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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 14.4 MILLION (EQUIVALENT TO US\$20 MILLION)

TO THE

CENTRAL AFRICAN REPUBLIC

FOR A

FIRST STATE CONSOLIDATION DEVELOPMENT PROGRAM

November 2, 2016

**Governance Global Practice
AFCW3
Africa Region**

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THE CENTRAL AFRICAN REPUBLIC – FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate as of September 30, 2016)

Currency Unit = CFA Franc (XOF)
US\$1 = CFA Franc (XOF) 588.466
US\$1 = SDR 0.71642989

ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i> (French Development Agency)
AfDB	African Development Bank
AFRITAC	African Regional Technical Assistance Center
Bbl	Barrel
BEAC	<i>Banque des Etats de l’Afrique Centrale</i> (Central Bank of the States of Central Africa)
Bn	Billion
BoP	Balance of Payments
CAAT	Central Accounting Agency of the Treasury
CAR	Central African Republic
CEMAC	<i>Communauté économique et monétaire des Etats de l’Afrique Centrale</i> (Central African Economic and Monetary Community)
CEN	Country Engagement Note
CFAF	<i>Communauté Financière Africaine Franc</i> (Central African CFA Franc)
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CS-REF	<i>Cellule Chargée du Suivi des Réformes Economique et Financières</i> (Unit Responsible for the Monitoring of Economic and Financial Reforms)
DDR	Demobilization, Disarmament, and Reintegration
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
E	Estimated
ECF	Extended Credit Facility
EDF	European Development Fund
EITI	Extractive Industries Transparency Initiative
EoP	End of Period
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FCS	Fragile and Conflict-Affected State
FDI	Foreign Direct Investment
FED	European Development Fund
FLEGT	Forest Law Enforcement, Governance, and Trade
FY	Fiscal Year
GDP	Gross Domestic Product
GESCO	<i>Système de gestion de la chaîne de dépense informatisée</i> (IT System for the management of public expenditures)
GNI	Gross National Income
GRS	Grievance Redress Service

HDI	Human Development Index
HR	Human Resource
ICT	Information and Communication Technology
IDA	International Development Association
IDP	Internally Displaced Person
IEG	Independent Evaluation Group
IMF	International Monetary Fund
Km	Kilometer
KPCS	Kimberly Process Certification Scheme
MFB	Ministry of Finance and Budget
MINETACD	Ministry of Equipment, Transport, Civil Aviation, and Integration
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic
MPI	Multidimensional Poverty Index
NEO	National Equipment Office
P	Projected
PBF	Performance Based Financing
PCPI	Post-Conflict Performance Indicators
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Assessment
PFM	Public Financial Management
PV	Present Value
RMF	Road Maintenance Fund
RPBA	Recovery and Peacebuilding Assessment
SCDP	State Consolidation Development Program
SDR	Standard Drawing Right
SLFL	Settlement Law of the Finance Law
SOCATEL	<i>Société Centrafricaine des Télécommunications</i> (Central African Telecommunications Company)
SORT	Systematic Operational Risk Tool
SSA	Sub-Saharan Africa
SYSCOBEAC	<i>Système comptable de la Banque des Etats de l'Afrique Centrale</i> (Accounting system of the Central Bank of the States of Central Africa)
TA	Technical Assistance
TEN	Turn-Around Eligibility Note
UN	United Nations
UNICEF	United Nations Children's Fund
US\$	United State of America Dollar
VAT	Value Added Tax
WB	World Bank
WDI	World Development Indicators
WFP	World Food Programme
WHO	World Health Organization

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**CENTRAL AFRICAN REPUBLIC
FIRST STATE CONSOLIDATION DEVELOPMENT PROGRAM (SCDP)**

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**SUMMARY OF PROPOSED GRANT AND PROGRAM
THE CENTRAL AFRICAN REPUBLIC
FIRST STATE CONSOLIDATION DEVELOPMENT PROGRAM**

Recipient:	Central African Republic [through Ministry of Finance and Budget]
Implementation Agency:	<i>Cellule Chargée du Suivi des Réformes Economique et Financières (CS-REF)</i> (Unit Responsible for the Monitoring of Economic and Financial Reforms)
Financing Data:	IDA Grant of SDR 14.4 million (US\$20 million equivalent)
Operation Type:	First in a programmatic series of two development policy operations. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing.
Pillars of the Operation and Program Development Objectives:	The program's development objective is to support the reestablishment of basic fiscal management and transparency as well as support economic recovery. The proposed operation is structured around two pillars: (1) Reestablishing Basic Fiscal Management and Transparency; and (2) Supporting Economic Recovery.
Results Indicators:	<ol style="list-style-type: none"> 1- Domestic revenues as a percent of GDP. (Baseline: 7.1 percent of GDP (2015); Target: > 8.1 percent of GDP (2018)) 2- Share of the wage-bill reviewed and verified by CAAT. (Baseline: 0 percent (2015); Target: 50 percent (2018)) 3- Share of expenditures executed using exceptional spending procedures. (Baseline: 80 percent (2015), Target: <25 percent (2018)) 4- Number of budget documents published on an annual basis. (Baseline: 1 (2015); Target 7 (2018)) 5- Number of <i>Loi de règlement</i> (Settlement Law of the Finance Law) submitted to Parliament. (Baseline: 0 (2015); Target: 1 (2017) and 1 (2018)) 6- Maintenance Program 2017 and 2018 adopted and implemented in line with new RMF manual. (Baseline: No (2015); Target: Yes (2018)) 7- Budget execution rate (initially approved / executed) of the RMF. (Baseline: 30 percent (2015)); Target: 50 percent (2018)) 8- Hectares of cotton planted (in selected regions). (Baseline: 2980 (2015); Target: 16,000 (2018)) 9- Number of Active Forestry Concessions. (Baseline: 5 (2015); Target: 8 (2018)) 10- 2G network coverage. (Baseline: 59 percent (2015); Target 65 percent (2018)) 11- Penetration rate of mobile telephony. (Baseline: 37 percent (2015); Target: 45 percent (2018))
Overall risk rating:	Substantial
Climate and disaster risks:	Are there short and long term climate and disaster risks relevant to the operation? No
Operation ID:	P160123

**IDA PROGRAM DOCUMENT
FOR A PROPOSED FIRST STATE CONSOLIDATION DEVELOPMENT PROGRAM
TO THE CENTRAL AFRICAN REPUBLIC**

1. INTRODUCTION AND COUNTRY CONTEXT

1. This program document proposes a First State Consolidation Development Program (SCDP) in the amount of SDR 14.4 million (US\$20 million equivalent) to the Central African Republic (CAR). This is the first grant in a proposed programmatic series of two grants, totaling US\$35 million equivalent, which supports a scalable series of reforms over a two year period (2016-17).

2. CAR is a highly fragile country with a history of recurrent conflict and domestic political instability. As a result of the most recent conflict, which erupted at the end of 2012, roughly one-quarter of the population was internally displaced or had to flee as refugees to neighboring countries. While active conflict has largely come to an end, CAR remains politically fragile, with armed groups still present on the territory and relations between communities remaining tense. As noted by the Recovery and Peace Building Assessment (RPBA), which is presently being prepared with the support of the World Bank, United Nations (UN), and European Union (EU), fragility in CAR stems not only from the most recent crisis, but also from the long deterioration of the economic, social, governance, and security situation.¹

3. As CAR was still recovering from the effects of the 2008 global recession, the impact of the 2012-2013 crisis on economic activity was especially devastating, with gross domestic product (GDP) falling by an unprecedented 36.7 percent in 2013. The agricultural sector, representing almost 45 percent of CAR's GDP and the main source of livelihood for the rural population, was particularly impacted, with a 46 percent drop in food production and a 55 percent drop in livestock production, putting half of the country into food insecurity. At the same time, the conflict drove forest and mining firms to close their operations, and CAR was suspended from the Kimberly Process Certification Scheme (KPCS), which cut mining exports in half and decreased tax revenue by two-thirds. With a widening fiscal gap, the Government was unable to pay wages during the crisis, paralyzing government administration. At the same time, the conflict severely degraded the capacity of the public administration in core areas, including revenue collection, expenditure management, and public investment. Infrastructure remains extremely limited, with a network of less than 25,000 km of roads for the entire country in 2010, and mobile telecommunications networks that only cover 59 percent of the population at the end of 2015. Doing Business ranks CAR as the fourth worst place to conduct business in the world. Furthermore, CAR's macroeconomic and debt distress risks are high (see section 2).

