



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 27-Jul-2018 | Report No: PIDC25267



**BASIC INFORMATION**

**A. Basic Project Data**

Country Central African Republic	Project ID P168035	Project Name Consolidation and Economic Recovery Development Program (P168035)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date Dec 13, 2018	Practice Area (Lead) Governance	Financing Instrument Development Policy Financing
Borrower(s) Central African Republic	Implementing Agency Ministry of Finance and Budget		

**Proposed Development Objective(s)**

Consolidate basic fiscal management and economic recovery

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	20.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	20.00
World Bank Lending	20.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

1. **The proposed Development Policy Financing (DPF) series is part of a concerted effort by development partners to stem the fiscal and external crisis in the Central African Economic and Monetary Union (CEMAC by its French acronym) following lower oil prices since 2014.** The oil price shock of 2014-15 severely affected the six CEMAC economies and gave rise to a donor-supported regional adjustment strategy. In a crisis meeting in December 2016, CEMAC’s heads of state agreed to protect the currency peg and to use fiscal policy as the main tool for adjustment. The union has had a longstanding policy of a fixed exchange rate with the Euro, with the support of France’s treasury which ultimately guarantees the peg. The last devaluation of the CFA Franc in 1994 had negative socioeconomic consequences which policymakers in the region still remember and are careful to avoid. A strategy was adopted with a focus on: (i) significant



fiscal adjustment; (ii) a return to sound monetary policy; (iii) initiation of substantial structural reforms to support economic diversification; and (iv) strengthening of the financial sector. This engagement was subsequently formalized in the Economic and Financial Reforms Program (PREF-CEMAC), a regional policy document which lays out a common policy platform with focus on regional coordination and integration. The common policy platform is supported in each CEMAC country by the IMF, the World Bank, AfDB, and Agence Française de Développement (AFD) around the broadly consistent reform pillars of fiscal consolidation, competitiveness/diversification, protection of the poor.

2. **In the case of Central African Republic, the regional crisis coincided with the country’s struggle with another violent conflict.** The Central African Republic (CAR) has experienced successive cycles of violence and conflict. Since gaining its independence from France, CAR has completed just two peaceful transitions of power, one in 1993 and one in 2016. The country’s most recent major conflict began in early 2013 and remains unresolved, leaving an impoverished and traumatized population exposed to further exploitation by armed groups. The central government currently controls only about 40 percent of the national territory, and numerous armed groups are active across the country, particularly around mining sites. Reestablishing the rule of law, building a capable bureaucracy, and laying the foundation for sustainable growth and poverty reduction require a carefully calibrated policy agenda that has been factored in the donors’ approach to support the CEMAC region. Progress in increasing state presence across the territory advances very slowly. The conflict intensity increased in 2017, leading to an increase in the number of internally displaced persons by 70 percent since January 2017, while targeted attacks on humanitarian and peacekeeping personnel and assets negatively impacted relief operations. Traditional systems of social support are under stress, as conflict and displacement have eroded social cohesion. Support from the international community, beyond the coordinated CEMAC rescue package, remains important for the CAR. Much of the security today is provided by international security forces led by the Multidimensional Integrated Stabilization Mission in CAR (MINUSCA), although Russia private security companies are increasing their presence. Various UN agencies, international organizations, bilateral donors, and more than 100 international NGOs offer emergency relief and humanitarian assistance. Previously considered an aid orphan, CAR can now also count on significant financial assistance and the National Recovery and Peace Building Plan (RCPCA)<sup>1</sup> is being implemented with a total donor supported budget of US\$ 2.2 billion.

Relationship to CPF

3. **The CERDP series is closely aligned with the CAR Country Engagement Note (CEN) FY16-17<sup>2</sup>, which describes the continuation of the crisis response and potential next steps for recovery and development until the end of 2016.** Accordingly, the CERDP series supports the CEN’s three overarching objectives of (i) restoration of core public sector institutions; (ii) basic support to livelihoods; and (iii) support to basic social service delivery. In addition to sector policy measures in agriculture, transport, ICT, health and social protection, creating a larger fiscal space through increased revenues and controlled spending, in addition to stimulating core sectors of the economy, will provide additional resources for spending in social sector service delivery.

