
*2024 -
January*

CENTRAL AFRICAN REPUBLIC

Components: Revenue

Modules: RM II – Revenue Administration

*CENTRAL AFRICAN REPUBLIC***PROJECT SUMMARY**

COUNTRY (S): Central African Republic (CAR)

LEAD DEPARTMENT: FAD

REGION (S): Africa

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: 5/01/2024 – 4/30/2027

FUNDING PROGRAM TITLE: GPFP CAR

PROJECT MANAGERS:

RM II/REVENUE ADMIN: Rene Ossa – R2 Division

PROJECT LEAD MANAGER: Rene Ossa – R2 Division

ESTIMATED BUDGET \$909,759

BUDGET FOR ENDORSEMENT \$294,335 through FY25

Contents

Project Summary.....	2
I. Project Purpose.....	4
II. Background	5
III. Project Level Description	6
A. Project Scope	6
Table 1. Summary of Objectives covered by the Proposal	6
B. Country Engagement	6
C. Delivery Modalities	7
D. Coordination / Cooperation	7
IV. Risk Assessment and Mitigation.....	8
V. CD Delivery Plan Country Level.....	9
Table 2. Summary of Indicative CD Delivery (regional LTX activities not included)	9
Table 3. First year workplan (regional LTX activities not included).....	9
VI. Program Financials [Country Level]	9
ANNEX I. REVENUE MODULE II – REVENUE ADMINISTRATION	10
A. Program Objectives.....	10
B. Expected Results (outcomes)	10
C. Targeted Logical Framework – REVENUE ADMINISTRATION	11

*CENTRAL AFRICAN REPUBLIC***I. PROJECT PURPOSE**

The Central African Republic (CAR) is grappling with multiple shocks on the back of the covid-19 pandemic, food and fuel crises. The government's program, supported by the IMF, aims at restoring macroeconomic stability, economic growth, job creation and poverty reduction. The program focuses on enhancing revenue mobilization and improving expenditure efficiency to lower the primary fiscal deficit and scale-up social and infrastructure spending. The government is focusing on reforms for a progressive exit from fragility, including improving security, consolidating the peace and reconciliation process, rebuilding government institutions, and strengthening economic management. Capacity development will be critical to support the implementation of key reforms needed to underpin an economic recovery.

The CD project will continue to provide on-the-ground assistance to improve domestic revenue mobilization (DRM). The authorities are concerned about raising tax revenue substantially, from 7.3 percent of GDP in 2023 against the regional average of 12 percent of GDP. The authorities are eagerly awaiting this CD to assist them to develop and implement a targeted anti-tax evasion plan, aiming to substantially improve the level of taxpayers' compliance. It will include tackling the high number of defaulters, collecting recoverable tax arrears, redirecting tax audits towards taxpayers with the highest risks. Particular attention will be put on economic sectors with large tax potential and requiring specialist capacities. Digitalization will be used and developed as a critical enabler to support the envisioned plans.

The three-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this three-year project is \$909,759, but endorsement is requested for \$294,335 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

CAR, a fragile and conflict-affected state (FCS) is implementing an Enhanced Credit Facility (ECF) Fund supported program since April 27, 2023, that helps halt a rapidly deteriorating economic situation marked by drying up regional and foreign financing, contracting economic activity exacerbated by fuel shortages, gradual rationing of public services in social sectors, and looming arrears to the Fund.

Real GDP growth projection for 2023 was revised down from 2.2 percent to 1.0 percent, as limited fuel imports hindered manufacturing and transportation by more than expected. Acute food insecurity persists with approximately 2.4 million people (about 40 percent of CAR's population) in a crisis or in an emergency between April and August 2023. Inflation remains elevated driven by energy and food prices. The inflation projection for 2023 was raised slightly from 6.3 percent to 6.5 percent. The January 2023 fuel price hikes pushed-up inflation to 7.1 percent by March 2023 compared to 5.6 percent at end-2022.

