PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA22220

Project Name	Emergency Public Services Response Project (P154304)
Parent Project Name	CF-EMERGENCY PUBLIC SERVICES RESPONSE PROJECT (P149884)
Region	AFRICA
Country	Central African Republic
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	Investment Project Financing
Project ID	P154304
Parent Project ID	P149884
Borrower(s)	Government of CAR
Implementing Agency	Ministry of Finance / CS REF
Environmental Category	C-Not Required
Date PID Prepared/Updated	13-Mar-2015
Date PID Approved/Disclosed	13-Mar-2015
Estimated Date of Appraisal Completion	31-Mar-2015
Estimated Date of Board Approval	14-May-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

With a population of 4.6 million, the Central African Republic (CAR) is one of the poorest countries in sub-Saharan Africa, despite being endowed with rich forest and mineral resources. Social indicators place CAR among the least developed countries. Life expectancy at birth decreased between 1990 and 2013 from 51.0 years to 49.45 years. Infant mortality remained almost unchanged at 116 deaths per 1,000 live births in 2010 from 115 per 1,000 in 2008, but under-five mortality has worsened (179 in 2010 and 173 per 1,000 in 2008), and maternal mortality estimated at 880 per 100,000 in 2013 remains very high. CAR is ranked by the Human Development Index (HDI) at the 185th position out of 187 countries in 2014 compared to 180th out of 187 countries in 2010. It also has high inequality, with a Gini co-efficient of 0.53. These figures clearly illustrate the vast majority of the population lacks access to services and infrastructure, and the low service levels have been exacerbated by the recent political crisis. According to the United Nations Office for Coordination of Humanitarian Affairs (OCHA) , 2.7 million people need assistance, of which

443,000 are internally displaced persons (IDPs).

The political transition in CAR has been extended up to August 2015. Following the January 2013 coup led by the rebel group ex-Séléka, the country's political situation has deteriorated, and the security situation remains fragile. Unabated violence precipitated a meeting of the Heads of State from the Economic Community of Central African States (ECCAS) on January 9, 2014 and led to the resignation of the transition president and his prime minister. A second transition government was formed and is currently chaired by the former Chief of Staff of the interim president. These developments triggered an extension of the transition up to August 2015 and pushed the legislative and presidential elections from February 2015 to June and July 2015, respectively. The recent cabinet change of January 16, 2015 brought a team of reformers to the Ministry of Finance and Budget, which will contribute to the implementation of the Emergency Public Services Response Project. The authorities are also moving towards a national dialogue in two phases. The first phase, local consultations, was completed in January 2015. The second phase, a National Forum, [was] held in Bangui in April 2015.

Stepped-up efforts aimed at restoring peace and security in CAR have been made by the international community. In the immediate aftermath of the crisis, an African Union peacekeeping mission – Mission Internationale de Soutien à la Centrafrique sous Conduite Africaine, MISCA – was authorized by United Nations Security Council Resolution 2127 and backed by France. International forces deployed in CAR included: former African-led International Support Mission in the Central African Republic (MISCA), French and European troops. To further strengthen the mission, in April 2014, the UN Security Council decided to subsume the United Nations Integrated Peacebuilding Office in the Central African Republic (BINUCA) into Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA) and authorized the deployment of 10,000 military personnel, including 240 military observers, 200 staff officers and 1,800 police personnel. On September 15, 2014, MISCA transferred its authority and troops over to MINUSCA. Its mandate includes: protecting civilians and monitoring civil rights, assisting a political transition and supporting humanitarian work. The government also faces challenges in the implementation of the Disarmament, Demobilization, and Reintegration (DDR) program for an estimated 10,000 ex-combatants. Overall, the operation has not progressed as expected as a result of insufficient funding, for a total budget estimated at US$15 million.

