

# **AFRICAN DEVELOPMENT FUND**



## **CENTRAL AFRICAN REPUBLIC**

### **ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAMME (PAREF) PHASE II**

**RDGC/RDTS/ ECGF/PGCL DEPARTMENTS**

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January 2018

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## CURRENCY EQUIVALENTS

*As of 1 December 2017*

Currency unit	=	CFAF (XAF)
1 Unit of account	=	XAF 783.57
1 Unit of account	=	EUR 1.19
1 Unit of account	=	USD 1.42
1 EUR	=	XAF 655.96

## FISCAL YEAR

[1 January – 31 December]

## ACRONYMS AND ABBREVIATIONS

ACCT	Treasury Central Accounting Agency
ADF	African Development Fund
AfDB	African Development Bank
ARMP	Public Procurements Regulation Agency
BEAC	Bank of Central African States
CAR	Central African Republic
CCIMA	Chamber of Commerce, Industry and Crafts
CEMAC	Central African Economic and Monetary Community
CFAF	Franc of the <i>Communauté Financière Africaine</i> (“African Financial Community”)
CGA	Approved Management Centre
CGAB	General Budget Support Framework
CGI	General Tax Code
CMCAA	General Business Improvement Consultative Framework
CNLC	National Anti-corruption Committee
CRBC	Crisis Response Budget Support
CSP	Country Strategy Paper
CS-REF	Economic and Financial Reforms Monitoring Unit
DDRR	Disarmament, Demobilization, Reinsertion and Repatriation
DGB	General Budget Directorate
DGDDI	General Directorate of Customs and Indirect Taxes
DGID	General Directorate of Taxes and Lands
DGTCP	General Directorate of the Treasury and Public Accounting
ECCAS	Economic Community of Central African States
EITI	Extractive Industries Transparency Initiative
EU	European Union
FSF	Fragile States Facility
GDP	Gross Domestic Product
GESCO	Public Finance Management Support Information System
GUFE	One-stop shop for business formalities
IMF	International Monetary Fund
MDG	Millennium Development Goals
MFB	Ministry of Finance and Budget
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in Central Africa
MoU	Memorandum of Understanding
NGO	Non-Governmental Organization
PARCGEF	Economic and Financial Management Capacity Building Support Project

PBO	Programme-based Support Operations
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PNIASAN	Agricultural Investment, Food and Nutritional Security Programme
PUASCRE	Emergency Post-Crisis and Economic Recovery Support Programme
PURD	Emergency Programme for Sustainable Recovery in CAR
RCF	Rapid Credit Facility
RCPCA	National Plan for Recovery and Peacebuilding in the Central African Republic
SME	Small- and Medium-sized Enterprises
TFP	Technical and Financial Partner
TOFE	Table of State Financial Operations
TSF	Transition Support Facility
UA	Unit of Account
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank

## PROGRAMME INFORMATION SHEET

**INSTRUMENT** : General Budget Support (GBS)

### LOAN/GRANT INFORMATION

Client Information

**DONEE** : Government of the Central African Republic

**EXECUTING AGENCY** : Ministry of Finance and Budget

Financing Plan (in UA million)

Instrument	2016		2017	
	Loan	Grant	Loan	Grant
ADF	2.70			7.00
TSF – Pillar I	8.02			
TSF (cancellation/restructuring)		1.56		
<b>Total</b>	<b>10.72</b>	<b>1.56</b>		<b>7.00</b>
<b>Grand Total</b>	<b>UA 12.28</b>		<b>UA 7.00</b>	

### Key ADF Grant Financing Information

Grant currency	(UA)
Interest type*	(Not applicable)
Interest rate margin*	(Not applicable)
Commitment fee*	(Not applicable)
Other fees*	(Not applicable)
Repayment period	(Not applicable)
Grace period	(Not applicable)

*\*where appropriate*

### Implementation Schedule – Main Milestones (Expected)

Programme approval	(December 2017)
Effectiveness	(December 2017)
Completion	(31 December 2018)
Last disbursement	(31 December 2018)

## Programme Executive Summary

<p>Programme Overview</p>	<ul style="list-style-type: none"> <li>▪ Programme Name/Number: Economic and Financial Reforms Support Programme, Phase II (PAREF II) / SAP Id. P-CF-K00-007.</li> <li>▪ Geographic Scope: Nationwide</li> <li>▪ Implementation Period: 22 December 2017 to 31 December 2018</li> <li>▪ Financing: UA 7 million ADF grant</li> <li>▪ Operational Instrument: General Budget Support (GBS)</li> <li>▪ Sector: Economic Governance</li> </ul>
<p>Programme Outcomes and Direct Beneficiaries</p>	<ul style="list-style-type: none"> <li>▪ PAREF comes in a context of normalization of the country’s institutions, with the adoption of a new constitution in December 2015 and the election of a new president in February 2016. The Programme is part of continuing measures supported by the two Crisis Response Budget Support (CRBS) operations, which assisted the transitional government in restoring the capacities of the financial and social administration. PAREF will include more structuring measures to help boost the economy and improve public finance management. The implementation of programme measures are expected to result in (i) an increase in tax revenue from 7.1% of GDP in 2015 to 8.7% of GDP in 2018; (ii) a reduction in public procurement by direct negotiation from 90% in 2015 to less than 50% in 2018; (iii) a reduction in the number of business start-up days, from 22 days on average in 2015 to less than 14 days on average in 2018; and (iv) a decrease in the cost of creating businesses from 204% of income per capita in 2015 to less than 150% of income per capita IN 2018.</li> <li>▪ PAREF II direct beneficiaries direct beneficiaries are the public administration and structures in charge of Programme-supported reforms. The final beneficiaries are the Central African people.</li> </ul>
<p>Alignment on Bank Priorities</p>	<ul style="list-style-type: none"> <li>▪ PAREF II is aligned on the second pillar of the Country Strategy Paper 2017-2021 on “Building institutional capacity and governance”. The programme also ties in with the Bank’s High 5 priorities, by contributing to improving the quality of life of the CAR population. It is also consistent with the guidelines of the 2014 – 2018 Governance Action Plan (GAP II), and the Bank Strategy to address fragility and strengthen resilience in its Regional Member Countries during the period 2014-2019. The Programme supports governance in economic sectors, State building, capacity building in economic management, provision of basic social services and support to the private sector.</li> <li>▪ Furthermore, the Programme remains aligned with the pillars of the new National Plan for Recovery and Peacebuilding in the Central African Republic (RCPCA).</li> </ul>
<p>Needs Assessment and Rationale</p>	<ul style="list-style-type: none"> <li>▪ Most of the country’s challenges, identified under the Bank’s two previous support operations, are still relevant. Indeed, the return to constitutional order has not yet resulted in a total normalization of the security situation. The country remains fragile, with persistent intercommunity tensions leading at times to violence with loss of human life. It should be noted that CAR’s fragility is not only connected to the 2013 crisis, but also the result of deterioration of the country’s economic, social, security and governance situation that all emanate from the difficulty in laying a solid socio-political and economic foundation since independence. There are still more than 420,000 internally displaced persons and about 467,000 Central African refugees in neighbouring countries. The restoration of security and national reconciliation are major challenges for government. The reestablishment of health and education systems is also a major challenge, despite the efforts made in the last two years to redeploy health personnel and teachers. On the economic front, the recovery is gradual but still insufficient to create jobs and generate the necessary resources for the financing of priority expenditure.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ In light of the foregoing, the country's Technical and Financial Partners (TFP) agreed to continue their budget support, in the three coming years, with a view to consolidating the transition's achievements and sustainably restore social peace. AfDB support ties in with this joint effort.</li> </ul>
Harmonization	<ul style="list-style-type: none"> <li>▪ Before the March 2013 crisis, a General Budget Support Framework (GBSF) defined the framework for TFP intervention in CAR. This framework has not yet been updated; however, TFPs, engaged since 2014 in budget support operations, consult regularly to conduct joint missions in CAR, under the leadership of the IMF. During PAREF II design, other TFPs were consulted.</li> </ul>
Bank's Value-added	<ul style="list-style-type: none"> <li>▪ The Bank's comparative advantages stem from its experience in implementing the two previous CRBS operations and the successful articulation of Programme measures with the Economic and Financial Management Capacity Building Support Project (PARCGEF). Through these operations, the Bank has been participating actively in dialogue for the last three years and assists government technically in public finance management and capacity building for private sector support structures.</li> </ul>
Contributions to Gender Equality and Women's Empowerment	<ul style="list-style-type: none"> <li>▪ Gender equality in CAR is established by the new constitution adopted in December 2015. In his general policy declaration, the Prime Minister announced that legal systems would be strengthened to protect women's rights. To this end, government intends to operationalise the Joint Rapid Intervention Unit against Sexual and Gender-Based Violence and a Comprehensive Care Centre for Victims of Violence.</li> <li>▪ PAREF will contribute to improve women's living conditions by relaunching the agricultural sector, which mostly employs women, and providing budgetary allocations for the implementation of the strategy to assist women victims of violence.</li> </ul>
Policy Dialogue and Related Technical Assistance	<ul style="list-style-type: none"> <li>▪ Dialogue under the programme will concern reforms and measures that will have structuring effects on the country's medium-term economic and financial situation. These, particularly, are issues relating to control of exemptions and the updating of the taxpayers' file; the improvement of budget execution, especially with regard to the social sectors; the establishment of a new integrated public finance management system; the strengthening of dialogue between public authorities and the private sector; as well as governance in the cotton, mining and forestry sectors.</li> </ul>

## RESULTS-BASED LOGICAL FRAMEWORK

Country and Programme Name: Central African Republic – Economic and Financial Reforms Support Programme						
Programme Goal: Contribute to the improvement of public finance management and the revival of economic growth						
Results Chain		Indicators			Means of Verification	Risks/Mitigation Measures
		Indicator	Baseline Situation	Target		
Impact	Contribute to consolidating economic growth and improving the social and humanitarian situation	Real GDP growth rate	4.8% in 2015	4% in 2017 4% in 2018	IMF Report	
		Human development index	0.35 in 2014	0.40 in 2018	UNDP Human Development Report	
Outcomes	<b>Outcome 1:</b> Improvement of tax revenue	Fiscal pressure rate	7.1% of GDP in 2015	8.1% in 2017 8.7% in 2018	TOFE (FMI)	<p><b>Political and security risk</b> related to fragility of public institutions and the prevailing climate of insecurity in certain areas in Bangui and the country's provinces.</p> <p>This risk is mitigated by the return to constitutional order and gradual DDDR implementation</p> <p><b>Macroeconomic risk:</b> Economic contraction and dependence on external assistance Mitigation measures: Recovery of activities and exports in the mining sector, commitment of TFPs for budget assistance during the three coming years.</p> <p><b>Fiduciary risks:</b> High imbalances on the budget circuit and control systems</p> <p><b>Mitigation measures:</b> Reform programmes supported by the IMF and other TFPs include measures to improve public finance management and transparency.</p>
	<b>Outcome 2:</b> Improvement of procurement transparency	Percentage of public procurements by direct negotiation	[90%] in 2015	[70%] in 2017 [50%] in 2018	Public procurement audit report (ARMP)	
	<b>Outcome 3:</b> Improvement of the business environment	Average number of days to set up a business	22 days in 2015	< 14 days in 2018	Doing Business Report (WB)	
		Cost of setting up a business (in % income per capita)	204% in 2015	< 150% in 2018		
Outputs	<b>COMPONENT I: Improvement of tax revenue mobilization and public expenditure management</b>					
	<b>Sub-component 1-1 Improvement of tax revenue</b>					
	<p>1.1.1 Preparation of an interim report on the situation of exemptions granted by the Inter-ministerial Committee in charge of Tax and Customs Exemption as of 30 August 2016</p> <p>1.1.2 Revision of the framework for granting and managing exemptions (<b>trigger</b>)</p> <p>1.1.3 Taxpayer census and update of the taxpayers' database in the new taxation management system (SYSTEMIF4) (trigger)</p>	<p>1.1.1 Report on the status of exemptions</p> <p>1.1.2 Instrument on the revision of the legal, regulatory and institutional framework for granting and managing exemptions</p> <p>1.1.3 Updated taxpayers' database in SYSTEMIF4</p>	<p>1.1.1 Preliminary report available</p> <p>1.2.2 Framework not yet revised</p> <p>1.1.3 Census underway and SYSTEMIF4 being installed</p>	<p>1.1.1 Report available before end-October 2016</p> <p>1.1.2 Revision of the framework before June 2017</p> <p>1.1.3 Census conducted and the taxpayers' database updated before June 2017</p>	<p>CICEFD Report</p> <p>Copy of the instrument</p> <p>DGID Report</p>	
<b>Sub-component 1.2 Improvement of budget execution</b>						