**C. Proposed Development Objective(s)**

Consolidate basic fiscal management and economic recovery

Key Results

Indicator Name	Baseline	Target
Use of exceptional spending procedures rate (percent)	24 (2017)	5 (2020)
Difference between revenues registered with the Directorate General of taxes and the	20 (2017)	5 (2020)

<sup>1</sup> The RCPCA recognizes the need to address five core drivers of fragility and crisis over time: a) a lack of social cohesion; b) political power and the capture of scarce resources; c) imbalances between Bangui and the rest of the country; d) a cycle of violence and trauma and a population in distress; and e) a lasting state of insecurity.

<sup>2</sup> Report 96209. Approved on July 13, 2015.



Directorate General of customs and the Directorate General of Treasury and General Accounting (percent)		
Actual presence rate of Civil Servants and Agents of the State in secured areas (percent)	40 (2017)	70 (2020)
Revenue from international trade (percentage of GDP)	2.2 (2017)	2.4 (2020)
Tons of imported fertilizers	0 (2017)	TBD (2020)
Financial audit of the RMF	1 (2015)	4 (2020)
Mobile phone penetration rate (percent)	25.5 (2016)	40 (2020)
Number of social protection beneficiary questionnaires collected	0 (2017)	25,000 (2020)
Number of pregnant women and children below 5 years benefiting from free health care (cumulative)	0 (2017)	586,000 (2020)

**D. Concept Description**

4. **The Program Development Objective (PDO) of CERDP 1 is to support the consolidation of basic fiscal management and economic recovery.**<sup>3</sup> The operation is structured around two pillars. Under the first pillar—Consolidating Basic Fiscal Management—the development policy operation (DPO) series seeks to reduce the use of exceptional spending procedures, improve accounting of and increase fiscal revenue, and improve the deployment of civil servants. Under the second pillar—Supporting Economic Recovery—the DPO series seek to support a pro-poor, post-transition reform agenda that reinvigorates drivers of economic growth in critical sectors, including transportation, agriculture, telecommunications/ICT, social protection and health services. Since these programmatic reforms represent both upstream and downstream interventions, the successful implementation of this ambitious program will require time, assistance, and flexibility. The two pillars have a positive influence on each other as improved fiscal management will lead to more effective spending with a positive impact on critical areas such as agriculture, transportation, ICT, social protection and health. Conversely, economic recovery is expected to have a positive impact on revenues, which will contribute to fiscal management. In this context, improvement of social protection will contribute to better Labor-Intensive Public Works (LIPW) programs which are contributing to maintain critical infrastructures such as rural roads, essential to the agriculture sector, and providing a source of revenues for poor populations. Improving health services, including scaling up performance-based financing of health centers is contributing to enhance access to health services. Transfers to the local health centers increase demand for local goods and services, hence contributing to spur economic activity at the local level.

5. **Pillar 1 seeks to consolidate basic fiscal management through** reduced use of exceptional spending procedures, improved accounting of and **increased fiscal revenues and improved deployment of civil servants.** This outcome will be achieved through support to several mutually reinforcing PFM policy areas, which are intended to improve fiscal management functions to better manage scarce resources. These policy measures will also contribute to consolidate achievements of the previous SCDP series. First, the operation will support the Government in transposing the CEMAC PFM directives, improving the quality of internal controls and the devolution of budget management which are expected to contribute to reducing the use of exceptional spending procedures. Furthermore, the operation will support a measure to improve the control of the effective presence of civil servants in their job which is expected to improve their effective deployment. It will also have a positive impact on the management of the wage-bill. Finally, support to improve the accounting of and mobilization of revenues through the establishment of the border post of Mongouba as a full border post and the establishment of a rotation scheme of customs officers are expected to contribute favorably to increase