Sectoral and institutional Context

The reverberations of the crisis continue to impact CAR's population despite slow economic recovery. In 2014, economic activity was negatively affected by the delay in the implementation of the peace and reconciliation process combined with severe security-related business disruptions (for example, the near shutdown of the Douala-Bangui corridor which generates half of all custom duties). As a result, GDP growth was only 1 percent in 2014. Continued violence in Bangui and across the country has not only deterred business activity but also hindered the return of internally displaced people, who largely work in the agriculture and mining isndustries (representing 80 percent of employment in CAR). The cumulative effect of fallow fields, livestock loss, and dangerous transport routes has resulted in a spike in inflation – averaging 11.6 percent in 2014– from food and commodity shortages caused by the disruption of the distribution network.

Government consumption, supported by the successful implementation of the Emergency Public Services Response Project, was the main factor that sustained activity in 2014. Despite a 31 percent decline in the mining sector, reinforced by CAR's suspension within the Kimberley initiative, growth was sustained by the services sector. The swing of the industry growth rate from a drop of 23 percent in 2013 to a gain of 0.7 percent in 2014 is mainly explained by growth in the brewery and tobacco production sectors. The services growth rate of 19.5 percent in 2014 contributed to halting the decline of the economy. Government consumption was the main factor behind this trend, and resulted directly from resumed payment of wages and salaries, through the EPSRP and budget support from other partners (EU, AfDB, IMF and France). Activities in the primary sector dropped by 8.5 percent in 2014 versus a 45.1 percent decline the previous year. This reflected a slight recovery in food production (0.5 percent in 2014 and following the 46.4 percent drop in 2013), due to the implementation of the Emergency Program funded by the World Bank. On the other hand, crop production fell by 39.4 percent in 2014 following a 46 percent decline the previous year. The declining trend is due to persistent insecurity and destruction of the means of production in the areas of cotton production. The breeding subsector is estimated to have declined by 55 percent and 21 percent in 2013 and 2014, respectively, in connection with the destruction of a significant part of the herd and the displacement of a large number of breeders who have fled the country.

As a result of the weak economic recovery, domestic revenues were lower than originally projected and fiscal situation remains under pressure. In 2014, domestic revenues, at 4.4 percent of GDP, were lower-than projected (US$83 million against US$103 million) on account of lingering insecurity. This prompted the government to curtail expenditures, resulting in a primary deficit of 5 percent of GDP, compared to 6.8 percent of GDP in 2013. Despite the reduction of current expenditure, the overall deficit excluding grants deteriorated to 11.2 percent of GDP, against 9 percent of GDP in 2013, owing to higher capital expenditure. Thanks to large inflows of foreign aid in excess of 13 percent of GDP, the authorities managed to reduce the overall cash budget deficit from 4 percent to 0.6 percent of GDP between 2013 and 2014, while reducing arrears by 2.7 percent of GDP.

10. The trade sector has been severely affected by the crisis. CAR recorded a sharp deterioration in the external current account in 2014 due to a strong contraction of exports volume (49.8 percent) and a surge of imports volume (a 66.8 percent increase). The current account deficit is hence estimated to 6.4 percent of GDP in 2014 (from about 3.0 and 4.6 percent of GDP in 2013 and 2012, respectively). As a result of foreign capital inflows, however, international reserves have deteriorated only slightly and are estimated at 2.5 months of goods and services imports in 2014 (2.8 percent in 2013). CAR's risk of debt distress remains high. External public and publicly-guaranteed debt stood at 27.2 percent of GDP as of September 2013, of which non-Paris Club bilateral creditors accounted for 85.8 percent. Domestic public debt represents 18 percent of GDP and includes outstanding credits to the government from domestic commercial banks (6.7 percent), government debt with the Banque des Etats d'Afrique Centrale (BEAC, 47.5 percent), and other creditors – 45.8 percent. External payments arrears were accumulating even before the crisis. Most official external payments arrears are inherited from the pre-2009 Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative (HIPC/MDRI) and the authorities are continuing their efforts to reach an agreement with creditors on their settlement.