Country and Programme Name: Central African Republic – Economic and Financial Reforms Support Programme					
Programme Goal: Contribute to the improvement of public finance management and the revival of economic growth					
Results Chain	Indicators			Means of Verification	Risks/Mitigation Measures
	Indicator	Baseline Situation	Target		
<p>1.2.1 Validation of the expenditure execution procedures manual – <b>trigger</b> – and drafting of the budget preparation guide</p> <p>1.2.2 Adoption of instruments relating to the designation of credit managers and administrators, for a better definition of the conditions for their appointment as well as their responsibilities (<b>trigger</b>)</p> <p>1.2.3 Preparation of specifications for migration to a new integrated public finance management system</p> <p>1.2.4 Increase in the budget execution rate (excluding salaries) in the education and social affairs sectors</p> <p>1.2.5 Public procurement audit</p> <p>1.2.6 Operationalization of the Conflict Resolution Committee at the Public Procurements Regulation Agency (ARMP)</p>	<p>1.2.1 Expenditure execution procedures manual validated and the budget preparation guide drafted</p> <p>1.2.2 New instruments adopted</p> <p>1.2.3 Report on the specifications</p> <p>1.2.4 Budget commitment rate (excluding salaries) in the education, health and social affairs sectors</p> <p>1.2.5 Number of audit years conducted between 2012-2015</p> <p>1.2.6 Agents appointed</p>	<p>1.2.1 The manual and the guide are being finalized</p> <p>1.2.2 Instruments not yet adopted</p> <p>1.2.3 The audit of the existing system (GESCO) has been conducted and the preparation of the specifications is underway</p> <p>1.2.4 Execution rate estimated at 10% in 2014</p> <p>1.2.5 No audit conducted for 2012 - 2015</p> <p>1.2.6 The Director of Litigation, Chair of the Conflict Resolution Committee not yet appointed</p>	<p>1.2.1 The manual and the guide prepared before September 2017</p> <p>1.2.2 Instrument adopted before June 2017</p> <p>1.2.3 Specifications completed in 2017</p> <p>1.2.4 Reach at least a 50% execution rate in 2017</p> <p>1.2.5 Audit conducted in 2017 for 2012-2015</p> <p>1.2.6 Text appointing the Director of Litigation, Chair of the Conflict Resolution Committee in 2017</p>	<p>Copy of the manual and the guide</p> <p>Copy of the text</p> <p>Copy of the specifications validated</p> <p>Budget execution report prepared by the General Budget Directorate</p> <p>Copy of the 2017 Appropriation Bill</p> <p>Copy of audit reports forwarded by ARMP</p> <p>Instrument on the appointment of the Director of Litigation</p>	
<b>COMPONENT II: Improvement of the business environment and governance in the productive sectors</b>					
<b>Sub-component 2.1 Improvement of the business environment and support to SMEs</b>					
<p>2.1.1 Assessment of losses and damages incurred by businesses during the 2013 events</p> <p>2.1.2 Adoption of a clearance plan for domestic arrears of the 2012-2014 period (<b>trigger</b>)</p> <p>2.1.3 Operationalization of the One-stop Shop for business registration (GUFÉ)</p> <p>2.1.4 Establishment of a national Private Sector Guarantee and Support Fund</p> <p>2.1.5 Operationalization of an approved Management Centre within the Chamber of Commerce, Industry, Mining and Crafts (CCIMA)</p>	<p>2.1.1 Report validated</p> <p>2.1.2 Clearance plan for domestic arrears of the 2012-2014 period</p> <p>2.1.3 GUFÉ procedures manual</p> <p>2.1.4 Study on the National Private Sector Guarantee and Support Fund</p> <p>2.1.5 Study on the establishment of a Management Centre within the Chamber of Commerce, Industry, Mining and Crafts (CCIMA)</p>	<p>2.1.1 Assessment of losses underway</p> <p>2.1.2 Audit of domestic arrears of the 2012-2014 period being finalized</p> <p>2.1.3 GUFÉ does not have a procedures manual and a financial and accounting management system</p> <p>2.1.4 Study on the National Private Sector Guarantee and Support Fund underway</p> <p>2.1.5 Study on the establishment of an approved Management Centre ongoing</p>	<p>2.1.1 Report on the assessment of the losses validated in 2016 and measures adopted in 2017-2018</p> <p>2.1.2 Arrears clearance plan adopted before June 2017</p> <p>2.1.3 GUFÉ procedures manual and financial and accounting management system set up before June 2017</p> <p>2.1.4 Study finalized in 2016 and a round table for capitalization of the Fund organized before end-2018</p> <p>2.1.5 Study finalized in 2016 and an approved Management Centre operational in Bangui in 2019</p>	<p>Copy of the report forwarded by the Ministry of Finance</p> <p>Copy of the arrears clearance plan approved by the Government</p> <p>Copy of the procedures manual</p> <p>Copy of the study and report on the organization of the round table</p> <p>Copy of the study and CCIMA's report</p>	
<b>Sub-component 2-2 Revival of productive sectors</b>					

**Country and Programme Name: Central African Republic – Economic and Financial Reforms Support Programme**

**Programme Goal: Contribute to the improvement of public finance management and the revival of economic growth**

Results Chain	Indicators			Means of Verification	Risks/Mitigation Measures
	Indicator	Baseline Situation	Target		
2.2.1 Updating of the National Agricultural Investment, Food and Nutritional Security Programme (PNIASAN) 2.2.2 Transmission of the Bill on the Agro-Pastoral Land Code to Parliament (trigger) 2.2.3 Revival of cotton production by fully clearing State arrears to private operators (trigger: clearance of 60% of arrears) 2.2.4 Conduct a study on forestry taxation and para-taxation in order to make the timber exploitation sector competitive 2.2.5 Revival of mining production by continuing the implementation of measures for total compliance of diamond producing areas with the Kimberley Process 2.2.6 Revision of the Mining Code to improve the sector's attractiveness and industrialization	2.2.1 Plan updated 2.2.2 Bill on the Agro-Pastoral Land Code 2.2.3 Arrears clearance rate 2.2.4 Study report 2.2.5 Number of areas declared compliant 2.2.6 Revised Mining Code	2.2.1 PNIASAN being updated – preliminary report available 2.2.2 Non-existence of an Agro-pastoral Land Code 2.2.3 State arrears to the sector not yet cleared in 2015 2.2.4 Study ongoing 2.2.5 Four diamond production areas declared compliant in September 2016 2.2.6 Revision of the Mining Code underway	2.2.1 PNIASAN updated before 30 October 2016 2.2.2 Bill on the Agro-Pastoral Land Code transmitted to Parliament 2.2.3 60% of sector arrears cleared and totally in 2018 2.2.4 Study on forestry taxation finalized before end-2018 2.2.5 At least ten diamond production areas declared compliant in 2017 2.2.6 New Mining Code adopted before end-2018	Copy of PNIASAN Copy of the instrument Report on the arrears situation Copy of the study and instrument on the tax system Report of the Ministry of Energy on the Kimberley Process Copy of the Mining Code	

**Total Resources: UA 7 million**

# MANAGEMENT'S REPORT AND RECOMMENDATION TO THE BOARD OF DIRECTORS CONCERNING A PROPOSAL FOR A ADF GRANT TO THE CENTRAL AFRICAN REPUBLIC TO FINANCE THE ECONOMIC AND FINANCIAL REFORMS SUPPORT PROGRAMME, PHASE II (PAREF II)

## I. INTRODUCTION: THE PROPOSAL

1.1. **Management hereby submits the following proposal and recommendation for the award of a UA 7 million ADF grant to the Central African Republic to finance the Economic and Financial Reforms Support Programme, Phase II (PAREF II).** PAREF is a two-year multiannual programme-based operation. Approved in March 2017, PAREF I provided a list of reform measures considered as indicative triggers for the second phase (PAREF II). The programme-based approach chosen allows improvement of aid predictability and facilitates alignment on the country's development policies.

1.2. **In March 2013, CAR was plunged into one of the worst crises of its history following an armed rebellion that toppled the decade-old regime.** Thanks to mediation and the support of the international community (including the country's technical and financial partners), a political transition was put in place. Although difficult, peaceful presidential and legislative elections were conducted between end-2015 and early 2016, thus paving the way for the return of constitutional order. However, the crisis had a telling impact on the social climate and the humanitarian situation, and seriously affected management and production capacity in all sectors of the economy. The major challenges currently facing the country and linked to factors of fragility include: (i) the restoration of security nationwide; (ii) social cohesion and the effective presence of the State on the entire national territory; and (iii) economic recovery through private sector support and the revival of the productive sectors.

1.3. **In 2014 and 2015, the Bank intervened through an Emergency Post-Crisis and Economic Recovery Support Programme (PUASCRE), financed by two Crisis Response Budget Support (CRBS) operations.** PUASCRE was one of the Bank's prompt responses in favour of CAR to enable it to rapidly exit the military-cum-political crisis that erupted in March 2013 following the overthrow of the ruling regime an armed rebellion. PUASCRE contributed significantly to the gradual restoration of public institutions and basic social services severely weakened by the crisis. PUASCRE also played a role in reviving private sector activities by helping to partially clear State arrears to national suppliers.

1.4. **The Government continues to pursue national reconciliation dialogue aimed at restoring social cohesion.** This dialogue is guided by the National Plan for Recovery and Peacebuilding in the Central African Republic (RCPCA 2017-21) adopted in October 2016 and anchored on three (3) priority pillars and eleven (11) strategic objectives. However, to achieve the objectives set for the next five years, the support of all technical and financial partners (TFPs), including the Bank, is capital to avoid a setback that would be detrimental to CAR and the sub-region. A donors' round table was organized in Brussels in November 2016 to finance the RCPCA. In terms of financial contribution by the key TFPs, pledges stood at USD 2.2 billion, including agreements signed before the round table. Full implementation of the Plan is estimated to cost USD 3.1 billion.

1.5. **Within this context, the Bank plans to support Government's effort to implement structuring reforms through PAREF.** Under PAREF I, several reforms aimed at: (i) sustainably

improving governance in public finance management; (ii) supporting private sector development; and (iii) promoting the revival of productive sectors were implemented. With PAREF II, the resources of which will be disbursed in one tranche, these reforms will be pursued and deepened to consolidate economic growth and improve the social and humanitarian situation.

## **II. POINTS ON COUNTRY'S ELIGIBILITY**

### **Criterion 1 – Government Commitment to Poverty Reduction**

**2.1. PAREF I is a programme-based support operation anchored on the Central African Republic Government's National Plan for Recovery and Peacebuilding (RCPCA).** The RCPCA strategy, which covers the 2017-2021 period, has three pillars: (i) support peace, reconciliation and security; (ii) renew the social contract between the State and the population; (iii) promote economic recovery and revive the productive sectors. RCPCA is the national crisis exit plan approved by the Government in October 2016, and for which donors made financial commitments (see §1.4). It is the reference framework for donor operations based on the principles of the country's long-term national development vision. To date, RCPCA achievements include: (i) definition of the Institutional Framework for the Coordination and Monitoring of RCPCA Implementation (Presidential Decree 16/038 of 5 November 2016); (ii) establishment of the RCPCA Permanent Secretariat (October 2017); (iii) adaptation of a database on external assistance in favour of CAR to the RCPCA objectives (28 February 2017); (iv) preparation of the Operational Plan for Immediate Stabilization of Bambari - POSIB (March 2017); (v) activation of the three (3) RCPCA Programme Coordination Groups (March-July 2017); (vi) validation of the Pillar 1 implementation first status report (June 2017); (vii) identification and submission to TFPs of 170 bankable projects identified by the Ministries (June 2017); (viii) establishment of the Inter-ministerial Committee for Monitoring the RCPCA Implementation (Order 0015 of the Prime Minister and Head of Government, dated 9 August 2017); (ix) establishment of the POSIB coordination structure in Bambari and Bangui (11 August 2017); and (x) support for resource mobilisation (continuous).

**2.2. CAR is still in a fragility situation, with pockets of insecurity in the hinterland marked by violence caused by armed groups.** Although the capital Bangui is relatively well secured by MUNISCA, renewed tensions and acts of violence in the hinterland are undermining a socio-political situation that had considerably improved with the return to constitutional order in 2016. Security had also improved since the social dialogue held in 2015, prior to the elections. In response to recent acts of insecurity, the Government decided to speed up the reform of the security services aimed at integrating some former combatants into the army, streamlining and rejuvenating the military and police forces, and restoring peace and security nationwide. In 2017, the Government organised several meetings of the Disarmament, Demobilization, Reintegration and Repatriation (DDRR) Consultative and Monitoring Committee, which brought together fourteen armed groups, and launched the recruitment of 500 police officers and gendarmes. In September 2017, 260 ex-combatants were disarmed, demobilized and integrated into the Central African army. Furthermore, a special criminal court is gradually being set up to prosecute those suspected of war crimes and human rights violations.

