
REPUBLIC OF CONGO

2024

January

Components: Revenue and Spending

Modules: RM II – Revenue Administration
SM I – Spending Policy

*CONGO, REPUBLIC OF***PROJECT SUMMARY**

COUNTRY (S): Congo, Republic of

LEAD DEPARTMENT: Fiscal Affairs Department

REGION (S): Africa

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: February 2024 – April 2027

FUNDING PROGRAM TITLE: GPFP Republic of Congo

PROJECT MANAGERS:

RM II/REVENUE ADMIN: Pierre Adrien Wandja Fondja – R2

SM I/SPENDING POLICY: Delphine Prady - EP

PROJECT LEAD MANAGER: Pierre Adrien Wandja Fondja – R2

ESTIMATED BUDGET: \$491,542

BUDGET FOR ENDORSEMENT: \$421,620 through FY25

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I. PROJECT PURPOSE

The country's authorities have expressed interest in FAD's CD assistance to implement reforms both on the revenue and on the expenditure side. On the revenue side, the authorities are seeking to increase tax revenue collection and support tax administration modernization, and at the 2023 Annual Meetings in Marrakesh they reiterated the importance of strengthening domestic revenue mobilization (DRM) through CD benefiting the Tax Department (DGID) as underlined in the Country Engagement Strategy.¹ A critical objective is to improve non-oil revenue. Specifically, the DGID has recently expressed assistance needs in implementing its new strategic plan. On the spending side, the authorities have been reprioritizing expenditure from fuel subsidies to better targeted social spending, and they have requested, in line with program discussions, technical assistance to finalize and consolidate a major reform to eliminate fuel subsidies.

In the revenue area, this new CD project is at this stage concentrated on completion of a scoping mission to review ongoing reforms and the strategic plan and develop a CD program aligned to the reform priorities. The intent is to support modernization of core technical and support functions of the tax administration, increase governance from transparent and accountable work processes, and improve tax administration management. In particular, the scoping mission will focus on areas of poor performance identified by the 2019 TADAT assessment.

In the spending area, the new project will also focus on consolidating and reprioritizing expenditure. Significant efforts were made in 2023 to cut spending on fuel subsidies, and CD will be provided to help the authorities to finalize the fuel subsidy reform in 2024 as part of their broader objective of rationalizing and reprioritizing expenditure. In particular, the CD will assess progress on the elimination of subsidies, advise on the form of a new fuel pricing formula, and propose options for an automatic pricing mechanism. The CD request will be met by an HQ mission, to take place in the fourth quarter of FY24, and two supporting activities— a short STX visit and a short workshop.

The estimated budget for this two-year project is \$491,542, but endorsement is requested for \$421,620 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.

¹ International Monetary Fund, [IMF Country Report, July 2023](#).

II. BACKGROUND

Macro-fiscal situation

As declining oil prices and rising funding costs challenge Congo's economic recovery, public debt remains high, and additional fiscal consolidation needs to compensate for past fiscal slippages. Newly recognized domestic arrears and the temporary accumulation of new external arrears impede signs of progress made in debt repayment, implying that debt remains sustainable but “in distress”. Economic recovery will depend on regaining fiscal space, reducing debt levels, and continuing reforms promoting improvements in revenue generation, debt management, governance, and transparency.

The IMF approved on January 21, 2022, a three-year arrangement under an SDR 324 million Extended Credit Facility (ECF) to help the authorities implement their development policies, maintain macroeconomic stability and strengthen economic recovery amid high food inflation, lower oil prices and tightening financial conditions. The program review conducted in July 2023 pointed out that structural reforms continued to advance in some areas, but the program underperformed in several others. Indeed, progress was achieved in procurement planning, debt reporting, and efforts to increase transparency. However, three out of five performance criteria related to the fiscal position and debt service management were missed, prompting authorities to request waivers for these three criteria and take strong corrective measures. Authorities will continue to pursue two reform benchmarks aiming for additional transparency in the management of natural resources and higher fiscal revenues.

