I. Introduction and Context

Country Context

The Central African Republic (CAR) has been experiencing upheaval since December 2012. A rebel coalition known as Séléka, which had initially threatened to take over the capital city, Bangui, signed a cease-fire and political agreement with the Government in January 2013 (the “Libreville 2” agreements). The Séléka eventually carried out a coup in March 2013, which forced the then President to flee the country. Under the aegis of the Economic Community of Central African States (ECCAS), a transitional government was entrusted with restoring law and order and paving the way for democratic elections within 18 months. However, the acts of brutality by various rebel groups and lack of Government control over armed elements led to clashes and violence in the country which have, since August 2013, led to the displacement of large numbers of the population, and to a growing humanitarian crisis.
In the face of the deteriorating situation, the international community increased its mobilization during the Fall of 2013, including through several UN Security Council consultations and meetings that culminated with Resolution 2127 of December 5, 2013 which provided an umbrella for the intervention of French forces and the establishment of an AU-led military presence, the African-led International Support Mission to the Central African Republic (MISCA). As the unfolding of the transition in 2013 had resulted in a loss of legitimacy of the Séléka leadership and of the Transition Government, the January 10, 2014 ECCAS summit accepted the resignation of the Head of State of the Transition and of the Prime Minister, opening the way to a new political transition. The National Transition Council, the legislative body, elected a new Head of State, Mrs. Samba-Panza, until then mayor of Bangui and a respected personality close to civil society. The appointment of the new Prime Minister and of an inclusive Government, on January 27-28, 2014, constituted a positive signal. These developments were welcomed by the international community, with: (i) donors meeting in Brussels on January 20, 2014 and pledging about US$500 million to support recovery and transition in CAR; (ii) a new Security Council resolution on January 28, 2014, backing up the transition, and authorizing the deployment of additional troops from European countries; (iii) consultations taking place on the margins of the AU summit in Addis-Ababa (January 30-31, 2014), leading inter alia to an additional US$100 million pledge by ECCAS countries; and (iv) on March 7, the Security Council started to discuss a report from the Secretary General which proposes the creation of a UN peace-keeping operation of 10,000 troops and 1,800 police personnel.

The Bank responded actively to the CAR developments, initially in a crisis management mode: (i) the Bank’s office was evacuated twice, on December 26, 2012 and March 25, 2013; it was reopened in early November, 2013 with limited staff presence; (ii) OP7.30 was triggered on March 25, 2013, and remains in effect, although a selective resumption of disbursements was authorized in November 2013 following an Assessment Mission undertaken in September 2013; (iii) in the meantime, active portfolio management continued, with selected disbursements authorized in exceptional cases (e.g. in order not to interrupt the fabrication of turbines under the Energy project), three project extensions granted in June 2013, and numerous implementation support missions with counterpart teams going to Yaoundé.

More recently, in the light of new developments both in CAR and internationally, in January 2014, Bank management briefed the Board on a US$100 million emergency response for CAR, drawing on the restructuring of the portfolio, the unallocated IDA16 balance, and the first year – with frontloading – of the IDA17 allocation. The first component of the Bank response, the US$20 million Emergency Food Crisis Response and Agriculture Re-launch project, was approved by the Executive Directors on March 7, 2014. A Labor-intensive Public Work Operation and an Emergency Medical Response Operation, respectively the second and the third components of the Bank’s emergency response, are being finalized through the restructuring of existing projects. The proposed Emergency Public Services Response project would be the fourth component of the Bank’s emergency response.

Sectoral and Institutional Context

Economic context. Economic activity significantly contracted in 2013, with a drop of GDP now estimated at -36 percent on account of the ongoing insecurity, and the economic prospects remain bleak. The current crisis has seriously compromised revenue collection and leakages of fiscal revenues due to the rebellion have placed a significant strain on the Treasury. Total domestic revenues equivalent to US$86 million have been collected in 2013, representing roughly 28 percent of the initial revenue forecast. The tight liquidity situation has generated an accumulation of arrears
(2.3 percent of GDP), including three months of civil servants’ salaries in 2013.

