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INTERNATIONAL FINANCIAL CORPORATION

MILTILATERAL INVESTMENT GUARANTEE AGENCY

AND

AFRICAN DEVELOPMENT BANK

JOINT COUNTRY PARTNERSHIP STRATEGY (CPS)

FOR

CENTRAL AFRICAN REPUBLIC

FOR THE PERIOD 2009 -2012

JULY 31, 2009

Central Africa Department (Country Management Unit AFCC1)
The African Development Bank (Central Region Department - ORCE)

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CURRENCY EQUIVALENTS

Exchange Rate Effective December 1, 2008

Currency Unit	=	Franc CFA
US$1	=	509 FCFA
UA 1	=	1 SDR
UA 1	=	US$1.495071
UA 1	=	736.928 FCFA
1 FCFA	=	US$0.002

FISCAL YEAR

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ABBREVIATIONS AND ACRONYMS

ACC	Anti-Corruption Committee
ADF	African Development Fund (*Fonds africain de développement)*
AEPA	Drinking Water Supply and Sanitation
AFLEG	African Forest Law and Governance
AfDB	African Development Bank
APRD	Popular Army for the Restoration of the Republic and of Democracy
AWF	African Water Facility
BEAC	Bank of Central African States
BONUCA	UN Peacekeeping Office in CAR
CAP	Common Approach Paper
CAR	Central African Republic
CASA	Conflict-Affected States in Africa
CBFF	Congo Basin Forest Fund
CEMAC	Monetary and Economic Community of Central Africa (*Communauté Economique et Monétaire des Etats d'Afrique Centrale*)
CFA	African Financial Community (*Communauté Financière Africaine)*
CFAA	Country Financial Accountability Assessment
COMIAF	Forestry Commission of Central Africa
CPC	Permanent Framework for Dialogue between the Government and the Private sector
CPS	Country Partnership Strategy
CRN	Country Re-Engagement Note
DSDSR	Rural Sector Development Strategy Paper
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
ECCAS	Economic Community of Central African States (*Communauté Économique des États d'Afrique Centrale, CEEAC)*
EFA/FTI	Education for All/Fast Track Initiative
EITI	Extractive Industries Transparency Initiative
EMGRG	Economic Management and Governance Reform Grant
ENERCA	National Electric Utility
ERSP	Economic Reform Support Program
EU	European Union
FDPC	Democratic Front of the Central African People (*Front démocratique du peuple centrafricain)*
FDS	Defense and Security Forces
FSF	Fragile States Facility
GBV	Gender-Based Violence
GESCO	Budget Directorate Automated Expenditure Recording System
GICA	Groupement Interprofessionnel de Centrafrique
GSM	Global System for Mobile Communications (*Groupe Spécial Mobile)*
HDI	Human Development Index

HIPC	Highly Indebted Poor Countries Initiative
IFC	International Finance Corporation
IGE	General State Inspectorate
IGF	General Finance Inspectorate
IPD	Inclusive Political Dialogue
JCPS	Joint Country Partnership Strategy
JISN	Joint Interim Strategy Note
JSDF	Japanese Social Development Fund
LIC	Low-Income Country
LICUS	Low Income Countries Under Stress initiative
MDG	Millennium Development Goals
MDRI	Multi-lateral Debt Relief Initiative
MDRTSP	Multi-Country Demobilization and Reintegration Transitional Support Program
MEPCI	Ministry of the Economy, Planning and International Cooperation
MIGA	Multi-Lateral Guarantee Agency
MFB	Ministry of Finance and the Budget
MLCJ	Movement of Central African Liberators for Justice
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
OCSS	Social Security Authority
OHADA	Organization for Harmonization of Business Law in Africa
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PACEBCO	Congo Basin Ecosystem Conservation
PARCPE	Support Program for the Rehabilitation of Economic Planning Capacities
PARD	Popular Army for the Restoration of Democracy
PARE	Support Program for Economic Reforms
PBC	United Nations Peace Building Commission
PBA	Performance-Based Allocation
PCDAGV	Community Project for the Development and Support of Vulnerable Groups
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PPAC	Comprehensive and Extended Multi-Annual Vaccination Program
PPIAF	Public Private Partnership Advisory Facility
PRGF	Poverty Reduction and Growth Facility
PRODEBALT	Lake Chad Basin Regional Development Project
PRSP	Poverty Reduction Strategy Paper
REED	Reducing Emissions from Deforestation and Forest Degradation
REER	Real Effective Exchange Rate
RIAS	Regional Integration Strategy
SDR	Special Drawing Rights
SIP	Small Investment Program (MIGA)
SME	Small and Medium Enterprises
SPF	State and Peace-building Fund
TDRP	Transitional Demobilization and Reintegration Program for the Great Lakes
TSA	Treasury Single Account
UA	Unit of Account
UFDR	Union of Democratic Forces for Unity
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDP	United Nations Development Program
UNPC	National Union of Central African Employers (*Union Nationale du Patronat Centrafricain)*
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group
WEF	World Economic Forum

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Task Team Leader:	Katrina Sharkey	Task Team Leader:	Mamadou Diagne
Task Team Members:	Luc Razafimandimby Victoria Gyllerup Jelena Pantelic Nellie Sew Kwan Kan Milaine Rossanaly		

INTERNATIONAL FINANCE CORPORATION		MULTILATERAL INVESTMENT GUARANTEE AGENCY	
Vice President:	Thierry Tanoh	Vice President:	Izumi Kobayashi
Country Director:	Yolande Duhem	Chief Economist & Director, Economics & Policy Group:	Frank Lysy
Resident Representative and Task Team Leader:	Justin Kouakou	Sr. Risk Management Officer:	Thomas Vis
Strategy Unit:	Frank Douamba		

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EXECUTIVE SUMMARY

i. **The Central African Republic (CAR) is one of the poorest countries in Sub-Saharan Africa.** Following presidential and legislative elections in 2005, CAR's political situation has improved. Political reconciliation launched in early 2008, including a ceasefire agreement with the main rebel group and a peace accord between the Government and the opposition parties have been concluded successfully. This led to the Inclusive Political Dialogue (IPD), which includes formation of a Government of National Unity; revised status of political parties, and the separation of powers. The IPD, which also aims to ensure transparent and fair national elections in 2010, and implementation of decentralization, shows early promise, but its implementation remains unfinished. Overall, national reconciliation is progressing, while the security situation remains fragile.

ii. **Sustained progress will be needed to bring about lasting peace and economic recovery.** CAR's challenges are magnified by the impacts of the global economic crisis on the country's growth and on tax and export revenues. CAR has nevertheless shown its commitment to sustaining a good macroeconomic program, governance reform, and service delivery improvements. The Government reached the HIPC Decision Point in 2007 and is on track to reach HIPC Completion in mid-2009. Hence, the country's prospects are good for achieving development results and improving the quality of life of CAR's citizens, but continued reform and support from the international community is necessary to ensure stability.

iii. **CAR's Poverty Reduction Strategy Paper (PRSP), covering the period 2008-2010, was validated by development partners at the Brussels Round Table in October 2007.** The PRSP continues to constitute the reference document for programming external support. It consists of four strategic pillars:

Pillar 1: Restore security, reinforce peace efforts and prevent conflict;
Pillar 2: Promote good governance and the rule of law;
Pillar 3: Rebuild and diversify the economy; and
Pillar 4: Develop human resources.

iv. **The Country Re-Engagement Note of mid-2004 marked the re-establishment of the World Bank Group's relationship with CAR,** following a period of suspension due to CAR's extended instability and accumulation of unsustainable arrears. The CRN remained in effect until it was superseded by a Joint African Development Bank/World Bank Interim Strategy Note (JISN) for FY2007-2008. The JISN sought to harmonize support from CAR's key development partners, and to demonstrate their shared resolve to (a) address the country's aggravated arrears problem; (b) facilitate access to the Highly Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI); (c) support Government efforts to provide basic services; and (d) reinforce Government action to stabilize the social and political environment.

v. **Many of the activities launched under the JISN are still in progress**. The total committed World Bank portfolio of US$76 million and AfDB portfolio of UA 41.8 million (US$62.6 million) provide targeted support to economic governance, capacity development, and basic service delivery. Despite huge capacity constraints and an unfinished peace-building process, the efforts undertaken jointly by the two banks are beginning to produce tangible results. Going forward, the concessional funding limitations under IDA and ADF respectively highlight the need for innovative approaches and instruments including trust funds, vertical funds, and other resources promoting regional integration. Total current and potential financing from the WBG for the CPS period is estimated at US$181 million.

vi. **This Country Partnership Strategy (CPS), prepared jointly by the World Bank Group (WBG) and the African Development Bank (AfDB),** lays out the strategy and planned lending and non-lending support from the two institutions to CAR for the FY09-12 period (July 2008-June 2012). For the first time, the CPS integrates the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) into the partnership. The CPS builds on results achieved under the JISN, and sustains and deepens support provided through current programs. The CPS provides support to PRSP Pillars 2 (governance) and 3 (diversification), with limited WBG support to PRSP Pillar 4 (human development). Analytical and advisory work by the two institutions will target priority sectors and topics where information gaps hamper sound policy making and appropriate donor responses. The CPS sends a clear message that, following its protracted absence, the international community is ready to sustain support to CAR's efforts to achieve sustainable development results.

vii. **The CPS is selective** based upon CAR's priority needs, the comparative advantages of both banks, and harmonization/coordination with other donors. Coordination is particularly critical with the United Nations Development Program (UNDP) and other partners with specific mandates in the areas of peace and security. The CPS also optimizes the joint response through increased WBG presence on the ground.

viii. **By the end of the CPS period, the following outcomes are expected:**

PRSP Pillars 2 and 3, with WBG and AfDB support:

- Improved public finance management, revenue mobilization and governance;
- Improved transparency and accountability in natural resource management;
- Improved investment climate and opportunities for private sector-led growth;
- Strengthened economic infrastructure;
- Improved access to basic urban and local community infrastructure; and
- Increased agricultural productivity and commercialization.

Pillar 4, with limited WBG support:

- Improved access to and quality of education and health services.

ix. **CPS implementation is susceptible to five broad risks**:

- The *first* is a risk of sporadic violence in the north and center of the country. In addition, CAR's landlocked position in an unstable sub-region makes the country susceptible to destabilizing influences from the cross-border movement of armed rebel groups.

- A *second* risk stems from CAR's exposure to shocks and its vulnerability to negative impacts on its current account, reserves, revenue, and growth. The global economic crisis, combined with other external shocks and security issues, has had a negative impact on these variables.
- *Third* is a risk associated with popular expectations of the Inclusive Political Dialogue (IPD) launched in 2008, which promises a return to peace, stability and a better quality of life. CAR's state institutions, including the police and judiciary, remain fragile and underdeveloped. Widespread unemployment, and the perception that the early peace has not yet yielded tangible benefits, poses a risk to stability.
- A *fourth* risk is that the legacy of corruption and abuse of power may continue to thwart effective policy implementation and Government's ability to regain the population's trust.
- *Fifth* is the risk of Government's weak capacity to implement reforms.

x. **In recognition of these risks, the CPS provides support and incentives for CAR to persist with reform efforts.** It also provides for close monitoring of the macroeconomic situation by both banks in collaboration with the International Monetary Fund. In addition, the CPS provides for projects targeting community development and service delivery improvements, to help mitigate risks of instability. The IFC and MIGA will explore employment creation through expansion of private sector development opportunities. Projects will be designed using emerging good practice from the World Bank's Governance and Anti-Corruption (GAC) Initiative in order to offset corruption risks, monitor achievement of results, and strengthen local implementation capacity. Should the macro-economic situation change in the course of CPS implementation, the WBG would also re-consider the balance between investment lending and development policy lending.

Transition to Peace and Stability in CAR

A View from Kaga-Bandoro[1]

Kaga-Bandoro, population 68,000, stretches along the busy road 200 miles north of Bangui. It is beginning its rebirth as a vibrant prefecture. Waves of violent conflict had devastated Kaga-Bandoro since civil war broke out in 2002. When humanitarian organizations arrived there in 2007, more than 22 percent of the population had been suffering from long periods of displacement and insecurity. As the local field coordinator of the International Rescue Committee (IRC) described the situation, "More than 28,000 people, who had been forced to live 'hunting and hiding' in the bushes for about two years, were slowly starting to resettle along the road."

Today, Kaga-Bandoro has drinking water holes, primary and vocational schools, a community center, pharmacies, a Gender-Based Violence (GBV) Group, and a functioning hospital providing pediatric care to thousands of children. More than a dozen international NGOs are now shifting their support from emergency to durable solutions. Their work continues to be difficult due to the population's persistent lack of trust in the authorities.

As security begins to return to CAR's villages, development interventions are helping to rebuild trust and foster community development. In Kaga-Bandoro today, children talk about their future and women are finding ways to increase their household income. Organizations such as the GBV Center are ensuring that victims of sexual violence have access to psychological support and training to help them generate income. Primary school enrollment is increasing and community teachers are being recruited.

***Marie**, a refugee from the Democratic Republic of Congo, explains how the skills acquired at the GBV Center helped her regain confidence in herself and start a small business. **Evelyne**, a victim of domestic violence, describes the change in family dynamics when she transferred her newly acquired soap-making skills to her husband "He is now producing soap while I cultivate vegetables," says Evelyne. "He is no longer violent with me or the children and I am able to talk to him about things."*

*The ranks of children attending community schools are swelling rapidly, but teacher availability remains limited. The community school at Patcho in Kaga-Bandoro prefecture is bursting with 236 pupils served by 3 community teachers. Children's enthusiasm, however, is insuppressible: "I want to be a pilot," says **Sylvain;** "I want to be a doctor to help the family," says **Vincent;** and many others follow the chorus.*

Kaga-Bandoro is a telling example of many villages in the northern part of Central African Republic. After years of displacement, people are slowly returning to normalcy. Community projects, youth empowerment, and gender-based initiatives supported by international organizations are producing results.

[1] Names of individuals have been changed to protect privacy.

I. COUNTRY CONTEXT AND RECENT DEVELOPMENTS

A. Country and Political Context

1. **CAR is a country of some four million people and is endowed with rich forest and mineral resources and geographically located at the cross-roads of Sub-Saharan Africa. Approximately 20 percent of the population lives in Bangui, the capital city. The country is also at the cross-roads of transition from extended instability to a new phase of peace and nation-building and economic recovery, for which sustained support from the international community is required.** CAR's wealth in natural resources belies the fact that CAR remains one of the least developed countries in the world (ranking 178th out of 179 on the 2008 Human Development Index), in part due to its landlocked position, weak institutions, poor transportation system, unskilled work force, and political and military crises. The country was an aid orphan up to 2006, when a spike in donor support was used to clear CAR's arrears to the World Bank and the AfDB. Overall donor flows have increased since 2006, but the volume of external assistance remains largely insufficient to support the country's efforts to maintain stability and attain many of the Millennium Development Goals (MDGs).

2. **CAR's political and security situation remains fragile, exacerbated by the insufficient presence of central authority in some parts of the territory.** The country has endured years of political instability and episodic low-intensity conflict, all of which have led to the destruction of much of its infrastructure and social fabric. In March 2003, the country underwent a regime change and the establishment of a transitional government, which successfully held national elections in 2005 resulting in the free election of the incumbent President and his allies.

3. **Central to the Government's vision is the consolidation of peace through dialogue and rebuilding of trust.** Peace talks resulted in a peace agreement with the key rebel groups: the *Front démocratique du peuple centrafricain* (FDPC) and the *Union des forces démocratiques pour le rassemblement* (UFDR) in 2007, and the *Armée populaire pour la restauration de la république et la démocratie* (APRD) in mid-2008. The peace process led to the holding of an Inclusive Political Dialogue (IPD) in December 2008 which involved the ruling party, all opposition parties, rebel groups, civil society, and major religious groups. The IPD led to agreements to form a Government of National Unity, revise the status of political parties and the separation of powers, hold transparent and fair national elections in 2010, and implement decentralization, including municipal and regional elections. The National Unity Government, headed by the incumbent president, was formed in January 2009, but the short-term security situation remains uncertain because of sporadic violence, especially in the north and northeast. Some rebel movements (the *Front démocratique du peuple centrafricain* (FDPC) and the *Mouvement de libération centrafricaine pour la justice* (MLCJ)) accuse the Government of mishandling the disarmament and reintegration process by withholding financial assistance for their former combatants, and threaten to end the peace process. In this context, the UN Peace-Building Commission (PBC) adopted a Strategic Framework 2009-2011 for CAR in May 2009 to focus on security sector reform, governance and the rule of law, and support to development hubs. The prospects for lasting political stability will depend on how faithfully the IPD recommendations and the UN PBC's Strategic Framework are implemented and, in particular, on the successful organization of presidential and parliamentary elections in 2010.

B. Economic Context and Outlook

4. **CAR's economy is dominated by the primary sector, which accounted for 52.2 percent of GDP in 2008, followed by the tertiary sector (30.5 percent) and the secondary sector (12.1 percent).** Subsistence agriculture (28.5 percent of GDP) and livestock (12.5 percent of GDP) are the main activities in the primary sector. Forestry, extractive industries (mainly diamonds), and export crops (coffee and cotton) contribute a smaller percentage of GDP, although these sectors are the main sources of export revenue.

5. **Since 2004, economic recovery has gained momentum as the country has begun to recover from the long period of instability.** Real GDP increased from -4.6 percent in 2003 to 4.2 percent in 2007 during a period which was marked by the implementation of key reforms. Despite decreasing public investment, overall investment has increased, supported by private investment in the mining, forestry and telecommunications and transport sectors. Foreign investment increased and regular payment of public wages supported higher demand and consumption. Poor infrastructure, insecurity in rural areas, lack of adequate extension services, and declining performance of cash crops (coffee and cotton) as a result of declining international prices and insecurity, have led to relatively low growth in agriculture.

6. **Over the course of 2008, CAR's economy has been affected by the changing international environment and a number of shocks** (breakdown at the main hydropower plant, with concomitant power outages; the increase in oil and food prices; and appreciation of the Euro against the US dollar). The real GDP growth rate was estimated at 2.2 percent in 2008 against pre- crisis projections of 4.9 percent. The global economic slowdown has negatively impacted CAR's exports, which declined by more than 20 percent in 2008 compared to 2007 (Box 1). Furthermore, weak external financing has led to a decline of public investment, which contributed to slowing of the pace of growth in 2008.

7. **Economic recovery is likely to be gradual, with a projected 2.4 percent growth rate in 2009 and average growth of 4.0 percent over the CPS period (2009-2012).** Such a scenario pre-supposes improved security; regular public wage payments to sustain internal demand and social stability; and greater investment (which is projected to rise from 10.2 percent of GDP in 2008 to 14.2 percent by 2012) in electricity, roads, telecommunications, and other areas critical for growth. This scenario also pre-supposes: (a) decisive domestic reforms, including governance reforms in the mining and forestry sectors; (b) improvements in the business climate, including increases in credit to the private sector; and (c) employment gains in the industrial and service sectors.

8. **CAR has had a Poverty Reduction and Growth Facility (PRGF) program over 2007-2009 with the IMF, which has remained on track. The fourth review of the PRGF was conducted in April 2009 and discussed by the Board of the IMF in June 2009.** Sound macroeconomic policy has improved CAR's performance in meeting the regional economic convergence criteria set by the Central African Economic and Monetary Community (CEMAC). The regional monetary arrangements and monetary policy of the regional central bank, BEAC *(Banque des états de l'Afrique centrale)*, have kept average inflation below CEMAC's economic convergence criterion between 2004 and 2007. However, the compound effect of higher food and oil prices in the first semester of 2008 led to temporarily higher inflation in 2008, estimated at

9.3 percent. Inflation is projected to fall under the CEMAC criterion over the CPS period.

Box 1: Impact of the international financial crisis on CAR

The main impact of transmission of the international financial crisis has been the weakening of world demand and prices of commodities, which led to a decline in economic activity especially in the forestry and mining sector which account for approximately 82 percent of exports.

Forestry sector: In 2008, timber exports fell by 24.1 percent compared to 2007 and by 36.8 percent compared to pre-crisis projections. Six out of 9 timber companies closed their wood processing units, resulting in the layoff of 1335 employees and a decrease of 28 percent of the wage bill in this sector, which is one of the few formal industrial activities of the country. The share of the forestry sector in GDP dropped by 1.9 points between 2007 and 2008. The downward trend of timber demand is expected to continue in 2009, according to the International Tropical Timber Organization (ITTO).

Mining sector: Diamond exports in 2008 fell by 25.5 percent compared to 2007 and by 38 percent compared to pre-crisis projections. Taxes collected from diamond exports dropped by 18 percent between June 2007 and June 2008. Several small scale mining sites have stopped their activities while the large mining companies have started to cut down on their investment and production programs.

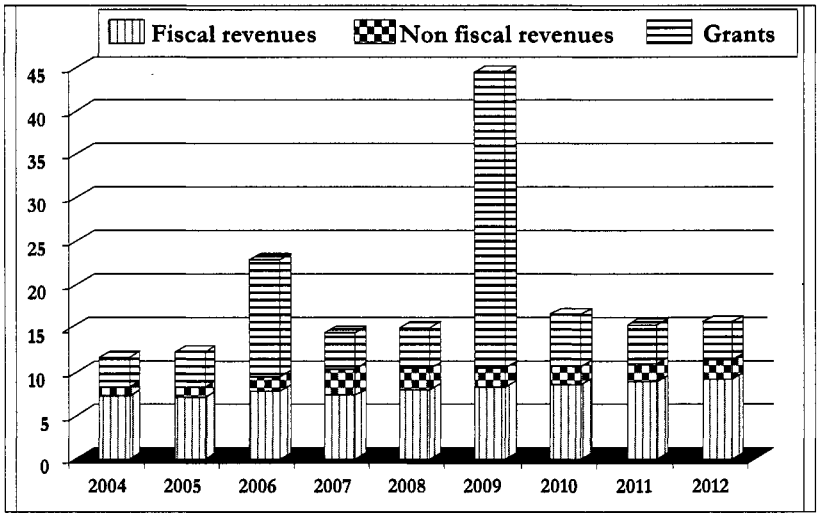
External accounts: Export of goods has declined by 23 percent in 2008 against pre-crisis projections of 17.6 percent increase, and are projected to decline further (-17 percent) in 2009. This situation has resulted in an increase of the current account deficit (including transfers) from -6.1 percent of GDP in 2007 to -9.9 percent in 2008.

