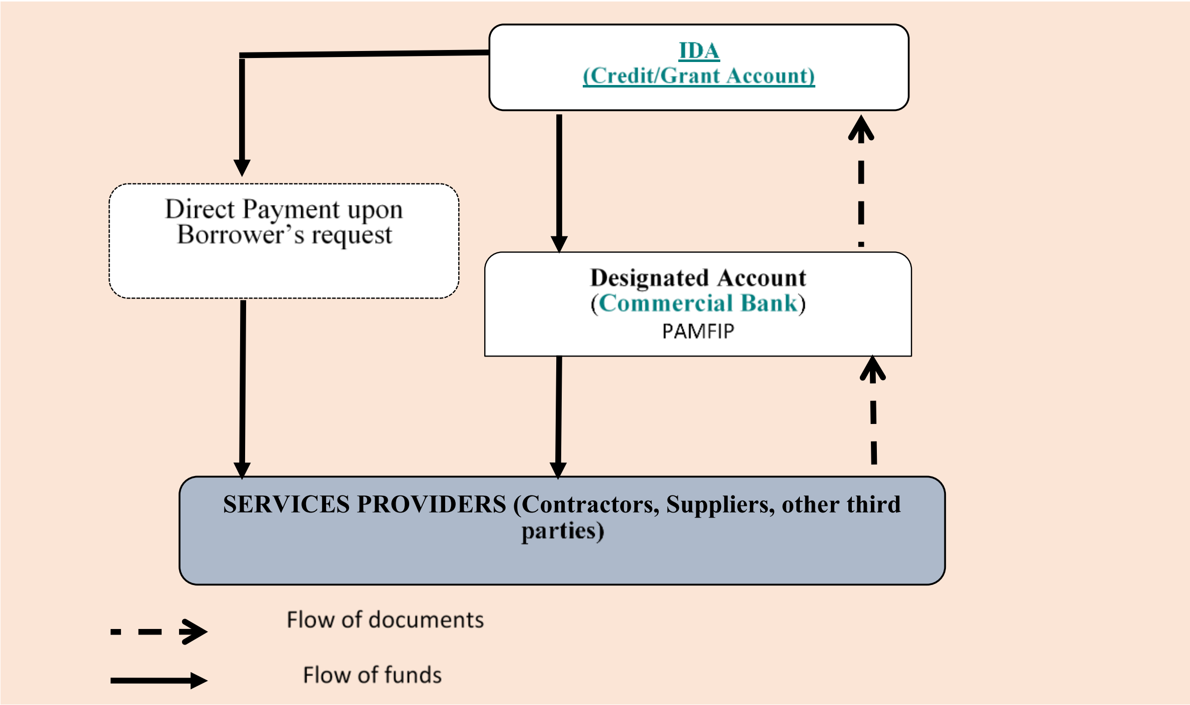
30. **Banking arrangements.** For expenditures under component B and C, ST-PAMFIP will open one segregated DA denominated in CFA franc in a commercial bank on terms and conditions acceptable to the World Bank. The project's DA will function under the co-signature of the project coordinator and the FM specialist of the project.

31. **Flow of funds arrangements for component B and C.** Funds flow arrangements for Components B and C (through the DA above) are as follows:

(a) IDA will make an initial advance disbursement into the DA for the project being implemented by ST-PAMFIP in CFA franc upon receiving a withdrawal application from the borrower.

(b) Replenishment of funds from IDA to the DA will be made upon evidence of satisfactory utilization of the advance, reflected in statements of expenditures (SOEs) and/or on full documentation for payments above SOEs thresholds. Replenishment applications would be required to be submitted regularly on a monthly basis. Further details about disbursements to the project will be included in the disbursement procedures described in the DFIL.

Figure 2.2. DRMM Project - Proposed Flow of Funds



32. **Flow of Funds arrangements for component A.** For component A, once the achievement of the DLIs and eligibility of related expenditures have been verified by an independent verification agent following the verification protocol defined in the PIM, funds will be disbursed to an account in the Central Bank managed by Treasury.

33. **Disbursements by category.** Table 2.2 sets out the expenditure categories to be financed by the grant. This table considers the prevailing Country Financing Parameter for Chad in setting out the financing levels. In accordance with World Bank standard procurement requirements, contracts will continue to be approved 'all taxes included' for local expenditures. Disbursement categories are summarized in Table 2.2.