Even before the crisis, CAR’s fiscal revenue to GDP ratio was one of the lowest in Sub-Saharan Africa, in the vicinity of 10-12 percent of GDP, which constrained the implementation of the poverty reduction strategy and progress towards the MDGs. Domestic revenues have now dropped further, from 11.5 to 5.7 percent of GDP between 2012 and 2013, respectively, paving the way to increasing social tensions. It is expected that total domestic revenues will grow slightly to 6.4 percent of GDP in 2014. These domestic revenues alone are not sufficient to cover recurrent costs. Total revenues projected in 2014 are 9.3 percent of GDP thanks to grants from donors representing 2.9 percent of GDP, but excluding program grants.

The fiscal deficit, including grants for 2013, has been contained at 6.3 percent of GDP in part because of severe drop in capital expenditures. Capital expenditures attained a peak of 6.2 percent of GDP in 2012, but given the crisis, dropped to 1.7 percent of GDP in 2013, of which 1.6 percent was in the form of donor contributions. Nine months of salaries have been paid in 2013 thanks in part to a grant provided by the Republic of Congo, in the amount of US$50 million, or 3.3 percent of GDP. Table 1 presents the country’s fiscal situation.

Public Financial Management (PFM) context. Before the crisis, CAR’s public administration and PFM system were characterized by: (i) poor quality of service delivery; (ii) the recourse to exceptional procedures for the payment of government expenditures, which had led to a large volume of extra-budgetary spending accompanied by an accumulation of domestic arrears; (iii) complexity of the tax policy, leading to inefficient tax collection; (iv) relatively low budget execution rate due to weaknesses in the budget preparation process and inefficiencies in the expenditure chain during execution; (v) inadequacies of some key features of the Government accounting IT application; (vi) growing number of agencies, funds, as well as dedicated treasury accounts (Compte d’affectation spéciale) representing about 11 percent of the 2012 national budget and characterized by poor governance; (vii) the poor quality of annual financial statements; and (viii) ineffective external oversight.

The crisis seriously compromised revenue collection, specifically along the road corridor from Douala in Cameroon to Bangui. Likewise, there is very little technical capacity in revenue-generating Directorates (such as the Directorate of Customs and the Directorate of Taxation). Against this background, international forces are reinforcing security throughout the main corridor. This could contribute to improve revenue collection—in addition to restoring the country’s macro stability—provided that these revenue-generating directorates are strengthened and equipped with minimum tools, and that economic activity picks-up following the stabilization of the security situation.

The crisis has also impacted the functioning of the computerized budgeting and accounting system (Ges’Co), which was previously deployed in the Public Treasury and Budget Directorates. As a result, budget preparation and execution processes, when utilized, are performed manually. The single treasury account’s arrangement has been weakened which has exacerbated the stress on the country’s cash flow. The tight liquidity situation has led to an accumulation of arrears (2.3 percent of GDP). Annual payroll in 2014 (including the security sector) is about US$114.6 million (US$9.5 million on a monthly basis) and represents on average 46 percent of the government’s current expenditures from 2009 to 2013. The total number of State employees of 30,759 include security and police who constitute 39.4 percent or 12,123 personnel according to the latest available payroll
Improving validity and consistency of Human Resource and payroll records. A 2010 PEFA report rated controls over payroll as “D”. The report identified several weaknesses in the reconciliation of human resources (HR) records and the payroll database. These issues remain relevant to date. These HR records have been in place since May 2007 with UNDP assistance and were the result of a census that identified approximately 1,000 ghost workers. The personnel records for public servants are not regularly updated, confirmed by the integration of new staff directly in the payroll system without prior incorporation into the HR database. This has resulted in a 16.9 per cent increase in total payroll between January and December 2013. Inconsistencies between the two sets of records give rise to the existence of a new category of personnel (“Hors Statuts” equivalent to 604 persons) in addition to ghost workers. In 2009, the Government introduced direct transfer of the payroll to civil servants’ bank accounts (banking payroll) and secure civil servants cards. In the absence of reliable real-time civil service records, however, this secure method of payment is not sufficient, hence the need for a new update. Since 2009, no audit has been performed to control either the statutory staff positions in the ministries or to control their numbers. The emergency nature of this project will require the adoption of simple but efficient processes, using traditional registration procedures. However, the operation will also pave the way for a biometric approach to be introduced in the medium term together with the consolidation of civil servants and payroll records into a single computerized database.

