



The World Bank

State Consolidation Development Program 2 (P164442)

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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 17.3 MILLION (EQUIVALENT TO US\$25 MILLION)
TO THE

CENTRAL AFRICAN REPUBLIC
FOR

THE SECOND STATE CONSOLIDATION DEVELOPMENT PROGRAM

March 16, 2018

Governance Global Practice
Africa Region

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The Central African Republic

FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 28, 2018)

Currency Unit=CFA Franc (XOF)

US\$1 = 537.868 CFA Franc (XOF)

US\$1 = SDR 0.69161554

ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i> (French Development Agency)
AfDB	African Development Bank
AFRITAC	African Regional Technical Assistance Center
BEAC	<i>Banque des Etats de l’Afrique Centrale</i> (Central Bank of the States of Central Africa)
BoP	Balance of Payments
CAAT	Central Accounting Agency of the Treasury
CAR	Central African Republic
CEMAC	<i>Communauté Economique et Monétaire de l’Afrique Central</i> (Central African Economic and Monetary Community)
CEN	Country Engagement Note
CFAF	Central African Franc
CPIA	Country Policy and Institutional Assessment
CPFR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CS-REF	<i>Cellule Chargée du Suivi des Réformes Economique et Financières</i> (Unit Responsible for the Monitoring of Economic and Financial Reforms)
CSO	Civil Society Organization
DDR	Demobilization, Disarmament, and Reintegration
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
EoP	End of Period
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FCFA	<i>Franc Communauté Financière en Afrique</i> (Franc of the French Community in Africa)
FCS	Fragile and Conflict-Affected State
FDI	Foreign Direct Investment
FED	<i>Fonds Européen de Développement</i> (European Development Fund)
FL	Finance Law
FLEGT	Forest Law Enforcement, Governance, and Trade

GDP	Gross Domestic Product
GESCO	<i>Système de Gestion de la Chaîne de Dépense Informatisée</i> (IT System for the Management of Public Expenditures)
GIF	General Inspection of Finance
GNI	Gross National Income
GRS	Grievance Redress Service
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HR	Human Resource
ICT	Information and Communications Technology
IDA	International Development Association
IDP	Internally Displaced Person
IEG	Independent Evaluation Group
IMF	International Monetary Fund
KPCS	Kimberly Process Certification Scheme
LEC	Law on Electronic Communications
M3	Metric cube
MD	Ministerial Decision
MFB	Minister of Finance and Budget
MINETACD	Ministry of Equipment, Transport, Civil Aviation, and Integration
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic
MPI	Multidimensional Poverty Index
NEO	National Equipment Office
PCPI	Post-Conflict Performance Indicators
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PV	Present Value
RCPCA	National Recovery and Peace Building Plan
RMF	Road Maintenance Fund
RPBA	Recovery and Peacebuilding Assessment
SCDP 2	Second State Consolidation Development Program
SLFL	Settlement Law of the Finance Law
SOCATEL	<i>Société Centrafricaine des Télécommunications</i> (Central African Telecommunications Company)
SORT	Systematic Operational Risk Tool
SSA	Sub-Saharan Africa
TA	Technical Assistance
TEN	Turn-around Eligibility Note
TRA	Telecommunications Regulatory Authority
UN	United Nations
UNICEF	United Nations Children's Fund
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization

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CENTRAL AFRICAN REPUBLIC

STATE CONSOLIDATION DEVELOPMENT PROGRAM 2

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P164442	No

Proposed Development Objective(s)

The program’s development objective is to support the reestablishment of basic fiscal management and transparency, as well as economic recovery.

Organizations

Borrower: CENTRAL AFRICAN REPUBLIC

Implementing Agency: MINISTRY OF FINANCE AND BUDGET

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	25.00
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DETAILS

International Development Association (IDA)	25.00
IDA Grant	25.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

Results

Indicator Name	Baseline	Target
Domestic revenues as a percent of GDP.	7.1 percent of GDP (2015)	>8.1 percent of GDP (2018)
Share of the wage-bill reviewed and verified by CAAT.	0 percent (2015)	>50 percent (2018)
Share of expenditures executed using exceptional spending procedures.	80 percent (2015)	<20 percent (2018)
Number of budget documents published on an annual basis.	1 (2015)	7 (2018)
Number of enacted <i>Loi de règlement</i> (Settlement Law of the Finance Law) published.	0 (2015)	1 (2018)
Maintenance Program 2017 and 2018 adopted and implemented in line with new RMF manual.	No (2015)	Yes (2018)
Budget execution rate (initially approved / executed) of the RMF.	30 percent (2015)	50 percent (2018)
Tones of fertilizers imported.	0 (2017)	20,000 (2018)
Central African Republic ranking on the ICT development Index (IDI) prepared by the International Telecommunications Unit:	176 (2016)	175 (2018)
2G network coverage	59 percent (2015)	60 percent (2018)

IDA PROGRAM DOCUMENT
FOR THE PROPOSED SECOND STATE CONSOLIDATION DEVELOPMENT PROGRAM GRANT
TO THE CENTRAL AFRICAN REPUBLIC

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a Second State Consolidation Development Program (SCDP 2) Grant in the amount of SDR 17.3 million (US\$25 million equivalent) to the Government of the Central African Republic.** This is the second grant in a programmatic series of two operations,¹ to support the reestablishment of basic fiscal management and transparency, as well as economic recovery.

2. **The Central African Republic (CAR) is a landlocked and highly fragile country with a history of recurrent conflict and instability.** Most recently, the CAR underwent a civil war and widespread sectarian violence following the fall of the Bozizé régime in March 2013. The conflict resulted in internal displacement of roughly one-fourth of the population in addition to refugees fleeing to neighboring countries. A new constitution was adopted by a referendum in 2015 and Presidential and Parliamentary elections were organized successfully in 2016. It was the second peaceful political transition in the history of the CAR and marked the peaceful end of a political transition, giving the CAR an opportunity to overcome the highly fragile situation which has prevailed for many years. Active conflict has largely come to an end but the situation remains fragile, with armed groups still present on the territory and relations between communities remaining tense. Repeated violence targeting civilians and the United Nation's forces also continues, despite efforts to consolidate the peace. As noted by the National Recovery and Peace Building Plan 2017-2021 (RCPCA), fragility in the country stems not only from the most recent crisis, but also from the long-term deterioration of the economic, social, governance, and security situation.²

3. **Despite its wealth of natural resources such as uranium, oil, gold, diamonds, cobalt, lumber, wildlife, significant areas of arable land, and hydropower, the CAR is one of the poorest countries in the world.**³ Poverty levels which were severe before 2013 has deepened even further during the crisis. During the crisis, gross national income (GNI-Atlas method, current) per capita fell sharply between 2012 and 2014, from US\$500 to US\$340, the second lowest in the world. Recent estimates indicate that the CAR's poverty rate—at the international poverty line of US\$1.90 per day in 2011 purchasing-power parity terms—increased from 62 percent in 2008 to 75 percent in 2016⁴. In addition, the CAR is ranked among

¹ SCDP 1 (US\$20 million equivalent) was approved by the World Bank Board on December 1, 2016.

² The RCPCA is grounded in recognition of the need to address the five core drivers of fragility and crisis over time to break the cycle of violence: 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, notably the north-east, which have fueled a sense of marginalization and exclusion; d) a cycle of violence and trauma and a population in distress; and e) a lasting state of insecurity.

³ Poor agriculture conditions, lack of adequate medical facilities and transportation network are cited as the main causes of poverty. Agriculture sector is the backbone of the economy as more than 75 percent of the Central African Republic's working population relies on agriculture. Years of conflict and instability have stifled growth in the sector and reduced crop and livestock production. In addition, the hospitals and medical institutes of CAR are unable in providing the good and necessary medical facilities. Mid-2015 the Ministry of Health surveyed healthcare facilities in 5 of CAR's health regions; of the 333 facilities in the surveyed area, 273 were operational. Less than 70 percent of these operational facilities offered vaccinations and only 63 percent had blood pressure measurement equipment. The other main contributor to poverty is the poor transportation infrastructure, and the weak internal and international marketing system.

⁴ The 2008 survey was the last nationally representative household survey which documented poverty levels at 50 percent in urban areas and 69 percent at the rural level. Poor households are overwhelmingly located in rural areas. In 2008 nearly two-thirds of CAR's population lived in rural areas, which were home to 69 percent of the country's poor. High levels of displacement have aggravated poverty. In August 2016, some estimated 15 percent household members were displaced, while more than half

the most unequal countries in Sub-Saharan Africa (SSA), with the fourth-highest Gini coefficient, 56.2⁵, in the region. In 2015, the country ranked last out of 188 countries in the Human Development Index of the United Nations (UN). The latest available (2010) infant mortality rate was 116 deaths per 1,000 live births, and the under-five mortality rate was 179 deaths per 1,000 live births, both far above the SSA averages of 65.8 and 101.2. Nearly half of the population lacks access to safe drinking water, and more than three-fourths do not have access to adequate sanitation facilities or electricity.

4. **Significant challenges to improve the security situation and redeploy the administration across the territory remain.** The Disarmament, Demobilization, Reintegration and Repatriation (DDRR) process is ongoing, with the participation of all the 14 armed-groups, but progress is limited. With the support of development partners⁶, the Government is preparing a security sector policy and has initiated reforms of the sector, including recruiting and training new army, gendarmerie and police personnel. The Government has committed to the deployment of its administration including the gendarmerie and police across the territory. The Special Criminal Court to judge human rights violations became operational at the end of June 2017 and is a major step to counter impunity in the country. The Government still does not control about 60 percent of the national territory but has stepped-up its efforts to redeploy the administration. The deployment of Governors (*Préfets*) for the 16 regions have been completed and deputy Governors (*Sous-Préfets*) have been deployed to 90 percent of the 71 sub-regions, although facing challenges due to the fragile security situation and limited resources.

5. **Given the challenging situation, the SCDP series is proposed as part of a larger Turn-Around Facility⁷, which will support the implementation of the Government's post-transition phase reform program.** Accordingly, the development objective of the SCDP series is to support the reestablishment of basic fiscal management and transparency, as well as economic recovery. Under the first pillar of the operation—Reestablishing Basic Fiscal Management and Transparency—the operation seeks to increase fiscal revenues, improve payroll controls, reduce extraordinary non-salary spending, and increase access to key budgetary information. Under the second pillar—Supporting Economic Recovery and pro-poor growth—the operation seeks to support a pro-poor reform agenda that reinvigorates drivers of economic growth in critical sectors, including transportation, agriculture, and telecommunications/Information and Communications Technology (ICT).

6. **The proposed reform areas represent a selective approach to a gradual reengagement in the current post-conflict environment.** The proposed measures are selectively targeting reforms aligned with government priorities and feasible in the short-term. Addressing some of the drivers of fragility, they will lay the foundations to address more profound economic and governance challenges in the medium and long term. The reforms supported under the two pillars have strong linkages. Improved fiscal management is expected to have a positive effect on economic recovery through the regular payment of civil servants, gradual improvement in public services and increased public investments. Economic recovery is also expected to have a positive impact on fiscal management with an increase in government

of the households indicated to have experienced displacement of some or all of their household members since 2012.

⁵ World Development Indicators, 2015

⁶ The Turn-Around Facility was approved on October 20, 2016. The World Bank is not involved in the reforms of the security sector and its financing is not part of the present operation. Key development partners involved include the UN, the EU and bilateral partners such as France and the United States of America.

⁷ For the purpose of the exceptional Turn-Around regime, a “turn-around” situation is defined as a critical juncture in a country's development trajectory, providing a significant opportunity for building stability and resilience marked by: (i) the cessation of an ongoing conflict; and (ii) the commitment to a major change in the policy environment following (a) a prolonged period of disengagement from Bank lending; or (b) a major shift in a country's policy priorities addressing critical elements of fragility.

revenues following improved economic activities. The proposed measures are expected to contribute to improve economic opportunities available to all citizens, including the poorest and most remote areas, which is critical for poverty reduction, political stability, and social cohesion. In this regard, the series supports a pro-poor reform agenda through its focus on the agricultural sector—where a majority of the poor work in subsistence and small holder farming operations—as well as introducing parallel reforms in roads and telecommunications/ICT, which will help to better connect rural areas to markets. The measures supported by the SCDP 2 are important first steps to better transparency and accountability, revenues and public expenditure management. This is expected to have a positive impact on the capacity to redeploy the state presence across the country and create the conditions for increased spending in social sectors. These are important contributions to the establishment of a state-society contract and to reduce the social and regional disparities between Bangui and the other regions.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

7. **The security and humanitarian situation has adversely affected CAR's macroeconomic performance.** Repeated violence targeting civilians and the UN forces was reminiscent of the 2013 crisis. The UN refugee agency reported in January 2018 that the CAR is seeing the highest number of displaced people since fighting erupted in 2013, with more than 688,000 people displaced inside the country as of the end of 2017, a 60 percent jump from the year before. In addition, more than 540,000 people have fled the impoverished nation where sectarian violence continues. For a country of 4.5 million inhabitants, this level of displaced is a major constraint to economic growth and macroeconomic stability. Indeed, insecurity and the increase of internally displaced person (IDP) affected agricultural production and trade and augmented the needs for humanitarian assistance for 2.2 million persons.

8. **As security and humanitarian conditions worsened, initial early signs of an economic recovery have not materialized as quickly as expected.** After reaching 4.8 percent in 2015, Gross Domestic Product (GDP) growth in 2017 lowered to 4.3 percent, down from 4.5 percent in 2016, mainly due to the recent resurgence of insecurity which disrupted economic activity, agriculture production and delayed public investment. Private consumption was the main contributor to GDP (98 percent of GDP in 2016). Gross fixed capital formation suffered from a weak investment climate despite a slight increase in public investment (from 3.1 percent in 2016 to 4.6 percent of GDP expected in 2017), and should be maintained at 13.7 percent of GDP. Export growth decelerated to 5.2 percent in 2017 after picking up at 12.5 percent of GDP in 2016 on the back of solid production increases of key export goods such as timber, gold, coffee and cotton. On the supply side, the primary sector decelerated from almost 6 percent in 2016 to around 4 percent in 2017.

9. **Inflation has stabilized at more moderate levels.** In 2017, inflation averaged 4.1 percent compared to 4.6 percent in 2016, owing to the tightening of the Central African Economic and Monetary Community (*Communauté Economique et Monétaire de l'Afrique Central* - CEMAC) monetary policy. However, it remains above the 3 percent CEMAC convergence criterion mainly due to upward pressures emanating from insecurity causing disruptions of supply and returnees increasing demand. The pressures on consumer prices will remain strong mainly driven by food price inflation (3.9 percent in 2017 down from 4.5 percent in 2016) following the decline in agricultural activities due to the resumption of acts of violence in several regions outside Bangui.

10. **The current account deficit remained high amid the term of trade deterioration in 2017.** The current account deficit in 2017 is projected at 8.5 percent of GDP, down from 9.1 percent in 2016, reflecting a deceleration of food aid and slightly stronger forestry, diamonds, and gold exports. The deficit is financed by official grants and foreign direct investment, although the latter is declining. Reserve coverage declined to 4.4 months of imports in 2017, from 5.5 months in 2016

11. **Credit to the economy started to recover but plays a very limited role in supporting the economy.** It climbed by 26 percent in 2017 and by 17.5 percent in 2016 after declining by 0.2 percent in 2015. However, with weak market infrastructure and legal framework, the country's financial sector is the smallest in the CEMAC region. With less than one percent of the total population holding a bank account, access to financial services is extremely limited. Due to economic and security concerns, financial institutions, particularly micro-finance institutions, have concentrated their businesses in the capital, Bangui. Micro-finance accounts for only one percent of total credit facilities, serving 0.5 percent of the population. Mobile banking has recently been introduced but is hampered by the low level of mobile phone penetration (around 37 percent).

12. **The Government is continuing its fiscal consolidation program.** The domestic primary fiscal balance improved from a deficit of 3.0 percent of GDP in 2015 to 1.1 percent in 2016, which led to an overall fiscal surplus (including grants) of 1.6 percent of GDP in 2016. It is estimated to be 0.4 percent of GDP in 2017, translating to a budget surplus of 0.4 percent of GDP. Domestic revenues are projected to be 9.1 percent of GDP in 2017, an increase from 8.1 percent in 2016, thanks to enhanced control at the customs, value-added tax on oil products, and closer monitoring of tax exemptions. After decreasing from 9.7 percent of GDP in 2015 to 9.0 percent in 2016, on the back of a reduction in subsidies and transfers and better control of the wage bill, current spending is projected to increase to 9.8 percent of GDP in 2017 as part of the government effort to protect the poor and vulnerable through increased transfers. Backed almost entirely by external funds, capital expenditures are projected at 4.3 percent of GDP in 2017 after declining to 3.1 percent in 2016, to boost long term growth.

Table 1: Key Macroeconomic and Financial Indicators, 2012-2020.

	2013	2014	2015	2016	2017	2018	2019	2020
<i>Annual percentage change, unless otherwise indicated</i>								
National income and prices								
Real GDP	-36.7	1.0	4.8	4.5	4.3	4.1	4.0	4.0
GDP deflator	7.0	11.1	6.2	6.3	3.9	3.1	3.7	3.6
CPI (EoP)	6.6	11.6	4.5	4.6	4.1	3.6	3.1	3.0
External sector								
Imports volume of goods	-26.8	68.8	-14.5	1.5	4.0	7.6	5.9	5.8
Exports volume of goods	-19.1	1.3	-10.0	12.5	5.2	7.5	6.1	7.0
Terms of Trade (deterioration -)	11.1	3.6	18.1	17.7	-3.7	1.2	-0.4	-0.3
<i>% of GDP, unless otherwise indicated</i>								
Fiscal Accounts								
Expenditure	14.9	12.7	14.9	12.6	14.6	14.9	15.4	15.7
Revenue and grants	8.4	15.7	14.3	14.1	15.0	16.0	16.1	16.3
Overall fiscal balance (incl. grants)	-6.5	3.0	-0.6	1.6	0.4	1.1	0.7	0.6
<i>Annual % age change, unless otherwise indicated</i>								
Selected Monetary Accounts								
Base Money	5.6	14.6	5.3	5.8	7.4	7.9	7.3	7.1
Credit to the economy	-16.3	4.0	-0.2	17.5	26.0	14.0	12.0	12.4
<i>% of GDP, unless otherwise indicated</i>								
Balance of Payments								
Current Account Balance	-3.0	-5.6	-9.0	-9.1	-8.5	-8.4	-7.5	-6.7
Imports of goods and services	25.0	37.6	34.4	31.3	30.0	30.1	29.5	29.0
Exports of goods and services	14.4	13.0	12.6	12.6	12.3	12.3	12.1	12.0
Foreign Direct Investment	0.1	0.1	0.3	0.4	1.0	1.3	1.4	1.5
Gross Reserves (million US\$, EoP)	199.4	299	230	265	245	222	223	225
In months of imports	3.7	6.5	5.0	5.5	4.4	4.0	4.0	4.0
Public Debt								
Total government (end of period)	38.5	69.2	64.0	56.0	51.8	47.0	42.9	39.6
o/w External debt	14.6	37.7	33.3	29.7	28.7	26.7	25.0	23.5
Memo								
GDP nominal (CFAF billions)	750	842	937	1041	1121	1209	1298	1390

Source: IMF and World Bank estimates, 2018.

Table 2: Fiscal Operations of the Central Government, 2012-2020

	2013	2014	2015	2016	2017	2018	2019	2020
	<i>In percentage of GDP</i>							
Total Revenue (and grants)	8.4	15.7	14.3	14.1	15.0	16.0	16.1	16.3
Tax revenue	5.2	4.4	6.5	7.5	8.3	8.8	9.1	9.4
Taxes on goods and services	4.2	3.2	5.1	5.6	6.3	6.6	6.9	7.2
Taxes on profits and property	0.9	1.0	1.4	1.8	2.0	2.2	2.2	2.2
Non-tax revenue	0.5	0.5	0.6	0.7	0.8	0.8	0.8	0.8
Grants	2.9	10.8	7.2	6.0	5.9	6.4	6.4	5.9
Expenditure	14.9	12.7	14.9	12.6	14.6	14.9	15.4	15.7
Current expenditure	12.6	9.9	9.7	9.0	9.8	9.7	9.6	9.6
Wages and compensation	7.2	6.5	6.0	5.4	5.2	5.0	5.0	5.0
Goods and services	3.1	1.7	1.7	1.9	2.1	2.3	2.3	2.3
Interest payments	0.7	0.7	0.6	0.6	0.4	0.3	0.3	0.3
Current transfers	2.3	1.7	2.0	1.7	2.5	2.4	2.3	2.3
Capital expenditure	1.7	2.1	4.7	3.1	4.3	5.0	5.5	5.9
Domestic	0.1	0.1	0.4	0.3	0.9	1.3	1.4	1.5
Donor-funded	1.6	2.1	4.3	2.8	3.4	3.7	4.1	4.4
Overall balance (incl. grants)	-6.5	3.0	-0.6	1.6	0.4	1.1	0.7	0.6
Domestic primary balance	-7.0	-5.1	-3.0	-1.1	-1.9	-1.4	-1.1	-0.9
Overall balance (cash basis)	-4.0	-0.5	-3.2	1.3	-3.3	-1.5	-1.2	0.4
Financing								
External (net)	2.7	0.1	0.7	0.0	1.1	0.1	0.1	0.2
Domestic (net)	1.3	0.4	2.5	-1.3	1.2	1.4	1.1	-0.6
Memo (CFAF billions)								
Total government debt	288.8	582.7	599.7	583.0	580.7	568.2	556.8	550.4

Source: IMF and World Bank estimates, 2018.

Table 3: Balance of Payment (BoP) Financing Need, 2017-2019

	2017	2018	2019
	in Billions of CFAF		
Financing Need	77.6	76.7	55.9
Budget Support (grants)	21.6	45.3	28.5
World Bank	0.0*	14.6*	8.8
European Union	13.1	13.1	13.1
African Development Bank	0.9	8.8	0.0
France	6.6	6.6	6.6
Other	1.0	2.2	0.0
Budget Support (loans)	8.8	0.0	0.0
African Development Bank	8.8	0.0	0.0
IMF Financing	32.6	37.2	18.6
Unidentified	8.8*	-5.8*	8.8

Source: IMF and World Bank estimates, 2018.

*The SCDP2 was planned to be disbursed in 2017 but slipped into 2018, hence these adjustments.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **The Central African Republic's positive macroeconomic outlook strongly hinges on political stability, as well as stronger investment and export growth.** The baseline scenario is conditioned on continued political and security stability, efficient implementation of the government investment plan, as well as further strengthening in the primary sector, including exports. The baseline scenario considers recent deviations from political and security stability, but remains contingent on efficient implementation of the government investment plan, as well as a return to a strengthening primary sector and exports. Under these assumptions, growth is expected to gradually reach 4.0 percent by 2019 and remains at that level over the medium term. Diamond exports would resume and logging activities increase as many firms in forestry obtain assistance in overcoming the losses incurred during the crisis. Cotton production and export is also expected to increase because of the clearing of arrears in the sector in 2017. While improved security conditions would support the development of gold and diamond mining projects in the eastern part of the country, new agroindustry projects should also come on stream. Improved distribution channels and increased output in agriculture will also support growth and help ease inflation to a level in line with the CEMAC target of 3 percent by 2020. Higher levels of public investment addressing infrastructure constraints would support the projected growth rates.

14. **The external balance would improve driven by the gradual recovery of export.** The current account deficit, including grants, is projected to decline to around 8.4 percent of GDP in 2018. Imports of equipment are indeed expected to remain high as public and private investments resume. At the same time, a progressive return to normalcy in the hinterland will increase domestic food production and reduce food aid, while exports would slowly accelerate. The outlook also assumes diamond exports to significantly pick up as the Kimberly process moves forward, with the ban expected to be completely lifted in the medium-term subject to an improved security situation.

15. **The overall fiscal balance is projected to improve in 2018 at 1.1 percent of GDP and remain above its 2017 level over the medium term driven by the government fiscal consolidation plan.** While domestic revenue will only increase slightly from 9.1 percent of GDP in 2017 to 10.2 percent in 2020, current expenditures are projected to slightly decrease from 9.8 percent in 2017 to 9.6 percent in 2020, while capital expenditure will increase from 4.3 from 2017 to 5.9 percent of GDP in 2020. The projected increase in capital expenditure will support the redeployment of administration in all 16 prefectures and overall support to post conflict reconstruction needs. Inexistent fiscal buffers, the need to clear arrears in the near term and capacity constraints on domestic bank lending will leave the CAR dependent on international grants to close its financing gap. These aspects are factored in the 2018-2020 fiscal balance projections.