4. During the crisis, gross national income (GNI) per capita fell sharply between 2012 and 2014, from US\$917.4 to US\$569.3, the lowest in the world. Recent estimates indicate that CAR's poverty rate—at the international poverty line of US\$1.90 per day in 2011 purchasing-power parity terms—increased from 66 percent in 2008 to 76 percent in 2013. In addition, CAR is ranked among the most unequal countries in Sub-Saharan Africa (SSA) and has the fourth-highest Gini coefficient in the region². In 2014, CAR ranked 187th out of 188 countries in the UN's Human Development Index (HDI). In 2010, the infant mortality rate was 116 deaths per 1,000 live births, and the under-five mortality rate was 179 deaths per 1,000 live births, both far above the SSA averages of 65.8 and 101.2, respectively. Nearly half the

¹ The RPBA finds that the deep-rooted causes of the country's fragility include the lack of social cohesion manifested by distrust and recurrent conflict among communities; the weak social compact between the state and the population, stemming in part from the poor quality of social services, particularly in education, and a weak justice, defense and security system; disparities between Bangui and the interior and between the eastern regions and the rest of the country; poor natural resource management and the growing scarcity of grazing lands; unresolved past traumas and impunity; and longstanding insecurity in certain regions.

² World Bank, Policy Note, Poverty, 2016 and WDI 2015.

population lacks access to safe drinking water, and more than three-quarters do not have access to adequate sanitation facilities or electricity.

5. Despite these challenges, progressive return to political stability brings a significant opportunity to consolidate peace, building stability and resilience, as well as lay the groundwork for economic recovery and development. The peaceful transition from Transition President, Catherine Samba-Panza, to democratically elected President, Faustin Archange Touadera, inaugurated on March 30, 2016, and the parliamentary elections held on March 31, 2016, marked the end of a political transition, giving CAR an opportunity to overcome the high fragility situation which has prevailed for many years. The new Constitution, adopted during the December 13-14, 2015 referendum, includes provisions for the election of local authorities, introduces a second chamber (Senate) to the parliament, limits the president's tenure to two terms, establishes mechanisms to fight institutional corruption, and includes provisions for the declaration of assets by high-level officials. The President has appointed a high-level official to coordinate Demobilization, Disarmament, and Reintegration (DDR) peace building and national reconciliation efforts. As security and humanitarian conditions have stabilized, early signs of an economic recovery have emerged: macroeconomic balances are slowly moving closer to an equilibrium; private investment has attained pre-crisis levels; public services have been gradually restored nationwide; and aid flows have turned attention to development challenges.

6. Given these positive developments, the SCDP series is proposed as part of a larger program financed under the IDA Turn-Around Facility³, which has been informed by the priorities expressed by the newly-elected President and the recently issued World Bank Policy Notes (June 2016). Within the context of stabilization and recovery, the proposed SCDP series will support the implementation of the Government's post-transition phase reform program. Accordingly, the development objective of the SCDP series has been designed to support the reestablishment of basic fiscal management and transparency as well as economic recovery. Under the first pillar of the operation—Reestablishing Basic Fiscal Management and Transparency—the operation seeks to increase fiscal revenues, improve wage-bill management, reduce extraordinary non-salary spending, and increase budget control and transparency. Under the second pillar—Supporting the Economic Recovery—the DPO series seeks to support a pro-poor, post transition reform agenda that reinvigorates drivers of economic growth in critical sectors, including transport, agriculture, forestry, and telecommunications/Information and Communication Technology (ICT).

7. Since successful implementation of this ambitious program will require time, assistance, and flexibility, this programmatic series implies a progressive scaling-up of reforms over a two year period. Given the uncertainty caused by the fragile country context, there are significant risks related to the implementation of the operation (see section 6 and Annex 7). Implementation of reforms could become more challenging, resulting in delays in reform implementation and consequently affect the second operation in the SCDP series. In order to mitigate challenges which may reemerge during the implementation period, the program has been closely aligned with the priorities expressed by RPBA. Likewise, the program is being introduced in the context of ongoing DDR and Internally Displaced Person (IDP) reinsertion programs, which will help to reduce tensions among communities and promote reconciliation. Finally, the program has been prepared in parallel with the Mutual Accountability Framework of the United Nations Multidimensional Integrated Stabilization Mission in the Central African

³ For the purpose of the exceptional Turn-Around regime, a “turn-around” situation is defined as a critical juncture in a country's development trajectory, providing a significant opportunity for building stability and resilience marked by: (i) the cessation of an ongoing conflict; and (ii) the commitment to a major change in the policy environment following (a) a prolonged period of disengagement from World Bank lending; or (b) a major shift in a country's policy priorities addressing critical elements of fragility.

Republic (MINUSCA), which is currently being negotiated with the Government to enhance transparency and accountability in CAR.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. CAR's economy has not experienced rapid growth in the aftermath of the conflict—recording a modest 1.0 percent and 4.8 percent real GDP growth in 2014 and 2015, respectively. In 2015, growth was mainly driven by increased demand, with private consumption rising 2.9 percent in 2015 as a result of higher disposable income by many households and firms as well as rising investment. Public investment reached 4.7 percent of GDP in 2015, against a low of 1.7 percent of GDP in 2013, while private investment reached 9.3 percent. On the supply side, modest growth recovery was led by agricultural production and services, which grew by 3.5 and 2.7 percent, respectively. The agriculture and livestock sectors performed well despite remaining insecurity in some areas of the country and the large numbers of people who are still displaced. In addition, many farmers had little or no access to farming inputs or their land despite the Government's efforts in distributing agricultural inputs. Severely constrained by power shortages and poorly maintained infrastructure, the secondary sector showed a more modest increase of 1.3 percent, due to the expansion in manufactured production (2 percent), water and electricity (1.9 percent), and construction (1.9 percent).

9. Vast recovery needs resulted in a high external current account deficit. This deficit deteriorated from 3 percent of GDP (CFAF 22.8 billion) in 2013 to 9 percent of GDP (CFAF 85.0 billion) in 2015, mainly as a result of a higher trade deficit (22.1 percent of GDP) hit by a disappointing export performance. As reconstruction following the crisis led to a sharp increase in imports of capital goods, capital goods as a share of total imports increased five-fold over the past two years, from 3 to 16 percent in 2015. However, petroleum products, which accounted for more than one quarter of total imports before the 2013 crisis, shrank to 9 percent in 2015 as international oil prices declined. Current transfers dropped by almost half, as CAR received 52 percent less in grants in 2015 than in 2014. The current account deficit was financed by a combination of official and private capital inflows, including budget support, foreign direct investment, and portfolio inflows, the latter increasing threefold when compared to 2014. External public borrowing was limited in recent years, mostly representing concessional/emergency loans from multilateral creditors.

10. The economy has stabilized, with inflation reaching moderate levels. After a sharp increase in inflation at the height of the crisis (11.6 percent in 2014), average inflation declined to 4.5 percent in 2015, which is closer to the 3 percent target set by the Central African Economic and Monetary Community (*Communauté économique et monétaire des Etats de l'Afrique Centrale, CEMAC*) in 2015. Such improvement was driven by the decline in international petroleum prices, which were slowly transferred to local prices, as well as the gradual gain of price stability of basic consumer goods. However, prices have mildly risen since December 2015 mainly due to strong domestic demand and limited food supply.

11. CAR's financial sector was severely hit by the crisis and remains shallow. It remains the smallest in the CEMAC region, and plays a very limited role in supporting economic growth. With weak market infrastructure and regulatory framework, the financial sector is small, underdeveloped, and dominated by commercial banks. The sector has not fully recovered from the crisis. Credit to the economy, which declined in 2013 by 16.3 percent, rebounded by 4 percent in 2014, but declined again by 3 percent in 2015. However, commercial bank deposits increased by 15.5 percent in 2015. Furthermore, due to economic and security concerns, financial institutions, and particularly micro-finance institutions, have concentrated their businesses in Bangui. With less than one percent of the total population holding a bank account, access to financial services is extremely limited. Micro-finance accounts for only one percent of

the total credit facilities, serving 0.5 percent of the population. As the level of mobile penetration is very low (around 30 percent) compared to the average for the continent, it dampens the potential expansion of access to financial services.

