



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 31-Jan-2018 | Report No: PIDISDSC23429



BASIC INFORMATION

A. Basic Project Data

Country Chad	Project ID P164529	Parent Project ID (if any)	Project Name Chad Domestic Resource Mobilization and Management (P164529)
Region AFRICA	Estimated Appraisal Date May 02, 2018	Estimated Board Date Jun 20, 2018	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Republic of Chad	Implementing Agency Ministère des Finances	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Development Association (IDA)	35.00
IDA Grant	35.00

Environmental Assessment Category
C-Not Required

Concept Review Decision
Track II-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

1. Chad is a large, landlocked country of 13 million people in central Africa, with a 2017 per capita gross domestic product (GDP) of \$842¹ and a decades-long history of fragility and conflict. Since its independence from France in 1960, Chad has endured numerous armed rebellions, political upheavals, and civil wars, all of which have resulted in a highly-fractured society, weak state legitimacy, and limited government accountability. Although these hostilities have largely ended, armed attacks from abroad by Boko Haram continue along the frontiers with Cameroon, Niger, and Nigeria, and have adversely impacted the economy, including livestock supplies, commerce, communications, and cross-border trade.²

2. Chad's continuing fragility stems from a myriad of factors, including a history of conflict and violence, rapid population growth, lack of economic diversification, and climate change, compounded by severe governance challenges, resulting in a public administration with low capacity to manage public resources and deliver services in an efficient and accountable manner. According to the 2017 Fragile States Index, which measures the status of 178 countries, Chad ranked as the 8th most fragile country in the world, with significant declines in indicators that track state legitimacy, public services performance, and human rights.³ A majority of World Governance Indicators have also declined from 2011 to 2016, including political stability, government effectiveness, regulatory quality, and control of corruption.⁴ The most recent World Bank Country Policy and Institutional Assessment (CPIA) reveals a similar picture, with every public sector management and institutional indicator performing lower than the sub-Saharan regional average.⁵

3. Exacerbating this fragile political and security environment, recent economic shocks have adversely affected Chad's economic growth and public finances. After growing at an average rate of 6.3 percent during 2013-14, oil prices plunged at end-2014, sending the Chadian economy into a severe recession: real GDP growth slowed from 6.9 percent in 2014 to 1.8 percent in 2015, and contracted by -6.4 percent in 2016; fiscal revenues fell from 17.1 percent of non-oil GDP in 2015 to 14.9 percent in 2016; and total public spending dropped from 22.9 percent of non-oil GDP to 18.0 percent. 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 has contributed to a worsening trade balance.⁶

¹ Unless otherwise specified, the currency cited throughout this document is the US dollar.

² These cascading conflicts, and particularly the rising insecurity in the Lake Chad region since 2013, have left Chad to host some 750,000 refugees, many of whom live in displacement camps scattered along its borders, at an average annual cost that the United Nations estimates at \$282 million (equivalent to 2.8 percent of Chad's 2016 GDP). Even if these immediate costs are borne by external funding, they tend to deplete the total pool of external support.

³ Fund for Peace. Fragile States Index 2017.

⁴ World Governance Indicators 2017.

⁵ World Bank. Country Policy and Institutional Assessment 2016.

⁶ Figures taken from the recent macroeconomic assessment as provided by the Economic Recovery and Resilience Development Policy Operation (DPO) series.



4. These external and fiscal pressures portend a reversal of some of the poverty gains made in the recent past.

While the poverty rate dropped between 2003 and 2011, the recent decline in oil price and deterioration of the security situation is expected to raise the poverty rate from 34.3% in 2015 to an estimated 40.7 percent by 2019. At the same time, Chad's annual population growth rate of 3 percent between 2003 and 2011 has resulted in an increase in the absolute number of poor people, which increased by 15 percent over this period, coupled with an increase in inequality (the Gini Coefficient in Chad was 0.43 in 2011), almost entirely because of increased inequalities within rural areas.⁷ While the crisis persists and population growth rates remain high, the World Bank projects that the absolute number of poor people will rise from 4.7 million to 6.3 million between 2012 and 2019.⁸

5. Although the Government of Chad (GoC) has reaffirmed its commitment to maintaining public spending in critical social sectors, this remains highly challenging in the face of daunting human development needs, exacerbated by fiscal challenges.

Even before the crisis began, Chad had one of the lowest Human Development Index scores (185 of 188 countries)⁹ and most of the Millennium Development Goals were not met by 2015. According to a 2015 United Nations Children's Fund (UNICEF) study, 78 percent of young people and adults 15 years and older are illiterate, 68 percent of the population of 15-24 years are not enrolled in education, and 45 percent of youth of 6-24 years have *never* been enrolled in a modern school.¹⁰ The latest Demographic and Health Survey (DHS), completed in 2015, estimates child and infant mortality rates at 133 and 72 respectively (per thousand living births)—although this compares favorably to the 2010 data, at 171 and 98. Infant and child deaths—among the highest in the world—are mainly the result of birth complications, malaria, respiratory infections, diarrhea, and malnutrition. Maternal mortality, among the highest in central African countries, was estimated at 860 per 100,000 live births, compared to 1,084 in 2010.¹¹

6. 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.

In 2016, the estimated fiscal deficit (including grants) amounted to 5.5 percent of non-oil GDP, and the economy is projected to contract again in 2017, by 2.7 percent. An oil collateralized loan with Glencore has aggravated a very difficult fiscal situation, as about 85 percent of oil sales revenues were paid to the creditor in 2016. This has left the Government illiquid, with external and domestic arrears buildup, and Chad is officially in external debt distress (2017 Debt Sustainability Analysis). Chad's robust support for regional peacekeeping efforts has added to the fiscal crisis, leading to an increase in security expenditure from 3.1 percent to 3.4 percent of GDP between 2014 and 2016, which has had adverse fiscal implications for economic and social development spending.¹² In the absence of fiscal space and given the constraints of the CEMAC monetary union,¹³ Chad relies exclusively on debt restructuring and official support to close its substantial 2018-2020 financing gap. A condition for robust support will be the successful restructuring of external commercial debt.