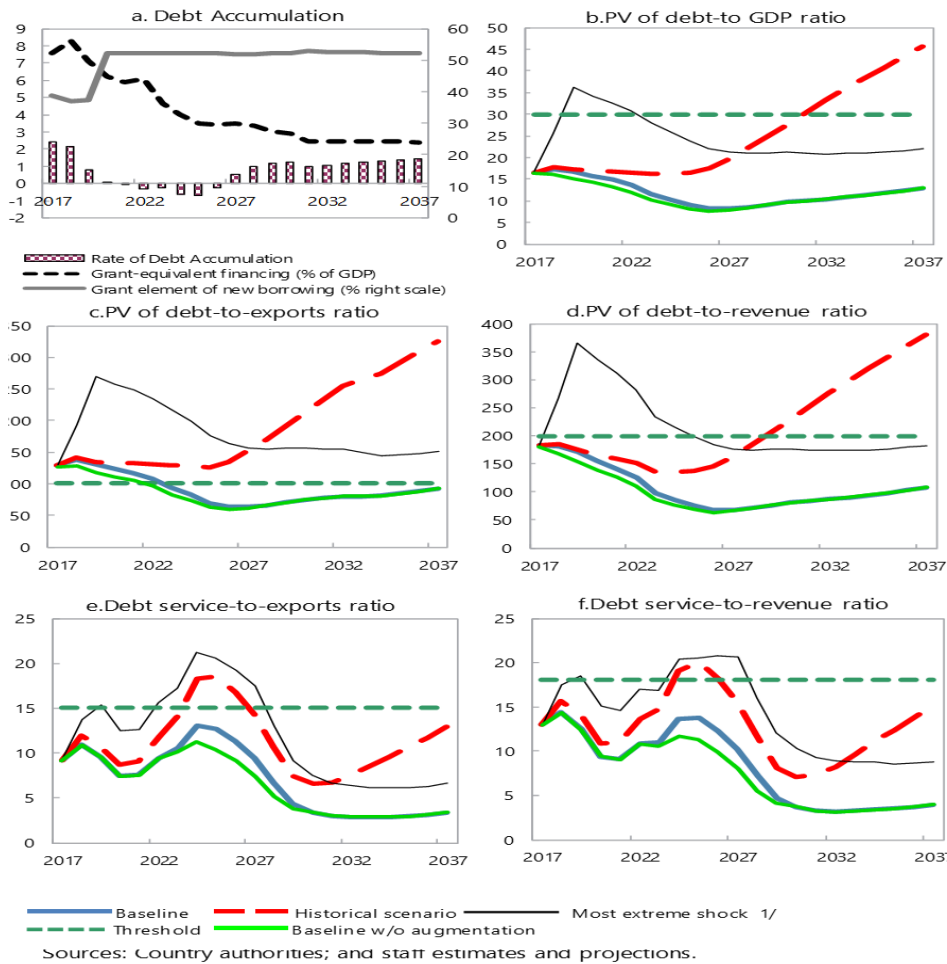
16. **Greater fiscal space resulting from higher domestic revenues and grants will help support growth while stabilizing fiscal deficits.** Grants are expected to average around 6 percent of GDP per year between 2018-2020, and continuously play a critical role in the CAR's fiscal performance. Tax revenue is projected to increase substantially and reach 9.4 percent of GDP in 2020, supported by fiscal policy reforms and improved tax and customs administrations. Greater fiscal space will allow for higher spending with public investment reaching 5.9 percent of GDP by 2020 to support the rebuilding of the administrative and social infrastructure of the country. The Government is expected to strengthen its execution capacity and its budgetary, treasury and accounting systems to maximize the impact of public investment.

17. **The CAR's external debt remains at high risk of distress.** Public debt amounted to 56 percent of GDP in 2016. It is projected to decrease to 51.8 percent of GDP in 2017, mostly driven by clearance of

domestic arrears. The public debt level increased significantly due to the accumulation of domestic arrears and the collapse in GDP after the 2013 crisis. Contingent liabilities could further exacerbate sustainability concerns. External debt represented 28.7 percent of GDP in 2017 while domestic debt accounted for 45 percent of total government debt. The joint World Bank and International Monetary Fund (IMF) 2017 Debt Sustainability Analysis (DSA) shows that the CAR remains at high risk of debt distress. The present value (PV) of debt-to-exports ratio is projected to breach the policy threshold until 2023. This mainly reflects the CAR's narrow export base. The ratios for debt service-to-exports and debt service-to-revenue remain well below the thresholds due to the concessionality of outstanding debt and the low debt service burden. In the most extreme scenario, all indicators breach the threshold and the increase of external debt would be significant. The PV of debt-to-exports ratio remains above the policy threshold under the extreme scenario throughout the projection period. And the PV of debt-to-revenue ratio stays above the policy threshold under the extreme scenario till 2025. The results of the sensitivity analysis underscore the vulnerabilities particularly to lower growth, a higher deficit of the primary balance and exports.

18. **A fiscal strategy should be focusing on the domestic current primary balance as the nominal anchor in order both to reduce public debt, and to protect capital and key social spending.** The current primary balance is expected to stabilize around a surplus of 0.7 percent of GDP after 2019, hence allowing for an increased coverage of the domestically financed capital expenditures expected at 1.5 percent of GDP in 2020. The GDP growth projected over the medium term will also contribute to a reduction in public sector debt to GDP. The composite real interest on domestic and foreign debt may also contribute to the reduction, although to a lower extent than the growth differential.

Figure 1: Public External Debt Indicators under Alternative Scenarios, 2017-2037



1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b, it corresponds to a Combination shock; in c, to a Combination shock; in d, to a Combination shock; in e, to a Exports shock and in figure f, to a Combination shock

Source: IMF and World Bank data, 2018.

Table 4: External Debt Composition

Type of Creditor	External Debt		
	Total (in CFAF billion)	Dec 16 (in percent of GDP)	of which in arrears
External			
Total ¹	374.5	36.0	106.6
Multilateral	122.7	11.8	
World Bank	34.9	3.4	
IMF	65.8	6.3	
Other ²	22.0	2.1	5.8
Bilateral/Private	151.0	14.5	
Saudi Arabia	9.9	1.0	
India	24.5	2.4	3.3
China	43.5	4.2	8.2
Congo	18.2	1.7	
Kuwait	12.1	1.2	
Private/Others	42.8	4.1	42.8
Pre-HIPC Arrears			
Argentina	19.4	1.9	19.4
Eq. Guinea	2.4	0.2	2.4
Iraq	2.7	0.3	2.7
Libya	7.4	0.7	7.4
Taiwan Province of China	68.9	6.6	68.9

Sources: C.A.R. authorities and IMF Staff calculations.

¹ Includes pre-HIPC arrears

² Arrears are overdue contributions to international organizations.

Source: IMF and World Bank data, 2018.

19. **The decline in public debt is supported by the clearance of domestic and external arrears and prudent fiscal management.** Under the Paris Club agreements, the CAR has committed to seek debt relief from its Non-Paris Club creditors with terms similar or better than those granted by the Paris Club. The Government continues to reach out to the Non-Paris Club creditors to re-negotiate these obligations (13 percent of GDP). An agreement with India and China was reached in January 2018. During the conflict years, the CAR accumulated post-heavily indebted poor countries (HIPC) arrears to India (0.2 percent of GDP). An agreement on the restructuring of this debt was reached with India in January 2018. China provided debt relief on half of its claims and considers providing further debt relief on the remaining amount⁸. The CAR has also arrears to private creditors, and is continuing to make efforts to reach a collaborative agreement with them. Agreements were concluded with two private pre-HIPC creditors, reducing the debt stock by 1.5 percent of GDP. Orderly clearance of the large outstanding stock of domestic arrears is central to the authorities' efforts to rehabilitate Public Financial Management (PFM) and support for the economy. To this end, the authorities have adopted a comprehensive and time-bound strategy to clear validated wage and commercial arrears of 6.6 percent of GDP by 2019. To ensure the transparency of the repayment process, safeguard measures have been implemented, including quarterly progress reports produced by an international auditor. Arrears to all four commercial banks have been regularized and the Government is making regular debt service payments to these banks. Outstanding debt to BEAC has been consolidated in one loan with repayments starting in 2022. The efforts to resolve

⁸ The obligations to China are included in the debt stock but no debt service is assumed.

external and domestic arrears combined with mobilizing grant financing will ensure that C.A.R.'s public debt will fall significantly in the coming years.

20. **The overall macroeconomic outlook is subject to significant downside risks.** The country faces several risks to the macroeconomic outlook. A deterioration of the security environment could be detrimental to growth and negatively affect inflation and other macro aggregates. An increase of exports depends on an improved security environment. The resumption of diamond exports, a key commodity, depends on the full reestablishment of the Kimberly certification process. Asymmetries across CEMAC countries in their coping and macro fiscal adjustment may give rise to free rider dynamics that could undermine optimal regional policy responses while threatening the stability of the monetary and economic union itself. The macroeconomic outlook is also exposed to changes in international commodity prices such as petroleum and forestry products. Finally, external debt remains at high risk of distress. Mitigating factors are the Government's recent strong track record in macroeconomic management, and the ongoing dialogue with the World Bank, the IMF, and donor partners to help the Government to identify and address key macroeconomic issues as they emerge.

21. **The CAR's macroeconomic policy framework is adequate for the proposed operation.** Despite suffering a succession of shocks in the recent past (2008/09, and 2012/13), the CAR avoided major macroeconomic imbalances. The Government has generally demonstrated a satisfactory track-record in maintaining prudent macroeconomic policies that are sustainable over the medium-term, and membership in the CEMAC provided crucial macroeconomic stabilization during the recent crisis. However, recent weakness in CEMAC reserve coverage and stress across most oil exporting member states has created additional risks. Overall, central challenges for the country will be to consolidate domestic revenue and pursue prudent fiscal and debt policies, i.e. rely on grant financing and only exceptionally on concessional debt.

2.3. IMF RELATIONS

22. **The SCDP series was prepared in close coordination with IMF on macroeconomic, fiscal and growth-related policy issues.** The IMF prepared, in parallel to the SCDP series, a three-year Extended Credit Facility (ECF) program which was approved by the IMF Executive Board on July 20, 2016. Following augmentations in 2017, total financing amounts to SDR 133.68 million (about US\$189.0 million equivalent, 120 percent of the country's IMF quota). The ECF aims at enhancing revenue mobilization and improving PFM, improving business environment and scaling-up social and infrastructure spending. IMF staff visited Bangui in September 2017 in the context of the third review of the program and the World Bank participated in this mission. The mission agreed with the Government that the macroeconomic policy framework for 2017 remains broadly unchanged. The 2018 budget remains anchored to the domestic primary balance objective while allowing a scale-up of social and capital spending. Program implementation is broadly satisfactory and on track despite the challenging circumstances. The Government remains committed to take measures necessary to achieve its key objectives in the ECF including stepping up social spending, public investment and increasing domestic revenue. The third review of the IMF program was approved by its Executive Board on December 15, 2017.

3. THE GOVERNMENT'S PROGRAM

23. **The RCPCA is the CAR's development strategy for 2017-2021.** It identifies the country's main priorities in the form of three pillars: (i) Supporting Peace, Reconciliation and Security; (ii) Renewing the Social Compact between the State and the Population; and (iii) Ensuring Economic Recovery and Boosting

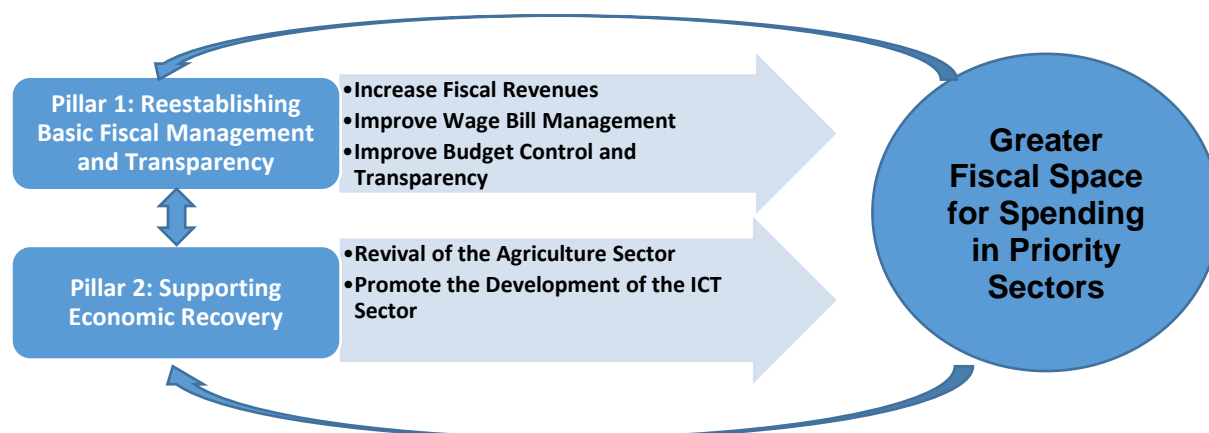
Productive Sectors. The RCPCA also identifies cross-cutting themes such as reducing regional imbalances, promoting transparency and accountability, building the capacity of public institutions and civil society organizations, and promoting gender equity.

24. **Likewise, PFM priorities are expressed in the 2017–2020 PFM reform action plan.** The authorities implemented the 2016–2017 PFM reform plan which was organized around five pillars: (a) revitalizing revenues; (b) securing and managing the state treasury; (c) unblocking and normalizing budgetary management; (d) reestablishing trust in fair accounting; and (e) reestablishing the credibility of the state. With support from the World Bank and the IMF, the authorities prepared a new 2017–2020 PFM reform action plan organized around four pillars: (a) introduce good governance of public finances; (b) continue efforts to mobilize resources; (c) improve the credibility of the budget; and (d) strengthen the treasury function. The reform plan implementation is progressing with support from development partners including the World Bank, the IMF, the EU and France, despite the challenging environment.

4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. **The Program Development Objective (PDO) of SCDP 2 is to support the reestablishment of basic fiscal management and transparency, as well as economic recovery.**⁹ The operation is structured around two pillars. Under the first pillar—Reestablishing Basic Fiscal Management and Transparency—the development policy operation (DPO) series seeks to increase fiscal revenue, improve wage-bill management, and improve budget control and transparency. 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, and telecommunications/ICT. 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 and transparency will lead to improved spending with a positive impact on critical areas such as agriculture, transportation and ICT. Conversely, economic recovery is expected to have a positive impact on revenues which will contribute to improve basic fiscal management.



⁹ SCDP 1 supported improving the transparency of fiscal exemptions, payroll, procurement, 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.

26. **Pillar 1 seeks to restore basic fiscal management and transparency through increased fiscal revenues, improved wage-bill management, and increased access to key budgetary information.** 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. First, the operation will support the Government in increasing its revenues by reducing tax and customs exemptions,¹⁰ as well as improving oversight of revenue collecting agencies. Reforms in the ICT sector are also expected to contribute to increase revenues. Second, the operation will target measures to improve the integrity and control of the public wage-bill.¹¹ Third, the operation will put in place measures to reduce the scope for exceptional spending procedures by introducing a manual of procedures for public spending.¹² Finally, the operation will improve budget transparency and accountability by regularly publishing budget information, including the clearance of a backlog of annual *Lois de Règlement*.

27. **Pillar 2 seeks to support economic recovery in productive sectors critical to growth and stability.** First, the operation will support critical reforms in the Road Maintenance Fund (RMF) and the National Equipment Office (NEO) 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.¹³ Building on these efforts to improve agricultural productivity, the SCDP series will directly support the agricultural sector by increasing access to high quality agricultural inputs, including seeds, fertilizers, and phytosanitary products.¹⁴ Finally, the SCDP series will support the development of the ICT sector by introducing reforms that will expand connectivity, in particular, 2G mobile network coverage across the territory. The policy measures proposed in this operation will pave the way for investment operations in these sectors.

28. **The proposed operation is fully aligned with the current priorities of the new Government in its post-transition phase.** The operation fully supports the strategic objectives of Pillar 2 of the RCPCA, which include (a) redeploying of the administration across the country; (b) providing basic services to the population across the country by initiating a progressive transfer of capacities and resources to national structures; and (c) strengthening macroeconomic stability and good governance, including PFM and controls, revenue generation, and anti-corruption measures. Likewise, the SCDP 2 supports pillar three of the RCPCA, which seeks, to (a) boost and durably develop productive sectors (agriculture and livestock farming, extractive industries); (b) repair and build infrastructures (including electricity, roads and communication network); and (c) to ensure the stability of the macroeconomic framework.

29. **The proposed operation is based on several lessons learned, drawn from the implementation of previous DPOs and operations in the Central African Republic.** Detailed in Annex 6, these lessons

¹⁰ SCDP 1 supported the preparation of a table of fiscal exemptions by type, amount and month as well as a list of fiscal exemptions conventions to be published on the website of the Ministry of Finance and Budget.

¹¹ This is the continuation of efforts start with SCDP 1 with supporting the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).

¹² In addition to the establishment of the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008 by SCDP 1.

¹³ RMF and NEO are critical for improving the transportation network. SCDP 1 supported the adoption of the Operations Manual for the RMF, which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the NEO.

¹⁴ SCDP 1 provided impetus for the institutional improvements in the National Seeds Office and control environment for seed distribution by seeds inspectors and a controller's office.

include: (i) the importance of identifying key priorities that are likely to immediately improve the living conditions of the population; (ii) demonstrating that the new Government is adopting practices that are materially different from the past, which can help to rebuild trust in the state; (iii) the targeting of reforms, including public sector and economic governance reforms, in order to contribute to the development of critical sectors of the economy; (iv) close donor coordination and alignment to Government development objectives, which is important for the success of reforms, as cohesion among donors helps to maintain focus on successful implementation of key reforms; and (v) the establishment of a monitoring and evaluation mechanism tailored to country specificities and taking into account data collection issues.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Table 5: Status of SCDP 2 Prior Actions

Policy Area	SCDP 2 Trigger formulated at the time of SCDP1	SCDP 2 Prior Actions	Observations
PILLAR 1: RESTORE BASIC FISCAL MANAGEMENT AND TRANSPARENCY			
Increased Revenues	Trigger 1: Adoption of a Decision (<i>Arrêté</i>) through the Ministry of Finance and Budget, developing an action plan to reform fiscal exemptions in the Central African Republic and start its implementation.	Prior Action 1: The Recipient has adopted the <i>Décret 17-351 portant création du comité interministériel chargé des exonérations fiscales et douanières</i> , dated November 3, 2017, and the <i>Arrêté 025/PM/17 d'application du décret 17-351</i> , dated November 22, 2017, improving the institutional mechanism to manage, monitor and evaluate fiscal exemptions by the Recipient.	Completed. Reformulated. The 2017-2020 PFM strategy contains several measures to be implemented to reduce exemptions. One of the measures is the reform of the Inter-Ministerial Committee in charge of the management of exemptions. Prior Action 1 is a stronger measure than Trigger 1 as it is a critical measure to improve the institutional mechanism that will rationalize exemptions. It is also one of the key measures in the PFM action plan to reduce exemptions and the measure has now been implemented.
	Trigger 2: Adoption of an <i>Arrêté</i> through the MFB instructing the General Inspection of Finance (GIF) to prepare and implement an annual control plan using a risk-based approach, which identifies and controls the main revenue collecting entities (postes fiscaux et douaniers) on an annual basis.	Prior Action 2: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0641/17/MFB/DIRCAB/IGF/C/SF instituant un contrôle trimestriel des régies financières et des régies des recettes et d'avances</i> , dated October 3, 2017, introducing a risk-based control of the Recipient's main revenue collecting and spending entities, and exercising control on them at least once a year.	Completed. Slightly reformulated so that the spending entities and cash accounts are included as well. The <i>arrêté</i> introduces a risk based approach which identifies the main revenue collecting and spending entities and includes their control at least once a year. Hence, the prior action goes beyond the scope of the initial Trigger 2.
Improved Wage Bill Management	Trigger 3: Adoption of an <i>Arrêté</i> through the MFB proposing a table that lists positions by grade, department, and place of assignment as part of the documentation used for the preparation of the 2018 Finance Law.	Prior Action 3: The Recipient has, through its Ministry of Finance and Budget, issued (i) <i>Lettre – Circulaire 1876/MFB/DIR.CAB//17 à l'attention des chefs de départements ministériels et des institutions de la République</i> dated November 3, 2017, informing all heads of ministerial departments and of the Recipient's institutions that the wage will be paid using GIRAFE, and (ii) <i>Note à la haute attention du Conseil de Ministres 1875 MFB/DIR.CAB//17 sur</i>	Completed. The prior action was reformulated as the operationalization of <i>GIRAFE</i> was a prior requirement to do the initially planned for prior action. The measure will have a significant positive impact on the possibility to control the wage-bill.

Policy Area	SCDP 2 Trigger formulated at the time of SCDP1	SCDP 2 Prior Actions	Observations
		<i>l'opérationnalisation de l'application Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l'Etat (GIRAFE).</i>	
Improved Budget Control and Transparency	Trigger 4: Adoption of an Arrêté through the MFB establishing a manual of procedures of public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	Prior Action 4: The Recipient has, through its Ministry of Finance and Budget, adopted the Arrêté 0368/2017/MFB/DIR.CAB/DGB portant adoption du Manuel de Procédures d'Exécution des Dépenses Publiques en République Centrafricaine, dated June 2, 2017, adopting a manual of procedures of public expenditures in conformity with the Loi Organique and the Loi 08.017.	Completed. No change
	Trigger 5: Preparation and publication of: (i) the draft 2017 Finance Law; (ii) the enacted Finance Law; (iii) a citizen's budget on the enacted Finance Law; and (iv) budget execution reports since Q1 2016.	Prior Action 5: The Recipient has, through its Ministry of Finance and Budget, prepared and published on the Ministry's website (www.minfb.cf): (i) the Draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a Citizen's Budget on the Enacted 2017 Finance Law; and (iv) the Budget Execution Reports for 2016, the 1 st quarter 2017, the 1 st semester 2017 and the 3 rd quarter 2017, improving transparency of public financial management practices of the Recipient.	Completed. Minor adjustment to adjust to the delays in the operation. The Ministry of Finance and Budget has also published the 4 th quarter 2017 budget execution report, and the enacted 2018 Finance Law. Hence, the authorities have gone beyond the scope of the Prior Action 5 in terms of improved transparency.
	Trigger 6: Submission of the <i>Loi de règlement</i> (Settlement Law of the Finance Law) 2015 to the Parliament.	Prior Action 6: The Recipient has, through its Ministry in charge of relations with the institutions of the Republic, submitted the 2015 Draft Settlement Law to the Recipient's Parliament by letter 228/MCRIR/DIR.CAB/DGRIR/, dated 29 December 2017 improving accountability of the public financial management practices of the Recipient.	Completed. No change
PILLAR 2: SUPPORT ECONOMIC RECOVERY			
Revival of the Agriculture Sector	Trigger 7: Completion of an audit of the road Maintenance Fund (RMF), including a stocktaking of and a settlement plan for debt between the RMF and the National Equipment Office (NEO).	Prior Action 7: The Recipient has, (i) completed the Audit of its Roads Maintenance Fund (RMF) for the Period 2008-15, including a stocktaking of the debt and, (ii) through RMF, adopted the <i>Plan d'Apurement de la Dette du Fonds d'Entretien Routier</i> , the settlement plan of the debt of the RMF, through note 0044/FER/OP/DG/DAFC of January 17, 2018, improving the financial management practices of the RMF.	Completed. No change

Policy Area	SCDP 2 Trigger formulated at the time of SCDP1	SCDP 2 Prior Actions	Observations
	Trigger 8: Adoption of an Arrêté interministeriel by the Ministers in charge of agriculture, rural development, and livestock, defining temporary modalities on the import and distribution of agriculture inputs.	Prior Action 8: The Recipient has, through its Prime Minister, issued <i>Arrêté 0016 fixant les conditions temporaires d'importation et de distribution des intrants, matériels agricoles, vétérinaires et halieutiques en République Centrafricaine</i> , dated September 4, 2017, establishing temporary modalities on the import and distribution of agriculture inputs.	Completed. No change
Promote the Development of the ICT Sector	Trigger 10: Establishment of a system of traffic control by the Telecommunications Regulatory Authority.	Prior Action 9: The Recipient has, through the Ministry in charge of relations with the institutions of the Republic issued letter 038/MCRIB/DIR.CAB/DGRIR dated February 15, 2018 submitting to the Parliament amendments to the electronic communications law (law 18.002 of January 17, 2018) to promote increased competition and a stable business environment.	Completed. Reformulated as the law on electronic communications was not aligned on international best practices and required to be amended to favor increased competition and a stable business environment. This is an enhanced prior action as the new legislation will specify the modalities with which the ICT sector's authority must control the traffic generated by operators, in compliance with the Finances Law.
	Trigger 11: Adoption by the Council of Ministers of a strategy for the use of revenues from the Universal Access levy on operators to (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities.	Prior Action 10: The Recipient has, through its Minister of post and telecommunications issued <i>Arrêté 006/MPT/DIRCAB/UCP-CAB/2018 portant adoption de la stratégie de service universel en République Centrafricaine</i> , dated January 31, 2018, adopting a strategy for the use of revenues from the Universal Access Level on operators.	Completed. Not changed. The strategy for the use of revenues from the Universal Access levy on operators will (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities.

PILLAR 1: REESTABLISHING BASIC FISCAL MANAGEMENT AND TRANSPARENCY

30. **Under the leadership of the Ministry of Finance and Budget, the Government continues to gradually rebuild its PFM system, although significant weaknesses persist.** Since April 2014, a Treasury Committee and a PFM Committee have been established and tasked with monitoring of the implementation of PFM reforms, including the treasury plan. However, insufficient revenues and treasury management capacity continue to make it very challenging to ensure the payment of primary expenses.

31. **Some progress has been made in terms of financial reporting and transparency.** Measures have been taken to stabilize the financial management system (GESCO), but the connection between the modules remains limited. The Government also established the Central Accounting Agency of the Treasury (CAAT) tasked with: (i) recording revenues and expenses daily; (ii) ensuring compliance with PFM regulations; and (iii) producing monthly treasury plans and annual financial statements in a timely manner. Budget execution reports have been produced and published on a regular basis. The authorities have also cleared most of the back-log in the production of financial accounts and submitted to Parliament the 2015 Settlement Law of the Finance Law in December 2017. The authorities expect to submit the 2016 and 2017 Settlement Law of the Finance Law to Parliament by October 2018.

32. **The use of exceptional spending procedures has been reduced from 80 percent in 2015 to 25 percent in 2017.** This improvement is the result of the public expenditure nomenclature of supporting documents and the manual of procedures which have been issued. The authorities have also maintained a weekly expenditure ceiling, which is approved by the Ministry of Finance and Budget, and the Prime Minister. The authorities are committed to further limit the use of exceptional spending procedures.