Public revenues: Compared to pre-crisis projections, revenues losses amounted to 23.6 percent of exports taxes and 3.7% of fiscal revenues in 2008. Public expenditures should increase to meet the investments and fiscal stimulus measures needed to support economic recovery and mitigate the impact of the crisis on the forestry sector. This will lead to deficit of the domestic primary balance in 2009.

Economic growth: The global financial crisis has weakened growth to 2.2 percent in 2008 and 2.4 percent in 2009 against 4.2 percent in 2007 and pre-crisis projections of 4.9 percent for 2008 and 5 percent for 2009.

9. **Fiscal policies have been marked by improved domestic revenue mobilization and efficient fiscal consolidation over the recent past (Figure 1).** The domestic primary balance remained positive between 2006 and 2008 due to continued improvement in domestic revenue mobilization, which reached 7.9 percent of GDP in 2008, the highest level since 2003, despite the global financial crisis. Yet tax revenue remains low, even by Sub-Saharan African standards and any gains have been achieved through fiscal consolidation. Tax revenue is projected to average 8.7 percent of GDP over the CPS period. However, in order to maintain a level of expenditure critical for ensuring recovery – estimated at slightly more than 16.5 percent of GDP – the domestic primary balance would be negative in 2009-10, therefore reversing recent trends, before turning positive in the outer years. The overall fiscal deficit, excluding grants, would significantly increase in 2009-10 and remain high compared to performance prior to 2008.

Figure 1: Government Revenue, 2004-2012
(% of GDP)



10. **A substantial increase in tax revenues will therefore be critical for meeting CAR's key fiscal obligations, which include:**

- *the high share of public wages in the budget.* Public salaries and wages represent nearly 50 percent of the recurrent budget, and constraints in the Government's ability to meet these expenses could be a source of social tension and instability.[2] So far, with support from donors, CAR has succeeded in paying salaries on a regular basis. The Government is also undertaking ambitious medium-term reforms aimed at addressing the burden of public wages on the budget while ensuring the quality of public service delivery. To this end, the Government has adopted a new organic framework for public administration, and a revised civil service statute including new remuneration and performance evaluation systems.
- *the significant amount of domestic arrears and debt to commercial banks.* Domestic public debt, including salary and pension arrears, debt to suppliers accumulated mostly during the period of conflict (1998-2003), and debt to commercial banks, represents 22 percent of the 2008 GDP. The Government adopted a settlement plan in November 2008, but lacks the resources to fulfill the settlement arrangements.
- *external debt service.* Even after the HIPC Completion Point is reached around end-June 2009, external debt service obligations (Table 1) will still represent a significant source of outflows.

[2] For instance, a delay in the payment of public salaries in December 2007 led to demonstrations and a public sector strike, and eventually to a Government re-shuffle in January 2008.

Table 1: External Debt Service, 2008-2010
(in US dollars million)

	2009	2010	2011	2012
Multilateral	7.0	1.8	2.1	1.4
Official Bilateral	0.5	4.6	4.6	15.9
Commercial[1/]	0.8	0.4	0.4	2.1
New Debt[2/]	0.2	0.2	0.3	0.4
Total	**8.5**	**7.0**	**7.3**	**19.9**

Note: Includes beyond HIPC assistance and MDRI debt relief.
[1] Debt service to these creditors is subject to participation in the HIPC Initiative.
[2.] Reflects debt service on the projected borrowing needed to close the current account gap as well as the repurchase with PRGF resources of SDR 12.53 million previously drawn under the Fund's EPCA
Sources: World Bank HIPC Unit, IMF.

11. **CAR's external position reflects the country's vulnerability and dependence on foreign aid (Annex 3).** The current account balance is structurally in deficit as a result of significant import constraints, and concentration of exports on primary commodities, which leaves it vulnerable to the terms of trade movement. Following the financial crisis, the current account deficit, including public transfers deteriorated from 6.1 percent of GDP in 2007 to 9.9 percent in 2008. It is projected to remain at the same level until 2012. The deficit on the services account is also forecast to remain high, as a result of import-related services and high transport costs, and the income account would remain in deficit due to interest payments on the external debt. Projected international reserve fluctuations during the CPS period reflect such vulnerability, with an average of 3 months of imports, down from 3.5 months in 2008.

12. **Full delivery of HIPC and MDRI would allow much faster up-front reduction of debt ratios.** A Low Income Country Debt Sustainability Analysis (LIC DSA) performed in May 2009 (Annex 2) shows that, following attainment of HIPC Completion Point, all debt indicators are projected to remain below the relevant thresholds throughout the projection period.[3] These ratios are projected to gradually decline over time, assuming that the main risks are controlled through a prudent fiscal stance, stabilizations measures, and new borrowing on concessional terms. It will remain important for CAR to maintain a stable socio-political environment, in addition to sound policies to support improvement in economic performance.

C. Poverty Profile

13. **CAR still has one of the highest poverty rates in Sub-Saharan Africa, despite its considerable economic potential.** Household survey data, collected with the support of the UNDP, indicate that 67.2 percent of the population lived below the poverty line in 2003.[4] Poverty was higher, at 71.7 percent, in rural areas, which accounted for 62 percent of the population; and in regions that had suffered from armed conflict. It was lowest in the capital, which had the basic social infrastructure and highest economic activity. According to the Participatory Poverty

[3] The scenario assumes that CAR reached the Completion Point in June 2009.
[4] This is based on a monetary definition of poverty, where the national poverty line is equal to CFAF156.079 (US$312) per year per adult equivalent.

Analysis (2007),[5] its three main causes are (a) poor governance, with the main complaint being abuse of power by state officials; (b) insecurity and lack of economic opportunities connected to recent conflicts,[6] which have led to the proliferation of urban banditry and extortion at road blocks, even in areas not directly affected by violent conflict; and (c) low incomes.

14. **Promotion of sustainable human development is one of the four pillars of the PRSP, but the country lacks the means to adequately implement policies and achieve the goals envisaged in the areas of health and education.** Recurrent conflicts have led to a deterioration of all social indicators, making it unlikely that CAR will achieve most of the Millennium Development Goals (MDGs) by 2015. CAR ranks 178th out of 179 countries on the 2008 Human Development Index (HDI). This ranking clearly illustrates the difficult living conditions of the population and the low access to basic social services. Approximately 86 percent of the population has no access to health services, and 41 percent of adults are illiterate. Life expectancy at birth is estimated at about 45 years, about ten years lower than the African average; and HIV/AIDS prevalence, which was 6.2 percent in 2006 for persons 15 to 49 years of age, is the highest in the CEMAC zone. Policies to prevent and treat HIV/AIDS, tuberculosis, and malaria are in place, but the mechanisms for funding and implementation remain inadequate.

15. **Human development and poverty in CAR have been negatively affected by political instability.** The humanitarian situation in some parts of the country remains difficult, and more than one million persons have been affected by violence.[7] Thousands were displaced in 2008, adding to the already 295,000 internally displaced persons and 100,000 CAR refugees living in Chad, Sudan, and Cameroon. Most have sought refuge in urban centers or in rural areas in the south, and as a result have been cut off from their sources of livelihood. Food insecurity and chronic malnutrition are continuing problems, especially in the north, due to low agricultural productivity and poor access to health services and clean water.

16. **CAR occupies the 153rd position out of 177 countries on the UN Gender Development Index.** There are substantial disparities between girls and boys in access to education and literacy levels. The ratio of boys to girls is 65 percent in primary and secondary schools, and 67 percent for literate youth between 15 and 24 years of age. Access to prenatal and childbirth-related care, and to family planning services, is limited. The proportion of births attended by skilled health personnel is about 44 percent, while the maternal mortality rate is estimated at 1,100 per 100,000 births. Women rarely occupy positions of authority in resource management or political life, at either the local or national level. Women hold about 11 percent of seats in the national assembly, and out of 32 members of Government, only four are women. In March 1992, CAR ratified the International Convention on the Elimination of All Forms of Discrimination against Women, and in December 2004 the Constitution adopted guarantees of gender equality. It is also a cross-cutting objective of the 2008-2010 PRSP.

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[5] The qualitative Participatory Poverty Analysis (PPA), undertaken in early 2007, aimed to capture public perceptions of poverty.

[6] Years of conflict have displaced a large proportion of the rural population and destroyed important economic and social infrastructure.

[7] Data from the UN Office for the Coordination of Humanitarian Affairs (OCHA), Consolidated Humanitarian Appeal for CAR, 2008.

II. STRUCTURAL AND SECTORAL DEVELOPMENT AND CHALLENGES

A. CAR's Main Strengths and Weaknesses

17. CAR's considerable economic potential includes: (i) diverse natural resources, with an extended surface of exploitable forest; (ii) favorable conditions for agricultural production; and (iii) extensive mineral potential, including diamonds, gold, uranium, iron and copper. These resources could constitute a solid basis for diversification and wealth creation, if managed in an equitable and transparent way. Since the re-engagement of the AfDB and the World Bank in 2006, the Government has demonstrated its willingness to implement the structural reforms that will contribute to better management of these resources.

18. The root causes of slow economic and social progress in CAR include its geographically landlocked location in an unstable sub-region, and its weak institutions with respect to political, economic and social governance. Key challenges, identified in the PRSP 2008-2010, are: (i) insecurity and weak social cohesion; (ii) weakness of the State's administrative capacity and political and economic governance; (iii) a production system badly damaged by conflict; (iv) poor diversification of the economy; and (v) insufficient supply and low quality of basic socio-economic infrastructure.

B. Governance, Corruption and Public Sector Management

19. ***Governance indicators.*** **CAR's governance indicators are lower than the average for Sub-Saharan Africa,** as confirmed by: (a) the World Bank and EU-led Public Expenditure and Financial Accountability Assessment (PEFA); (b) the World Bank-led Country Financial Accountability Assessment (CFAA), the Treasury Audit report; and (c) UNDP and Transparency International reports on CAR's anti-corruption progress. Despite these weaknesses, CAR has made tangible progress in terms of public financial management, natural resource management, procurement, the fight against corruption, and administrative reform.

20. ***Corruption.*** **CAR has strengthened the legal framework for fighting corruption** and improved its Transparency International ranking from 162 of 180 countries in 2007 to 151 of 180 countries in 2008. CAR has also begun to adopt reforms required under UN anti-corruption conventions. An Anti-Corruption Committee (ACC), including representatives from the Government, civil society, and the private sector was created in March 2008, and is finalizing an anti-corruption strategy. In compliance with the Constitution and a Decree issued in March 2008, Government members and high ranking officials have declared their assets. An Action Plan to address fraud and corruption in mining, forestry, and Treasury has uncovered more than 50 cases of corruption in Treasury and the Tax Directorate. The Government is also engaged in a participatory analysis designed to improve compliance with UN conventions.

21. ***Procurement.*** The Government has also introduced a new Procurement Code, and has established a Procurement Directorate and related regulatory bodies in the health, education, agriculture, and infrastructure ministries. It has also adopted standard bidding documents and procedural manuals. An Action Plan has been adopted to improve procurement standards and provide a framework for donor support in the coming years.

22. ***Public finance management.*** Tax revenue increases have been achieved through regular audits of large enterprises; the introduction of tax identification numbers and an integrated system for use by the customs and tax administrations; and major reductions of subsidies in the oil sector. The Government is currently adopting measures to curb tax exemptions. It is also strengthening the customs administration and implementing reforms aimed at identifying adequate transit regimes.

23. The Government has made tangible progress toward restoring the integrity and credibility in public expenditure management. A Medium-Term Expenditure Framework (MTEF) for health, education, infrastructure, and agriculture sectors is being prepared for the 2010 budget. Expenditure control, which has been instrumental in maintaining fiscal stability, has been strengthened, including restoration of autonomy to the financial control directorate, and supervision of cash management by a Treasury committee headed by the President. Finally, non-donor mandated commercial bank accounts have been closed to achieve a treasury single account (TSA). Basic functional processes, the regulatory framework, and organizational structures responsible for data capture have also been strengthened. Accounting and reporting systems have been improved with the production of quarterly budget execution reports for the first time in CAR, using comprehensive budget classifications already used for the 2008 budget and new accounting classifications. An automated expenditure recording system (GESCO) at the level of the Directorate of Budget is being rolled out at the Treasury to integrate the monitoring and reporting of both systems. Lastly, the 2008 Government Accounts and Execution Law will be presented to the Courts of Account and Parliament, respectively, in the second semester of 2009.

24. ***Natural resource management.*** A recent mining sector review conducted by the World Bank in collaboration with the AfDB confirmed the need for reform of the regulatory framework in addition to capacity strengthening across the sector. Previous mining regulations and licensing practices were found to be unfavorable to investors and to the country. Institutional bottlenecks also reduced the effectiveness of mining sector operations, leading to smuggling, marginal revenue gains for the Government and non-transparent mining practices.

25. CAR became an official member of the **Extractive Industries Transparency Initiative (EITI)** in November 2008, and published its first EITI report in March 2009. A new Forestry Code and a revised Mining Code based on international best practices were adopted in October 2008 and April 2009, respectively. Forestry taxes are now being used for community development schemes under the supervision of an inter-ministerial committee. Permanent and transparent communications have been introduced via newspaper and radio, to inform communities about revenue accruing to them and revenue-sharing mechanisms. Lastly, to ensure access for CAR's timber products into the EU, the country is implementing an Africa Forest Law and Governance (AFLEG) Action Plan to strengthen the legal framework for combating illegal logging and trade, as well as wildlife poaching. These initiatives are expected to enhance transparency and attract investment in CAR's natural resource sectors.

26. ***Public administration reform.*** **CAR's public service faces a huge deficit of professional and technical competencies, resulting in large part from extended periods of instability and human capital flight.** Fifty-two percent of civil servants are over 45 years of age, and the recurrent arrears in the Government wage bill provides little incentive for qualified young Central Africans to take up a public service career. The Social Security Authority (OCSS) has also accumulated a backlog of unpaid pension arrears. Since re-engagement in 2006, development partners have assisted the Government in restoring core functions, especially in economic

governance areas, but a comprehensive reform of the civil service, including improvement of terms and conditions of service and rehabilitation of basic infrastructure, remains a priority.

C. Private Sector Development

27. ***Private sector-led growth.*** CAR's private sector is small by international standards. There are fewer than 25 large companies – defined locally as those with sales of more than US$2 million. The private sector is represented by two professional associations the *Groupement Interprofessionnel de Centrafrique* (GICA) for large companies and the *Union Nationale du Patronat Centrafricain* (UNPC) for small enterprises. Key issues hampering private sector development include: (a) low capacity of SMEs (management, market access and access to credit); (b) weak business environment; (c) high internal debt of the Government to the private sector; (d) tense business-government relations; and (e) unstable electricity supply, which increases the cost of production. The business environment has improved marginally since 2006 due to the establishment of a permanent framework for consultation between the Government and the private sector and the introduction of a one-stop window for licensing (*Guichet unique*) and the reduction from 4 months to 14 days of the time needed to establish a company. However, entrepreneurship in CAR is at an early stage of development, and few new businesses have been established. Further, the few existing foreign businesses have been slow to expand their operations due to unpredictability in the legal and regulatory framework governing the business environment. Pending private sector reforms include a strengthened regulatory framework, and measures to ensure greater transparency in the business environment.

28. ***Competitiveness.*** Inadequate economic infrastructure and scarcity of skilled labor are the main constraints to improved competitiveness. Most businesses are small and informal, and suffer from a chronic shortage of electricity, frequent power outages, high transportation costs, and low production capacity. Conflicts and weak investment in human capital have resulted in a dire shortage of skilled labor.

D. Trade and Regional Economic Integration

29. CAR's progress towards economic integration and access to external markets has been hampered not only by extended periods of instability but also by weak transport infrastructure linking CAR to neighboring countries. CAR is ranked 172nd out of 175 countries with respect to international trade, and its Freedom to Trade index is 51.4 out of 100 compared to 87.4 for the best performing country in Africa. Nevertheless, through CAR's membership in CEMAC, the country has demonstrated commitment to economic cooperation and regional integration initiatives. The Government undertook several actions in 2008 to promote trade and regional integration, including the harmonization of CAR's Trade Code with regional and international instruments. (As a member of CEMAC, CAR applies a most-favored-nation tariff of about 18 percent; and four tariff bands, with the highest being 30 percent, for consumer goods). The Government has also started to upgrade its customs infrastructure to facilitate the implementation of the CEMAC Customs Union. In coordination with its CEMAC neighbors, CAR is negotiating an Economic Partnership Agreement with the EU. In addition, CAR is a signatory to an OHADA (Organization for the Harmonization of Business Law in Africa) treaty which seeks to mainstream a uniform, modernized, legal framework for commercial activities in West and Central African countries which are part of the civil law tradition. Under the terms of the treaty, CAR and 16 West and Central African countries have adopted eight regional laws -- or Uniform

Acts – designed to improve company and contract laws, and arbitration. CAR is also receiving technical assistance from IFC's FIAS Investment Climate unit in an ambitious program of legal harmonization designed to improve registration, credit availability, investor protection, contract enforcement and business closing standards.

E. Sustainable Development

30. ***Infrastructure.*** The vast majority of CAR's population lacks access to even basic infrastructure, and low service levels are exacerbated by poor maintenance of existing infrastructure. The road network is in extreme disrepair, and often impassable during the rainy season. Paved roads hardly exist beyond the Bangui-Douala Corridor (which is not even completely paved). River transport (except for oil products) is marginal, as the Oubangui and Congo Rivers are navigable only four months a year. The net result of poor transport infrastructure is that basic goods are considerably more expensive than in non-landlocked neighboring countries. There is no sewerage network, and the absence of latrines and poor drainage pose critical health risks, including diarrhea and malaria. Urban services such as solid waste collection were discontinued during the war and need to be re-established. Information and communications technology needs are enormous. Urban infrastructure requires significant investment in response to rapid urbanization as the rural population flees lawlessness in outlying areas. This problem is particularly acute in Bangui. The challenges in rural areas are likely to be even more enormous, although data on water supply, sanitation, cooking fuel, electricity, telecommunications, and transportation are scarce and unreliable.

31. More than half of CAR's territory is sparsely populated. Spatial dimensions therefore have an important bearing on economic development. Conflict and violence resulting from the insufficient presence of government in many zones have resulted in significant displacement, including rapid and hazardous urbanization, especially to Bangui where economic activity is concentrated. Secondary cities remain relatively small, but have the potential to become growth poles. While such concentrations of economic activity are desirable for economic growth, the accompanying spatial disparities in welfare levels which accompany the concentration are not. A three-year European Commission program is centered on a development poles approach in secondary cities. The strategy, lending and non-lending support, laid out in the CPS complements the EU approach by focusing both on Bangui as CAR's main economic engine, and on poverty reduction of vulnerable groups in rural areas.

32. ***Energy.*** Energy infrastructure is particularly dilapidated, and power outages are frequent. Less than one percent of Central Africans is connected to the grid of the national electricity utility, ENERCA. Installed electricity capacity includes: (a) two hydropower plants (Boali 1 and Boali 2) with firm capacity of 14.9 megawatts; (b) a hydroelectric and regulation dam (Boali 3) which is not yet equipped with its 10 MW turbines, and operation of which has been pending donor support for many years; (c) a thermal power plant in Bangui equipped with 6 diesel generators, 5 of which are not operational; (d) two transmission lines connecting Boali 1 and Boali 2 to Bangui; and (e) a distribution network. Theft of anti-pilfering devices, especially for lighting, and outdated lines severely limit transmission capacity. The distribution system is also outdated, with losses estimated at 45 to 50 percent of electricity distributed. In 2008, electricity shortages led to an acute crisis, resulting in the breakdown of the Boali 2 hydroelectric station supplying Bangui. In addition to power shortages and high energy losses, ENERCA suffers from

low collection rates, resulting in a dismal financial performance. From the regional energy perspective, CAR is a member of the Central Africa Power Pool, and an interconnection protocol has been signed between the Democratic Republic of Congo and CAR. Priority interconnection investments for the sub-region will be evaluated in the context of a regional interconnection master plan which is currently under development.

33. **Overall, infrastructure needs far outweigh available funds and implementation capacity.** The Government will have to meet these daunting challenges through regional collaborative approaches that can lower costs, especially for the transport, energy and telecommunications sectors. Trade-offs will need to be made between service levels and service coverage. Providing basic infrastructure services in a transparent and equitable manner will help to re-establish credibility and trust in the Government. New infrastructure development and rehabilitation of existing infrastructure assets will have to be combined with improvements to the institutional, financial, and human capacity required to operate and maintain systems. This will include community management in rural and peri-urban areas as well as more formal arrangements, combined with cost recovery, especially for higher service levels such as household connections.

34. ***Agriculture, livestock and rural development.*** CAR enjoys generous water supply and a diversified ecosystem, but only 4.4 percent of arable land is exploited. Some 67.2 percent of Central Africans live below the poverty line, mainly because of low agricultural productivity and lack of access to and from insecure areas, especially in the north of the country. Agricultural growth has stagnated below the population growth rate since the 1980s. The PRSP outlines the core needs for revitalizing the agriculture sector: (a) develop the capacity of rural people and organizations; (b) rebuild the capacity of the Ministry of Rural Development and related sector institutions; (c) intensify and diversify agricultural output; and (d) rehabilitate rural infrastructure.