IMF priority areas / cross-cutting themes

The Republic of Congo is a fragile state because of multiple factors, including social, institutional, and economic vulnerabilities. To address them, the policy note's measures underpinning the consolidation to the reduced 2023 deficit target and for the medium term, include: (i) maintain revenue-enhancing measures adopted over the past three years, such as electronic payments, a broadening of the tax base, strengthened audits and customs goods valuation, and increased collection of tax and custom duties arrears and; (ii) improve non-oil tax compliance, including for state-owned enterprises (SOEs), through a mix of preventive actions (shorter notification periods, improved IT systems) and sanctions (e.g., exclusion from payment system, asset seizure) in coherence with international best practices and standards.

Country engagement and alignment to reform priorities

The new CD program will aim primarily at supporting the reforms considered under the current extended-credit facility (ECF) arrangement and be tailored to the country's fragility and exposure to external shocks. The new CD program will encourage the authorities to improve transparency and governance, address risks due to climate change, promote gender inclusivity, and take full advantage of investments in digitalization. If the 2023 reforms on the removal of fuel subsidies are fully embedded, this adds up to 1.7 percent of non-oil GDP in fiscal space to be redeployed, financing greater expenditure on priority development needs whilst allowing a strengthening of the fiscal position.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

Against this background, this project is aligned with the government's priorities and the IMF program, which aims to strengthen revenue collection, and to consolidate an ambitious fuel subsidy reform. As part of the Country Engagement Strategy for the IMF program, Congo has agreed to strengthen DRM and CD will be deployed accordingly. The project will focus on areas of poor performance identified by the 2019 TADAT assessment, including (i) inappropriate organizational structure, fragmented functions and management; (ii) lack of an integrated information technology system; (iii) an inaccurate taxpayer database; (iv) an audit plan that does not rely on risk-analysis; (v) weak tax arrears management; (vi) absence of VAT refunds; (vii) non-independent and cumbersome litigation procedures; and (viii) lack of internal control.

On the spending side, the project will ensure that fiscal gains from fuel subsidy reform are sustainable. This will be achieved by (i) implementing mitigation measures to cushion the most vulnerable, and (ii) adopting a reviewed pricing formula with an automatic smoothing mechanism to ensure full pass-through of international oil prices over the medium term.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM2 / Revenue administration (tax)	- Strengthened revenue administration management and governance arrangements. - Strengthened core tax administration functions
Spending	SM1 / Spending Policy	Strengthen Expenditure Policy Formulation and Design

B. Country Engagement

On the revenue side, although CD is a central part of the Fund's engagement with Congo, the country has been a low-intensity user of Fund's CD assistance in recent years with a mixed implementation record in revenue administration. The DGID's current DRM performance, confirmed by the 2019 TADAT assessment, is low and requiring significant improvement efforts in almost all core tax functions. Acknowledging its weaknesses, the DGID developed a Strategic Plan in December 2022 and the authorities have taken several steps to address the issues raised by the TADAT assessment. The IMF CD will be critical in strengthening the core tax administration functions.

On the spending side, the authorities have been engaging with the country team on fuel subsidy reform consistently. Negotiations for the Second Review under the ECF program were held in October and November 2022 and closed with an agreement (PA) on the passing of a Budget which included fuel subsidy reforms. Political commitment has been shown by the important steps to remove subsidies which were taken in 2023, and the requested CD will be an important contribution to consolidate the reforms.

C. Delivery Modalities

The scoping Headquarters-led (**HQ**) mission on Revenue Administration will be conducted in-person with the view that candid discussions take place with the authorities and a CD implementation workplan is agreed upon under the project for FY25 and onwards. The in-person **HQ mission** on fuel subsidy reform

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will conduct a detailed assessment of the status of subsidies and of reforms, and on that basis provide recommendations on options to review the pricing formula and introduce an automatic pricing mechanism. Implementation will be assisted by an STX and a workshop in FY25.

D. Coordination / Cooperation

The tax and customs administrations are receiving CD through AFRITAC Centre. In addition, the ECF arrangement has also been successful in catalyzing development partner financing. In particular, the budget support from France, the World Bank, and the African Development Bank (AfDB) came after long gaps in this type of financing for Congo due to concerns over fiscal and debt management as well as governance. The Fund will coordinate closely with those development partners to avoid duplication and for further strategic partnerships to improve the impact of their work. Appropriate linkages with the existing CD programs will be defined using the IMF's result-based management (RBM) framework. When designing specific country-based activities and workplans, this program will seek to define the emerging challenges in an integrated and coordinated manner.