Table 1: Key Macroeconomic and Financial Indicators, 2012-19

	2012	2013	2014	2015p	2016f	2017f	2018f	2019f
National income and prices	Annual percentage change, unless otherwise indicated							
Real GDP	4.1	-36.7	1.0	4.8	5.0	5.2	5.5	5.5
GDP deflator	2.7	7.0	11.1	6.2	5.7	5.3	4.9	4.9
CPI (annual average)	5.8	6.5	11.6	4.5	4.0	3.5	3.0	3.3
External sector								
Imports	12.2	-27.6	57.6	10.7	9.0	2.1	5.9	7.1
Exports	7.4	-27.9	-8.8	0.5	8.2	8.3	7.0	12.7
Terms of Trade (deterioration -)	2.8	19.4	8.2	26.9	6.9	-8.3	0.1	-3.1
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditure	16.4	14.9	12.7	14.9	17.2	16.1	16.2	16.4
Revenue and grants	16.4	8.4	15.7	14.3	13.1	13.3	13.9	14.3
Central Government Balance (incl. grants)	0	-6.5	3	-0.6	-4.1	-2.8	-2.3	-2.1
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base Money	1.6	5.6	14.6	5.3	11.8	12.8	10.9	10.9
Credit to the economy	30.2	-16.3	4	-3	10.3	10.8	10.7	10.6
Balance of Payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-4.6	-3	-5.6	-9	-10.2	-9.9	-9.3	-9.2
Imports	23.9	25.0	37.6	34.6	35.1	33.8	33.3	33
Exports	12.5	14.4	13.0	12.6	12.6	12.9	12.9	13.5
Foreign Direct Investment	3.2	0.1	0.1	0.3	1.6	3.5	3.3	2.8
Amortization due	-0.7	-0.7	-0.7	-0.7	-1.0	-0.7	-0.7	-0.4
Gross Reserves (in million US\$, EoP)	172.1	199.4	279.1	199.1	206.5	247.1	287.3	317.1
In months of next year's imports	5.6	3.7	5.1	4.2	4	4.5	4.7	5.0
As percent of short-term external debt	30.8	17.5	12.6	7.4				
Public Debt								
Total government (end of period)	23.5	38.5	51.1	48.5	47.2	41.2	35.8	31.2
o/w External debt	9.7	14.6	14.9	14.5	16.9	15.0	13.3	12.3
Memo								
GDP nominal (CFAF billions)	1108	750	842	937	1040	1153	1276	1412
Transfers	69.5	53.6	156.1	117.0	94.9	93.8	98.1	102.7
Official	35.5	35.1	94.8	54.6	31.5	29.3	32.5	36.1

Source: CAR authorities; IMF and World Bank (based on MFM0d) estimates and projections. October 2016.

12. Substantial fiscal consolidation has taken place. In 2015, the Government's primary balance (excluding interest payments) narrowed to -0.1 percent of GDP (compared to -5.9 percent in 2013), as a result of the boost in tax revenues to 6.5 percent of GDP (from 4.4 percent of GDP in 2014) and tight control of primary spending, which remained almost unchanged at 10.3 percent of GDP. These efforts allowed the overall fiscal deficit including grants to narrow to 0.6 percent of GDP despite a severe decline

in grants (down from 2014 by 3.6 percentage points of GDP). Nevertheless, domestic revenue remains insufficient to cover salary payments and critical expenditures. Tax revenue gains were the outcome of strengthened excise and customs controls, the introduction of value added tax (VAT) on oil products, and closer monitoring of tax exemptions. For their part, total expenditure increased by 2.2 percentage points of GDP in 2015. On the current expenditure side, a 12.8 percent increase in the wage-bill (mainly due to promotions within the defense forces and gendarmerie—part of the DDR process—as well as the recruitment of “*hors statut*” staff) partly counterbalanced the efforts to downsize the payroll. On the capital expenditure side, backed almost entirely by external funds, a 2.6 percentage points of GDP increase in 2015 allowed it to reach 4.7 percent of GDP, a ratio still about two thirds of its pre-crisis level. Domestically financed capital expenditure is estimated to have increased fourfold as a percentage of GDP (but from very low levels, 0.1 to 0.4 percent of GDP). Overall, the fiscal gap was financed by a combination of budget support, domestic borrowing, and domestic arrears accumulation. In the first eight months of 2016, the Government also accumulated external arrears in the amount of CFAF 6.1 billion. The program will support close monitoring of the treasury plan and increasing revenue collections, which will be critical to maintain macroeconomic stability, and avoid adverse effects on the private sector.

Table 2: Financial Operations of the Central Government, 2012-19

	2012	2013	2014	2015p	2016f	2017f	2018f	2019f
	In percentage of GDP							
Total Revenue (and grants)	16.4	8.4	15.7	14.3	13.1	13.3	13.9	14.3
Tax revenue	9.9	5.2	4.4	6.5	7.4	8.2	8.8	9.3
Taxes on goods and services	8	4.2	3.4	5.1	6	6.6	7.1	7.6
Taxes on profits and property	1.9	0.9	1	1.4	1.5	1.6	1.7	1.7
Non-tax revenue	1.6	0.5	0.5	0.6	0.8	0.8	0.8	5
Grants	4.9	2.8	10.8	7.2	4.9	4.3	4.3	4.2
Expenditure	16.4	14.9	12.7	14.9	17.2	16.1	16.2	16.4
Current expenditure	10.2	13.3	10.6	10.3	11	10.1	10	9.7
Wages and compensation	4.6	7.2	6.5	6	5.3	5	5	4.5
Goods and services	2.8	3.1	1.7	1.7	2.2	2.1	2.1	2.2
Interest payments	0.7	0.7	0.7	0.6	0.7	0.5	0.5	0.6
Current transfers	2.1	2.3	1.7	2	2.8	2.5	2.4	2.4
Capital expenditure	6.2	1.7	2.1	4.7	6.2	6	6.2	6.7
Domestic	1.5	0.1	0.1	0.4	1.3	1.2	1.4	1.8
Donor-funded	4.6	1.6	2.1	4.3	4.9	4.8	4.7	4.9
Overall balance ⁴ (including grants)	0	-6.5	3	-0.6	-4.1	-2.8	-2.3	-2.1
Overall primary balance	0.7	-5.9	3.6	-0.1	-3.4	-2.3	-1.8	-1.4
Financing								
External (net)	0.1	2.7	0.1	0.7	-0.4	-0.2	-0.2	0.3
Domestic (net)	0.4	1.3	0.4	2.4	0.3	-0.4	-0.3	0
Memo								
Crude oil (avg. spot \$/bbl)		104.1	96.2	50.8	43.0	53.2	59.9	62.7

Source: CAR authorities; IMF and World Bank (based on MFMMod) estimates and projections. October 2016.

⁴ Expenditure is on a cash basis, except for interest, which is recorded on a due basis.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. In the medium term, a gradual acceleration in growth rates is projected for CAR, as security improves and key productive sectors recover. The baseline scenario assumes improved political and security stability, continued efforts to reestablish public administration and services nationwide. Based on the latest commodity price projections, a mild rise in oil prices in 2017 would lead to a temporary deterioration of terms of trade, but commodity prices should stabilize by end period. The baseline also assumes gradual growth recovery in major high-income and neighboring countries with no international financial market turbulence.

14. Under these assumptions, growth is expected to reach an average rate of 5.5 percent by 2018-2019. Policy reforms would support a broad-based recovery. Increasing public investment to approximately 9 percent of GDP would be necessary to gradually address infrastructure constraints. Achieving this increase while maintaining a prudent fiscal stance will require substantially boosting domestic revenues and responsibly leveraging external assistance. A fiscal strategy focusing on reducing the deficit in the primary balance as the anchor, will help reduce the public debt to 31.2 percent of GDP by 2019, as the primary deficit declines from 3.4 percent of GDP in 2016 to 1.4 percent of GDP in 2019. Improved distribution channels and a rise in agricultural output would boost growth and help ease inflation to a level in line with the CEMAC target of 3 percent. Growth will also be driven by more dynamic trade, transportation, and public investment. Diamond exports should partially resume⁵, starting with Berberati, which was declared the first “compliant zone”, followed by Boda, Carnot, and Nola⁶. Logging activity should also gradually resume, while many firms obtain assistance in overcoming the losses incurred during the crisis. While strengthened security allows for the further success of legitimate gold and diamond mining projects in the eastern part of the country, new agro-industrial projects should also commence shortly.