⁷ World Bank. 2015. Chad - Country Partnership Framework for the Period FY16-20. Washington, D.C.: World Bank Group.

⁸ Ibid.

⁹ 2015 United Nations Development Program (UNDP) Human Development Index (HDI).

¹⁰ World Bank. 2015.

¹¹ Ibid.

¹² In recent years, Chad has provided support to the multinational intervention in northern Mali in 2013, joined the Sahel G5 in 2014 to combat regional security challenges such as terrorism and trafficking, and in 2015 joined a common front to combat Boko Haram. Persistent regional insecurity presents serious exogenous risks, and any significant increase in either security spending or humanitarian assistance could derail fiscal consolidation.

¹³ The Central African Economic and Monetary Community (Communauté Économique et Monétaire de l'Afrique Centrale), or CEMAC, is a customs and monetary union between Cameroon, Central African Republic, Chad, Congo, Gabon, and Equatorial Guinea. Although the monetary union is operational; the customs union is not.



7. 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. By reducing both capital and recurrent expenditures, the Government cut total public spending from 29.4 percent of non-oil GDP in 2014 to 18 percent in 2016. Domestically financed public investment fell from 9.8 percent of non-oil GDP in 2014 to 1.1 percent in 2016, while recurrent spending dropped from 16.6 percent to 14.3 percent. The payment of civil-service salaries was delayed by three months at the end of 2016. Domestic arrears increased to about 3 percent of non-oil GDP at end-2016, but the nominal stock of arrears remained at about CFAF 200 billion (equivalent to roughly \$340 million), broadly unchanged from end-2015. In other words, the increase in arrears as a share of non-oil GDP primarily reflected the contraction of non-oil GDP.

8. Although the Government has maintained fiscal discipline and created extraordinary liquidity, it still relies on external budget support to close the 2017 financing gap. In the context of relatively weak expected performance of oil revenues, the non-oil primary deficit anchors Chad's medium-term fiscal policy. This deficit fell from -9.7 percent of non-oil GDP at end-2015 to -4.4 percent at end-2016, largely because of expenditures cuts, improved budget management, and reduced recourse to extraordinary expenditures. The sharp fiscal adjustment contained the overall fiscal deficit (cash basis) at 5.0 percent of non-oil GDP in 2016. In 2017, the overall balance is projected to be at -1.5 percent of non-oil GDP. So far, the Government has issued bonds in the regional debt market, reduced its debt service to Glencore, and created extraordinary oil revenues. However, even after having received one IMF disbursement through a three-year Extended Credit Facility (ECF) arrangement, as well as some budget support from bilateral and multilateral donors (including \$65 million through World Bank Group/WBG support), Chad would still need to postpone significant arrears payments and receive additional external financing to close its 2017 financing gap. In the absence of fiscal space, Chad will not be able to manage the transition from a short-term stabilization to a medium-term structural policy agenda in line with its National Development Plan (discussed below).

Sectoral and Institutional Context

9. Three sectors—petroleum, domestic fiscal, and external financing—and institutional reforms to raise domestic revenues are key to addressing Chad's binding constraints on growth, and GoC has already taken active and highly disciplined steps on these matters that fall within its immediate remit.

10. In the short to medium term, economic recovery 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. A more diversified economy would increase resilience in the face of exogenous shocks and economic cycles, create productive jobs, and lay the foundation for sustainable and inclusive growth.

11. The proposed revenue mobilization and management, including through tax and customs policy and administration, Petroleum and ICT, sectoral reforms and other related measures are in line with the objectives set forth in Chad's first long-term development strategy, "Vision 2030" (*Vision 2030: le Tchad que Nous Voulons*). Vision 2030 (see Annex 3) reflects the perceptions and aspirations of the Chadian people, as expressed in a recent national survey, and comprises four strategic axes: (a) consolidating national unity; (b) strengthening good governance and the rule of law; (c) promoting economic diversification and competitiveness; and (d) improving the quality of life of the Chadian populace. Vision 2030 is intended to guide short-, medium-, and long-term national development planning, with the overarching goal of enabling Chad to become an emerging economy by 2030. As a first step, the Government's medium-term strategy,



the Five-Year Plan for 2017-2021, aims to facilitate structural economic transformation, promote greater private investment in the non-oil sectors, and introduce principles of performance-based management into the public administration.

12. Several mutually reinforcing challenges make it difficult to raise domestic revenues and enhance expenditure control, which are crucial to achieving the objectives set forth in Vision 2030 and the 2017-2021 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 be channeled to improve service delivery in key priority sectors. Second, weaknesses in customs administration persist at the Human Resources (HR), information, communications, and technology (IT), oversight, and policy levels, which further undermine the country's ability to mobilize potential revenues related to the import and export of critical goods. Finally, poor governance, transparency, and oversight of the ICT and Petroleum sectors lead to substantial losses in terms of revenues and efficiency, and further undermine fiscal sustainability. Each of these issues and related potential areas of intervention are discussed below.