35. CAR is far from self-sufficient in food, even though food crops (cassava, peanuts, corn, millet and sorghum) occupy 75 percent of cultivated land. The food crisis of mid-2008 depressed food production. More than 80 percent of the rural population is involved in livestock, but production system is dominated by small-scale traditional practices. The Government's Rural Sector Development Strategy Paper (DSDSR) identifies four main challenges for the sector: (a) capacity building of producers and their organizations; (b) intensification and diversification of agriculture production, forestry, fishing and hunting; (c) infrastructure improvements to support production, preservation, storage, processing and marketing; and (d) strengthening of agriculture and forestry institutions. As part of this strategy, the Government also plans to undertake a "Surface Area-Yield Production" survey of major crops. CAR's ability to implement the strategy is however severely undermined by insufficient finance and low institutional capacity.

36. ***Environment and climate change.*** CAR lies across two major climatic zones, the Sahelian to the north and the equatorial to the south, both of which are suffering the effects of deteriorating environmental conditions. While the country is endowed with abundant underground and surface water resources (estimated at 141 km^3/yr and 56 km^3/yr respectively), both water basins are experiencing: (a) a steady decline in volume from year to year; and (b) deterioration of surface water quality, especially from rivers, creeks, and traditional wells. The Government is trying to address the looming environment and climate issues which threaten to accelerate desertification and a decrease in biodiversity. First, CAR has become a member of the Forestry Commission of

Central Africa (COMIAF), and has ratified the international conventions on climate change. Second, a National Environmental Action Plan and the 2008 revised Forestry Code target improved management of forestry and wildlife resources. The Forestry Code aims to improve transparency and competition in the awarding of logging permits, in addition to ensuring outreach to communities affected by the granting of such permits. Under the Code, a share of the forestry royalties and wildlife taxes will be kept in a trust account for forest development, community projects and tourism.

F. Human Development

37. ***Education.*** Education outcomes in CAR are currently among the lowest in the sub-region. Resulting from extended instability, the education system suffered a loss of teachers, destruction of infrastructure, and low investment. In 1990/91, CAR's primary school gross enrollment rate was 71 percent (10 percentage points above the average for French-speaking African countries), but by 2004/5, that rate had increased to only 75 percent (10 percentage points below these countries).[8] In 2007, one child out of four had never attended school, and only 24 percent of attending children completed the primary level. The conditions of instruction, as measured by students per teacher (111:1), students per classroom (100:1) and textbooks per student (1:10) are extremely poor by any standard. Public financing for education accounts for only 3.2 percent of GDP, as against an average of 4.7 percent in Africa. In an effort to reverse the declining trend in CAR's education outcomes, the Government has prepared a National Education Strategy, which provided the basis for successful application to the Education for All-Fast Track Initiative Catalytic Fund which approved a grant of US$ 38.0 million to CAR in December 2008.

38. ***Health.*** CAR's human development indicators are well below the Sub-Saharan average, and health service funding and provision are very poor. About 15 percent of children are underweight at birth and 19 percent are severely stunted. Life expectancy is 39 years. Maternal mortality was 1,355 per 100,000 in 2003[9], compared to 1,100 per 100,000 in 2000 [10], and 986 per 100,000 in 1995[11]. Positive developments include a decline in the child mortality rate (0-5 years) to 176 per 1000 children in 2006[12], from 220 per 1,000 in 2003[13]. In the same period, infant mortality (0-1 years) fell from 132 to 106 per 1,000 infants. Immunization trends are improving, with 89.7 percent coverage for tuberculosis, 83.2 percent for polio, 84.2 percent for diphtheria, and 99.7 percent for yellow fever in 2007. Under-funded and short-staffed public health institutions constrain service delivery. Staff concentration in Bangui is excessive, leaving health posts and hospitals in the rest of the country understaffed. Electricity shortages, and lack of gas and spare parts for generators, hinder hospital operations. Health centers providing preventive and basic curative care are run by autonomous community management committees on a cost-recovery basis, which constitutes a barrier to access for much of the population. In the absence of the State, faith-based and humanitarian organizations and international NGOs also provide substantial health services to the rural population. The PRSP aims to improve health indicators between 2008 and 2010, by increasing access to health services, and reduce maternal mortality (to

[8] Source-: World Bank, Central African Republic Education Country Status Report 2008.
[9] Source: MEPCI, *Recensement Général de la Population et de l'Habitat.*
[10] Source: United Nations MDG data.
[11] Source: World Health Organization.
[12] Source: MEPCI, *Third Multiple Indicator Cluster Survey.*
[13] Source: MEPCI, *Recensement Général de la Population et de l'Habitat.*

1,016/100,000), infant mortality (to 103/1,000), and child mortality (to 147/1,000). Other relevant Government strategies include the National Plan for the Development of Sanitation 2006-2015, the National Strategic Plan to Reduce Malaria, and the Comprehensive and Extended Multi-Annual Vaccination Program 2007-2011 (PPAC).

39. ***HIV/AIDS.*** CAR is the tenth most HIV-infected country in Sub-Saharan Africa. The Government has defined the HIV/AIDS epidemic as a national emergency, and infection rates are thought to be on the increase. UNAIDS estimates HIV prevalence in CAR at about 6.3 percent among persons between 15 and 49 years of age, which is above the 3 to 5 percent rates in neighboring countries. HIV/AIDS and related opportunistic infections are a substantial threat to the country's economic and social development. The most active donors in support of HIV/AIDS prevention and treatment are the Global Fund, German cooperation, France, and USAID. Going forward, an expansion of HIV/AIDS counseling and testing will be needed to slow the upward trend in infection rates. Improved blood safety measures are also necessary, as is better care of patients with sexually transmitted diseases and tuberculosis.

III. CAR'S DEVELOPMENT PRIORITIES

40. **CAR presented its first full PRSP (2008-2010) to the Boards of the World Bank and the IMF in December 2006.** The PRSP (see Box 2 below) was also validated by all of CAR's development partners during a Roundtable held in Brussels in October 2007. The PRSP is built on four pillars: (1) security, peace and conflict prevention; (2) good governance and the rule of law; (3) economic revitalization and diversification; and (4) human development. Gender promotion and sound environmental management are cross-cutting issues of the PRSP.

Box 2: PRSP 2008-2010 Objectives, Pillars, and Expected Results

Vision: The Government's vision, articulated in the Poverty Reduction Strategy, is to build a strong, united, and prosperous nation in conformity with the population's aspirations for peace, security, and good governance.

Major long-term objectives: (a) double per capita income by 2015, based on strong, sustainable, balanced, and equitable growth; (b) expand access to basic social services to strengthen human capital; and (c) establish gender equality, especially in primary and secondary education, by 2015, and eliminate all forms of exclusion.

Pillar I: (a) strengthening of human and material capacity of the Defense and Security Forces (FDS); (b) security sector reform; (c) sub-regional security, non-proliferation of light weapons; and (d) re-establishment of trust between the population and the security forces.

Pillar II: (a) promotion of good governance, rule of law and gender equity.

Pillar III: (a) modernization of agriculture; (b) development of natural resources; (c) art and cultural industries; (d) tourism; (e) transport infrastructure; (f) energy sector development; (g) information and communication technologies (ICT); (h) basic public utilities; (i) economic linkages to the sub-region and the global economy; and (j) renewal of the partnership and coordination framework for foreign aid.

Pillar IV: (a) education; (b) health and HIV/AIDS; (c) youth and sports; and (d) employment generation.

Results expected: (a) average annual growth of 9.5 percent during the period 2008-2010; and (b) reduction of poverty to 56.6 percent by 2010.

41. **The PRSP includes:** (a) strong ownership and participatory process; (b) a useful poverty diagnostic, which drew upon all available data sources; (c) presentation of sector priorities and strategies; (d) presentation of targets mapped to the MDGs; and (e) a high level of public involvement. However, the PRSP would benefit from strengthened implementation and monitoring arrangements and stronger linkages between institutional policies and investment decisions.

42. **The monitoring framework of the PRSP** became active in March 2008; and the Government organized reviews of progress in June and November 2008. The first annual progress report (APR) on PRSP implementation – a trigger for the HIPC Completion Point – was recently finalized. The APR reflected CAR's good progress with PRS implementation in 2008, as well as the Government's efforts to address the most critical binding constraints to poverty reduction and growth, in key areas including political reconciliation, infrastructure, the social sectors and governance. However, the 2008 slowdown in economic growth, coupled with an overall PRSP financing gap, suggests that the overall ambitions of the PRSP may need to be revised if the volume of donor assistance does not increase.

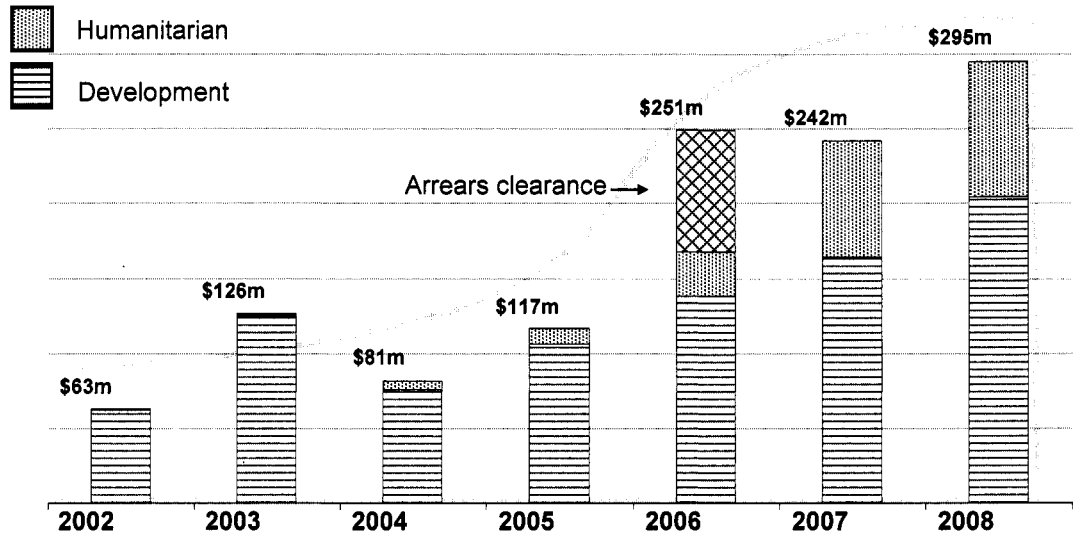
IV. DEVELOPMENT EFFECTIVENESS

A. Overview of Donor Support

43. **As a result of an extended period of instability, CAR received virtually no aid between 2000 and 2006.** In 2006, a small number of donors began to re-engage with CAR, united by their resolve to: (a) address the country's unsustainable arrears; (b) facilitate access to HIPC and MDRI; (c) support Government efforts to provide basic services; and (d) reinforce Government action to stabilize the social and political environment. Official Development Assistance (ODA) to CAR more than doubled in 2006 compared to 2005 – from US$117 million to US$251 million (see Figure 2). However, the increase was mostly targeted to the settlement of CAR's arrears to the World Bank and the AfDB. That aside, donor support to CAR continues to grow.

44. **While the total volume of aid for development has increased, financing needs still far outstrip available resources and the number of partners engaged in CAR remains limited (see Annex 3).** Certain sectors remain seriously underfunded, including health, education, agriculture and rural development. Over the past few years, there has been a significant increase in the humanitarian response led by the UN agencies and some 35 international NGOs. The UN Consolidated Appeal for 2008, for example, reportedly received some US $115 million for humanitarian efforts, largely but not exclusively focused in the north of the country. A similar figure is being sought for 2009. In addition, two peace-keeping missions are currently present in CAR (UN-MINURCAT; and CEMAC MICOPAX). MINURCAT, which is based in Chad and northern CAR, costs some US$315 million *per annum* in assessed contributions from UN member states. Finally, the Bangui-based UN Peace-Building Office, BONUCA, has accessed some US$10 million from the UN Peace-building Fund in support of urgent peace-building activities. At this juncture in the transition to peace, the Government hopes that growing stability on the ground will allow for a progressive shift from humanitarian aid towards more aid for development efforts. Going forward, CAR's ability to maintain stability and attain some of the MDGs will require mobilization of significantly more external resources.

Figure 2: Donor Re-engagement in CAR since 2002



Source: Ministry of Plan, Economy and International Cooperation , DAD aid system.

B. Aid Coordination

45. **The aid coordination mechanism in CAR is designed to support PRSP implementation, which is the framework for all Government and donor interventions.** The mechanism includes: (i) the National Committee chaired by the Prime Minister; (ii) a Government-Donor Committee chaired by the Minister of State for Planning, Economy and International Cooperation; and (iii) Sectoral Committees chaired by the leading ministry for each sector. **The Organization for Economic Cooperation and Development's (OECD's) 2008 monitoring report on implementation of the Paris Declaration[14] indicated that CAR is still far from meeting the Declaration's objectives.** Challenges relate to weak implementation of sector strategies; poor traceability of foreign aid disbursements in the budget; persistent difficulties in the use of country systems; and weak national statistical and monitoring capacities.

46. **Two recent initiatives will help CAR and its partners improve the prioritization and sequencing of donor support in the transition to peace.** *First,* the United Nations Peace-Building Support Office's draft *Mapping of Resources and Gaps for Peace-building in the Central African Republic* (December 2008) presents a useful analysis of ongoing national and international initiatives as a basis for future prioritization and sequencing of donor support. Work is now underway to further elaborate this mapping and to expand it beyond peace-building activities to include all areas of donor support. *Second,* the World Bank, the AfDB and the European Union (EU), launched in 2008 a multi-donor initiative entitled the Common Approach Paper (CAP) to specifically harmonize budget support operations in fragile states from 2010 onwards. The CAP aims to develop a common framework for evaluating the outcome of reforms supported through the budget. A standard Memorandum of Understanding (MoU) between donors and the CAR Government, and a common matrix of policy measures are being

[14] 2008 Survey on Monitoring the Paris Declaration.

developed, to focus on: (a) the macroeconomic framework (under supervision of the IMF); (b) structural measures, including governance, supported by the PRSP; and (c) public financial management-related measures derived from existing analytical work.

V. LESSONS LEARNED FROM THE JOINT INTERIM STRATEGY

The Joint World Bank/African Development Bank Interim Strategy Note (JISN) for FY2007-2008 sought to: (i) support economic recovery and strengthen public sector governance technical capacity development; and (ii) support human development, particularly for the poor. Despite huge capacity constraints, an unfinished peace-building process, and uneven governance, implementation of the JISN has been satisfactory, and has begun to produce results (see Box 3). The key factors accounting for this performance include the collaboration between the AfDB and the World Bank, including a strong commitment of the two institutions to respond jointly to the country's urgent needs. The two banks fulfilled their commitments under the JISN, and responded to emergency situations with timely budget support. This support includes the AfDB's supplementary financing of UA 3.797 million (US$5.68 million) for the Economic Reform Support Program (ERSP) in December 2007, and UA 6.5 million (US$9.72 million) for the ERSP II in October 2008. It also includes the World Bank's emergency assistance of US$2 million in March 2008, followed by the Economic Reform and Good Governance Support Program (US$8 million) in May 2008.

Box 3: JISN FY2007-2008 Outcomes

- ✓ Clearance of external arrears to multilateral creditors;
- ✓ Implementation of structural reforms, leading to attainment of HIPC Decision Point; Control of cash advances for non-salary recurrent expenditures;
- ✓ Adoption of an Action Plan based on institutional assessment of the mining sector; and admission of CAR as an EITI implementing member country;
- ✓ Reintegration of 7,500 ex-combatants;
- ✓ Strengthening of the capacity of communities and domestic stakeholders to participate in PRSP preparation and monitoring;
- ✓ Increased use of voluntary counseling and testing for HIV/AIDS;
- ✓ Control of cash advances for non-salary recurrent expenditures;
- ✓ Implementation of some 80 micro-projects in communities; and
- ✓ Initiation of public works in three Bangui districts, which have created employment and produced concrete infrastructure improvements.

47. **JISN implementation also yielded important lessons for future engagement in CAR,** including the need to (a) strengthen the linkage between strategic objectives and specific outcomes; (b) focus on basic infrastructure and service delivery as priority needs; (c) shift from a short-term emergency approach to one of longer-term economic recovery; and (d) assist the authorities in consolidating peace and security and strengthening the ownership of reforms by CAR stakeholders.

48. **AfDB portfolio.** The active portfolio of AfDB operations in CAR as of January 2009 comprised four projects totaling UA 41.8 million (US$ 62.6 million), of which 29.0 percent, has been disbursed. (This rate is 86.35 percent excluding the Program for the Facilitation of Transport on the Douala-Bangui and Douala-Ndjamena corridors, which is a regional operation). Multi-sector projects comprise UA 12.8 million (US$19.1 million), or 30.57 percent of AfDB's total

portfolio in CAR; the public utilities sector, which enjoys the support of the African Water Facility, comprises UA 1.2 million (US$1.9 million) or 3.04 percent; and the transport sector comprises UA 27.8 million (US$41.5 million), or 66.39 percent. The portfolio is young, with an average project age of 1.4 years. Its performance is satisfactory, with an overall score of 2.4 on a scale of 3.

49. **World Bank Group portfolio.** In 2006, the World Bank, the AfDB, the European Union, and France re-engaged with CAR, following five years of the country being in non-accrual status. The WB portfolio became active in November 2006, and since that time, the following projects have been approved: Emergency Urban Infrastructure (US$18.0 million), Emergency Food Response (US$7.0 million), (restructured) Multi-sectoral HIV/AIDs, Health and Education Emergency Support (US$17.0 million), Emergency Energy (US$8.0 million), and Vulnerable Groups Community Development (US$8.0 million) The Bank also supported the CEMAC Regional Trade and Transport Facilitation Project, with an allocation of US$24.0 million to CAR, and the CEMAC Regional Financial Institutions project with an allocation of US$5.0 million to CAR. As of June 30, 2008, ***IFC*** had no committed portfolio in CAR, but recently posted a Representative in Bangui, whose main duties are to help improve the country's business environment and investment climate, build institutional capacity in regulatory bodies to enable reforms, reassure and support investors through the development of an active portfolio, help local financial intermediaries to develop products for the SME sector, and develop capital markets in Central Africa. This is a prerequisite for IFC to issue a bond on the regional stock exchange. ***MIGA***'s gross exposure from investment guarantees in CAR is US$35.4 million. In the fourth quarter of FY08, MIGA issued its first coverage in the country, providing a guarantee to French investors for a telecommunications project to develop a Global System for Mobile Communications (GSM) network and provide internet services.

50. **Portfolio issues.** The joint WB/AfDB country performance review in March 2008 and the AfDB country portfolio review in January 2009 revealed a number of procurement and financial management issues, including weaknesses in project teams, the impact of escalating oil prices on project costs, and pervasive institutional capacity constraints. Both banks have intensified their support to the monitoring activities carried out by project coordination teams, and conducted clinics on procurement and financial management issues. The posting in Bangui of seasoned World Bank expertise in sustainable development and fiduciary issues and the staffing of the recently-opened AfDB regional office (CAR and Cameroon) in Yaoundé also marks strong WBG and AfDB commitment to capacity development and to resolving procedural issues (disbursement, non-objection approvals).

VI. AFDB AND WORLD BANK GROUP JOINT COUNTRY PARTNERSHIP STRATEGY

A. CPS Strategic Objective and Principles

51. **Support Implementation of CAR's Poverty Reduction Strategy. The Country Partnership Strategy (CPS) of the African Development Bank and the World Bank Group lays out a shared strategy and lending and non-lending programs for CAR over the FY09-12 period, in direct response to CAR's Poverty Reduction Strategy (PRSP) 2008-2010.** The CPS reaffirms the commitment of the AfDB and WBG – the International Development Agency (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) - to deliver on the principles of the Paris Declaration on Aid Effectiveness, and to consolidate results achieved under the Joint World Bank/AfDB Interim Strategy Note (JISN) of 2007-2008. The strategy acknowledges that CAR has come a long way since the free elections of 2005 set the country on a path to peace, but recognizes that that continued progress, reinforced by adequate donor support, will be needed to sustain peace and stability.

52. **Target Selectivity and Tangible Results. The CPS FY09-12 represents the joint response of the AfDB and the WBG to support CAR's transition from extended instability to long-term economic recovery.** It is tailored to build on the progress achieved with the Government under the JISN, and is designed to complement support from other donors in accordance with respective institutional mandates. Such selectivity is particularly important given the constraints on financing from the two banks (see Section B. below). On this basis, the two institutions have agreed to sustain and deepen their support to areas where they are already active and their efforts are beginning to show results: public finance management, transparency and accountability in natural resource management; strengthened economic infrastructure and private sector-led growth; and human resource development. This translates directly through two Axes into joint support targeting PRSP Pillars 2 (governance) and 3 (diversification), with WBG support also directed to PRSP Pillar 4 (human development). The two banks are taking a more limited role with respect to Pillar 1 (restore security, reinforce peace efforts and prevent conflict), given strong leadership by the UN in this area and the more proscribed role for the banks given their institutional mandates (see Section E).

53. **Maximize Opportunities for Regional Integration.** CAR's small and landlocked economy is unable to expand its production base without access to a larger regional market and enhanced connectivity. As a result, the CPS will prioritize regional projects to accelerate the development of CAR's economic potential. In so doing, the CPS will leverage relatively small country allocations under IDA and ADF respectively in order to access more significant financing available from regional funds.