15. The overall fiscal deficit is projected to decrease from 2016 onwards and reach close to 2 percent by the end of the projection period. In 2016, however, post-war efforts explain the projected one-year increase in the fiscal deficit to 4.1 percent of GDP, led by additional outlays on goods and services (an increase equivalent to 0.5 percentage points of GDP) to allow for the redeployment of administration in all 16 prefectures. Current transfers would increase (by 0.8 percentage points of GDP) to support greater social spending. Capital expenditure would also increase (by 1.5 percentage points of GDP) to tackle postwar reconstruction needs. Donors’ funding is projected to increase from 4.3 percent of GDP in 2015 to 4.9 percent in 2016. From 2017 onwards, improvements in tax policy and administration as well as economic recovery would contribute to boost tax revenue, which is projected to reach 9.3 percent of GDP by 2019. Sound management will be critical to ensure that the public payroll is properly managed, while service delivery is re-established. Additional fiscal space resulting from higher domestic revenues would allow public investment to reach 6.7 percent of GDP by 2019. Domestically financed investment should also support the rebuilding of the administrative and social infrastructure and stabilize at a higher level (around 1.2 percent of GDP from 2016 and beyond). By end-2016, authorities are also expected to present a comprehensive strategy for infrastructure investment and post-conflict reconstruction, which identifies priority projects and provides a framework for mobilizing adequate external assistance. Such a strategy will be integrated in the 2017 Budget. In parallel, the Government is expected to raise its execution capacity, efficiency, and control by further strengthening its budgetary, treasury, and accounting systems as well as adopting improved procurement and investment policies.

⁵ Despite partial re-certification by the KPCS in June of 2015, the exports of diamond stocks have been slow to resume. Current stockpiles of 65,000 carats are valued US\$10.6 million based on an average per carat of US\$161.27 using official statistics from 2005 to 2013.

⁶ Prior to the crisis, the diamonds exported from these four sites amounted to less than 30,000 carats.

16. The external current account deficit is projected to remain high, but declining to around 9 percent of GDP by 2019, reflecting high levels of goods and services coupled with a narrow export base. Some competitiveness gains resulting from the recovery from the mining, forest, and agriculture sectors would lead to higher export growth, but these gains would not be enough to offset the increase in imports of consumption and capital goods. An expected rise in oil prices up to 2017 might contribute to an increase in the import bill, also widening the trade deficit. The current account deficit would be financed primarily by external grants. Gross financing requirements are expected to increase over the period due to reconstruction needs: from CFAF 64.2 billion in 2015 to CFAF 140.4 billion by 2019. In addition to official development assistance, the current account deficit is expected to be financed by Foreign Direct Investment (FDI) flows, which are projected to increase from CFAF 3.2 billion in 2015 to around CFAF 40 billion by 2017-2019, as well as capital inflows from the regional securities market. Donors are also expected to provide additional concessional financing to cover residual needs projected to average US\$ 52.6 million per year from 2016 to 2019.

Table 3: Balance of Payments (BoP) Financing Requirements and Sources (Billions of CFAF), 2014-2019

	2014	2015e	2016p	2017p	2018p	2019p
Financing requirements	-40.6	-64.2	-114.1	-123.0	-129.3	-140.4
Current account deficit	-46.9	-84.7	-105.7	-114.6	-119.1	-130.5
Amortization of loans	-5.8	-6.8	-10.5	-8.4	-8.5	-6.4
Other short term capital flows (inflows +)	12.1	27.3	0.0	0.0	0.0	0.0
Financing sources	40.6	64.2	114.1	123.0	129.3	140.4
FDI and portfolio investment (nets)	1.1	3.2	16.3	41.1	42.6	40.4
Capital grants	17.3	36.6	45.5	50.0	55.0	60.0
Disbursements of loans	0.0	3.8	6.0	6.0	6.0	9.9
Change in reserves (increase -)	-22.2	-20.6	3.7	22.0	21.3	15.0
Financing gap	0.0	0.0	50.0	48.0	47.0	45.0

Source: CAR authorities; IMF and World Bank staff estimates and projections. October 2016.

17. CAR remains at high risk of debt distress. According to the 2016 IMF-World Bank debt sustainability analysis (DSA)⁷, at end-2015, CAR's public and publicly-guaranteed debt amounted to 48.5 percent of GDP, a decline of 2.6 percentage points compared to 2014, which was mostly driven by an increase in growth as external and nominal debt increased. External debt represented 14.5 percent of GDP while domestic debt accounted for 70 percent of the total debt in 2015, of which more than half is domestic payments arrears. The increase in public domestic debt as a share of GDP is due to both the economic contraction and the accumulation of debt arrears, which increased sharply between 2013 and 2014. CAR has a high share of local currency debt in public debt (67 percent), protecting it against the depreciation of the CFA Franc against the US dollar. Amortizations will amount to 1 percent on GDP in 2016.

18. A fiscal strategy focusing on gradually reducing the deficit in the primary balance as the anchor would help reduce the public debt to 31.2 percent of GDP by 2019. However, the main driver of

⁷ See report Central African Republic-DSA-2015, World Bank/IMF.

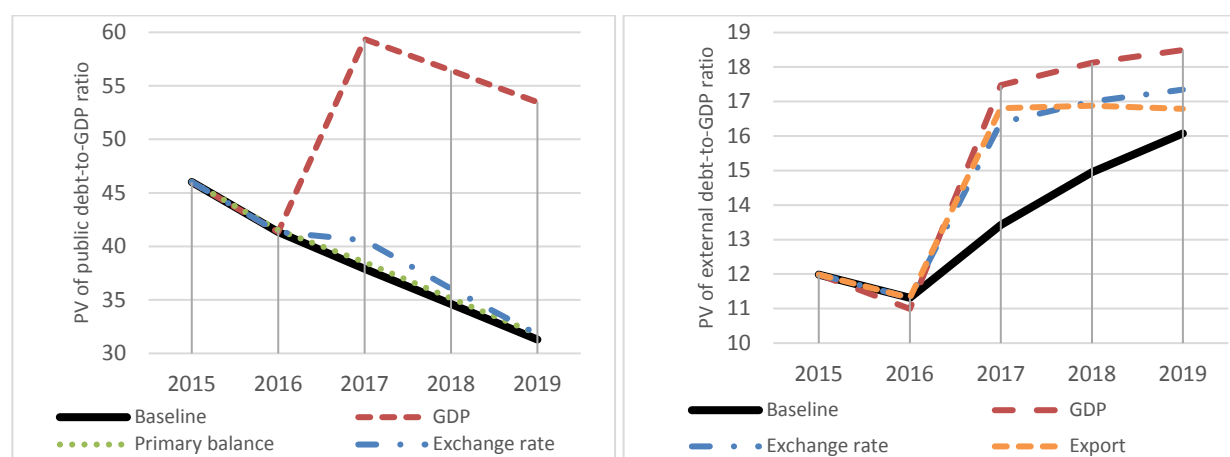
decreases in the debt-to-GDP ratio is the Automatic Debt Dynamics, which reduces the public sector debt by some 4 percent of GDP each year from 2016-2019, mainly due to the contribution of real GDP growth⁸. The composite real interest on domestic and forex debt also contributes to the reduction, although to a lower extent than the growth differential.

19. Debt sustainability indicators have worsened compared to the previous DSA but should improve under the assumptions of sustained growth recovery favored by improved domestic security, a stable macro-economic framework, growth in key sectors, and sustained donor support. In contrast to the previous DSA, the present value (PV) of public debt-to-GDP ratios are now projected to remain above the 38 percent benchmark throughout 2016–2019, but should decline as macroeconomic conditions improve. The PV of external debt-to-exports ratio and the PV of external debt to revenue ratio are projected to stay above their indicative threshold—100 and 200, respectively—until 2034 and 2018, respectively. The external debt service-to-export ratio exceeds the threshold of 15 percent until 2016, and the same for the debt service-to-revenue ratio of 18 percent.

20. The DSA shows that CAR's overall debt distress is very high and the country has significant vulnerabilities to adverse shocks to GDP growth, exports, exchange rate and FDI flow, which could breach the policy-related thresholds for all external and public debt indicators. Stress tests show that the baseline is very sensitive to growth assumptions. A shock that leads to a growth-rate drop of one-standard deviation in 2016 and 2017, would substantially increase the public debt and keep the present value of debt-to-GDP ratio above CAR's benchmark throughout the period 2016 - 2036⁹. This underscores the importance of adopting a very prudent fiscal stance and an external borrowing policy focused on mobilizing grants and a small number of concessional loans.