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.	Low	Medium	Build on progress achieved with remote delivery of CD.
Political Support				
General	Political instability may slow down and even stop implementation of reforms.	Medium	Very High	Combine 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.	Medium	Very High	Encourage authorities to implement administrative reforms with medium-term view and closely monitor projects.
Resource Adequacy				
Revenue administration (RM II)	Resources are misused, nor properly accounted for, do not achieve value for money.	Medium	Low	Project resources will be employed in accordance with IMF policies and procedures.

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	Grand Total
RM II / Revenue Administration				
HQ-led CD mission	1	-	-	1
SM I / Spending Policy				
HQ-led CD mission	1	-	-	1
STX visit	-	1	-	1
Workshop	-	-	1	1

Table 3. First year workplan

Timing	CD Delivery		Proposed Topics of CD
RM II / Revenue Administration			
FY24 – Q4	Revenue Administration Scoping mission	HQ-led CD mission (FB)	Review reform priorities and agree with authorities upon a CD program
SM I / Spending Policy			
FY24 – Q4	Fuel Subsidies	HQ-led CD mission	Take stock of reform measures to date, and recommend options for new pricing formula and automatic pricing mechanism
FY25 – Q1	Fuel formula calibration	STX (short visit)	Assist with calibration of formula parameters
FY26 – Q1	Preparation for launch of new formula and pricing mechanism	Short workshop	Practical workshop with authorities on sequencing of final steps in reform

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	TOTAL (USD)
Direct Delivery	358,709	35,328	65,348	459,385
Module RM I - Tax Policy	0	0	0	0
Module RM II - Revenue Administration	179,355	0	0	179,355
Module SM I - Spending Policy	179,355	35,328	65,348	280,030
Module SM II - Managing Public Finances	0	0	0	0
Subtotal	358,709	35,328	65,348	459,385
Trust fund management fee (7%)	25,110	2,473	4,574	32,157
TOTAL	383,819	37,801	69,922	491,542

The estimated budget for this two-year project is \$491,542, but endorsement is requested for \$421,620 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 2 – REVENUE ADMINISTRATION

A. Program Objectives

The scoping mission at this stage is intended to review ongoing reforms and the strategic plan, and develop a CD program aligned to the reform priorities. The CD program that is expected from the completion of this initial mission will aim to strengthening core administration functions, improving revenue mobilization, and streamlining the way the tax administration interacts with taxpayers. The details on the areas to be focused will be provided by the scoping mission scheduled for the FY24 Q4.

B. Expected Results (outcomes)

The scoping mission is expected to achieve the following operational results:

- Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.
- Support functions enable more effective delivery of strategy and reforms.

The additional outcomes will be provided by the scoping mission scheduled for the FY24-Q4.

C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	Strategic and operational plans prepared and adopted.
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration

ANNEX II. SPENDING MODULE 1 – SPENDING POLICY

A. Program Objectives

The objective of the expenditure policy module is to consolidate a large and ongoing fuel subsidy reform in a way which is sustainable, and which minimizes the risk of policy reversal. Based on a rigorous assessment of the situation to date, the CD will assist the authorities in their efforts to introduce an automatic pricing mechanism which will minimize the role of political discretion, thus ensuring the reforms remain in place for the long term.

B. Expected Results (outcomes)

The HQ mission will (i) assess the status of reforms, both on the elimination of subsidies and on the introduction of appropriate mitigation measures, (ii) evaluate the existing fuel pricing formula and identify possible areas for review, and (iii) propose an automatic pricing mechanism with a smoothing component.

The STX visit will provide technical input to put into practice the policy advice provided by the HQ mission. This will include details on the calibration of the formula's components.

The workshop will ensure the authorities are acquainted with the principles and technicalities underlying the CD and policy advice, to ensure they have ownership of the reform and settle on a clear plan for implementation.

C. Targeted Logical Framework – SPENDING POLICY

Objective	
Strengthen Expenditure Policy Formulation and Design	
Outcome(s)	Indicator(s)
Reduce subsidies while mitigating impact on vulnerable households	Existing social safety nets are capable of protecting vulnerable groups from price reform
	Public subsidy spending, in percent of GDP