## Criterion 3 – Macroeconomic Stability

### 2.3. The signing of an economic and financial programme with the IMF in July 2016 laid

a solid foundation for stabilizing the macroeconomic framework in the medium term. The economic performance of the Central African Republic remains sound despite the deterioration of security (see the 3<sup>rd</sup> review of the IMF's ECF, October 2017). With real GDP growth rates of 4.8% in 2015 and 4.5% in

**Table 1: Key Macroeconomic Indicators**  
(in percentage of GDP except otherwise indicated)

	2013.	2014	2015	2016 <i>Est.</i>	2017 <i>Proj.</i>	2018 <i>Proj.</i>
Real GDP growth rate (in %)	-36.7	1.0	4.8	4.5	4.0	4.0
Inflation rate (annual av.)	6.6	11.6	4.5	4.6	3.8	3.5
Current account balance ( <i>incl. grants</i> )	-3.0	-5.6	-9.0	-9.1	-9.0	-8.6
Public debt	38.5	54.8	51.1	44.3	51.6	44.5
<i>Incl. domestic debt</i>	24.0	31.7	31.0	26.6	23.1	18.2
Gross official reserves ( <i>import months</i> )	3.7	5.5	5.0	5.1	4.4	3.8
Budget balance ( <i>including grants</i> )	-6.5	3.0	-0.6	1.3	-2.6	-1.5

Sources: Central African authorities December 2017

2016, as well as the projected 4% in 2017 2018, the economic recovery, which began in 2014, is gradually being consolidated after a deep recession in 2013 (-36.7%). Moreover, the suspension of the Kimberly Process on diamond exports has been partially lifted. This would permit a resurgence in mining sector activities.

**2.4. With regard to public finances, the implementation of actions aimed at restoring institutional capacity, in particular financial services, and consolidating reforms undertaken during the transition period, helped to reduce the budget deficit and generate a budget surplus of 1.3% of GDP in 2016, relative to a deficit of 6.5% in 2013.** The fiscal recovery efforts actually helped to improve the mobilisation of domestic public resources with new instruments<sup>1</sup>, streamline public spending and gradually restore the viability of the public finance management framework. Despite efforts to mobilise tax revenue and control expenditure, especially related to payroll following the census of civil servants, the country still needs financial support from TFPs to reduce its budget deficit in the coming years. On the monetary front, inflation is under control: it dropped from 11.6% in 2014 to 4.5% in 2015 and 4.6% in 2016, thanks to the gradual upturn in food production, establishment of security along the main transport corridor (Bangui-Douala axis) for foreign trade, and general monetary stability conditions within the Economic and Monetary Community of Central Africa (CEMAC) of which CAR is a member. However, this level of inflation remains above the CEMAC zone convergence criterion of 3.0%. CAR's debt distress risk also remains high due to its structural trade imbalance. In addition, the domestic and external arrears accumulated by the country significantly aggravates the public debt level. The public debt-to-GDP ratio rose from 38.5% in 2013 to 51.1% in 2014 and 44.3% in 2016. Due in particular to the fall in the export of extractive products and wood, the current account deficit has deteriorated considerably to stand at 9% and 9.1% of GDP in 2015 and 2016, respectively, against 3% in 2013.

**2.5. CAR is characterized by a business environment considered one of the least attractive in Africa, owing mainly to the cyclical crises and major security problems.** Against this backdrop, the private sector has remained embryonic and made up of small- and medium-sized enterprises, most of which operate informally. The latest World Bank Doing Business 2017 report ranks CAR 185<sup>th</sup> out of 190 countries. The country is still strongly hampered by the lack of inadequacy of infrastructure, in particular electricity and telecommunications, as well as by significant difficulties related to paying taxes and enforcing contracts. Recurring political crises

<sup>1</sup> The Government has established an excise duty on alcoholic beverages and tobacco, as well as deferred VAT.

coupled with violent conflict have severely weakened the competitiveness of the economy, thus jeopardising private sector development. Many enterprises have suffered significant property damage and financial losses<sup>2</sup> due to domestic violence and the accumulation of government arrears to local suppliers. Efforts are underway to improve the management capability of the One-Stop Shop for Business Registration (GUFÉ) and the creation of approved management centres within the Chamber of Commerce. Following the recent adoption of a national plan to revive private sector reforms, the structure of State-private sector consultation was also reorganised, with the establishment of the Joint Business Improvement Consultation Framework. This replaces the two structures set up in 2010 to promote private sector development, namely the Permanent Framework for State-Private Sector Consultation and the Joint Business Environment Improvement Committee.

**2.6. CAR's economic outlook is favourable for strong and inclusive growth.** The country has abundant natural resources and conducive climatic conditions for agriculture and livestock, and a strong potential for export and industrial crops such as coffee, cocoa and cotton. The implementation of Government's National Plan for Recovery and Peacebuilding in the Central African Republic (RCPCA) will help to lift the country out of fragility and avert recurring crises. Given CAR's isolation and its border situation with four Central African and two East African countries, the Government is committed to implementing regional integration reforms not only within the CEMAC framework but also with the Economic Community of Central African States (ECCAS) of which CAR is a member.

#### **Criterion 4 – Fiduciary Risk Review**

**2.7. The fiduciary risk assessment (FRA) related to the Public Finance Management (PFM) system conducted by the Bank as part of preparation of PAREF II deems the overall fiduciary risk level as “high”, in other words the same as in September 2016.** This is due to shortcomings in the current public finance management system, despite the Government's policy of promoting good governance and fiscal consolidation. Public finance reforms are numerous and can only be implemented in a situation of lasting stability and a relatively sufficient time to achieve significant results. Furthermore, difficulties related to the country's current context of fragility, poor governance and corruption are factors that do not favour the effective implementation of all PFM reforms in the short term. Therefore, implementing measures identified for fiduciary risk mitigation requires more than the Bank's support. It needs commitment from the Government and the combined efforts of all TFPs of CAR. Technical Annex 2 presents the fiduciary risks and related mitigation measures.

#### **Criterion 5 – Harmonisation**

**2.8. The TFPs committed to granting budget support consult regularly and work closely<sup>3</sup>, especially by conducting joint missions in CAR.** In addition, UNDP regularly organises meetings between TFPs to discuss security and humanitarian issues, and harmonise the various interventions. This second phase of the operation was prepared in close collaboration with the IMF, the World Bank, the European Union and AFD. Moreover, supervision missions to assess the reforms implementation status will be conducted in collaboration with other TFPs.

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<sup>2</sup> According to a study conducted in August 2016 on losses incurred by economic units due to the 24 March 2013 event, the total loss stands at CFAF 66 billion, of which CFAF 61 billion as material loss and CFAF 5 billion as financial loss.

<sup>3</sup> Prior to the March 2013 crisis, a Global Budget Support Framework (GGB) and a Memorandum of Understanding signed by all parties in December 2010 defined the donor intervention framework in CAR.

## III. THE PROGRAMME

### 3.1 Programme Goal and Objective

**3.1.1. PAREF's goal is to contribute to improving public finance management and reviving economic growth.** The programme will have a positive impact on the country's economic growth and social situation. It will contribute to: (i) improving tax collection; (ii) improving transparency and the budget execution rate, particularly in the social sectors; and (iii) consolidating economic growth by improving the business climate and governance in the productive sectors (agriculture, forestry and mining).

### 3.2 Programme Components

**3.2.1. The Programme will have two components: (i) Component 1 – Improvement of tax revenue collection and public expenditure management; (ii) Component 2 – Improvement of the business environment and governance in productive sectors.** The two components are complementary. Tax revenue collection and improved public expenditure management will enable the Government to gradually create the fiscal space to consolidate economic recovery.

#### **Component I: Improvement of Tax Revenue Collection and Public Expenditure Management**

##### **Sub-component I.1: Improvement of Tax Revenue Collection**

**3.2.2. Problems and constraints: The 2013 crisis led to a near-total paralysis of all financial services, with the destruction and looting of administrative buildings, means of transport and other working tools.** This situation considerably affected the tax collection capabilities of the customs and tax departments. With the support of TFPs and the Bank through PARCGEF, the institutional capacity of taxation services were gradually restored. PARCGEF provided vehicles, IT and office automation equipment, as well as training. However, tax and customs revenue mobilisation is still hampered by weak control of the taxable base and exemptions, as well as control systems. The mechanisms for granting exemptions are not well controlled, resulting in enormous shortfalls for the country. A study conducted in August 2016 with financing from the World Bank estimated the shortfall at CFAF 125.4 billion during the 2014-2016 period or twice the annual tax revenue. Regarding the tax base, the taxpayers' database has not been updated for several years. In addition, the information systems used by Customs service (ASYCUDA ++ ) and taxation service (SYSTEMIF) are either underutilised or limited.

**3.2.3. Implementation of PAREF I: To improve tax revenue collection, the Government implemented the following measures under PAREF I:** (i) preparation of a status report on the situation of tax and customs exemptions granted (this report focuses on exceptional exemptions); (ii) update and dissemination of the General Tax Code (CGI); and (iii) conduct of two joint risk-based control missions in 2016.

**3.2.4. PAREF II-supported measures: To deepen the PAREF I-supported reforms aimed at improving tax revenue collection, PAREF II will support the following measures:** (i) revision of the framework for granting and managing exemptions (*Trigger 1*); (ii) census of taxpayers and updating of the taxpayers' database (*Trigger 2*); (iii) interconnection of Central African Customs services with those of Douala; (iv) conduct of at least five joint risk-based control missions (tax and

customs) in 2017; (v) harmonisation of CGI with the CEMAC Directive on excise duties; and (vi) reopening of customs clearance and taxation services that remained closed during the crisis.

### **Sub-component I.2: Improvement of Budget Execution**

**3.2.5. Problems and constraints: As regards public expenditure management, the country lost control of the public expenditure chain in 2013 due to the excessive use of exceptional procedures,** notably recourse to imprest funds and directly negotiated public procurements. The inadequacies of the computerized public finance management system (GESCO) paved the way for malpractice by weakening public expenditure control capacity. Hence, the Government was unable to clear civil servant salaries. The domestic debt to State suppliers and banks increased, while non-wage social expenditure was executed at less than 12%. So far, public finance management is still hampered by (i) weaknesses in the budget preparation process, commitment and procurement plans; (ii) weak capacity of the procurement units and the generalization of directly negotiated public procurement; (iii) the failure to conduct public procurement audits since 2010; (iv) the public procurement institutional regulatory framework that remains incomplete; (v) the weak capacity of credit administrators and managers due mainly to their replacement almost every fiscal year; and (vi) the non-production of public accounts since 2007.

**3.2.6. PAREF I achievements: To improve public expenditure management, the Government implemented the following measures under PAREF I:** (i) validation of the expenditure execution procedures manual; (ii) preparation of the budget preparation guide; and (iii) abolition of imprest funds for missions (excluding imprest funds for the Presidency and the Prime Minister's Office).

**3.2.7. PAREF II-supported measures: To consolidate PAREF I-supported reforms aimed at improving public expenditure management, PAREF II will support the following measures:** (i) review the instruments on the appointment of credit managers and administrators through a better definition of the terms of their appointment, their duties and responsibilities (*Trigger 3*); (ii) preparation of expenditure commitment plans based on the procurement plan for all ministries, especially for the Ministries of Health, Education and Social Affairs; (iii) preparation of specifications for the implementation of a new public finance management system, taking into account the outcomes of the GESCO software audit; (iv) audit of public procurement from 2012 to 2015; (v) operationalisation of the Public Procurement Conflict Resolution Committee; (vi) budgetary allocation for the strengthening of public services in charge of health, school equipment and supplies as well as the national health information system; (vii) budgetary allocation for the implementation of the plan for the training and automation of additional staff of the education and health sectors, and the deployment of the said staff taking into account regional balance; (viii) increase in the budget execution rate (excluding salaries) of the education, health and social affairs sectors; and (ix) budgetary allocation for the implementation of the assistance strategy for female victims of violence.

## **Component II: Improvement of the Business Environment and Governance in Productive Sectors**

### **Sub-component II.1. : Improvement of the Business Environment and Support to SMEs**

**3.2.8. Problems and constraints: The business environment in CAR deteriorated considerably with the March 2013 crisis.** Businesses are hampered by the shortage of economic infrastructure (energy, running water, roads, etc.), difficult access to financing, the State's arrears to

suppliers and the low capacity of private sector support structures. In addition, businesses suffered losses and material damage during the 2013 crisis. SMEs are particularly impeded by the absence of a suitable legal framework and the reticence of commercial banks to grant them loans for lack of adequate guarantees. Furthermore, backing for private sector support structures remains weak.

**3.2.9. PAREF I achievements: To improve the business environment and support SMEs, the Government implemented the following measures under PAREF I:** (i) assessment of losses suffered by businesses during the 2013 events; (ii) audit of State arrears/liabilities for the 2012-2014 period; (iii) finalisation of the study for the establishment of an Approved Management Centre (CGA) within the Chamber of Commerce, Industry, Mines and Crafts (CCIMA); and (iv) establishment of a financial management system at the One-Stop Shop for Business Registration (GUFÉ).

**3.2.10. PAREF II-supported measures: To deepen PAREF I-supported reforms aimed at improving the business environment and supporting SMEs, PAREF II will back the following measures:** (i) adoption of a domestic arrears clearance plan (*Trigger 4*); (ii) adoption of private sector support measures in relation to the losses suffered during the 2013 events; (iii) establishment of a national guarantee and support fund for the private sector; (iv) operationalisation of the CGA in Bangui; and (v) proposal for reforming the statutes of GUFÉ to strengthen its management autonomy.