21. The graphs below depict the results of bound tests which introduces temporary shocks in the second and third year of the projection period. The baseline scenario is compared to: (i) real GDP growth at historical average minus one standard deviation in 2016-2017; (ii) one-time 30 percent nominal exchange rate depreciation relative to baseline in 2016; (iii) primary balance at historical average minus one standard deviation in 2016-2017 (left, public debt); and (iv) export value growth at historical average minus one standard deviation in 2016-2017 (right, external debt).

Figure 1: Debt Indicators under Alternative Scenarios, 2015-2019



⁸ Based on the estimates of the 2016 Debt Sustainability Analysis.

⁹ See report Central African Republic-DSA-2015, World Bank/IMF

Table 4: External Debt Composition

External Debt Composition			
	US\$ (bn)	Share of total debt	% of GDP
Official Creditors	0.23	29.8	14.5
Banks	0	0	0
Total External Debt	0.23	29.8	14.5
Long Term	0.23	29.8	14.5
Short Term	0	0	0

22. Orderly clearance of the large outstanding stock of domestic arrears, is important to the authorities' efforts to rehabilitate public financial management and support the economy. The total stock of domestic arrears was CFAF 157 billion at end-May 2016¹⁰. An April 2016 agreement with the *Banque des Etats de l'Afrique Centrale* (BEAC), the regional central bank, to consolidate government liabilities totaling CFAF 22.4 billion is one element of the strategy. The other components of domestic arrears include claims of commercial banks on the Government estimated at CFAF 2.6 billion and other commercial, social and cross-debts for a total amount of CFAF 132 billion. Audits of bank, commercial, social, and cross-debt arrears have also been launched with the support of the World Bank, the IMF, the EU, France, and other development partners. This includes arrears in sectors such as cotton and forestry. Following these audits, the authorities will prepare, adopt, and implement an arrears clearance plan. The authorities also plan to review the VAT credits in order to prepare a payment plan and eliminate all recourse to offsetting. In the immediate future, priority will be given to commercial, wage and pension arrears dating back to 2013-2014 and amounting to CFAF 13.2 billion. The settlement of the audited arrears is part of a medium-term strategy to reduce domestic debt, which is expected to gradually decrease to about 31.2 percent of GDP in 2019 as part of an effort to reach a higher degree of highly concessional external debt, expected to increase by 5 percentage points by 2019, and grants to finance the development agenda. In the meantime, no wage arrears have been accumulated since 2014.

23. In summary, CAR's macroeconomic policy framework provides an adequate basis for the proposed operation. Despite suffering a succession of severe shocks in the recent past (2008/09, and 2012/13), CAR has avoided major macroeconomic imbalances. The Government has generally demonstrated a satisfactory track-record in maintaining prudent macroeconomic policies that are sustainable over the medium-term, and CAR's membership in the CEMAC provided crucial macroeconomic stabilization during the recent crisis. The regional central bank has kept inflation relatively low and stable since the 1994 depreciation, and the CFA Franc remains anchored by a prudent monetary policy.

24. Although the overall outlook is positive, the macroeconomic framework is subject to high downside risks (see section 6 and Annex 7). Given the fragile country context the political and security risk is high. Political instability and/or a deterioration of the security situation would have a negative impact on government revenues, public and private investments, imports and exports, economic activities in general and consequently growth and inflation. CAR's recent track record in macroeconomic management, which has been strong in response to exogenous shocks, is a mitigating factor. This positive track record is also acknowledged by an increasing CPIA score, setting the stage for being confident about its capacity to preserve prudent macroeconomic policies over the medium term, as well as meeting all of the prior actions required to ensure the signing and implementation of a supportive IMF program. The

¹⁰ IMF Staff report for the 2016 Article IV consultation and request for a three-year arrangement under the Extended Credit Facility.

new Government's focus on growth-enhancing structural reforms as part of its poverty reduction strategy, and responsive support provided by donors, including through the proposed operation, will help to address the challenges emerging from the present global slowdown and the leftovers of the 2012-2013 crisis.

2.3 IMF Relations

25. The International Development Association (IDA) is collaborating closely with the IMF on macroeconomic, fiscal, and growth-related policy issues. The IMF leads the dialogue on macroeconomic management, fiscal, and monetary policy, while the World Bank takes the lead on structural reforms. The World Bank and the IMF undertake joint assessments of the poverty reduction strategy and its implementation as well as joint debt sustainability analyses. The World Bank takes the lead on monitoring the authorities' social sectors and pro-poor policies. This DPO was prepared in close coordination with IMF staff, who in parallel prepared a three-year Extended Credit Facility (ECF) program of SDR 83.55 million (approximately US\$115.8 million or 75 percent of quota) which was approved by the IMF Executive Board on July 20, 2016. IMF staff visited Bangui (September 2016) to review early progress of the program, which focuses on macroeconomic policies and structural reforms to bring the economy on a path of sustainable and inclusive growth, mobilize higher domestic resources, restore budget transparency and sound treasury management practices, build resilience, and exit progressively out of fragility. The remaining amount will be dispensed over the duration of the arrangement, subject to program reviews, starting December 2016. Donor support ensures the full financing of the first year of the program and there are good prospects for financing the remainder of the program.

3. THE GOVERNMENT'S PROGRAM

26. The Recovery and Peace Building Assessment (RPBA) provides the overarching framework of the CAR's development agenda for the next five years (2016-2021). This exercise was led by Government and conducted with joint assistance from the World Bank, EU, and UN. As noted in detail in Annex 7, the RPBA identifies the country's main priorities in the form of three pillars and corresponding sub-objectives, which include: (i) Supporting Peace, Reconciliation, and Security; (ii) Renewing the Social Compact between the State and the Population; and (iii) Ensuring Economic Recovery and Boosting Productive Sectors. The RPBA also identifies cross-cutting themes such as reducing regional imbalances, promoting transparency and accountability, building the capacity of public institutions and civil society organizations, and promoting gender equity.

27. The Government's General Policy Statement, dated June 7, 2016, supports the priorities and objectives identified in the RPBA. Its critical priorities include: (i) peace, security, and social cohesion through the reform of the security and defense sectors as well as the decentralization of the administration; (ii) economic recovery through providing support to productive sectors, improving the business climate, increasing production and access to energy and ICT, investing in infrastructure, as well as implementing land tenure reforms and an urbanization strategy; (iii) good governance and restoring State authority; and (iv) support for social and humanitarian affairs.

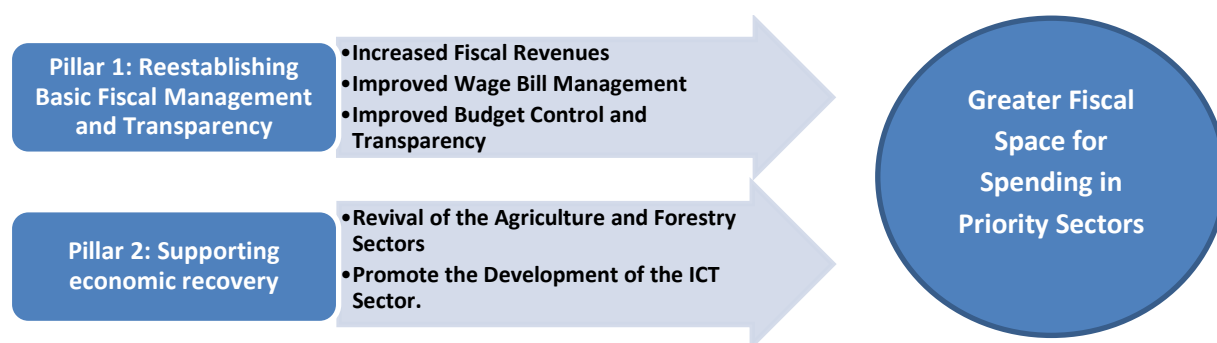
4. THE PROPOSED OPERATION

4.1 LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

28. The Program Development Objective (PDO) of the State Consolidation Development Program (SCDP) is to support the reestablishment of basic fiscal management and transparency as well as economic recovery. The operation is structured around two pillars. Under the first pillar—Reestablishing Basic Fiscal Management and Transparency—the Development Policy Operation (DPO) series seeks to increase fiscal revenue, improve wage-bill management, reduce the use of extraordinary budget spending

procedures, and increase budget control and transparency. Under the second pillar—Supporting Economic Recovery—the DPO series seeks to support a pro-poor, post-transition reform agenda that reinvigorates drivers of economic growth in critical sectors, including transport, agriculture, forestry, and telecommunications/ICT. Since these programmatic reforms represent both upstream and downstream interventions, the successful implementation of this ambitious program will require time, assistance, and flexibility, in order to ensure a progressive scaling-up of reforms over a two year period. The program is designed in alignment with activities planned under US\$ 250 million Turn-Around Eligibility Note presented to the Board on October 20, 2016, which includes investment operations aimed at complementing policy measures including legal, regulatory and institutional reform measures supported by the SCDP in agriculture, transport, governance of natural resources and ICT. The SCDP series is also complemented by technical assistance to public sector reforms and public financial management (PFM) reforms including human resource management and wage-bill management reforms supported by the ongoing Emergency Public Services Response project. This technical assistance will provide support to the authorities to implement policy measures supported by the SCDP series.

