1. Country and Sector Background

1. **Regional Context.** The project is part of the CEMAC Trade and Transport Facilitation Program adopted by CEMAC on March 11, 2006. This program aims at promoting greater trade integration within the CEMAC sub-region through contributing to releasing physical and non-physical transit bottlenecks along two key corridors: Douala – N’Djamena and Douala – Bangui. With inter-regional trade of only 0.5 to 1 percent of the total trade of its member states, the CEMAC sub-region is the least integrated sub-region in sub-Saharan Africa, far behind the Common Market for Eastern and Southern Africa (COMESA) (five percent), the Southern African Development Community (SADC) (10 percent), the Economic Community of West African States (ECOWAS) (10 percent), and the Economic Community of West African States (UEMOA) (15 percent).

2. High transport costs and transit logistics inefficiencies have been identified as one of the main barriers to trade in the CEMAC sub-region. In 2010, it has been estimated that transporting a 18-ton, 40-foot container to Central African Republic (CAR) and Chad was taking between four weeks and two months and was costing about US$8,500. Transport costs remain in fact among the highest in sub-Saharan Africa at US$0.11 to US$0.26 per ton – km, compared to US$0.06 to US$0.08 in West Africa (corridors Lome – Ouagadougou and Cotonou – Niamey) and in East Africa (corridors Mombasa – Kigali and Mombasa – Kampala), far above the costs observed in Southern Africa (US$0.05 to US$0.06 for the corridors Durban – Lusaka and Durban – Ndola).

3. Major transit bottlenecks in the CEMAC region lie with poor physical infrastructure but also non-physical barriers and transit logistics inefficiencies. Transit systems are indispensable for the landlocked countries in the region (Central African Republic and Chad) whose main business centers are at least 1,500 km away from the nearest port in Douala-Cameroon. Previous

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trade and transportation work by the World Bank and other donors have identified soft bottlenecks to transit as one of the most urgent trade facilitation issues in the region. There is a need for reforms on the policies on bonds for shipped goods, issues of delays of goods in transit (data shows that containers spend on average 19 days at the port terminal before processing), lengthy transit procedures, lack of transparency and accountability on the road load control system (abuse from agents is frequent), and excessive amount of check-points. For the Central African Republic, there can be up to seven different transit documents issued by different agencies.\(^3\) Likewise, two 2009 survey of corridors operations reported between 70 and 150 check points (legal and illegal) between Douala and N’Djamena and 45 between Douala and Bangui. Each control generally lasts less than an hour and on a return trip between Douala and N’Djamena, transporters have to pay on average FCFA270,000 (US$580 equivalent) in legal charges and illegal bribes. Another major hindrance to trade facilitation in the CEMAC region deals with the lack of institutional capacity at regional level and to some extent at national level.

4. With the current financing not only from International Development Agency (IDA) but also from European Union (EU), and African Development Bank (AfDB), as well as from a few bilateral donors (France, Spain, Japan, Islamic Development Bank), at least 90 percent of the Douala - N’Djamena corridor should be in fair to good condition by the end of 2015. The situation is however less favorable on the Douala – Bangui corridor with 15 percent of the corridor (all located on the CAR portion of the corridor) still remaining in poor or very poor conditions and with no financing identified. The proposed third additional financing (AF3) would finance the full rehabilitation of an additional 66 km of roads and would provide basic improvement and maintenance on the most deteriorated sections of the remaining 148 km of roads currently in poor conditions or in a fast deteriorating state. The ultimate objective is to reach at least 90 percent of the Douala – Bangui corridor in fair to good condition by the end of 2015.

5. \textit{CAR context.} The Central African Republic is one of the world’s poorest and least developed countries. The 2010 United Nations Development Program Human Development Report ranked CAR 159 out of the 169 countries that were evaluated. The most recent national household survey carried out in 2008 showed that 62 percent of the population was living below the poverty line. Poverty and underdevelopment in CAR are the twin legacies of a prolonged history of conflict. Decades of civil strife have exacted a heavy toll on the national economy. Institutional capacity and human resources were severely weakened during the conflict, as many of the most educated and skilled people relocated to seek sanctuary from the fighting. Private capital has stayed away, discouraged by the challenging business climate and the unfavorable investment environment. Deprived of human talent and financial resources, the economy has chronically underperformed.