33. **The challenge in payment of primary expenses is due to a combination of insufficient revenue mobilization and insufficient control of expenditures.** On the expenditure side, controls of the payroll and the removal of ineligible civil servants from the payroll have continued. The operationalization of a new human-resources and wage-bill software will further strengthen payroll controls. The wage-bill is expected to remain at its current level of about 5 percent of GDP. The Government has stepped up its efforts to curb tax exemptions, reign in pervasive parafiscal taxes and improve recording of revenues. The 2018 budget contains measures expected to generate 0.4 percent of GDP in revenues. Nevertheless, domestic revenues are expected to be lower than primary expenses over the medium-term. The gap will have to be financed by donor grants and continued efforts to improve expenditure control will be required.

34. **To address these weaknesses, authorities are implementing a PFM reform plan.** The plan is focused on: (i) increasing revenue collection by rationalizing fiscal and customs exemptions as well as revising petroleum product taxation; (ii) strengthening wage-bill management through stronger controls, revising the wage structure, and adopting improved procedures for recruiting civil servants; (iii) strengthening control over budget execution and reducing the use of exceptional budget procedures, as well as improving budget transparency.

1.1 Increased Revenues

35. **The conflict resulted in a drop of domestic revenues from 11.5 percent of GDP in 2012 to 4.4 percent of GDP in 2014.** The low revenue/GDP ratio was a result of many factors including the collapse in the formal economy, a breakdown of the functioning of the administration, numerous tax exemptions, and inadequate policies. Despite the timid economic recovery following the crisis, the efforts made by the administration allowed an increase in domestic revenues to an estimated 9.1 percent of GDP in 2017. Notwithstanding this progress, domestic revenues remain below the pre-crisis level and are insufficient to pay for basic expenditures.

36. **To boost revenues, the authorities aim to reduce tax exemptions and increase controls.** Tax exemptions amount to about two percent of GDP and are consequently a major source of foregone revenues. To better manage, monitor and evaluate tax exemptions, the authorities have reviewed the existing system and tightened oversight of exemptions. Accordingly, the SCDP 1 provided support for the preparation of a table of exemptions by type, amount and month for an eight-month period beginning January 1, 2016, as well as a list of exemptions conventions, published on the website of the Ministry of Finance and Budget (**SCDP 1 Prior Action 1**). In addition, SCDP 1 supported the adoption of a *Decr e* revising the methodology for the determination of the prices of petroleum products in its territory to conform with the "Platts" reference price (**SCDP 1 Prior Action 2**).

37. **Given this progress, reforms will be scaled-up during the second phase of the operation focusing on curbing exemptions and strengthening internal controls.** The SCDP 2 supports the issuance of a Presidential Decree on the creation and composition of the Inter-Ministerial Committee in charge of the management of franchises, tax and customs exemptions and the conditions of their attribution as well as the issuance by the Prime Minister of an implementing order of the decree. The goal of the measure is to limit the issuance of exemptions and the loss of revenues. This is expected to be achieved through a stricter tax exemption process, enhanced monitoring and regular evaluation of tax exemptions. The Committee is also in charge of preparing reports on exemptions which will contribute to better its transparency. Furthermore, the SCDP 2 supports the issuance by the Minister of Finance and Budget of a decision instructing the General Inspection of Finance to prepare and implement an annual control plan using a risk-based approach, which identifies and controls on a quarterly basis the main revenue collecting, expenditure managing entities and cash accounts. The goal is to increase audit coverage of high revenue potential and high-risk areas in a context of limited capacity. These measures are a continuation of measures supported under the SCDP 1 and complementary to measures supported by the IMF under its ECF program including measures to increase transparency in exemptions, improving control of parafiscal taxes, strengthening recording of revenues as well as tax policy measures.

Prior Action 1: The Recipient has adopted the *Décret 17-351 portant création du comité interministériel chargé des exonérations fiscales et douanières*, dated November 3, 2017, and the *Arrêté 025/PM/17 d'application du décret 17-351*, dated November 22, 2017, improving the institutional mechanism to manage, monitor and evaluate fiscal exemptions by the Recipient.

Prior Action 2: The Recipient has, through its Ministry of Finance and Budget, adopted the *Arrêté 0641/17/MFB/DIRCAB/IGF/C/SF instituant un contrôle trimestriel des régies financières et des régies des recettes et d'avances*, dated October 3, 2017, introducing a risk-based control of the Recipient's main revenue collecting and spending entities, and exercising control on them at least once a year.

38. **These prior actions and triggers, combined with measures supported by other development partners such as the IMF, are expected to increase domestic revenues as a percent of GDP (Baseline: 7.1 percent of GDP [2015]; Target: > 8.1 percent of GDP [2018]).**

1.2 Improved Wage Bill Management

39. **The crisis had an especially devastating effect on areas of the public administration that already suffered from serious capacity constraints, such as education, health, and agriculture services.** As the civil service payroll system broke down, unpaid teachers abandoned their jobs, and a great deal of school infrastructure and equipment was badly damaged or destroyed. The crisis further compromised the validity and consistency of the government's already weak human resource (HR) record keeping and payroll control systems. Since 2014, supported by development partners, the Government has initiated several measures to improve the management of the wage-bill. A census was conducted and followed up with measures to eliminate ghost workers from the payroll. In addition, the Government began monitoring the physical presence of civil servants and this exercise has already significantly reduced absenteeism among education and health sector staff.¹⁵ Overall, the efforts have resulted in the reduction of the overall wage-bill from 6.5 percent of GDP in 2014 to 5.2 percent of GDP in 2017.

40. **Additional efforts to control personnel costs will create the budget space to pursue with necessary recruitments while keeping overall cost at a sustainable level.** To redeploy the administration across the country and increase the provision of public services, the Government will have to recruit new

¹⁵ This positive effect on attendance has been confirmed by United Nations Children's Fund (UNICEF) and World Health Organization (WHO) cluster reports. See: UNICEF (2015a and 2015b) and WHO (2015).

personnel in areas such as education, health, agriculture, and the security sector. Several measures have been taken including the adoption of a new wage structure and the standardization of the size of ministries and agencies. To create the required budget space, the authorities intend to implement several cost saving measures such as the continuous updating of the HR database, retirement of civil servants and security personnel and the progressive elimination of ineligible “*hors statut*”. Furthermore, the authorities intend to increase internal control of the wage-bill and undertake audits of the wage-bill database and increase transparency and accountability mechanisms. To that end, the SCDP 1 grant supported the adoption of an *Arrêté* through the Ministry of Finance and Budget revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents, and all supporting documents, to the Directorate General of Treasury and Public Accounting including the CAAT (**SCDP 1 Prior Action 3**).

41. **Going forward, the SCDP supports the operationalization of the new wage-bill information system (*Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l’Etat [GIRAFE]*)**. GIRAFE is an integrated HR and wage management system. It connects the HR management data base with the wage management system. Hence, all updates on the administrative situations are automatically reflected when the wage is calculated. The system also interconnects key stakeholders of the wage-bill management including the Ministry in charge of Civil Service, the Treasury including the CAAT, the Directorate in charge of the wage payment and the General Inspection of Finance. Hence, the system will allow to strengthen the control of the wage-bill. The goal is to continue with the tight control of the wage-bill to limit it at a sustainable level.

Prior Action 3: The Recipient has, through its Ministry of Finance and Budget, issued (i) *Lettre – Circulaire 1876/MFB/DIR.CAB//17 à l’attention des chefs de départements ministériels et des institutions de la République* dated November 3, 2017, informing all heads of ministerial departments and of the Recipient’s institutions that the wage will be paid using GIRAFE, and (ii) *Note à la haute attention du Conseil de Ministres 1875 MFB/DIR.CAB//17 sur l’opérationnalisation de l’application Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l’Etat (GIRAFE)*.

42. **The expected results of these prior actions and triggers include an increase share of the wage-bill reviewed and verified by CAAT (Baseline: 0 percent [2015]; Target 50 percent [2018]).**

1.3 Improved Budget Control and Transparency

43. **During the 2013 crisis, property damage and widespread looting took a heavy toll on public facilities and equipment, including the systems and processes used to monitor and execute the budget.** As the Government resumed its core functions in mid-2013, the authorities faced several serious challenges. The accounting and budget software (GESCO) had previously been deployed by the Treasury and the Budget Directorates, but during the crisis it ceased to function, and after 2013, budget preparation and execution processes were performed manually or not at all. The crisis also disrupted the preparation of procurement and commitment plans by line ministries, thus, the procurement process became opaquer during the transition period. The functioning of the Single Treasury Account also ceased, further straining the government’s cash flow. In 2015, 80 percent of budget expenses were executed using exceptional procedures. A significant back-log in the production of financial statements and Settlement Laws of the Finance Law had accrued, with the last and only Settlement Law of the Finance Law dating back to 2008.

44. **Budget in the CAR has been opaque with little accountability.** In 2011, the Government passed a set of reforms designed to increase budgetary transparency, including extending the Extractive Industries Transparency Initiative (EITI) to the forestry sector, mandating the publication of the Budget Law on the government’s website, and requiring full asset disclosure by high-ranking public officials. These

efforts were halted by the crisis. The new Constitution adopted in December 2015 establishes mechanisms to fight institutional corruption and includes provisions for the declaration of assets by high-level officials, including the President.

45. **The authorities have strong ambitions in reducing the level of exceptional procedures and the back-log of financial statements, as well as increasing budget transparency.** To that end, the SCDP 1 supported the adoption of an *Arrêté* through the Ministry of Finance and Budget, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008. Likewise, SCDP 1 supported the preparation of the 2015 Trial Balance and the Trial Balance for the first semester 2016.

46. **These reforms are also being supported by the SCDP 2.** To deepen the reforms and to leverage their success, the SCDP 2 supports the adoption of a manual of procedures of public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008. The manual provides procedural guidelines for processing expenditures in conformity with the Organic Finance Law to avoid delays. It will also, together with the nomenclature of supporting documents for public expenditures, clarify the rules, procedures and processes and make them available to budget managers. Hence it will address some of the causes for the high-level of use of exceptional expenditure procedures. It complements the SCDP 1 Prior Action 4. At the same time, to improve budget transparency, the SCDP series supports the preparation and publication of: (i) the draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a citizen's budget on the enacted 2017 Finance Law; and (iv) the 2016 budget execution report, the first quarter 2017 budget execution report, the first semester 2017 budget execution report and the third quarter 2017 budget execution report. Likewise, SCDP 2 supports the submission of the *Loi de Règlement (Settlement Law of the Finance Law)* 2015 to the Parliament.

Prior Action 4: The Recipient has, through its Ministry of Finance and Budget, adopted the *Arrêté 0368/2017/MFB/DIR.CAB/DGB portant adoption du Manuel de Procédures d'Exécution des Dépenses Publiques en République Centrafricaine*, dated June 2, 2017, adopting a manual of procedures of public expenditures in conformity with the *Loi Organique* and the *Loi 08.017*.

Prior Action 5: The Recipient has, through its Ministry of Finance and Budget, prepared and published on the Ministry's website (www.minfb.cf): (i) the Draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a Citizen's Budget on the Enacted 2017 Finance Law; and (iv) the Budget Execution Reports for 2016, the 1st quarter 2017, the 1st semester 2017 and the 3rd quarter 2017, improving transparency of public financial management practices of the Recipient.

Prior Action 6: The Recipient has, through its Ministry in charge of relations with the institutions of the Republic, submitted the 2015 Draft Settlement Law to the Recipient's Parliament by letter 228/MCRIR/DIR.CAB/DGRIR/, dated 29 December 2017 improving accountability of the public financial management practices of the Recipient.

47. **The expected results of these prior actions and triggers include a reduction in the share of expenditures executed using exceptional spending procedures (Baseline: 80 percent (2015), Target: <20¹⁶ percent (2018)); an increase in the number of budget documents published on an annual basis (Baseline: 1 (2015); Target 7 (2018)); and the publication of the enacted *Loi de Règlement* (Baseline: 0 [2015]; Target: 1 [2018]).**

PILLAR 2: SUPPORTING THE ECONOMIC RECOVERY

48. **A strong economic recovery, marked by accelerated employment growth, will be essential for the maintenance of political stability and the consolidation of the peace process.** The CAR has

¹⁶ This target has been revised from 25 percent to 20 percent as the target was achieved end-2017.

experienced only two periods of relatively rapid economic growth in the past¹⁷. Continued political stability, an enduring peace process, and targeted reforms could result in accelerated, pro-poor and inclusive growth.¹⁸ To stimulate economic recovery, reforms are needed to spur growth and promote formalization in employment-intensive sectors such as agriculture. New jobs with a potential to generate rising incomes over time would offer young workers—and especially former combatants and victims of violence—an opportunity for economic advancement through peaceful means, hence reducing incentives to seek income from crime and conflict. Concomitantly, the revival of the agriculture sector will depend on investments in the transport sector. Particularly, the maintenance of rural and secondary roads is essential to connect producers to markets. A final aspect to improving the CAR's growth potential involves developing the ICT sector to allow for greater connectivity—in particular, access to voice, text, and mobile payments—across the country and abroad.

2.1 Revival of the Agricultural Sector

49. **Despite its recent decline, the agricultural sector¹⁹ still accounts for 45 percent of GDP, 70 percent of jobs, and over 75 percent of national food consumption.** Low productivity and the protracted conflict have contributed to the poor performance of the agriculture sector resulting in about 50 percent of the population living in a situation of food insecurity. Therefore, increasing agricultural and livestock production remains one of the most urgent priorities and challenging issues. An increase in imports of fertilizers will be a major contributor to the increase in agriculture productivity, providing stimulus to both subsistence farming and cash crop production. The end result of increased agriculture productivity is reduced food insecurity and a boost in revenue for poor segments of the population. A rough estimate would indicate that nearly half a million persons/farm holders would benefit from improvements in agricultural productivity (based on a hypothesis of 40/kg fertilizer per farm holder). To support agriculture sector development, the provision and retention of improved seeds is critical to avoid famine. However, while authorities adopted a Seed Law in 2015, implementation decrees have not yet been adopted, thus delaying the application of the law.

50. **Equally important for the agricultural sector is a well-maintained road network, which ensures connectivity between rural and urban areas.** The road network in the CAR forms the backbone of the country's transport system, accounting for 90 percent of total transportation in the country. However, of its 24,137 km of national, regional, and rural roads, only 3.5 percent (855 km) are paved. About 80 percent of its international trade passes through the Douala-Bangui corridor, which is not fully paved, and where burdensome formal and informal administrative barriers contribute to long delays and rising transport costs. As a result, transit times are extremely high, compared to other countries in Africa, at around 63 days for imports and 54 days for exports. The 15,500 km rural road network is insufficient in scope and suffers from inadequate maintenance. Poor road quality has an especially negative impact on rural populations, as it limits their access to markets and services such as schools and healthcare facilities. Since the onset of the crisis, road maintenance has been restricted to a few districts around Bangui, where security conditions remain relatively stable. Inadequate maintenance was caused by an insufficient level of resources as well as persistent governance issues in the functioning of the RMF and the NEO. Although the country operates the RMF financed by fuel taxes and road tolls, even before the crisis its resources

¹⁷ In 1984-1985 and in 1994-1995, in which the GDP growth rate averaged 5-6 percent per year.

¹⁸ Annual growth rates in the range of 5-6 percent rate would double the economy every 8-9 years and create much-needed employment for an expanding labor force.

¹⁹ In the 2016 Commune Census 85 percent of communes reported agriculture as the primary economic activity.

were far from sufficient to finance the road network's maintenance. Currently, the RMF's resources only provide for five percent of the country's road maintenance needs.

51. **Strengthening the governance and the functioning of the RMF and the NEO is imperative to restore the movement of goods and population, and is therefore a key prerequisite for the rapid recovery of the CAR's economy.** However, quality infrastructure and transport services will require large scale investments. An immediate priority of the sector is to establish a system of efficient programming and execution of road maintenance to protect existing infrastructure and to ensure the sustainability of future investments including through a secured increase of resources allocated to road maintenance. This requires a significant improvement of the governance of road maintenance to establish the conditions for achieving effective road maintenance and to attract investment in the sector. To do so, the RMF, the Ministry of Equipment, Transport, Civil Aviation and Integration, and the NEO²⁰ need to initially focus on preventive maintenance on selected priority road segments. It is also necessary to better formalize the contractual relationship between the RMF and the NEO to avoid accumulation of debts between the two entities. Finally, existing debt between the RMF and the NEO needs to be audited and a plan for the repayment of the debt needs to be adopted and implemented.

52. **To address some of the many cross-cutting issues that are hindering the revival of the agriculture and transport sectors the SCDP series takes an integrated short- to medium-term reform approach.** Accordingly, the SCDP 1 provided support for the adoption of an *Arrêté* through the Ministry of Transport, that adopted an Operations Manual for the RMF, which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the NEO, the Ministry of Roads and Transport, and the RMF (**SCDP 1 Prior Action 6**). Likewise, the first operation supported the adoption of two instruments to operationalize the 2015 Seeds Law, namely: (i) a *Décret* approving the statutes of the National Seeds Office; and (ii) an *Arrêté interministeriel* creating the body of seeds inspectors and controllers of the National Seeds Office (**SCDP 1 Prior Action 7**).

53. **Building on this reform momentum, the SCDP 2 supports the completion of an audit of the RMF for the period 2008-2015, including a stocktaking of and a settlement plan for debt between the RMF and the NEO).** The audit of the RMF is a prerequisite for jumpstarting the proper function of the Fund in order to implement annual road maintenance plan.²¹ The SCDP also supports an *Arrêté interministeriel* by the Ministers in charge of Agriculture, rural development, and livestock defining temporary modalities on the import and distribution of agriculture inputs (e.g. fertilizer and phytosanitary products). The adoption of an *Arrêté* to clarify the organization of the sector is an important prerequisite to increase the

²⁰ The RMF, the Ministry of Equipment, Transport, Civil Aviation and Integration, and the NEO are three key actors in roads maintenance in the CAR. The Ministry is responsible to establish the annual roads maintenance program. It also oversees its implementation including technical oversight. The NEO provides equipment and services to implement the roads maintenance program. The RMF finances the roads maintenance. It is funded from taxes and levies on petroleum products. It can also receive subsidies from the State through the annual Finance Laws.

²¹ The limited rural road network suffers from inadequate maintenance. The poor quality of the road network has an especially negative impact on rural populations, as it limits their access to markets. The RMF, financed by fuel taxes and road tolls, has limited revenue sources to finance the road network's maintenance and operations costs. The World Bank interventions, including SCDP 2 and sector projects, aim to help the Government in reforming the institutional and regulatory framework of the sector. The priorities include improving the capacity of the Bangui-Douala corridor, including its northern link to N'Djamena; strengthening riverine and multimodal transport systems in collaboration with Cameroon and Republic of Congo as well as attracting more private sector investments into the sector. These roads will be financed through donor funded investment projects.

distribution of fertilizer and phytosanitary products which is crucial in increasing agriculture production and reducing food insecurity.²² Clarifying the roles of the actors involved will allow to improve the

Prior Action 7: The Recipient has, (i) completed the Audit of its Roads Maintenance Fund (RMF) for the Period 2008-15, including a stocktaking of the debt and, (ii) through RMF, adopted the *Plan d'Apurement de la Dette du Fonds d'Entretien Routier*, the settlement plan of the debt of the RMF, through note 0044/FER/OP/DG/DAFC of January 17, 2018, improving the financial management practices of the RMF.

Prior Action 8: The Recipient has, through its Prime Minister, issued *Arrêté 0016 fixant les conditions temporaires d'importation et de distribution des intrants, matériels agricoles, vétérinaires et halieutiques en République Centrafricaine*, dated September 4, 2017, establishing temporary modalities on the import and distribution of agriculture inputs.

organization of the sector and the increase in the imports of agriculture inputs in the short-term. In the long – term, a dedicated law will be prepared. The law could be presented to Parliament in 2021.

54. **The expected results of these prior actions and triggers include an increase in the budget execution rate (initially approved / executed) of the RMF (Baseline: 30 percent [2015]; target 50% [2018]); the adoption and implementation of a 2017/2018 roads maintenance program in conformity with the new manual; and an increase in imported fertilizers (Baseline: 0 [2015]; Target: 20,000 tons [2018]).**

2.2 Promote the Development of the ICT Sector:

55. **The ICT sector in the CAR is one of the least developed in SSA.** Despite competition among four active mobile operators, the ICT sector has one of the weakest performances in SSA and has been on a downward trend since 2010 due to low profitability and the impact of an unstable security situation on infrastructure expansion and maintenance. The active mobile connection penetration rate was 36 percent at the end of 2016 (22 percent when correcting for the multi SIM effect), compared to 64 percent for regional comparators and 71 percent for SSA. Although 3G was launched in February 2013, mobile 3G connection penetration stands at 1 percent, compared to 7 percent for regional comparators and 11 percent for SSA. Phone networks covered only around 60 percent of the population at the end of 2016. Prices remain unaffordable for most consumers: the yearly cost of a basket of mobile services represents 43 percent of the average GNI per capita according to the International Telecommunications Union ranking the CAR at the 182nd place for mobile affordability).

56. **The underperforming ICT sector is hindered by infrastructure, legal and regulatory challenges:** (i) there is no infrastructure for reliable and cheap international connectivity, as the fiber optic backbone to connect neighboring Cameroon (which has a submarine cable landing station) has still not been deployed; (ii) the sector suffers from the absence of a reliable supportive infrastructure with no effective roads to convey ICT equipment and maintenance teams, no electricity grid to power the mobile sites; (iii)

²² Cash crop production, plummeted during the crisis, is very important for the livelihoods of rural populations. Cotton output dropped from 22,000 metric tons in 2013 to just 800 in 2014. In rural areas, many farmers lack technical knowledge, and the small size and scope of agricultural markets and input-distribution systems restrict the availability of high-quality seed, fertilizer, improved animal breeds, veterinary supplies, tools and farming equipment. Due to inadequate domestic production capacity, commercial seed varieties, chemical fertilizers and other improved inputs are overwhelmingly imported. High transportation costs boost input prices, representing more than 50 percent of the retail price of fertilizers. The small size of the domestic input market prevents the formation of economies of scale in procurement and distribution. The withdrawal of government support from the fertilizer sector in the early 2000s for financial reason led to a sharp drop in the use of fertilizer nationwide. Sustainably increasing marginal agricultural productivity, especially for food crops, will not be possible without the widespread use of improved inputs. Commercial seed varieties; chemical fertilizers and pesticides, herbicides, and fungicides can enable farmers to greatly increase their per-hectare yields. Ensuring that improved inputs are available at reasonable prices will require well-functioning input markets. Efforts to strengthen input distribution systems should focus initially on two areas: seed and fertilizer.

the country's state-owned *Société Centrafricaine de Telecommunications* (Socatel) is in a monopoly situation on the fixed-line market and suffers from poor corporate management, inadequate funding, repeated employee strikes and outdated infrastructure; and (iv) the successive political crises have led to the destruction of mobile sites outside Bangui (some have yet to be rebuilt due to the fragile security situation).

57. **Significantly improved access to mobile services (e.g. voice, text, and internet) would bring multiple benefits to Central African households.** Mobile phones can improve access to and use of information, reducing search costs, improving coordination between different parties, and increasing market efficiency. The usage of mobile phones in a fragile security situation can act as productivity enhancer, provides means of connectivity to family and friends, and fosters the sense of personal security. Accordingly, the SCDP series provides support measures aiming to boost access to voice, text, and mobile payment to unleash an increase in the use of mobile networks. The SCDP 1 grant supported the adoption by the Council of Ministers of the draft law on electronic communication (**SCDP 1 Prior Action 8**).

58. **The SCDP 2 will deepen ICT sector reforms.** The end result of reforms would be price reductions up to 50 percent, which will help increasing access by at least 270,000 people.²³ It will support (i) the submission of amendments to the law on electronic communications to enhance competition and a stable business environment; and (ii) the adoption by the Minister in charge of telecommunications, following its endorsement by the Council of Ministers, of a strategy for the use of revenues from the Universal Access levy on operators to (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities.

Prior Action 9: The Recipient has, through the Ministry in charge of relations with the institutions of the Republic issued letter 038/MCRIB/DIR.CAB/DGRIR dated February 15, 2018 submitting to the Parliament amendments to the electronic communications law (law 18.002 of January 17, 2018) to promote increased competition and a stable business environment.
Prior action 10: The Recipient has, through its Minister of post and telecommunications issued *Arrêté 006/MPT/DIRCAB/UCP-CAB/2018 portant adoption de la stratégie de service universel en République Centrafricaine*, dated January 31, 2018, adopting a strategy for the use of revenues from the Universal Access Level on operators.

59. **The expected results of these prior actions and triggers include: (i) The Central African Republic's ranking on the ICT development Index (IDI) prepared by the International Telecommunications Unit from 176 (2016) to 175 (2018); and (ii) expanding 2G network coverage which is expected to increase from 59 (2015), to 60 percent (2018).** It should be noted that, while the CAR ranked at the bottom of the IDI in 2016, in 2017 the greatest improvements in the ICT access sub-index in the Africa Region were made by the CAR (from a value of 1.20 in 2016 to 1.57 in 2017).

60. **The SCDP was informed by analytical work undertaken by the World Bank, the IMF, and the authorities.** The analytical underpinnings for each prior action is presented in Table 6.