Figure 2: The Proposed Operation



29. Pillar one seeks to reestablish the basic fiscal management and transparency in CAR through increased fiscal revenues, improved wage-bill management, and increased budget control and transparency. This outcome will be achieved through support to a number of mutually reinforcing public financial management policy areas, which are intended to improve fiscal management functions in order to better manage scarce resources. First, the operation will support the Government in increasing its revenues by better managing tax and customs exonerations as well as aligning petroleum prices with an international (Platts) reference price. Second, the operation will target measures to improve the integrity and control of the public wage-bill. Third, the operation will put in place measures to reduce the scope for exceptional spending procedures by introducing a nomenclature of supporting documents of public expenditures as well as a manual of procedures for public spending. Finally, the program will improve budget transparency by regularly publishing budget information, including the clearance of a backlog of annual *Loi de règlement de la loi des finances* (Settlement Law of the Finance Law).

30. Pillar two seeks to support economic recovery in productive sectors critical to CAR's growth and stability. First, the operation will support critical reforms to support the Road Maintenance Fund (RMF) and the National Equipment Office (NEO) in order to allow for a greater, more sustainable, and more efficient allocation of resources for the maintenance of secondary feeder roads, particularly in cotton producing regions which are critical to CAR's growth. Building on these efforts to improve agricultural productivity, the SCDP series will directly support the agricultural sector by increasing access to high quality agricultural inputs, including seeds, fertilizers, and phytosanitary products. Additionally, the proposed operation will support policy measures to start production in inoperative, attributed forestry concessions. Finally, the SCDP series will support the development of the ICT sector by introducing reforms

that will expand connectivity, in particular, mobile telephone penetration and 2G mobile network coverage across the territory.

31. The proposed reform areas represent a selective approach to a gradual and scalable reengagement in the current post-conflict environment. The DPO series has been designed to target a number of selective, yet asymmetric reforms, which represent achievable and meaningful steps forward, given the stated priorities of the new government. As such, the proposed reforms are feasible in the short term and will lay the foundations to address more profound governance challenges in the medium and long term. The proposed measures will not only contribute to improve economic opportunities available to all citizens, but also target the poorest and most remote areas, which is critical for poverty reduction, political stability, and social cohesion. In this regard, the series supports a pro-poor reform agenda through its focus on the agricultural sector—where a vast majority of the poor work in subsistence and small holder farming operations—as well as introducing parallel reforms in roads and telecommunications/ICT, which will help to better connect rural areas.

32. However, while these two pillars are designed to target the most critical constraints facing CAR's growth needs, the DPO series does not include other important sectors, which will receive support through other World Bank- and donor-funded programs, including additional technical assistance and investment lending provided under the CAR Turn-Around Facility. In particular, the SCDP series does not explicitly address reforms in the mining sector due to operational and security constraints. Although the Kimberly Process Certification Scheme has partially resumed and is part of the medium-term macro-economic hypothesis, full lifting of the ban will require technical assistance that goes beyond the scope of the proposed program. To address these issues, a Natural Resource Governance TA has been planned for FY19, which will focus specifically on reforming the mining code, in order to improve transparency, accountability, and competitiveness, as well as encouraging formalization through an appropriate fiscal regime. The SCDP series will also not cover policy reforms in social sectors as these sectors are currently being supported by emergency and humanitarian programs. The reforms supported by the DPO are nonetheless expected to have a positive impact on social sectors. The expected increase in fiscal space resulting from the reforms supported by the SCDP series will contribute to ensure that civil servant wages, including to teachers and health personnel, will be paid and to create the conditions for increased spending in education, health, and social protection.

33. The proposed operation is fully aligned with the current priorities of the new Government in its post-transition phase. In particular, the operation supports two of the three pillars in the recent RPBA, including: (i) “Renewing the social compact between the state and the population,” through the reform areas contained in pillar one of the operation and (ii) “Ensuring economic recovery and boosting productive sectors,” through its focus on agriculture, transport, and ICT under pillar two of the operation. The Government has started preparing a development strategy, which once finalized, will inform the triggers of the subsequent operations in the SCDP series in order to ensure that it remains fully aligned with the Government's priorities. Recognizing the need for close donor coordination and alignment with government development objectives, the program is being prepared in parallel with the Mutual Accountability Framework of the UN Peacekeeping mission (MINUSCA).¹¹

¹¹ As noted in paragraph 12 of the last UN Security Council Resolution on CAR - S/RES/2301 (2016): “The Security Council [...] encourages the CAR Authorities, with the support of the international community, in particular with International Financial Institutions (IFI) leading international efforts, and based on critical peace and State building goals, to continue consolidating public financial management and accountability, including revenue collection, expenditure controls, public procurement and concession practices building on relevant international experiences and in a manner that allows it to meet the expenses related to the functioning of the State, implement early recovery plans, and revitalize the economy, and fosters national ownership and respects the sovereignty of the CAR”.

34. The proposed operation is also based on a number of lessons learned, drawn from the implementation of previous DPOs and operations in CAR. Detailed in Annex 6, these lessons include: (i) the importance of identifying key priorities that are likely to immediately improve the living conditions of the population; (ii) demonstrating that the new government is adopting practices that are materially different from the past, which can help to rebuild trust in the state; (iii) the targeting of reforms, including public sector and economic governance reforms, in order to contribute to the development of critical sectors of the economy; (iv) close donor coordination and alignment to government development objectives, which is important for the success of reforms, as cohesion among donors helps to maintain focus on successful implementation of key reforms; and (v) the establishment of a monitoring and evaluation mechanism tailored to country specificities and taking into account data collection issues.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Table 5: Status of SCDP Prior Actions

Policy Area	Prior actions under SCDP	Status of SCDP1 Prior Actions
PILLAR 1: REESTABLISHING BASIC FISCAL MANAGEMENT AND TRANSPARENCY		
Increased Fiscal Revenues	Prior Action 1: The Recipient has prepared a table of fiscal exemptions by type, amount and month for an eight month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance.	ACHIEVED
	Prior Action 2: The Recipient has adopted the <i>Décret</i> 16-288, dated July 8, 2016, revising the methodology for the determination of the prices of petroleum products in its territory to conform with the “Platts” reference price.	ACHIEVED
Improved Wage-Bill Management	Prior Action 3: The Recipient has, through its Ministry of Finance adopted the <i>Arrêté</i> 519/MFB/DIRCAB/IGF/C/16, dated August 9, 2016, revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).	ACHIEVED
Improved Budget Control and Transparency	Prior Action 4: The Recipient has, through its Ministry of Finance, adopted the <i>Arrêté</i> 0288/2016/MFB/DIRCAB dated May 13, 2016, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	ACHIEVED
	Prior Action 5: The Recipient has, through the Directorate General of the Treasury and Public Accounting of its Ministry of Finance, prepared the 2015 Trial Balance and the Trial Balance for the first semester, ending June 30 th 2016.	ACHIEVED
PILLAR 2: SUPPORTING ECONOMIC RECOVERY		
Revival of the Agriculture and Forestry Sectors	Prior Action 6: The Recipient has, through its Ministry of Transport, Civil Aviation and Unlocking’s adoption of the <i>Arrêté</i> 117/16/METACD/DIRCAB, dated August 29, 2016, adopted the Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii)	ACHIEVED