6. Since hostilities ceased in 2003, economic growth has been sluggish, averaging only 2.5 percent per annum, and poverty remains pervasive. Meanwhile, the economy has been buffeted by a series of internal and external shocks, including the breakdown of the country’s major hydro-power plant, steep increases in the prices of imported food and fuel, and weak demand for exported products in the face of the global financial crisis and recession. The recent disappointing trends may now be reversing: preliminary estimates show that a recovery began in

2010, with real gross domestic product (GDP) growth of 3.3 percent and an inflation rate at 1.8 percent (down from the 9.3 percent observed in 2008).

7. **Sector Policy and Strategy.** The effectiveness of transport policies in the CEMAC region is reduced by poor planning and dispersion of resources but also by poor asset management practices. Although the three countries have set up road maintenance funds financed by earmarked gasoline charges, maintenance activities are poorly planned and ineffective in optimizing the life cycle of road assets. To address these challenges, a policy dialogue has been engaged with the three countries involved (Cameroon, Chad and Central African Republic), the various National Road Maintenance Funds and Ministries of Public Works specifically by the Bank and EU on how to effectively improve asset management practices.

8. The situation of road maintenance in CAR constitutes a particularly difficult challenge. Resources collected from an earmarked gasoline levy amount to US$7 million per year but they are not sufficient to cover the road maintenance needs of the country for its entire core network. This represents only about 30 percent of the needs to maintain the core road network, without funding any secondary roads. Furthermore, the tax base that the road fund can use to collect revenues, be it traffic or oil use, is very limited. Competing fiscal measures on the structure of oil prices make it difficult to increase the proceeds allocated to the road fund. Despite mounting pressures to revise the structure of oil prices, the CAR authorities have committed to maintain the current levels of the fuel levy. Under the proposed AF3, a strategic study on the projected evolution of the financing needs and available resources for the maintenance of transport infrastructure will be prepared, including policy recommendations.

9. Another difficult challenge for the sector is the limited capacity of national contractors to execute routine road maintenance works. There are very few small private sector contractors which can undertake small civil works on paved roads, and there is only one private supplier of crushed aggregates, which are currently sold at about ten times the price in Cameroon. Considering the still limited capacity of the private sector, one of the few entities which can provide some form of general maintenance support is the “Office National du Matériel” (ONM), which is owned by the government of CAR. It benefits from an EC-funded Technical Assistance (TA) but needs to complete a transformation from a civil works equipment workshop to a real civil works contractor, and is slowly getting capacity to carry out paved work routine maintenance. ONM has been equipped with a crusher under the AF1 and with several civil works equipment under the EC-funded TA. The ONM has also suffered from difficulties in being paid for works’ contract payments.

2. **Objectives**

10. The Project Development Objective (PDO) remains unchanged, as streamlined when the AF1 and AF2 were approved. The PDO is to facilitate regional trade among the CEMAC member states and improve the Central African Republic, the Republic of Cameroon's and the Republic of Chad's access to world markets. The proposed AF3 will exclusively finance activities in CAR, essentially in the road subsector and in trade facilitation.

3. **Rationale for Bank Involvement**
11. **Project performance and results achieved.** The CEMAC Transport and Transit Facilitation Program (Program) is financed by six IDA credits and grants, totaling US$530 million (approved in 2007, 2009 and 2011). As of April 17, 2012, US$176 million have been disbursed (33 percent of the total amount) and the contractually committed amount is US$375.7 million (71 percent of total amount). This comprehensive program tackles most of the transit facilitation dimensions along the two targeted corridors: road rehabilitation, road safety, railway modernization, customs reform, transport regulation, support to the Douala single window and – though to a more modest scale, port modernization. A key project objective is to reduce the dwell time in the Douala port (11 days in 2007) and the transit time from Douala to N’Djamena (15 days) and from Douala to Bangui (10 days). In addition to the IDA support, this program is also supported by the AfDB and the European Union. The project is implemented by the three governments, in close coordination with the CEMAC.