Table 6: SCDP 2 Triggers and Analytical Underpinnings

SCDP 2 Prior Actions	Analytical Underpinnings
Pillar 1: Reestablishing Basic Fiscal Management and Transparency	
Prior Action 1: The Recipient has adopted the <i>Décret 17-351 portant création du comité interministériel chargé des exonérations fiscales et douanières</i> , dated November 3, 2017, and the <i>Arrêté 025/PM/17 d'application du décret 17-351</i> , dated November 22, 2017, improving the	<ul style="list-style-type: none"> • 2016–2017 PFM Reform Plan • 2017–2020 PFM Reform Action Plan

²³ <http://www.journaldebangui.com/article.php?aid=13884>

<p>institutional mechanism to manage, monitor and evaluate fiscal exemptions by the Recipient.</p>	<ul style="list-style-type: none"> • Reestablishing Core PFM Function, WB Policy Notes, June 2016. • Joint WB-IMF DSA 2016 and 2015, A Concerted Action Plan for the resilience of the PFM system. • IMF/AFRITAC report on Fiscal and Customs reforms in CAR, March 2016. • These reports identify the critical measures that need to be implemented to increase domestic revenues and to reestablish core PFM functions.
<p>Prior Action 2: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0641/17/MFB/DIRCAB/IGF/C/SF instituant un contrôle trimestriel des régies financières et des régies des recettes et d'avances</i>, dated October 3, 2017, introducing a risk-based control of the Recipient's main revenue collecting and spending entities, and exercising control on them at least once a year.</p>	
<p>Prior Action 3: The Recipient has, through its Ministry of Finance and Budget, issued (i) <i>Lettre – Circulaire 1876/MFB/DIR.CAB//17 à l'attention des chefs de départements ministériels et des institutions de la République</i> dated November 3, 2017, informing all heads of ministerial departments and of the Recipient's institutions that the wage will be paid using GIRAFE, and (ii) <i>Note à la haute attention du Conseil de Ministres 1875 MFB/DIR.CAB//17 sur l'opérationnalisation de l'application Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l'Etat (GIRAFE)</i>.</p>	
<p>Prior Action 4: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0368/2017/MFB/DIR.CAB/DGB portant adoption du Manuel de Procédures d'Exécution des Dépenses Publiques en République Centrafricaine</i>, dated June 2, 2017, adopting a manual of procedures of public expenditures in conformity with the <i>Loi Organique</i> and the <i>Loi 08.017</i>.</p>	
<p>Prior Action 5: The Recipient has, through its Ministry of Finance and Budget, prepared and published on the Ministry's website (www.minfb.cf): (i) the Draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a Citizen's Budget on the Enacted 2017 Finance Law; and (iv) the Budget Execution Reports for 2016, the 1st quarter 2017, the 1st semester 2017 and the 3rd quarter 2017, improving transparency of public financial management practices of the Recipient.</p>	
<p>Prior Action 6: The Recipient has, through its Ministry in charge of relations with the institutions of the Republic, submitted the 2015 Draft Settlement Law to the Recipient's Parliament by letter 228/MCRIR/DIR.CAB/DGRIR/, dated 29 December 2017 improving accountability of the public financial management practices of the Recipient.</p>	
Pillar 2: Supporting Economic Recovery	
<p>Prior Action 7: The Recipient has, (i) completed the Audit of its Roads Maintenance Fund (RMF) for the Period 2008-15, including a stocktaking of the debt and, (ii) through RMF, adopted the <i>Plan d'Apurement de la Dette du Fonds d'Entretien Routier</i>, the settlement plan of the debt of the RMF, through note 0044/FER/OP/DG/DAFC of January 17, 2018, improving the financial management practices of the RMF.</p>	<ul style="list-style-type: none"> • Transport Sector in CAR, WB Policy Notes, June 2016, identified the need to improve the governance of the RMF and the NEO as well as to reform the financing mechanism of the RMF. • Rebuilding the Agriculture Sector in CAR, WB Policy Notes, June 2016, identified the need to increase affordable use of inputs through the adoption and implementation of the seeds law. • ICT in CAR, WB Policy Notes, June 2016 identified the need to reform the fiscal policy in the sector and update the telecommunications law and strengthen the regulator. • WB, Sector Update, 'Enabling the digital revolution in SSA: What Role for Policy Reforms?' (Spring 2017) –
<p>Prior Action 8: The Recipient has, through its Prime Minister, issued <i>Arrêté 0016 fixant les conditions temporaires d'importation et de distribution des intrants, matériels agricoles, vétérinaires et halieutiques en République Centrafricaine</i>, dated September 4, 2017, establishing temporary modalities on the import and distribution of agriculture inputs.</p>	
<p>Prior Action 9: The Recipient has, through the Ministry in charge of relations with the institutions of the Republic issued letter 038/MCRIB/DIR.CAB/DGRIR dated February 15, 2018 submitting to the Parliament amendments to the electronic communications law (law 18.002 of January 17, 2018) to promote increased competition and a stable business environment.</p>	

<p>Prior Action 10: The Recipient has, through its Minister of post and telecommunications issued <i>Arrêté 006/MPT/DIRCAB/UCP-CAB/2018 portant adoption de la stratégie de service universel en République Centrafricaine</i>, dated January 31, 2018, adopting a strategy for the use of revenues from the Universal Access Level on operators.</p>	<p>identified the need to update the legal framework for ICT and support effective implementation of universal service</p> <ul style="list-style-type: none"> • WB, Recommendations for the elaboration of a universal service strategy (in French), June 2017 • WB, The Role of Information and Communication Technologies in Post - conflict Reconstruction, 2014
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4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

61. **The SCDP series is closely aligned with the CAR Country Engagement Note (CEN) FY16-17²⁴, which describes the continuation of the crisis response and potential next steps for recovery and development until the end of 2016.** Accordingly, the SCDP 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. While the first two pillars will be addressed directly by the operation, the third pillar will be addressed indirectly through a variety of policy based measures. As noted above, 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.

62. **At a higher level, the objectives of the SCDP series support the World Bank Group's twin goals of reducing poverty and boosting shared prosperity.** By targeting reforms under pillar one to support increased predictability, control, and transparency in budget execution, the operation seeks to increase fiscal space as well as efficiency in public spending. Likewise, by targeting key growth sectors, the program will improve the productive opportunities available to citizens through support to the agriculture, forestry, transport, and ICT sectors. Cutting across the operation are reforms designed to create a more inclusive and connected society as well as to ensure greater equity between the capital and regions. The operation is also aligned with recent World Bank analytics and strategies in fragile and conflict-affected states (FCS) engagement, including the 2011 World Development Report on Conflict Security and Development, the IDA-17 emphasis on FCS, as well as the Independent Evaluation Group's (IEG) evaluation of engagement in fragile states, which notes that the World Bank's comparative advantage is the provision of support to early reconstruction and economic recovery.

63. **Finally, the SCDP series operation is aligned with other World Bank operations, including investment projects providing technical assistance for PFM, such as the recently-approved Public Expenditure and Investment Management Project²⁵ (US\$10 million).** The SCDP series follows a US\$100 million package of emergency operations including: (i) emergency assistance to pay salaries and technical assistance to PFM reforms, aiming to control expenditure and increase collected revenues (US\$40 million); (ii) a cash-for-work program, providing temporary jobs and promoting social cohesion in and around Bangui during the crisis, as well as in 71 prefectures nationwide (US\$30 million); (iii) support to emergency health needs through the provision of free medication (US\$10 million); and (iv) a food crisis response project, supporting half a million people through food and seed distribution, implemented by the Food and Agriculture Organization (FAO) and the World Food Programme (WFP) (US\$20 million).

64. **While the financing of the budget through the SCDP will contribute to finance all services, including social services, additional technical assistance and investment lending will be provided for the**

²⁴ Report 96209. Approved on July 13, 2015.

²⁵ P161730.

delivery of social services under other projects included in the IDA-Funded Turn-Around Facility. As such, the Turn-Around Facility will facilitate parallel investments to support, inter alia: DRR (US\$30 million); Statistics for Decision-making (US\$10 million); Water, Sanitation, and Energy (US\$20 million); Revival of Agricultural Production Basins (US\$25 million); and Natural Resource Governance TA (US\$10 million). Support will also be provided through lending operations in health (US\$25 million, FY19) and education (US\$10 million, FY19).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

65. **The proposed operation has been prepared to ensure complementary with ongoing recovery and development activities of development partners.** Notably, this includes an unprecedented US\$2.2 billion pledged at a donor conference in Brussels held on November 17, 2016 by the international community to cover the most urgent needs and priorities for the period 2017–2021 under the RCPCA. Other operations such as the 11th European Development Fund (FED), are expected to provide US\$220 million in parallel financing during the 2016-2020 period. Likewise, the French Development Agency (*Agence Française de Développement*, AFD) portfolio in the CAR is currently just over US\$40 million, and focuses on urban development, economic recovery, social protection, and reconciliation in the form of General Budget Support. The AFD also finances cash-for-work programs in urban areas and provides support to the forestry sector, as well as promoting public-private dialogue and supporting key infrastructure reconstruction. Finally, AFD also supports a health, food security and nutritional facility project, implemented via the French Red Cross, which benefits women and children. Additional support provided by the African Development Bank (AfDB) amounts to approximately US\$80 million and includes: (i) a multi-sectoral emergency project in support of economic recovery from the crisis; (ii) a community reconstruction support program; (iii) a governance institutional support program; (iv) a capacity building project and (v) a ICT connectivity support program (recently approved in December 2017) co-financed by the European Union. Finally, as noted above, the program has been prepared in parallel with the Mutual Accountability Framework of the UN Peacekeeping mission (MINUSCA). Social sectors such as health and education are also supported by projects from Non-Governmental Organizations.

66. **The Government has adopted a participatory approach in conducting consultations with citizens.** The 2015 Bangui Forum involved local consultations nationwide to discuss the peace-building program and define a vision for the future of the country, including the consultation of 700 representatives of transition authorities, armed groups, civil society, religious organizations, and youth and women's groups. This led to the elaboration of the Republican Pact on National Reconciliation. The Government also established and appointed members of a Bangui Forum monitoring committee who are responsible for monitoring the implementation of the Forum's recommendations. These measures have laid the foundation for the national reconciliation process. In the framework of the RCPCA process, regional consultations and validation workshops are scheduled. Finally, the program implementation unit, CS-REF, will regularly consult with Civil Society Organization (CSO) and private sector representatives.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

67. **The SCDP 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 reside²⁶. Reforms to better manage fiscal exemptions are expected to contribute to ensure that these resources, representing about two percent of GDP, are contributing to poverty reduction and development. 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. The operation's support to increased transparency and accountability will also contribute to improve trust between citizens and the State. 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.

68. 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. Most of the rural poor depend on agricultural livelihoods, so supporting access to inputs and output markets could help improve their productivity, welfare, and food security. In addition, improvements in overall domestic agricultural output could help lower and stabilize food prices, which would also benefit the poor. Increased access to and lower prices of communication will also likely have a positive impact on poverty reduction and reduced inequalities. However, due to the institutional reform nature of the policy measures supported by the operation, and the limited data and related analytics²⁷, the full impact of these measures would be difficult to quantify during the relatively short, implementation period. A full description of the SCDP's poverty, social, and distributional impacts is noted in Annex 4.

69. Overall, the SCDP series supports the implementation of the RCPCA which includes an objective to improve gender equality. In general, the high level of poverty and the extent of unmet needs mean that any investment in human capital, physical capital, and inputs is likely to generate extremely high economic and social marginal returns. Hence, by supporting the agriculture sector through access to improved inputs (Prior Action 8), the SCDP2 support actions that will positively impact farmers. The improved governance of the RMF (Prior action 7) is also expected to have a positive impact on agriculture, since lack of transportation and of market connectivity are key impediments for the development of the agricultural activity beyond subsistence levels. Given the preponderance of subsistence agriculture in Central African Republic, and the key role played by women in this activity, this action could benefit gender equality. The new law on electronic communications will promote increased competition in the sector, pushing prices down, which will have some positive distributional effects on the population at large, and on farmers and youth as was the case in other countries liberalizing their telecommunication sector.

5.2. ENVIRONMENTAL ASPECTS

²⁶ In 20078, 70 percent of the poor lived in rural areas.

²⁷ A high degree of uncertainty is attached to the level and growth rate of real GDP, as estimates for informal sector activities are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not adequately tracked.

70. **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 SCDP are not expected to have adverse environmental or social impact, but rather to enhance poverty reduction in rural areas. A Climate Change Screening Assessment was undertaken and a full description of the SCDP DPO’s environmental impacts is noted in Annex 4.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

71. **As the political situation stabilizes, the Government has started to rebuild its core PFM functions.** In 2014, the authorities began to implement a weekly treasury plan as a first step toward returning to the Single Treasury Account system, and in 2015 a CAAT was created. The reforms have yielded some initial results as evidenced by an improvement in the Country Policy and Institutional Assessment (CPIA) rating between 2015 and 2016, the publication of enacted budgets and budget reports as well as the submission of the 2015 *loi de règlement* to Parliament. The general government budget is available to the public and is published on the webpage of the Ministry of Finance and Budget.²⁸ The authorities adopted a credible reform plan for PFM reforms in 2017 and have started its implementation. Nevertheless, fiduciary risk is high (see Section 6).

72. **In 2017, the IMF staff carried out an on-site safeguards assessment of the Central Bank of the States of Central Africa (*Banque des Etats de l’Afrique Centrale, BEAC*).** The 2017 IMF staff report²⁹ on the common policies in support of CEMAC countries reform programs noted that the BEAC has taken important steps to finalize the implementation of remaining priority recommendations as part of the IMF safeguards “rolling measures”. In particular, the BEAC Board of Directors adopted legal reforms to strengthen governance and is finalizing amendments to the BEAC’s Charter with a focus on reinforcing the collegiality in the decision-making process, to facilitate checks and balances at the corporate management level and strengthen internal controls. In addition, preparations are under way for the BEAC’s full transition to the international financial reporting standards (IFRS) to strengthen financial transparency. The BEAC publishes a full set of audited financial statements. The external auditors expressed unqualified opinions on the 2012-2016 financial statements.

73. **Disbursement, Accounting and Auditing.** The Recipient is the CAR, to be implemented by the Ministry of Finance and Budget. The grant will be released in a single tranche equivalent to US\$25 million upon effectiveness and provided that IDA is satisfied (i) with the program being carried out by the Recipient and (ii) with the adequacy of the Recipient’s macroeconomic policy framework. The proposed operation will follow IDA’s standard disbursement procedures for development policy financing. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated account of the Government of the CAR for budget support at the Central Bank (the BEAC), which will form part of the country’s foreign-exchange reserves. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement. The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the

²⁸ www.minfb.cf

²⁹ IMF Country Report No. 17/176, June 2017.

Recipient's budget management system in a manner acceptable to the World Bank. Based on previous experience, the execution of such transactions between the BEAC and the MFB do not require more than four days. The Recipient will report to the World Bank on the amounts deposited in the dedicated foreign-currency account and credited in local currency (CFAF) to the budget management system in a manner acceptable to IDA. The equivalent amount in CFAF reported in the budgetary system will be based on the market rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to IDA.

74. **The financial support provided under this operation is not intended to finance goods or services in the standard negative list.** If, after being deposited in this the account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request, will be canceled.

75. **At the request of the Association, an audit of the dedicated account will be carried out by the Recipient and the result of such audit will be furnished to the Association within four months of the request and in accordance with the Terms of Reference satisfactory to IDA.** All audit costs will be borne by the Government of the Central African Republic.

76. **The closing date for the operation is July 31, 2019.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

77. **The program will continue to be implemented by the *Cellule Chargée du Suivi des Réformes Economique et Financières (CS-REF)*, which will assume the monitoring and evaluation responsibility for the program.** CS-REF is the central coordinating agency and has demonstrated sufficient capacity for monitoring and evaluation, as well as for mobilizing support and participation from the agriculture, transport, and ICT ministries. The CS-REF has the appropriate expertise in managing such a program, as it is currently in charge of the IMF, the EU, the AfDB and the World Bank Programs. Finally, to ensure harmonization with other programs, the SCDP will seek to utilize indicators, where possible, included in the IMF's ECF, which can be more easily monitored during joint supervision missions.

78. **Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, because of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS> . For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

79. **The overall risk rating for the proposed operation is substantial due to several interrelated risks that may jeopardize the achievement of the PDO.** High and substantial risks will be presented below. The risks remain unchanged compared to the SCDP 1.

80. **Political and governance risk is High.** The CAR has a fragile political environment with weak institution. The political settlement has solidified following the elections, there is still a high risk of political instability given the country context. Political instability could result in delays in reform implementation. The Government's focus on post-conflict economic recovery, with support from development partners, demobilization, disarmament, and reintegration (DDR); and reforms to improve governance and institutional capacity contributes to mitigate the risk.

81. **Macroeconomic risk is High.** The country faces two specific risks to the growth and macro outlook. First, projections regarding a key export good – diamonds - are conditional on swift progress with the Kimberly certification process, however expectations vary significantly and remain highly uncertain. Second, asymmetries across CEMAC countries in their coping and macro fiscal adjustment may give rise to free rider dynamics that could undermine optimal regional policy responses while threatening the stability of the monetary and economic union itself. There is also a risk of debt distress. However, Government's recent track record in macroeconomic management, which has been strong in response to exogenous shocks, is a mitigating factor. The program with the IMF and continued dialogue with the World Bank and the IMF to identify issues and solutions are also important mitigating factors. The main short-term challenges for the government are both maintaining and solidifying security environment as a necessary condition for further recovery and managing fiscal consolidation in the context of tightening monetary policy. Despite these diverse and interrelated macroeconomic risks, the overall macroeconomic framework is deemed appropriate to proceed with the operation.

82. **Institutional capacity for implementation and sustainability risk is Substantial.** Capacity constraints present a serious challenge to the implementation of the reform program. The focus on basic reforms that will strengthen the country's PFM functions, including increasing revenues to build a more effective public administration, limits the risk. The focus on a limited number of key reforms to support economic recovery also limits the risk. However, the crisis has significantly deteriorated the administration's capacity and it will take time to strengthen it. The risk is mitigated by the complementary technical assistance that will be provided to the operation by the World Bank and other development partners.

83. **Fiduciary risk is High.** This assessment is based on the status of the PFM system and the BEAC safeguards framework, accounting systems, and auditing arrangements. The Government has made progress in strengthening multiple aspects of public financial and budgetary management. It has also accelerated the reform process during the transition period. In addition, it adopted a credible reform program that it has demonstrated commitment to implementation. This, and the technical assistance and support by the World Bank and its development partners, are mitigating measures to the risk.

84. **Stakeholder risk is Substantial.** Risks exist with respect to the various number of donors involved in the Central African Republic's post-conflict recovery, which may result in competing priorities and duplication of efforts. To mitigate these risks, the Government prepared a development strategy and a multilateral conference was successfully organized in Brussels in November 2016 to facilitate harmonization of donor interventions in the medium term. Finally, the RCPCA will contribute to the

smoothing of aid cycles, improvement of donor coordination, and strategically contribute to address risks linked to security and institutional capacity.

85. **Other risks related to the program are High.** The volatile security situation is a transversal risk affecting all components of the project. Because of instability and violence, the UN’s Office for Coordination of Humanitarian Affairs estimates that about 0.6 million people are internally displaced. The scarce presence of security forces outside of Bangui, as well as a lack of access to basic police and judicial services contributes insecurity, which is especially acute in areas outside of the capital region. Recent conflict in the rural areas outside of Bangui may have further impacts on economic activity, administrative capacity, and social service provision. The UN peace-keeping mission as well as the government’s reform of the security sector and the DDR process are mitigating these risks.

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	● High
Overall	● High



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions under SCDP 1	Proposed triggers under SCDP 2	Result
PILLAR 1: REESTABLISHMENT OF BASIC FISCAL MANAGEMENT AND TRANSPARENCY		
Policy Area 1: Increased Revenues		
Prior Action 1: Preparation of a table of fiscal exemptions by type, amount and month for an eight-month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance and Budget.	Prior Action 1: The Recipient has adopted the <i>Décret 17-351 portant création du comité interministériel chargé des exonérations fiscales et douanières</i> , dated November 3, 2017, and the <i>Arrêté 025/PM/17 d'application du décret 17-351</i> , dated November 22, 2017, improving the institutional mechanism to manage, monitor and evaluate fiscal exemptions by the Recipient.	Domestic revenues as a percent of GDP (Baseline: 7.1 percent of GDP (2015); Target: > 8.1 percent of GDP (2018)). Status: Estimated Domestic revenue as a percent of GDP in 2017: 8.3 percent
	Prior Action 2: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0641/17/MFB/DIRCAB/IGF/C/SF instituant un contrôle trimestriel des régies financières et des régies des recettes et d'avances</i> , dated October 3, 2017, introducing a risk-based control of the Recipient's main revenue collecting and spending entities, and exercising control on them at least once a year.	
Prior Action 2: Adoption of a <i>Decrét</i> revising the methodology for the determination of the prices of petroleum products in its territory to conform with the "Platts" reference price.		
Policy Area 2: Improved Wage Bill Management		
Prior Action 3: Adoption of an <i>Arrêté</i> through the Ministry of Finance and Budget revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).	Prior Action 3: The Recipient has, through its Ministry of Finance and Budget, issued (i) <i>Lettre – Circulaire 1876/MFB/DIR.CAB//17 à l'attention des chefs de départements ministériels et des institutions de la République</i> dated November 3, 2017, informing all heads of ministerial departments and of the Recipient's institutions that the wage will be paid using GIRAFE, and (ii) <i>Note à la haute attention du Conseil de Ministres 1875 MFB/DIR.CAB//17 sur l'opérationnalisation de l'application Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l'Etat (GIRAFE)</i> .	Share of the wage-bill reviewed and verified by CAAT (Baseline: 0 percent (2015); Target 50 percent (2018)). Status: 30 percent (end-December 2017)



Policy Area 3: Improved Budget Control and Transparency		
<p>Prior Action 4: Adoption of an <i>Arrêté</i> through the Ministry of Finance and Budget, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.</p>	<p>Prior Action 4: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0368/2017/MFB/DIR.CAB/DGB portant adoption du Manuel de Procédures d'Exécution des Dépenses Publiques en République Centrafricaine</i>, dated June 2, 2017, adopting a manual of procedures of public expenditures in conformity with the <i>Loi Organique</i> and the <i>Loi 08.017</i>.</p>	<p>Share of expenditures executed using exceptional spending procedures (Baseline: 80 percent (2015), <20 percent (2018). Status: Share of expenditures executed using exceptional spending procedures: 25 percent, end-December 2017</p>
<p>Prior Action 5: Preparation of the 2015 Trial Balance and the Trial Balance for the 1st semester, ending June 30th, 2016, through the Directorate General of the Treasury and Public Accounting of the Ministry of Finance and Budget.³⁰</p>	<p>Prior Action 5: The Recipient has, through its Ministry of Finance and Budget, prepared and published on the Ministry's website (www.minfb.cf): (i) the Draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a Citizen's Budget on the Enacted 2017 Finance Law; and (iv) the Budget Execution Reports for 2016, the 1st quarter 2017, the 1st semester 2017 and the 3rd quarter 2017, improving transparency of public financial management practices of the Recipient.</p>	<p>Number of budget documents published on an annual basis (Baseline: 1³¹ (2015); Target 7³² (2018)). Status: In 2016 – 6 (4 budget execution reports, enacted budget, draft budget law). In 2017 7 (1 enacted budget, 1 citizens' budget, 4 budget execution reports and draft finance law.</p>
	<p>Prior Action 6: The Recipient has, through its Ministry in charge of relations with the institutions of the Republic, submitted the 2015 Draft Settlement Law to the Recipient's Parliament by letter 228/MCRIR/DIR.CAB/DGRIR/, dated 29 December 2017 improving accountability of the public financial management practices of the Recipient.</p>	<p>Number of enacted <i>Loi de règlement</i> (Settlement Law of the Finance Law published (Baseline: 0 (2015); and 1 (2018) Status: <i>Loi de règlement 2015 submitted to Parliament</i></p>
PILLAR 2: SUPPORTING ECONOMIC RECOVERY		
Policy Area 4: Revival of the Agriculture Sector		
<p>Prior Action 6: Adoption of an <i>Arrêté</i> through the Ministry of Transport, that adopts an Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for</p>	<p>Prior action 7: The Recipient has, (i) completed the Audit of its Roads Maintenance Fund (RMF) for the Period 2008-15, including a stocktaking of the debt and, (ii) through RMF, adopted the <i>Plan d'Apurement de la Dette du Fonds d'Entretien</i></p>	<p>Maintenance Program 2017 and 2018 adopted and implemented in line with new manual. (Baseline: No (2015); Target: Yes (2018)).</p>

³⁰ Continuous measure for the duration of the program.

³¹ The enacted Finance Law.

³² i) Quarterly budget execution reports (four per year), (ii) the draft 2017 and 2018 Finance Law; the enacted 2017 and 2018 Finance Law; and (iii) a Citizen's Budget on the enacted 2017 and 2018 Finance Law.