Table 2.2.Disbursement Category Table

Components			IDA/Amount of the Financing Allocated (expressed in US$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
1	Payments under the EEP under Component A of the Project	12,000,000	100	
2	Goods, non-consulting services, consulting services, Training and Incremental Operating Costs under Component B and C of the Project	21,340,000	100	
3	Refund of Preparation Advance	1,660,000	100	
Total Amount			35,000,000	100

Procurement

34. **Applicable procurement rules and procedures.** Procurement for the proposed project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers, dated July 2016, and revised November 2017 under the New Procurement Framework (NPF) referred to as Procurement Regulations, and the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016), as well as the provisions stipulated in the Financing Agreement.

35. **All goods and non-consulting services will be procured in accordance with the requirements set forth or referred to in Section VI. Approved Selection Methods: Goods, Works and Non-Consulting Services of the 'Procurement Regulations', and the consulting services will be procured in accordance with the requirements set forth or referred to in Section VII. Approved Selection Methods: Consulting Services of the 'Procurement Regulations', the PPSD, and Procurement Plan approved by the World Bank.** The Procurement Plan, including its updates, shall include for each contract (a) a brief description of the activities/contracts, (b) the selection methods to be applied, (c) the cost estimates, (d) time schedules, (e) the World Bank's review requirements, and (f) any other relevant procurement information. The Procurement Plan covering the first 18 months of the project implementation has been submitted to and cleared by the World Bank's. Any updates of the Procurement Plan shall be submitted for the World Bank's clearance.

36. The recipient shall use the World Bank's online procurement planning and tracking tools to prepare, clear, and update its Procurement Plans and conduct all procurement transactions.

37. **Institutional arrangement for procurement.** The ST-PAMFIP based in the MoFB has been retained to be responsible to the implementation of all fiduciary activities comprising procurement and FM. Based on the current procurement context, characterized by the low capacity, and to mitigate the financial risk, the World Bank team has agreed with the Recipient on the following measures: (a) strengthening of the ST-PAMFIP, particularly the fiduciary team, before the date of effectiveness through the implementation of PPA activities; (b) anticipating all procurement activities as indicated in the PPSD and the Procurement Plan; and (c) closely supervising all procurement activities.

38. **Procurement risk assessment.** A summary procurement risk assessment of the ST-PAMFIP in charge of the implementation of procurement activities for the project was carried out and the overall procurement risk rating is Substantial. It will be important to note that the ST-PAMFIP has been created 10 years ago and has recent experience working with the World Bank and applying related policies and procedures. In addition, this will be the second project to be implemented in Chad under the New Procurement Framework.

39. The main procurement-related risks identified are (a) lack of knowledge and practice in application of the New Procurement Framework and (b) lengthy Government approval processes.

40. The following mitigation measures are proposed: (a) The ST-PAMFIP will apply the procurement procedures detailed in the PIM and will develop detailed checklists to ensure consistent and compliant project procurement; and (b) the ST-PAMFIP will also develop a contract management system to ensure that all contracts under the project are effectively and efficiently managed; this will include the tracking of key contract milestones and performance indicators as well as capturing all procurement and contract

records.

41. **National Procurement Arrangement.** In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market (as specified in the Procurement Plan tables in Systematic Tracking and Exchanges in Procurement [STEP]), the country's own procurement procedures may be used. When the beneficiary uses its own national open competitive procurement arrangements as set forth in Public Procurement Code, such arrangements shall be subject to paragraph 5.4 of the Procurement Regulations and the following conditions: (a) the procurement is open to eligible firms from any country ; (b) the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, an compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights; and (c) maintenance of records of the procurement process. When other national procurement arrangements other than national open competitive procurement arrangements are applied by the beneficiary, such arrangements shall be subject to paragraph 5.5 of the Procurement Regulations.

42. **Procurement methods.** The various procurement methods to be used for activities financed by the proposed credit will be set in the Procurement Plan.

43. **Procurement of works.** n.a.

44. **Procurement of goods and non-consulting services.** Procurement of goods will include computer equipment and so on.