54. **Provide Framework for Continuity of Support under IDA 16 and ADF 12.** Since mid-2008, the WBG and AfDB have frontloaded resources from their country allocations under IDA 15 and ADF 11 respectively to support Government efforts to address CAR's food, fuel and financial crises. As a result, resources for CAR will be constrained in the outer years of IDA 15 and ADF 11. The CPS mid-term review will be used to assess CAR's emerging development priorities and provide a basis for lending scenarios under IDA 16 and ADF 12.

B. Resources and Financing

Table 2: Proposed WBG Financing from IDA 15 and 16 and Trust and Vertical Funds[15]

WBG Lending/Grants	Approval FY	Indicative Amount (million)	Source of funding
Axis 1 - Consolidation of Economic Governance and Institutional Capacity			
Support to improvement of business climate and to the development of Small and Medium Enterprises	2009	TBD	IFC
LICUS (EGEMAS) – Economic Management and Improved Accountability	2009	$2	LICUS Trust Fund
Economic Management and Governance Reform Grant DPO III	2009	$5	IDA15
Financial Sector - CEMAC Regional Institutions Support	2009	$5	IDA15
EITI Implementation Support	2009	$0.3	Multi-Donor Trust Fund
Sub-Total Country and Regional Allocations for Axis 1		$12.3	
Axis 2 - Rehabilitation and Development of Socio-economic Infrastructure			
Energy - Emergency project to rehabilitate Boali 1 and 2, and the distribution network	2009	$8	IDA15
Energy – Safe and Reliable Public Electricity	2009	$2.5	State and Peace-building Fund
Telecom - Regional fiber optic infrastructure project (CAR-Cameroon-Chad)	2010	$17	IDA15
Transport - Additional funding for Regional Program on Trade and Transport Facilitation	2010	$55	IDA15
Community development support for vulnerable groups	2009	$8	IDA15
Community Recovery – Northern CAR	2010	$3.5	State and Peace-building Fund
Urban Infrastructure. Additional funding for the Program to rehabilitate urban infrastructure and services	2010	$7	IDA15
Food Response project	2009	$8	Global Food Crisis Response
Agriculture/Rural	2012	$10	IDA16
Education	2009	$38	EFA/FTI Catalytic Fund
Health Project	2012	$10	IDA16
Sub-Total Country and Regional Allocations for Axis 2		$166	
Cross-Cutting Issues			
CDD for Conflict Affected Communities	2009	$1.8	Japanese Social Development Fund (pending)
Disarmament, Demobilization and Reinsertion	2010	TBD	Multi-Country Reintegration and Transitional Support Program
Total WBG Financing under the CPS		$181	

[15] Resources for regional projects under IDA 15, support from the State and Peace-building Fund, and funding under IDA 16 are indicative.

55. CAR's notional IDA 15 allocation (for FYs 2009 through 2011) is SDR21.9 million equivalent to approximately US$33 million. This includes a FY09 allocation of US$15 million, US$10 million for FY10 and a notional allocation of US$8 million for fiscal year 2011. The actual IDA allocation for CAR may vary annually on the basis of (a) the country's performance as assessed via the Country Policy and Institutional Assessment indicators and the performance of the Bank's portfolio in CAR; (b) the country's performance relative to the performance of other IDA countries; (c) overall resources available to IDA during the IDA16 replenishment period; (d) changes in the list of active IDA-eligible countries, and (e) lending terms for which CAR qualifies under the IDA15 grant eligibility and allocation framework. CAR has made use of the IDA Fast Track initiative which has enabled front loading of 150% of the FY09 allocation. As a result, $22 million of CAR's IDA15 allocation was committed in FY09. A summary of WBG financing from IDA and other sources is found in Table 2.

Table 3: Summary of WBG Non-Lending Support to CAR during CPS Period

Recent completions	Year
PRSP Technical Assistance	2008
Mining Sector Assessment	2009
Planned	
Public Expenditure Review	2010
Diamond Sector Assessment	2010
EITI support	2010
Country Environmental Assessment	2010
Power Utility Reform Study (PPIAF)	2010
Communications for Development	2011
PRSP Technical Assistance	2011
Health Sector Assessment	2011

56. **HIPC and post-HIPC assistance from Paris Club members, in addition to MDRI debt relief (net of HIPC assistance), are expected to save CAR some US$10 million per year over a period of twenty years**. As a result, and given the limited IDA allocation to CAR, no development policy operations are anticipated in the World Bank's support to the CPS. However, the macro-economic situation will be monitored closely to assess whether further World Bank budget support becomes necessary to complement the development policy operation planned by the EU in 2010 and AfDB in 2011. Factors of concern relate in particular to (i) possible further negative impact from the global crisis on Government revenues; (ii) Government's limited flexibility to respond to shocks as evidenced by the projected negative domestic primary balance for 2010-11; and (iii) Government's ability to ensure timely payment of public sector wages, which constitute close to 50 percent of current expenditures.

57. **CAR is also expected to benefit from the regional IDA** through several regional projects described in section C. below (CPS Outcome 5). Regional projects receive 2/3 of total project cost from the regional allocation, and 1/3 from the country allocation, with the country allocation capped at 20 percent of the total annual country allocation for each project. Given the limits to CAR's annual allocation relative to the size of regional projects, the share of the project funded by CAR's country allocation is generally limited to 20 percent of the annual country allocation thus leveraging additional regional IDA. The notional allocation for regional projects in CAR under IDA 15 (FY09 through FY11) is approximately US$90.0 million. The amount of regional

IDA allocated to each regional project may vary subject to a review of eligibility and regional externalities during the funding stage.

58. **CAR is also eligible for various World Bank-administered trust and vertical funds,** including the State and Peace-building Fund and the Global Food Crisis Response Fund, among others. CAR is also expected to be eligible for the Multi-Country Reintegration and Transitional Support Program, which is currently being established. When taken together, the total amount of current and potential resources available from the WB rises to some US$191 million.

Table 4: ADB Indicative Program (2009-2012)

Project	Approval Year	Indicative Amount (million)	Source of Finance
ADF public sector window– National operations			
Capacity building			
Secondment and Training Program	2009	US $2	FSF Targeted Support
Multi-sector Institutional Support Program	2010	UA 2.5	ADF-11 PBA
Public Finance and Economic Governance			
Economic Reforms Support Program, phase III (PARE III)	2011	UA 10	ADF-12
Community and urban infrastructure			
Community Development and Support to Vulnerable Groups Project (PDCAGV)	2009	UA 8	FSF Additional support
Drinking Water Supply and Sanitation Project (AEPA)	2009	UA 7	ADF-11 PBA
Rural infrastructure			
Rural Infrastructure Rehabilitation Support Project (PARIR)	2009	UA 3.85	FSF Additional support
ADF public sector window – Regional Operations			
Economic Infrastructure for Regional Integration			
Regional project for developing Boali system's production and interconnection with the DRC (CAR-DRC)	2009-2011	UA 23-100	ADF -11 Regional Budget ADF-11 PBA
Regional project for fiber optic infrastructure (CAR-Cameroon-Chad)	2011-2013	US $ 35	ADF-11 Regional budget ADF-11 PBA
Ouesso (Congo), Bangui-Ndjamena (Congo, CAR, Chad) road project	2012-2013	TBD	ADF-12 Regional budget ADF-12 PBA
Cross-cutting issues			
Regional support program for the conservation of the Congo basin ecosystems (PACEBCO)	2009	UA 32	ADF-11 Regional budget
Multi-country support program for mobilization and reintegration (MDRTSP)	2009	UA 14	ADF-11 Regional budget
ADB Private Sector Window			
International Trade Financing	TBD	TBD	ADB's Trade Financing Initiative (TFI)
Other sources of funding at the level of the ADB			
Community and urban infrastructure			
Institutional Support Project for the Water and Sanitation Sector	2009	EUR 1.96	African Water Facility

* TBD: To be determined
** Information regarding future regional operations and ADF-12 are indicative.

59. AfDB support will be channeled primarily through the ADF window. CPS activities planned for 2009-2010 will be financed under ADF-11 and those envisaged for 2011-2012 will be financed under ADF-12. CAR's indicative performance-based allocation (PBA) under ADF-11 is UA 17.72 million (US$ 26.49 million) for 2008-2010. UA 6.5 million (US$ 9.72 million) was used to finance Phase II of the Economic Reform Support Program (PARE II) in October 2008. Thus, UA 11.22 million (US$ 16.77 million) are available for 2009-2010. From that amount, UA 2.5 million will finance the Multi-Sector Institutional Support Program in 2010 and UA 7 million will finance the Drinking Water Supply and Sanitation Project (AEPA) in 2009. CAR is also eligible for Additional Resources (UA 11.85 million (US$ 17.72 million) under the Additional Support (of which UA 8 million will be used for the Community Development and Support to Vulnerable Groups Project (PDCAGV) in 2009 and UA 3.85 million for the Rural Infrastructure Rehabilitation Support Project (PARIR) in 2009), and for Targeted Support for about US$ 2 million that will contribute to finance the Secondment and Training Program envisaged for 2009. In accordance with ADF-11 financing modalities, CAR's total contribution to regional operations for 2008-2010 has been capped at 10% of its PBA, or UA 1.731 million (US$ 2.65 million). Therefore, efforts will be made to mobilize resources from regional operations as well as additional resources from bilateral and trust funds managed by the AfDB, including the African Water Facility (AWF), the Congo Basin Forest Fund, and the NEPAD Project Preparation Fund. AfDB resources available to support CAR are shown in Table 4.

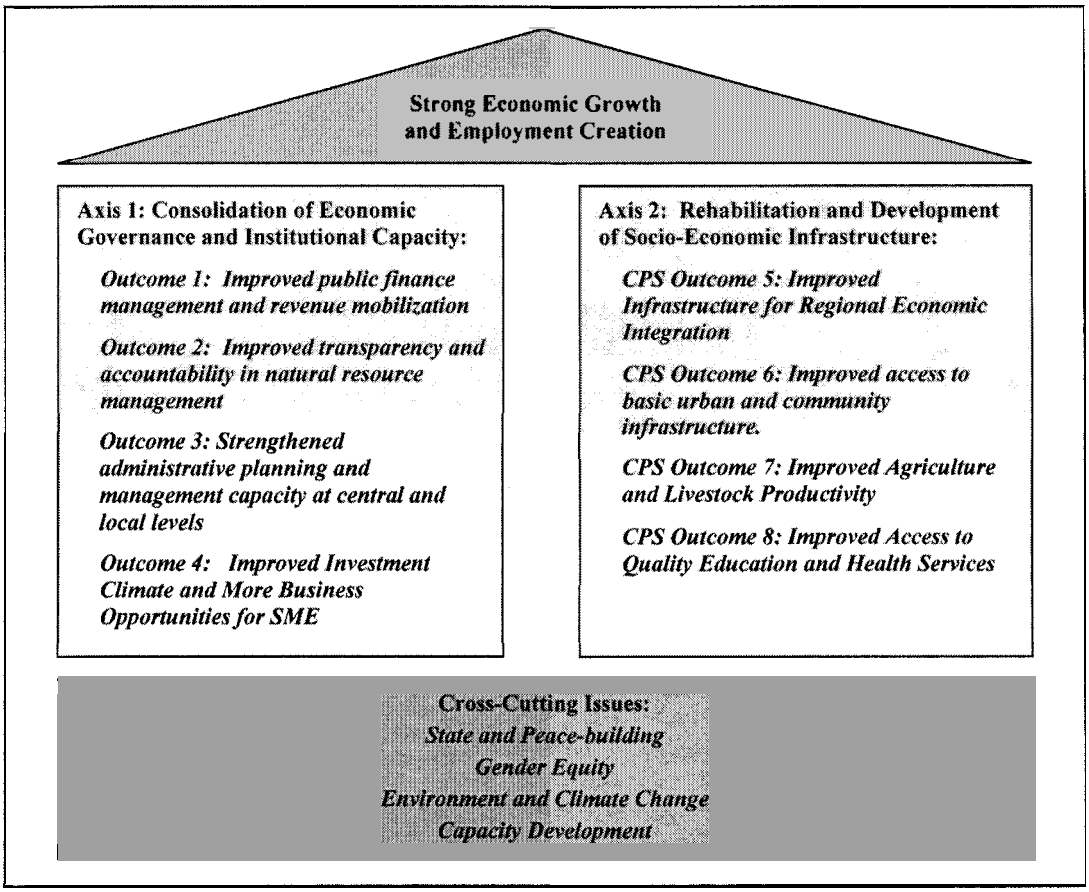
C. CPS Strategic Framework

60. The CPS is built around two strategic axes (see Figure 4), which are aligned with PRSP Pillars 2, 3 and 4.

- **Axis 1. Consolidation of Economic Governance and Institutional Capacity,** *in response to PRSP Pillar 2*: Governance, Rule of Law and Gender Equity. The objectives of Axis 1 are to deepen and secure economic reforms and strengthen institutional capacity, ensure effective management of the country's resources, and create an enabling environment for private sector development.
- **Axis 2. Rehabilitation and Development of Socio-economic Infrastructure,** *in response to PRSP Pillar 3*: Economic Diversification, and *PRSP Pillar 4*: Human Development. The objectives of Axis 2 are to ease the infrastructure bottlenecks hindering the rehabilitation and development of key sectors, and to improve basic service delivery and the living conditions of the population.

Four cross-cutting issues are also addressed in the CPS: State and Peace-building, Environment and Climate Change, Capacity Development and Gender Equity.

Figure 3: CPS Axes and Expected Results



* AfDB is not associated with CPS Outcome 8 which is supported by the World Bank.

D. CPS Program and Expected Outcomes

61. A detailed Results Matrix laying out the CPS's two axes and expected outcomes is found at Annex 1. For **Axis 1, outcomes in four areas are expected:**

CPS Outcome 1. Improved Public Finance Management and Revenue Mobilization

62. The AfDB and WBG will deepen current assistance to public financial management and economic governance reforms laid out in the PRSP. Lending instruments include a series of harmonized development policy operations (DPOs), including the World Bank Economic Management and Governance Reform Grant II (EMGRG II) for US$5 million, approved in March 2009; and AfDB's Economic Reform Support Program (ERSP) for UA 10 million (US$14.9 million), planned for 2011. These operations will: (a) strengthen the Government's capacity to carry out macro-fiscal analysis; (b) improve budget preparation, especially in the health, education, infrastructure, and agriculture sectors; (c) strengthen budget monitoring and reporting (in particular, the integrated reporting system for the Budget Directorate and Treasury),

and production of annual Government Accounts and the Budget Execution Law; (d) build procurement management and audit capacities; (e) deepen ongoing reforms in the tax and customs administrations, and improve management of exemptions; and (f) improve alignment of CAR's Anti-Corruption Law with UN conventions.

63. Support provided under the CPS will also reinforce the Government's macroeconomic strategy to raise foreign exchange earnings and improve fiscal stability and public spending efficiency, in line with PRSP objectives. The Government's adoption of appropriate policies will help to improve the country's credibility and attractiveness to investors, foster competition and employment generation, and maintain price stability. A World Bank-supported Public Expenditure Review (PER - FY10) will help to improve the efficacy and transparency of public expenditure management, building on the progress achieved since the re-engagement in 2006 with support through three World Bank development policy operations. The PER will also help to sustain the constructive dialogue launched under operations on improvements in tax and customs administration.

CPS Outcome 2. Improved Transparency and Accountability in Natural Resource Management.

64. World Bank support will build upon the findings of the WB-led mining sector review (AAA) carried out within the framework of the WBG's budget support operations by supporting the Government's implementation of the new Mining Code approved on April 28, 2009. The Code is designed to create a transparent and attractive regulatory environment for mining companies interested in investing in CAR. The World Bank will prepare a more in-depth review of the diamond sector to assess the extent to which the Government is effectively capturing these key resource rents for development (FY10). The CPS will also support CAR's efforts to comply with AFLEG and combat illegal forest exploitation and to facilitate CAR's access to EU markets.

65. Since CAR became an EITI candidate country in November 2008, the country has two years to execute its EITI accession work plan, and has committed to working closely with civil society and mining operators. AfDB and World Bank support to EITI ++ implementation will improve governance and accountability through: (a) Government capacity building in design, implementation, and monitoring of investment projects; (b) stakeholder capacity building in extractive industries budget transparency; and (c) debt and data management. The World Bank will make available US$300,000 from a multi-donor trust fund to support Government's efforts to implement EITI. Opportunities to complement top-down accountability processes with bottom-up accountability mechanisms; full transparency of resources transferred between the government and the mining industry, and enforcement of CAR's environmental protection laws will also be pursued. Other potential donors include AfDB and UNDP.

CPS Outcome 3: Strengthened Administrative Planning and Management Capacity at Central and Local Levels.

66. Developing the capacity of public service institutions is a cross-cutting issue that is addressed in all AfDB and WBG operations in CAR. Additionally, both institutions are providing technical assistance to strengthen PRSP implementation and monitoring.

67. The AfDB supports the development of public service capacity through the Program for the Rehabilitation of Economic Planning Capacities (PARCPE), which was approved in 2006. The AfDB plans to reinforce its activity in this area through targeted operations funded by its Fragile States Facility (US$2 million) in 2009, and a Multi-Sector Institutional Support Project for core economic ministries and public finance bodies for UA 2.5 million (US$3.7 million) in 2010. Support will be targeted to staff secondments, economic and sector studies, and training

CPS Outcome 4: Improved Investment Climate and More Business Opportunities for Local SMEs

68. IFC, the WBG's private sector arm, will support improvement of the business climate and SME development through its Conflict Affected States in Africa (CASA) program. IFC's operations will: (a) strengthen the institutional capacity of regulatory bodies; (b) reassure investors through the development of an active portfolio; (c) help local financial intermediaries to develop products adapted to SME needs; and (d) develop capital markets in the sub-region. IFC will also develop leasing products, facilitate public/private sector dialogue, and provide venture capital-type funding and services to SMEs through its Ventures Program, which is expected to provide venture capital to about 50-100 enterprises, amounting to between US $100,000 and US $500,000. Local demand for investment financing is expected to grow in response to CAR's progress toward economic recovery. In the short term, demand by SMEs is expected to stem from: (a) construction and public works, with infrastructure projects funded by development partners; (b) trucking and river transport; (c) logging and wood processing; (d) restaurants and hotels. Investment demand in agribusiness, health and mining could also be envisaged once restructuring measures in these sectors are addressed.

69. MIGA's guarantee to S.A. Orange Participations in 2008 is helping the company to develop a GSM network and provide internet services. Given CAR's transition from fragile to stable status, companies interested in setting up business in the country are expected to be interested in political risk insurance, particularly against the risk of war and civil disturbance. MIGA is also ready to provide complementary support to IFC activities in construction, infrastructure (including energy and transport), agro-industry, manufacturing, and services. In addition, MIGA's Small Investment Program (SIP), designed to provide rapid response to investments of less than US$10 million, is suitable for SME investments in CAR.

70. The AfDB has recently introduced the Trade Financing Initiative and the Emergency Liquidity Facility, both of which provide financial support to non-sovereign operations in ADF-eligible countries suffering from liquidity shortfalls due to the global economic crisis. These new instruments will be used to fund trade and private investment opportunities in CAR.

71. **For Axis 2, outcomes in four areas are expected:**

CPS Outcome 5. Improved Infrastructure for Regional Economic Integration

72. **Energy.** CPS support will help to reverse the serious deterioration of CAR's energy infrastructure and supply, and will improve the financial and management capacity of ENERCA, the energy utility. Complementary French Development Agency (€ 4 million) and World Bank

(US$ 8 million) projects are helping to partially restore reliable electricity supply from Boali 1 and two hydropower facilities to Bangui customers, including the water utility and hospitals. The two projects are also improving the financial and operating performance of the sector through the introduction of cost-efficient light bulbs, pre-payment meters, and a twinning arrangement with an energy utility in another African country. The CPS will also include a US$2.5 million grant from the World Bank-administered State and Peace-building Fund for emergency rehabilitation of hydropower facilities with emphasis on dam safety; rehabilitation of the distribution network; and technical assistance to improve corporate governance of the power sector. Provision of safer and reliable power service, mainly to Bangui, will make a significant contribution to security and public confidence during the important transition to stability. To support energy sector restructuring, the World Bank plans to use Public/Private Infrastructure Advisory Facility (PPIAF) resources to finance an energy sector reform study, while the AfDB will use trust funds to finance an Electricity Sector Master Plan study.

73. CAR's hydropower supply does not exceed 18 MW, which is far below the demand. To increase supply, AfDB will support financing for Boali 3 equipment and for extension of Boali 2 capacity, as part of a regional project that also includes DRC. When priority investments are identified under the Central Africa Power Pool, of which CAR is a member, opportunities for providing support from the WBG's IDA 16 allocation will be explored.

74. **Telecommunications.** WBG and AfDB plan to jointly finance Phase I of the Regional Fiber Optic Cable project (CAR, Cameroon and Chad), which aims to install broadband fiber optic infrastructure linking Banguito Maédougou in Cameroon over the pipeline linking Kribi in Cameroon to Doba in Chad, thus offering CAR the opportunity to connect itself at a lesser cost to the terminal station of the inter-continental submarine cable. The AfDB also plans to use bilateral and trust funds to finance a feasibility study on CAR's national fiber optic network.

75. **Transport.** CAR Government's infrastructure development strategy comprises three components: (i) reduction of the country's landlocked situation by strengthening linkages to the main regional ports; (ii) diversification of access routes; and (iii) development of transport infrastructure to development hubs. The World Bank plans to provide additional financing for the Central Africa Component of the CEMAC Transport & Transit Facilitation Project, which is an ongoing project financed by the AfDB, World Bank, French Development Agency, and EU; the WBG will mostly fund financing gaps from the three other donors and improve the linkage between the corridor and the national network. The AfDB will undertake feasibility studies for (a) the Ouesso (Congo) – Bangui – Ndjamena road project; and (b) the Oubangui – Congo – Sangha River Transport project, as a basis for possible future AfDB funding. The support provided by AfDB and the World Bank assumes that the Government, through secure funding of the Road Maintenance Funds, and the other donors such as the EU are funding the bulk of the national network's maintenance and development in some major cities. This implies that the sustainability of the national road maintenance policy and of the national transport investment planning will be an integral part of the donor dialogue with the Government.