<p>funding by the RMF; and (iii) formalizes the contractual relationships between the National Equipment Office (NEO), the Recipient's Ministry of Roads and Transport, and the RMF.</p>	<p>Routier, the settlement plan of the debt of the RMF, through note 0044/FER/OP/DG/DAFC of January 17, 2018, improving the financial management practices of the RMF.</p>	<p>Status: Maintenance Program 2017 has been adopted and is implemented in line with the new RMF manual.</p> <p>Budget execution rate (initially approved / executed) of the RMF (Baseline: 30 percent (2015)); Target 50 percent (2018).</p> <p>Status: Execution rate (2017): 80 percent</p>
<p>Prior Action 7: Adoption of two instruments to operationalize the 2015 Seeds Law, namely: (i) a <i>Décret</i> approving the statutes of the National Seeds Office; and (ii) an <i>Arrêté interministeriel</i> creating the body of seeds inspectors and controllers of the National Seeds Office.</p>	<p>Prior Action 8: The Recipient has, through its Prime Minister, issued <i>Arrêté 0016 fixant les conditions temporaires d'importation et de distribution des intrants, matériels agricoles, vétérinaires et halieutiques en République Centrafricaine</i>, dated September 4, 2017, establishing temporary modalities on the import and distribution of agriculture inputs.</p>	<p>Tons of imported fertilizers (Baseline: 0 (2016); Target: 20,000 (2018) (revised)</p>
<p>Policy Area 5: Promote the Development of the ICT Sector</p>		
<p>Prior Action 8: Adoption by the Council of Ministers of the draft law on electronic communication.</p>	<p>Prior Action 9: The Recipient has, through the Ministry in charge of relations with the institutions of the Republic issued letter 038/MCRIB/DIR.CAB/DGRIR dated February 15, 2018 submitting to the Parliament amendments to the electronic communications law (law 18.002 of January 17, 2018) to promote increased competition and a stable business environment.</p>	<p>The Central African Republic's ranking on the ICT development Index (IDI) prepared by the International Telecommunications Unit: Baseline (2016): 176e Target 2018: 175e</p>
	<p>Prior Action 10: The Recipient has, through its Minister of post and telecommunications issued <i>Arrêté 006/MPT/DIRCAB/UCP-CAB/2018 portant adoption de la stratégie de service universel en République Centrafricaine</i>, dated January 31, 2018, adopting a strategy for the use of revenues from the Universal Access Level on operators.</p>	<p>2G network coverage ((Baseline: 59 percent (2015); Target: 60 percent (2018)).</p> <p>Status: Not yet available.</p>



ANNEX 2: LETTER OF DEVELOPMENT POLICY



REPUBLIQUE CENTRAFRICAINE
Unité – Dignité – Travail

Le Premier Ministre
Chef du Gouvernement

Bangui, le **23 FEV 2018**

Cabinet

N° 0801

**Lettre de politique de développement du Gouvernement
2017-2019**

Préambule

La présente lettre de politique de développement fait suite à celle de 2016. Elle est rédigée dans l'esprit de faire le bilan de la réalisation des engagements énoncés dans la précédente lettre et pour déclarer les nouvelles mesures engagées par le Gouvernement, en tenant compte de l'évolution du contexte économique et sécuritaire ainsi que des récentes recommandations résultant des travaux des différentes missions réalisées avec les partenaires techniques et financiers de la République Centrafricaine.

La lettre s'inspire du programme du Gouvernement dont la déclaration de la politique générale a été approuvée par les députés de l'Assemblée Nationale en juin 2015, sur la base duquel la stratégie du « Relèvement et de Consolidation de la Paix (RCPCA) » a été élaborée.



INTRODUCTION

1- Les efforts que nous avons consentis, pour endiguer les effets néfastes de la crise de 2013, avec l'appui des partenaires techniques et financiers, ont permis de réaliser des avancées dans la restauration de l'administration centrafricaine, la préparation des conditions idoines à une économie viable et le rétablissement de la sécurité à Bangui et dans certaines provinces du pays.

2- Les défis de la République Centrafricaine demeurent immenses. Le Gouvernement et le peuple gardent en mémoire les dégâts incommensurables de la crise de 2013. Se trouvant déjà dans une situation fragile, l'économie centrafricaine a été lourdement impactée par la crise politico-militaire. Outre les dégâts matériels, les nombreuses victimes, les déplacés et réfugiés, c'est la confiance dans l'avenir économique du pays qui a été atteinte. Le Gouvernement, appuyé par ses partenaires, met tout en œuvre pour restaurer cette confiance et remettre l'économie centrafricaine sur la voie du développement.

3- L'insécurité demeure le facteur majeur qui retarde l'avancement du redéploiement des services publics sur l'ensemble du territoire national. Ce redéploiement constitue une condition préalable à la mise en œuvre des politiques publiques. La recrudescence de l'insécurité ces derniers mois dans certaines régions montre combien la situation sécuritaire demeure préoccupante et justifie la concentration de nos efforts sur les actions de la sécurisation et du maintien de la paix.

4- Conscients de la gravité de la situation et des urgentes mesures qu'elle impose, nous avons engagé des réformes dans l'ensemble des secteurs de l'Etat. Nous les mettons en œuvre dans une démarche stratégique en répondant aux besoins pressants et en s'inscrivant dans une vision à moyen et long terme. Ces réformes visent :

- La sécurité et la cohésion sociale ;
- La rationalisation de la gestion des finances publiques, qui, au-delà d'être une nécessité pour le pays, se veut également un gage de garantie aux partenaires de la République Centrafricaine, notamment ceux qui apportent des appuis budgétaires ;
- La restauration des services publics et leur redéploiement sur l'ensemble du territoire avec une maîtrise efficace et efficiente de la masse salariale ;
- L'instauration d'un climat des affaires plus favorable au développement de l'investissement public et privé qui se traduit par l'adoption des principes de la bonne gouvernance, notamment la transparence dans la gestion des finances publiques et la culture de la reddition de comptes ;
- La relance de l'économie à travers la mise en œuvre des politiques de développement des secteurs porteurs de la croissance économique inclusive, à l'instar des secteurs de l'agriculture, de l'industrie extractive dans un premier temps et transformatrice dans un second temps, le secteur du commerce et des services marchands ;
- La lutte contre la pauvreté, aussi bien avec le soutien des dépenses publiques sociales que la préservation du pouvoir d'achat de la population.

5- La réalisation de ces politiques de développement exige d'importants moyens que la République Centrafricaine ne peut assurer en comptant seulement sur ses propres ressources. C'est pourquoi, nous avons demandé et bénéficié du soutien des partenaires techniques et financiers notamment pour des appuis budgétaires. Le pays a également reçu des dons et contracté des emprunts en vue de réaliser des projets structurants.



I. CONTEXTE

6- Après la sortie de crise marquée par l'organisation des élections et la mise en place des institutions de la République, le Gouvernement avait entrepris avec le concours de ses partenaires au développement, l'élaboration de son plan quinquennal de « Relèvement et de Consolidation de la Paix » (RCPCA) qui a servi de support de négociations lors de la Table ronde de Bruxelles le 17 novembre 2016. Le RCPCA a enregistré lors de cette table ronde des annonces de ressources financières de la part des partenaires techniques et financiers en vue de financer les projets de développement de l'économie nationale pendant les trois prochaines années. Le RCPCA se décline en trois piliers autour desquels des actions seront menées : 1) la paix, la sécurité et la réconciliation, 2) le contrat social entre l'Etat et la société, et 3) le relèvement économique et la relance des secteurs productifs. Au regard du troisième pilier, plusieurs secteurs sont visés : secteur agricole, forestier, minier, secteur des transports, des télécommunications, des services ainsi que les réformes administratives. Ils sont réputés être des canaux de transmission et de redistribution des revenus dans un contexte de croissance inclusive et de lutte contre la pauvreté.

7- Dans ce contexte, le réengagement de ses partenaires au développement a été très salubre pour jeter les bases de la reconstruction du pays. Il s'agit, entre autres, de la Banque Mondiale, du Fonds Monétaire International (FMI), de l'Union Européenne, de l'Union Africaine, de la Banque africaine de développement (BAD), de la Communauté Économique et Monétaire des États de l'Afrique Centrale (CEEAC), de la Communauté Économique des États de l'Afrique Centrale (CEMAC), de la Mission multidimensionnelle intégrée des Nations Unies pour la stabilisation en Centrafrique (MINUSCA), de la Banque de Développement des États de l'Afrique Centrale (BDEAC), et de tous les partenaires bilatéraux dont l'appui a permis d'amorcer la reconstruction du pays par le biais des programmes et projets que le gouvernement a conduits avec satisfaction.

8- Toutefois, face à la persistance des défis majeurs à relever, le Gouvernement est fermement décidé à poursuivre sa politique de réconciliation nationale et de paix sociale, consolider la sécurité notamment par la démobilisation et la réinsertion des ex-combattants dans l'économie et la société, et de mettre en œuvre un programme de réformes administratives, économiques et financières, en vue d'assurer la relance économique et réduire la pauvreté. Ces réformes visent à améliorer les capacités humaines et administratives à travers le redéploiement de l'administration, à promouvoir la transparence et la redevabilité, et à consolider la gestion budgétaire de base, notamment à travers l'accroissement des recettes fiscales et la maîtrise des dépenses publiques. Elles conduiront dans le même temps à une hausse des dépenses dans les secteurs prioritaires dans un contexte de retour à la viabilité extérieure ainsi qu'à la relance de l'économie, notamment à travers l'amélioration de la compétitivité extérieure.

9- La situation sécuritaire demeure complexe mais pourrait s'améliorer progressivement suite au processus de sécurisation du pays mis en place par le Gouvernement, lequel a bénéficié, pour la circonstance, de l'appui de la communauté internationale. Par ailleurs, le Gouvernement a entrepris des actions sous plusieurs formes visant la déescalade de la situation socio-politique du pays. Il s'agit, entre autres, de la signature des accords de désarmement avec les ex-combattants et la mise en place du programme national de Désarmement, Démobilisation, Rapatriement et Réinsertion (DDRR), la mise en place de la Cour Pénale Spéciale, le déploiement progressif des autorités administratives et locales dans les villes de province, et le recrutement des gendarmes et policiers. Cette synergie devrait, une fois de plus, déboucher sur les bases de la pacification des principales zones de conflits, et le rétablissement de la sécurité sur une grande partie du territoire.



10- Les acquis de la stabilisation sécuritaire et politique ainsi que la reprise des activités économiques enregistrée en 2015 ont permis au Gouvernement d'obtenir auprès du FMI une Facilité Elargie de Crédit (FEC) le 20 juillet 2016. Cet accord triennal qui vient en appui aux politiques et réformes structurelles de l'économie nationale vise la consolidation de la stabilité macroéconomique ainsi que la création des conditions d'une croissance durable et inclusive.

11- L'organisation des missions de revue du programme avec le FMI, en étroite collaboration avec la Banque mondiale et les autres partenaires techniques et financiers, a permis de procéder à l'identification des mesures visant à renforcer l'accroissement de la mobilisation des recettes internes dont l'évolution alégalement dévié de la trajectoire définie en raison des conjonctures pesant sur la performance des régies financières. Dans ce contexte, de nouvelles mesures basées sur d'autres niches de recettes ont été identifiées. La mise en œuvre de ces nouvelles mesures devrait permettre de renverser les tendances observées. Toutefois, malgré l'insuffisance des recettes au regard du critère convenu, elles se sont accrues à 9% du PIB en 2017, alors qu'elles n'atteignaient que 5% en 2014. La troisième revue du programme du Gouvernement soutenu par la FEC vient de s'achever et a été approuvée par le Conseil d'Administration du FMI le 15 décembre 2017. La quatrième revue du programme est prévue au courant du premier semestre 2018 et les dispositions sont prises pour assurer la mise en œuvre des réformes requises pour le succès de ce programme.

II. PRINCIPAUX RESULTATS DU PROGRAMME

12- Le Gouvernement avait signé avec la Banque Mondiale en décembre 2016, un accord d'appui budgétaire pour la mise en œuvre de son Programme d'appui à la consolidation de l'Etat (PACE) qui vise, en lien avec ses priorités stratégiques, le rétablissement de la gestion budgétaire de base et de la transparence d'une part, et la relance économique d'autre part. Le PACE est un appui programmatique exécuté sur deux ans, notamment le PACE1 en 2016 et le PACE2 en 2018. L'opération a pour objectif d'appuyer le rétablissement de la gestion budgétaire de base et la transparence, et la relance économique. Il avait à cet effet sollicité et obtenu de la Banque mondiale le premier décaissement du programme après avoir satisfait toutes les mesures de la première année du programme (PACE1). Ces mesures, dites actions préalables, sont liées à plusieurs secteurs d'activités réparties dans deux piliers, à savoir restaurer la gestion budgétaire de base, et soutenir la reprise économique.

13- Dans le premier pilier ayant pour objectifs le rétablissement de la gestion budgétaire de base et la transparence, des mesures visant l'augmentation des revenus, l'amélioration de la gestion de la masse salariale, ainsi que l'amélioration de la transparence du contrôle budgétaire, ont été satisfaites. Il s'agit de :

- La publication des exonérations sur le site du MFB et adoption du décret relatif à la détermination des prix des produits pétroliers ;
- L'adoption par le Ministre des Finances et du Budget d'un arrêté portant révision du calendrier du traitement mensuel des salaires des fonctionnaires et agents de l'Etat et transmission de la déclaration des mouvements de fonctionnaires et agents de l'Etat ainsi que tous les documents à la Direction Générale du Trésor ;
- L'adoption d'un arrêté portant révision du calendrier de traitement mensuel des salaires des fonctionnaires et agents de l'Etat, civils et militaires, y compris la transmission de la déclaration des mouvements des fonctionnaires et agents de l'Etat, et tous les documents à la Direction Générale du Trésor et de la Comptabilité Publique ;



- La signature d'un arrêté portant adoption de la nomenclature des pièces justificatives des dépenses publiques en conformité avec la loi organique relative aux lois de finances de juillet 2006 et le code des marchés publics de juin 2008 ; et
 - La soumission par le Directeur Général du Trésor de la balance provisoire de 2015 et du 1^{er} semestre 2016 au Ministre des Finances et du Budget.
- 14- Dans le cadre du deuxième pilier, appui à la relance économique, avec pour objectif le rétablissement de la relance économique, deux mesures ont été également satisfaites. Il s'agit de :
- L'adoption par arrêté du Ministre en charge de l'équipement et des transports du manuel d'opération du Fonds d'Entretien Routier (FER) définissant notamment la programmation des travaux d'entretien (en régie ou à l'entreprise) ; la définition des travaux routiers éligibles au financement du FER ; et la formalisation des relations contractuelles entre l'Office National du Matériel (ONM), le Ministère et le FER ;
 - L'adoption des textes portant sur l'opérationnalisation de la loi sur les semences (Loi 15.001 du 19 janvier 2015) : (a) le décret portant approbation des statuts de l'Office National des Semences (ONASEM) ; et (b) l'arrêté interministériel par les ministres en charge de l'agriculture, du développement rural, de l'élevage et la santé animale, de l'environnement, du développement durable, de l'eau, des forêts, de la chasse et la pêche, portant création du corps des inspecteurs et contrôleurs des semences au sein de l'ONASEM.
- 15- Ces réformes ont été traduites dans un certain nombre de résultats :
- Au titre de la composante 1, les recettes ont atteint un taux de 9.1% en fin 2017, comparé à un objectif dans le PACE de 8.1%. Ce niveau est toutefois inférieur aux niveaux recherchés et les autorités s'engagent à poursuivre les réformes et actions pour améliorer les recettes. En matière de dépenses, le taux de dépenses effectuées selon des procédures exceptionnelles est passé à 24% en fin d'année 2017 comparé à 80% en 2015 et un objectif dans le PACE de 25%. Cependant, ce niveau demeure encore trop élevé et les autorités poursuivent leurs efforts pour le réduire à un niveau encore plus faible. En matière de contrôle des dépenses salariales, avec l'opérationnalisation de GIRAFE, 100% des dépenses sont maintenant contrôlés par l'ACCT, et les autorités entendent maintenir ce taux de contrôle. Pour les efforts en matière de transparence, les autorités ont publié huit documents budgétaires comparés à une cible de sept. De plus, les autorités ont continué à mettre à la disposition du public un grand nombre de documents portant sur les finances publiques. Les autorités ont également transmis la loi de règlement 2015 à l'Assemblée Nationale en 2017 et toutes les dispositions sont prises pour transférer la loi de règlement 2016-2017 au courant de l'année 2018. Ces efforts seront maintenus durant le restant du programme et les autorités vont notamment informer davantage le public de la répartition des ressources humaines.
 - Au titre de la composante 2, les programmes de maintenance 2017 et 2018 ont été adoptés et mis en œuvre en conformité avec le nouveau manuel. Dans le secteur forestier, les actions des autorités ont permis de faire évoluer le nombre de concessions actives de 5 à 11. Les actions ont également permis de renforcer la mobilisation des recettes dans le secteur et en même temps de fluidifier les exportations. Dans l'agriculture, les autorités ont pris des mesures pour opérationnaliser l'ONASEM et pour accroître la disponibilité des semences. Les mesures récentes devront permettre d'accroître significativement l'importation d'intrants agricoles.



16- Afin de consolider les réformes engagées dans le cadre du PACE1, des mesures sont soutenues dans le cadre du PACE2. Les mesures ont été exécutées au courant de l'année 2017-2018 en raison du retard que leurs mises en œuvre ont connu. Ainsi, un total de onze déclencheurs ont été réalisés dont six dans le cadre du premier pilier et cinq dans le cadre du deuxième pilier :

Pilier I du PACE2 - Rétablir la gestion budgétaire de base et la transparence

- Signature du décret portant création et composition du Comité interministériel de gestion des franchises, des exonérations fiscales, douanières, et de leurs conditions d'octroi ;
 - Signature par le Ministre des Finances et du Budget d'un arrêté introduisant une approche basée sur la gestion des risques et instaurant des contrôles trimestriels des régies financières et régies des recettes et d'avances par l'Inspection générale des finances (IGF), imposant que les principaux postes des régies financières et régies des recettes et d'avances soient identifiés et au minimum contrôlés une fois par année fiscale ;
 - Signature par le Ministre des Finances et du Budget d'un arrêté portant sur l'opérationnalisation de GIRAFE ;
 - Adoption par le Ministre des Finances et du Budget du manuel de procédure de la dépense en conformité avec la loi organique des finances de juillet 2006 et du code de passation de marchés de juin 2008 ;
 - La publication sur le site du Ministère des Finances et du Budget, (i) du projet de loi des finances (LF) 2018 ; (ii) de la LF 2017 promulguée ; (iii) d'un budget citoyen de la LF 2017 promulguée ; (iv) du rapport d'exécution du budget pour 2016 ; (v) du rapport d'exécution du budget du premier trimestre 2017 ; (vi) du rapport d'exécution du budget du premier semestre 2017 ; et (vii) du rapport d'exécution du troisième trimestre 2017 ;
 - La transmission du projet de loi de règlement 2015 à l'Assemblée Nationale.
- 17- Ces actions obéissent, pour le gouvernement, à l'obligation de transparence et de redevabilité vis-à-vis de la population.

Pilier 2 du PACE2 - Appui à la relance économique :

- Réalisation d'un audit du fonds d'entretien routier, incluant un état des lieux et un plan d'apurement des dettes entre le FER et l'ONM ;
- Adoption d'un arrêté interministériel par les Ministres en charge de l'agriculture, du développement rural et de l'élevage portant sur l'importation et la distribution, ainsi que des modalités temporaires relatives aux intrants (engrais, produits phytosanitaires et produits vétérinaires) ;
- Adoption de la mercuriale des prix par les autorités qui ont également pris des mesures pour activer des concessions non-actives, adopté un mécanisme de vérification de l'exportation du bois, et réalisé une étude sur la situation fiscale des sociétés de l'industrie de bois en République Centrafricaine ;
- Adoption par le Ministre en charge des télécommunications d'une stratégie d'utilisation des recettes de la taxe d'accès universel sur les opérateurs pour : (a) étendre la couverture géographique des réseaux mobiles dans les zones rurales à faible potentiel de revenu ; et (b) promouvoir le développement de centres communautaires TIC dans des communautés rurales ciblées ;



- Transmission par le Gouvernement à l'Assemblée Nationale des amendements à la loi sur les communications électroniques visant à favoriser davantage la concurrence et la stabilité du climat des affaires pour l'essor d'une économie numérique inclusive.

III. EVOLUTIONS ECONOMIQUES RECENTES ET PERSPECTIVES A MOYEN TERME

18- La République Centrafricaine reste confrontée à d'énormes contraintes sécuritaires nées de la crise de 2013 qui avait induit une détérioration de la croissance économique de l'ordre de 36,7% suite aux destructions et pillages massifs des outils de production, des semences agricoles, ainsi qu'aux incessants déplacements massifs des populations, notamment en milieu agricole et rural. Dans le domaine des finances publiques, les recettes intérieures ont chuté de plus de moitié pendant que les échanges extérieurs (nets) se sont dégradés drastiquement.

19- La conjugaison des réformes menées a entraîné une reprise des activités économiques dont le taux de croissance est estimé, pour l'année 2017, à 4,3% contre 4,5% en 2016. L'inflation a, quant à elle, connu une baisse de 11,6% en 2014 à 4,5% en 2015 et devrait se situer à 4,1% en 2017. Sur le plan de l'exécution budgétaire, le taux de pression fiscale devrait atteindre 9% du PIB en 2017 contre 5%, 7% et 8% observés en 2014, 2015 et 2016 respectivement. Cette amélioration est liée au relèvement substantiel du niveau des recettes publiques dû à la détermination des autorités à poursuivre la mise en œuvre des réformes, en dépit du contexte sécuritaire particulièrement difficile. Les dépenses primaires ont été contenues à 9,2% du PIB en 2016 contre 10,1% l'année précédente, ce qui a permis de réduire le déficit primaire à environ 1% du PIB en 2016 contre 3% en 2015.

20- Les perspectives économiques pour le moyen terme se sont améliorées. Elles sont basées sur les hypothèses suivantes : (i) le rétablissement de la paix et de la sécurité sur toute l'étendue du territoire ; (ii) la poursuite du processus de réconciliation nationale et du redéploiement de l'administration ; et (iii) la mise en œuvre effective du processus deDDRR. La matérialisation de ces hypothèses se concrétise par la levée de l'embargo sur les exportations de diamants et la mise en œuvre de notre programme de réformes économiques, financières et administratives. La mise en œuvre d'une politique macroéconomique et budgétaire adéquate et de notre programme d'investissements publics permettraient au Gouvernement de : (i) restaurer la soutenabilité des finances publiques ; (ii) impulser la viabilité de la dette extérieure ; (iii) soutenir la compétitivité extérieure ainsi que l'élargissement des bases des activités économiques ; et (iv) créer les conditions d'une croissance soutenable et inclusive notamment à travers la prestation de services publics. Ce processus, appuyé par nos partenaires techniques et financiers, sera accompagné du renforcement des capacités de l'administration ainsi que la mise en œuvre de réformes des finances publiques et de la bonne gouvernance, notamment à travers une plus grande transparence et une meilleure redevabilité.

21- Ainsi, la croissance économique devrait se situer à 4,5% en moyenne sur la période 2017-2019. Le déficit du compte courant extérieur, estimé à 9% du PIB en 2017, devrait baisser à 8% en 2019 au vu des besoins importants de reconstruction, tandis que le besoin de financement progresserait de 1% du PIB à 2,2% sur la même période. Par ailleurs, en lien avec le contexte de stabilité des prix, l'inflation pourrait décélérer progressivement sous l'effet de l'augmentation de la production agro-pastorale, pour se situer en dessous de 3% à l'horizon 2020, conformément au critère de convergence de la CEMAC. En matière de politique budgétaires, nous entendons conduire une politique viable, tout en accumulant des réserves pour nous prémunir contre des chocs potentiels.



IV. REFORMES FINANCIERES ET ECONOMIQUES

Réformes financières

22- En vue d'améliorer notre gestion des finances publiques, nous mettons en œuvre un plan de réformes de 2016 à 2019 organisé autour de cinq axes : (i) revitaliser les recettes ; (ii) sécuriser et gérer la trésorerie de l'Etat ; (iii) débloquer et normaliser la gestion budgétaire ; (iv) rétablir une image comptable fidèle ; et (v) rétablir le crédit de l'Etat. Nous nous engageons à mettre en œuvre avec diligence ce plan de réformes.

23- Le Gouvernement entend mettre en œuvre une politique de rupture visant à combattre la corruption et la fraude sous toutes ses formes. Dans ce contexte, en plus des cadres de suivi et de concertation sur l'exécution budgétaire, notamment le Comité de Suivi et de Gestion des Finances Publiques (CSGFP) et le Comité de Trésorerie (CT) dans lesquels les Partenaires Techniques et Financiers sont représentés pour assurer une cogestion à la fois des ressources propres et des ressources issues des aides extérieures, le Gouvernement est déterminé à renforcer la bonne gouvernance et assurer une meilleure utilisation des ressources publiques. Cette volonté se traduit dans l'application stricte de la loi obligeant toute personne nommée au poste de ministre de soumettre une déclaration de son patrimoine avant sa prise de fonction.

24- La poursuite des réformes pour accroître la mobilisation des recettes est une priorité pour le Gouvernement. Avec des recettes budgétaires propres de seulement 9% du PIB, nous reconnaissons que la situation des finances publiques n'est pas viable car les recettes restent insuffisantes pour couvrir nos dépenses primaires et le service de la dette. Face à cette situation, nous allons mettre en œuvre les mesures identifiées dans notre plan d'actions préparé et adopté en 2016 et mis à jour en 2017. L'objectif des réformes est d'augmenter les recettes intérieures à 10% du PIB en 2019.