Weaknesses in Tax Policy Contribute to Significant Revenue Shortfalls

13. Despite sound economic performance over the past 15 years, non-oil revenue collection has been very weak, declining in the early 2000's and remaining very low since then. In 2016, it represented only 6.8 percent of GDP, significantly lower than the CEMAC and SSA averages (11.3 percent and 13 percent, respectively). Lack of diversification, a strong dependence on the oil sector, and a narrow tax base of around 11,200 firms (of which, approximately 250 are responsible for about half of all non-oil tax revenues) limit revenues.¹⁴ At the same time, the decisions on tax exemptions are not centralized at the Ministry of Finance and Budget (MoFB) level, which significantly undermines controls over related fiscal implications, costs, and benefits, as well as their compliance with CEMAC regulations. Consequently, tax expenditures in 2014 led to an estimated loss in revenue to the government of 50 percent of non-oil revenues (or 4.7 percent of non-oil GDP), and this ratio has likely increased since then.¹⁵

14. Chad's tax policy arrangements are problematic. Tax legislation is overly complex, with high taxation rates (35 percent corporate tax rate, 60 percent individual maximum income tax rate) and a narrow base. A poorly administered 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 (*Charte des Investissements*) by various ministerial authorities. It is therefore difficult comprehensively to 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.¹⁶

15. Similarly, the personal income tax lacks integration of income taxed at source and employs a variety of methods and rates, which poses equity and efficiency issues. The scale of the graduated rate of tax on personal income is used only for wage income in the formal private sector. The differentiated rules for calculating the tax base such as the application of a proportional scale for civil servants and a progressive scale for private employees results in unfair treatment for taxpayers whose income is identical. Thus, the modest salaries of the civil service are more taxed than those of the private sector, while for highly remunerated individuals in the private sector, the tax burden is much lower than in the public sector. Similarly, several types of income are also not taxed *de facto*, including capital gains and rents. While

¹⁴ 2017. Chad – Emergency Fiscal Stabilization Development Policy Operation. Washington, D.C.: World Bank Group.

¹⁵ Ibid.

¹⁶ European Union. 2017. République du Tchad - Orientations apres l'atelier National sur l'évaluation des Dépenses Fiscales et la Réforme de l'IRPP, Gérard Chambas et Jean-François Brun. 7.



the tax on personal income is complex, the tax on corporate income, although reduced from 40 percent to 35 percent in 2015, no longer corresponds to the standard rate commonly observed in developing countries.¹⁷

16. Finally, VAT revenue collection remains low by regional and global standards, because of deficiencies in tax administration and policy (IMF 2016). With the same VAT performance of Burkina Faso or Mali, Chad could collect an additional tax estimated at 4-5 percent of its total GDP (IMF 2016). Currently, the effectiveness of the VAT is undermined by widespread use of exemptions in combination with (or in response to) administrative limitations and a non-functioning refund process. Moreover, important VAT exemptions are reported to benefit favorite groups. For instance, a recent EU study (Chambas/Brun 2017) found that VAT exemptions of the electricity sector benefit 62.9 percent of households at the top two deciles and only 0.4 percent of households at the two poorest deciles, as the latter generally do not have access to electricity. For medicines, these percentages are similar: 59 percent for the top two deciles and only 1 percent for the two poorest deciles respectively, which highlights a great difficulty for the poorest to access medicine. Ratios for consumption follow the same pattern (46.2 and 7.2 percent). In short, VAT exemptions largely benefit wealthier consumers; thus, reforming VAT policy and administration is a critical component for the domestic resource mobilization and management (DRMM) strategy in Chad.

17. The Government has however introduced reforms since 2016 to simplify the system, reduce 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 exemptions¹⁸ 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. 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'Établissement*). 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 \$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.

18. IMF¹⁹ and EU²⁰ recommendations to reform the individual income tax, broaden the tax base, and address the VAT system (including VAT refund efficacy) are being considered in the Government's 2018 finance bill. (However, many enterprises in Chad—which, as elsewhere in the world, have a voice in the political process—benefit from long duration settlement conventions.) Likewise, it is expected that a full study on tax expenditure will be completed by the end of 2018 and annexed to the finance bill of 2019. If implemented adequately, these reforms would address the main issues posed by Chad's current tax policy. Even in the likelihood of such a positive outcome, it will still be necessary to engage in a continuous improvement of tax legislation, to better align Chad with the latest developments of the international tax agenda.

¹⁷ The 35 percent corporate tax rate falls within the range of the CEMAC Directive (25-40 percent) However the range used in the countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) of the West African Economic and Monetary Union (WAEMU)—25-30 percent—has become a standard in sub-Saharan Africa. In emerging countries, rates of 15-20 percent are common.

¹⁸ Arrêté n 31/PR/PM/MFB/SE/SG/2017 dated 23 June 2017. However, the investment code (*Charte d'Investissements*), still needs to be aligned with the general tax code and/or CEMAC directives.

¹⁹ International Monetary Fund. 2016 Réforme de la Fiscalité Intérieure dans un Contexte de Chocs. Département des finances publiques. Gérard Chambas et Jean-François Brun.

²⁰ European Union. 2017. République du Tchad - Orientations après l'atelier National sur l'évaluation des Dépenses Fiscales et la Réforme de l'IRPP. Gérard Chambas et Jean-François Brun.



Weaknesses in Tax Administration Contribute to Significant Revenue Shortfalls

19. With respect to tax administration, the capacity of the Chadian authorities to identify taxpayers, collect payments, and manage risks appear particularly low. To date, no Tax Administration Diagnostic Assessment Tool (TADAT) evaluation,²¹ allowing an assessment of tax administration's performance, has been conducted. However, the 2017 IFC Doing Business Report ranks Chad 189th 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 department responsible for the collection of the main taxes (*Direction Générale du Trésor et de la Comptabilité Publique*). Likewise, the launching of the Standard Integrated Government Tax Administration System (SIGTAS) in 2015, financed by the Government of Chad, remains incomplete. Finally, HR management 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.

20. To improve the efficiency of tax administration, the Directorate General of Tax (DGI) has proposed several ambitious but realistic projects. First, the DGI is seeking assistance to secure its taxpayers registry by using a unique tax identification number (TIN) and to share the registry with other relevant administrations (e.g., customs, treasury, procurement, social security agencies). This would also include a tax census in N'Djamena, which concentrates the main tax potential, and a biometric identification of self-employed workers. Second, the DGI is seeking to improve its IT system and develop the interconnection within its own administration between different units as well as interface with other departments within the Ministry of Finance. Third, DGI intends to biometrically identify individuals who run enterprises to obtain certainty on the identity of a taxpayer at the timing of the formalities linked with the TIN attribution, in part as a response to the lack of reliability of the ID national card and to the avoidance strategies put in place by some of these individuals. Finally, DGI is considering the use of performance contract between the tax administration and the MoFB, under which the tax administration would commit to achieve qualitative and quantitative results, based on agreed performance criteria. In return, MoFB would agree for DGI to retain a specified percentage of the tax collected as financial resource for use by the tax administration. These resources, which will depend on the actual level of performance of the administration, could be used by DGI to fund needed investments, notably in professional training; and/or as a financial incentive for employees in a change management perspective. Recent experiences in fragile countries suggest that this type of performance contract can be an effective change management tool. However, given the low level of tax currently collected by DGI, the percentage retained by the tax administration will probably not meet the high level of financial resources needed by DGI to finance investments. Hence, there is a need for support in the early stage of implementation of the performance contract.