The EPSRP was signed on May 5, 2014 in the amount of a SDR4 million (US$6.1 million equivalent) IDA Credit and a SDR15.5 million (US$23.9 million equivalent) IDA Grant, and became effective on May 12, 2014. The project was prepared in a context of urgent need for assistance under severe capacity constraints which still remain, in spite of the gradual but slow improvements in the security situation and a sluggish economic recovery. The project contributed to a quick response in a situation of conflict and violence, building on the experience outlined in the

2011 World Development Report on security and development. In particular, it financed the re-establishment of an operational government payroll and related financial management systems. It intended to prevent further deterioration of conditions in CAR, with potentially devastating negative externalities for the Central African subregion. Sending early signals of normalization was important, as emergency recovery interventions go hand-in-hand with expanded peacekeeping and humanitarian support.

The project has two components: (i) payment of current salaries; and (ii) technical assistance to core structures in the Ministries of Finance and Public Service Reform. To this end, in a sequential manner, the project supports: (i) an update of the Human Resources (HR) and payroll databases with the view to establish the basis for an improved civil service management system, including the integration of civil service files and payroll into a single computerized database; (ii) financing of current civil servant salaries upon production of certificates of presence at the job sites; (iii) strengthening of the revenue-generating Directorates so as to enable the government to gain additional fiscal space; and (iv) and re-establishment of basic control over the expenditure chain and cash management.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The project development objective is to re-establish an operational government payroll and related financial management systems.

III. Project Description

Component Name

Payment of current salaries

Comments (optional)

Component Name

Technical Assistance to core structures in the Ministries of Finance and Civil Service

Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**
BORROWER/RECIPIENT			0.00
IDA Grant			10.00
Total			10.00

V. Implementation

Highly positive results have been achieved under the original project. The two Implementation Support and Review (ISR) missions rated the progress achievement of the Project Development Objective (PDO) as Satisfactory and the overall implementation progress as Highly Satisfactory. Indeed, the four core project development objective indicators were exceeded, particularly the percentage of teachers, health workers and civil servants from the revenue generating directorates who resumed work (more than 70 percent, from a baseline less than 10 percent). The project also helped to reduce the size of the civil service by 5.5 percent between April 2014 and December 2014 including deceased and retirees. It is expected that an additional 5 percent of personnel could be removed from the payroll database once the ongoing reforms are fully implemented. These personnel have no salary but continue to remain in the Payroll database because their cases have not been cleared by the litigation committee. Overall, and thanks to the project, US$6.6 million equivalent to 0.4 percent of GDP has been saved compared to the 2014 projection.

The proposed AF meets all of the requirements for Additional Financing per Operational Policy (OP) 10.00 para 29, Investment Project Financing (IPF). The project is in compliance with all dated legal covenants, including audit and financial management reporting requirements. There are no overdue or qualified audit reports. The procurement plan and use of project funds were both reviewed in detail in December 2014 to clarify the current status of all contracts and unused funds. Financial Management and Procurement have been rated Satisfactory. The required Indigenous Peoples Planning Framework (IPPF) triggered as part of OP 4.10 (Indigenous Peoples) was published.

The AF would use the current structure and institutional arrangements of the ongoing EPSRP. Likewise, the financial management and procurement arrangements will remain unchanged under the parent project.

As of January 31, 2015, the disbursement rate of the project stood at 99 percent for the Grant (initial allocation of US$23.9 million) and 71 percent for the Credit (initial allocation of US$6.1 million). The following key steps in the implementation of the project were achieved:

Component 1: Payment of current salaries (US$26.8 million)

Four months of salaries were paid to eligible civil servants, which translated into a visible and encouraging resumption of public services, as evidenced by the outcomes of the bi-monthly verification of physical presence conducted by the General Inspectorate of Finance with the technical assistance of an international consulting firm. The verifications confirmed that more than 70 percent of the sampled civil servants have resumed work in spite of the country's difficult situation.