45. **Procurement of consulting services (firms and individuals).** Procurement of consulting services will be carried out in accordance with the World Bank Procurement Regulation for Investment Project Financing Borrowers. Consulting services also include the services of training, the recruitment of a nongovernmental organization, United Nations Agencies, consultants (firms) and individual consultant comprising a procurement specialist, FM specialist, and accountants, and so on.

46. **Frequency of procurement supervision.** In addition to the prior review to be carried out by the World Bank, supervision missions will be undertaken at least once per year. One in five procurement packages not subject to World Bank prior review will be examined ex post on an annual basis.

47. **Procurement Plan.** The draft Procurement Plan for the first 18 months has been finalized. The Procurement Plan will be updated by the ST-PAMFIP on an annual or as-needed basis to reflect actual project implementation need. Updating of the Procurement Plan will be submitted for World Bank no-objection and the PPSD updated accordingly

48. **Procurement Planning and Tracking Tool.** In accordance with paragraph 5.9 of the 'World Bank Procurement Regulations for IPF Borrowers' (July 2016) ('Procurement Regulations') the World Bank's STEP system will be used to prepare, clear, and update Procurement Plans and conduct all procurement transactions for the project.

49. **PPSD summary.** A short form of PPSD has been finalized prior to Project negotiation. The

procurement strategy chosen by the Recipient relies on the grouping of activities with similar requirements to reduce the number of tenders, thus addressing capacity constraints and minimizing the risk of procurement delays.

50. **PIM.** The PIM will define the project's internal organization and its implementation procedures, and will include, among other things, (a) the procedures for calling for bids, selecting consultants, and awarding contracts; (b) the internal organization for supervision and control, including operational guidelines defining the role of the executing agency and reporting requirements; and (c) disbursement procedures.

Environmental and Social (including safeguards)

51. **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.

Monitoring and Evaluation

52. **M&E is a key activity in the project and will be carried out by the ST-PAMFIP at the MoFB based on the indicators and milestones developed in the Results Framework (section VII).** A robust M&E system will be developed early on in project implementation to monitor progress and ensure impact. The ST-PAMFIP will have overall responsibility for monitoring and evaluating the project subcomponents/activities in accordance with the indicators and benchmarks included in the Results Framework (section VII). The other beneficiary agencies will be responsible for collecting, analyzing, and supplying the indicator data relevant to the project components/activities under implementation to the ST-PAMFIP. The mechanism of feeding the indicator data into a centrally managed system in the MoFB is detailed in the PIM.

53. **No later than 45 days after each quarter, the MoFB will submit to the World Bank the consolidated quarterly progress reports covering all project activities, including a procurement and a financial summary report.** Biannual reviews, the first one to take place six months after effectiveness, should provide detailed analysis of implementation progress toward achieving the PDOs and include evaluation of the FM and a post review of procurement aspects.

Role of Partners (if applicable)

54. **Since the launch of the petroleum sector in Chad, the World Bank has been supporting the GoC on strengthening public finance management processes and building associated human capital.** The project capitalizes on this long-standing collaboration. Its value added will also be on the complementarity and synergy that it will bring with other ongoing EU projects on the reform of PFM and AFD projects in the field of informatization of the Treasury.

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Chad
Chad Domestic Resource Mobilization and Management

Strategy and Approach for Implementation Support

1. **Task team composition.** The World Bank task team leaders (TTLs) will handle the day-to-day matters of the project as well as coordination with the client, with support from other members of the task team and specialists from other Global Practices, including Energy and Extractives and Macroeconomics and Fiscal Management. The country office has, to a large extent, the required staff to provide necessary support to the ST-PAMFIP and local communities and fulfill the project needs, including with regard to fiduciary, safeguards, M&E, and communications. The country office will maintain liaison and provide support to the client on a daily basis, under supervision and guidance of the TTLs from the headquarters.

2. **The team will also conduct at least biannual supervision missions, including technical, operational, and fiduciary staff.** In conjunction with Government counterparts, the World Bank team will monitor and report on progress against the monitoring indicators agreed in the Results Framework, as well as verification of their achievement. The team will also monitor risks, updating the risk assessment as needed.