21. Modest efforts have been undertaken in the past by donor partners and GoC to address challenges related to tax administration. The French cooperation financed two resident tax and public accounts experts (advisors to Direction Générale des Impôts (DGI) and Direction Générale du Trésor et de la Comptabilité Publique (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, GoC financed the introduction of SIGTAS in 2015. However, shortfalls in discipline, change management, and full use of the functionalities of the IT systems within the tax administration have yielded scant results. Today, the EU and Agence Française de Développement (AFD) are initiating or considering supporting the MoFB through technical assistance projects (€7.5 million and around €4 million, respectively). Activities that may be

²¹ The TADAT Steering Committee is comprised of 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.



considered under these projects are not yet defined but initial consultations indicate that the diagnostics and objectives are shared between the donors.

Weaknesses in Customs Administration Also Contribute to Significant Revenue Shortfalls

22. In addition to under-collected tax revenues, the Government of Chad suffers from poor customs administration, which further impedes revenue collection. In 2016, the overall shortfall recorded by the Direction Générale des Douanes et Droits Indirects (DGDDI), either through Customs IT Management System (SYDONIA)⁺⁺²² or through manual procedures, amounted to CFAF 140 billion (or 2.34 percent of GDP), while for the same year, overall customs revenue was CFA 123.5 billion (representing 2.06 percent of GDP). Consultations with private sector representatives report 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 (LPI²³) ranks Chad at 145 of 147 countries surveyed, and as 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, ranking significantly below the Sub-Saharan Africa average on most of the indicators tracking import cost and lead time (see Table 1).

Table1. 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.

Although Chad performs better than the region on export procedures, it is lagging on import ones. 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.

23. This poor customs’ import performance is the product of mutually reinforcing capacity challenges. First, there is an excessive number of inspections; physical inspections are made for 100 percent of import and export transactions. Moreover, these inspections may be repeated for every single import and export, as border control officers, regional customs branches, and *brigade mobile* (special Customs Police) are permitted to undertake separate inspections, leading to inefficiencies and creating rent-seeking opportunities. Although limited non-invasive technology (four customs

²² The ++ indicates software upgrades to the original system.

²³ 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.



scanners) was acquired four years ago, budget constraints for equipment maintenance effectively preclude scanning, which, moreover, is not connected to a central system. Second, SYDONIA is not implemented in several branches nor at border crossings, which leads to a reliance on manual procedures, including manual collection. Such practices generate opportunities for irregular procedures, bypassing efforts for correct collection, and significantly increasing costs for traders, with long delays in merchandise release. The recent EU-commissioned tax and customs study for Chad notes that partial implementation of IT in customs operations is a major constraint, with only 75 percent of imports captured and likely negative spill-overs on VAT administration. Additional challenges include (a) lack of human resource competency and full count of customs officers (some 1,500 are military officers who lack proper customs training); (b) difficulty in overseeing all operations and border offices; and (c) chronic problems regarding management rotation, including the appointment of a new director of the customs administration every few months, which leads to managerial instability and inertia and undermines continuity of any plan or vision for a properly functioning customs administration.

24. Supported by the IMF, the customs directorate (DGD) has developed a 2017-2021 improved 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 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.

Poor Governance of the ICT, Petroleum, and Other State Entities Affects Chad's Revenue Potential

25. The performance of the Information, Communications, and Technology (ICT) sector in Chad is among the poorest in the world and in sub Saharan Africa (SSA). As such, 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 slow pace, reaching around 60 percent of the population at the end of 2017 compared to 40 percent at the end of 2013. 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 combination of excessive taxation on the sector and a lack of options for international connectivity has led to high prices and little available bandwidth. The national fixed-line operator (SOTEL Chad) suffers from serious technical and operational inefficiencies.

26. International connectivity is limited, with only one operational fiber linking Chad to the SAT-3 submarine cable via Cameroon. There is a monopoly-monopsony situation on international connectivity. On the supply-side, in Cameroon, the incumbent operator (Cameroon Telecommunications-CAMTEL) occupies a monopoly position at the border of Chad, enforcing excessive wholesale prices that adversely impact the emergence of competitive retail prices. On the demand-side, the incumbent operator Sotel Chad is the only operator allowed to buy international connectivity and resell it to other Chadian operators (the international gateway, once liberalized, has since 2013 returned to a public monopoly²⁴). To break the monopoly situation on the supply side (Cameroon), the Government of Chad has deployed a second optic fiber to Sudan, which is still not operational, and a third optic fiber connecting Niger is planned to be jointly financed by

²⁴ Since 2007 mobile operators could operate their own gateway for international connectivity (via satellite). However, the MPNTI introduced the requirement to use the international gateway of the incumbent Sotel for voice services. The "re-monopolization" of the international gateway is a major backward step and is contrary to international best practices and the recommendations of the World Bank. As of 2016, the total available international connectivity capacity for Chad is around 2Gbps, compared to 14Gbps for Benin, 48Gbps for Senegal, and 132Gbps for Côte d'Ivoire.



the African Development Bank (AfDB) and the European Union (EU). To operationalize all the governmental fiber (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). The implementation of an open access PPP to manage the governmental fiber optics in Chad is a complex process that will require lengthy discussions with all stakeholders. Thanks to the envisaged DPO for Chad, a prior action is considered for the Government to publish a “Communiqué” in September 2017²⁵ stating that the PPP would respect the open access principles, usually characterized by an access that is: (i) at the wholesale level; (ii) transparent; (iii) non-discriminatory; (iv) fair and reasonable; and (v) effective. The PPP model to be implemented is still an open discussion for the Chad government, and would require a clarification of at least the three key points: (i) The ownership structure model (Full ownership, “Concession” type agreement, “affermage / lease” types agreement, partial ownership, etc.); (ii) The governance model (governance mechanism that will ensure that the objective of the State-led intervention is fulfilled and will ensure that any public money used is efficiently and effectively spent in achieving this objective and to achieve tangible benefits); and (iii) the financial model (business plan with an assessment of revenues and costs and potential State-led financial interventions).