25- Les réformes à mettre en œuvre porteront sur :

- Le renforcement de la base taxable et la simplification des procédures. Plusieurs mesures entrent dans ce cadre. D'une part, nous allons améliorer la gestion de la TVA, y compris par l'interdiction de la retenue à la source de la TVA à titre de compensation des recettes de l'État. D'autre part, nous allons améliorer les bases de valorisation des exportations, un renforcement des contrôles et de la surveillance, notamment dans les filières bois et diamants, et la simplification des procédures et la réduction de la parafiscalité. Dans ce contexte nous comptons assurer : (i) la réforme de la mercuriale des prix dans le secteur forestier pour refléter les cours internationaux et assurer une valorisation adéquate des transactions commerciales et un contrôle renforcé des structures de coûts de revient et de transport pour une valorisation intérieure adéquate ; (ii) un meilleur recouvrement des taxes d'abattage et de reboisement et frais de concessions ; et (iii) la révision de la fiscalité dans la branche diamantifère, le renforcement du contrôle du système de distribution, la réduction de la fraude et l'amélioration du processus de certification.
- L'amélioration de l'administration fiscale et douanière. Nous poursuivrons la mise en œuvre des actions avec l'appui de nos partenaires techniques et financiers dont la Banque mondiale et le FMI pour renforcer l'administration fiscale et douanière, ainsi que la politique fiscale entre 2016 et 2018. A ce titre, les éléments-clé de la réforme porteront sur la révision des conventions bancaires pour assurer un meilleur recouvrement des recettes, la réalisation d'une étude pour identifier les menues recettes, la mise en place de la déclaration pré-remplie en matière de contribution immobilière, la révision des conventions portant mesures dérogatoires,



l'harmonisation du Code Général des Impôts par la mise en œuvre des directives CEMAC sur la TVA et les droits d'accise, le renforcement du contrôle sur l'IGU, le renforcement de la gestion des opérations fiscales des grandes entreprises, la mise en place du statut d'entreprise citoyenne, le recouvrement des arriérés et un meilleur rapprochement contribuables-administration publique. En arrière-plan de ces efforts, nous conduirons une informatisation intégrée des réseaux de la douane et des impôts, en commençant par le bureau de douane de Bêloko, ainsi que la liaison entre les bureaux de douane de Douala et Bangui. Enfin, nous allons accroître les contrôles menés par l'administration des régies.

- Une meilleure gestion des exonérations. Elle consiste en une application stricte des textes en vigueur, la mise en place de critères relatifs à l'octroi des exonérations, et une relecture de toutes les conventions actuelles. Nous allons également mettre en œuvre les recommandations faites dans l'étude sur la dépense fiscale dont : (i) la révision des dispositifs afférents aux dépenses fiscales du code général des impôts et dans les lois des finances et en particulier supprimer des lois de finance, l'autorisation réglementaire à tous détenteurs de l'autorité publique d'accorder une exonération ou une franchise de droits, impôts ou taxes ou de créer ou modifier un impôt, droit ou taxe fiscale ou parafiscale ; (ii) prendre une loi fixant les conditions d'octroi, la nature et la portée des exonérations des régimes dérogatoires à la législation fiscale et douanière ; (iv) adopter l'évaluation des dépenses fiscales ; et (v) publier les données et les analyses relatives aux dépenses fiscales.

26- Afin d'améliorer la gestion des finances publiques, les défis sont multiples. Aussi, nous engageons-nous : (i) à la discipline budgétaire ; (ii) au rétablissement et la normalisation de la chaîne de la dépense ; (iii) à la poursuite des efforts de maîtrise de masse salariale ; et (iv) à l'opérationnalisation de la fonction comptable. Le Gouvernement compte renforcer la gouvernance des finances publiques par le biais d'un retour aux procédures budgétaires normales.

27- Afin de répondre aux défis d'une gestion simple, robuste et transparente des crédits et deniers de l'Etat, des mesures préparatoires ont été prises. Nous avons rétabli le fonctionnement de GESCO. L'opérationnalisation de l'Agence Centrale Comptable du Trésor (ACCT) a été une étape fondamentale du processus de réforme des finances publiques pour assurer une plus grande transparence dans la gestion des dépenses publiques. Pour sécuriser et gérer la trésorerie de l'Etat et étendre progressivement le champ du Trésor, nous continuerons à mener une gestion de trésorerie rigoureuse afin de mettre en adéquation les ressources disponibles avec les dépenses prioritaires pour assurer une solide exécution du plan de gestion de trésorerie et éviter l'accumulation d'arriérés de paiements. Dans ce contexte, nous avons préparé un plan de trésorerie mensuel pour 2016 et 2017 et nous entendons poursuivre cela en 2018. Sa mise en œuvre sera suivie par le Comité de trésorerie qui continuera de se réunir mensuellement sous la présidence du Ministre des Finances et du Budget. Le renforcement de l'ACCT sera poursuivi pour gérer les aléas de trésorerie et des mesures seront prises pour améliorer l'exécution du plan de trésorerie pour couvrir les dépenses prioritaires et proscrire l'accumulation d'arriérés de paiements.

28- Les actions stratégiques porteront entre autres, sur la réforme de la fonction publique qui a permis de nettoyer le fichier des effectifs des fonctionnaires civils, gendarmes et policiers. Le gouvernement souhaite poursuivre les efforts en vue d'améliorer le contrôle de la masse salariale. La maîtrise de celle-ci se fera à travers la poursuite du nettoyage du fichier de la solde et de la fonction publique ainsi que d'autres actions telles que le rapatriement des diplomates en doublon dans les missions diplomatiques et la mise à la retraite des FACA ayant atteint la limite d'âge. L'opérationnalisation de GIRAFE en fin d'année 2017 constitue également une étape importante pour améliorer la gestion des ressources humaines et pour assurer un meilleur contrôle de la



masse salariale. Les gains nets de ces actions sur la masse salariale permettront d'accroître les dépenses prioritaires en matière de biens et services, transferts et subventions (5% du PIB) ainsi que les dépenses en capital financées sur ressources.

29- Le gouvernement entend poursuivre et accélérer la mise en œuvre des mesures visant à renforcer la gestion des finances publiques. Ces mesures couvrant la période 2016-18, sont organisées autour de quatre objectifs prioritaires : (i) sécuriser et gérer la trésorerie de l'Etat pour étendre progressivement le champ du Trésor ; (ii) débloquer et normaliser la gestion budgétaire en vue de ramener progressivement à 5% le montant des dépenses dérogatoires; (iii) rétablir une image comptable fidèle sur la totalité du budget général et des budgets annexes ; et (iv) rétablir la crédibilité de l'Etat en luttant contre la fraude et en rétablissant la confiance des créanciers. Les principales actions identifiées pour améliorer le contrôle et la transparence dans l'exécution du budget sont décrites ci-après :

- Exécuter le budget dans le strict respect des règles et procédures et atteindre un taux d'utilisation de procédures de dépenses exceptionnelles de moins que 5% et un taux de passation de marchés en entente directe de moins que 20%. Dans ce contexte, un inventaire et un audit des caisses d'avances et des régies (d'avances et mixtes) en vue de leur rationalisation sera réalisé ainsi qu'un audit des marchés publics. Des bases de données sur les marchés publics et des archives seront également mises en place.
- Préparer les comptes administratifs, les comptes de gestion et les projets de loi de règlements 2016 et 2017 et les transmettre à l'Assemblée Nationale avant le mois de septembre 2018.
- Produire et publier des rapports d'exécutions budgétaires trimestriels, semestriels et annuels.
- Poursuivre les efforts pour rendre plus transparents la gestion des finances publiques notamment à travers la publication des projets de loi des finances au moment de leurs soumissions à l'Assemblée Nationale, et des lois de règlements. Un débat d'orientation budgétaire préalable au dépôt du budget devant l'Assemblée sera organisé en 2018. La production et publication de budgets citoyens se poursuivra également. Les autorités s'engagent également à poursuivre les efforts de transparence dans le cadre des marchés publics (publication de tous les appels d'offres, des attributions et notifications de marchés et des éventuels contentieux). Le Gouvernement poursuivra également les réformes afin d'améliorer la qualité de la documentation budgétaire transmise à l'Assemblée nationale notamment en introduisant des annexes sur la répartition de la solde et des effectifs de l'administration, sur la mise en œuvre du plan d'apurement des arriérés intérieurs et sur la dette, sur les exonérations et sur le cadrage macroéconomique. Le Gouvernement mettra également en œuvre des réformes en vue d'améliorer la classification budgétaire et comptable.
- Les autorités s'engagent à poursuivre la transposition dans la législation nationale, les directives portant sur la gestion harmonisée des finances publiques de la CEMAC au courant de l'année 2018.
- Le gouvernement s'engage à passer les écritures comptables de manière systématique afin que la balance des comptes, éditée par le système GESCO, et les balances seront produites tous les mois. Toutes les mesures nécessaires seront prises pour assurer le bon fonctionnement de GESCO et pour assurer une transition ordonnée vers un nouveau système de gestion budgétaire et comptable. La balance générale d'entrée de chaque année suivante sera également produite. Progressivement, la couverture des restitutions comptables sera élargie pour produire en 2018-2019 la balance générale de qualité couvrant l'intégralité du budget général et les budgets annexes en 2018.
- Il entend également (i) sécuriser et renforcer la gestion du Trésor à travers l'extension de l'envergure des opérations de l'Etat et l'identification de tous les comptes bancaires de l'Etat



dans les banques commerciales ; (ii) rétablir la chaîne des dépenses ; (iii) respecter un strict contingentement du recours aux procédures exceptionnelles (ordres de paiement budget et ordres de paiement caisse) à hauteur de 5% maximum des dépenses globales hors salaires ; (iv) rétablir les procédures normales de dépenses budgétaires (engagement/liquidation/ordonnancement /paiement), avec notamment un Compte unique du Trésor renforcé (pour inclure toutes les recettes recouvrées par les ministères sectoriels, les banques commerciales, les organismes publics et le secteur de la distribution des produits pétroliers) et une ACCT renforcée. A cette fin, l'ouverture de nouveaux comptes du Trésor dans les banques commerciales sera interdite, à l'exception des comptes entrant dans le cadre de conventions et des comptes liés aux projets. Nous allons consolider le compte unique du trésor en clôturant tous les comptes de l'État auprès des banques commerciales, à l'exception des comptes liés aux projets tout en préservant la stabilité du système bancaire. Enfin, des mesures seront prises pour améliorer le processus de préparation budgétaire et de s'assurer que le budget sera préparé dans les délais constitutionnels dès le Projet de loi de finances 2019.

- L'ACCT entamera une campagne d'information pour expliquer la réforme aux ordonnateurs et agents comptables. Elle produira un rapport mensuel de tous les manquements constatés quant au non-prélèvement d'office par les banques des comptes de recettes. Par ailleurs, elle aura un accès garanti aux informations et relevés de tous les comptes du trésor dans les banques commerciales. L'ACCT va établir des balances provisoires trimestrielles, effectuer à cette occasion les régularisations nécessaires. Elle effectuera également des réconciliations bancaires trimestrielles. Les comptes administratifs trimestriels (coopération entre administrateur de crédit, directeur du budget et ACCT) seront également établis. Un audit de gestion de l'ACCT sortant sera aussi réalisé et un nouvel ACCT et Fondé de pouvoir seront recrutés en 2018.
- Les autorités compétentes assureront systématiquement un rapprochement du fichier solde/fonction publique en vue de garantir l'intégrité des fichiers et réduire les écarts et délais en les actes de gestion et leur prise en solde et réaliseront un audit de la solde.

30- L'apurement des arriérés de paiements intérieurs est au centre de notre programme d'assainissement des finances publiques, et de rétablissement de la confiance des créanciers. Suite à un audit externe de ces arriérés en novembre dernier, le gouvernement a adopté un plan d'apurement définissant la stratégie de règlement à chaque catégorie d'arriérés (arriérés sociaux, commerciaux et envers le système bancaire). Ainsi, il a signé une convention de consolidation des engagements dus au titre des crédits consolidés et impayés vis-à-vis de la BEAC, portant sur un montant d'arriérés de 55 milliards de francs CFA. Nous comptons explorer, en collaboration avec les services du FMI et de la Banque mondiale, la possibilité de titrisation de ces créances bancaires. Nous comptons également procéder à une évaluation des crédits de TVA afin de préparer un plan de règlement et éliminer tout recours à des opérations de compensation.

31- Nous allons renforcer la gestion de la dette. L'analyse de la viabilité de la dette extérieure classe la République Centrafricaine comme pays à haut risque de surendettement. Pour pallier le risque de surendettement de la dette extérieure engendré par l'effondrement des recettes fiscales et des exportations, le gouvernement cherchera à mobiliser des financements en priorité sous forme de dons et, en consultation avec les services du FMI, à travers des prêts concessionnels ayant un élément don de 50 pourcents. Il poursuivra également des efforts pour améliorer la gestion de la dette publique. Enfin, le gouvernement s'engage à ne contracter de nouveaux prêts que sur la décision unique du Ministre en charge des Finances.

Relance économique



32- La République Centrafricaine vient de sortir de la phase d'urgence et doit s'orienter sur la voie de la reconstruction de son économie. A cet effet, elle fait le choix de définir et mettre en œuvre des stratégies de développement sur la base de ses potentiels économiques. De ce point de vue, conformément la vision des autorités de faire de la République Centrafricaine un pays apaisé qui poursuit le dialogue national de réconciliation et initie un processus de relèvement et de développement durable, le gouvernement a adopté le Plan National de Relèvement et de Consolidation de la Paix pour la République Centrafricaine (RCPCA) permettant d'articuler ses interventions avec celles de ses partenaires pour les cinq prochaines années. Après avoir mis en place le cadre institutionnel du RCPCA, le gouvernement s'attèle à affiner le cadre de gestion des investissements publics en vue de faciliter la mise en œuvre des différents projets de développement inscrits dans sa stratégie de relèvement. A ce titre, le défi à relever est de créer simultanément un climat des affaires favorable au secteur privé. Les politiques devront favoriser une croissance soutenue, durable, inclusive et créatrice d'emploi, particulièrement pour les jeunes et les défavorisés. Pour cela, quatre principes guideront la mise en œuvre du RCPCA, notamment une démarche axée sur les pôles régionaux de croissance, l'intégration et la diversification économiques, le développement des activités à forte intensité de main-d'œuvre, et la résilience sociale de la population.

33- Afin de saisir l'occasion de la reprise économique, des réformes sont nécessaires pour stimuler la croissance et promouvoir la formalisation dans les secteurs à forte intensité d'emploi tels que l'agriculture, en particulier les secteurs du coton et de l'exploitation forestière. De nouveaux emplois avec un potentiel évident pour générer des revenus permettront d'offrir à de jeunes travailleurs, et en particulier les anciens combattants et victimes de violence, une occasion de progrès économique par des moyens pacifiques, qui diminuera les incitations à chercher des revenus de la criminalité et des conflits. A l'inverse, un échec à créer suffisamment d'emplois afin d'accueillir les nouveaux employés pourrait compromettre la stabilité sociale et politique et encourager un retour à la violence. Dans le même temps, la relance de l'agriculture et du secteur forestier dépendra de l'investissement dans le secteur des transports, en particulier l'entretien des routes secondaires et rurales qui sont essentielles pour relier les producteurs aux marchés. Un dernier aspect pour améliorer le potentiel de croissance consiste à développer le secteur des Technologies de l'Information et de la Communication (TIC) afin de permettre une plus grande connectivité- en particulier, l'accès aux données voix, texte, et les paiements mobiles, à travers le pays et à l'étranger.

34- Pilier fondamental de l'économie centrafricaine, le secteur agro-pastoral représente près de 50% du PIB et plus de 70% des emplois. Ce secteur, fragilisé lors de la crise de 2013 suite aux incessants pillages et destructions des outils de production à tous les niveaux, y compris chez les agriculteurs, représente ainsi un défi crucial à relever. La productivité marginale est faible et a essentiellement stagné au fil du temps. Les systèmes agricoles, qui sont pour la plupart du temps de petite taille, sont toujours principalement orientés vers la subsistance et dépendent largement des aléas climatiques. Le potentiel d'irrigation du pays reste largement sous-développé. La plupart des agriculteurs produisent principalement des cultures vivrières à l'aide de méthodes traditionnelles. L'agriculture commerciale est une composante marginale du secteur, et l'utilisation de technologies modernes ainsi que d'intrants améliorés est très limitée. Les institutions publiques et privées, éléments décisifs pour soutenir un secteur agricole solide, sont soit faibles, soit absentes.

35- De nombreuses années de sous-financement et d'instabilité politique ont érodé les services de recherche et de vulgarisation agricoles du pays. Nombre de producteurs manquent de connaissances techniques ; de plus, la taille et la portée réduites des marchés agricoles et des systèmes de distribution d'intrants limitent la disponibilité des semences de haute qualité et



d'engrais, d'espèces animales améliorées, des consommables vétérinaires, des outils et de l'équipement agricole. Les autorités ont adopté une loi sur les semences en 2015, dont les décrets d'application ont été signés en 2016. Les efforts pour opérationnaliser les institutions prévues par cette loi sont en cours. En outre, la capacité des producteurs à acquérir des intrants améliorés ou à investir dans le capital physique est compromise par un accès insuffisant au crédit, la République Centrafricaine présentant de graves déficiences en matière d'infrastructures financières rurales. L'accès aux marchés extérieurs est également sous-développé en raison du coût élevé du transport des produits sur des voies rurales en mauvais état et en déficit d'entretien. Cet état de fait réduit les débouchés et la compétitivité des producteurs et, ce faisant, obère les initiatives pouvant viser une augmentation et/ou diversification des productions agricoles.

36- A cet effet, la réponse gouvernementale se traduit par la définition d'une stratégie à quatre axes : (i) relancer durablement le secteur agro-pastoral et le développement économique ; (ii) faire de l'agriculture un facteur de réconciliation nationale ; (iii) accroître l'insertion professionnelle des jeunes pour la modernisation de l'agriculture ; et (iv) améliorer la gouvernance et la compétitivité de l'agriculture.

37- Le secteur forestier est entré dans la phase de la réglementation avec l'adoption d'une loi créant le Code forestier en octobre 2010 afin d'en encadrer l'exploitation. Pour assurer une transparence dans la filière, les autorités ont convenu d'une stratégie de mise en œuvre du processus *Forest Law Enforcement, Governance and Trade (FLEGT)*¹ développé par l'Union Européenne en signant un Accord de Partenariat Volontaire avec cette institution en 2010. Mais cette mise en œuvre a connu un retard en raison de la crise de 2013 qui avait grandement affecté la filière, exacerbant les difficultés auxquelles elle était confrontée telle que la faible transformation du bois à hauteur de 70% prévue par le Code. Il y a une demande importante pour les produits en bois tropicaux sur les marchés internationaux, et le bois de la République Centrafricaine reste compétitif malgré les frais élevés de transport. Avant la crise de 2013 le secteur forestier représentait plus de 6% du PIB, soit environ la moitié du total des exportations et environ 10% des revenus de l'Etat. Le secteur est également un créateur d'emploi important, surtout dans les provinces. Avant la crise, le secteur représentait environ 4 000 emplois directs et 6 000 emplois indirects. Dans le cadre de partage des avantages, les entreprises forestières ont été tenues de payer les collectivités locales à concurrence de FCFA 1 milliard par année. La République Centrafricaine a signé un accord de partenariat volontaire, FLEGT, avec l'UE et fait des progrès dans la lutte contre l'exploitation forestière illégale. Le secteur forestier a un cadre juridique et réglementaire très fort et respecte les standards internationaux. Enfin, le pays a participé activement à des systèmes internationaux de certification et des efforts multilatéraux de lutte contre le changement climatique.

38- En dépit de ces mesures positives, la crise a largement stoppé l'activité dans le secteur forestier. Presque toutes les entreprises forestières ont suspendu leurs opérations, et la plupart ont subi d'importants dommages. Le réseau routier forestier a, par exemple, été fortement dégradé et les entreprises forestières n'ont pas toujours les moyens nécessaires pour le remettre en état. Des problèmes d'arriérés de taxes freinent le développement du secteur. Des mesures prises ont permis de faire passer de 5 à 11 les sociétés actives d'exploitation forestière. Ceci est un progrès important dans un secteur clé pour l'économie mais reste insuffisant comparé à la situation avant la crise où 14 sociétés étaient actives. La recherche de solutions concernant les arriérés de taxes et la réattribution sous conditions transparentes de concessions inactives à des

¹Le FLEGT est l'acronyme de l'application des lois forestières, gouvernance et échanges commerciaux. Le Plan d'action FLEGT de l'UE a été créé en 2003. Il vise à réduire l'exploitation illégale par le renforcement de la gestion forestière durable et juridique, l'amélioration de la gouvernance et de la promotion du commerce des bois produit légalement.



nouveaux investisseurs seront donc déterminants pour l'évolution positive de ce secteur dans l'avenir.

39- Tout aussi important pour les secteurs agricole et forestier est un réseau routier bien entretenu qui assure la connectivité et la mobilité entre zones rurales et urbaines. Le réseau routier en République Centrafricaine est à la base du système de transport du pays. Sur 24 137 km de routes nationales, régionales et rurales, seulement 3,5% (855 km) sont bitumées. Environ 80% du commerce international passe par le corridor Douala-Bangui, qui n'est pas encore entièrement bitumé, et où les lourdes barrières administratives, officielles et informelles, contribuent à de longs retards et à élever les coûts de transport. Les 15 500 kilomètres de réseau routier rural sont non seulement insuffisants, mais souffrent aussi d'une insuffisance d'entretien. La mauvaise qualité de la route affecte particulièrement les populations rurales, tout comme elle limite leur accès aux marchés et aux services essentiels, comme les écoles et les établissements de santé. Depuis le début de la crise, l'entretien des routes a été limité à quelques districts autour de Bangui où les conditions de sécurité demeurent relativement stables. L'entretien insuffisant a été principalement causé par un niveau insuffisant de ressources et les questions de gouvernance dans le fonctionnement du Fonds d'entretien routier (FER) et de l'Office National du Matériel (ONM).

40- Renforcer la gouvernance, le fonctionnement et la santé financière du FER et de l'ONM est impératif pour assurer un entretien efficace de notre réseau routier afin de rétablir une circulation fluide des marchandises et de la population ; *de facto*, cela devient une condition préalable à la reprise rapide de l'économie. Nos infrastructures et services de transport ont besoin d'investissements à grande échelle pour tendre vers la qualité et l'efficacité nécessaires à la relance de notre économie. Dans l'immédiat, la priorité du secteur est : (i) d'établir un système de programmation et d'exécution efficaces de l'entretien routier pour protéger l'infrastructure existante ; et (ii) d'assurer la durabilité des investissements futurs, notamment par un accroissement des ressources allouées à l'entretien des routes. Cela nécessite une amélioration significative de la gouvernance de l'entretien des routes en vue d'établir les conditions d'un entretien routier durable et efficace afin d'attirer les investissements nécessaires dans ce secteur.

41- Pour répondre à ces défis, le gouvernement entend prendre un nombre de mesures visant à relancer le secteur agricole, forestier et du transport. Ainsi, dans l'optique d'améliorer la gouvernance du secteur du transport, le gouvernement a adopté le manuel d'opération du Fonds d'Entretien Routier définissant notamment la programmation des travaux d'entretien (en régie ou à l'entreprise) ; la définition des travaux routiers éligibles au financement du FER ; et la formalisation des relations contractuelles entre l'ONM, le Ministère et le FER. En appui direct au secteur agricole, le gouvernement a adopté les textes portant sur l'opérationnalisation du Code Semencier. Pour cette mesure, il s'agit notamment du décret portant approbation des statuts de l'Office national des semences (ONASEM) et de l'arrêté interministériel portant création du corps des inspecteurs et contrôleurs des semences au sein de l'ONASEM.

42- En attendant l'adoption du code des intrants, le gouvernement a pris en 2017 un arrêté portant sur les modalités temporaires relatives à l'importation et à la distribution des intrants (les engrais, les produits phytosanitaires et les produits vétérinaires). Pour renforcer les réformes de gouvernance du secteur du transport, nous avons réalisé un audit du fonds d'entretien routier sur la période 2008-2015, incluant un état des lieux des dettes entre le FER et l'ONM et d'autres structures. Sur la base de cet état des lieux nous avons adopté un plan d'apurement des dites dettes. Le Gouvernement s'engage à mettre en œuvre le plan d'apurement sur la période 2018-2021. Le Gouvernement s'engage également à améliorer la gestion comptable, financière, administrative et technique du FER et à mettre en œuvre les recommandations de l'audit. L'audit



pour les années 2016 et 2017 seront également effectués. Afin de stimuler le développement du secteur forestier, le gouvernement a réalisé plusieurs audits et études techniques et financiers du secteur. Les autorités ont également adopté la mercuriale des prix, ont pris des mesures pour activer des concessions non-actives et ont adopté un mécanisme de vérification de l'exportation du bois.

43- Le secteur des TIC en République Centrafricaine est l'un des moins développés en Afrique subsaharienne (ASS) et ses indicateurs de qualité et de couverture se classent parmi les plus bas au monde. La République Centrafricaine est notée 0,2 sur une échelle de 0 à 1 de l'indice d'accès numérique (DAI) pris en compte par le Rapport sur le développement dans le monde (RDM) de la Banque mondiale de 2016, plaçant ainsi la République Centrafricaine parmi les 7 derniers pays les plus mal notés du rapport. Selon l'indice de développement des TIC (IDT) élaboré par l'Union internationale des télécommunications (UIT), la République Centrafricaine a été classée en 2014 à la 167^e place sur les 167 pays couverts par l'UIT, et n'a même pas pu être incluse dans l'indice 2015 en raison du manque de données disponibles. Elle se classe également dans les 5 derniers centiles des 193 pays pris en compte par l'étude bisannuelle sur l'e-gouvernement et l'e-participation réalisée par le Département des affaires économiques et sociales des Nations Unies (ONUDES) en 2014.

44- La République centrafricaine dispose d'un cadre juridique et réglementaire des technologies de l'information et de la communication (TIC) obsolète, et les institutions publiques chargées de régir le secteur n'ont pas la capacité de remplir leur mandat. La connectivité internationale limitée conduit à des prix élevés et une bande passante disponible insuffisante. Les services de téléphonie mobile dominent le secteur des TIC, mais les prix restent élevés et la qualité du service est médiocre. Le service national de téléphonie fixe souffre de graves défaillances techniques et financières. Malgré la forte concurrence qui existe entre les opérateurs du marché des télécommunications mobiles, la couverture reste très limitée, en particulier dans les zones rurales reculées. Cette situation est due à la fois à la faible rentabilité des services proposés dans un marché de faible consommation et à l'impact négatif de l'instabilité sécuritaire sur le développement et la maintenance des infrastructures.