Public administration. The already weak capacity of the public administration has deteriorated further as a result of the crisis. The core ministries lack skilled staff. Office equipment and supplies have in many cases been looted, affecting the ability of staffs to deliver public services. The population largely depends today on humanitarian assistance provided by UN agencies and Non-Government Organizations (NGOs). For example, the stock of medical supplies in health centers is running out. Education services in rural areas have been limited a situation greatly exacerbated by the crisis. Teachers have left their job among other reasons because they are not paid and/or infrastructures have been partly destroyed in many areas. In view of the need for resuming the provision of basic services for the population in this post-conflict environment, paying civil servants is critical in securing their presence and effective work and a step towards establishing legitimacy and government authority to govern. In some post-conflict situations, donors supplement government wages as a mean of getting basic minimum staff in place to perform government functions and/or finance civil service salaries to create an immediate impact on key social sectors such as primary and secondary schools. This project will be complemented by other Bank interventions in the health sector (Emergency medical response, US$15 million, through restructuring of an existing project) and possibly in the education sector (a US$ 23 million Global Partnership for Education project under consideration). Both projects will focus on infrastructure rehabilitation and equipment in health centers and schools. Taken together, this package of interventions increases the likelihood that the payment of civil salaries will effectively translate into improved public service provision.

**Relationship to CAS**

The proposed project is consistent with the World Bank’s Country Partnership Strategy (CPS) for the Central African Republic, as well as with the Government emergency program (Feuille de Route) adopted in 2013 by the National Transitional Council (NTC) and linked to cross cutting themes related to the re-deployment of public administration and improvement of Public Finances.
The project would strengthen the Government capacity to either absorb budget support in the future, and to implement longer term development projects to come as part of future strategies, as stabilization takes hold.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to facilitate the resumption of key government functions for the delivery of selected basic services in targeted ministries.

Key Results (From PCN)

The PDO level results of the project would be measured using the following key indicators:

a) Improved effectiveness of payroll controls (PEFA assessment indicators);
b) Number of supported directorates in the MoF that have reestablished the basic functions (number);
c) Percent of teachers and health workers who have resumed work in targeted areas (percent).

III. Preliminary Description

Concept Description

The project has two components: (i) payment of current salaries and (ii) technical assistance to core directorates in the Ministries of Finance and Civil Service. To this end, in a sequenced manner, the project will (i) update HR and payroll databases with the view to lay the ground for an improved civil servant’s management system; including the integration of the civil service files and payroll into a single computerized database; (ii) finance current salaries of civil servants upon production of presence certificate on the job; (iii) strengthen the revenue-generating Directorates as to enable the government to gain additional fiscal space; and (iv) re-establish basics control over the expenditure chain and cash management.

Proceeds of the project will not be used to pay salaries arrears, pensions, military and other security and defense forces. This category will be covered by Government’s own resources as well as by resources made available by other development partners. The project components are designed with a view to (i) complementing each other, (ii) strengthening of the country’s public financial management system and; (iii) establishing synergies with support provided by other multilateral and bilateral partners.

Project Components

Component 1: Payment of current salaries (US$27.5 million). This component aims to pay civil service salaries in civilian sectors (excluding the security forces and police). Payment of salary and pension arrears will be covered by Government resources when the fiscal space permits. This component includes two subcomponents: (a) update of the HR and payroll databases; and (b) payment of the current salaries to eligible civil servants. The payment of salaries will be made to staff if they have re-authenticated themselves as being validly on the payroll while continuing to update the payroll database and strengthening the system. This will be done by the production of presence certificate, “Attestation de presence” for each staff. These certificates aim to ascertain that the staff is still in the country and is available to resume work in its line ministry (particularly health, education and finance) either in Bangui or at identified locations depending on the security situation. A process will be established to handle disputed cases, but these will not prevent the
payment of staff validly on the payroll. To ensure success of the presence certificate procedure, a communication campaign will be conducted in the appropriate media. In order to speed up implementation, the payroll clean-up is being processed prior to Board approval with UNDP which has prior experience of the systems in CAR. Given the emergency, Government intends to pay two months of salary to calm the fragile situation using resources already disbursed by ECCAS (mainly from Angola and Republic of Congo). Based on the scenario whereby existing donor commitments would be honored (from ECCAS, IMF, WB, UNDP, and France) the authorities should have enough resources, including the present operation, to cover civilian and military payroll for a period of at least nine months. It is expected that, the sound basic internal control procedures in the payroll process will encourage other donors, to cover additional months of salaries and recurrent costs through budget and investment support.