3. **The midterm review (MTR) will be carried out by the Government and the World Bank 30 months after the project effectiveness date, to measure progress toward achievement of the project's objective.** The MTR will assess overall project performance against indicators, as well as the level of political commitment during the first half of the project. Based on the assessment of progress at the midpoint of the project, recommendations for improvements/changes would be considered by both the Government counterparts and the World Bank management team. The MTR will also review overall project implementation arrangements and make adjustments as necessary.

Implementation Support Plan and Resource Requirements

4. Table 3.1 summarizes the proposed implementation plan, skills mix, and other inputs required.

Table 3.1. Implementation Support

Time	Focus	Skills Needed	Resource Estimate (US$)
First 12 months	Team leadership, technical and procurement review of the ToRs and procurement documents, institutional arrangement, project management, and supervision	TTLs and other World Bank technical team members, consultants (technical professionals, operations officer/analyst, fiduciary specialists)	220,000
	Implementation of procurement planning and control system; strengthening capacity of the ST-PAMFIP, including additional procurement and FM training	Procurement and FM specialists	

Time	Focus	Skills Needed	Resource Estimate (US$)
	Verifying if the fiduciary risk mitigating measures implemented by project effectiveness are still functioning as intended; identification of any potential problems early in the life of the project	Fiduciary specialists	
	FM	FM specialist	
12–48 months	Project management, operational and technical inputs	TTLs and other World Bank technical professional team members and operations officer	220,000
	FM, disbursement, and reporting	FM specialist, disbursement officer	
	Procurement review	Procurement specialist	
	M&E	M&E specialist	
	Communications	Communications officer	

Table 3.2. Skills Mix Required

Skills Needed	Number of Staff Weeks (SW)	Number of Trips	Comments
TTL/PFM	6, annually	As required	Headquarters-based
Co-TTL/Additional World Bank technical professional members to assist the TTLs	5, annually	As required	Headquarters-based
Procurement	4, annually	—	Country office-based
FM	2, annually	—	Country office-based
M&E	2, annually	As required	Headquarters-based
Short-term consultants (technical professionals and so on)	5–6, annually	As required	Headquarters and local
Communications	2, annually	As required	Local consultant
Operations specialist/analyst	4, for the first 12 months; 3, annually afterwards	As required	Headquarters-based or country office-based

ANNEX 4: SECTORAL AND INSTITUTIONAL CONTEXT

COUNTRY : Chad
Chad Domestic Resource Mobilization and Management

1. **Raising domestic revenues and enhancing expenditure control remain critical challenges to the achievement of the Vision 2030 and the 2017–21 National Development Plan.** First, weaknesses in tax administration and loopholes in tax policy related to exemptions have resulted in significantly under collected tax revenues, which otherwise could have been channeled to improve service delivery in priority sectors. Second, weaknesses in customs administration, ranging from lack of capacity to inadequate oversight, which undermine the country's ability to mobilize revenues from the import and export of goods. Third, the lack of governance hinders 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.

2. **Harnessing the petroleum sector for fiscal sustainability remains a priority in Chad's first long-term development strategy, 'Vision 2030' (*Vision 2030: le Tchad que Nous Voulons*).**[27] Economic recovery, in the short to medium term, will inevitably be driven by the petroleum sector. Many factors affect Chad's ability to improve the benefits derived from the exploitation of its petroleum resources. Some of these factors are exogenous, such as oil prices and the cost of equipment and materials. Others are internal, such as efficiency gains, attractiveness to investors, and good governance. The petroleum sector could also be used to reduce Chad's exposure to price and production-related shocks, as well as to lay the basis for a more diversified economy, which in turn would increase resilience in the face of exogenous shocks and economic cycles, create productive jobs, and lay the foundation for sustainable and inclusive growth.

Limited Tax Policy and Administration Effectiveness contribute to Revenue Shortfalls

3. **Chad's tax policy arrangements partially explain limited non-oil revenue collection, declining in the early 2000s and remaining very low since then.** Tax legislation is overly complex, with high taxation rates (35 percent corporate tax rate and 60 percent individual maximum income tax rate) and a narrow base. A poorly administered value added tax (VAT) compounded by a plethora of exemptions also contributes to the low collection. In addition, there is an absence of central repository of exemptions granted through 'settlement agreements' under the Investment Code by various ministerial authorities. It is therefore difficult to comprehensively estimate the forgone tax revenue from these conventions; however, a sample of 39 of these conventions accounted for a loss of 13.3 percent of the 2015 total tax revenue.[28] 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).