<sup>3</sup> The CERDP series is a continuation of reforms initiated under the previous State Consolidation Development Program (SCDP) Series which supported improving the transparency of fiscal exemptions, payroll, procurement, budget management and control. seed distribution as well as revising the methodology for the determination of the prices of petroleum products, rationalization of the operations of the Road Maintenance Fund (RMF) and improving the coverage of the cell phone network.



revenues. Reforms in the ICT sector are also expected to contribute to increase revenues.

6. **Pillar 2 seeks to support economic recovery in productive sectors critical to growth and stability and to improve social protection and health services.** First, the operation will continue to support critical reforms in the Road Maintenance Fund (RMF) through its regular production of financial statements and the establishment of a quality control mechanism of the financial statements with the Central Accounting Agency of the Treasury to allow for a greater, more sustainable, and more efficient allocation of resources for the maintenance of secondary feeder roads, particularly in cotton producing regions which are critical to growth. Building on these efforts to improve agricultural productivity, the CERDP series will directly support the reform of the cotton sector through the adoption of a reform action plan which will target a greater participation of the private sector. The CERDP series will support the development of the ICT sector by introducing reforms that will expand connectivity, particularly 2G mobile network coverage across the territory. Finally, the operation will support reform efforts to improve social protection and reforms in the health sector targeting free health care for pregnant women and children under five, the establishment of one-stop shops and free health care for women and girls which have been exposed to violence and scaling up performance-based financing of the health sector. As an associated benefit, the policy measures proposed in this operation will pave the way for investment operations in these sectors.

## E. Poverty and Social Impacts and Environmental Aspects

### Poverty and Social Impacts

7. **The CERDP series is likely to have positive or neutral effects on the poor and those at the bottom 40 percent of the welfare distribution.** Under pillar one, the operation will support measures to increase revenues as well as enable more efficient budget execution and control. By creating more fiscal space, the program will make it possible to expand initiatives to alleviate poverty and to improve service provision (e.g. health and education) particularly in rural areas, where most of the poor reside<sup>4</sup>. Measures to reduce the use of exceptional spending procedures are expected to contribute to improve budget credibility and hence contribute to inclusiveness and poverty reduction. The support the program provides to improve basic fiscal management including improved human-resources management is expected to have a favorable impact on the provision of basic services. Under the 2018 Finance Law, the authorities intend to recruit 650 civil servants in the education and health sector and an additional 140 civil servants in territorial administration, rural development, public works, environment, water and forestry sectors. This could result in increased trust between citizens and the State through the gradual redeployment of the state across the territory and increased delivery of basic services. Overall the Budget is aligned with priorities of the RCPCA and its implementation is consequently expected to have a positive impact on inclusiveness and poverty reduction. Likewise, under pillar two, the program aims to promote inclusive growth and poverty reduction by providing support to key sectors that are crucial to economic growth and expand opportunities for the poor. Overall, the CERDP series supports the implementation of the RCPCA which includes an objective to improve gender equality.

### Environmental Impacts

8. **The specific policies supported by this programmatic operation are not expected to have negative effects on the Central African Republic's environment, forests, water resources, habitats or other natural resources, nor are there any short or long-term climate change or disaster risks relevant to this operation.** The ICT policy measure supported by the operation is not expected to have an adverse impact on environment. Expanding the coverage of telecommunications networks may require either upgrading of an active equipment on an already existing tower or set up of new towers, both under the generic and specific obligations that licensed telecommunications operators must comply with. Finally, the agriculture measures supported by the CERDP are not expected to have adverse environmental or social impact, but rather to enhance poverty reduction in rural areas.

<sup>4</sup> In 20078, 70 percent of the poor lived in rural areas.



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**APPROVAL**

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**Approved By**

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