IMF priority areas / cross-cutting themes

The new ECF program aims at addressing the protracted balance of payments need and achieving significant progress in stabilizing the macroeconomic situation and reducing poverty through critical governance reforms, increased domestic revenue mobilization, and enhanced focus on social programs, including food security. The program will support critical reforms and policies with the view of (i) improving resilience to volatile terms-of-trade and financing shocks, (ii) supporting the most vulnerable, and (iii) unlocking additional donor support. More generally, the program will mitigate the risk of a major humanitarian crisis and facilitate a resumption of a gradual exit from acute fragility after recent setbacks. The proposed fiscal consolidation of 2 percent of GDP over the program period is mainly revenue-based. The new CD program will continue to encourage the authorities to improve transparency and governance, address risks due to climate change, promote gender inclusivity, and take full advantage of investments in the digitalization.

Country engagement and alignment to reform priorities

The IMF will continue to support CAR through extensive capacity building on priorities that are aligned with the needs of the country. The technical assistance that the Fund will provide in the coming years will focus on: (i) spending policy, especially in the design of the fuel subsidy reform; (ii) tax policy and revenue administration; (iii) public financial management, governance, and the fight against corruption; (iv) programming and macroeconomic statistics; and (v) debt management capacity.

The new CD program under the GPFP will provide advice and on-the-ground assistance to bridge the revenue gap created by long-lasting internal weaknesses, the impact on commodity prices due to external factors (Covid-19 pandemic, the war in Ukraine), and the deteriorating security situation in the country. Key actions to be taken will include implementing revenue generating measures, taking full advantage of the new tax administration IT system developed under the Revenue Mobilization Thematic Fund (RMTF) program and guide the modernization process and structure donors' interventions.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

Against this background, this project is aligned with the government's priorities and the IMF program to fast-track structural reforms to increase expenditure quality and enable CAR to mobilize resources more effectively.

Through the revenue component – revenue administration module, this CD project will focus on developing and helping the implementation of a targeted anti-tax evasion plan, aiming to substantially improve the level of taxpayers' compliance. It will include tackling the high number of defaulters, collecting recoverable tax arrears, redirecting tax audits towards taxpayers with the highest risks. Particular attention will be put on economic sectors with large tax potential and requiring specialist capacities. Digitalization will be used and developed as a critical enabler to support the envisioned plans.

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

Objective: Strengthened core tax administration functions:

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

Table 1. Summary of Objectives covered by the Proposal

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

B. Country Engagement

CAR has achieved some important progress benefiting from two consecutive FAD's Capacity Development (CD) projects. The Tax Policy and Administration Topical Trust Fund (TPA-TTF) CD project, from FY15 to FY17, and the RMTF CD project, from FY18 to FY24, supported a series of reforms in core tax administration functions, revenue administration management and governance arrangements. Despite considerable technical, political, and economic constraints, the tax administration has been able to develop a transitory IT solution – which is crucial to the strengthening and modernization initiatives across the tax administration functions. Technical specifications and terms of reference (TORs) were developed with FAD's support under the RMTF CD project. The implementation phase (programming) was completed with the support of the European Union. The solution includes several functionalities including online registration, e-filing, e-payment, cross-checking internal and external data and automated issuance of the compliance certificate. The new project, that is predicated on this new IT system will help address a series of challenges including register problems, inadequate monitoring of return filings and payments, and unreliable taxpayer accounting and payment data. Authorities are very appreciative of this important outcome. They voiced their willingness to continue to benefit from FAD CD and their commitment to improve DRM with the assistance of FAD and other CD providers.

C. Delivery Modalities

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

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other TA providers, and adjust reform implementation plans.
- **Short-term expert (STX)** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.
- **Long-term expert (LTX).** Two peripatetic LTX will support CAR reforms: (i) a digitalization LTX (serving five African countries including CAR) will assist with furthering the digitalization program, and (ii) a second LTX (covering three countries including CAR) will provide advice and guidance on strengthening tax administration in critical sectors including natural resource, telecommunications, banking and insurance.