### **Sub-component II.2. : Revival of Productive Sectors**

**3.2.11. Problems and constraints: The activities of productive sectors were suspended or significantly reduced due to the crisis.** The mining sector, in particular, is dominated by small-scale production, with little processing at the national level. The mining sector's contribution to GDP and budget revenue has remained very low since 2013. The timber sector offers considerable potential (50% of exports and second largest generator of jobs in the country after agriculture) and remains to date the country's main source of foreign currency. However, the sector is affected by weak governance and ill-adapted taxation resulting in contradictions in wood export declarations and low revenue recorded by the State. On the agricultural front, the cotton sector - the country's main export crop before the crisis - is affected by the destruction of production tools, State arrears to cotton producers and other subsector actors, and poor sector governance. The Government has prepared an action plan for its revival and targets a production of about 50,000 tonnes of cottonseed and the operationalisation of an oil mill by 2018.

**3.2.12. PAREF I achievements: To revive the productive sectors, the Government implemented the following measures under PAREF I:** (i) update of the Agricultural Investment, Food and Nutritional Security Programme (PNIASAN) ; (ii) approval of the organic instruments of the Ministries of Agriculture and Rural Development, Livestock and Animal Health, Environment, Sustainable Development, Water Resources, Forestry, Hunting and Fisheries; (iii) establishment of regional agricultural development programmes coordination, monitoring and evaluation committee; and (iv) conduct of a study on forestry and para-fiscal taxation to make the sector competitive.

**3.2.13. PAREF II-supported measures: To deepen PAREF I-supported reforms aimed at reviving the productive sectors, PAREF II will support the following measures:** (i) continuation of implementation of Kimberley Process measures to render at least ten diamond producing areas production- and export-compliant; (ii) revision of the mining code; (iii) total clearance of arrears owed the cotton sector (*settlement of 60% of these arrears constitutes Action Precedent 5*); (iv) at least 20% increase in the number of rural supervisory staff in the country's various regions; (v)

submission to Parliament of the draft agro-pastoral land code adopted by the Government (*Trigger 6*); (vi) adoption of the decree on the organisation of the profession of agricultural adviser; and (vii) tabling of the bill on professional agricultural organisations adopted by the Government before Parliament.

**3.2.14. Expected programme outcomes: The implementation of programme measures is expected to result in:** (i) an increase in tax revenue from 7.1% of GDP in 2015 to 8.7% of GDP in 2018; (ii) a reduction in procurement by direct negotiation from 90% in 2015 to less than 50% in 2018; (iii) a reduction in the number of days for starting a business from 22 days on average in 2015 to less than 14 days on average in 2018; and (iv) a drop in the cost of starting a business from 204% of income per capita in 2015 to less than 150% of income per capita in 2018.

### 3.3 Progress towards Achievement of the PAREF I Outputs

**3.3.1. All PAREF I outputs described in the programme’s logical framework have been achieved.**

<b>Table 2: Progress Towards Achievement of the PAREF I Outputs</b>	
<b>Outputs</b>	<b>Status of Implementation</b>
<b>Component I: Improvement Tax Revenue Collection and Public Expenditure Management</b>	
1. Preparation of a progress report on the situation of exemptions granted by the Inter-ministerial Committee in charge of Tax and Customs. Exemptions as of 30 August 2016	<b>Implemented:</b> The report on the situation of exemptions is available
2. Validation of the Expenditure Procedures Manual	<b>Implemented:</b> The Expenditure Procedures Manual has been validated
3. Preparation of the Budget Preparation Guide	<b>Implemented:</b> The Budget Preparation Guide has been prepared
<b>Component II: Improvement of the Business Environment and Governance in Productive Sectors</b>	
3. Assessment of the losses and damages suffered by businesses during the 2013 events	<b>Implemented:</b> Assessment carried out
5. Finalisation of the study on the establishment of a national private sector guarantee and support fund	<b>Implemented:</b> Study finalised
6. Finalisation of the study on the operationalisation of an approved management centre within CCIMA	<b>Implemented:</b> Study finalised
7. Update of PNIASAN	<b>Implemented:</b> PNIASAN has been updated

### 3.4 Progress towards the Completion of PAREF II Indicative Triggers

3.4.1. The table below presents the status of PAREF II indicative triggers as initially defined during the evaluation of PAREF I. This status was established in November 2017.

<b>Indicative Triggers</b>	<b>Status</b>
1. Review of the framework for granting and managing exemptions	A new Inter-ministerial Committee on Customs Tax Exemptions has been set up. This Committee will review and issue opinion on all requests for tax and customs exemptions. In addition, it will also review and issue opinion on all requests for the extension and renewal of tax and customs exemptions. The opinions of this Committee will be subject to the sole decision of the Minister of Finance and Budget.
2. Census of taxpayers and updating of the taxpayers' database	The taxpayers' census has been completed and the taxpayers' database updated.
3. Review of the instruments on the appointment of credit managers and administrators for a better definition of the terms of their appointment and responsibilities	The Ministerial Decree defining the quality of administrators and credit managers and setting modalities for their accreditation has been issued.
4. Adoption of a domestic arrears clearance plan	A domestic arrears clearance plan has been adopted.
5. Total clearance of arrears owed the cotton sector	Given the Government's cash flow difficulties, 60% of the total amount owed the cotton sector (CFAF 1.4 billion) was paid. However, within the PAREF II framework and as one of the performance measures, the Government has undertaken to clear the arrears in 2018.
6. Adoption of a decree on the implementing texts of the Environmental Code	The ministerial decrees enabling the application of the Environmental Code are in force.

### 3.5 Policy Dialogue

3.5.1. PAREF is a reform support operation that follows two budget support interventions in response to the crisis in the Central African Republic (CAR). In this context, the dialogue will focus on reforms and measures that will have more structuring effects on the country's economic and financial situation in the medium term. Specifically, this concerns the control of exemptions, the updating of the taxpayers' database, the improvement of budget implementation, particularly in the social sectors, the operationalization of public procurement regulatory bodies and institutions, and the strengthening of governance in the cotton, mining and forestry sectors. In addition, dialogue on these issues will be jointly conducted with other TFPs and support from the Bank's Country Office in CAR.

### 3.6 Grant Conditions – Actions Precedent (Triggers)

3.6.1. All actions precedent (triggers) to presentation of PAREF II to the Board of Directors of the Fund, defined during the appraisal mission in November 2017, have been completed.

<b>Table 4: PAREF II Actions Precedent (Triggers) (defined following the PAREF II appraisal mission)</b>	
<b>Actions Precedent</b>	<b>Evidence</b>
<b>Component I: Improvement of tax revenue mobilization and public expenditure management</b>	
1. Review of the framework for granting and managing exemptions.	Letter from the Minister of Finance and Budget forwarding a copy of the Presidential Decrees establishing the Inter-ministerial Committee on Tax and Customs Exemptions, and the text appointing members of the Committee.
2. Census of taxpayers and update of the taxpayers' database.	Letter from the Minister of Finance and Budget forwarding the final report on the taxpayers' census.
3. Revision of instruments on the appointment of credit managers and administrators for a better definition of their appointment and duties.	Letter from the Minister of Finance and Budget forwarding a copy of the Ministerial Order defining the profession of credit administrator and manager, and the terms for their accreditation.
<b>Component II - Support to private sector development</b>	
4. Adoption of a domestic arrears clearance plan.	Letter from the Minister of Finance and Budget forwarding the summary of the domestic Arrears Clearance Plan adopted.
5. Settlement of 60% of arrears owed the cotton sector.	Letter from the Minister of Finance and Budget stating the amount of arrears paid to the cotton sector (this letter must be accompanied by a copy of the accounting documents justifying the payment of 60% of the arrears owed the cotton sector).
6. Transmission to Parliament of the draft Agro-pastoral Land Code adopted by the Government	Letter from the Minister of Finance and Budget forwarding a copy of the letter transmitting the draft Agro-pastoral Code adopted by the Government to Parliament. This letter must be accompanied by the draft Agro-pastoral Land Code.

### 3.7 Applications of Best Practice Principles on Conditionality

3.7.1. In line with the international consensus on best practices reflected in the Bank Group's Policy on Program-Based Operations (PBOs), this operation is aligned on best practice principles on conditionality; namely country ownership, burden sharing responsibility, predictability of disbursements and realistic measures. The Bank's financing was backed by conditionalities discussed and shared with other TFPs, in the absence of a matrix of common measures. All the measures adopted by the Programme were also proposed by the various State structures and validated by national authorities, after verifying that they were realistic in light of the country's post-crisis context. The predictability of disbursements is ensured by the programme-based nature of the operation, which provides flexibility in the conditionalities.

<b>Table 5: Financing Requirements for 2017-2018</b> (in CFAF billion) Source: Central African Authorities (December 2017)		
	<b>2017</b>	<b>2018</b>
Total revenue and grants	164.5	191.8
Grants (excluding budget support)	32.1	37.5
Overall expenses	163.5	179.5
including interest payments	4.2	6.6
including capital expenditures	48.7	58.8
<b>Overall budget balance (excluding grants, cash basis)</b>	<b>-61.5</b>	<b>-63.5</b>
Arrears accumulation	-30.1	-30.2
<b>Overall budget balance, cash basis</b>	<b>-29.5</b>	<b>-17.9</b>
Net external financing	10.4	-1.3
ADB budget support (PAREF II)	5.5	0.0
Net domestic financing	8.7	-9.0
<b>Financing requirements</b>	<b>0.0</b>	<b>0.0</b>
<b>Residual financing gap</b>	<b>10.4</b>	<b>28.3</b>

### 3.8 Financing Needs and Mechanisms

3.8.1. PAREF II is part of external financing resources that will help to fill the overall budget deficit (excluding grants, commitment base), which amounts to CFAF 29.5 billion in 2017. These external financing resources include, in particular, concessional loan resources granted by the IMF and budget support in the form of grants from TFPs. PAREF II resources account for 18.64% of the overall budget deficit (excluding grants, settlement base) to be filled in 2017.

### 3.9 Application of the Bank's policy on Non-Concessional Debt Accumulation

3.9.1. The Bank's policy and principles on non-concessional debt are respected under PAREF II. This operation is financed by a grant to CAR, which is a country at high risk of debt distress based on the IMF/World Bank debt sustainability analysis conducted in June 2017.

## IV. PROGRAMME IMPLEMENTATION

### 4.1 Programme Beneficiaries

4.1.1. **The Programme's beneficiaries are the entire Central African population, or nearly 4.9 million inhabitants** and, particularly, vulnerable segments of the population, public administrations, cotton producers and forest communities. Public finance management will lead to improved quality of public services provided to vulnerable groups, especially women and children. Efforts to improve the business environment and support for SMEs, on the one hand, and the revival of the productive sectors, on the other, will help to make the private sector more dynamic and able to seize opportunities brought about by the economic recovery.

## 4.2. Social and Gender Impact

4.2.1. **The Programme will have a positive impact on the humanitarian situation in the country, thanks to its support for the implementation of social measures.** These include budget allocations in 2017 to: (i) strengthen public services in charge of health and school equipment and supplies as well as the national health information system; and (ii) implement the plan to train and recruit additional staff in the education and health sectors, as well as ensure the deployment of said staff, taking into account regional balance. The Programme will also have an impact on the living conditions of women through the agricultural (including food production and the clearance of cotton sector arrears), mining and forestry sector revival, budgetary allocations in 2017 and support for the implementation of the assistance strategy for female victims of violence.

## 4.3 Impact on Climate Change

4.3.1. **The proposed Programme is a General Budget Support operation. It will not have any impact on the environment, and is classified in Category III.** However, PAREF II supports the adoption of one of the enabling instruments of the Environmental Code to strengthen the mainstreaming of environmental aspects in the design of development programmes.

## 4.4 Implementation, Monitoring and Evaluation

4.4.1. **As chair of the Public Finance Reform Steering Committee (CPR), the Ministry of Finance and Budget will be responsible for PAREF II implementation.** The CPR comprises officials of structures charged with implementing the PFM action plans (Ministry of Finance and Budget, Finance Committee of the National Assembly, Court of Auditors, General State Inspectorate, Public Procurements Regulatory Agency), a representative of civil society and representatives of TFPs. The Ministry of Finance and Budget will ensure that the administrative structures concerned play their full roles in implementing specific measures in their respective areas of competence. Daily programme monitoring and evaluation will be the responsibility of the Economic and Financial Reform Monitoring Unit (CS-REF), which will prepare a quarterly report on the implementation of PAREF II-supported measures and reforms. In addition, in consultation with other TFPs, the Bank will undertake PAREF II supervision missions in which its CAR Country Office will play a key role.

## 4.5 Financial Management and Disbursement

4.5.1. **Country fiduciary risk assessment:** The fiduciary risk assessment (FRA) of CAR's Public Finance Management (PFM) system conducted by the Bank as part of PAREF II preparation deems the fiduciary risk as high, the same as in September 2016 during the preparation of PAREF I. This assessment was made in line with the Bank's Financial Management Policy for operations financed by the Bank Group, the Directive on the Promotion of the Use of National PFM Systems of February 2014, as well as the Operational Directives for Programme-Based Operations (PBO) of March 2014. The assessment found that the initial overall fiduciary risk was "high" because of shortcomings in the current public finance management system, despite the policy in favour of promoting good governance and public finance reforms carried out by the Government (see paragraph 2.7). Technical Annex 2 presents the fiduciary risks and the related mitigation measures.