The quantitative update of the payroll has been completed with about US$6.6 million savings on government annual wage bills. The main findings were as follows: (i) 19,577 civil servants (87 percent) were physically verified by the HR directors of the line ministries and certified by the staff of the Inspector General of Finance; (ii) 1,849 civil servants (8 percent) were confirmed by the Litigation Committee on the basis of the complaints logged or documents submitted; and (iii) 1,207 civil servants (5 percent) did not show up and their salaries have been suspended since May 2014. In addition, 301 civil servants found deceased were struck from the payroll during the update process. Finally, 931 retirees were identified and authorities are processing their removal from the database.

The qualitative review of the payroll is ongoing and requires the following actions: (i) remove the retirees from the database; (ii) reclassify the non-civil servants, “Hors statuts”, into another category of expenditures (consultant services); (iii) regularize the situation of civil servants who are receiving undue allowances (e.g. civil servants no longer on duty in embassies but receiving expatriate allowances, former ministers continuing to receive allowances, etc.); (iv) have the Inspector General of Finance audit the payroll database on a bi-monthly basis to ascertain that there is no manipulation; and (v) design and implement an appropriate and integrated payroll/HR database in view of the country’s modest capacity and compatible with the existing computerized budgeting and accounting system (GesCo).

In addition to being the second largest source of external finance in 2014, the project played a catalytic role in paving the way for other development partners to finance government recurrent costs. The IMF disbursed the first tranche of a Rapid Credit Facility (US$12 million); the EU provided US$40 million; and the AfDB disbursed US$23 million. Thanks to the strong fiduciary controls put in place by the project on payroll management (which represents about 45 percent of the monthly expenditures), other donors such as the EU and the AfDB have been able to implement their disbursements pertaining to the payment of salaries.

Component 2: Technical assistance to core structures in the Ministries of Finance and Public Service Reform (US$3.2 million)

The Civil Service Directorate, Customs Administration and Taxation Directorate are now assisted by technical experts who are contributing to strengthen capacity and positively influence the Public Financial Management (PFM) reform agenda. The country has undertaken a comprehensive inventory of customs/tax exemptions (about US$40 million or 2 percent of GDP), with support from the resident expert. The main conclusion was that most of the exemptions were unduly awarded and adversely affected tax revenues. All exemptions have been suspended and a case by case review by an inter-ministerial committee has been implemented. This has translated into a positive trend in revenue collection over the past year, with a peak of US$20 million for the first time in the last quarter in 2014 (Figure 1). In the area of civil service, the technical expert’s support is a critical vector to pursue the qualitative update of the database and explore pragmatic ways to deploy an adapted and integrated payroll/HR database with the existing system. The General Inspectorate of Finance, supported by the experts, undertook two audits of the payroll files that revealed irregularities and led to savings.

Another critical achievement under this component was the ongoing recruitment of the Pay Master and his deputy in the context of a weak control environment in the Treasury. This essential reform was initiated in December 2012, but its implementation was delayed because of the crisis. The project financed the recruitment through a competitive process for an independent and credible Pay Master (Agent Comptable Central du Trésor) and deputy (Fondé de Pouvoirs). Their roles are to: (i) ensure comprehensive booking of cash inflows and proceed with daily cash management; (ii) review all payment vouchers for compliance with Public Financial Management (PFM) rules and regulations, availability of funds and proper authorization before payment; and (iii) produce, in a timely manner, monthly cash flow statements and annual financial statements to enhance transparency. This key mitigation measure complements and strengthens the ongoing activities led by the Cash Management Committee and the Public Finance Committee, where the Bank and other donors participate.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		×
Natural Habitats OP/BP 4.04		×
Forests OP/BP 4.36		×
Pest Management OP 4.09		×
Physical Cultural Resources OP/BP 4.11		×
Indigenous Peoples OP/BP 4.10	×	
Involuntary Resettlement OP/BP 4.12		×
Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50		×
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

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