4. **Meanwhile, the Government has introduced reforms since 2016 to simplify the system, reduce**

[27] See annex 3 for details on Vision 2030.
[28] EU (European Union). 2017. *Republique du Tchad - Orientations apres l'atelier National sur l'évaluation des Dépenses Fiscales et la Reforme de l'IRPP*, Gérard Chambas et Jean-François Brun. 7.

the tax rates, and broaden the tax base. The new tax code enacted in July 2016 aims to improve transparency by providing a consolidated tax law available to taxpayers. Moreover, with the support of the World Bank and other technical partners and donors, the Government put a moratorium on any new tax exemption (except those under the Vienna convention or those related to technical and financial partners) until an ongoing study on tax expenditure is completed and new measures adopted.[29] In addition, the Government has launched a review and an audit of current exemptions to assess the fiscal losses embedded in the Tax Exoneration Agreements (*Conventions d'Etablissement*). This review pertains to around 39 conventions covering the largest firms. As of May 2017, 24 conventions have been reviewed, revealing a total fiscal loss of around 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.

5. **With respect to tax administration, the capacity of the Chadian authorities to identify taxpayers, collect payments, and manage risks appears limited.** To date, no Tax Administration Diagnostic Assessment Tool (TADAT) evaluation, allowing an assessment of tax administration's performance, has been conducted**.**[30] However, the 2017 International Finance Corporation Doing Business Report ranks Chad 189 out of 190 surveyed economies 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 limited and is not wholly interfaced with the Directorate General of Treasury and Public Accounting, who is responsible for the collection of the main taxes (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. The issuing of the audit report on current exemptions led the Government to withdraw the moratorium on new tax exemptions in December 2017, to terminate some of the agreements concluded and to strengthen the conditions under which such new exemptions are granted.[31]

6. **Modest efforts have been undertaken in the past by donor partners and the GoC to address challenges related to tax administration.** The French cooperation financed two resident tax and public accounts experts (advisors to DGI and DGTCP) for a period of three years through August 2017. However, little has been provided by way of important technical assistance (TA) in support of these administrations' large unmet needs. Likewise, the Government financed the introduction of SIGTAS in 2015. However, shortfalls in discipline, change management, and full use of the functionalities of the ICT systems within the tax administration have yielded scant results. Today, the European Union (EU) and French Development *Agency* (AFD) are initiating or considering supporting the Ministry of Finance and Budget

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[29] Arrêté n 31/PR/PM/MoFB/SE/SG/2017, dated June 23, 2017. However, the investment code (*Charte d'Investissements)*, still needs to be aligned with the general tax code and/or CEMAC directives.
[30] The TADAT Steering Committee comprises the World Bank, IMF, European Commission, Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom. TADAT country assessments are expected to contribute to strengthened tax administration, enhanced revenue mobilization, improved services to taxpayers, and better taxpayer compliance and discipline.
[31] Article 154 of the Tax Code and *Arrêté portant creation 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.

(MoFB) through TA projects (€7.5 million and around €4 million, respectively). Activities that may be considered under these projects are not yet defined but initial consultations indicate that the diagnostics and objectives are shared between the donors.

Customs Administration challenges and effect on Public Revenue

7. **The GoC suffers from customs administration effectiveness, which affects revenue collection.** In 2016, the overall shortfall recorded by the DGDDI, through Customs ICT Management System 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).[32] Consultations with private sector representatives indicate that import and export procedures in Chad are characterized by long lead times for merchandise clearance and associated high degree of corrupt practices. The Logistics Performance Index (LPI)[33] ranks Chad 145 out of 147 countries surveyed and the lowest performer on customs in Africa. Chad also stands at 171 in the 2017 Doing Business Indicators ranking of 190 economies on the ease of trading across borders, significantly below the Sub-Saharan Africa average on most of the indicators tracking import cost and lead time (see Table 1).

Table 2. 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.

8. **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

[32] The **++** indicates software upgrades to the original system.

[33] 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.

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.