45- Afin de promouvoir le développement du secteur des télécommunications, secteur dont le développement revêt une importance particulière et qui nécessite rapidement un accroissement du taux d'accès de la population aux réseaux, le gouvernement s'engage à mettre en œuvre des réformes visant sa promotion. Ainsi, le gouvernement a transmis des amendements de la loi sur les communications électroniques à l'Assemblée nationale afin de favoriser davantage la concurrence et la stabilité du climat des affaires pour l'essor d'une économie numérique plus inclusive. Les autorités ont également adopté une stratégie d'utilisation des recettes de la taxe d'accès universel. Les autorités s'engagent à poursuivre les réformes du secteur pour le rendre plus performant. Ainsi, les décrets d'applications de la loi sur les communications électroniques seront pris au courant des années 2018 et 2019, et la stratégie d'utilisation des recettes de la taxe d'accès universel sera mise en œuvre.

V. CADRE INSTITUTIONNEL DE MISE EN OEUVRE DU PROGRAMME

46- La Cellule chargée du Suivi des Réformes Economiques et Financières (CS-REF), est l'organe permanent de coordination et de suivi des activités de réformes économiques et financières. Elle est créée par décret n°11.273 du 21 Octobre 2011 et placée sous le Comité Interministériel de Pilotage des Réformes Economiques et Financières (CIPREF), lui-même créé par Décret n°11.272 du 21 Octobre 2011, qui est un organe politique chargé de l'orientation et du pilotage des réformes. Elle a fait ses preuves dans la mise en œuvre et le suivi des programmes placés sous sa



responsabilité. Elle a vu ses capacités en ressources humaines renforcées suite à un arrêté du Ministre des Finances et du Budget pris en vue de pourvoir aux différents postes prévus dans le décret ci-dessus. Pour cet appui de la Banque mondiale, il est prévu la mise en place d'un dispositif technique pour le suivi et l'évaluation des différentes mesures définies dans le cadre du programme. Ce dispositif consiste en la désignation des responsables relevant des structures de mise en œuvre de ces mesures. Ces points focaux assureront le suivi de la mise en œuvre du PACE auprès de la CS-REF.



Simplice Mathieu SARANDJI



PRIME MINISTER'S OFFICE

CHIEF OF CABINET

No...../2017/PM/DIRCAB



CENTRAL AFRICAN REPUBLIC

Unity – Dignity – Work

Bangui,

Preamble

This letter of development policy follows up on the one from 2016. It reviews the implementation of commitments outlined in the previous letter and announces new measures the Government has taken in order to account for recent economic and security trends as well as recommendations from the Central African Republic's technical and financial partners.

The letter is based on the Government's program whose statement of general policy was approved by the National Assembly in June 2016 and on which the strategy of the "Plan for Recovery and Peacebuilding" (RPBA) was based.



I. INTRODUCTION

- 1- Thanks to efforts undertaken with support from technical and financial partners to mitigate the harmful effects of the 2013 crisis, progress has been made in restoring the administration, laying the groundwork for a viable economy, and restoring security in Bangui and other provinces.
- 2- The Central African Republic still faces major challenges. The Government and citizens remember the tremendous damage wrought by the 2013 crisis. The political and military crisis greatly destabilized an already fragile economy. In addition to the material damages and the many casualties, displaced persons and refugees, confidence in the country's economic future was shaken. With support from partners, the Government is doing everything possible to restore confidence and reignite the country's economic development.
- 3- Insecurity is the primary obstacle to restoring public services throughout the country, which is a prerequisite for the implementation of public policies. Security remains a challenge with some regions experiencing instability in recent months, which is why Government efforts focus on security and peace-keeping activities.
- 4- Conscious of the gravity of the situation and the emergency measures required, we have undertaken reforms in all Government sectors. We are implementing them through a medium- and long-term strategic approach that allows us to meet pressing needs. The reforms focus on:
 - Improving security and social cohesion;
 - Streamlining public finance management, which in addition to being necessary for the country is also needed to reassure partners of the Central African Republic, particularly those providing budget support;
 - Restoring and redeploying public services countrywide with effective and efficient control of payroll expenditures;
 - Creating a business climate more conducive to public and private investment, which will require adopting principles of good governance, particularly transparency in public finance management and a culture of accountability;
 - Accelerating economic recovery by implementing development policies in sectors with a high potential for inclusive economic growth, such as the agricultural sector, the extractive sector (initially) and the processing sector (secondarily), and the trade and market services sector;
 - Reducing poverty through social expenditures and by protecting the purchasing power of citizens.
- 5- The Central African Republic cannot cover the considerable costs of implementing these development policies on its own. We have requested and received support from technical and financial partners, including budget support. The country has also received grants and taken out loans in order to implement structuring projects.

II. CONTEXT

- 6- Elections and the reestablishment of political institutions marked the end of the crisis. The Government, with support from development partners, began drawing up the five-year National Recovery and Peace Building Plan (RCPCA), which served as a framework for



negotiations at the conference in Brussels on November 17, 2016. Technical and financial partners at the conference pledged significant financial resources to the RCPCA's national economic development projects over the next three years. The RCPCA has three pillars: (1) peace, security, and reconciliation; (2) the social compact between the state and society; and (3) economic recovery and boosting productive sectors. The third pillar covers multiple sectors: agriculture, forestry, mining, transportation, telecommunications, services, and administrative reforms. These sectors are vectors of revenue transmission and redistribution in a context of inclusive growth and poverty reduction.

- 7- In this context, the return of development partners has been vital to laying the foundation for rebuilding the country. These include the World Bank, the International Monetary Fund (IMF), the European Union, the African Union, the African Development Bank (AfDB), the Central African Economic Community (CEEAC), the Central African Economic and Monetary Community (CEMAC), the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA), the Development Bank of Central African States (BDEAC), and all bilateral partners whose support has made possible the programs and projects the Government is implementing to rebuild the country.
- 8- The Government is determined to pursue its policy of national reconciliation and social peace, consolidate security through the demobilization of combatants and ensure their economic and social reinsertion, and implement a program of administrative, economic and financial reforms in order to foster economic recovery and poverty reduction. These reforms aim to improve human and administrative capacities through the redeployment of the public administration, promote transparency and accountability, and strengthen basic fiscal management by increasing tax revenue and controlling public expenditures. They will also lead to increased spending in priority sectors in a context of renewed external viability and economic viability, which will be spurred primarily by improved external competitiveness.
- 9- The security situation remains challenging, but should gradually improve thanks to the security operations the Government is implementing with support from the international community. In addition, the Government has taken multiple measures to diffuse socio-political tensions in the country. These include signing a disarmament agreement with former combatants, implementing the Disarmament, Demobilization, Reintegration, and Repatriation Program (DDRR), setting up a Special Criminal Court, gradually redeploying administrative and local officials in cities and rural areas, and recruiting gendarmerie and police personnel. These combined efforts should lay the groundwork for diffusing tensions in the main zones of conflict and help to restore security throughout most of the country.
- 10- Improvements to the security and political situation as well as the resumption of economic activities in 2015, enabled the Government to conclude an Extended Credit Facility (ECF) with the IMF on July 20, 2016. This three-year agreement to support economic policies and structural reforms aims to strengthen macroeconomic stability and create the right conditions for sustainable and inclusive growth.
- 11- The IMF program review, which took place in close collaboration with the World Bank and other technical and financial partners, identified measures for increasing domestic revenues, which fell slightly short of targets due to problems encountered by revenue collection divisions. New measures designed to tap other sources of revenue were identified. Implementation of these new measures should improve the situation. However,



while revenues fell short of the targets, they still increased to 9% of GDP in 2017 versus only 5% in 2014. The third review of the Government program supported by the ECF was just completed and approved by the IMF Executive Board on December 15, 2017. The fourth review is scheduled for the first half of 2018, and the measures have been taken to ensure that the reforms needed for the program to succeed are implemented.

III. MAIN RESULTS OF THE PROGRAM

- 12- In December 2016, the Government signed a budget support agreement with the World Bank for the implementation of the State Consolidation Development Program (SCDP) (*Programme d'appui à la consolidation de l'Etat, PACE*), which aims to reestablish basic fiscal management and transparency, and to foster economic recovery. The SCDP is a programmatic series of two operations spanning two years: the SCDP 1 in 2016 and the SCDP 2 in 2018. The Government requested and obtained the disbursement of the first grant from the World Bank after having implemented all the measures required during the first year of the program (SCDP 1). These measures, or preliminary actions, covered multiple economic sectors and were divided into two pillars: basic fiscal management and economic recovery.
- 13- The first pillar's objectives to reestablish basic fiscal management and transparency, implement measures to increase fiscal revenues, improve payroll management, and increase transparency of budget control measures have been met. They include:
- Publication of exemptions on the website of the Ministry of Finance and Budget and adoption of the *Décret* relative to setting prices for oil products;
 - Adoption by the Ministry of Finance and Budget of an *Arrêté* that revises the monthly processing schedule of salaries of civil servants and state agents, as well as the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of the Treasury;
 - Adoption of an *Arrêté* that revises the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents, and all supporting documents to the Directorate General of Treasury and Public Accounting;
 - Adoption of an *Arrêté*, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008; and
 - Submission by the General Director of the Treasury of the 2015 trial balance and the trial balance for the 1st semester of 2016 to the Ministry of Finance and Budget.
- 14- Under the second pillar relative to economic recovery, two objectives have been met:
- Adoption via *Arrêté* by the Ministry in charge of equipment and transportation of an Operations Manual for the Road Maintenance Fund (RMF), which defines maintenance work programming (force account or sub-contracted), road maintenance work eligible for funding by the RMF, and formalizes the contractual relationships between the National Equipment Office (NEO), the Ministry, and the RMF.
 - Adoption of instruments to operationalize the Seeds Law (Law 15.001 of January 19, 2015), including: (i) a *Décret* approving the statutes of the National Seeds Office, and (ii) an *Arrêté interministeriel* adopted by the ministries in charge of agriculture, rural



development, animal health, the environment, sustainable development, water, forestry, hunting and fishing that creates the body of seeds inspectors and controllers of the National Seeds Office.

15- These reforms have resulted in the following achievements:

- Under component 1, revenues reached 9.1% of GDP in 2017 versus the SCDP objective of 8.1%. This remains below the target, and authorities are committed to pursuing reforms to increase revenues. Regarding expenditures, the rate of exceptional expenditures fell to 24% in 2017 from 80% in 2015, the SCDP objective being 25%. However, this rate remains too high and authorities are working to reduce it even further. With regard to payroll controls, with the operationalization of *GIRAFE*, 100% of expenditures will be controlled by ACCT, and authorities intend to sustain this level of control. Regarding transparency, eight budget documents have been published, whereas the objective was seven. Moreover, multiple public finance documents were made available to the public. The 2015 *Loi de Règlement* (2015 Settlement Law of the Finance Law) was submitted to Parliament in 2017, and all provisions are in place to transfer the 2016-2017 Settlement Law of the Finance Law to the year 2018. These efforts will be continued throughout the remainder of the program, and the public will be kept better informed of the allocation of human resources.
- Under component 2, the 2017 and 2018 maintenance programs have been adopted and implemented in conformity with the new manual. In the forestry sector, the number of active concessions has grown from 5 to 11. Tax collection in the sector has improved, and exports have risen. In agriculture, steps have been taken to operationalize the National Seeds Office to improve seed availability. Recent measures should make it possible to increase imports of agricultural inputs over the long term.

16- Measures under the SCDP2 aim to support reforms initiated during the SCDP1. The implementation of certain measures was delayed until 2017 or 2018. In total, eleven triggers were reached (six under the first pillar and five under the second pillar).

Pillar I of SCDP2 – Reestablish basic fiscal management and transparency

- Signature of the *Décret* on the creation and composition of the *interministeriel* committee for the management of franchises, tax and customs exemptions and their conditions of attribution;
- Signature by the Ministry of Finance and Budget of an *Arrêté* that institutes an approach based on risk management and quarterly controls by the General Inspectorate of Finance (GIF) of the main revenue collection and spending agencies, and which requires the main revenue collection and spending entities to be identified and controlled at least once per year;
- Signature by the Ministry of Finance and Budget of an *Arrêté* that operationalizes GIRAFE;
- Adoption by the Ministry of Finance and Budget of the manual of procedures of public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008;
- Publication on the website of the Ministry of Finance and Budget of (i) the draft 2018 Finance Law (*Projet de Loi des Finances*), (ii) the enacted 2017 Finance Law, (iii) a citizen's budget of the enacted 2017 Finance Law, (iv) the budget execution report for 2016, (v) the budget execution report for the 1st quarter 2017, (vi) the budget execution report for the 1st semester 2017, and (vii) the budget execution report for the 3rd quarter



2017;

- Submission of the 2015 Settlement Law of the Finance Law to the Parliament.

17- These measures reflect the Government's commitment to transparency and accountability for its citizens.

Pillar 2 of the SCDP2 – Support economic recovery:

- Audit the Road Maintenance Fund (RMF), including a stocktaking and a debt settlement plan for the RMF and the National Equipment Office (NEO);
- Adoption of an *Arrêté interministeriel* by the Ministers in charge of agriculture, rural development, and livestock defining temporary modalities on the import and distribution of agricultural inputs (fertilizer, phytosanitary products, veterinary products);
- Adoption of a price list by authorities, who have also taken steps to activate dormant concessions, adopted a system for certifying timber exports, and conducted a study on the tax situation of forestry firms in the Central African Republic;
- Adoption by the Minister in charge of telecommunications of a strategy for the use of revenues from the Universal Access levy on operators to (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities;
- The Government has submitted to the Parliament amendments to the electronic communications law that aim to promote competition and a stable business climate with a view to spur growth of an inclusive digital economy.

IV. RECENT ECONOMIC TRENDS AND MEDIUM-TERM OUTLOOK

18- The Central African Republic still faces major security challenges following the 2013 crisis. The crisis caused economic growth to decline by 36.7% due to the widespread destruction and looting of means of production and agricultural seed, as well the widespread population displacements, particularly in agricultural and rural regions. With regard to public finance, domestic revenues declined by more than half whereas external trade dropped dramatically.

19- The combined effects of multiple reforms have led to a resumption of economic activities, with the growth rate for 2017 estimated at 4.3% versus 4.5% in 2016. Inflation declined from 11.6% in 2014 to 4.5% in 2015 and should settle at 4.1% in 2017. The tax to GDP ratio was 9% in 2017 versus 5% in 2014, 7% in 2015, and 8% in 2016. This improvement stems from the significant increase in public revenues, which has been driven by the Government's determination to implement reforms despite ongoing security challenges. Primary expenditures were 9.2% of GDP in 2016 versus 10% in 2015, which lowered the primary deficit to around 1% of GDP in 2016 versus 3% in 2015.

20- Medium-term economic outlooks have improved and are based on the assumption that (i) peace and security will be reestablished throughout the country, (ii) implementation of the process of national reconciliation and redeployment of the administration will continue, and (iii) that the DDRR process will be effectively implemented. These assumptions appear even more valid given that the embargo on diamond exports has been lifted and given the ongoing implementation of the Government's program of economic, financial, and administrative reforms. The implementation of an adequate macroeconomic and fiscal policy as well as the public investment program should enable the Government to: (i)



restore the viability of public finances, (ii) improve the viability of the external debt, (iii) bolster external competitiveness and expand economic activities, and (iv) create conditions for sustainable and inclusive growth by providing public services. With support from technical and financial partners, this process will also involve strengthening administrative capacities and implementing reforms relative to public finances and good governance in order to improve transparency and accountability.

- 21- Average economic growth should reach 4.5% for the 2017-2019 period. Estimated at 9% of GDP in 2017, the external current account deficit should drop to 8% in 2019 given the significant reconstruction needs whereas the need for financing is projected to increase from 1% to 2.2% of GDP over the same period. In addition, in connection with the price stability situation, inflation should gradually slow due to increased agro-pastoral production, dropping below 3% by 2020, which meets the convergence criterion of the CEMAC. In terms of fiscal policy, the Government aims to implement a viable policy while at the same time accumulating reserves in order to withstand possible shocks in the future.

V. FINANCIAL AND ECONOMIC REFORMS

Financial reforms

- 22- A reform plan to improve public finance management is being implemented from 2016 to 2019. The plan has five components: (i) increase revenues; (ii) secure and manage the state treasury; (iii) streamline and standardize budget management; (iv) reestablish an accurate picture of accounts; and (v) reestablish Government lending. The Government is committed to implementing this reform plan.
- 23- The Government intends to implement a radically new policy to fight all forms of corruption and fraud. In addition to the monitoring and collaboration mechanisms for budget execution, including the Committee for the Monitoring and Management of Public Finances (CSGFP) and the Treasury Committee (CT) in which technical and financial partners are involved to ensure co-management of both own resources and resources from external aid, the Government is resolved to strengthen good governance and to improve the use of public resources. To this end, the Government will strictly enforce the law requiring any person nominated for a minister position to submit a declaration of assets prior to taking office.
- 24- Implementing reforms that aim to increase revenue collection is a priority for the Government. With tax revenues only accounting for 9% of GDP, public finances are not viable since revenues are inadequate to cover primary expenditures or debt repayments. Given this situation, the Government intends to implement the measures outlined in the action plan adopted in 2016 and revised in 2017. The objective of the reforms is to increase domestic revenues to 10% of GDP in 2019.
- 25- The reforms to be implemented will concern:
- Strengthening the tax base and simplifying procedures. This will involve several measures. The Government aims to improve management of value-added tax (VAT) by prohibiting VAT withholding as compensation for state taxes. It also aims to improve the valuation basis for exports, strengthen controls and oversight, particularly in the timber and diamond industries, simplify procedures and reign in parafiscal taxes. To this end, the Government intends to: (i) reform the official price list for forestry products, ensure the accurate valuation of business transactions, and increase control over production and transportation costs to ensure accurate



internal valuations; (ii) improve collection of tree felling and reforestation taxes and concession fees; and (iii) revise taxation for the diamond industry, strengthen control of the distribution system, reduce fraud, and improve the certification process.

Improving tax and customs administration. With support from our technical and financial partners, including the World Bank and the FMI, the Government continues to implement measures to strengthen tax and customs administration, as well as tax policy between 2016 and 2018. Key aspects of the reform include revising banking agreements to improve tax collections, identifying small tax revenues, establishing pre-filled in returns for property taxes, revising agreements on exceptional measures, harmonizing the Tax Code by implementing CEMAC directives concerning TVA and excise duties, strengthening the management of tax operations of large businesses, establishing a corporate citizen status, repaying arrears and closing the distance between tax payers and the public administration. In tandem with these efforts, the Government will undertake full digitization of customs and tax networks, starting with the customs office in Béloko, as well as establish a digital link between the customs offices of Douala and Bangui. Lastly, controls by the *administration des régions* (administration of regulatory authorities) will be increased.

Improving management of exemptions. This involves the strict enforcement of regulations in force, the establishment of criteria for the issuance of exemptions, and the revision of all current agreements. The recommendations from the study on tax expenditures will also be implemented, including: (i) revising provisions relative to tax expenditures in the Tax Code and in the finance laws, in particular eliminating the provision in finance laws that authorizes public authorities to grant exemptions or duty free status or to create or modify a tax, duty, or a fiscal or parafiscal tax; (ii) passing a law establishing criteria for exemptions and defining the nature and scope of exemptions under schemes that derogate from fiscal or customs law; (iii) adopting evaluation procedures for tax expenditures; and (v) publishing data and studies relative to tax expenditures.

26- Public finance management faces multiple challenges. The Government is committed to: (i) fiscal discipline; (ii) reestablishing and standardizing the expenditure chain; (iii) continuing efforts to control payroll; and (iv) operationalize the accounting function. The Government aims to strengthen governance of public finances by reestablishing normal budgetary procedures.

27- Preparatory measures were taken to meet the challenge of establishing simple, strong, and transparent management of state funds and loans. The GESCO is operational again. Operationalizing the Central Accounting Agency for the Treasury (CAAT) was a critical step in the process of reforming public finances to ensure greater transparency in public expenditure management. With a view to securing and managing the state treasury and gradually expanding the Treasury's scope, the Government will implement rigorous treasury management to ensure available resources are channeled to priority expenditures in order to achieve adequate execution of the treasury management plan and avoid the accumulation of arrears. A monthly treasury plan for 2016 and 2017 was produced, and this activity will continue in 2018. Its implementation will be monitored by the Treasury Committee, which will continue to meet monthly under the chairmanship of the Minister of Finance and Budget. The CAAT will continue to be strengthened in order to handle treasury risks and measures will be implemented to improve the execution of the treasury plan in order to cover priority expenditures and avoid the accumulation of arrears.



28- Strategic actions concern, among others, reforming public service, including cleaning up the list of civil servants and of gendarmerie and police personnel. The Government intends to continue efforts to improve control of payroll. This will be accomplished by continuing efforts to clean up the balance sheet and public service, as well as other actions such as the repatriation of redundant diplomats in diplomatic missions and retiring members of the armed forces who have reached the maximum age. The operationalization of GIRAFE in late 2017 was an important step toward improving human resources management and improving payroll control. The combined impacts of payroll measures will make it possible to increase priority expenditures in the area of goods and services and transfers and subsidies (5% of GDP), as well as domestically financed capital expenditures.

29- The Government intends to continue and accelerate the implementation of measures to strengthen public finance management. Covering the 2016-2018 period, these measures can be grouped into four priority objectives: (i) secure and manage the state treasury; (ii) streamline and standardize budget management with a view to reduce exceptional expenditures to 5%; (iii) reestablish an accurate picture of the general budget and subsidiary budgets; (iv) restore the credibility of the state by fighting fraud and regaining the trust of lenders. Below are the main measures that aim to improve control and transparency in budget execution:

Execute the budget in strict compliance with rules and procedures, and reduce the share of expenditures executed using exceptional procedures to less than 5% and the share of direct contracts in procurement to less than 20%. Cash funds and imprest accounts will be inventoried and audited with a view to being streamlined. Procurement will also be audited. Databases on procurement and archives will also be established.

Prepare administrative accounts, management accounts, and the 2016 and 2017 settlement laws to the finance laws, and submit them to Parliament before September 2018.

Produce and publish quarterly, semesterly, and annual budget execution reports.

Continue efforts to make public finance management more transparent by publishing draft finance laws (*projets de loi des finances*) when they are submitted to Parliament, as well as Settlement Laws of the Finance Law (*Lois de Règlement*). A debate on the general direction of the budget will be held in 2018 prior to its submission to Parliament. Citizen's budgets will also continue to be produced and published. Authorities are also committed to improving transparency in procurement (publishing all invitations for bids, contract notices and awards, as well as any disputes). The Government will also continue reforms to improve the quality of the budget documentation submitted to Parliament by adding annexes with information about the distribution of salaries and personnel in the public administration, the implementation of the plan to clear domestic arrears and pay the debt, exemptions, and the overall macroeconomic framework. The Government will also implement reforms to improve budget and accounting classification.

Authorities are committed to incorporating CEMAC directives on harmonized management of public finances into the country's laws in 2018.

The Government is also committed to using systematic accounting entries so that the trial balance, calculated with GESCO, and the account balance can be produced monthly. All necessary measures will be taken to ensure that GESCO operates smoothly and to ensure an orderly transition to the new budget and accounts management system. The total balance at the beginning of each new year will also be produced. The collection of accounting and management information produced by accounting entities will be broadened in order to



improve the quality of 2018-2019 general budget and its annexes in 2018.

The Government also intends to (i) secure and strengthen treasury management by expanding the scope of state operations and identifying all state accounts held by commercial banks, (ii) reestablish the expenditure chain, (iii) strictly limit recourse to exceptional procedures (budget and cash payment orders) to a maximum of 5% of overall expenditures excluding salaries; (iv) reestablish normal budget expenditure procedures (commitment/settlement/authorization/payment) by strengthening the Single Treasury Account (to include all revenues collected by line ministries, commercial banks, public agencies, and the oil products distribution sector and the CAAT). The opening of new Treasury accounts at commercial banks will be prohibited, the exception being accounts that fall under the framework of agreements or accounts linked to projects. The Single Treasury Account will be consolidated by closing all state accounts at commercial banks with the exception of accounts linked to projects while at the same time protecting the stability of the banking system. Lastly, measures will be taken to improve the budget preparation process and to ensure the budget will be prepared within constitutional deadlines starting from the 2019 Finance Law (*Projet de Loi de Finances*).

The CAAT will undertake an information campaign to explain the reform to all authorizing entities and accountants. It will produce a monthly report on all instances where banks fail to automatically draw-down off the revenue accounts. In addition, it will be guaranteed access to the accounting information and statements of all Treasury accounts at commercial banks. The CAAT will establish quarterly trial balances and then make the necessary changes. It will also perform bank reconciliations quarterly. Quarterly administrative accounts (cooperation between the credit administrator, budget director, and CAAT) will also be established. A management audit of the exiting CAAT will also be performed and a new CAAT and proxyholder will be appointed in 2018.

The competent authorities will carry out systematic comparisons of the payroll and the civil service files in order to ensure the integrity of the files and to reduce gaps and delays in the acts of management and will audit the payroll.

30- The clearance of domestic arrears is a key component of the program to consolidate public finances and to restore lenders' trust. Following an external audit of arrears in November, the Government adopted a clearance plan that sets forth a payment strategy for each category of arrears (social arrears, commercial arrears, arrears owed to the banking system). It signed a consolidation of commitments agreement on consolidated, unpaid loans from the BEAC in the amount CFAF 55 billion. In collaboration with the IMF and the World Bank, the possibility of securitizing these bank loans will be explored. VAT credits will also be evaluated with a view to prepare a settlement plan and to avoid clearing operations.