27. The Universal Service Fund (FSUCE) has not fulfilled its mission to extend rural mobile connectivity. The *Fonds de Service Universel pour les Communications Electroniques* (FSUCE) is not fully functional and is not managed transparently. The FSUCE is under the supervision of the *Agence de Développement des Technologies de l'Information et de la Communication* (ADETIC), whose Board members are all representatives of respective ministries and the Presidency. Since 2014, the funding of the FSUCE is based on a tax on total sales that represents 3.5 percent on total mobile sales. To date, the FSUCE has financed the deployment of “community centers,” which, however, are not yet operational.

28. The ICT tax system is not optimal given the size of the sector. Although the ICT sector accounts for less than 3 percent of GDP, the sector contributes to around 11 to 14 percent of total government tax revenues. In addition to the VAT rate of 18 percent, taxes on the telecom sector include: (i) a specific excise tax (droit d'accise) for mobile operators, representing 18 percent of their revenues²⁶; (ii) a regulatory fee (redevances) representing 9 percent of mobile operators revenue²⁷; (iii) a specific tax of XAF50 per minute for incoming international calls; and (iv) tax on pylons. The total tax revenue paid by mobile operators amount to half of their total revenues, one of the highest rate in the SSA region. This impedes positive spillover effects the ICT sector could have on the economy. As an example, the tax on international incoming calls was introduced in Chad during the summer 2013 and was set at XAF 50 per minute (around US\$ 8c per minute)²⁸. The introduction of the tax has had a dramatic effect on the volume of international incoming calls, as the

²⁵ “Option de gestion des infrastructures en fibres optiques en République du Tchad”, available online at this address:

<http://www.mpntic.gouv.td/wp-content/uploads/2015/12/Communique%CC%81-PPP.pdf>

²⁶ This excise was introduced in the Finance Law of 2017 and replaces previous sector-specific taxes such as (i) the audio-visual tax (*Redevance Audiovisuelle* RAV), (ii) the tax for the *Fond National de Développement de Sport* (FNDS), and (iii) stamp duties (a SIM activation tax of XAF to each new SIM card, 10% tax on post-paid invoices); these previous sector specific taxes represented around 5 to 7 percent of total revenues.

²⁷ With the following break-down: 4 percent for the Treasury, 2.5 percent for the regulator ARCEP, 1.5 percent for the Universal Service agency ADETIC, and the remaining 1 percent for the *Ecole nationale supérieure des TIC* (ENASTIC) and “security”. (Loi de Finances 2018, art. 39).

²⁸ The tax yielded around US\$ 10 million in 2016, which represents around 1% of the total government tax revenue. The fiscal impact of the removal of the tax for the State budget will be limited because until December 2016 the tax was collected and kept by the regulator (ARCEP) for its own budget; it is only on January 2017 that the new Finance Law stipulated that the tax yield was to be transferred to the State budget.



annual Average Minutes Per User (AMPU) for international incoming traffic decreased by 27 percent between 2013 and 2015, whereas the domestic traffic per user increased by 16 percent over the same period. This negative repercussion of introducing a tax on incoming international call is consistent with findings from international studies, notably a 2014 OECD study²⁹ that raises crucial concerns on the economic impact of reduced international communications traffic on trade, development of a services industry, and the overall competitiveness of the African region.

29. In addition to the ICT sector, effective oversight of petroleum operations has a direct bearing on revenue mobilization and sustainable sector development. The transactions associated with the petroleum sector are large and technically complex. This, associated with weak oversight capacity, weak authorizing environment, and lack of coordination among government institutions increases the risk of malpractice or lack of regulatory compliance. Even in a perfect environment, weak oversight results in information asymmetry and lack of knowledge for the relevant government entities. Effective oversight leads to better sector regulation and management, and reduced opportunities for rent seeking and rent skimming. The direct participation of the Société des Hydrocarbures du Tchad (SHT) in petroleum operations should help reduce information asymmetries vis-a-vis private operators. By gaining first-hand information on the operational and financial conditions facing private operators, SHT could establish a benchmark against which to assess private operators' performance. However, the lack of a functioning accounting system, weak internal controls, and limited experience greatly diminish SHT's ability to play this role effectively.

30. SHT plays an important role in the petroleum sector and as an engine for increased local participation in the sector value chain. The company was created in July 2006, and has grown in influence and level of participation in petroleum sector activities, requiring coordination with other government agencies and increasing the complexity and risk profile of petroleum revenue accruing to the Government. In addition to direct participation in petroleum activities, SHT owns 40 percent of a refinery operated by the China National Petroleum Corporation International (CNPCI³⁰), and since 2012 is tasked with the commercialization of the Government's royalty in kind in addition to its own share of production arising from its participating interests (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 CNPCI; and 100 percent of the Sedigui field). SHT's resources consist of a 2 percent commission on the sale of oil, the net income from its petroleum assets, interest income, loans, and state subsidies. In addition, the company has a 45 percent share in SOTRADA, a limited liability company that operates in the business of waste treatment from petroleum operations as well as other sectors, in partnership with BOCUM, a Cameroonian company, and a 40 percent participation in the Djermaya refinery with a daily operating capacity of 20,000 barrels, in association with CNPC (the local affiliate of CNPCI). SHT is also the owner of a logistic company, Altead SHT Logistics, that focuses on transport services, equipment, and material for the oil sector. SHT is subject to the petroleum fiscal regime for its production activities, and to the general income tax for its marketing. It is not subject to any dividend rule, and its Statutes provide ample discretion to its management and shareholders.