Governance effect on Development of ICT Sector and Potential Public Revenue

9. **The performance of the ICT sector in Chad is among the poorest in the world and in Sub-Saharan Africa.** 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).[34] Mobile phone services dominate the ICT sector, but prices remain high and quality of service is poor, especially for mobile broadband services. The public institutions tasked with governing the sector are characterized by low institutional capacity. The recent increase on the taxation of the sector and the lack of options for international connectivity has led to high prices and little available bandwidth.

10. **The current ICT tax system is suboptimal given the size of the sector and the capacity of sectoral agencies.** Although the ICT sector accounts for less than 3 percent of GDP, the sector contributes to around 11 percent to 14 percent of total Government tax revenues. In addition to the VAT rate of 18 percent, taxes on the telecom sector include (a) a specific excise tax (*droit d'accise*) for mobile operators, representing 18 percent of their revenues;[35] (b) a regulatory fee (*redevances*) representing 9 percent of mobile operator revenues;[36] (c) a specific tax of XAF 50 per minute for incoming international calls; and (d) tax on pylons. The total tax revenue paid by mobile operators amount to half of their total revenues, one of the highest rate in Sub-Saharan Africa; this greatly affects the competitiveness of Chadian telephony as well as its affordability for a wide range of applications ultimately resulting in lost opportunities and lower direct and indirect fiscal revenue for the Government.

11. **The Universal Service Fund (FSUCE) has not fulfilled its mission to extend rural mobile connectivity.** The FSUCE, under the supervision of the ADETIC, is not fully functional and lacks transparency. Since 2014, the funding of the FSUCE has been based on a tax on total sales. In 2017, these amounted to 1.5 percent of total mobile services sales, down from 3.5 percent until 2016. The ADETIC has financed numerous projects, but none relate to its primary mandate as Universal Service Fund, which is to increase mobile connectivity in rural and remote areas.

12. **International connectivity is limited, with only one operational fiber linking Chad to the SAT-3 submarine cable via Cameroon.** The incumbent operator Sotel Chad owns and operates the optic fiber

[34] 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).

[35] This excise was introduced in the Finance Law of 2017 and replaces previous sector-specific taxes such as (a) the audio-visual tax (*Redevance Audiovisuelle*), (b) the tax for the National Fund for the Development of Sports (*Fond National de Développement de Sport)*, and (c) stamp duties (a SIM activation tax of XAF to each new SIM card, 10 percent tax on post-paid invoices); these previous sector-specific taxes represented around 5 percent to 7 percent of total revenues.

[36] With the following breakdown: 4 percent for the Treasury, 2.5 percent for the regulator ARCEP, 1.5 percent for the ADETIC, and the remaining 1 percent for the National High School of Telecommunication and Information Technology (*Ecole nationale supérieure des TIC)* and the National Agency of Information Security and Electronic Certification (A*gence Nationale de Sécurisation Informatique et de Certification Electronique*) as set forth in the Finance law 2018, article 39.

connecting N'Djamena to Cameroon. To increase international connectivity, the Government mandated the regulator (ARCEP) to finance the deployment of a second fiber optic to Sudan, which is still not operational. A third fiber optic connecting Niger is planned to be jointly financed by the African Development Bank (AfDB) and the EU. To operationalize all the governmental fiber optics (to Cameroon, Niger, and Sudan), the Government announced plans to introduce a public-private partnership (PPP) with Chadian operators to ensure the wholesale access of international connectivity. Although the negotiations on the PPP started well, the process has come to a halt despite being supported by AfDB and EU under their Investment Project Financing (IPF) to build the Chad-Niger fiber optic (open access PPP is a disbursement condition and the AfDB has started to provide some TA to implement the PPP).

Oversight of Petroleum Operations and Effect on Chad's Revenue Potential

13. **Effective oversight of petroleum operations can improve revenue mobilization.** 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 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.

14. **The lack of a functioning accounting and reporting system hampers the SHT's ability to effectively and efficiently manage petroleum operations.** The company's general accounting is currently not integrated with management accounting and statistical data (such as production and sales) are kept manually out of flow. Currently, the company's accounts are produced using SAGE 700 software, an accounting software designed for a wide range of small and medium companies. Existing modules cover general accounts and payroll. The SHT does not have a management accounting system that reflects growing complexity of its business. This results in opacity, inaccuracies, and delays in the production of data that impact management's ability to make prompt and informed decisions.

