



1. Project Data:		Date Posted : 02/26/2004	
PROJ ID: P060092		Appraisal	Actual
Project Name : Car - Fiscal Consolidation Credit	Project Costs (US\$M)	20	14
Country: Central African Republic	Loan/Credit (US\$M)	20	14
Sector(s): Board: PSD - Central government administration (25%), Crops (25%), General finance sector (25%), Roads and highways (13%), General industry and trade sector (12%)	Cofinancing (US\$M)	0	0
L/C Number: C3305			
	Board Approval (FY)		00
Partners involved :	Closing Date	06/30/2001	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
Pierre M. De Raet	Jorge Garcia-Garcia	Kyle Peters	OEDCR
2. Project Objectives and Components			
a. Objectives			
The objective of the Credit was to help the State carry out its basic functions in a post -conflict situation, with an immediate objective of timely payment of wages to government employees and the military .			
b. Components			
There were two specific components :			
1) Public financial management, including : (i) improved revenue mobilization; (ii) more efficient and more transparent spending management, including the regular payment of wages; and (iii) gradual settlement of domestic and external arrears.			
2) Privatization and economic liberalization, including : (i) completion of the privatization of PETROCA, the state petroleum company, and the incorporation of a new private company with monopoly over the import and distribution of petroleum products, to be followed by full liberalization after 5 years; (ii) privatization of the management (lease) of the power utility, including the drafting of a power sector strategy and an electricity code; (iii) preparation of a regulatory framework for the water and telecom sectors; (iv) establishment of a regulatory body for the electricity, water and telecom sectors; and (v) various liberalization measures, including approval of a new Labor Code by Parliament, harmonization of the Investment Charter with the General Tax Code and Customs Code, and formulation of a mining sector strategy in conjunction with a revised Mining Code .			
In addition, the reform program included actions aimed at strengthening road rehabilitation and maintenance, improving the financial situation of the cotton sector, and improving the volume and quality of public spending on social services.			
c. Comments on Project Cost, Financing and Dates			
In December 2000, one condition for the release of the second tranche (the settlement of all 1999 debts of PETROCA to the Road Fund) was partially waived as a result of a development beyond the control of the Government (theft of 30,000 tons of petroleum products stored in Kinshasa) .			
In June 2001, the closing date was postponed by two years to June 30, 2003.			
In April 2002, an amendment to the conditions for the release of the third (floating) tranche was approved by the Board to take into account a change in the institutional framework of the utility sector to facilitate its privatization .			
In June 2003, disbursement of the third tranche was cancelled and the credit closed following accumulation of arrears to the Bank and an unsatisfactory macro-economic framework.			
3. Achievement of Relevant Objectives:			

The objective of enabling the State to assume its basic functions was not achieved, as the period covered by the credit was marked by political instability and military disturbances (two attempted coups and one successful coup). Upon credit closing, CAR was basically in a post-conflict situation similar to the one prevailing in the mid-1990s.

4. Significant Outcomes/Impacts:

There were two significant outcomes: (i) the import and the distribution of petroleum products is now in private hands; and (ii) five licences for cellular telephony were awarded, of which two were in operation at the time of the ICR.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1) The macro-economic framework was not satisfactory during both preparation and implementation (ICR para. 4.2.2). This raises the issue as to whether the second tranche should have been released at all in December 2000, all the more so since: (i) as early as June 2000, salary arrears accumulated anew against the spirit of the program; and (ii) the second arrangement under the PRGF was concluded only in January 2001. Furthermore, a persistently unsatisfactory macro framework should have convinced the Bank to close the credit in June 2001, especially since in May 2001, the first review under the second-year PRGF arrangement could not be concluded and, the same month, the PRGF was cancelled. More importantly, a poor macro framework at preparation/appraisal raises the question as whether the operation should have been launched at all.

2) Expenditures for social services, not only did not increase as provided in the 2001 budget, but declined substantially since 2000.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Negligible	Negligible	
Sustainability:	Unlikely	Unlikely	However, the cellular phone licences might be likely.
Bank Performance:	Unsatisfactory	Highly Unsatisfactory	See Section 5. Given CAR's performance under the previous adjustment operations, its poor ownership and governance record, its extremely weak implementation capacity, and a very fragile post-conflict situation, the Bank showed poor judgment in launching such an operation. Furthermore, it was far too complex for CAR's capacity at the time. In addition, during implementation, the Bank did not react swiftly to developments on the ground.
Borrower Perf.:	Unsatisfactory	Highly Unsatisfactory	There was no genuine commitment to reforms and no serious attempt by the Government to reduce corruption in the revenue agencies and in the logging and petroleum products industries.
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

In very fragile post-conflict situations, Bank interventions should be limited to the bare minimum, focusing on the social services, in support of actions undertaken by other UN agencies responsible for assistance to demobilization, refugees, etc. For instance, issues as complex as privatization and sector reorganization should be addressed much later when all the pre-requisites are in place (in the case of CAR, even in the absence of conflict, such issues would be a major challenge).

The recourse to floating tranches is useful when, under stable political conditions, it is not possible to determine at preparation/appraisal the time required to take a given action (e.g., approval of a law by Parliament); they are of little use in an unstable political and economic situation.

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR provides all the necessary information required.