D. Coordination / Cooperation

The tax administration is currently receiving FAD CD on tax and customs through AFRITAC Centre. The cooperation between FAD and the European Union is experiencing a significant impetus as the latter funded an FAD-supported project of developing the transitory tax IT system, as previously noted. The World Bank and FAD discussed on several occasions the status of the reform programs, especially to avoid duplication. The World Bank has shown interest in supporting rationalization of exemptions, computerization, and reform of local finances. Appropriate linkages with existing CD programs are defined using the IMF's result-based management (RBM) framework. When designing specific country-based activities and workplans, this project will seek to define the emerging challenges in an integrated and coordinated manner.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
General	Resurgence of pandemic hinders CD delivery and changes CD priorities	High	High	Build on progress achieved with remote delivery of CD
Political Support [country level]				
General	Political instability may slow down and even stop implementation of reforms	Very High	High	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close consultation with the AFR Department team and the authorities
Management and Technical Staff Support and Commitment				
Revenue administration (RM II)	Continuous rotation of managers and staff undermine the absorptive capacity and provoke permanent discontinuity	Very High	High	Encourage authorities to implement administrative reforms and closely monitor projects
Resource Adequacy				
Revenue administration (RM II)	Resources are misused, not properly accounted for, do not achieve value for money	Low	Low	Project resources will be employed in accordance with IMF policies and procedures.
Other risks				
Revenue administration (RM II)	The reform momentum is highly based on the availability of a modern IT system that is able to support reform management and implementation	Very High	High	Maintain close coordination and collaboration with other technical assistance providers, especially the World Bank to deliver a modern IT system.

CENTRAL AFRICAN REPUBLIC

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	Total FY24	Total FY25	Total FY26	Total FY27	Grand Total
RM II / Revenue Administration					
HQ-led CD missions	-	1	1	1	3
STX visits	-	2	2	2	6

Note: Regional LTX activities not included

Table 3. First year workplan (regional LTX activities not included)

Timing	CD Area	CD Delivery	Proposed Topics of CD
RM II / Revenue Administration			
FY25 – Q1	Follow-up	2 STXs (FB)	Modernization of audit function and processes
FY25 – Q2	Follow-up	1 HQ mission (FB)	Assessing the implementation of the reform program

VI. PROGRAM FINANCIALS

	FY25	FY26	FY27	TOTAL (USD)
Direct Delivery	275,079	283,332	291,831	850,242
Module RM I - Tax Policy	0	0	0	0
Module RM II - Revenue Administration	275,079	283,332	291,831	850,242
Module SM I - Spending Policy	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0
Subtotal	275,079	283,332	291,831	850,242
Trust fund management fee (7%)	19,256	19,833	20,428	59,517
TOTAL	294,335	303,165	312,260	909,759

The estimated budget for this three-year project is \$909,759, but endorsement is requested for \$294,335 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

Strengthening core administration functions will help improve DRM. The legislative and regulatory framework for revenue collection is bound by many factors including cumbersome governance and managerial weaknesses, outmoded methods such as the survival of the enrolment system, and the deteriorating security situation in the country. The incomplete transition from manual to computerized management of transactions is complicating the voluntary fulfillment of tax obligations by taxpayers, burdens administrative work and does not allow for smooth exchange of information with the main sources of data to be cross-checked (customs, treasury, and budget, in particular).

In a security and economic context that precludes deployment of the administration throughout the national territory, FAD recommended the implementation of a transitional IT solution, which was inexpensive, feasible over a period of three to six months if all prerequisites were properly, that would allow the deployment of a web layer to an existing but dormant application. The current IT solution agreed by the authorities, which now operational, meet these criteria.

Building on this infrastructure, the new CD project will catalyze the modernization process by (1) assuring better reliability and security of the registration procedure and data, (2) helping enlarge the tax base, (3) reducing tax compliance costs, (4) strengthening tax compliance; (5) introducing modern risk management approaches, (6) limiting VAT fraud, (7) securing declaration and payments procedures and (8) promoting transparency and traceability on tax transactions. Particular attention will be placed on economic sectors with the largest tax potential.

B. Expected Results

The project is expected to achieve the following operational results:

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

C. Targeted Logical Framework – REVENUE ADMINISTRATION

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