31. Notwithstanding its critical position, SHT does not have a functioning accounting and reporting system. The general accounting is currently not integrated with management accounting, and statistical data (such as production and sales) are kept manually and are not integrated. Currently, the company's accounts are produced using SAGE 700 software, an accounting software designed for a wide range of small/medium-sized companies. Existing modules cover general accounts and payroll. The company has yet to design a management accounting system that reflects the growing

²⁹ OECD (2014), "International Traffic Termination", OECD Digital Economy Papers, No. 238, OECD Publishing (http://www.oecd-ilibrary.org/science-and-technology/international-traffic-termination_5jz2m5mnlvkc-en).

³⁰ CNPCI (as defined in para 33) is the international arm of CNPC. It represents CNPC's subsidiaries abroad and organizes and secures CNPC's subsidiaries' overseas expansion.



complexity of its business and underpins internal control and strategic decision-making. This results in opacity and inaccuracies, and delays in the production of data that impact management's ability to make prompt and informed decisions. An integrated and transparent accounting system would certainly help to shed light on the efficiency of the SHT and its contribution to the economy.

32. Audits are a critical tool for ascertaining the accuracy of the information provided by companies. Excessive costs lead to understatement of profits or lower share of profit oil (depending on the type of contract) and subsidized inefficiency in petroleum operations. If costs are abnormally high, and if the transaction took place between related parties, abusive transfer pricing or profit shifting may be at play. It could also be an indicator of inefficient production processes and inappropriate decision-making. With respect to the oil companies, the Government has the legal and contractual right to conduct financial audits on a routine basis, and may request special audits. However, two practicable constraints limit the application of these rights: (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. In Chad, audits—financial or otherwise—are not a common practice: (a) the Ministry of Petroleum and Ministry of Finance and Budget last conducted financial audits of petroleum companies in 2013; (b) SHT has recently launched its initial audit of joint accounts since it took active participating rights in petroleum operations in 2007; and (c) the Direction Générale des Impôt has not undertaken a tax verification since 2007. Yet the efficiency of petroleum production activities varies widely across operators, with costs estimated to range from \$12.5-\$50 per barrel, raising questions as to the underlying reasons beyond obvious factors such as scale, technology, and reservoir complexity. The Ministry of Petroleum and the tax authorities lament difficulties in assessing the reasonableness of intercompany transfers, as well as the correct application of lawful exemptions and special regimes.

Relationship to CPF

33. The proposed DRMM project is consistent with World Bank Group (WBG) support to the Government's institutional reform effort, and it is well aligned with the 2015 Systematic Country Diagnostic (SCD)³¹ and 2016-2020 Country Partnership Framework (CPF).³² The WBG program in the FY16-20 CPF focuses on three themes of engagement: (a) strengthening management of public resources; (b) improving returns to agriculture and building value chains; and (c) building human capital and reducing vulnerability. The project's support for revenue mobilization will contribute to Chad's first CPF engagement theme of strengthening management of public resources as well as theme three in reducing vulnerability to exogenous shocks such as oil price declines and attendant fluctuations of revenue.

34. The proposed project will complement other Bank country initiatives, thus enhancing its impact. The project will support and align with the World Bank's ongoing engagement in Chad following the Fiscal Consolidation Program and the follow-on Economic Recovery and Resilience DPO series (\$65 million equivalent DPO³³ and the follow-on DPO series for FY18-19);³⁴ in particular, the proposed project supports Prior Action 4 of the DPO, which seeks to support the Government in (a) issuing a decree freezing tax exemptions (except those falling under the Vienna convention and those envisaged under agreements with financial and technical partners); and (b) commissioning and receiving a tax expenditure study. Finally, the project will provide technical assistance and capacity-building support to ongoing Bank engagements, including in the ICT and Oil sectors and to the Treasury for improved debt management.

³¹ Report #96531-TD, September 2, 2015.

³² Report #95277-TD.

³³ Chad-DPO Fiscal Consolidation Program approved December 15, 2015, P155480.

³⁴ Supplemental Fiscal Consolidation Program Support Grant approved December 21, 2016, P162548.



C. Proposed Development Objective(s)

To Improve Tax and Customs Revenue Collection and Management, enhance transparency and oversight of the Oil revenue, and the efficiency of the ICT revenue.

Key Results (From PCN)

35. Among the anticipated PDO-level results (per Annex 1) are the following:

- Expanded number of small-, medium-, and large-scale taxpayers included in taxpayer registry (number)
- Improved information held in respect of registered taxpayers and the extent to which the registration database supports effective compliance management (TADAT P-1 D1, limited to N'djamena, D-A)
- Expanded tax revenue offices and central services that have been subject to external evaluation in relation to their performance contract (number)
- Increased customs collections from enhanced controls (US dollars)
- Reduced customs release time (number of days/hours)
- Substantial progress in fostering the digital economy ecosystem (Process Indicators: implementation of the PPP to manage the Governmental Fiber Optics unit; operationalization of the Universal Service Fund; and implementation of a transparent and effective tax policy for the development of the sector).

D. Concept Description

36. **The proposed Domestic Resource Mobilization and Management Project (*Projet d'Amelioration des Recettes Domestiques*) will adopt a problem-driven approach to address the critically binding constraints that affect GoC capacity to mobilize and manage domestic resources.** As previously outlined, the project will address (a) weaknesses in tax administration and policy, which taken together preclude adequate collection of potential tax revenues; (b) weak customs administration, which deprives the country of a key source of revenue and constitutes a hurdle to efficient customs clearance; (c) poor governance of the ICT sector, which undercuts the country's revenue potential; and (d) inadequate capacity to oversee the generation of oil revenue and related challenges. The project will be designed around three principal components that aim to enhance domestic revenue mobilization, transparency, and management.