15. **Infrequent audits are inadequate to ascertain the accuracy of the information provided by companies.** Although the GoC has the legal and contractual right to conduct financial audits on a routine basis and may request special audits of companies, such audits are not a common practice.[37] Primary challenges cited are the following: (a) a cost audit requires deep technical expertise and access to comparator data with which to challenge costs of specific equipment, services, and material submitted by the operator, and (b) such rights, if not exercised, cease to apply after whatever cut-off date is set out in the relevant petroleum contract. Consequently, the efficiency of petroleum production activities varies widely across operators, with costs estimated to range from US$12.5–50 per barrel, raising questions regarding the underlying reasons beyond obvious factors such as scale, technology, and reservoir complexity. The Ministry of Petroleum and the tax authorities are unable to make assessments of the

[37] The last petroleum operations audit conducted on behalf of the Ministry of Petroleum was completed in 2014 and covered upstream and refinery operation until 2012. The SHT has recently launched its first initial audit of joint accounts since it took active participating rights in petroleum operations. The DGI undertake tax inspections, but not all tax payers are regularly audited.

reasonableness of intercompany transfers, and the application of lawful exemptions and special regimes.

16. **The lack 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.** The award of exploration and production rights in the petroleum sectors is generally more efficient when transparent, nondiscretionary procedures, and competitive conditions are applied. The integrity of this process is more easily ensured through the creation of a petroleum cadaster, a registry of petroleum properties, and their graphical representation, usually managed by an administrative body responsible for overseeing the process of granting and managing petroleum exploration and production rights. Geo-referenced cadasters provide an additional layer of information, facilitating the management of overlapping rights, as well as the design of optimal resource promotion and development policies. Modern cadaster systems also enable supporting the oversight of contract implementation and revenue modeling.

ANNEX 5: DLIs VERIFICATION PROTOCOL

#	DLI	Definition/Description of Achievement	Scalability of Disbursement (Yes/No)	Protocol to Evaluate Achievement of the DLI		
				Data Source/Entity	Formula	Procedure
1	Establish a unified taxpayers' registry for enterprises					
	DLR#1.1: A census of taxpayers has been conducted and the census report has been issued.	The census has been conducted and a report issued by the MCI	No	Census report issued by the MCI	N/A	The IVA will review the compliance of the report with the census ToRs. It may conduct some spot checks towards taxpayers as needed (sampling can be defined in the POM or IVA's TOR)
	DLR#1.2: A regulation defining the responsibility for the establishment and management of the unified taxpayers' registry and the procedure for registration is adopted by the Recipient's MCI.	MCI has formally adopted through the relevant administrative channels the regulation defining the responsibility for the establishment and management of the unified taxpayers' registry and the procedure for registration	No	MCI	N/A	The IVA will review that MCI has passed the necessary legislation (as per Chad's appropriate legal procedures)
	DLR#1.3: At least 50 percent of the large taxpayers estimated in the census are registered in the unified tax registry	MCI has taken any necessary action to ensure that at least 50 percent of the large taxpayers estimated in the census are registered in the unified registry	No	MCI	N/A	The IVA will review the report generated from the registry to ensure that the minimum registration target (50 percent of census estimated population of large taxpayers) is met. It may conduct some spot checks as needed (sampling can be defined in the POM

						or IVA's TORs)
2	Electronic filing by large taxpayers					
	DLR#2.2: The DGI has: a) mandated electronic filing by regulation; b) has issued guiding procedure to ensure that large taxpayers file electronically; and at least 6 percent of large taxpayers file electronically	The DGI has: a) mandated electronic filing by regulation; b) has issued guiding procedure to ensure that large taxpayers file electronically; and c) DGI will issue a SIGTAS generated report showing the number of large taxpayers that have filed electronically.	No	DGI	N/A	IVA will: a) confirm that the regulation and guidelines have been issued: and b) review the electronic filing report from DGI to verify that that the minimum electronic filing target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#2.3: At least 10 percent of large taxpayers file electronically	DGI will issue a SIGTAS generated report showing the number of large taxpayers that have filed electronically	No	SIGTAS report from DGI	N/A	IVA will review the electronic filing report from DGI to verify that the minimum electronic filing target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#2.4: At least 15 percent of large taxpayers file electronically	DGI will issue a SIGTAS generated report showing the number of large taxpayers that have filed electronically	No	SIGTAS report from DGI	N/A	IVA will review the electronic filing report from DGI to verify that the minimum electronic filing target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#2.5: At least 20 percent of large	DGI will issue a SIGTAS generated report showing the	No	SIGTAS report from DGI	N/A	IVA will review the electronic filing report from