12. The project has passed in 2011 its mid-term implementation stage with almost all the large scale infrastructure works being contracted and on-going. The proportion of roads in good condition between Douala and N’Djamena (1,850 km) and Douala and Bangui (1,450 km) has increased from about 40 and 53 percent to about 65 and 67 percent, respectively. On the rehabilitated sections between Garoua Boulai and Bouar in CAR, the travel time has been more than halved and a significant increase in traffic and economic development has been observed between Bouar and the border with Cameroon. However, trade facilitation activities – transport regulation, customs reform, port modernization, support to Douala single window, are progressing more slowly, partly because of technical and capacity limitations and partly because of political economy issues, including the reluctance for greater transparency of some key stakeholders involved in transit activities. In particular, while a modern information system (ASYCUDA) has been deployed in the customs of the three countries, the three systems are yet to be connected in order to be able to exchange transit data. Several initiatives are currently under way in order to advance the trade facilitation agenda, including: (i) the computerization of external trade procedures by the Cameroon customs and the Douala single-window (GUCE) with five procedures being automated to date; (ii) the establishment of a transit observatory to monitor selected indicators along the corridor; (iii) the implementation of the new CEMAC transit regime with the training of customs officers in the three countries; (iv) the equipment of border posts in CAR and Cameroon; (iv) the tracking of goods in transit, building on an initiative from the Cameroon customs; and (v) the successful implementation of performance-based labor contracts by the Cameroon customs.

13. In CAR, road rehabilitation works are completed on the road section Fambele – Baboua and are progressing well between Fambele and Bouar. By the end of 2012, the 150 km-long road section between Bouar and the border with Cameroon should be fully rehabilitated. A road maintenance contract is also under way on specific sections between Baoro and Bangui (ie. Baoro – Bossemtéle and Bossembele - Bangui) but fell short of the needs due to continuous deterioration of sections in already bad conditions between identification and procurement. Top priorities to ensure a consistent riding quality on the corridor now are: (i) Bouar – Baoro (60 km), a highly deteriorated unpaved section; and (ii) Bossentele – Bossembele (141 km). Road

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4 In partnership with the CEMAC and the customs’ general directorates in the three countries (activity supported by the Trade Facilitation Facility managed by the World Bank).
maintenance of newly rehabilitated road sections and vehicles’ weight control are also critical to ensure the sustainability of the significant road investments about to be completed. Finally, like in the other countries, transit facilitation and institutional strengthening activities have progressed slowly despite the acquisition of some equipment and the construction of customs’ facilities. Additional resources are needed to continue advancing this complex agenda and promote in particular the interconnection between the customs’ information systems of the three countries (ASYCUDA).

14. **Financial execution.** As of May 11, 2012, about a third (34 percent) of the project’s funds or US$181 million have been disbursed. The disbursement rate is the highest in CAR with 70 percent of the funds disbursed, compared to 27 percent for Cameroon, and 23 percent for Chad. However, it is to be noted that the disbursement rate for Cameroon was reduced in 2011 after the approval of the AF2. In Chad, the disbursement rate remains low due to delays incurred in procuring the main works’ contract (rehabilitation of the road Bongor – Ere – Kelo). However, disbursements have recently accelerated with the awarding and actual implementation start of this contract.

15. **Project financing in CAR.** The proposed AF3 would include US$26.7 million to fill the financing gap of some activities that were included under the original financing and AF1, as well as US$98.3 million to finance new activities. A US$8 million contingency has been included to protect the project against the risk of additional cost overruns.

16. **Financing gaps and cost overruns.** Two activities planned to be financed under the original program and AF1 ended up costing more than initially expected. These two activities are: (i) the rehabilitation of a 33km road section between Fambele and Bouar (with a parallel financing by the EC); and (ii) road maintenance activities between Baoro and Bangui. These cost overruns generated a financing gap for the project which was filled through the cancellation of some activities (e.g. Bangui by-pass) and the downsizing of the transit facilitation and the institutional strengthening components. The proposed AF3 will help fill the financing gap of the on-going Fambele – Bouar road rehabilitation contract. While this contract was initially estimated at US$32 million, it ended up costing US$36.1 million after the contract award and 6.5 km (Bouar bypass) had to be taken out from the original scope. The difference with the initial estimate is due to the limited availability of adequate benchmarks for unit costs when road design studies were prepared. At that time, no significant road contract had been procured for several years in CAR. Cameroon benchmarks were therefore used but, retroactively, they were found to be 20 percent lower than those used in CAR due to the poor security context in CAR, the small size of the CAR construction market, higher costs of construction related inputs and scarcity of construction related skilled manpower. Similar cost overruns were observed on the neighboring EU-financed contract between Fambele and Bouar (with even higher resulting unit costs). The proposed AF3 will also finance the financing gap for the on-going periodic maintenance contract on the Bangui – Baoro section. The maintenance of the section ended up costing significantly more than expected, due to a modification in scope compared to the initial

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5 Source: detailed review conducted by IDA and the EC on the unit prices for all major Bill of Quantities (BoQ) items that were submitted by bidders for all of the road works that were procured under the IDA, ADF, France (C2D) and EC funded parts of the Project in Cameroon and CAR. Most of the bidding processes were conducted between early 2008 and early 2009.
cost estimates but also to the rapid deterioration of the sections between Baoro and Bossentele and between Bossembele and Bangui.