Subcomponent 1.1: update of the HR and payroll databases (US$500,000). This subcomponent aims to update HR records and payroll databases. This will allow for (i) elimination of ghost workers and, (ii) reclassification of retired civil servants in the appropriate pension database. In the next steps, the update will incorporate new civil servants, such as the primary teachers “vacataires” (previously financed by the Bank-funded education project under way before the crisis). The verification process will contribute to update wage arrears accumulated over years. The secure ID card for civil servants distributed in 2007 and the banking payroll initiated in 2009 will facilitate the updating of databases. This component will be implemented by UNDP which will assist government departments in the update of the databases with the view to lay the ground work for more ambitious civil service reforms and modernization of the systems. A clear communication strategy will also be formulated and rolled out to inform civil servants to the procedures and steps for updating the HR and payroll databases.

Subcomponent 1.2: payment of the salaries of eligible civil servants excluding the military and police (US$27 million). This subcomponent supports the definition of eligibility criteria and the payment procedures that will be channeled from the Central Bank to commercial banks to the extent possible given the limited coverage of the banking network in the country. UNDP in collaboration with the relevant Directorates of the Ministry of Finance will assist in the payment process. The General Inspectorate of the Ministry of Finance, which has some experience and reasonable capacity, will verify the continued physical presence of staff in the workplace on a sample basis. With the resources allocated, the project would finance four months of civil servant salaries in non-security sectors.

Component 2: Technical assistance to core directorates in the Ministries of Finance and Civil service (US$1.5 million).

This component aims to equip core Ministry of Finance (MoF) and Ministry of Public Service directorates with a minimum capacity for a better revenues collection including treasury management, budget execution and transparency. The Bank will seek additional resources through Trust Fund to scale up the impact of these activities and to resume the PFM and civil service reforms agenda as to enhance the sustainability of the operation and progressively move from emergency support towards the state building agenda.

The component includes three subcomponents: (a) Technical Assistance in a targeted number of MoF Directorates (Customs, Taxes, Treasury and Public Accounts, Budget and Information Systems) and HR Directorate in the Ministry of civil service, (b) equipment support for
strengthening the institutional capacity of the Directorates of customs and taxes, and (c) support to the PFM reform unit

Subcomponent 2.1: Technical assistance for the Directorates of Customs, Taxation, Treasury and HR (US$750,000). The purpose of this subcomponent is to have a targeted number of Directorates in the Ministry of Finance in good standing to undertake basic functions related to the effective and transparent management of public funds. This subcomponent will leverage reforms initiated as part of Bank’s previous operations in the areas of budget preparation, and reporting, and treasury management. The selection of the Directorates is made to complement the ongoing technical assistance from other donors (France, EU, and AfDB). The Bank focus as mentioned would be on the revenue-generating Directorates and Public Treasury with a view to improving revenue mobilization, cash management and reinforcing budget preparation and execution procedures so as to restore budget discipline. Technical assistance provided to the HR Directorate will kick off the work towards sustainable Civil Service Reform. This subcomponent will be implemented over 18 months by a consulting firm and will include on the job training on new procedures, systems and techniques.

Subcomponent 2.2: Equipment of the Directorates of Customs, Taxation and Treasury (US$500,000). The purpose of this subcomponent is to equip the above-mentioned Directorates with IT equipment that will contribute to monitoring revenues. More specifically, the Ges’Co application software will be restored with the objective of increasing transparency in public finances. In addition, the project will provide institutional support to CS REF so as to equip this entity with the expertise-appropriate skills needed to oversee the country’s economic and PFM programs. The sub-component will also initiate the strengthening of these directorates.

Subcomponent 2.3: Support to PFM reform unit (Cellule de Suivi des Réformes Economiques et Financières) and project operating costs (US$ 250,000). The purpose of this subcomponent is to provide institutional support to CS REF so as to properly oversee the implementation of the government economic program and the joint fiduciary framework including the proposed project coordination. The audit of the project will also be financed under this component.

IV. Safeguard Policies that might apply

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