	taxpayers file electronically	number of large taxpayers that have filed electronically				DGI to verify that that the minimum electronic filing target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
3	Support the roll out of mandatory tax payments by large taxpayers through the banking system					
	DLR#3.2: MOF issues mandatory payment instructions to large taxpayers to pay through the banking system	MOF has formally issued instructions to large taxpayers for mandatory payment through the banking system	No	MOF	N/A	The IVA will review that MOF has passed the necessary regulation (as per Chad's appropriate legal procedures)
	DLR#3.3: 40% of large taxpayers pay through the banking system	Increased number of tax declarations paid through commercial banks by large taxpayers	No	DGI	N/A	IVA will review the data from DGI's information system, SIGTAS to verify that the minimum target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
	DLR#3.4: 70% of large taxpayers pay through the banking system	Increased number of tax declarations paid through commercial banks by large taxpayers	No	DGI	N/A	IVA will review the data from DGI's information system, SIGTAS to verify that the minimum target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
	DLR#3.5: 100% of large taxpayers pay through the banking system	Increased number of tax declarations paid through commercial banks by large taxpayers	No	DGI	N/A	IVA will review the data from DGI's information system, SIGTAS to verify that the minimum target is

						met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
4	Support the gradual adoption of pay-by-phone by small taxpayers					
	DLR#4.1: At least 4% of small taxpayers use pay-by-phone	Increased number of tax declarations paid by phone by small taxpayers	No	DGI/Treasury report	N/A	IVA will review the DGI's information system, SIGTAS to verify that that the minimum target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
	DLR#4.2: At least 10% of small taxpayers use pa-by-phone	Increased number of tax declarations paid by phone by small taxpayers	No	DGI/Treasury report	N/A	IVA will review the DGI's information system, SIGTAS to verify that that the minimum target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
	DLR#4.3: At least 20% of small taxpayers use pa-by-phone	Increased number of tax declarations paid by phone by small taxpayers	No	DGI/Treasury report	N/A	IVA will review the DGI's information system, SIGTAS to verify that that the minimum target is met. It may conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs
5	Reduce the number of physical inspections					
	DLR#5.1: No more than 90% of imported	DGDDI will decrease the number of physical	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some

	merchandise is physically inspected	inspections for imported merchandise				spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#5.2: No more than 80% of imported merchandise is physically inspected	DGDDI will decrease the number of physical inspections for imported merchandise	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#5.3: No more than 70% of imported merchandise is physically inspected	DGDDI will decrease the number of physical inspections for imported merchandise	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#5.4: No more than 60% of imported merchandise is physically inspected	DGDDI will decrease the number of physical inspections for imported merchandise	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#5.5: No more than 50% of imported merchandise is physically inspected	DGDDI will decrease the number of physical inspections for imported merchandise	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
6	Reduced imported merchandise release time					
	DLR#6.1: Regulation issued by the MoFB mandating the adoption of the procedure for risk-based inspection	A regulation is issued by the MFB mandating the adoption of risk-based inspection procedures	No	DGDDI	N/A	The IVA will review that MOF has passed the necessary regulation (as per Chad's appropriate legal procedures)
	DLR#6.2: 229 hours on average to clear	DGDDI has decreased average time to import goods	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some

	imported merchandise					spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#6.3: 216 hours on average to clear imported merchandise	DGDDI has decreased average time to import goods	No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#6.4: 203 hours on average to clear imported merchandise		No	DGDDI/ASYCUDA report	N/A	IVA will verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)
	DLR#6.5: 190 hours on average to clear imported merchandise		No	DGDDI/ASYCUDA report	N/A	IVA verify the ASYCUDA report and conduct some spot checks as needed (sampling can be defined in the POM or IVA's TORs)