CPS Outcome 6. Improved Access to Basic Urban and Community Infrastructure

76. **Urban infrastructure.** The World Bank-supported Bangui Emergency Urban Infrastructure Rehabilitation and Maintenance Project (US$18.0 million) supports Government

efforts to: (a) increase access to infrastructure and urban services in the most deprived districts of Bangui; and (b) deliver tangible improvements in citizens' lives, which are critical for social and political stability. Additional financing for the WB Urban Infrastructure Project will be prepared for delivery in FY10. To scale-up results in Bangui's urban rehabilitation, the AfDB will seek trust funds to conduct a study for a Bangui Urban Development Master Plan that will be carried out in conjunction with a Government-led CAR 2040 prospective study. The AfDB has financed, through the African Water Facility (AWF), a feasibility study on Drinking Water Supply and Sanitation (AEPA) for 16 main cities, as a basis for an AfDB project in 2009 covering three larger cities and potential interventions of other partners. The AfDB's AWF also plans to maintain its support to CAR, through an Institutional Support Project for the water and sanitation sector.

77. **Community infrastructure.** The AfDB and the World Bank are co-financing a Community Project for the Development and Support of Vulnerable Groups (PCDAGV) for UA 8.0 million (US$11.9 million) and US $8.0 million, respectively. Expected outcomes include improved basic local government services, especially for the rehabilitation, capacity building and equipping of health and education centers in 9 of the country's 16 regions. The project is consistent with CAR's development hubs strategy and addresses central and southern regions.

78. An ongoing World Bank LICUS Trust Fund Grant for Community-Driven Development and Social Sector Project (US$2.7 million) is helping to build social capital, provide critical services, and regenerate economic activity in selected communities. Some 80 community micro-projects are close to completion, having improved tangible service outcomes in health, education, management of agricultural produce, and market place rehabilitation.

CPS Outcome 7. Improved Agriculture and Livestock Productivity

79. The AfDB and World Bank responded to the 2008 food crisis with projects in CAR totaling UA3.0 million and US$7.0 million, respectively. Going forward, the AfDB will finance a Rural Infrastructure Rehabilitation Project for UA 4.0 million (US$5.9 million). The project will target improvement of rural roads, village water schemes, commercialization infrastructure, and research. The World Bank will prepare a follow-on rural development operation for US$10.0 million in FY12 designed to boost stabilization efforts; strengthen agricultural supply and food security (through improved planting material and inputs); and develop local technical capacity to improve productivity, post-harvest infrastructure, and marketing. Support from this operation would help to strengthen management capacities of the Ministry of Rural Development and the Agricultural Research Institute.

CPS Outcome 8. Improved Access to Quality Education and Health Services

80. **Education.** Finalization of CAR's National Education Strategy in 2007 provided the basis for CAR's successful application to the Education for All-Fast Track Initiative Catalytic Fund for a grant of US$ 38.0 million, facilitated by the World Bank. The grant will finance the first three-year phase of an ambitious program to meet the MDGs for education. Results are expected to include improved basic institutional capacity in the sector, but more predictable funding flows and systematic capacity building efforts will be needed during subsequent phases to sustain administrative infrastructure, strategic planning, and managerial improvements.

81. **Health.** The ongoing World Bank-financed (restructured) Multi-Sector HIV/AIDS, Health and Education Emergency Support Project (US$ 17.5 million) will continue to help CAR address HIV/AIDS and provide basic health and primary education services. The project supports service delivery to civil society, and strengthens the capacity of government to provide prevention, care and treatment. It also supports improved emergency health responses at the community level, and provides HIV/AIDs training for student-teachers. The World Bank plans carry out a Health Sector Finance Assessment to address long-standing insufficient budget allocations to health and poor access to health services, especially for vulnerable groups. The analysis will also focus on building more effective partnerships between the public and private sectors for improved health outcomes and achievement of the MDG. This will serve as the basis for a new WB-financed health project for delivery in FY12.

E. Cross-cutting Issues

82. **State and Peace-building.** The UN system, led by its peacekeeping office in CAR (known as BONUCA), in partnership with the European Commission and key bilaterals, is taking the lead in supporting the high-level political dialogue between the Government and opposition groups, as well as in security sector work. CAR is now formally also under the aegis of the UN Peace-building Commission, which has played a catalytic role in strengthening support for the peace process. Strategic support to the political process is underpinned by work on governance, elections and security sector reform. Within their respective mandates, the World Bank and AfDB are also supporting the fragile transition. While UNDP is taking the lead in demobilization efforts, the AfDB and World Bank plan to use resources from the new Multi-Country Demobilization and Reintegration Transitional Support Program (MDRTSP) to create jobs and support community initiatives in northern areas.16 The MDRTSP will complement UNDP's support to CAR. Further, in support of peace-building and security, a World Bank trust fund for low income countries under stress (LICUS countries) is strengthening capacity and systems for security expenditure management. Outcomes will include improved understanding of security sector finance, civilian governance and oversight. If pending applications are approved, funding from the World Bank-administered Japanese Social Development Fund (JSDF) and the State and Peace-building Fund (SPF) will target community recovery in northern areas, particularly in those with a high density of ex-combatants. Outcomes will include increased community participation in local development planning and project implementation.

83. **Environment and climate change.** The Congo Basin Forest Fund (CBFF) launched in June 2008; the AfDB-supported Lake Chad Basin Regional Development Project (PRODEBALT) approved in December 2008; and the Regional Program for Congo Basin Ecosystem Conservation (PACEBCO) approved in February 2009, will help the authorities to address critical environmental and climate change challenges. The World Bank is currently preparing a Country Environmental Assessment to be delivered in 2010. From the regional environment perspective, CAR participates in the GEF-supported Regional REDD (Reducing Emissions from Deforestation and Forest Degradation) Project for the Congo Basin. The REDD Project will continue to support CAR's efforts to develop: (a) appropriate methodology for

[16] The program in the Great Lakes area is the Transitional Demobilization and Reintegration Program for the Great Lakes (TDRP).

reliable measurement of carbon stored in forests and resulting from deforestation and degradation; and (b) national capacity for carbon measurement.

84. **Capacity development.** CAR's profound institutional and human capacity deficit will take many years to overcome. The CPS's Axes 1 and 2 will provide the framework for both WBG and AfDB to develop on-the-job capacity in economic governance and project management. Through implementation support, the two institutions will continue to help develop capacity across implementation agencies over the longer term, focusing especially on core economic ministries and the line ministries overseeing implementation of joint projects. In addition, both banks will work with the Parliament and other stakeholders to improve understanding of PRSP linkages to the national budget and to strengthen their capacity to monitor CPS implementation. They will also seek opportunities to mobilize the CAR Diaspora through possible term placements in Government and semi-state assignments, and through the creation of business promotion networks. Finally, the AfDB and WBG will continue to assess and address capacity challenges during the CPS period, drawing on good practice and lessons from recent World Bank country strategies, including those for Mali and Rwanda.

85. **Gender equity.** The AfDB and WBG will make a concerted effort to support CAR's national gender equity promotion and economic empowerment policy through their operational portfolios and in consultations on CPS implementation and monitoring. AfDB's Targeted Support will promote women's participation in socioeconomic development through technical assistance and a secondment program for women's associations and groups.

F. CPS Dialogue with CAR Authorities and Participatory Approach

86. **The CPS was prepared and will be monitored using a participatory approach based on the partnership principles of the Paris Declaration on Aid Effectiveness.** An upstream mission of the World Bank Group (IDA, IFC and MIGA) and the AfDB took place in CAR in November 2008 to discuss the main areas and expected outcomes of joint support under the CPS. A recently completed Client Survey (May 2009) will provide valuable complementary input for CPS monitoring, and for sustaining client engagement in that process. Consistent with the internal processing requirements of the respective banks, downstream consultations were held between the WBG and the Government, civil society organizations and NGOs, the private sector, the Parliament, and development partners in early May 2009. A CPS validation exercise was held between the AfDB and the authorities in June 2009. Consultations provided an opportunity to engage on the CPS with domestic stakeholders including Parliament, civil society and NGOs, and the mass media. At the conclusion of the consultations, the authorities confirmed that the CPS addresses the CAR's main development challenges and provides a sound basis for the AfDB and WBG to achieve desired results.

G. Joint CPS Monitoring

87. **The CPS has been designed with a clear focus on achieving and demonstrating tangible results, using the Results Matrix shown in Annex 1.** CAR's PRSP forms the basis for tracking progress on each pillar, with joint emphasis on Pillars 2 and 3, and specific WBG focus on Pillar 4. Results anticipated from the CPS will stem mainly from current operations and rapidly disbursing interventions, and the results framework is closely linked to expected results

from the current and planned operational portfolio and analytical work. Efforts to link CPS outcomes directly to PRSP goals and monitoring indicators remain hampered by weak statistical capacity in CAR to provide primary data, and slow implementation of the PRSP's monitoring and evaluation mechanisms. CPS monitoring and evaluation will therefore be carried out mainly in relation to the indicators and milestones contained in the Results Matrix.

88. **CPS outcomes will be monitored collectively by the joint team and the Government.** Increased WBG field presence in CAR will help to strengthen the effectiveness of CPS monitoring and evaluation. Annual Joint Country Program and Portfolio Reviews aligned with the Results Matrix, combined with more frequent mini reviews, will be carried out in close collaboration with other development partners. In 2010, a joint CPS Progress Report will be prepared, and mid-course adjustments may be made in light of its findings, or should new funding sources become available. A CPS Completion Report will be prepared at the end of the implementation period to assess overall CPS results and to draw relevant lessons for future support.

89. **CPS consultations, along with a Client Survey (fieldwork finalized in May 2009), will form a baseline assessment for helping Government to strengthen domestic accountability for PRSP and CPS monitoring.** Joint CPS Program and Portfolio Reviews will provide a further opportunity to encourage stakeholder engagement in CPS monitoring, drawing upon emerging global good practice. Finally, based on emerging good practice from the WBG's Governance and Anti-Corruption Initiative (GAC-in-Projects), innovative approaches for initiating stakeholder participation at the project design stage will be used to strengthen the quality of project monitoring and evaluation, and to deepen national ownership of development efforts. Such efforts could include participatory budgeting, systematic public expenditure tracking by beneficiaries, and independent monitoring by NGOs.

H. Risk Management and Mitigation

90. **Security and political risk.** Despite recent progress under the Inclusive Political Dialogue, CAR continues to face the risk of sporadic violence in the north and center of the country. Risks stemming from CAR's landlocked position in an unstable sub-region also make the country susceptible to the destabilizing influence of cross-border movement of armed rebel groups. In addition, groups of ex-combatants awaiting reintegration and rehabilitation opportunities, as well as political groups that have been marginalized in the existing political context, continue to pose challenges to security. Cognizant of these risks, the CPS aims to support Government's commitment to pursue a realistic but comprehensive development plan which looks beyond national elections in 2010 and envisages providing services across most of the territory. The WBG and AfDB will also work within the framework of support provided through the UN system, which is taking the lead in security matters. The joint Multi-country Donor Trust Fund to Support Reintegration (MDRTSP), in addition to the state and peace-building trust funds of both institutions, will help efforts to consolidate peace and stability. ***However, sustained support from all donors present in CAR will be needed to address this risk.***

91. **Macroeconomic risk.** Given the export-based structure of its economy, CAR is seriously exposed to shocks, and is vulnerable to further negative impacts on its current account, reserves, revenue, and growth, and thereby on its ability to address poverty. The 2008 economic crisis,

combined with other external shocks, has had a significant impact on these variables. ***Appropriate policy adjustments and donor inflows will be needed over the medium term to help CAR address its challenging fiscal obligations. In this regard, the emerging donor harmonization action plan led by the World Bank, the AfDB and the EU can help to reduce recent uncertainties in donor support. Given continued uncertainty with the world economic situation, should CAR's macroeconomic situation change in the course of CPS implementation, the WBG would also re-consider the balance between investment lending and development policy lending in the CPS program.***

92. **Expectations risk.** The positive outcome of the Inclusive Political Dialogue raised popular expectations that peace and stabilization will soon return to CAR. However, the State institutions – including the police and judiciary – responsible for protecting citizens' human rights remain fragile and underdeveloped. Widespread unemployment, and the perception that the early peace has not yet yielded tangible benefits, poses important risks to stability during the CPS period. ***This risk can be partially mitigated by IFC's and MIGA's support to private sector-led growth and job creation, and through WBG/AfDB projects designed to develop regional, urban, and community infrastructure – including energy, transport, water, and telecommunications – and improve the population's access to basic services.***

93. **Corruption risk.** Corruption and the abuse of power and privileges continue to thwart effective policy implementation, poverty reduction, and the Government's ability to regain the population's trust. Despite outstanding challenges, ***the Government has demonstrated commitment to fight corruption, by finalizing an anti-corruption strategy, revising mining and forestry codes and legislation, and passing anti-corruption legislation. Further, the Government has shown its commitment to enhancing governance, transparency, and accountability through the adherence to measures designed to fulfill CAR's requirements for membership in the Extractive Industries Transparency Initiative.***

94. **Institutional capacity risk.** The Government's shortage of capacity to implement reforms poses another significant risk. This risk is mitigated by the support provided by the WBG, AfDB and other development partners, but long-term investments in capacity development are urgently needed. ***This risk will be partially mitigated through CPS activities that build capacity at the project implementation level, and help to strengthen the capacity of specific government agencies in charge of implementing reforms. Implementation support provided by AfDB and WBG will continue to build the capacity of ministries and agencies and project teams. In addition, increased WBG presence in CAR, including a recently opened IFC office and new staff appointments in sustainable development and fiduciary management, will reinforce the focus of work programs on implementation and achieving results.***

I. Scaling-Up and Exit Strategy

95. **If current trends persist, the World Bank will continue to provide allocations from IDA; the AfDB will operate under ADF; and the IFC and MIGA will scale up engagement and actively explore private sector financing opportunities in CAR.** Both the WBG and AfDB will also pursue alternative funding to overcome the severe constraints to their concessional financing windows. Satisfactory implementation of the investment portfolio would provide an important basis for moving forward with the operations outlined in the joint strategy.

96. **In the event of unsatisfactory progress on reform, the World Bank Group and AfDB would enter into dialogue regarding the basis of future operations.** Should poor portfolio performance arise, the institutions would adjust their operations as needed, revising implementation schedules and planned activities, or, in the case of severe obstacles, would partially suspend their activities. Lack of progress on reform would also affect the private sector's appetite for investment and thus the ability of the IFC, MIGA and the AfDB to finance and guarantee private sector projects. Despite the significant challenges and risks, the institutions remain committed to helping CAR ensure that the population benefits from development efforts over the long term.

Annex 1: Results Matrix for CAR CPS (FY09-FY12)[17]

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
Axis 1: Consolidation of Economic Governance and Institutional Capacity (Aligned with PRSP Pillar 2: Promote Good Governance and Rule of Law)				
Stabilization of public finances ▪ Improving the security of tax revenue collection systems. ▪ Reinforcing budgetary control. *Indicator: Tax burden 9.5% in 2006 (no target)*	▪ Tax level, while increasing is still very low (around 10%) ▪ Inadequate enforcement of rules and procedures within state financial bodies ▪ Absence of regulatory framework for procurement ▪ Poor financial management and planning capacity ▪ Absence of automation and computerization of procedures in state financial bodies	**1. Improved public finance management and revenue mobilization** *Public finance management* 1.1 A single treasury account is in place by end 2010 (WB and AfDB) 1.2 Percentage of investment budget using competitive procedures (Baseline: <20% by end 2008, Target: >70% from 2010 on-wards) (WB and AfDB) *Revenue mobilization* 1.3 Exemption conventions management reviewed by Inter-ministerial Committee in charge of Tax and Customs Duty Exemptions and made public (Baseline: 0 in 2008, target: 100% from 2010 on-wards) (WB and AfDB)	*Public finance management* All non-donor mandated accounts in commercial banks are closed by end 2010 (WB) The Procurement Regulatory Agency and Directorate are fully operational by end 2010 (WB) Comprehensive budget execution reports using harmonized nomenclatures prepared and reviewed by external oversight bodies by end 2010 (WB and AfDB) Networking of the Budget Directorate and the Treasury completed by end 2010 (WB and AfDB) MTEF used for key sectors (health, education, infrastructure and agriculture) for budgeting by end 2010 (WB and AfDB) *Revenue mobilization* A revised National Investment Chart regulating exemptions is operational by end 2010 (WB) Network installed between CICEFD unit and customs systems (ASYCUDA) and tax directorate database (SYSTEMIF) by end 2011	**On-going Projects:** ▪ DPO III - Economic Management and Governance Reform Grant II (EMGRG II) $5m (FY09) (WB) ▪ LICUS III Project – $2.0 m for Ec. Management and Improved Accountability (FY09) (WB) ▪ Economic Reforms Support Program (ERSP) phase II for UA 9.5m FY08 (AfDB) ▪ LICUS Security Sector PFM strengthening (WB) ▪ CEMAC Regional Financial Institutions Project $5.0 m(FY09) (WB) **Pipeline Projects:** ▪ DPO IV (tentative depending on demand) (FY10) (WB) ▪ Economic Reforms Support Program (ERSP) phase III (PARE III) for UA 10m in 2011 (AfDB) **AAA:** ▪ Public Expenditure Review FY10 ($0.25m) (WB) **TA:** ▪ TA for PRSP Implementation (CMU request to Fragile State Initiative) FY10 (WB) ▪ TA on Strategic Communication for Development FY11(WB)

[17] For each result measurement, the name of the accountable agency is noted. In some instances, both WBG and AfDB have selected the same results measurement.
[18] This is a subset of the CAR PRSP Objectives taken directly from the final PRSP document.

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
			(WB)	**Partners:** AFD, EU
Stabilization of public finances ▪ Fighting corruption. **Exploit Natural Resources** ▪ Actively involve the public in sustainable forestry management and maximize the benefits of forestry for poor people ▪ Improve and clean up the legal, institutional and fiscal framework of the mining sector ▪ Build the capacity of managerial and regulatory bodies in the mining sector and involve the public *Indicators: Share of earnings from wood in tax revenue (%) (baseline, target: not available)* *Share of earnings from mining in tax revenue (%) (Baseline: 3% in 2006, no target available)*	▪ Weak institutional framework and poor implementation of regulatory provisions ▪ Weak capacity of the sector's public institutions due to staff and equipment shortages ▪ Lack of involvement of local people in the management of mining resources.	**2. Improved transparency and accountability in natural resource management** *Mining* 2.1 Investment permits in compliance with the new Mining Code (Baseline: 0 in 2008, Target: 100% from 2009 onwards) (WB and AfDB) 2.2 CAR fully complies with the EITI principles by end 2011 (WB) *Forestry* 2.3 Forest revenues transferred to local communities (Baseline: not recorded, Target: 35% of Stumpage fees and 25% of forest regenerating taxes by end 2010) (WB) 2.4 CAR becomes an AFLEG member by end 2011(WB)	*Mining* New standard Mining Investment Agreement is adopted by end 2009 (WB) Publication of the 2007-10 EITI revenue accounts by end 2011 (WB) EITI work plan executed by end 2011 (WBG and AfDB) A revised code for the mining sector is adopted by end 2009 (WB) *Forestry* The remaining three forest concessions are awarded in compliance with the revised Forestry Code by end 2010 (WB) CAR's AFLEG action plan is implemented by end 2011 (WB)	**On-going Projects:** ▪ DPO III - Economic Management and Governance Reform Grant II (EMGRG II) for $5m (FY09) (WB) ▪ LICUS III Project – $2.0 m for Ec. Management and Improved Accountability (FY09) (WB) **Pipeline Projects:** ▪ DPO IV (tentative depending on demand) (FY10) (WB) ▪ Economic Reforms Support Program (ERSP) phase III for UA 10m FY11 (AfDB) **TA:** ▪ TA on Strategic Communication for Development FY11 (WB) ▪ TA for PRSP Implementation (CMU request to Fragile State Initiative) (WB) → ($0.30m) ▪ EITI support (FY10) (WB) **AAA:** ▪ Mining Sector Assessment ($0.03m) FY09 (WB) ▪ Country Environmental Assessment ($0.05m) FY10 (WB) ▪ Diamond Sector Assessment (FY10) (WB) ▪ REDD Project (Reducing Emissions and Forest Degradation (WBG- GEF grant) **Partners:** AFD, EU, UNDP