31- Debt management will be improved. A study on the viability of external debt classified the Central African Republic as a country with high risk of debt distress. The Government aims to mobilize financing primarily through grants and, in consultation with IMF offices, concessional debt with a grant element of 50% in order to reduce the risk of debt distress caused by the collapse of tax revenues and exports. It will also continue efforts to improve management of the public debt. Lastly, the Government is committed to take out new loans at the sole discretion of the Minister of Finance.



Economic recovery

- 32- The Central African Republic just exited the emergency phase and must now begin taking steps to rebuild its economy. The Government is designing and implementing development strategies based on the country's economic potential. With this in mind and in line with a vision to make the Central African Republic a peaceful country committed to reconciliation, recovery efforts and sustainable development, the Government has adopted the National Recovery and Peace Building Plan (RCPCA), which aligns Government interventions with those of partners over the next five years. After establishing the institutional framework for the RCPCA, the Government has refined the management framework for public investments with a view to facilitate the implementation of the various development projects included in the recovery strategy. The Government must also create a business climate conducive to private investment. Policies must promote steady, sustainable and inclusive development that creates jobs, particularly for young people and the disadvantaged. Four components will be emphasized in the implementation of the RCPCA: regional growth clusters, economic integration and diversification, the development of labor-intensive activities, and the social resilience.
- 33- To stimulate economic recovery, reforms are needed to spur growth and promote formalization in employment-intensive sectors such as agriculture, particularly in the cotton and forestry industries. New jobs with a potential to generate incomes will offer young workers, particularly former combatants and victims of violence, an opportunity for economic advancement through peaceful means, diminishing incentives to seek income from crime and conflict. However, failure to create enough new job opportunities could jeopardize social and political stability, and promote further violence. Concomitantly, the revival of the agriculture and forestry sector will depend on investments in the transport sector. The maintenance of rural and secondary roads is essential to connect producers to markets. A final aspect of improving the country's growth potential involves developing the ICT sector to allow for greater connectivity, particularly access to voice, texting, and mobile payment services across the country and abroad.
- 34- A driver of the country's economy, the agricultural sector accounts for almost 50% of GDP and over 70% of jobs. Destabilized by the widespread looting and destruction of the tools of production during the 2013 crisis, recovery of the agricultural sector is a priority. Marginal productivity is low and has stalled over time. Most agricultural systems are of small size, still focus primarily on subsistence farming, and are vulnerable to adverse weather conditions. The country's irrigation potential remains underdeveloped. Most farmers grow subsistence crops using traditional methods. Commercial agriculture is uncommon as is the use of modern technologies and improved inputs. Public and private institutions, both vital sources of support for the agriculture sector, are weak or absent.
- 35- Years of inadequate funding and political instability have plagued the country's research and extension services. Many producers lack technical knowledge. Moreover, the small size and scope of agricultural markets and input-distribution systems restrict the availability of high-quality seed, fertilizer, improved livestock breeds, veterinary supplies, tools, and farming equipment. Authorities adopted a Seed Law in 2015 and its implementation decrees were adopted in 2016. Efforts to operationalize the institutions provided for by the new law are underway. In addition, producers' ability to purchase improved inputs or invest in physical capital is hindered by inadequate access to credit and the Central African Republic sorely lacks financial infrastructures in rural areas.



Access to external markets is also low due to the high cost of transporting products on roads in rural areas that are in poor condition and in need of maintenance. This situation adversely impacts producers' outlooks and competitiveness, and hinders efforts to increase and/or diversify agricultural production.

- 36- In response to this situation, the Government has defined a strategy with four pillars: (i) sustainable recovery of the agriculture sector and economic development; (ii) agricultural development as a factor of national reconciliation; (iii) the professional insertion of young people for the modernization of agriculture; and (iv) governance and competitiveness in agriculture.
- 37- The forestry sector is now being regulated thanks to the adoption of a Forest Code in October 2010 which now regulates forestry exploitations. In 2010, the country adopted a strategy for implementing the Forest Law Enforcement, Governance and Trade (FLEGT)³³ through a Voluntary Partnership Agreement with the European Union. However, implementation was delayed by the 2013 crisis, which had major impacts on the sector, exacerbating the difficulties it was already facing, such as trouble meeting the minimum processing quota of 70% specified by the Code. There is a high international demand for tropical wood products and timber from the Central African Republic and the country remains competitive despite the high transportation costs. Prior to the 2013 crisis, the forestry sector accounted for more than 6% of GDP, roughly half of total exports, and about 10% of state revenues. The sector also employs a significant workforce, particularly in remote regions. Before the crisis, the sector accounted for around 4,000 direct jobs and 6,000 direct jobs. Under the country's benefit sharing agreement, forestry firms were required to pay local communities about FCAF 1 billion per year. The Central African Republic has signed a Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreement with the EU and is making progress in fighting illegal logging. The forestry sector now has a strong legal and regulatory framework, and has adopted international standards. Lastly, the country has actively participated in international certification systems and multilateral efforts to combat climate change.
- 38- Despite these positive measures, the crisis essentially halted activity in the forestry sector. Nearly all forestry firms suspended operations and most sustained extensive damages. The forestry road network has deteriorated significantly and forestry firms do not always have the necessary means to rehabilitate it. Tax arrears are also hindering sector development. Measures undertaken thus far have made it possible to increase the number of active forestry firms from 5 to 11. While this represents a major improvement in a key sector of the economy, the number of active firms still remains below the pre-crisis level of 14. Two factors critical for the future of this sector are solving the tax arrears issue and using transparent procedures to reattribute concessions to new investors.
- 39- Equally important for the agriculture and forestry sectors is a well-maintained road network, which ensures connectivity between rural and urban areas. The road network in the Central African Republic forms the backbone of the country's transport system. Only 3.5% (855 km) of the country's 24,137 km of national, regional, and rural roads are paved. About 80% of its international trade passes through the Douala-Bangui corridor, which is not fully paved, and where burdensome formal and informal administrative barriers

³³The EU's FLEGT Action Plan was established in 2003. It aims to reduce illegal logging through sustainable and legal forest management, improved governance, and the trade of legally produced timber.



contribute to long delays and rising transport costs. The 15,500 km rural road network is not only insufficient, but also suffers from inadequate maintenance. Poor road quality has an especially negative impact on rural populations, as it limits their access to markets and services such as schools and healthcare facilities. Since the onset of the crisis, road maintenance has been restricted to a few districts around Bangui, where security conditions remain relatively stable. Inadequate maintenance was mainly caused by an insufficient level of resources as well as governance issues in the functioning of the (Road Maintenance Fund (RMF) and the National Equipment Office (NEO).

- 40- Strengthening the governance, functioning, and financial health of the RMF and the NEO is imperative to ensure adequate maintenance of the road network, which is vital to the movement of goods and population as well as a prerequisite for rapid economic recovery. Infrastructures and transport services will require large scale investments to reach the quality and effectiveness required to restore economic health. The immediate priorities in the sector are (i) establish a system of efficient programming and execution of road maintenance to protect existing infrastructure and (ii) ensure the sustainability of future investments by increasing resources allocated to road maintenance. Meeting these priority needs will require improved governance of road maintenance and attracting investment in the sector.
- 41- To meet these challenges, the Government intends to take multiple measures to revive the agriculture, forestry, and transport sectors. To improve governance in the transport sector, the Government adopted the Operations Manual for the Road Maintenance Fund (RMF), which defines maintenance work programming (force account or sub-contracted) and road maintenance work eligible for funding by the RMF and formalizes the contractual relationships between the National Equipment Office (NEO), the Ministry, and the RMF. To support the agricultural sector, the Government adopted instruments to operationalize the Seeds Law, including the decree (*Décret*) approving the statutes of the National Seeds Office and an *Arrêté interministeriel* that creates the body of seeds inspectors and controllers of the National Seeds Office.
- 42- While waiting for the inputs law to be passed, the Government adopted in 2017 an *Arrêté* that defines the temporary modalities on the import and distribution of inputs (fertilizer, phytosanitary products, and veterinary products). To strengthen governance reforms in the transport sector, the Government audited the Road Maintenance Fund for the 2008-2015 period, including an evaluation of debts of the RMF and the NEO. A debt reduction plan for the 2018-2021 period was prepared based on this evaluation of debts. The Government is committed to improving the accounts, financial, administrative, and technical management of the RMF and to implement the recommendations of the audit. Fiscal years 2016 and 2017 will also be subject to audits. To spur development in the forestry sector, the Government has performed several audits as well as technical and financial evaluations of the sector. Authorities also adopted an official price list, took steps to activate dormant concessions, and adopted an instrument for certifying timber exports.
- 43- The ICT sector in the Central African Republic is one of the least developed in Sub-Saharan Africa (SSA). Its quality and coverage indicators are among the lowest in the world. According to the World Bank's 2016 World Development Report (WDR), the country's DAI (Digital Access Index) score was 0.2 on a scale from 0 to 2, which places it among the seven lowest scoring countries cited in the report. According to the ICT Development Index (IDT) published by the International Telecommunication Union, in



2014, the Central African Republic was the lowest ranked country of the 167 countries indexed and was not even included in the 2015 survey due to a shortage of data. The country ranked in the bottom 5% of the 193 countries included in the bi-annual e-government and e-participation survey conducted by the United Nations Department of Economic and Social Affairs (UNDESA) in 2014.

- 44- The Central African Republic's legal and regulatory framework for information and communications technologies (ICT) is obsolete. The public agencies in charge of managing the sector lack the capacity to fulfil their mandate. Low international connectivity leads to high prices and the available bandwidth is inadequate. Mobile phone services account for the largest share of the ICT sector, but prices remain high and service is mediocre. The state-owned fixed-line telephone company suffers from serious technical and financial deficiencies. Despite the strong competition between mobile telephone operators, coverage remains limited, particularly in remote areas. This is due to the low profitability of services offered in a low-consumption market and the adverse impact of insecurity on infrastructure development and maintenance.
- 45- The Government is committed to implementing reforms to promote the development critically needed in the telecommunications sector. The population's access to the network needs to be increased rapidly. To this end, the Government has submitted to the Parliament amendments to the electronic communications law that promote increased competition and a stable business environment in order to spur the growth of a more inclusive digital economy. Officials have also adopted a strategy for using revenue from the universal access levy. They are committed to pursuing reforms to improve the performance of this sector. The implementing decrees for the electronic communications law will be issued in 2018 and 2019, and the strategy for using revenue from the universal access levy will be implemented.

VI. INSTITUTIONAL FRAMEWORK FOR PROGRAM IMPLEMENTATION

- 46- The Unit Responsible for the Monitoring of Economic and Financial Reforms (CS-REF) is tasked with coordinating and monitoring economic and financial reforms. It was created by decree (*Décret*) 11.273 on October 21, 2011 and placed under the authority of the Interministeriel Steering Committee on Economic and Financial Reforms (CIPREF), also created by decree (*Décret*) 11.272 on October 21, 2011, which is the political body tasked with steering reforms. It has demonstrated a sufficient capacity to implement and monitor the programs assigned to it thus far. Its human resources were increased by an *Arrêté* the Ministry of Finance and the Budget adopted in order to fill the positions set out in the abovementioned decree. For this support from the World Bank, a technical panel for monitoring and evaluating the various program components will be established, which will entail appointing managers of the structures tasked with implementing these components. These actions will ensure the effective monitoring and implementation of the SCDP by the CS-REF.

**THE PRIME MINISTER,
HEAD OF GOVERNMENT
Simplice Mathieu SARANDJI**



ANNEX 3: FUND RELATIONS ANNEX

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) [1] 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.”

[1] The *ECF* is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems. Details on Central African Republic’ arrangement are available at www.imf.org/external/country/CAF .



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

SCDP 2 Triggers	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social, or distributional effects (yes/no/to be determined)
Pillar 1: Reestablishing Basic Fiscal Management and Transparency		
<p>Prior Action 1: The Recipient has adopted the <i>Décret 17-351 portant création du comité interministériel chargé des exonérations fiscales et douanières</i>, dated November 3, 2017, and the <i>Arrêté 025/PM/17 d'application du décret 17-351</i>, dated November 22, 2017, improving the institutional mechanism to manage, monitor and evaluate fiscal exemptions by the Recipient.</p>	<p>No. Prior Action 1 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, Prior Action 1 will allow for a better view of fiscal exemptions and potentially allow the Government to increase its fiscal space for critical service delivery. The improvement in the management of fiscal exemptions are not expected to have adverse distributional effects as this does not concern products of basic necessities. Improved management of fiscal exemptions, representing about two percent of GDP is also expected to contribute to the State's capacity to provide services that will contribute towards inclusiveness and poverty reduction.</p>
<p>Prior Action 2: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0641/17/MFB/DIRCAB/IGF/C/SF instituant un contrôle trimestriel des régies financières et des régies des recettes et d'avances</i>, dated October 3, 2017, introducing a risk-based control of the Recipient's main revenue collecting and spending entities, and exercising control on them at least once a year.</p>	<p>No. Prior Action 2 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, Prior Action 2 will allow for an increase in revenues which will contribute to finance the implementation of the overall Finance Law. The latter is increasingly aligned with the priorities of the RCPA. The prior action will also promote improved internal control of expenditures, including cash accounts which is expected to contribute to increase spending's impact on poverty reduction, economic and social development as well as inclusiveness.</p>
<p>Prior Action 3: The Recipient has, through its Ministry of Finance and Budget, issued (i) <i>Lettre – Circulaire 1876/MFB/DIR.CAB//17 à l'attention des chefs de départements ministériels et des institutions de la République</i> dated November 3, 2017, informing all heads of ministerial departments and of the Recipient's institutions that the wage will be paid using GIRAFE, and (ii) <i>Note à la haute</i></p>	<p>No. Prior Action 3 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, Prior Action 3 will allow for better control of the wage-bill, which should yield cost savings and will allow the Government to increase its fiscal space for critical service delivery. GIRAFE is also a tool that will improve the capacity to better manage HR which is required to deploy the administration</p>



<p><i>attention du Conseil de Ministres 1875 MFB/DIR.CAB//17 sur l'opérationnalisation de l'application Gestion Intégrée de Rémunération des Agents et Fonctionnaires de l'Etat (GIRAFE).</i></p>		<p>across the territory and to improve delivery of basic services.</p>
<p>Prior Action 4: The Recipient has, through its Ministry of Finance and Budget, adopted the <i>Arrêté 0368/2017/MFB/DIR.CAB/DGB portant adoption du Manuel de Procédures d'Exécution des Dépenses Publiques en République Centrafricaine</i>, dated June 2, 2017, adopting a manual of procedures of public expenditures in conformity with the <i>Loi Organique</i> and the <i>Loi 08.017</i>.</p>	<p>No. Prior Action 4 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, Prior Action 4 will limit extraordinary spending, which should yield cost savings and will allow the Government to increase its fiscal space for critical service delivery. The action is also expected to contribute improve the credibility of the budget which will contribute to increase trust in the State. Furthermore, improved credibility of the budget will contribute to ensure that the executed budget is aligned with the approved budget. Given that the latter is increasingly aligned with RCPA priorities, this is expected to result in an increase in spending promoting economic and social development, poverty reduction and inclusiveness.</p>
<p>Prior Action 5: The Recipient has, through its Ministry of Finance and Budget, prepared and published on the Ministry's website (www.minfb.cf): (i) the Draft 2018 Finance Law; (ii) the enacted 2017 Finance Law; (iii) a Citizen's Budget on the Enacted 2017 Finance Law; and (iv) the Budget Execution Reports for 2016, the 1st quarter 2017, the 1st semester 2017 and the 3rd quarter 2017, improving transparency of public financial management practices of the Recipient.</p>	<p>No. Prior Action 5 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Neutral.</p>
<p>Prior Action 6: The Recipient has, through its Ministry in charge of relations with the institutions of the Republic, submitted the 2015 Draft Settlement Law to the Recipient's Parliament by letter 228/MCRIR/DIR.CAB/DGRIR/, dated 29 December 2017 improving accountability of the public financial management practices of the Recipient.</p>	<p>No. Prior Action 6 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.</p>	<p>Neutral.</p>



Pillar 2: Supporting Economic Recovery		
<p>Prior Action 7: The Recipient has, (i) completed the Audit of its Roads Maintenance Fund (RMF) for the Period 2008-15, including a stocktaking of the debt and, (ii) through RMF, adopted the <i>Plan d'Apurement de la Dette du Fonds d'Entretien Routier</i>, the settlement plan of the debt of the RMF, through note 0044/FER/OP/DG/DAFC of January 17, 2018, improving the financial management practices of the RMF.</p>	<p>No. The strengthening the governance of the RMF and the NEO are not expected to have any adverse impact on the environment. This policy action will increase allocations to the RMF and improve its budget execution. The operation itself will not directly finance infrastructure projects. The separate World Bank Investment financing project will build capacity in the sector and will provide mitigating measures to eventual risk.</p>	<p>Yes. Overall, measures are expected to have a positive social, poverty and distributional impact. In particular, Prior Action 7 will support improved governance of the RMF, which should improve the business environment and ameliorate intra-regional disparities.</p>
<p>Prior Action 8 : The Recipient has, through its Prime Minister, issued <i>Arrêté 0016 fixant les conditions temporaires d'importation et de distribution des intrants, matériels agricoles, vétérinaires et halieutiques en République Centrafricaine</i>, dated September 4, 2017, establishing temporary modalities on the import and distribution of agriculture inputs.</p>	<p>No. The operationalization of the Seeds law will establish the National Seeds Office and the Body of seeds inspectors and controllers. This will contribute to promote increased access to agriculture inputs and is not expected to have any adverse environmental impact. Clarifying the modalities for imports are also not expected to have any adverse impact on the environment. Also, the World Bank Investment Financing operation is expected to build capacity in the sector and will provide mitigating measures to eventual risks.</p>	<p>Yes. Overall, Prior Action 8 is expected to have a positive social, poverty and distributional impact. Increased access to quality seeds is expected to support job creation in remote rural areas and will benefit the poor, the majority of which works in the agriculture sector.</p>
<p>Prior Action 9: The Recipient has, through the Ministry in charge of relations with the institutions of the Republic issued letter 038/MCRIB/DIR.CAB/DGRIR dated February 15, 2018 submitting to the Parliament amendments to the electronic communications law (law 18.002 of January 17, 2018) to promote increased competition and a stable business environment.</p>	<p>No. The ICT policy measure supported by the operation is expected to have no adverse impact on environment. The passing of the laws will update the legal framework for ICT and strengthen market competition dynamics, which in turn will support the expansion of the coverage of telecommunications networks.</p>	<p>Yes. Prior Action 9 is expected to contribute to increase the access to mobile phone services and is hence expected to have a positive social and poverty impacts. Improved access to mobile phone services (voice, text, mobile money and banking, internet) benefits households in multiple ways. Mobile phones can improve access to and use of information, thereby reducing search costs, improving coordination between different parties, and increasing market efficiency.</p>
<p>Prior Action 10: The Recipient has, through its Minister of post and telecommunications issued <i>Arrêté 006/MPT/DIRCAB/UCP-CAB/2018 portant adoption de la stratégie de service universel en République Centrafricaine</i>, dated January 31, 2018, adopting a strategy for the use of revenues from the Universal Access Level on operators.</p>	<p>No. The ICT policy measure supported by the operation is expected to have no adverse impact on environment. Expanding the coverage of telecommunications networks may require either upgrading of active equipment on already existing towers or set up of a new tower, both measures function under the generic and specific obligations that licensed telecommunications operators have to comply with (in particular Decree 005/MPTNT/DIRCAB/DGART from March</p>	<p>Yes. Prior Action 10 is expected to contribute to increase the access to mobile phone services and is hence expected to have a positive social and poverty impacts. About 70 percent of the poor (in 2008) lived in rural areas most of which currently lacks phone coverage. Improved access, through expanded coverage and lower costs, to mobile phone services (voice, text, mobile money and banking, internet) benefits households in multiple ways. Mobile phones can improve access to and use of information, thereby reducing search</p>



	10, 2010 ³⁴ regulating authorizations to set up new towers).	costs, improving coordination between different parties, and increasing market efficiency.
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³⁴ http://www.art-rca.org/media/documents/textes_reglementaires/arretes/ARR005MPTNT09.pdf



ANNEX 5: LESSONS LEARNED

- 1. Importance of identifying priorities that are likely to immediately improve the living conditions of the population.** As emphasized by the 2016 RPBA, projects in FCS must focus on identifying the most urgent priorities, to be immediately addressed. Accordingly, the proposed operation will target critical reform areas where there is the greatest immediate potential of reducing poverty and restoring trust in government institutions. Tangentially, the recent CAR Fragility Assessment noted that it is essential to address regional imbalances, which create grievances and limit the opportunities to build national and social cohesion. This objective includes the need to address the marginalization of the North East, and more broadly the imbalance between Bangui and the rest of the country in terms of access to services, security, and economic opportunities. To this end, the proposed operation focuses on PFM reforms to increase the capacity of the state to deliver services to the population and on reforms in the agricultural, transport and telecommunications sector which are expected to benefit a large part of the population.
- 2. The lessons learned from the SCDP 1 suggest that the implementation of public sector governance reforms in a fragile context is more challenging than anticipated.** After the transition to the democratically elected government, the Parliament in the CAR is very active, scrutinizing the administration's efforts to consolidate public administration system. This legislative oversight is a good thing by itself, however, it slows down the reform implementation and achieving targets in result areas. A flagrant demonstration of the situation is the approval of new legislations. Clearly, this is the case with the Electronic Communications Law which was submitted to the Parliament as part of the SCDP 1. The act is yet to be adopted by the Parliament.
- 3. Future DPOs should seek to link more strongly the public sector and economic governance reforms with measures to promote private sector development.** Likewise, focused reforms are needed to restore the government's basic financial functions and increase their transparency. Moreover, it is essential that support be provided to areas where the Government has demonstrated commitment. With respect to Pillar 1, the proposed operation will focus on reforms to which the Government has expressed commitment, particularly through its ongoing efforts to simultaneously address PFM capacity and transparency. Likewise, the reform priorities of the new Government mark a new commitment to agricultural production, which will support a pro-poor growth trajectory. Underpinning these efforts are parallel commitment to reforms that promote private sector development through investments in transport, and telecommunications. All the reforms supported by the operation will benefit from technical assistance from the World Bank as well as from other development partners.
- 4. The 2016 Country Portfolio Performance Review (CPPR) proposes to harmonize institutional arrangements by reducing the number of delivery mechanisms, which are numerous in CAR.³⁵** Accordingly, the CPPR advised that institutional arrangements should be harmonized into one mechanism that comprises one fiduciary agency and the various technical units that are housed in the relevant ministries. Furthermore, the CPPR recommended a comprehensive monitoring and evaluation system in order to document the broader impact of development. Drawing on these lessons, the program will be managed solely by the *Cellule Chargée du Suivi des Réformes Economique et Financières* (CS-REF), but

³⁵ These include "classic" Project Implementation Units (PIU) (e.g. health system support projects), PIUs anchored within Ministries (e.g. PURSeP and CEMAC transport projects), and PIUs with delegated project management agreements (e.g. Energy, Emergency Urban Infrastructure Support and LONDO projects).



which will involve active dialogue and participation from the related line ministries of agriculture, transport, and ICT. In addition to assuming the overall coordination, implementation, and fiduciary responsibility for the program, the CS-REF will also be responsible for the monitoring and evaluation of the program.

5. Previous experience in FCS environment suggests that close donor coordination and alignment to government development objectives is extremely important for the success of reforms, as cohesion among donors helps to maintain focus on implementation of key reforms. Moreover, the recent CAR Fragility Assessment notes that donors should apply the “do no harm” principle in CAR, which means first and foremost engaging for years – if not decades – and avoiding a “stop-and-go” aid flow. Drawing on this lesson, ongoing support provided by other partners—particularly the IMF, AfDB, EU and AFD—has been taken into account and reflected in the program design, to maximize synergies and complementarities of the programs. Moreover, in addition to building partnerships, the RPBA process will also contribute to the smoothing of aid cycles, improvement of donor coordination, a strategically contribute to address risks linked to security, political capture, and institutional capacity.

6. The most recent IEG Retrospective of World Bank DPOs suggests that monitoring and evaluation (M&E) has been a challenge with many World Bank DPOs. In particular, creating a set of relevant indicators in many cases is hampered by weaknesses in country data, while arrangements to generate or collect data specifically for the M&E framework of DPOs may not always work. To remedy this issue, the proposed operation has worked with the government to strategically select indicators for which data currently exists. Moreover, to ensure harmonization with other programs, the program will use indicators included in the IMF’s Extended Credit facility, which can be more easily monitored during joint supervision missions.



ANNEX 6. PILLARS OF THE RECOVERY AND PEACE BUILDING ASSESSMENT

Priority objectives	Sub-objectives
Support peace, reconciliation and security	Support the reinsertion of combatants and the reduction of violence
	Ensure the entire territory is secured by renewed defense and security forces
	Reform the justice system and end impunity
	Adopt a reconciliation and social cohesion policy and create the conditions for a return of displaced individuals and refugees
Renew the social compact between the state and the population	Redeploy the administration across the country and put in place an inclusive local governance system
	Provide basic services to the population across the country, particularly in the areas of education, health and water, by initiating a progressive transfer of capacities and resources to national structures
	Ensure food security and resiliency
	Strengthen good governance (public finance management and controls, higher tax revenue and anti-corruption measures)
Ensure economic recovery and boost productive sectors	Boost and durably develop productive sectors (agriculture and livestock farming, extractive and forestry industries)
	Repair and build infrastructures (including electricity, roads and communication network)
	Ensure that overarching conditions are suitable for private sector development and employment (vocational training responsive to the job market, improved financial services)
	Ensure the stability of the macroeconomic framework
Crosscutting objectives: Reduce regional imbalances; reduce gender-based inequalities; promote transparency and accountability at all levels and help build national capacities (in government and civil society)	