4.5.2. **Financial management, audit and disbursement mechanisms:** In accordance with the fiduciary strategy defined for the 2017-2021 CSP period, PAREF II will be fully managed in

**the national public finance management system.** The disbursement of this operation is included in the 2017 Appropriations Act. Based on a pragmatic approach, the grant will be disbursed in one UA 7 million tranche to finance the execution of the budget for the 2017 financial year. As soon as the grant becomes effective and if the conditions precedent to grant disbursement are fulfilled, the tranche will be disbursed into a special account opened with the BEAC National Agency in Bangui, in accordance with the Grant Agreement. The verification of PAREF II financial flows will be conducted by an independent external audit firm that will be recruited by the Ministry of Finance and Budget. This financial flows audit will be conducted within six (6) months following the disbursement of the single tranche of the grant and in line with the terms of reference approved beforehand by the Bank. Furthermore, as part of its public finance external control prerogative, the Audit Bench will review the budget execution reports and the Budget Act of each financial year concerned, with a view to issuing its notice of compliance. The Budget Act for the 2017 to 2018 financial years as well as the notices of compliance issued by the Audit Bench will be forwarded to the Bank as soon as possible, within the timeframes prescribed by the law. The cost of the audit will be financed using the State budget.

**4.5.3. Procurement.** The legal and regulatory framework of CAR's public contracts is based on Law No. 08.017 of 6 June 2008. It follows from the assessment made by the Bank in September 2016 that overall, this framework is a satisfactory basis on which to build a coherent national procurement system. However, the socio-political crisis has led to a weakening of control mechanisms of the public procurement and implementation process. In this regard, the establishment of the Public Procurement Regulatory Authority structures is a fundamental link towards attaining the system's integrity objectives. In view of efforts by the Government and measures agreed on under this operation, the Central African Procurement Framework, which is in a positive improvement trend, offers a satisfactory base for conducting a budget support operation.

## **V. LEGAL DOCUMENTATION AND LEGAL AUTHORITY**

**5.1. Legal Documents: The legal document governing the Programme is the Grant Agreement between the Central African Republic (the Donee) and the African Development Fund (the Bank).**

### **5.2 Conditions Associated with Bank Intervention**

**5.2.1. *Conditions precedent to effectiveness:* Before the proposed transaction is submitted to the Board of Directors, the Central African Government shall provide the Bank with evidence, acceptable in form and substance, that the conditions precedent relating to PAREF II listed in Table 4 have been fully met. The effectiveness of the Grant Agreement shall be subject to the fulfilment, by the Donee, of the provisions of Section 12.01 of the General Conditions Applicable to Grant Agreements of the Fund.**

**5.2.2. *Conditions precedent to the disbursement of the 2017 annual tranche:* The disbursement of the UA 7 million grant will be subject to the effectiveness of the Grant Agreement and the transmission to the Bank of the references of a dedicated account opened at the BEAC National Directorate to receive grant resources, and fulfilment of the requirement to prepare a duly completed and signed disbursement request in accordance with the Disbursement Letter.**

### 5.3 Compliance with Bank Group Policies

5.3.1. **PAREF II is in line with the guidelines of the Bank's Ten-Year Strategy and, more particularly, the pillars on strengthening governance and private sector development.** It also accords with the Bank's High 5s, particularly "Improve the quality of life for the people of Africa". Furthermore, PAREF II, which is part of the Bank's CSP 2017-2021, is aligned on the CSP's second pillar on institutional capacity building and governance. It also accords with the Bank's Private Sector Development Strategy, in particular the first pillar on improving the business and investment climate. The Programme is in harmony with Pillar 2 of the Bank's Gender Strategy 2014-2018, especially the second pillar on women's economic empowerment. The reforms supported are equally in sync with Pillar 1 "Public Sector and Economic Management" and Pillar 3 "Investment and Business Climate" of the Governance Action Plan 2014-2018 (GAP II). No waiver of Bank guidelines is required under this operation.

## VI. RISK MANAGEMENT

6.1. Table 6 below summarizes the risks that could affect Programme implementation or the achievement of results.

**Table 6 - Risks and Mitigation Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
<b>Political and security risk</b> related to the fragility of public institutions and the prevailing climate of insecurity in certain areas in Bangui and the provinces.	This risk is mitigated by the return to constitutional order and gradual DDRR implementation, as well as the continued support of the international community
<b>Macroeconomic risk:</b> Economic contraction and dependence on external aid.	Economic recovery since 2014 with growing recovery of activities and exports in mining will help to stabilize the macroeconomic environment. In addition, the commitment of TFPs through budget support will help to strengthen the macroeconomic framework in the medium term, through reforms that underpin this operation.
<b>Fiduciary risks:</b> High distortions on the budget circuit and the control systems.	Reform programmes supported by the IMF and other TFPs, including the Bank, comprise measures to improve public finance management and transparency. In addition, as part of its supervision missions, the Bank will pay particular attention to fiduciary risk monitoring.

## VII. RECOMMENDATION

7.1. **In light of the foregoing, it is recommended that the Board of Directors approves a grant not exceeding UA 7 million** in the form of a general budget support to the Central African Republic for financing the second and final phase of the Economic and Financial Reforms Support Programme (PAREF).

## ANNEX 1 – The Government’s Development Policy Letter

**Ministry of Economy, Plan  
and Cooperation**

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**Directorate of Cabinet**

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**CENTRAL AFRICAN REPUBLIC**

**Unity – Dignity – Work**

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**Bangui, 12 December 2016**

**N°...../2016/MEPC/DIRCAB**

1. This development policy letter provides an update on the political context as well as the government’s strategic thrust relating to economic and social matters. It recalls the economic and financial policies currently being pursued by the government of the Central African Republic (CAR) and places them in a medium-term implementation context.

2. In a context of stabilization and gradual exit from the security and political crisis experienced by the country since 2013, the government is facing major economic and financial challenges and the many expectations of the population. Our strategic priorities for restoring growth and reducing poverty are: (i) restoring the security and sustainability of public finances; (ii) supporting external competitiveness and diversifying the foundations of economic activities to create the conditions for sustainable and inclusive growth; (iii) establishing the basis for good governance; and (iv) strengthening the country’s institutional framework and administrative capacity.

3. The government’s reform strategy will be supported by the "Support Programme for Economic and Financial Reforms - PAREF". The programme will be implemented over two years (2016 and 2017). The programme’s objective is, on the one hand, to improve the mobilization of tax revenues and control public expenditure and, on the other hand, to improve the business environment and governance of productive sectors.

### **I. CONTEXT**

4. The recent organization of democratic elections marked the end of a three year transition. The referendum on the new December 2015 constitution and the elections of February 2016 involving presidential and legislative elections were organized in a peaceful atmosphere. This resulted in a return to constitutional legality and the establishment of state institutions guaranteeing more transparent and efficient governance with better prospects for the CAR if the security problem is solved.

5. The country is slowly emerging from the political and security crisis of 2013 which resulted in a major humanitarian crisis, the collapse of the economy and administration and a marked weakening of internal financial resources. In the face of the major challenges facing the country, the government is firmly committed to promoting national reconciliation and social peace. We also want to consolidate security, in particular, through the demobilization, reintegration and repatriation of armed groups. Finally, our priority is also to effectively implement an

administrative, economic and financial reform programme to ensure economic recovery and reduce poverty. These reforms aim to improve human and administrative capacity by redeploying the administration; promoting transparency and admissibility; consolidating basic budget management through increased tax revenues and better control and allocation of public expenditure. As such, they aim to increase spending in priority sectors while ensuring a return to external debt sustainability and economic recovery.

6. The security situation is gradually improving. Securing the country was supported by the international community, with the establishment of the international mission to support CAR under the leadership of the African union (MISCA) and the French SANGARIS force. The transfer of II peacekeeping operations to the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA), mandated by the United Nations in September 2014, enabled the gradual deployment of peacekeepers throughout the country and European forces (EUROFOR). However, failure to disarm and demobilize ex-combatants is a constraint on a strong economic recovery. Moreover, it is necessary to pursue reforms of the country's national security forces.

7. The international community's was crucial in resolving the crisis. In addition to humanitarian assistance, CAR has receive multi-faceted support which has enabled the authorities to (i) cope with the impact of the crisis on the populations, especially through the provision of public services; (ii) promote the resumption of economic activities in the country; and (iii) implement economic, financial and administrative reforms. These have reduced the primary deficit from seven percent (7 percent) of GDP in 2013 to three percent (3 percent) in 2015, and improve revenue mobilization while controlling spending. These key reforms include: the establishment of a treasury management committee; the operationalization of the Treasury's Central Accounting Agency (ACCT), better control and collection of taxes and customs; payroll control through careful examination of the civil service roster, gendarmes and police officers. All this through the adoption of a public finance reform action plan.

8. Moreover, economic recovery has been slow and will not quickly compensate for the 36.7% GDP contraction that occurred in 2013. The country is still heavily dependent on foreign aid to finance its primary expenditure, including wages, pensions and debt repayment. At end 2015, domestic revenue covered only 73% of expenditure. Finally, there are several structural rigidities, including lack of electricity, inadequate infrastructure, high transport and telecommunications costs, a weak educational system and a weak financial sector. These structural rigidities are slowing down the economic recovery and hampering private investment.

9. The security and political stabilization achievements as well as the resumption of economic activities recorded in 2015 enabled the government to request a supervision mission from the IMF under Article IV and the preparation of an Expanded Credit Facility (ECF). This mission, conducted with the participation of other partners (World Bank, African Development Bank, European Union), took place in May 2016. It made it possible to assess the country's macroeconomic framework and identify economic and financial reform measures. The IMF's Board of Directors approved the government's programme supported by the ECF on 20 July 2016. Support from the Bank, the IMF and other technical and financial partners has also led to the production of a set of analytical studies. They have therefore been used to prepare strategies and action plans for economic, financial, administrative or sector reforms.

## **I. GOVERNMENT PROGRAMME**

10. The government's general policy statement was presented to the national assembly at the beginning of June 2016 and approved by a vote of confidence. This, translated into a government programme, is structured around four pillars: (i) peace, security and social cohesion; (ii) economic recovery; (iii) politics and good governance; and (iv) social affairs and humanitarian actions.

11. These guidelines are inspired by the recommendations from the Bangui National Forum, enriched by the recent debates, as well as many meetings, including different categories of actors. The authorities, with the support of their technical and financial partners, finalize an assessment of the priorities and needs for rehabilitation and peacebuilding in CAR. This evaluation, which will be used to guide the government's economic and social development policies, was presented to the donor conference on 17 November 2016. The policy statement will be one of the reference documents for the interventions of development partners and the financing of development projects identified for the 2016-2018 period according to the following priorities:

### **1. *Peace, Security and Social Cohesion***

12. According to the country's president, sustainable security and social cohesion are the first priorities. To this end, the government intends, once resources are mobilized, to implement the Disarmament, Demobilization, Reintegration and Repatriation (DDRR) process and the Security Sector Reform (SSR). This is a precondition for stabilization and economic recovery.

13. A national security policy with a view to realizing the actions to be implemented will be developed and its implementation will be based on four thrusts: (i) organization and operation of the national army; (ii) reinforcement of operational capabilities of the armed forces; (iii) the doctrine and implementation of a defense and security policy; and (iv) resource mobilization strategy. Security will lead to the administration's redeployment throughout the country and the restoration of state authority, on the understanding that the return of decentralized authorities will have to be accompanied by a policy of decentralization; a factor for social cohesion and peace.

### **2. *Economic Recovery***

14. To improve the population's living conditions, three objectives are targeted: (i) public finance consolidation; (ii) productive sector reforms; and (iii) international cooperation.

15. Economic recovery begins with better public finance management. This will include: (i) consolidating public finances in order to create the best conditions for optimizing government revenues; (ii) rigorously managing public expenditure; and (iii) allocating resources optimally in order to stimulate economic development. In this regard, the reforms envisaged to increase internal resource mobilization, public expenditure control - mainly the wage bill - will continue through the implementation of financial services action plans and payroll reorganization. In addition, attention will be paid to public procurement procedures.

16. The reform of the productive sector rests mainly on the strategic orientations of each sector. These include: (i) revitalizing and modernizing the agro-pastoral sector; (ii) consolidating the forest sector through the effective application of the forest code and the traceability of the timber industry; (iii) reorganizing production in the extractive sector and updating its legal framework; (iv) improving the rate of access to electricity and diversifying sources of production; (v) large-scale revival of effective road maintenance works and implementing projects aimed at modernizing the Bangui M'Poko Airport; (vi) improving road, river and air transport services for both people and goods; and (vii) improving the business climate to promote investment and business development.

17. Within the framework of international cooperation and mobilization of external resources, the government will negotiate with donors the formulation and adoption of new cooperation programmes for the financing of development programmes and projects.