37. **Under the first component, the project aims to bring technical assistance and support for Chad's Tax and Customs administrations to modernize their organizations and processes, improve quality of service, and expand their revenue base.** For the tax administration, the proposed operation seeks to create the conditions necessary for a single taxpayer database linking key revenue and budget institutions. Thus, component one seeks to expand the number of taxpayers included in the registry and improve the quality of tax collection through computerization, which will help to increase collection of core taxes and reduce the cost of collection. Parallel efforts are envisioned to ensure that gaps in tax policy are closed to reduce exemptions and to contribute to overall revenue collection. Likewise, for the customs administration, component one seeks to increase customs revenues and efficiency through supporting management efforts to improve controls, reduce release time, improve online declarations, and enhance the satisfaction of traders.



38. Under the second component, the project seeks to lay the foundation for increasing fiscal space and the revenue-generating potential of the ICT and Petroleum sectors. Accordingly, this component will seek to address fiscal challenges and improve public oversight of the ICT sector, including the implementation of a PPP to manage fiber optics and increase rural connectivity through universal service funds. This component will also seek to address the fiscal challenges and improve oversight of the state petroleum sector, including improving SHT's cost controls in petroleum operations and strengthening GoC capacity to oversee petroleum operations.

39. The third component seeks to ensure strong overall project management, not only to realize project potential but to leave behind strengthened country capacity. Accordingly, support provided under component three includes the recruitment and operationalization of the project implementation unit (PIU), including the recruitment of the necessary fiduciary team (e.g., Procurement, Financial Management, and Monitoring & Evaluation). As described in detail below (see implementation arrangements), this component will also support the recruitment of five technical experts to assist the PIU in the implementation of project components as well as to coordinate with key focal points within the Tax, Customs, Petroleum, and ICT sectors. The PIU will also support the Debt Management Directorate of the Treasury through a part-time debt expert resident advisor. Finally, this component will support communications, change management, and other citizen engagement activities to ensure proper implementation and sustainability of results.

40. The project design aims to ensure that the scale and scope of the project will be significantly selective. In particular, the proposed intervention will be designed in a manner whereby (a) the project targets the most critical areas that can be addressed in the medium term based on the appropriate analytics; (b) the project components are streamlined given limited GoC implementation capacity as well as the \$25 million resource envelope; and (c) the project embodies a Project Development Objectives (PDOs) and related indicators that are achievable given the challenging implementation environment.

41. While these components are designed to target the most critical constraints related to revenue mobilization, the project will, where appropriate, seek synergies with and support of other Bank- and donor-funded programs. Thus, the project will capitalize on the transport project, DPO series, as well as relevant planned donor activities (including those of the IMF, EU, AFD, AfDB, and United Nations Development Program (UNDP)—ensuring regular communication with their sponsors).

42. Finally, the project components build on (and progressively adapt) the lessons from previous Bank operations with respect to its engagement in revenue mobilization as well as lessons learned from the Chad portfolio and other fragile county contexts. As noted in Annex 4, a number of these lessons have been incorporated into the project scope and design, including (a) project implementation arrangements and organizational structures should be kept as simple as possible in low-capacity and fragile environments; (b) flexibility in project formulation does not diminish the need for standard rigor in design to ensure selectivity and maximum internal coherence; (c) close donor coordination and alignment to Government development objectives are extremely important for the success of reforms in fragile environments, as cohesion among donors helps to maintain focus and resources on reforms; (d) IT—and other large-scale systems upgrades—must be underpinned by addressing incentive and behavioral changes, including change management support; (e) incorporating political economy analysis into project design and implementation arrangements as well as the assessment of project risks is essential to anticipate the effects of institutional instability on project results; and (f) adequate M&E and of streamlining burdensome tax payment and administration procedures for businesses strengthen the likelihood of achieving development outcomes.

Component 1. Strengthening Domestic Revenue Mobilization and Management (\$13,950,000)



Sub-Component 1.1. Improving Tax Administration and Policy (\$6,000,000)

43. The objective of this sub-component is to enhance the organizational capacity of the Tax administration (DGI) and to consolidate the recent progress regarding tax policy. Accordingly, the project will support the following activities:

- Developing and implementing 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.
- Reinforcing the capacity of DGI to identify taxpayers and to manage and secure the taxpayer registry. This capacity improvement requires (a) harmonizing the identification number used by every major administration (e.g., Customs, Treasury, Procurement) to identify enterprises and individuals; (b) subsequently conducting a taxpayer census in N'djamena,³⁵ once the IT and harmonized ID number are implemented; and (c) determining whether there is value added in establishing a biometric ID system for individual taxpayers in N'Djamena, and, if so, implementing such a system.
- Supporting the introduction of modern modalities for the filing of core taxes (e.g., corporate incomes tax/CIT, value added tax/VAT, personal income tax/PIT, PAYE³⁶) for large-scale taxpayers as well as payment by phone of taxes for smaller-scale taxpayers.
- Supporting the design and implementation of tailored performance contracts between the Tax Administration and the MoFB, as well as between the Tax Administration and the main service directorates of the DGI (this may include financing of performance contracts during early stage of project implementation and until DGI performance is enhanced and can generate enough revenue to allow it to self-finance its staff performance).
- Conducting a tax policy survey to support GoC efforts to address gaps in the tax legislative framework, including through the forthcoming 2018 finance law.