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
Improvement of the quality of public services **Decentralization and reorganization of public administration** **Improvement of community participation** *Indicators: Satisfaction index of public services users*	▪ Inefficient public administration system ▪ Dilapidated public office infrastructure ▪ Weak human and technical capacity	**3. Strengthened administrative planning and management capacity at central and local levels** 3.1 Observable improvement in the implementation and monitoring of PRSP in Line Ministries (WBG and AfDB) 3.2 40% of targeted communes have Local Development Plans developed through a participatory process by end 2011 (WB)	30% of targeted villages have received capacity building support by end 2010 (WB) 20% of targeted communes have functioning and representative coordination bodies with regular meetings (WB) 350 (40% of women) experts of key ministries involved in the implementation of the PRSP trained by end 2012, including (AfDB-PCDAGV)	**On-going Projects:** ▪ Economic planning capacities rehabilitation support project (PARCPE) for UA3.3m (AfDB) FY06 ▪ LICUS III Project – $2.0 m for Ec. Management and Improved Accountability (FY09) (WB) ▪ LICUS grant for Community-Driven Development and Social Sector Project (US$2.7 million) (WB) FY06 ▪ Community Development Project targeting vulnerable groups for $8m (WB) FY09 **Pipeline Projects:** ▪ Multi-sector institutional support program for UA 2.5m in 2010 (AfDB) FY10 ▪ Secondment program (technical assistance) (AfDB) FY09 ▪ TA for PRSP Implementation (CMU request to Fragile State Initiative) (WB) ▪ TA on Strategic Communication for Development FY09-10 (WB) ▪ Water and sanitation sector institutional support project (AfDB) ▪ Community Development Project targeting vulnerable groups for UA 8m (AfDB) FY09 ▪ State and Peacebuilding Fund support to Local Governance ($3.5 m) (WB) ▪ Fragile States Facility ($2 m) (AfDB) **AAA:** ▪ Growth diagnostic study (AfDB) FY09-10 **Partners:** EU, AFD, UNDP

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
Private sector and business environment ▪ Establish a legal and institutional framework and incentive structure conducive to private enterprise ▪ Build the capacity of institutions servicing the private sector and develop business support services ▪ Strengthen partnerships between the public and private sectors *(No Indicators)*	▪ Low capacity of SMEs ▪ Weak business environment (CAR is ranked 180th out of 181 in the 2009 Doing Business Report) ▪ High internal debt of the Government vis-à-vis private companies	**4. Improved investment climate and more business opportunities for local SMEs** 4.1 Chamber of commerce fully functional and active (IFC) 4.2 Time to register a business reduced (IFC)	Support to reforms to facilitate business registration (IFC) Venture capital provided to more than 50 enterprises by end 2010 (IFC) Financial intermediaries supported to develop products adapted to SMEs (IFC)	**On-going Projects:** ▪ IFC Conflict Affected States in Africa (CASA) Program ▪ IFC Ventures Program ▪ MIGA guarantee FY08 – telecomm. Project **Pipeline Projects:** ▪ Trade Financing Initiative and the Emergency Liquidity Facility (AfDB) ▪ IFC Support to improvement of business climate and to the development of SMEs (FY09) **AAA:** Growth Diagnostic Study (AfDB) (FY10)
Axis 2: Rehabilitation and Development of Basic Socio-Economic Infrastructure (Aligned with PRSP Pillar 3 Rebuild and Diversify the Economy and Pillar 4 Develop Human Capital)				
Promote the energy sector ▪ Continue with the restructuring of the sector ▪ Diversify energy sources ▪ Improve hydrocarbon management capacity *Indicator: Proportion of population with access to electricity (Baseline: 5% in 2006, no target)*	▪ Dilapidated infrastructure ▪ Frequent power outages ▪ High transmission and distribution losses ▪ Weak financial performance of the power utility due in part to low bill collection	**5. Improved Infrastructure for Regional Economic Integration** *Energy* 5.1 Number of hours of load shedding decreases from 8 hours per day currently to 3 hours per day by end 2012 (WB and AfDB) 5.2 ENERCA increased its cash generation and expenditure on operations and maintenance from 2 billion FCFA in 2008 to 2.7 billion FCFA by end 2012 (WBG)	*Energy* An additional firm generation capacity of about 3 MW is added to the system by end 2011 (WB) About 10,000 consumers use efficient lamps by end 2010 (Baseline: 0) (WB) Bill collection improves from 65% in 2008 to 80% by end 2010 (WB) ENERCA increases its cash generation and expenditure on operation and maintenance from 2 billion FCFA in 2008 to 2.7 billion FCFA by end 2012 (WB) Overall electricity losses are reduced from 50% in 2008 to 40% by end 2011 (WB)	**On-going Projects:** ▪ Emergency Energy Response Project (US$8m) FY09 (WB) ▪ Safe and Reliable Public Electricity Project (US$2.5m – SPF grant) FY09 (WB) **Pipeline Projects:** ▪ Boali 2 and 3 project (UA 23m) (AfDB) **AAA:** ▪ PPIAF Power Utility Reform Study ($0.5m) (WB) ▪ RIAS II (WB) FY09 ▪ ECCAS Reg. Integration Strategy (AfDB) FY09 ▪ National Electrification Master Plan study and institutional support (AfDB) **Partners:** AFD

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
Develop telecommunications ▪ Promotion of competition ▪ Strengthen the legal framework ▪ Full coverage of the population ▪ Improve internet utilization *Indicators: Proportion of mobile phone subscribers among the urban population (11 in 2006, no target)*	▪ Weak legal, regulatory and institutional framework; ▪ Dilapidated basic infrastructure ▪ Lack of a dynamic, competitive climate conducive to the development of ICT sector ▪ Poor coverage of ICT services	*Telecommunications* 5.3 Coverage of mobile network increase from 19.3% in 2008 to 40% by end 2011 (WB)	*Telecommunications* Three operators and service providers buying capacity from the Regional Infrastructure by end 2011 (WB) Secondary legislation related to broadband developed by end 2010 (WB) Frequency spectrum management regulatory tools designed by end 2010 (WB) Deploy the Central African Backbone infrastructure in CAR to link Bangui to the neighboring countries by end 2011 (WB)	**On-going Projects:** ▪ MIGA guarantee FY08 – telecommunication project ▪ Technical study for the Central Africa backbone (WB-PPIAF) **Pipeline Projects:** ▪ Central African Backbone / Regional Fiber Optic Cable project FY10 (Total IDA $17m – but only $2.5m CAR country allocation (WB) ▪ Regional Fiber Optic Cable project FY11 (AfDB) ▪ RIAS II (WB) FY09 ▪ ECCAS Reg. Integration Strategy (AfDB) FY09 **AAA:** ▪ Feasibility study national fiber optic infrastructure (AfDB) ▪ Technical study for the Central African Backbone (WB – PPIAF) **Partners:** CEMAC, CEEAC, African Union Commission and International Telecommunications Union
Develop transport infrastructure ▪ Secure the international access to the sea ▪ Strengthen the institutional framework ▪ Mobilize existing departmental resources ▪ Seek finance for the 2008-2010 period ▪ Repair transport infrastructure *Indicator: Mileage of roads and tracks that have been repaired or maintained (km) (Baseline: 700 in*	▪ Access to the international market through Douala ▪ Poor maintenance of road network ▪ Few roads that are passable during the rainy season	*Transport* 5.4 Proportion of road in good condition on the Douala – Bangui corridor increases from 50% in 2007 to 70% by end 2012 (WB and AfDB) 5.5 Average transit time in days for imports from arrival in port of Douala to Bangui decreases by 20% by end 2012 (from 10 days in 2008) (WB and AfDB)	*Transport* Construction of 78 km of road by end 2012 on the Douala-Bangui corridor (WB and AFDB) 1200 kms of roads maintained by end 2010 (government as a commitment) 800 kms of earth roads rehabilitated by end 2012 (WB and AfDB) Budget of the road fund increases to 4 billion CFA by end 2012 (from 2 billion CFA in 2006)	**On-going Projects:** ▪ CEMAC - Regional project Transport Transit Facilitation (CMR/CHD/CAR) (FY07) (WB) **Pipeline Projects:** ▪ Regional Project on Transport-Transit Facilitation (CMR/CHD/CAR) Additional financing for $55 m in CAR– FY10 (WB) ▪ Ouesso (Congo), Bangui-Ndjamena Transport project (FY12) (AfDB) **AAA:** ▪ RIAS II (WB) FY09

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
2006, no target available)			Unpaved network under routine maintenance exceed 1,200 km by end 2012 (from 700)	▪ ECCAS Reg. Integration Strategy (AfDB) FY09 ▪ Feasibility study for Ouesso (Congo), Bangui-Ndjamena corridor FY09 (UA4m) (AfDB) ▪ Feasibility study for Obangui-Congo-Sangha river Transport project FY09-10 (UA 4m) (AfDB) **Partners:** AFD, US, EU
Water treatment and sanitation ▪ Establish an appropriate institutional and regulatory framework ▪ Nation-wide capacity building for the sector in relation to management and planning ▪ Construct and renovate supply works and adequate treatment plants ▪ Finance the sector from diverse sources which are stable and reliable *Indicators: Households with access to drinking water (Baseline: 28.2% in 2006, no target)*	▪ Urban infrastructure is destroyed and in disarray ▪ Financial and institutional weakness of service providers ▪ Poor city planning	**6. Improved Access to Basic Urban and Community Infrastructure (Urban, Water Supply, Sanitation, Drainage and Roads)** *Water* 6.1 Number of people with access to potable water increase from 10,000 in 2007 to 110,000 by end 2011 (WB) 6.2 Access to potable water in 3 "Chefs Lieux de Prefectures" increase from 32% to 100% (AfDB) *Sanitation / Solid Waste /Drainage* 6.3 Number of people with access to a sustainable solid waste management system in Bangui increase from 30,000 in 2007 to 257,000 by end 2011 (WB) 6.4 Number of people in Bangui protected against periodic flooding increases from 6,000 to 58,000 by end 2011 (WB) 6.5 Number of people in Bangui with access to year round passable roads increases from 50,000 in 2007 to 470,000 by end 2011 (WB)	*Water* 10 boreholes constructed by end 2011 (WB) Price of cubic meter of water in public water point decrease from FCFA 1,250 FCFA to FCFA 500 in 3 'Chefs-lieux de Préfectures' (AfDB) *Sanitation / Solid Waste / Drainage* Solid waste collected as a percentage of solid waste produced in Bangui increase from 6% in 2007 to 40% by end 2010 (WB). Seven kilometres of primary drainage constructed by end 2011 (WB) 66 kilometers of urban roads rehabilitated in Bangui by end 2011 (WB).	**On-going Projects:** ▪ Water and Sanitation Project (UA 7m) (AfDB) ▪ Emergency Urban Infrastructure FY07 for US$ 18 m. (WB) **Pipeline Projects:** ▪ Additional financing for Emergency Urban Infrastructure (FY10) (WB) ▪ Water and sanitation sector Institutional Support Project for Euro1.96m (AfDB) **TA:** ▪ Secondment Program/Technical Assistance for $2m (AfDB) **AAA** ▪ Urbanization Master Plan study for Bangui (AfDB) **Partners:** EU, AFD, UNDP

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
Improving Community Participation *(No indicators)*	▪ Low physical security for the population ▪ Weak capacity of state institutions ▪ Profound social and economic divisions ▪ Limited access to basic social and economic services in rural areas	*Community Development and Services* 6.6 40% of financed village level projects achieve their targets in terms of increased access to social and infrastructure services by end 2012 (WB) 6.7 Average distance in targeted villages from a health center or a water point decrease by 2/3 by end 2013 (AfDB)	*Community Development and Services* 30% of targeted villages have received capacity building support by end 2010 (WB) 20% of targeted communes have functioning and representative coordination bodies with regular meetings (WB) 40% of targeted communes have Local Development Plans developed through a participatory process by end 2011 (WB) Rehabilitate and build 200 (AfDB) + 80 (WB) basic infrastructure/micro-projects by end 2012	**On-going Projects:** ▪ LICUS grant for Community-Driven Development and Social Sector Project (US$2.7 million) (WB) ▪ Community Development Project (FY09) (WB) ▪ Japanese Social Development Fund (JSDF) Grant for $1.8m (WB) **Pipeline Projects:** ▪ Community Development Project targeting vulnerable groups (UA8m) (AfDB) ▪ Community Recovery – Northern CAR Project (SPF grant) $3.5 m in FY10 (WB) ▪ Transitional Demobilization & Reintegration Program (TDRP) 09 (AfDB/WB) **Partners**: UNDP, France, European Union, Japan
Promote and modernize agriculture ▪ Support rural people ▪ Build the capacity of institutions ▪ Intensify and diversify agriculture *Indicators:* *- Food production in tons (Baseline: 3017 in 2006, no target)* *- Production of cash crops (cotton, coffee) in tons (Baseline: 5500 in 2006, no target)* *- Number of heads of livestock (Baseline: 13841 in 2006, no target)*	▪ Low agricultural productivity ▪ Lack of access to certain insecure areas ▪ Lack of producer access to inputs and tools	**7. Improved Agriculture and Livestock Productivity** 7.1 70% of targeted farmers adopt at least one improved technology by end 2010 (WB) 7.2 Additional 12,000 tons of food products, 1,000 tons of cotton and 1,000 tons of meat commercialized by end 2012 (AfDB)	50,000 agricultural producers receive improved inputs (seeds and tools) by end 2010 (WB) 2000 agricultural producers receive training by end 2010 (AfDB) 250km of rural roads rehabilitated by end2012 (AfDB-PARIR) 2 abattoirs, 2 livestock markets, 2 provincial markets, and 1 rural market built by end 2012(AfDB-PARIR) 2 training centers, 2 laboratories and livestock food factory rehabilitated and equipped by end 2012 (AfDB-PARIR)	**On-going Projects:** ▪ Emergency Food Response ($7.0 million) FY09 (WB) ▪ Emergency Food Response for UA3.0m FY08 (AfDB) **Pipeline Projects:** ▪ Rural infrastructure rehabilitation Project (UA4 m) FY09 (AfDB) ▪ Agriculture / rural development project for US$10 m in FY12 (WB) **AAA** ▪ Food Security study FY09 (AfDB) **Partners**: FAO, EU

Selected CAR PRSP objectives & indicators[18]	Key Issues	CPS Outcome & Indicators	CPS Milestones	World Bank Group/AfDB Instruments
			300 (70% of women) agents of the Ministry of Agriculture, 50 groups (1000 members) trained by end 2015 (AfDB-PARIR)	
Education ▪ Increase the range of education on offer ▪ Increase the proportion of pupils completing primary school ▪ Increase retention rates ▪ Raise awareness and mobilize all partners *Indicators:* *- Registration in primary education, basic level 1(Baseline: 60% in 2006, Target: 73% in 2010)* *- Rate of completion of primary education, basic level 1 (Baseline: 30% in 2006, Target: 53% in 2015)* *- Ratio of literacy among 10 to 24 year olds (Baseline: 57.3% in 2003, No Target)* **Health and HIV/Aids** ▪ Regenerate and strengthen the health care system ▪ Finance scaled implementation of priority child and maternal healthcare programs ▪ Combat HIV/Aids, tuberculosis and malaria *Indicators:* *- Deliveries assisted by a medical worker (Baseline: 44% in 2006, no target)* *- Rate of use of condoms among 15-24 year olds (Baseline: 41% in 2006, no target)*	*Education* ▪ One child out of four have never attended school ▪ The conditions of instruction are extremely poor with degraded and inadequate number of classrooms and insufficient textbooks. ▪ Lack of trained teachers. *Health and HIV/Aids* ▪ Health service provision is very poor ▪ Under-funded and short-staffed public health institutions constrain service delivery ▪ Public health staff concentration in Bangui is excessive, leaving health posts and hospitals in the rest of the country under-staffed ▪ HIV/Aids infection rates are thought to be on the increase ▪ UNAIDS estimates HIV prevalence in CAR at about 6.3 percent among persons aged between 15 and 49 years, which is above the 3 to 5 percent rates in neighbouring countries	**8. Improved access and quality of education and health services** *Education* 8.1 Gross enrolment in primary education increase from 73.7% in 2007 to 81.7% by end 2011 (WB) 8.2 Pupil – teacher ratio decrease from 90.5 in 2007 to 80 by end 2011 (WB) 8.3 Pupil-reading textbook ratio decreases from 7 in 2007 to 2 by end 2011 8.4 Pupil-math textbook ratio decreases from 6 in 2007 to 2 by end 2011 *Health and HIV/Aids* 8.5 200,000 men and women accepted VCT and received test results in targeted health centers by end 2010 compared to 0 in 2007 (WB) 8.6 300,000 additional households using ITBNs by end 2011 (WB)	*Education* 284 primary classrooms constructed by end 2010 (WB) 480 000 French and mathematics textbooks delivered to targeted schools by end 2010 (WB) 300 teachers embark on 1st year of initial training at ENI and 450 teachers at the 8 CPRs by end 2010(WB) More than 1500 teachers contracted by end 2010 (WB) *Health and HIV/Aids* 20,000 blood transfusion pockets tested for HIV and other blood borne infections in targeted health centers by end 2010 (WB) 5,000 pregnant women reached by PMTCT during the last 12 months in targeted health centers by end 2010(WB)	**On-going Projects:** ▪ Restruct. Multi-sectoral HIV/AIDs, Health, Education ($17.0 million) project FY02 (WB) ▪ EFA/FTI Catalytic Fund ($38m) (WB) **Pipeline Project:** ▪ Health sector project (FY12) (WB) **AAA:** ▪ Health Sector Finance Assessment (FY11) (WB) **Partners:** The Global Fund, German cooperation, France, UNESCO, China and USAID

Annex 2. Central African Republic: Debt Sustainability Analysis Using the Low-Income Country Framework

According to the analysis based on the joint IMF-World Bank debt sustainability framework for low-income countries,[19] Central African Republic (CAR) has a moderate risk of debt distress.[20] Thanks to debt relief under the enhanced HIPC initiative and MDRI, CAR's external and public debt burden indicators improve significantly through the projection period. The debt sustainability analysis shows, however, that CAR continues to be vulnerable to certain shocks and could breach the threshold for the NPV of external debt-to-exports ratio in the most extreme scenario.

BACKGROUND

1. **This analysis is based on the forward-looking debt sustainability framework for low-income countries (LIC DSA).** The LIC DSA uses the reconciled debt database prepared for the completion point HIPC DSA, and incorporates the impact of HIPC and MDRI relief in the baseline scenario. The LIC DSA varies from the HIPC DSA because of three key differences in the methodologies applied: (i) the discount rate in the LIC DSA is fixed at 5 percent, compared to the currency-specific 6-month averages of commercial interest reference rates (CIRR) used in the HIPC DSA; (ii) WEO exchange rate assumptions are used for calculating the present value of debt in the LIC DSA, while an actual exchange rate at end-2008 is used in the HIPC DSA; and (iii) the exports denominator in the LIC DSA is based on the current level of exports of goods and services, rather than the three-year backward-looking average in the HIPC DSA.

2. **This LIC DSA incorporates four key updates relative to the previous one:**[21] (i) debt relief is based on the actual calculations for the HIPC completion point rather than earlier preliminary estimates; (ii) the baseline scenario assumes lower real GDP growth, larger current account deficit, and worse fiscal balance outcomes in the near term, mainly due to the negative impact of the current global crisis; (iii) real GDP growth is assumed to be lower by about 0.7 percentage point over the period; and (iv) the historical data for real GDP growth were recently revised by the authorities following technical updates, which affect the level of nominal GDP in 2009 and thereafter.

3. **Total public debt including domestic arrears of CAR is estimated at 79.4 percent of GDP at the end of 2008.** External public and publicly guaranteed debt amounts to 56.8 percent of GDP, of which multilateral creditors account for more than half and official bilateral creditors for about one-third. Domestic public debt (including budgetary arrears and domestic debt of public enterprises) amounts to 23 percent of GDP. It consists of outstanding credits to the government from domestic commercial banks (10 percent), government debt with the Bank for Central African States (BEAC, 30 percent), budgetary arrears (52 percent), public enterprise debt (4 percent), and nonbanks (5 percent).

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[19] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm)

[20] CAR's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), are classified as a "weak performer."

[21] The previous joint LIC DSA was published in December 2008 (IMF Country Report No.09/43).

UNDERLYING DSA ASSUMPTIONS

4. **The near-term macroeconomic outlook is influenced by the adverse impact of the international financial crisis.** Despite favorable developments for the import price of oil, the sudden drop of timber and diamonds exports implies lower GDP growth and a worse external current account balance. Along with lower revenue projected for 2009, the additional spending necessary to consolidate the peace process and finance the 2010 elections moves the domestic primary balance into negative territory in 2009; however, the primary balance including grants remains in surplus.

5. **Over the medium and long term, CAR is presumed to achieve a steady-state growth path, supported by political and social stability.** A sustained improvement in business confidence and higher investment should underpin these growth projections (Box 4). Growing exports of a diversified range of primary goods, including gold and uranium, are expected to lift real GDP growth to 5.5 percent in the medium term. Stronger exports will help improve the external current account deficit over time to around 4 percent of GDP, with financing primarily provided by private investment, highly concessional project loans, and the regional market for government securities expected to be launched in 2010. In order to preserve debt sustainability, fiscal policy would remain prudent. The authorities' fiscal anchor is the domestic primary balance, which would be in surplus until 2020. The primary balance including grants would be higher than the primary balance needed to stabilize the debt-to-GDP ratio for the projection period; thus, the debt-to-GDP ratio could decline by some 10 percentage points to 20 percent of GDP by 2029.

6. **The risks to CAR's macroeconomic outlook, however, remain significant.** Potentially, political uncertainty and a worsening social and security situation could hamper donor support and investor confidence. Exogenous shocks, including a prolonged impact of the global economic crisis on exports, could lead to slower growth, lower revenue, and deterioration in debt indicators. Moreover, insufficient investments in infrastructure, such as roads, could cause delays in private sector investment projects that are needed to boost the CAR economy and reduce poverty.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

7. **Following HIPC and MDRI relief, all debt indicators are expected to remain below the relevant thresholds throughout the projection period in the baseline scenario**. The net present value (NPV) of the debt service-to-export ratio and the NPV of the debt service-to-revenue ratio increase temporarily over the medium term due to debt service payments on new debts following the standard grace periods, but the ratios would stay well below the thresholds that define an excessive debt burden. All other debt indicators remain well below the thresholds for the projection period and show stable downward trends.