### **3. *Politics and Good Governance***

18. This priority stems from the recommendations of the Bangui forum held in May 2015 with the participation of all the social segments of the country. The actions therefore aim at: (i) completing the implementation of resolutions adopted during the forum; (ii) restoring State authority; (iii) developing trade with the outside world, as well as market mechanisms; and (iv) establishing relations with emerging countries and the Arab world.

### **4. *Social Affairs and Humanitarian Actions***

19. Priority actions are part of the fight against the scourges that infringe human rights. To this end, a set of actions will be implemented. These include: (i) protecting the rights of women and children; (ii) developing humanitarian actions for the benefit of the people; (iii) establishing Local Peace and Reconciliation Committees (LPRC) and the Truth, Justice, Reparation and Reconciliation Commission; (iv) developing a sport that will contribute to peace, social cohesion and coexistence; (v) establishing a policy to promote employment and vocational integration, which is key to a fast return to social cohesion, stability, economic growth and lasting peace; (vi) developing health infrastructure and combatting aids, the second leading cause of mortality after malaria; (vii) raising the level of national education, one of the sectors deeply affected by recurrent crises.

## **II. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM PROSPECTS**

20. The national economy is mainly based on the agro-pastoral sector, which accounts for slightly more than 50% of the gross domestic product and employs more than 70% of the active labour force. Confronted with enormous security constraints during the 2013 crisis, the economy experienced a GDP contraction of 36.7% after a 4% growth in 2012. This was the consequence of poor performance of all economic sectors, related to the massive destruction and plundering of production tools, agricultural seeds and population displacement, particularly in agricultural and rural areas. As a result, domestic revenues fell by more than half while foreign trade (net) deteriorated drastically.

21. While the security situation remained globally unstable and volatile from 2013 to 2015, the implementation of the Transitional Government's Roadmap and Emergency Programme for Sustainable Recovery (PURD) led to the stabilization of macroeconomic aggregates. The programme led to a gradual resumption of economic activities with real support from the international community. Thus, there was economic recovery that translated to a real GDP growth rate of 1% in 2014 and 4.8% in 2015. Inflation declined by 11.6% in 2014 to 4.5% in 2015. This situation can be explained by the implementation of the government's economic and budgetary policy and the support of development partners. These include the mobilization of CFAF 74 billion budget support in 2014 and CFAF 42 billion in 2015. In terms of budget execution, the fiscal pressure rate reached 7.1% of GDP in 2015 compared with 4.9 per cent in 2014. This improvement is linked to the substantial increase in the level of government revenues V due to the authorities' determination to continue implementing reforms, despite the particularly difficult security situation. Primary expenditure was contained at 10.1% of GDP, which reduced the primary deficit to 3% of GDP in 2015. Public debt stood at 48.5% of GDP, compared to 51% % in 2014.

22. The medium-term economic outlook has improved. They are based on the following assumptions: (i) restoration of peace and security throughout the country; (ii) continuation of the national reconciliation process and redeployment of the administration; and (iii) effective implementation of the DDRR process. In addition to this, there is the lifting of the embargo on diamond exports and the implementation of our economic, financial and administrative reform programme. The implementation of a proper macro-economic and budgetary policy and our public investment programme will enable the Government to: (i) restore the sustainability of public finances; (ii) boost external debt sustainability; (iii) support competitiveness and broaden the bases of economic activities; and (iv) create conditions for sustainable and inclusive growth, particularly through the provision of public services. This process, supported by our technical and financial partners, will help the administration's capacity building efforts as well as the implementation of public finance and good governance reforms, in particular, through greater transparency and accountability. Thus, economic growth should average 5% over the 2016-2019 period. The external current account deficit is expected to be about 9.7% of GDP due to significant reconstruction requirements, while the financing requirement is expected to decline from 4.8% in 2016 to 3.2% in 2019. In line with the price stability context, inflation could gradually decelerate as a result of the increase in agro-pastoral production to stabilize at 3% as from 2018, and in line with the CEMAC convergence criterion. In terms of fiscal policy, we will pursue a viable policy, while accumulating buffers to guard against potential shocks. The primary domestic deficit - which will be the anchor of fiscal policy will be 3.3% in 2016 and will be gradually reduced to 0.9% of GDP in 2019. This will reduce public debt.

### **III. FINANCIAL AND ECONOMIC REFORMS**

#### **Financial Reforms**

23. To improve our public finance management, we are implementing a five-thrust reform plan from 2016 to 2018: (i) boosting revenues; (ii) securing and managing the State treasury; (iii) facilitating and standardizing budget management; (iv) restore the true and fair view; and (v) restore the State's credibility. We commit ourselves to diligently implementing this reform plan as well as the short- and medium-term action plans for the 2016-2018 period.

24. The review of the 2016 budget is the starting point for the reforms that will be pursued in future Finance Laws. These reforms will make it possible to take into account new strategies advocated in order to restore, in the medium-term, the viability of public finances and revive the economy whose foundations were disrupted by the last crisis. From this perspective, the medium term outlook would lead to an increase in the mobilization of domestic revenues and the control of public spending.

25. The Government will implement a policy aimed at combating corruption and fraud in all its forms. In this context, it will ensure better use of public resources and strengthen good governance through existing frameworks such as the Public Finance Monitoring and Management Committee (PFMMC) and the Treasury Committee (TC) in which the Technical and Financial Partners are represented to ensure co-management of both own resources and external aid VI resources. This is reflected in the strict application of the law requiring any person appointed to the post of Minister to submit a declaration of assets before taking office. It also intends to set up a Committee of Elders, which will bring together elements that will help to prepare the conditions for establishing a coherent anti-corruption framework in compliance with the international provisions in force. The other good governance challenge will be the strengthening of oversight institutions from 2016.

26. The pursuit of reforms to increase revenue mobilization is a Government priority. With budgetary revenues of only 7% of GDP, we recognize that the state of public finances is unsustainable because revenues are insufficient to cover our primary expenditures and honour our debt commitments. Faced with this situation, we will implement the measures identified in our action plan, prepared and adopted in 2016. The reforms aim at increasing domestic revenues from 7% of GDP in 2015 to 10.1% of GDP in 2016. The reforms will focus on:

- Strengthening the tax base and simplifying procedures. Several measures fall within this framework. On the one hand, we will improve VAT management, including through the prohibition of VAT collection at source as compensation for government revenue. On the other hand, we will improve the bases for valuing exports, strengthening controls and surveillance, particularly in the wood and diamond sectors, as well as simplifying procedures and even reducing incidental taxes. In this context, we intend to review the tax on the diamond industry, strengthen control of the distribution system, reduce fraud and improve the certification process. On petroleum taxation, we will adopt the decree reviewing the structure of oil prices in order to include International Platts prices as a new basis for calculation. In addition, with Bank support, we will carry out a census of taxpayers and, by June 2017, will update the taxpayer's file in the new tax revenue management information system. Similarly, several other measures will be implemented. These include the updating and dissemination of the General Tax Code, the opening of customs clearance offices and taxation departments that were closed during the crisis. We will also check VAT-related fraud through at least five joint controls conducted out each year by taxation and customs departments.
- Improved tax and customs administration. We will continue to implement the measures with the support of our technical and financial partners. The key elements of the reform will include a review of the banking conventions to ensure better revenue collection, the conduct of a study to identify small revenues, the

implementation of the pre-filled declaration on property contributions, and a review of the conventions on derogations. Other key aspects of the reform include the harmonization of the General Tax Code through the implementation of the CEMAC VAT and Excise Duty Directives; strengthening single global tax (SGT) control; strengthening the management of tax operations of large corporations; setting up the corporate citizen status; collection of arrears; and better taxpayer - public administration balance. Similarly, we will carry out an integrated computerization of the customs and tax networks, starting with the Béloko customs office, and later the link between Douala customs offices and Bangui. Lastly, we will accentuate the controls carried out by the administration of financial departments. In this regard, the Minister of Finance and Budget will adopt a decree introducing a risk management approach and quarterly controls of management posts by the General Finance Inspectorate (IGF), requiring that the main management positions be identified and at least monitored once per fiscal year.

- Better management of exemptions in order to minimize them. It consists of a strict application of the texts in force, no longer granting exceptional exemptions, setting transparent and restrictive criteria relating to the granting of exemptions, and a rereading of the texts on the procedures for approving draft agreements with exceptional exemptions. In this context, we are also undertaking to review the conventions on waivers when they expire in order to reduce the level of exemptions.

27. There are many public finance management challenges. Thus, we commit ourselves to: (i) fiscal discipline; (ii) restoring and standardizing the expenditure chain; (iii) continued efforts to control the wage bill; and (iv) operationalizing the accounting function. The Government will strengthen public finance governance through a return to normal budgetary procedures.

To meet the challenges of a simple, robust and transparent management of State credits and funds, preparatory measures have been taken. These include launching commitments of the 2016 budget and restoring the interconnections of the GESCO integrated budget management and accounting system. The interconnection of the GESCO budget and GESCO accounting modules created the conditions for restoring the expenditure chain. However, the connection between the budget and accounting modules remains problematic, limiting the scope of the measure. With this in mind, we will draw up, based on the findings of the audit of the GESCO application, the specifications for implementing a new public finance management system. Other measures, such as operationalizing the Central Accounts Treasury Agency (ACCT), have been fundamental steps in the public finance reform process, essential steps towards greater transparency in public expenditure management. To secure the management of the State Treasury and gradually extend the scope of the Treasury, we will continue to align available resources with priority expenditures to ensure a solid implementation of the treasury plan and to avoid the accumulation of arrears or outstanding payments. In this context, we have prepared a monthly cash flow plan for 2016 and 2017. Implementation will be monitored by the Treasury Committee, which will continue to meet monthly under the chair of the Minister of Finance and Budget. Prior to these actions, the expenditure execution procedures manual and the production of the budget preparation guide will first be validated and, by June 2017, conduct a review of the texts relating to the appointment of managers and credit administrators for better definition of the terms of their appointment and their terms of reference. With regard to the social sectors whose implementation of the budget is generally characterized by a low rate, recommendations have been made to set up procurement

commitment plans and a significant budget allocation for the implementation of their actions, in particular, the strategy to assist women and girls who are victims of violence. Strategic actions will include, among others, civil service reforms which have had the support of the World Bank and the UNDP to clean up the civilian, gendarme and police personnel files. The Government wishes to pursue its efforts to improve mastery of the wage bill.

28. To ensure better control of the payroll, which is a budgetary item, the Minister of Finance and Budget will adopt a decree reviewing the timetable for the transmission of pay items on the proposal of the ACCT in consultation with the IGF in order to promote the necessary monthly checks. The objective of this measure is that a minimum of 50% of payroll is controlled by ACCT. Finally, to ensure better payroll control, we are committed to making available the pay table, the key work tool for the processing of salaries.

- The government intends to continue and accelerate the implementation of measures to strengthen public financial management. These measures covering the 2016-18 VIII period are organized around four priority objectives: (i) securing and managing the State treasury to gradually extend the scope of the Treasury; (ii) unblocking and standardizing budgetary management with a view to gradually reducing the amount for exceptional expenditure to 5%; (iii) restoring the true and fair view of the entire general budget and related budgets; and (iv) re-establishing the credibility of the State by fighting fraud and restoring creditors' confidence.
- The Government also intends to: (i) adopt the nomenclature of the supporting documents of the expenditure governing the interactions between authorizing officers and accountants by a decree of the Minister of Finance and Budget; (ii) adopt by decree of the Minister of Finance and Budget the expenditure procedures manual; (iii) secure and strengthen Treasury management through the extension of the scope of the State's operations and identification of all state bank accounts in commercial banks; (iv) restore the expenditure chain; (v) strictly restrict the use of exceptional procedures (budget payment orders and cash payment orders) to a maximum of 5% of total expenditure, excluding salaries; (vi) restore normal budget expenditure (commitment / liquidation / scheduling / payment) procedures, including a strengthened Single Treasury Account (to include all revenue recovered by sector ministries, commercial banks, government agencies and petroleum products distribution sector), a working ACCT and activation of the budgetary and accounting modules of the GESCO computer system in support of public finance management. We also plan to consolidate the single treasury account by closing all Government accounts with commercial banks, with the exception of project accounts while preserving the stability of the banking system.

29. The domestic payments arrears clearance is at the heart of our fiscal consolidation programme and restoration of creditors' confidence. The CAR signed a commitments consolidation agreement under the consolidated and unpaid credits to BEAC for arrears of CFAF 55 billion owed to BEAC. The on-going audit of commercial bank claims on the state, audits in other sectors such as cotton and forestry and the audit of our commercial, social and other debts which we intend to clear with the support of our technical and financial partners will serve as the basis for preparing and adopting a settlement plan by 30 June 2017. We intend to explore, in collaboration with the staff of the IMF and the World Bank, the possibility of securing these bank

loans. We also intend to carry out an evaluation of VAT credits in order to prepare a settlement plan and eliminate any recourse to clearing operations. In the immediate future, priority will be given to the outstanding payments of suppliers in 2015 and 2016, followed by the 2013-14 commercial arrears, salaries and pensions estimated at CFAF 13.2 billion, which will be cleared in 2016 and 2017 respectively.