Policy Area	Prior actions under SCDP	Status of SCDP1 Prior Actions
	formalizes the contractual relationships between the National Equipment Office (NEO), the Recipient's Ministry of Transport, Civil Aviation and Unlocking and the RMF.	
	Prior Action 7: The Recipient has adopted two instruments to operationalize the 2015 Seeds Law: (i) <i>Décret</i> 16.351, dated October 19, 2016, approving the statutes of the National Seeds Office (NSO); and (ii) <i>Arrêté interministeriel</i> 019/2016, dated October 20, 2016, an Inter-ministerial decision creating the body of seeds inspectors and controllers of the NSO.	ACHIEVED
Developing the ICT Sector for Greater Connectivity	Prior Action 8: The Recipient's Council of Ministers has, through its <i>Notification de décision</i> 199/MSGGRIRSEPP/DIR.CAB dated September 28, 2016 adopted the draft law on electronic communication.	ACHIEVED

PILLAR 1: REESTABLISHING BASIC FISCAL MANAGEMENT AND TRANSPARENCY

35. Under the leadership of the Ministry of Finance, the Government is gradually rebuilding its PFM system, although significant weaknesses persist. Since April 2014 a Treasury Committee and a PFM Committee have been established and tasked with monitoring the implementation of Public Financial Management (PFM) reforms, including the treasury plan. However, limited financing and weak treasury management capacity continue to make it very challenging to ensure the payment of primary expenses, including salaries. The financial management system (GESCO) is once again operational but the connection between the modules remains limited. In order to minimize recourse to exceptional budget-execution procedures the authorities have reintroduced a weekly expenditure ceiling, which is approved by the Ministry of Finance and the Prime Minister. The Government also established the Central Accounting Agency of the Treasury (CAAT), which is staffed with agents recruited through a competitive hiring process. This agency is tasked with: (i) ensuring that cash inflows are properly recorded and reconciled on a daily basis; (ii) reviewing payment vouchers to maintain compliance with PFM regulations; and (iii) developing monthly treasury plans and producing annual financial statements in a timely manner. Nevertheless, the back-log in the production of financial accounts remains significant. The challenge in payment of primary expenses is due to a combination of the collapse in revenues and insufficient control of expenditures. To reduce expenses, the authorities have undertaken a payroll audit and taken corrective measures to remove ineligible civil servants from the payroll. Between 2014 and 2015, its reliability improved, reduced the total public sector workforce from 21,484 to 20,222 civilians and agents, and allowed for the resumption of basic services. However, an increase in average wages by around 7 percent offset the efforts to downsize the payroll. Moreover, only 30 percent of the 2015 government expenditure followed regular procedures, and the connection between the budget and accounting modules remains problematic. To address these weaknesses, authorities have adopted plans for further PFM reforms, including (i) increasing revenue collection by rationalizing fiscal and customs exemptions as well as revising petroleum product taxation; (ii) strengthening wage-bill management through stronger controls, revising the wage structure, and adopting improved procedures for recruiting civil servants; (iii) strengthening control over budget execution and reducing the use of exceptional budget procedures as well as improving budget transparency.

1.1. Increased Fiscal Revenues:

36. As a consequence of the conflict, domestic revenues dropped significantly from 11.5 percent of Gross Domestic Product (GDP) in 2012 to 4.9 percent of GDP in 2014. The low revenue/GDP ratio was a

result of many factors including the collapse in the formal economy, a breakdown of the functioning of the administration, numerous tax exemptions, and inadequate policies. Despite the timid economic recovery following the crisis, the efforts made by the administration allowed an increase in domestic revenues to an estimated 7.1 percent of GDP in 2015. Notwithstanding this progress, domestic revenues are significantly below the pre-crisis level and are insufficient to pay for basic expenditures.

37. To boost revenues, the authorities aim to reduce tax exemptions and increase controls. Tax exemptions are a major source of tax expenditures, which reached CFAF 27.6 billion at end-June 2016 compared to projections of CFAF 8 billion. To better manage tax exemptions, the authorities intend to review the existing system and tighten oversight of exemptions. To support the government's reform efforts, the SCDP1 will support a series of measures, including the preparation of a table of fiscal exemptions by type, amount and month for an eight month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance (**SCDP1 Prior Action 1**). Once these reforms are in place, they will be scaled-up during the second phase of the operation through the adoption of an *Arrêté* by the Ministry of Finance developing and implementing an action plan to reform fiscal exemptions in CAR (**SCDP2 Trigger 1**). The action plan will include measures to minimize fiscal exemptions by adopting more transparent and restrictive conditions for granting exemptions and will be in conformity with the recommendations of a fiscal-exemption rationalization study as well as recent IMF fiscal studies. Furthermore, in the second phase of the program, the Ministry of finance will adopt an *Arrêté* instructing the General Inspection of Finance to prepare and implement an annual control plan using a risk-based approach, which identifies and controls the main revenue collecting entities (*postes fiscaux et douaniers*) on an annual basis (**SCDP2 Trigger 2**).

38. In addition to addressing fiscal exemptions and controls, the SCDP series will address current petroleum product taxation, which impacts overall revenues. Currently, the Government fixes the domestic prices of petroleum products, which tend to not reflect changes in world prices and to remain constant. In 2008, the Government adopted an automatic quarterly petroleum product pricing formula to ensure full pass-through to the consumers of all costs, distribution margins, and taxes, including VAT at the regular rate. However, unless the pricing formula is implemented consistently the budget will remain highly vulnerable to increases in international prices of fuel, which deprives the Government of much needed fiscal revenues and lowers the surplus on the domestic primary balance, thus undermining fiscal sustainability. Therefore, in order to contribute to increasing revenues, the SCDP series will support the adoption of a *Décret* revising the methodology for the determination of the prices of petroleum products in its territory to conform with the "Platts" reference price (**SCDP1 Prior Action 2**), which is expected to generate CFAF 1.5 billion in the 4th quarter of 2016.

39. The expected results of these prior actions and triggers, combined with measures supported by other Development Partners such as the IMF, are expected to increase domestic revenues as a percent of GDP (Baseline: 7.1 percent of GDP (2015); Target: > 8.1 percent of GDP (2018)) (See annex 9 for a brief presentation of expected revenue impact).

1.2. Improved Wage-Bill Management:

40. The crisis had an especially devastating effect on areas of the public administration that already suffered from serious capacity constraints, such as education, health, and agriculture services. As the civil service payroll system broke down, unpaid teachers abandoned their jobs, and a great deal of school infrastructure and equipment was badly damaged or destroyed. The crisis further compromised the validity and consistency of the government's already weak human resource (HR) record keeping and payroll control systems. The 2010 Public Expenditure and Financial Assessment (PEFA) report rated payroll controls a "D", the lowest possible score, and identified numerous inconsistencies in the reconciliation of the HR database and the public payroll. Supported by CAR's development partners, the Government has

initiated several measures to improve the management of the wage-bill. Since 2014, a census was conducted that verified the identities of 92 percent of all civil servants. The authorities validated the employment of another four percent through alternative means, while the remaining four percent were identified as ghost workers and removed from the payroll system. In addition, the Government began monitoring the physical presence of civil servants based on a bimonthly sample, and this exercise has already significantly reduced absenteeism among education and health sector staff.¹² Overall, the efforts have resulted in the reduction of the number civil servants, reducing the overall wage-bill from 6.5 percent of GDP in 2014 to 6 percent of GDP in 2015.

41. Efforts to control personnel costs would help further consolidate recent progress in improving the integrity of the public payroll. To allow for recruitments in education, health, and priority sectors (estimated at CFAF 1.2 billion in 2016), the authorities intend to implement several cost saving measures such as the continuous updating of the HR database (CFAF 150 million), retirement of civil servants (CFAF 150 million), the progressive elimination of ineligible “*hors statut*” (CFAF 150 million), and the repatriation of 50 diplomats whose missions have ended (CFAF 60 million). Furthermore, the authorities intend to increase internal control of the wage-bill and undertake a new audit of the wage-bill database, establish a new wage-structure, and increase transparency and accountability mechanisms. To that end, the SCDP1 grant will support the adoption of an *Arrêté* through the Ministry of Finance revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents, and all supporting documents, to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT) (**SCDP1 Prior Action 3**). This will give sufficient time to the CAAT to undertake the verification of the monthly wage-bill. Subsequently, the SCDP2 will support the adoption of an *Arrêté* through the Ministry of Finance proposing a table that lists positions by grade, department, and place of assignment as part of the documentation used for the preparation of the 2018 Finance Law (**SCDP2 Trigger 3**).