Box 4: Baseline Macroeconomic Assumptions

Real GDP growth: Average annual real GDP growth for 2009–29 is projected at 4.4 percent, which is predicated on sustained security and political stability, an improvement in the country's institutional and administrative capacity, and appropriate macroeconomic policies. This environment should encourage an increase in private investment, especially in forestry, mining, and telecommunications. Public investment in infrastructure would help revive agriculture, which dominates economic activity. With these assumptions, the projected growth rate is significantly higher than the historical average, which was characterized by conflicts and civil strife.

Inflation: After unexpectedly high inflation in 2008, the GDP deflator is projected to increase by 2½ percent on average for 2009–29; this assumes that inflation will moderate promptly from the current level. The projected inflation rate is in line with the Central African Economic and Monetary Community (CEMAC)'s convergence criterion of 3 percent (defined by the CPI).

Current account balance: The current account deficit (including grants) is projected to average 7 percent for 2009–29. The trade balance is projected to improve over time, driven by stronger export performance as a result of structural reforms and infrastructure investments that will enhance competitiveness and diversification of the export base; the deficits in the services balance would remain large. The current account deficits would be financed primarily by official development assistance (project loans), foreign direct investment, and regional capital inflows from the future regional government securities market. A major gold mining project is assumed to start in 2011. The new forestry and mining codes should prepare the ground for sustained FDI inflows in these sectors.

Government balance: The domestic primary surplus would be in surplus until 2019 and then decline to zero between 2020-29. The overall fiscal deficit (including grants) is projected to average about 1.2 percent of GDP for 2009–29; with the primary balance consistently higher than the one needed to stabilize the debt-to-GDP ratio. Domestic revenue is projected to rise from 10½ percent of GDP in 2009 to some 14 percent at end-2029, mainly as a result of steady tax and customs administration improvements and tax policy reform to render the tax code more growth compatible. Expenditures are projected to rise from about 17 percent of GDP in 2009 to about 20 percent in 2029 with most of the increases concentrated in infrastructure investments.

External assistance: Total grants and loans are assumed to contribute about 5.4 percent of nominal GDP in the long run. Grants are assumed to account for about 80 percent of total external assistance, with the grant element of new external loans averaging 52 percent for the period.

Domestic borrowing: It is assumed that in 2010, the government will start accessing the securities markets that are being developed in the CEMAC region. This will allow it to reduce financing costs, improve liquidity managements, and repay domestic arrears. Given the continued prudent fiscal policy stance, domestic debt is expected to decline during the projection period.

Real interest rate on domestic currency debt: The average real interest rate on domestic currency debt (including bonds from the regional markets) should converge to about 4.7 percent in the long run.

8. The historical scenario appears much more favorable than the baseline scenario because of severely compressed imports during CAR's history of conflict. Thus, the historical scenario is based on the average noninterest current account deficit of only 2.2 percent of GDP, compared to the projected deficit of 7 percent of GDP under the baseline scenario; such scenario would be unlikely given recent trends and detrimental to economic growth and integration of CAR into the world economy.

9. **The bound tests underscore potential risks, especially regarding lower export growth.** The most extreme stress test, which assumes a combination of shocks but mostly affected by lower export value growth in the CAR's case, would raise the NPV of the debt-to-exports ratio above the threshold for a prolonged period. [22] The debt service-to-exports ratio would also exceed the threshold during 2015 -2016 under the low export growth scenario. The deterioration of debt indicators under these scenarios underline that continuous efforts are necessary to develop CAR's exports, including improving the business climate for foreign investments, reducing transport costs, and improving productivity.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

10. **HIPC and MDRI debt relief will improve public debt indicators significantly since public external debt accounts for almost half of public debt stock.** With an assumption of lower program grants than in the recent past (0.7 percent of GDP over the long term), and with well-managed financing, all debt indicators are expected to decline gradually. It is assumed that the government would continue its prudent fiscal policy by maintaining a domestic primary balance surplus in the medium term and balance over the long term; mobilizing a higher domestic revenue-to-GDP ratio; and securing relatively low-cost financing such as highly concessional loans. Accessing the regional government securities markets starting in 2010 would help eliminate expensive credits from commercial banks over the next several years and clear domestic arrears. Under these assumptions, the NPV of the public debt-to-GDP ratio would decline from 28 percent of GDP in 2009 to 17 percent of GDP in 2029, while the NPV of public debt-to-revenue ratio would fall from 174 percent to 90 percent.

11. **All debt indicators would deteriorate rapidly if real GDP growth were slower or debt-creating flows were to increase.** Lower GDP growth represents the most extreme scenario: in this case, both the NPV of the debt-to-GDP ratio and the NPV of the debt-to-revenue ratio as well as the debt service-to-revenue ratio would rise overtime.

[22] The combination of shocks consists of (i) Real GDP growth at historical average minus one-half standard deviation in 2010-2011, (ii) Export value growth at historical average minus one-half standard deviation in 2010-2011, (iii) US dollar GDP deflator at historical average minus one-half standard deviation in 2010-2011, and (iv) Net non-debt creating flows at historical average minus one standard deviation in 2010-2011.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

12. **CAR qualifies as having a "moderate risk of debt distress".** All debt indicators improve dramatically following the HIPC completion point and debt relief under the MDRI, but its overall debt position could still be vulnerable to a variety of shocks. The external debt indicators are particularly sensitive to export growth, indicating that diversifying the export base is essential for preserving external debt sustainability. The public debt indicators are vulnerable to slower GDP growth and an increase in debt-creating flows, confirming that CAR needs to pursue prudent fiscal policies over the medium-term and to consolidate the basis for growth by fostering domestic security, maintaining political stability, and improving the country's institutional and administrative capacity.

Annex 3: Summary of Current Donor Engagement

Donor	Projects (inter alia)	Grant Amount	Original Currency	Duration	Documents
AFD	Infrastructure, forestry, education, budget support (for the whole CEMAC region about E30 million (unclear how much for CAR)	$25m (+ budget support, total unknown)	Euro	3-4 years	No specific document; one project per year, apart from regional budget support
AfDB	Economic governance & capacity building, energy (Boali 3), telecommunications, transport, budget support, community development	127m[23]	UA	4 years	Joint CPS
China	Infrastructure, health (hospital), education (schools)	$30m	Yuan	2 + years	No specific document
EU	Governance, infrastructure (development poles, budget support, environment)	$196 m	Euro	5 years	Indicative National Program (10th)
FAO	Seed & research in alternative seed products; food storage facilities	$10m Annually	Dollar	1 year	
UNDP	DDR, community development	$20m Annually	Dollar	3 years	
USA	Rural roads	$3m total	Dollar	2 years	No specific document
WBG	Economic governance and capacity building, Urban infrastructure, health, education, HIV/AIDS, food emergency assistance + agriculture, community development, energy, transport, telecom	US$181 m	Dollar	4 years	Joint CPS

[23] Approximately US$190 million.

Annex 4: Analytical Work by the AfDB and the World Bank for 2009-2012

Domain	Approval	Indicative Amount (million)	Source of funding
ADF public sector window – National Operations			
Capacity building			
Study on food vulnerability	2009	TBD	FSF Targeted Support
Community and urban infrastructure			
Study of guidelines for the development and urbanization of the city of Bangui	2009	TBD	FSF Targeted Support
Others sources of funding at the level of the AfDB			
Energy			
Study of the master plan for the electrification of the country and institutional support to the energy sector	2010	UA 3	Bilateral/trust funds To be sought for)
Cross-cutting issues			
Assistance strategy for regional integration – CEEAC	2009	-	-
Economic studies			
Growth diagnosis – Identification of most severe constraints to growth	2009	-	-
Portfolio			
Country portfolio review	2009	-	-
Country portfolio review	2011	-	-
World Bank and the IFC			
Support to economic reforms			
Mining Sector Review Public Expenditure Review Diamond Sector Assessment EITI Support		$0.03 $0.25 $0.02 $0.03	World Bank
Energy			
PPIAF – Power Utility Reform Study	2010	$0.5	World Bank
Health			
Health Sector Assessment	2011	$0.03	
Cross-cutting issues			
Country Environmental Assessment	2010	$0.05	World Bank
Africa Regional Integration Strategy (RIAS II)	TBD	-	World Bank

* TBD: to be determined

Annex 5(a): Main Economic Indicators for 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
			Actual		Estimates		Projected		
				Annual percentage change					
National income and prices									
Real GDP	1.0	2.4	4.0	4.2	2.2	2.4	3.1	4.0	5.0
Real GDP per capita*	-1.0	0.4	2.0	2.2	0.2	0.4	2.1	2.0	3.0
Inflation (annual average)	-2.2	2.9	6.7	0.9	9.3	4.7	2.6	2.5	2.5
				% of GDP					
Public finance									
Total revenue	11.7	12.4	22.8	14.4	15.1	14.3	16.6	15.2	15.6
Tax revenue	7.2	7.1	7.8	7.3	7.9	8.2	8.5	8.8	9.2
Non-tax revenue	1.1	1.1	1.7	2.6	2.4	2.2	2.1	2.0	2.0
Grants	3.4	4.1	13.3	3.3	4.7	3.9	6.0	4.4	4.4
Total expenditure	13.9	16.9	13.9	13.1	15.5	16.9	17.0	16.2	16.4
Current Expenditures	9.9	10.6	8.1	8.0	9.1	9.9	9.6	8.8	8.7
Wages and salaries	5.8	5.5	4.8	4.5	4.1	4.4	4.4	4.4	4.4
Goods and services	2.7	3.1	2.0	1.8	2.5	2.9	3.2	2.4	2.4
Capital Investment	2.7	5.4	4.9	3.6	4.5	5.3	6.3	6.3	6.5
o/w domestically fin	1.1	1,2	1.0	1.1	1.2	1.5	1.6	1.6	1.6
Domestic primary balance	-2.8	-3.6	0.4	1.1	0.1	-1.0	-0.5	0.5	0.9
Fiscal balance (commitment)									
Excluding grants	-5.6	-8.7	-4.4	-2.8	-5.1	-6.5	-6.4	-5.4	-5.2
Including grants	-2.2	-4.5	9.0	1.3	-0.4	-2.6	-0.5	-1.0	- 0.8
Change in arrears	3.1	3.8	-6.5	-2.0	-1.2	-1.1	-1.5	-1.4	-1.3
Domestic	0.4	1.3	-1.3	-1.0	-1.2	-1.1	-1.5	-1.4	-1.3
External	2.7	2.5	-5.3	-0.3	0.0	0.0	0.0	0.0	
External sector									
Current-account balance	-1.7	-6.5	-3.0	-6.1	-8.6	-9.3	-9.9	-9.9	-9.2
Overall balance of payments	-2.9	-1.1	3.0	-3.5	-0.7	-2.9	-2.0	-1.5	
NPV of external public and publicly guaranteed debt	...	...	48.5	41.3	36.8	37.8	33.5	30.0	26.7
Gross official reserves (months of import cover)	6.4	6.5	4.6	2.5	3.5	2.5	2.5	2.8	3.1
Memorandum items									
Nominal GDP (CFAF bn)	670.7	712.1	772.2	820.6	882.3	943.3	1011.0	1087.0	1168.0
Gross investment rate (% of GDP)	6.8	9.8	10.1	9.9	10.2	10.9	14.2	14.4	14.5
Private Investment	4.0	4.5	5.2	6.1	7.1	5.7	7.9	8.2	8.2
Source: IMF.									

Annex 5 (b): Central Government's Operations for 2004-2012 (in CFA billion) 1/

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.	Est.	Proj.	Proj.	Proj.	Proj.
Revenue	**78.5**	**88.0**	**176.3**	**117.0**	**134.7**	**420.5**	**165.8**	**162.6**	**179.0**
Domestic revenue	55.8	58.6	73.4	83.6	92.5	99.1	106.1	115.6	128.8
Tax revenue	48.3	50.6	60.4	59.5	70.7	78.3	85.5	94.3	105.6
Grants	22.7	29.5	102.9	33.4	42.2	321.4	59.7	47.0	50.1
Programs	14.8	2.7	75.7	13.2	12.6	17.2	11.8	7.0	7.6
Debt relief	...	...	...	...	...	258.7	...	...	...
IMF MDRI grants	...	...	...	...	...	9.9	...	...	...
Projects	7.9	26.7	27.2	20.2	29.7	35.6	47.9	40.0	42.6
Expenditure [2]	**-93.4**	**-120.4**	**-107.2**	**-106.5**	**-138.1**	**-160.1**	**-170.3**	**-174.2**	**-190.2**
Current primary expenditure	-66.7	-75.4	-62.5	-65.4	-81.4	-93.7	-95.7	-94.4	-102.2
Wages and salaries	-38.9	-39.2	-37.2	-36.3	-36.9	-41.8	-44.1	-47.0	-50.5
Interest due	-8.5	-6.6	-6.9	-11.7	-16.7	-16.7	-11.2	-12.7	-13.7
Capital expenditure	-18.2	-38.4	-37.7	-29.4	-40.0	-49.8	-63.4	-67.1	-74.3
Externally financed	-10.5	-29.9	-30.2	-20.2	-29.7	-35.6	-47.9	-50.6	-56.3
Overall balance excluding grants [3]	**-37.7**	**-61.8**	**-33.8**	**-22.9**	**-45.7**	**-61.0**	**-64.2**	**-58.6**	**-61.3**
Of which: domestic primary balances [4]	-18.6	-25.3	3.3	9.0	0.7	-8.7	-5.1	4.7	8.6
Overall balance including grants	**-15.0**	**-32.4**	**69.1**	**10.6**	**-3.5**	**260.4**	**-4.5**	**-11.6**	**-11.2**
Change in arrears (net; (-)=reduction)	21.1	26.9	-60.3	-16.1	-10.5	-10.0	-15.0	-15.0	-15.0
Overall balance (cash basis)	**6.1**	**-5.5**	**8.8**	**-5.5**	**-14.0**	**250.4**	**-19.5**	**-26.6**	**-26.2**
Identified financing	-6.1	5.5	-3.8	1.0	21.0	-260.7	15.5	26.6	26.2
External (net)	-14.6	-4.5	-12.9	-9.5	5.8	-250.8	-2.5	1.7	3.9
Projects	2.6	3.2	3.0	0.0	0.0	0.0	0.0	10.6	13.7
Amortization due	-17.2	-11.8	-15.9	-12.4	-11.3	-271.3	-2.5	-8.9	-9.8
Exceptional financing	0.0	0.0	0.0	2.9	17.1	20.5	0.0	0.0	0.0
Paris Club [6]	0.0	0.0	0.0	1.5	1.0	1.1	0.0	0.0	0.0
Other [7]	0.0	0.0	0.0	1.4	16.1	19.4	0.0	0.0	0.0
Internal (net)	8.5	10.0	9.1	10.5	15.2	-9.9	18.0	24.9	22.2
Banking system	8.5	10.0	4.1	10.0	10.6	-1.7	1.4	-4.1	-6.7
Commercial banks	-1.4	2.4	4.2	1.0	6.9	-3.0	-0.9	-3.2	-3.2
Errors and omissions	0.0	0.0	5.0	-4.5	7.1	0.0	0.0	0.0	0.0
Residual financing need [8]	0.0	0.0	0.0	0.0	0.0	10.3	4.1	0.0	0.0
Memorandum items									
Government domestic debt	161.6	173.4	183.9	199.2	201.5	189.7	192.2	204.7	211.7
Of which: arrears payment	109.7	109.7	109.7	114.7	104.2	94.2	79.2	64.2	49.2
DDR expenditure	...	...	...	...	...	10.0	...	...	...

Sources : Data provided by country authorities; and IMF estimates and projections.

[1] The new classification started in 2007. It mainly concerns revenue. Some levies registered earlier as taxes are now included in non-tax revenue.

[2] Expenditure is registered on cash basis for current period, with the exception of interest which is registered as due.

[3] The amounts for 2009 include expenditure for financing the peace process (DDR).

[4] Excluding grants, interest payments, and capital expenditure financed with external resources

[5] The amounts for 2006 take into account arrears clearance by the World Bank and ADB (CFAF 47.5 billion) and increase in arrears to bilateral creditors and a few multilateral creditors (CFAF 6.9 billion)

[6] Takes into account the rescheduling and moratorium agreement by Paris Club in April 2007.

[7] Includes HIPCI debt relief by multilateral creditors and other bilateral creditors. For 2008-09, debt service to commercial creditors and non- Paris Club members are also included. As from 2010, all HIPCI and MDRI debt relief are included as inflows.

[8] The difference in projections for 2009 and 2010 corresponds to the proposed increased access to PRGF.

Annex 5 (c): Central Government's Operations for 2004-2012 (in percentage of GDP)[1]

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.	Est.	Proj.	Proj.	Proj.	Proj.
Revenue	**11.7**	**12.4**	**22.9**	**14.4**	**15.1**	**44.4**	**16.6**	**15.3**	**15.6**
Domestic revenue	8.3	8.2	9.5	10.3	10.4	10.5	10.6	10.9	11.3
Tax revenue	7.2	7.1	7.8	7.3	7.9	8.3	8.6	8.9	9.2
Grants	3.4	4.1	13.4	4.1	4.7	33.9	6.0	4.4	4.4
Programs	2.2	0.4	9.8	1.6	1.4	1.8	1.2	0.7	0.7
Debt relief	...	...	...	...	...	27.3	...	...	...
IMF MDRI grants	...	...	...	...	...	1.0	...	...	...
Projects	1.2	3.8	3.5	2.5	3.3	3.8	4.8	3.8	3.7
Expenditure [2]	**-13.9**	**-16.9**	**-13.9**	**-13.1**	**-15.5**	**-16.9**	**-17.0**	**-16.4**	**-16.6**
Current primary expenditure	-9.9	-10.6	-8.1	-8.0	-9.1	-9.9	-9.6	-8.9	-8.9
Wages and salaries	-5.8	-5.5	-4.8	-4.5	-4.1	-4.4	-4.4	-4.4	-4.4
Interest due	-1.3	-0.9	-0.9	-1.4	-1.9	-1.8	-1.1	-1.2	-1.2
Capital expenditure	-2.7	-5.4	-4.9	-3.6	-4.5	-5.3	-6.3	-6.3	-6.5
Externally financed	-1.6	-4.2	-3.9	-2.5	-3.3	-3.8	-4.8	-4.8	-4.9
Overall balance excluding grants [3]	**-5.6**	**-8.7**	**-4.4**	**-2.8**	**-5.1**	**-6.4**	**-6.4**	**-5.5**	**-5.4**
Of which: domestic primary balances [4]	-2.8	-3.6	0.4	1.1	0.1	-0.9	**-0.5**	0.4	0.8
Overall balance including grants	**-2.2**	**-4.5**	**9.0**	**1.3**	**-0.4**	**27.5**	**-0.5**	**-1.1**	**-1.0**
Change in arrears (net; (-)=reduction)	3.1	3.8	-7.8	-2.0	-1.2	-1.1	-1.5	-1.4	-1.3
Overall balance (cash basis)	**0.9**	**-0.8**	**1.1**	**-0.7**	**-1.6**	**26.4**	**-2.0**	**-2.5**	**-2.3**
Identified financing	**-0.9**	**0.8**	**-0.5**	**0.1**	**2.4**	**-27.5**	**1.5**	**2.5**	**2.3**
External (net)	-2.2	-0.6	-1.7	-1.2	0.7	-26.5	-0.3	0.2	0.3
Projects	0.4	0.5	0.4	0.0	0.0	0.0	0.0	1.0	1.2
Amortization due	-2.6	-1.7	-2.1	-1.5	-1.3	-28.6	-0.3	-0.8	-0.9
Exceptional financing	0.0	0.0	0.0	0.4	1.9	2.2	0.0	0.0	0.0
Paris Club [6]	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.0
Other [7]	0.0	0.0	0.0	0.2	1.8	2.0	0.0	0.0	0.0
Internal (net)	1.3	1.4	1.2	1.3	1.7	-1.0	1.8	2.3	1.9
Banking system	1.3	1.4	0.5	1.2	1.2	-0.2	0.1	-0.4	-0.6
Commercial banks	-0.2	0.3	0.5	0.1	0.8	-0.3	-0.1	-0.3	-0.3
Errors and omissions	0.0	0.0	0.6	-0.6	0.8	0.0	0.0	0.0	0.0
Residual financing need [8]	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.1**	**0.4**	**0.0**	**0.0**
Memorandum items									
Government domestic debt	24.1	24.4	23.9	24.5	22.6	20.0	19.2	19.2	18.5
Of which: arrears payment	16.4	15.4	14.2	14.1	11.7	9.9	7.9	6.0	4.3
DDR expenditure	...	...	...	...	...	1.1	...	...	...

Sources: Data provided by the country authorities; and IMF estimates and projections.

[1] The new classification started in 2007. It mainly concerns revenue. Some levies registered earlier as taxes are now included in non-tax revenue.

[2] Expenditure is registered on cash basis for current period, with the exception of interest which is registered as due.

[3] The amounts for 2009 include expenditure for financing the peace process (DDR).

[4] Excluding grants, interest payments, and capital expenditure financed with external resources

[5] The amounts for 2006 take into account arrears clearance by the World Bank and ADB (CFAF 47.5 billion) and increase in arrears to bilateral creditors and a few multilateral creditors (CFAF 6.9 billion)

[6] Takes into account the rescheduling and moratorium agreement by Paris Club in April 2007.

[7] Includes HIPCI debt relief by multilateral creditors and other bilateral creditors. For 2008-09, debt service to commercial creditors and non- Paris Club members are also included. As from 2010, all HIPCI and MDRI debt relief are included as inflows.

[8] The difference in projections for 2009 and 2010 corresponds to the proposed increased access to PRGF.