Sub-Component 1.2. Improving Customs Administration (\$5,750,000)

44. The objective of this sub-component is to strengthen the efficacy of the customs administration including through the wider use of a more robust ICT system. Accordingly, the project will support the following activities:

- Supporting the DGDDI through (a) technical assistance in redesigning main customs processes as well as the various customs procedures manuals in line with CEMAC guidelines and directives; (b) capacity-building training in technical customs functions (e.g., valuation, origin, audit, physical inspections, etc.); and (c) feasibility assessments of performance evaluation systems and career design schemes.
- Connecting regional branches and border posts to central systems, including branch equipment, in conjunction with an ongoing operation in the Transport sector aimed at connecting N'djamena and surroundings (N.B. a feasibility analysis is needed).
- Upgrading/updating the SYDONIA++ system to yield an open software version (N.B. a feasibility analysis and needs assessment to be considered). This is envisaged under the CEMAC project.
- Implementing principal Customs Union procedures for CEMAC, including procedures for Economic Authorized Operators and a legislative framework for the post-audit function.

³⁵ N'djamena is emphasized because it hosts some 90 percent of the country's taxpayers, including most of the wealthiest.

³⁶ Corporate Income Tax, Value Added Tax, Personal Income Tax, "Pay As You Earn" i.e. income tax withheld by the employer and deducted from wages



- Redesigning control procedures (including a prior feasibility analysis) for the use of scanners, risk management for selectivity, and post audits.

Sub-Component 1.3. Increasing Transparency and Accountability of Revenue Agencies (\$2,200,000)

45. The objective of this sub-component is to address corruption and transparency challenges within key revenue agencies to increase tax revenues and support an improved business climate and economic growth. Accordingly, the project will support the following activities:

- Creating an internal audit unit in the customs department (DGI); providing technical assistance and capacity building to improve the internal audit function of DGI/DGD; and developing audit manuals, risks maps, and so forth.
- Supporting DGI/DGD 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).
- Supporting communication campaigns on tax and customs obligations and procedures to improve voluntary compliance and tax and customs management.
- Implementing an electronic payments system for tax and customs declarations.
- Linking the Treasury, Tax, and Customs receipts for payments.

Component 2. Strengthening the Governance of the ICT and Petroleum Sectors (\$7,800,000)

Sub-Component 2.1. Addressing Fiscal Challenges and Improving the Oversight of the ICT Sector (\$2,800,000)

46. The objective of this sub-component is to address fiscal challenges of the ICT sector, including : (i) increase in international connectivity with the implementation of a PPP to manage the fiber optics; and (ii) the increase in rural connectivity through universal service funds. Accordingly, the project will support the following activities

- Establishing a PPP for the governmental fiber optic to increase wholesale access to international connectivity through fibers among Chad, Cameroon, Niger and Sudan with: (i) the financing of a transaction advisory firm to support the Government in identifying the most relevant PPP model and conduct the PPP transaction with private partners; and (ii) the capacity-building of Government to properly oversee the implemented PPP.
- Operationalizing and mobilizing the universal service fund managed by the public agency ADETIC.
- Improving the enabling environment through a fiscal study to improve the fiscal regime for a vibrant digital economy.

Sub-Component 2.2: Improve the management and control of revenue generation in the petroleum sector (\$5,000,000)

47. This sub-component is designed to improve SHT's cost controls in petroleum operations and strengthen the government's capacity to oversee petroleum operations. Accordingly, the project will support the following activities:

- Supporting SHT's plan to audit the joint accounts of four petroleum companies.
- Operationalizing SHT's accounting and management information system, which will integrate general and management accounting as well as production and sales statistics. The activity will include the scoping and basic architecture of a new integrated management system and acquisition of software to contribute to its operationalization, including training of relevant accounting personnel.



- Supporting the Ministry of Petroleum’s financial audit of three major petroleum-producing companies, covering the period 2014-16, which will include support for the discussion of the management letters and implementation of correcting measures.
- Identifying cost comparators for the main exploration, development, and production cost categories. A set of comparator data can be used to assess the cost submitted by private operators, to drive efficiency as well as to provide a more solid base for the initial approval of budgets and expenditures required in accordance with contractual procedures.
- Assessing the performance of the fiscal terms in existing concession and petroleum-sharing agreements from a tax administration perspective, and identifying related regulatory and administrative measures.
- Supporting the assessment of effectiveness of Law 2/2014 on the management of petroleum revenue, and the identification of alternative revenue management mechanisms, including their operationalization and modeling.
- Preparing a blue print for the establishment of a stable and reliable petroleum sector reporting and information system, which will support information and reporting needs of the Ministry of Finance and the Ministry of Petroleum.

Component 3. Project Management (\$3,250,000)

48. The objective of this component is to support PIU efforts to implement the project in accordance with Bank operational policies and project deadlines. Accordingly, the project will support the following activities:

- Enhancing the government implementation capacity of the PIU that emerged through the PAMFIP project with five technical experts (tax, customs, petroleum, ICT, and debt) as well as a Fiduciary Team (FM, Procurement, M&E) to enable adequate oversight and reporting.
- Procuring necessary IT and office equipment.
- Training of PIU staff.
- Developing a change management strategy, communications strategy, project operations manual, and procurement manual for first 18 months.
- Providing a contingency for unanticipated costs and project activities.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project supports institutional reforms.

B. Borrower’s Institutional Capacity for Safeguard Policies

No safeguards are triggered.

C. Environmental and Social Safeguards Specialists on the Team

Cheikh A. T. Sagna, Social Safeguards Specialist

Emeran Serge M. Menang Evouna, Environmental Safeguards Specialist



Mahamadou Ahmadou Maiga, Social Safeguards Specialist

D. Policies that might apply

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

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Dec 15, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

No safeguard related studies required.

CONTACT POINT

World Bank

Rafika Chaouali, Fabienne Mrocza, Silvana Tordo
Lead Financial Management Specialist

Borrower/Client/Recipient



Republic of Chad

Implementing Agencies

Ministère des Finances
Ali Kosso Idriss
STP PAMFIP Coordinator
alikosso@icloud.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Rafika Chaouali, Fabienne Mroczka, Silvana Tordo
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Approved By

Safeguards Advisor:	Maman-Sani Issa	02-Feb-2018
Practice Manager/Manager:	Alexandre Arrobbio	05-Feb-2018
Country Director:	Francois Nankobogo	03-May-2018