30. We will strengthen debt management. To mitigate debt distress risk in external debt caused by the collapse of tax revenues and exports, the government will seek, as a priority, to mobilize funding in form of grants, in consultation with IMF staff, through concessional loans, having a grant element of 50 percent. It will also pursue efforts to improve public debt management through training and by installing the new DMFAS 6.0 debt management and analysis software.

### **Economic recovery**

31. The CAR has just emerged from the emergency phase and has to move towards the reconstruction of its economy. To this end, it chooses to define and implement development strategies based on its economic potential. The government's challenge is to simultaneously create a supportive business environment for the private sector and provide support to businesses affected by the 2013 crisis in order to reduce poverty, promote the resumption of economic activities and support the competitiveness of the national economy. The policies should foster sustained, sustainable, inclusive and job-creating growth, especially for young and disadvantaged people.

32. To make the most of the economic recovery, reforms are needed to stimulate growth and promote formalization in employment-intensive sectors such as agriculture, especially the cotton and farming sectors. New jobs with obvious income-generating potential will help provide opportunities for young workers and, in particular, veterans and victims of violence, for economic progress through peaceful means, which will reduce incentives to seek income through crime and conflict. At the same time, the revival of agriculture and the forestry sector will depend on investment in the transport sector, especially the maintenance of secondary and rural roads that are essential to link producers to markets. One of the areas for improvement for growth potential is the development of the Information and Communication Technology (ICTs) sector to enable greater connectivity - in particular, access to voice, text, and mobile payments, across the country and abroad.

33. Beyond these aspects, the Government has not lost sight of the business environment improvement actions. In view of CAR's position in the Doing Business ranking, and having made operational the Joint Climate Change Framework for Business Climate Improvement (CMCAA) whose overriding objective is to improve dialogue with the private sector, the implementation of several actions identified within the framework of the recommendations made during the seminar organized by the National Credit Council in March 2015 is under way. Among these are the evaluation of the losses incurred by companies during the 2003 events and the feasibility study for the creation of a national guarantee and private sector support fund, for which the support of the partners is required to conduct and strengthen economic activities.

34. As a fundamental pillar of the Central African economy, the agro-pastoral sector accounts for about 50% of GDP and over 70% of jobs. This sector which was weakened during the 2013 crisis, as a result of the constant looting and destruction of production tools at all levels, including in the agricultural sector, therefore faces crucial challenges. Marginal productivity is low and has essentially stagnated over time. Agricultural systems, which are for the most part small, are still mainly subsistence-oriented and largely dependent on climatic conditions. The country's irrigation potential remains largely underdeveloped. Most farmers produce mainly food crops using traditional methods. Commercial agriculture is a marginal component of the sector, and the use of modern technologies and improved inputs is very limited. Public and private institutions, which are decisive in supporting a strong agricultural sector, are either weak or absent. Many years of under-funding and political instability have eroded the country's agricultural research and extension services. Many producers lack technical knowledge. In addition, the reduced size and scope of agricultural markets and input distribution systems limit the availability of high-quality seeds and fertilizers, improved animal species, veterinary supplies, agricultural tools and equipment. In 2015, the authorities adopted a law on seeds, the implementing decrees of which have not yet been signed, has delayed its implementation. In addition, the ability of producers to X acquire improved inputs or to invest in physical capital is compromised by insufficient access to credit, as CAR has serious deficiencies in rural financial infrastructure. Access to external markets is also underdeveloped because of the high cost of transporting products on rural roads in poor conditions and lack of maintenance. This, in turn, reduces the opportunities for and competitiveness of producers and, in so doing, undermines initiatives that may be aimed at increasing and / or diversifying agricultural production.

35. To this end, the government's response is reflected in the definition of a four-pronged strategy: (i) sustainable revitalization of the agro-pastoral sector and economic development; (ii) agriculture as a factor in national reconciliation; (iii) increase the professional integration of young people in the modernization of agriculture; and (iv) improve agricultural governance and competitiveness. Hence, PNIASAN, a tool for mobilizing resources to finance agro-pastoral projects. We will commit to updating this document, taking into account the current agricultural sector context and the vision of the government's agenda. Its implementation will be followed by other concrete actions to revitalize the agricultural sector.

36. The forest sector entered the regulatory phase with the adoption of a law creating the Forest Code in October 2010 in order to regulate its exploitation. To ensure transparency in the sector, the authorities adopted a strategy for the implementation of the FLEGT process developed by the European Union by signing a Voluntary Partnership Agreement with that institution in 2010. However, the implementation has witnessed some delays due to the 2013 crisis that greatly affected the sector, exacerbating the difficulties it faced, such as the low 70% wood processing required by the Code. There is significant demand for tropical wood products on international markets, and CAR's wood remains competitive despite high transport costs. Prior to the 2013 crisis, the forest sector accounted for more than 6% of GDP, about half of total exports and about 10% of state revenues. The sector also creates significant number of jobs, especially in the provinces. Before the crisis, the sector accounted for about 4,000 direct jobs and 6,000 indirect jobs. The forest sector has a very strong legal and regulatory framework and meets international standards. Finally, the country has actively participated in international certification schemes and multilateral efforts to combat climate change.

37. Despite these positive measures, the crisis has largely halted activities in the forest sector. Almost all forestry companies have suspended operations, and most have suffered a significant amount of damage. The forest road network, for example, has been severely degraded and forestry companies do not always have the means to restore it. The issue of tax arrears hampers the sector's development. Only 5 of the 14 logging companies are currently active. The search for solutions concerning tax arrears and the reassignment, under transparent conditions, of inactive concessions to new investors will therefore be decisive for this sector's positive development in the future.

38. Strengthening governance, operations and the financial health of the Road Maintenance Fund (FER) and the National Equipment Office (ONM) is imperative to ensure the effective maintenance of our road network in order to restore the smooth flow of goods and people; that automatically becomes a precedent for the economy's rapid recovery. Our transport infrastructure and services need large-scale investments to move towards the quality and efficiency needed to revitalize our economy. In the immediate future, the sector's priority is: (i) to establish an efficient road maintenance programming and enforcement system to protect existing infrastructure; and (ii) to ensure the sustainability of future investments, including through increased resources for road maintenance. This requires a significant improvement in road XI maintenance governance in order to establish the conditions for sustainable and efficient road maintenance with a view to attracting the necessary investment in this sector.

39. To meet these challenges, the Government intends to take a number of measures aimed at boosting the agricultural, forestry and transport sectors. Thus, with a view to improving transport sector governance, the Government has adopted the Road Maintenance Fund (FER) Operations Manual which defines, in particular, the scheduling of maintenance works (on-site or off-site); the definition of road works eligible for FER funding; and the formalization of contractual relations between the National Equipment Office (ONM), the Ministry and the FER. In direct support of the agricultural sector, the Government will adopt the texts relating to the operationalization of the Seed Code.

40. Pending the adoption of the input code, the Government commits to adopting an inter-ministerial decree in 2017 on temporary arrangements for the importation and distribution of inputs (fertilizers, plant protection products and veterinary products). To strengthen the transport sector governance reforms, we commit to conducting an audit of the road maintenance fund, including an inventory of debts between the FER and the ONM and a plan for the clearance of these debts. To stimulate the forestry sector's development, the government undertakes to conduct a technical and financial audit of forestry companies that do not implement their management plan. Based on this audit, in strict compliance with the legislation in force and by adopting a participatory and transparent approach, the government will take corrective action on inactive concessions, including the cancellation of concessions and the granting of concessions to new investors.

41. The Central African Republic (CAR) has a legal and regulatory framework for obsolete information and communication technologies (ICTs) and the public institutions responsible for governing the sector do not have the capacity to fulfil their mandate. Limited international connectivity leads to high prices and insufficient available bandwidth. Mobile phone services dominate the ICT sector, but prices remain high and service quality is poor. The national fixed telephone service suffers from serious technical and financial issues. Despite the strong competition between operators in the mobile telecommunications market, coverage remains very limited, especially in remote rural areas. This is due both to the low profitability of the services

offered in a low-consumption market and the negative impact of security instability on infrastructure development and maintenance. To promote the development of the telecommunication sector, which is of particular importance and rapidly requires an increase in the population's access to networks, the Government will implement reforms to promote it. The government will then have the draft law on electronic communications adopted by the Council of Ministers and send the draft law to the National Assembly before the end of 2016. The government will continue with reforms in the sector in 2017 through the following measures: (i) operationalizing a traffic control system by the Telecommunications Regulatory Authority (ART); and (ii) adopting a law to operationalize the universal service fund by the Council of Ministers in order to: (a) extend the geographical coverage of mobile networks in low income rural areas; and (b) promote the development of community ICT centres in targeted rural communities.

#### **IV. RECOVERY AND PEACEBUILDING PLAN**

42. Based on the Prime Minister's four-priority programme submitted to the National Assembly in June 2016, the Government, with the support of the international community, XII conducted an assessment of the needs of the population through a popular consultative process in order to develop its five-year plan to promote recovery and peacebuilding in CAR. This plan identifies actions to be taken over the next five years (2017-2021). The implementation of the Recovery and Peacebuilding Plan in CAR (RCPCA) is based on four main principles. This approach focuses on regional growth clusters, economic integration and diversification, the development of labour-intensive activities, and the social resilience of the population.

43. RCPCA actions are grouped into three pillars. The first pillar aims to restore peace, security and reconciliation, which are fundamental to the country's recovery and normalization. This pillar comprises strategic thrusts whose implementation is spread out over the implementation period. These include: (i) support for the reduction of violence through disarmament and the reintegration of ex-combatants and children associated with armed groups; (ii) promotion of stability through security sector reforms; (iii) reform of the judicial institution and promotion of the end of impunity; (iv) facilitation of reconciliation and social cohesion, as well as the establishment of conditions for the return of refugees and sustainable solutions for displaced persons. The second pillar relates to the renewal of the social contract between the State and the population. Through this pillar, the State should strengthen its presence throughout the national territory and develop its capacity to provide basic social services such as education, health, water and sanitation. It should also ensure food security and resilience of the population, as well as good governance, including macroeconomic stability, public finance management and control, and the fight against corruption. Lastly, the last pillar is devoted to economic recovery and the revitalization of the productive sectors. Its implementation will provide the population with income-generating activities and employment opportunities in the major productive sectors. It is also focused on improving the business climate and promoting investment.

44. The RCPCA thus designed served as a negotiation medium at the Brussels donors' conference on 17 November 2016. For a total cost of US\$ 3.161 billion, US\$ 1.684 billion of which was used in the first three years, the government has recorded, at the end of negotiations, an announcement of US\$ 2.268 billion corresponding to CFAF 1,130 billion. In accordance with the mutual commitment framework between the State and the international community based on aid effectiveness principles, the President of the Republic issued a decree setting up an operational institutional framework for the coordination, monitoring and implementation of this plan. This

framework should focus on strengthening the absorptive capacities of the different implementation structures of the plan while ensuring a combination of the disbursement procedures of the resources dedicated to financing the actions identified in each area.

45. Moreover, at the Government's request, the African Development Bank has carried out an audit of the budget support file for the 2016 to 2017 financial years. This dossier, which is currently being finalized, will enable the Government to mobilize resources, part of which will be allocated to post-round-table activities within the limits of the provisions of the above-mentioned decree stipulated in Article 13.

## **V. INSTITUTIONAL FRAMEWORK FOR THE IMPLEMENTATION OF THE PROGRAMME**

46. The Economic and Financial Reforms Monitoring Unit (CS-REF) is responsible for the monitoring of PAREF. The technical framework for monitoring and evaluating the various measures defined within the framework of the programme will be the ideal implementation framework. It comprises the designation of those responsible for implementing the measures. These focal points will monitor PAREF's implementation at the level of the CS-REF. The CSREF will also organize regular meetings with key reforms stakeholders to assess the implementation status.