Annex 5 (d): Balance of Payments for 2004-2012 (in CFA billion)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
				Est.	Est.[2]	Proj.	Proj.	Proj.	Proj.
	(CFAF billion)								
Current account	**-11.6**	**-46.2**	**-22.9**	**-49.7**	**-87.7**	**-90.5**	**-98.8**	**-105.2**	**-105.3**
Balance on goods	-9.2	-25.0	-23.5	-33.8	-69.0	-71.5	-80.4	-80.5	-79.1
Exports, f.o.b.	70.6	67.3	82.3	85.4	65.8	54.7	63.7	75.2	90.2
Diamonds	27.8	32.8	32.7	29.8	22.2	21.2	23.8	26.8	30.1
Wood products	28.8	25.7	39.8	41.9	31.8	22.8	28.9	35.2	42.0
Imports, f.o.b.	-79.8	-92.3	-105.8	-119.2	-134.8	-126.2	-144.1	-155.7	-169.3
Petroleum products	-17.8	-17.7	-26.0	-32.7	-44.1	-23.4	-31.0	-34.7	-37.8
Services (net)	-34.5	-32.3	-35.8	-41.5	-42.8	-47.3	-49.1	-52.2	-56.0
Income (net)	-7.1	-5.2	-5.8	-4.9	-10.0	-10.7	-3.9	-3.7	-3.5
Current transfers (net)	39.2	16.2	42.2	30.5	34.1	38.9	34.7	31.2	33.3
Capital account	**7.9**	**26.7**	**67.7**	**25.4**	**29.7**	**304.2**	**47.9**	**40.0**	**42.6**
Project grants	7.9	26.7	27.2	20.2	29.7	35.6	47.9	40.0	42.6
Capital grants and transfers	0.0	0.0	40.5	5.2	0.0	268.6	0.0	0.0	0.0
Debt relief	...	...	40.5	5.2	...	258.7	...	...	...
Other transfers (MDRI grants)	...	...	...	...	...	9.9	...	...	...
Financial account	**-15.9**	**11.6**	**-21.6**	**-4.2**	**52.2**	**-251.8**	**49.3**	**74.2**	**73.2**
Overall balance	**-19.5**	**-7.9**	**23.2**	**-28.5**	**-5.9**	**-38.1**	**-1.6**	**9.0**	**10.5**
Identified financing	**19.5**	**7.9**	**-23.2**	**28.5**	**5.9**	**27.7**	**-2.5**	**-8.9**	**-10.5**
Net official reserves movements	1.4	-9.6	17.3	27.9	-11.2	7.3	-2.5	-8.9	-10.5
Exceptional financing	18.2	17.5	-40.5	0.5	17.1	20.5	0.0	0.0	0.0
Debt rescheduling	...	...	...	2.9	17.1	20.5	0.0	0.0	0.0
Paris Club [3]	...	...	...	1.5	1.0	1.1	0.0	0.0	0.0
Other exceptional financing [4]	...	...	...	1.4	16.1	19.4	0.0	0.0	0.0
Debt payments arrears (decrease=–) [5]	18.2	17.5	-40.5	-2.4	0.0	0.0	0.0	0.0	0.0
Residual financing need [6]	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**10.3**	**4.1**	**0.0**	**0.0**
Memorandum items:	**(Annual Variations, in %, unless otherwise indicated)**								
Terms of trade	-6.5	-3.6	0.7	-11.2	-18.3	6.1	-1.4	-0.2	3.8
Unit price of exports (US$ basis)	-4.1	0.8	9.7	6.7	-0.6	-11.8	2.6	3.6	6.9
Export values in CFA francs	-5.1	-4.7	22.3	3.7	-23.0	-16.7	16.3	18.0	20.0
Import values in CFA francs	16.9	15.7	14.6	12.6	12.3	-6.3	14.2	8.0	8.8
Gross official foreign reserves (months of imports, f.o.b.)	6.4	6.5	4.6	2.5	3.3	2.5	2.5	2.8	3.1
Current account (% of GDP)	-1.7	-6.5	-3.0	-6.1	-9.9	-9.6	-9.9	-9.9	-9.2
Trade balance (% of GDP)	-1.4	-3.5	-3.1	-4.2	-7.8	-7.5	-8.1	-7.6	-6.9
Capital account (% of GDP)	1.2	3.8	8.8	3.1	3.3	32.1	4.8	3.8	3.7
Total external debt (% of GDP)	78.8	81.6	69.9	54.2	53.7	24.6	23.7	22.4	21.1

Sources: Data provided by country authorities; IMF estimates and projections.

[1] The macroeconomic framework is based on the assumption that CAR will reach the completion point in 2009; balance of payments projections include debt relief expected at completion point

[2] Takes into account the rescheduling and moratorium agreement by the Paris Club in April 2007.

[3] Includes HIPCI debt relief by multilateral creditors and other bilateral creditors. For 2008-09, debt service to commercial creditors and non-Paris Club members are also included.

[4] the amounts for 2006 take into account arrears clearance by the World Bank and ADB (CFAF 47.5 billion) and arrears to bilateral creditors and a few multilateral creditors (CFAF 6.9 billion).

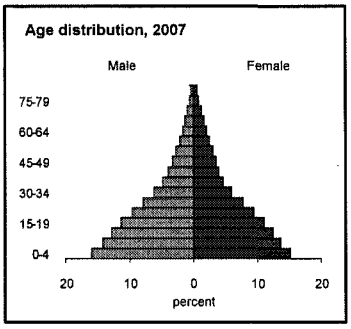
[5] The difference in projections for 2009 and 2010 corresponds to the proposed increase access to PRGF.

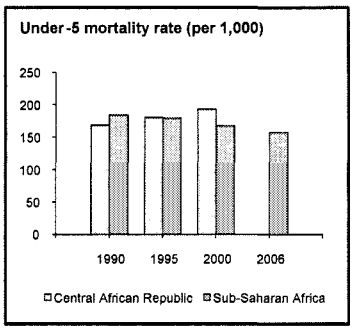
[6] The terms of trade are calculated on weighted average values, based on linked years (with the exception of program columns).

Annex 6: Central African Republic at a glance

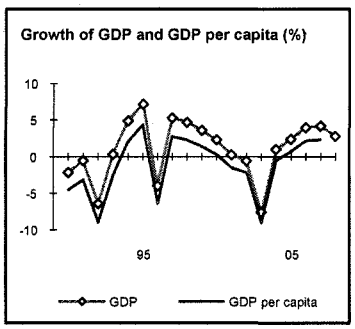
4/6/09

Key Development Indicators	Central African Republic	Sub-Saharan Africa	Low income
(2008)			
Population, mid-year (millions)	4.4	800	1,296
Surface area (thousand sq. km)	*623*	24,242	21,846
Population growth (%)	1.8	2.4	2.1
Urban population (% of total population)	*38*	36	32
GNI (Atlas method, US$ billions)	1.6	762	749
GNI per capita (Atlas method, US$)	*380*	952	578
GNI per capita (PPP, international $)	*740*	1,870	1,500
GDP growth (%)	2.8	6.2	6.5
GDP per capita growth (%)	0.9	3.7	4.3
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	..	50	..
Poverty headcount ratio at $2.00 a day (PPP, %)	..	72	..
Life expectancy at birth (years)	39	50	57
Infant mortality (per 1,000 live births)	115	94	85
Child malnutrition (% of children under 5)	..	27	29
Adult literacy, male (% of ages 15 and older)	..	69	72
Adult literacy, female (% of ages 15 and older)	..	50	50
Gross primary enrollment, male (% of age group)	67	99	100
Gross primary enrollment, female (% of age group)	44	88	89
Access to an improved water source (% of population)	75	58	68
Access to improved sanitation facilities (% of population)	27	31	39





Net Aid Flows	1980	1990	2000	2008 [a]
(US$ millions)				
Net ODA and official aid	110	249	75	134
Top 3 donors (in 2006):				
France	69	71	19	27
United States	1	3	1	21
European Commission	11	33	6	14
Aid (% of GNI)	13.8	17.0	8.0	9.1
Aid per capita (US$)	47	83	19	31



Long-Term Economic Trends	1980	1990	2000	2008	1980–90	1990–2000	2000–08
					(average annual growth %)		
Consumer prices (annual % change)	*14.7*	-0.2	3.2	9.3			
GDP implicit deflator (annual % change)	18.3	2.3	3.2	4.6			
Exchange rate (annual average, local per US$)	211.3	272.3	712.0	447.8			
Terms of trade index (2000 = 100)	..	110	100	85			
Population, mid-year (millions)	2.3	3.0	3.9	4.4	2.6	2.5	1.7
GDP (US$ millions)	797	1,488	959	1,970	1.4	2.0	0.6
		(% of GDP)					
Agriculture	40.0	47.6	53.1	53.4	1.6	3.8	1.0
Industry	20.1	19.7	15.8	14.3	1.4	0.7	1.7
Manufacturing	7.2	11.3	7.0	7.3	5.0	-0.2	1.9
Services	39.9	32.7	31.0	32.3	1.0	-0.3	-1.1
Household final consumption expenditure	93.7	85.7	80.8	94.9	..	..	2.0
General gov't final consumption expenditure	15.1	14.9	14.0	3.5	..	..	-14.9
Gross capital formation	7.0	12.3	9.5	10.3	..	..	2.5
Exports of goods and services	25.2	14.8	19.8	14.4	..	..	0.1
Imports of goods and services	41.1	27.6	24.1	23.1	..	..	0.0
Gross savings	1.6	-0.4	8.2	4.2			

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2006.

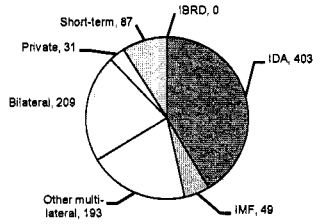
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2008**
(US$ millions)		
Total merchandise exports (fob)	159	151
Total merchandise imports (cif)	162	281
Net trade in goods and services	-42	-221
Current account balance	-12	-171
as a % of GDP	-1.3	-8.7
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	134	117

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	13.7	14.0
Tax revenue	7.8	8.0
Current expenditure	9.2	10.7
Overall surplus/deficit	-1.8	0.2
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	858	*1,078*
Total debt service	14	*91*
Debt relief (HIPC, MDRI)	583	..
Total debt (% of GDP)	89.4	*54.7*
Total debt service (% of exports)	7.3	*34.0*
Foreign direct investment (net inflows)	1	*24*
Portfolio equity (net inflows)	..	..

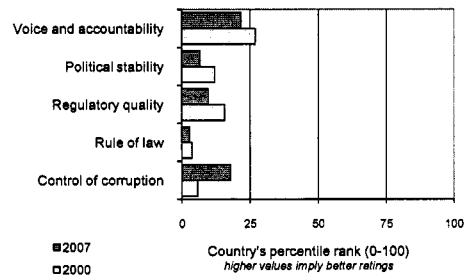
Composition of total external debt, 2007



US$ millions

Private Sector Development	**2000**	**2008**
Time required to start a business (days)	–	14
Cost to start a business (% of GNI per capita)	–	232.3
Time required to register property (days)	–	75
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2007**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance Indicators, 2000 and 2007



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2007**
Paved roads (% of total)	2.7	..
Fixed line and mobile phone subscribers (per 100 people)	0	*3*
High technology exports (% of manufactured exports)	0.1	*0.0*

Environment		
Agricultural land (% of land area)	8	*8*
Forest area (% of land area)	36.8	*36.5*
Nationally protected areas (% of land area)	..	*16.6*
Freshwater resources per capita (cu. meters)	..	*33,640*
Freshwater withdrawal (% of internal resources)	*0.0*	..
CO2 emissions per capita (mt)	0.07	*0.06*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

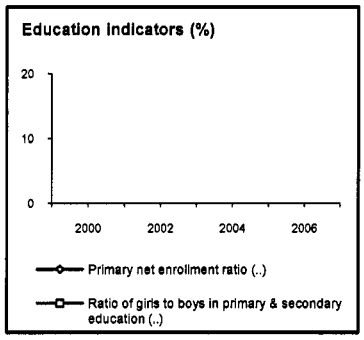
World Bank Group portfolio	**2000**	**2007**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	391	403
Disbursements	13	3
Total debt service	9	14
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	–	–
of which IFC own account	–	–
Disbursements for IFC own account	–	–
Portfolio sales, prepayments and repayments for IFC own account	–	–
MIGA		
Gross exposure	–	–
New guarantees	–	–

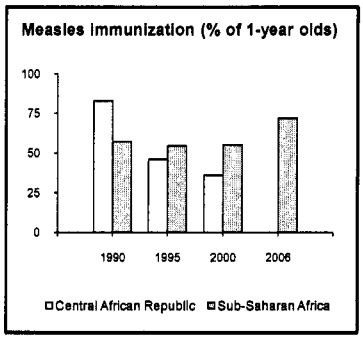
Note: Figures in italics are for years other than those specified. 2008 data are preliminary. 4/6/09
.. indicates data are not available. – indicates observation is not applicable.

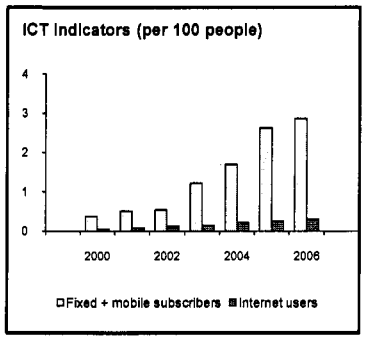
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Central African Republic			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2007**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	*2.0*	..	..
Prevalence of malnutrition (% of children under 5)	..	23.2	24.3	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*52*	..	..	..
Primary completion rate (% of relevant age group)	29	..	..	*24*
Secondary school enrollment (gross, %)	*11*	..	*12*	..
Youth literacy rate (% of people ages 15-24)	*48*	..	59	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*60*	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	30	..	..	..
Proportion of seats held by women in national parliament (%)	4	*4*	7	*11*
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	168	180	193	*193*
Infant mortality rate (per 1,000 live births)	102	107	115	*115*
Measles immunization (proportion of one-year olds immunized, %)	83	46	36	*35*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,100	..
Births attended by skilled health staff (% of total)	..	46	44	..
Contraceptive prevalence (% of women ages 15-49)	..	15	28	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	*6.4*	6.3
Incidence of tuberculosis (per 100,000 people)	117	205	280	*314*
Tuberculosis cases detected under DOTS (%)	..	*61*	*9*	*40*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	52	59	70	*75*
Access to improved sanitation facilities (% of population)	23	24	26	*27*
Forest area (% of total land area)	37.2	..	36.8	*36.5*
Nationally protected areas (% of total land area)	..	..	..	*16.6*
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	*0.1*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.2	0.2	0.2	*0.3*
Mobile phone subscribers (per 100 people)	0.0	0.0	0.1	3.0
Internet users (per 100 people)	0.0	*0.0*	0.1	*0.3*
Personal computers (per 100 people)	..	..	0.2	*0.3*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 4/6/09

Development Economics, Development Data Group (DECDG).

Annex 7: IBRD/IDA Program Summary
As Of Date 04/3/2009

Proposed IBRD/IDA Base-Case Lending Program [a]

Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation Risks (H/M/L)*
2009	Community Development FY09	8.0	H	L
	Emergency Energy Project	8.0	H	M
	Budget Support	5.0	H	M
	CEMAC Regional Institutions	1.0		
	Result	**22.0**		
2010	IDA allocation to Regional Projects	5.0		
	Urban Infrastructure Additional Finance	7.0		
	Result	**12.0**		
Overall Result		**34.0**		

Annex 8: CAR IFC and MIGA Program, FY2005-2009

	2005	2006	2007	2008	2009*
Commitments (US$m)					
Gross				6.81	0
Net**					0
Net Commitments by Sector (%)					
Financial Markets				100	0
Net Commitments by Investment Instrument (%)					
Equity				100	0

*As of February 28,2009
** IFC's Own Account only

MIGA Outstanding Exposure (Gross Exposure, $ milllion)

As of end of fiscal year	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009 as of 2/28/2009
Guaranteed Investments into Central African Republic	0.0	0.0	0.0	0.0	0.0	39.0	30.7
Guaranteed Investments Financed by Central African Inve:	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Annex 9: IFC – Committed and Disbursed Outstanding Investment Portfolio

IFC - Committed and Disbursed Outstanding Investment Portfolio
CAR

As of February 28, 2009
(In USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant

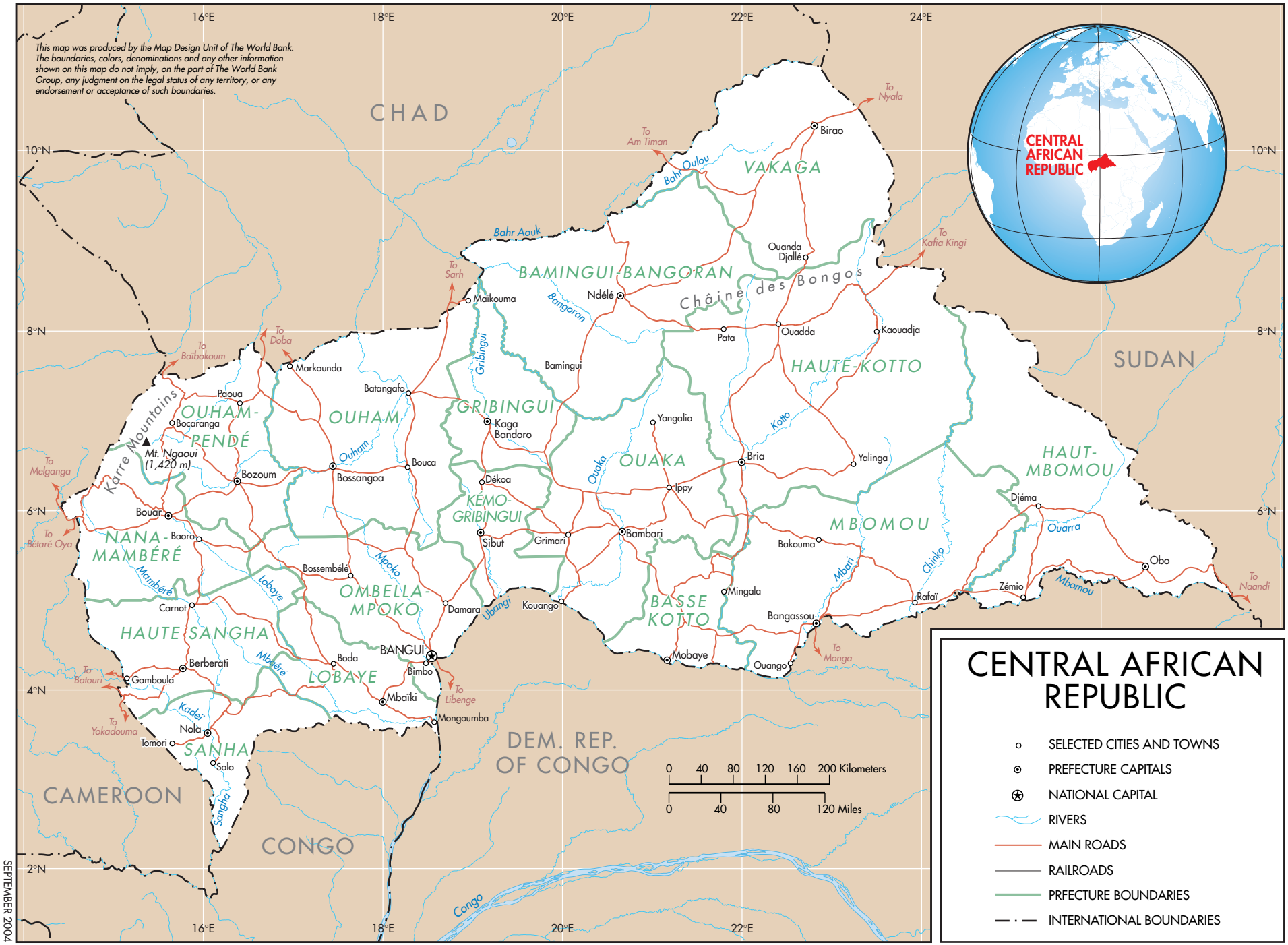
IFC has no committed program

Annex 10: Central African Republic: Country Financing Parameters

Date: November 13, 2006

The country financing parameters for the Central African Republic (CAR) set out below have been approved by the Regional Vice President, Africa Region, and are being posted on the Bank's internal website. These parameters will be updated during preparation of the next Country Assistance Strategy.

Item	Parameter	Remark/Explanation
Cost sharing. Limit on the proportion of individual project costs that IDA may finance	100%	At this time, all projects are expected to be financed at 100%, given government's extremely small budget and inability to provide counterpart funding. In the near term, only when cofinancing is available will the Bank's cost share be less. Ownership of Bank-financed programs is being ensured through a close relationship between the Bank and the Government's top leadership. At the project level, ownership is being ensured through means such as close supervision and capacity-building of government institutions, and placing project management responsibilities directly in the concerned ministries.
Recurrent cost financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit	No country-level limit is being set on recurrent cost financing. Recurrent costs may be financed as needed in individual projects, subject to project or program-level assessment. In determining Bank financing of recurrent costs in individual projects, the Bank will take into account sustainability issues at the sector and project levels, including a consideration of implied future budgetary outlays.
Local cost financing. Are the requirements for IDA financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable IDA to adequately assist in the financing of individual projects?	Yes	The requirements for local cost financing are met. The Bank may finance local costs in any proportions required by individual projects.
Taxes and duties. Are there any taxes and duties that the Bank would not finance?	No	Taxes and duties are considered reasonable. The application of this general approach will be subject to an ongoing monitoring of tax policy and how taxes are applied to Bank-financed projects. At the project level, the Bank will consider whether taxes and duties constitute an excessively high share of project costs.



CENTRAL AFRICAN REPUBLIC

- SELECTED CITIES AND TOWNS
- PREFECTURE CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PRFECTURE BOUNDARIES
- INTERNATIONAL BOUNDARIES

SEPTEMBER 2004

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