



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-March-2018 | Report No.: 123892



BASIC INFORMATION

A. Basic Project Data

| | | | |
|--------------------------|--------------------------------|---|------------------------------|
| Country | Project ID | Project Name | Parent Project ID (if any) |
| Central African Republic | P164442 | State Consolidation Development Program 2 (SCDP2) | |
| Region | Estimated Board Date | Practice Area (Lead)(s) | Financing Instrument |
| Africa | April 12 2018 | Governance | Development Policy Financing |
| Borrower(s) | Implementing Agency | | |
| Central African Republic | Ministry of Finance and Budget | | |

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.

Financing (in US\$, Millions)

SUMMARY

| | |
|------------------------|----|
| Total Financing | 25 |
|------------------------|----|

DETAILS

Source:
IDA

Decision

The Decision Meeting authorized the team to appraise the DPF

B. Introduction and Context

1. The **Central African Republic is a landlocked and highly fragile country with a history of recurrent conflict and instability.** Most recently, the Central African Republic 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. 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 (RCPA), 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. The security and humanitarian situation has become the main driver of CAR macroeconomic performance. Repeated violence targeting civilians and the UN forces was reminiscent of the 2013 crisis. 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 3.8 percent, down from 4.5 percent in 2016. Inflation has stabilized at more moderate levels. The current account deficit remained high amid the term of trade deterioration in 2017. 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, and. 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). The Government is continuing its fiscal consolidation program.

3. **The Central African Republic's positive macroeconomic outlook strongly hinges on political stability, as well as stronger investment and export growth.** The external balance would improve driven by the gradual recovery of export. 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. Greater fiscal space resulting from higher domestic revenues and grants will help support growth while stabilizing fiscal deficits. The Central African Republic's external debt remains at high risk of distress. 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.

4. **The Central African Republic'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 Central African Republic 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.

5. **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 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. Levels of use of exceptional spending procedures have been reduced but remain too high. Some improvements have been made in terms of improved transparency and accountability.

6. **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 Central African Republic has only



experienced two periods of relatively rapid economic growth in the past¹. Continued political stability, an enduring peace process, and targeted reforms could result in accelerated, pro-poor and inclusive growth.² 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, diminishing 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 Central African Republic'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.

Relationship to CPF

7. The SCDP series is closely aligned with the CAR Country Engagement Note (CEN), which describes the continuation of the crisis response and potential next steps for recovery and development. 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 delivery of social services under other projects included in the IDA-Funded Turn-Around Facility.

C. 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.

Key Results

- 1- Domestic revenues as a percent of GDP.
(Baseline: 7.1 percent of GDP (2015); Target: > 8.1 percent of GDP (2018))
- 2- Share of the wage-bill reviewed and verified by CAAT.
(Baseline: 0 percent (2015); Target: >50 percent (2018))
- 3- Share of expenditures executed using exceptional spending procedures. (Baseline: 80 percent (2015), Target: <20 percent (2018))
- 4- Number of budget documents published on an annual basis.
(Baseline: 1 (2015); Target 7 (2018))
- 5- Number of *Loi de règlement* (Settlement Law of the Finance Law) submitted to Parliament.
(Baseline: 0 (2015); Target: 1 (2017) and 1 (2018))
- 6- Maintenance Program 2017 and 2018 adopted and implemented in line with new RMF manual.
(Baseline: No (2015); Target: Yes (2018))
- 7- Budget execution rate (initially approved / executed) of the RMF.
(Baseline: 30 percent (2015)); Target: 50% (2018))
- 8- Tones of fertilizers imported.
(Baseline: 0 (2017); Target: 20,000 (2018))
- 9- CAR ranking on the ICT development Index (IDI) prepared by the International Telecommunications Unit:

¹In 1984-85 and in 1994-95, in which the GDP growth rate averaged 5-6 percent per year.

²Annual 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.



Baseline: 176 (2016); Target: 170 2018: 170

10- 2G network coverage

(Baseline: 59 percent (2015); Target 65 percent (2018))

D. Program Description

8. **The operation is structured around two pillars.** Under the first pillar—Reestablishing Basic Fiscal Management and Transparency—the DPO series seeks to increase fiscal revenue, improve wage-bill management, and increase 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 transport, 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, transport and ICT. Conversely, economic recovery is expected to have a positive impact on revenues which will contribute to improve basic fiscal management.

9. **Pillar one 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 exonerations, 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. 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. 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*.

10. **Pillar two seeks to support economic recovery in productive sectors critical to growth and stability.** First, the operation will support critical reforms to support 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. 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. 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

11. **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 support pillar three of the RCPCA, which seeks, to (a) boost and durably develop productive sectors (agriculture and livestock farming, extractive and forestry industries); (b) repair and build infrastructures (including electricity, roads and communication network); and (c) to ensure the stability of the macroeconomic framework

12. **The operation supports a total of 10 prior actions, 6 under pillar 1 and 4 under pillar 2.** Under pillar 1, the prior actions include support to improve fiscal exemption management, reduce use of exceptional spending procedures,



improve transparency, strengthen control of the wage-bill and external control. Under pillar 2, the prior actions support an audit of the Roads maintenance fund and the adoption of an arrears clearance plan. In Agriculture, the operation supports the establishment of temporary modalities for the import of agriculture inputs. In the telecom area, the operation supports the adoption of amendments to the law on electronic communications to strengthen the legal framework and the adoption of the 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.

13. **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, 120 percent of the country's IMF quota). The third review of the IMF program was approved by its Executive Board on December 15, 2017.

E. Implementation

The program will 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.

F. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

14. **the SCDP series is expected to contribute to inclusiveness and poverty reduction.** 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 help to alleviate poverty and contribute to improve service provision which could result in increased trust between citizens and the State. Likewise, under pillar two, the program will target poverty reduction and inclusion by providing support to key sectors, which are crucial to economic growth. However, due to limited data and related analytics³, the full impact of this project may be difficult to fully demonstrate during the relatively short, implementation period.

Environmental Aspects

15. The specific policies supported by this programmatic operation are not expected to have negative effects on CAR'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.

G. Risks and Mitigation

16. The overall risk rating for the proposed operation is high due to several interrelated risks that may jeopardize the achievement of the PDO. The risks remain unchanged compared to the SCDP 1. Political and Governance risk is High. The Central African Republic has a fragile political environment with weak institution. Macroeconomic Risk is High. The country faces risks related to exports, asymmetries across CEMAC countries in their coping and macro fiscal and debt distress. However, Government's recent track record in macroeconomic management, which has been strong in response to exogenous shocks, is a mitigating factor. 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

³ There is a high degree of uncertainty is attached to the level and growth rate of real GDP, as estimates for informal sector activities, which 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.



administration, limits the risk. Fiduciary Risk is Substantial. This assessment is based on the status of the PFM system and the BEAC safeguards framework, accounting systems, and auditing arrangements. 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. Other risks related to the program are High. The volatile security situation is a transversal risk affecting all components of the project.

CONTACT POINT

World Bank

Ragnvald Michel Maellberg, Souleymane Coulibaly, Serdar Yilmaz

Borrower/Client/Recipient

Central African Republic

Implementing Agencies

Ministry of Finance and Budget

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

| | |
|----------------------|--|
| Task Team Leader(s): | Ragnvald Michel Maellberg, Souleymane Coulibaly, Serdar Yilmaz |
|----------------------|--|

Approved By

| | | |
|-------------------|--|--|
| Country Director: | | |
|-------------------|--|--|