**Minister of Economy,  
Planning and Cooperation**

**(signed)  
Félix MOLOUA**

**ANNEX 2 – Matrix of PAREF Measures**

Measures	Responsible structures	Implementation date	
		2016	2017
<b>I. Improvement of tax revenue mobilisation and public expenditure management</b>			
<b>1.1 Improvement of tax revenue</b>			
<b>1.1.1 Produce a report on the review of exemption agreements effective as at 30 August 2016, showing exceptional exemptions;</b>	<b>Ministry of Finance (Department of Legal Affairs)</b>	<b>September 2016</b>	
<b>1.1.2 Revision of the legal, regulatory and institutional framework for granting and managing exemptions (trigger)</b>	<b>Ministry of Finance (Department of Legal Affairs)</b>		<b>June 2017</b>
<b>1.1.3 Census of taxpayers and updating of the taxpayers' database in the new tax revenue management information system (indicative trigger)</b>	<b>General Directorate of Taxation</b>		<b>June 2017</b>
1.1.4 Updating and dissemination of the General Tax Code (CGI)	General Directorate of Taxation	December 2016	
1.1.5 Interconnection of Central African customs services with those in Douala	General Directorate of Customs		December 2017
1.1.6 Measures to fight VAT fraud (tax department/customs joint control based on crossed risks) – at least 5 controls per year	General Directorate of Taxation / General Directorate of Customs	2016	2017
1.1.7 Harmonise the CGI with the CEMAC Directive on excise duties (Taxation on mobile telephony)	General Directorate of Taxation		December 2017
1.1.8 Reopen customs clearance offices and taxation offices that were closed during the crisis	General Directorate of Customs / General Directorate of Taxation		December 2017
<b>1.2 Improvement of budget execution</b>			
<b>1.2.1 Validation of the expenditure execution procedures manual and development of a budget preparation guide</b>	<b>General Directorate of Budget</b>	<b>September 2016</b>	
<b>1.2.2 Review instruments relating to the designation of credit managers and administrators for better definition of the terms of their appointment and their duties (trigger)</b>	<b>General Directorate of Budget</b>		<b>June 2017</b>
1.2.3 Prepare procurement expenditure commitment plans for all ministries, particularly the Ministries in charge of health, education and social affairs	Budget/DGMP/Sector ministries		2017
1.2.4 Abolish imprest funds for missions (excluding imprest funds for the Presidency and the Prime Minister's Office)	DG Treasury	2016	2017
1.2.5 Prepare specifications for the establishment of a new public finance management system, taking into account the GESCO software audit	IT Department of the Finance and Budget Ministry		December 2017
1.2.6 Audit public contracts from 2012 to 2015	ARMP		June 2017
1.2.7 Operationalise the Conflict Resolution Committee	ARMP		December 2017
1.2.8 Budgetary allocation to strengthen public services in charge of health and school equipment and supplies as well as the national health information system	Ministries in charge of education, health and social affairs		2017
1.2.9 Budgetary allocation for the implementation of the training and recruitment plan for the additional	Ministries in charge of education, health and social affairs		2017

Measures	Responsible structures	Implementation date	
		2016	2017
workforce of the education and health sectors and its deployment, taking into account regional balance.			
1.2.10 Increase the budget execution rate (excluding salaries) of the education, health and social affairs sectors	Ministries in charge of education, health and social affairs	2016	2017
1.2.11 Budgetary allocation for the implementation of the assistance strategy for women and girls who are victims of violence	Ministry of Finance, Ministry of Social Affairs		2017
<b>II. Improvement of the business environment and governance in productive sectors</b>			
<b>2.1 Improvement of the business environment and support to SMEs</b>			
<b>2.1.1 Assessment of losses suffered by businesses during the 2013 events</b>		<b>September 2016</b>	
2.1.2 Audit the State's arrears/liabilities for the period 2012-2014	Ministry of Finance	December 2016	
<b>2.1.3 Adoption of a clearance plan for arrears and liabilities (trigger)</b>	<b>Ministry of Finance</b>		<b>June 2017</b>
2.1.4 Adoption of private sector support measures in relation to losses suffered by businesses during the 2013 events	Ministry of Finance		June 2017
2.1.5 Establishment of the National Private Sector Guarantee and Support Fund - operationalise by June 2017 the national committee responsible for monitoring the implementation of Funds and organise by December 2017 a roundtable to mobilise resources for its capital	Ministry of Planning; Ministry of Trade		2017
2.1.6 Finalization of the study for the creation of an approved management centre within the Chamber of Commerce, Industry, Mines and Crafts (CCIMA)	Ministry of Trade; CMCAA	December 2016	
2.1.7 Operationalisation of the CGA in Bangui	Ministry of Trade; CMCAA		December 2017
2.1.8 GUFÉ - Establishment of GUFÉ's financial management system	GUFÉ	December 2016	
2.1.9 Proposal of a reform of GUFÉ's status to strengthen its management autonomy			December 2017
<b>2.2 Revival of productive sectors</b>			
2.2.1 Continued implementation of Kimberley Process measures to ensure production and export compliance by at least 10 diamond producing areas	Ministry in charge of Mines		December 2017
2.2.2 Revision of the Mining Code	Ministry in charge of Mines		December 2017
2.2.3 Total settlement of cotton sector arrears (trigger: settlement of 60% of the arrears)	Ministry of Rural Development		2018
2.2.4 Increase by at least 20% the number of rural sector supervisors in the various regions of the country	Ministry of Rural Development		2017
<b>2.2.5 Transmission of the Bill on the Agro-pastoral Land Code to Parliament (trigger)</b>	Ministry of Rural Development		2017
2.2.6 Adoption of the decree on the organisation of the profession of agricultural adviser	Ministry of Agriculture and Rural Development		2017
<b>2.2.7 Updating of the PNIASAN</b>	<b>Ministry of Agriculture and Rural Development</b>	<b>September 2016</b>	
2.2.8 Approval of organic instruments of the Ministries of Agriculture and Rural Development, Livestock and Animal	Ministry of Agriculture and Rural Development;	2016	

Measures	Responsible structures	Implementation date	
		2016	2017
Health, Environment and Sustainable Development, and Water Resources, Forestry, Hunting and Fisheries;	Ministry of Livestock and Animal Health; Ministries of Environment and Sustainable Development, and Water Resources, Forestry, Hunting and Fisheries;		
2.2.9 Publication of the law on agricultural professional organisations	Ministry of Agriculture and Rural Development		2017
2.2.10 Adoption of enabling decrees of the 2001 law on the establishment and code of ethics of the National Association of Veterinarians	Ministry of Livestock and Animal Health;	2016	
2.2.11 Establishment of a committee in charge of coordination and monitoring and evaluation of regional agricultural development programmes (2016)	Ministry of Agriculture and Rural Development	2016	
2.2.12 Finalization of the forestry policy	Ministry of Water Resources, Forestry, Hunting and Fisheries	December 2016	
2.2.13 Adoption of a decree on the enabling instruments of the Environmental Code	Ministry of Water Resources, Forestry, Hunting and Fisheries		June 2017
2.2.14 Conduct a study on forestry taxation and para-taxation to make the sector competitive	DGI/Ministry of Water Resources, Forestry, Hunting and Fisheries		December 2017

### ANNEX 3 – Relations between the CAR and the IMF

#### **PRESS RELEASE NO. 17/501**

#### **IMF Executive Board Completes Third Review Under the ECF Arrangement for the Central African Republic, Approves US\$40.2 Million Disbursement, and an Augmentation of US\$55.1 Million.**

**December 15, 2017**

- **The completion of the review enables the disbursement of US\$40.2 million.**
- **Supporting social cohesion and economic growth requires the gradual restoration of state authority and the swift implementation of the National Plan for Recovery and Peace.**
- **Sustaining and accelerating efforts to mobilize domestic revenues and enhancing budget transparency will create fiscal space for social and development spending.**

On December 15, 2017, the Executive Board of the International Monetary Fund (IMF) completed the third review under the Extended Credit Facility (ECF) arrangement for the Central African Republic. The completion of the review enables a disbursement of SDR 28.41 million (about US\$40.2 million).

The Executive Board also approved a request for augmentation of the ECF arrangement in the amount of SDR 38.99 million (about US\$55.1 million). The augmentation will cover significant balance of payments needs in the context of the national strategy for recovery and peace and support social cohesion and economic growth.

The ECF arrangement for the Central African Republic was approved by the Executive Board on July 20, 2016 (see Press Release No. 16/352 ) for SDR 83.55 million (about US\$118.1 million, 75 percent of Central African Republic's quota at the IMF) and, following the augmentations, total financing amounts to SDR 133.68 million (about US\$189.0 million, 120 percent of the country's IMF quota).

Program performance through end-June has been satisfactory. All quantitative criteria and indicative targets were met, with the exception of the domestic revenue target for which the authorities are taking corrective actions and a waiver of non-observance was granted. All structural reforms have been implemented, albeit with some delays.

At the conclusion of the Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, stated:

“Performance under the ECF-supported program has been satisfactory despite a challenging security environment and difficult humanitarian conditions. The authorities implemented their reform agenda in parallel with efforts to gradually restore security in additional urban centers to create spaces of stability, reconstruction, and growth.

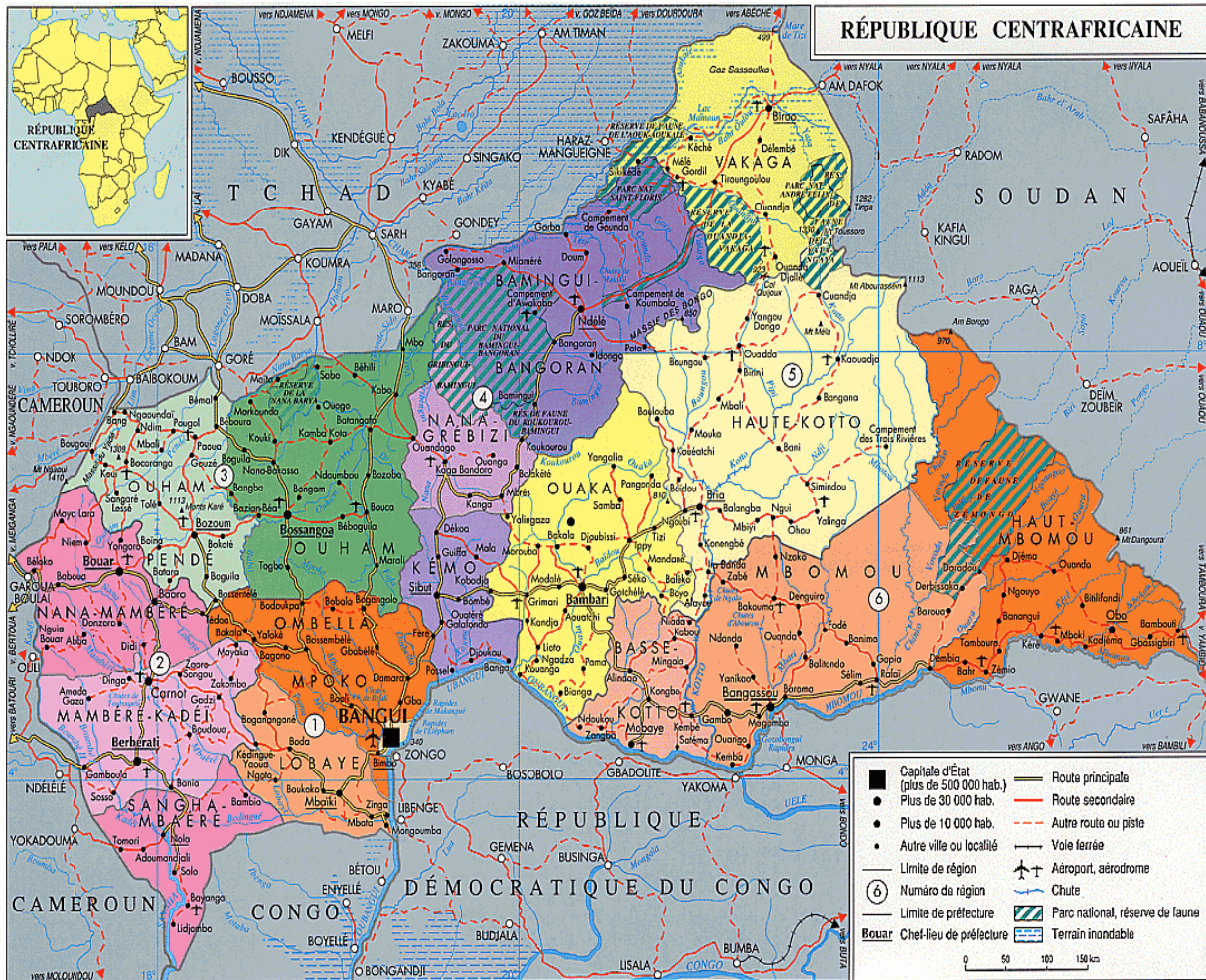
“Fiscal policy is broadly on track. The 2018 budget remains anchored to the domestic primary balance objective while allowing a scale-up of social and capital spending. Renewed efforts to mobilize domestic revenues, which remain weak, will be critical to support the scale-up. Given the country’s high risk of debt distress, continued reliance on grant financing while limiting borrowing—even on highly concessional terms— is essential. Available assistance must be channeled effectively into priority projects to boost economic growth, create jobs, and reduce poverty. Sound implementation of the investment program for the National Plan for Recovery and Peace will boost economic prospects.

“Structural reforms have progressed, contributing to the strengthening of the treasury single account, streamlining of quasi-fiscal taxes, improved budget transparency and traceability of domestic revenues. Quarterly publication of budget execution reports allows for better tracking and monitoring of government expenditures. More consideration should be given to reducing exceptional payment procedures which can undermine recent progress.

“The government adopted a comprehensive domestic arrears clearance strategy. The repayment of arrears will support growth, bolster the credibility of the state, and strengthen the banking sector. The plan includes measures to ensure the integrity of the arrears clearance process.

“The Central African Republic’s program is supported by the implementation of supportive policies and reforms by the regional institutions, including tighter monetary policy, elimination of statutory advances, sound bank regulation and supervision, and firm controls over the extension of credit to banks.”

## ANNEX 4 - Administrative Map of CAR



This map has been provided by the staff of the African Development Bank (AfDB) Group exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the AfDB Group and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.