17. **Alignment with CAR Country Partnership Strategy.** The initial project and its three AF continue to fully support the CEMAC commission's regional trade and transit programs on the major transit corridors, as defined in 2006. The proposed AF3 is also in line with the CAR’s recently adopted Poverty Reduction Strategy. The principles for the proposed additional financing to the Project appear in the Country Partnership Strategy (CPS) for CAR, discussed by the IDA Board in September 2009 (Report No. 49583-CF). More specifically, the CPS (prepared jointly with the African Development Bank) for CAR proposes to rebuild and diversify the economy as its third pillar, and one of its key principles is to maximize opportunities for regional integration. The project is consistent with the strategy’s outcome 5 (improved infrastructure for regional economic integration). Finally, the proposed additional financing remains fully consistent with the 2004-2008 Regional Integration Assistance Strategy for Central Africa and the Bank’s new Africa Strategy pillar of competitiveness and employment.

18. **Eligibility criteria for regional IDA.** The proposed AF3 of the Project meets the eligibility criteria for funding under the IDA16 regional envelope for the following reasons: (a) it covers three contiguous economically inter-dependent countries (CAR, Chad and Cameroon); (b) the expected trade efficiency gains cannot be fully achieved without the direct and integrated involvement of all the countries sharing the Corridors; and (c) the expected benefits can only be achieved through the simultaneous implementation of an integrated set of infrastructure and facilitation measures in the countries along the Corridor. Moreover, the additional activities which were not in the initial Project and its two previous AF are considered critical in reaching the Project’s Development Objectives.

4. **Description**

19. Activities to be supported by the proposed third additional financing (AF3) are grouped under the following three components which fall under the first, second and third components of the original project. The proposed AF3 also includes unallocated funds for an amount of US$8 million.

(a) **Component 1: Roads Infrastructure Improvement (US$107.0 million).** This component aims at ensuring year-round access along the Douala – Bangui corridor through contributing to finance: (i) the full rehabilitation of Bouar bypass road (6.5km) and of Bouar – Baoro road (62 km), including reconstruction of a bridge at the exit of Bouar; (ii) selected road maintenance activities on critical sections of the CAR portion of the Bangui – Douala corridor; and (iii) improvement works of the Bangui by-pass.

(b) **Component 2: Transport Facilitation Investments (US$5.0 million).** This component will finance selected transit facilitation activities and studies, including activities aiming

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6 Regional Integration Assistance Strategy (RIAS) for Central Africa (Report No.25328). This strategy, which is designed to support the CEMAC in areas of integration and cooperation, sets out Customs Union improvement and Trade and Transport Facilitation as a core activity.

at improving the effectiveness of customs’ transit procedures and the interconnection of customs’ information systems between neighbor countries, at improving road safety conditions along the CAR portion of the corridor and at providing logistics services (e.g. improvement of Bouar’s bus and truck station and construction of rest stop facilities for transit truckers).

(c) **Component 3: Transport Sector Institutional Strengthening and Operating Costs (US$5.0 million).** This component will finance the project operating costs as well as capacity building and institutional strengthening activities in the transport and public work sectors. Particular attention will be granted to institutional strengthening activities that will help enhance the attainment of the project development objectives (PDO), and to a more effective implementation of safeguards measures and in improved road maintenance and road safety conditions.

5. **Financing**

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<td><strong>Total</strong></td>
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6. **Implementation**

20. The implementation arrangements for the proposed AF will remain the same as for the original project. The closing date of the proposed AF is expected to be the same as of the original project, which was extended to January 31, 2016.

7. **Safeguard Policies (including public consultation)**

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8. **List of Factual Technical Documents**

21. Mainly the PAD for the original project and the Implementation Status Reports from past supervision missions.

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.
9. **Contact point**

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