42. The expected results of these prior actions and triggers include an increased share of the wage-bill reviewed and verified by CAAT (Baseline: 0 percent (2015); Target 50 percent (2018)).

1.3. Improved Budget Control and Transparency:

43. During the 2013 crisis, property damage and widespread looting took a heavy toll on public facilities and equipment, including the systems and processes used to monitor and execute the budget. As the Government resumed its core functions in mid-2013, the authorities faced a number of serious challenges. The GESCO system had previously been deployed by the Treasury and the Budget Directorates, but during the crisis it ceased to function, and after 2013, budget preparation and execution processes were performed manually or not at all. The crisis also disrupted the preparation of procurement and commitment plans by line ministries, and as a result, the procurement process became more opaque during the transition period. The functioning of the Single Treasury Account also ceased, further straining the government’s cash flow. In 2015, 80 percent of budget expenses were executed using exceptional procedures. A significant back-log in the production of financial statements and Settlement Laws of the Finance Law has accrued, with the last and only Settlement Law of the Finance law dating back to 2008.

44. Budget transparency in CAR has been opaque, and the public administration has traditionally been governed by a small elite operating with little popular support or accountability, undermining trust in national leaders. In 2011, the Government passed a set of reforms designed to increase budgetary

¹² This positive effect on attendance has been confirmed by UNICEF and WHO cluster reports. See: UNICEF (2015a and 2015b) and WHO (2015).

transparency, including extending the Extractive Industries Transparency Initiative (EITI) to the forestry sector, mandating the publication of the budget law on the government's website, and requiring full asset disclosure by high-ranking public officials. These efforts were halted by the crisis. The new Constitution adopted in December 2015, establishes mechanisms to fight institutional corruption and includes provisions for the declaration of assets by high-level officials, including the President. President Touadéra delivered his asset declaration to the Constitutional Court in Bangui in May 2016. The Ministers of the Government have also declared their assets, in conformity with legal provisions. In terms of budget transparency, very initial measures have led to the publication of the enacted Finance Laws, 2010-2016.

45. The authorities have an ambitious target to reduce the level of exceptional procedures, reduce the back-log of financial statements, and increase budget transparency. To that end, the SCDP1 will support the adoption of an *Arrêté* through the Ministry of Finance, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008 (**SCDP1 Prior Action 4**). Likewise, SCDP 1 will support the preparation of the 2015 Trial Balance and the Trial Balance for the 1st semester 2016, through the Directorate General of the Treasury and Public Accounting (**SCDP1 Prior Action 5**). To deepen the reforms the SCDP2 will support the adoption of an *Arrêté* through the Ministry of Finance establishing a manual of procedures of public expenditures in conformity with the Organic Finance Law of July 2006 and the Procurement Code of June 2008 (**SCDP2 Trigger 4**). At the same time, to improve budget transparency, the SCDP series will support the preparation and publication of: (i) the draft 2017 Finance Law; (ii) the enacted Finance Law; (iii) a citizen's budget on the enacted Finance Law; and (iv) budget execution reports since Q1 2016 (**SCDP2 Trigger 5**). Likewise, SCDP 2 will support the submission of the *Loi de Règlement* (Settlement Law of the Finance Law) 2015 to the Parliament (**SCDP2 Trigger 6**).

46. The expected results of these prior actions and triggers include a reduction in the share of expenditures executed using exceptional spending procedures (Baseline: 80 percent (2015), Target: <25 percent (2018)); an increase in the number of budget documents published on an annual basis (Baseline: 1 (2015); Target 7 (2018)); and the yearly submission of the *Loi de Règlement* (Settlement Law of the Finance Law) to Parliament (Baseline: 0 (2015); Target: 1 (2017) and 1 (2018)).

PILLAR 2: SUPPORTING ECONOMIC RECOVERY

47. A strong economic recovery, marked by accelerated employment growth, will be essential for the maintenance of political stability and the consolidation of the peace process. CAR has only experienced two periods of relatively rapid economic growth in the past¹³. Continued political stability, an enduring peace process, and a well-designed policy framework could result in accelerated, pro-poor and inclusive growth.¹⁴ To stimulate economic recovery, reforms are needed to spur growth and promote formalization in employment-intensive sectors such as agriculture and forestry. New jobs with a potential to generate rising incomes over time would offer young workers—and especially former combatants and victims of violence—an opportunity for economic advancement through peaceful means, diminishing incentives to seek income from crime and conflict. At the same time, the revival of both the agriculture and forestry sector will depend on investments in the transport sector, in particular the maintenance of rural and secondary roads which are essential to connect producers to markets. A final aspect to improving CAR's growth potential involves developing the ICT sector to allow for greater connectivity—in particular, access to voice, text, and mobile payments—across the country and abroad.

¹³In 1984-1985 and in 1994-1995, in which the GDP growth rate averaged 5-6 percent per year.

¹⁴ Annual growth rates in the range of 5-6 percent rate would double the economy every eight-nine years and create much-needed employment for an expanding labor force.

2.1. Revival of the Agricultural and Forestry Sectors

48. Despite its recent decline, the agricultural sector accounts for 45 percent of GDP, 70 percent of jobs, and over 75 percent of national food consumption. Low productivity and the protracted conflict have contributed to the poor performance of the agriculture sector resulting in about 50 percent of the population living in a situation of food insecurity. Therefore, increasing agricultural and livestock production remains one of the most urgent priorities and challenging issues. To support agriculture sector development, the provision and retention of improved seeds is critical to avoid famine and prevent farm households from eating their seeds. However, while authorities adopted a Seed Law in 2015, implementation decrees have not yet been adopted, thus delaying the application of the law.

49. Though it covers a relatively small portion of the country's land area, the commercial forestry sector in CAR has considerable potential to attract private investment and contribute to economic development. There is substantial demand for tropical wood products on international markets, and timber from CAR remains competitive despite the country's high transportation costs. Prior to the 2013 crisis, the forestry sector represented over 6 percent of GDP, roughly half of total exports, about 10 percent of state revenues, and also employed a significant workforce in remote regions, accounting for about 4,000 direct jobs and 6,000 indirect jobs. The forestry sector's legal and regulatory framework is exceptionally strong, both by the standards of comparable countries and relative to other economic sectors in CAR. The country has actively participated in international certification systems and multilateral efforts to combat climate change, and under the country's benefit sharing framework, forestry companies were required to pay local communities about CFAF 1 billion per year. Finally, CAR has signed a FLEGT¹⁵ Voluntary Partnership Agreement with the EU and is making progress in fighting illegal logging.

50. Despite these positive steps forward, the crisis largely halted activity in the forestry sector. Nearly all forestry companies suspended operations, and most suffered a significant degree of property damage and looting. The forestry road network has deteriorated significantly and forestry firms do not always have the necessary means to rehabilitate it. Moreover, the Government of CAR has accumulated significant tax arrears owed by the forestry firms and no settlement has yet been found making firms hesitant to invest further in the sector. Only five of fourteen logging companies are currently active. Accordingly, finding solutions to tax arrears and the reattribution under transparent conditions for new investors will have a significant bearing on the development of the sector.

51. Equally important for the agricultural and forestry sectors is a well maintained road network, which ensures connectivity between rural and urban areas. The road network in CAR forms the backbone of the country's transport system, accounting for 90 percent of total transportation in the country. However, of its 24,137 km of national, regional, and rural roads, only 3.5 percent (855 km) are paved. About 80 percent of its international trade passes through the Douala-Bangui corridor, which is not fully paved, and where burdensome formal and informal administrative barriers contribute to long delays and rising transport costs. The 15,500 km rural road network is insufficient in scope and suffers from inadequate maintenance. Poor road quality has an especially negative impact on rural populations, as it limits their access to markets and services such as schools and healthcare facilities. Since the onset of the crisis, road maintenance has been restricted to a few districts around Bangui, where security conditions remain relatively stable. Inadequate maintenance was caused by an insufficient level of resources as well as persistent governance issues in the functioning of the Road Maintenance Fund (RMF) and the National Equipment Office (NEO). Although the country operates the RMF financed by fuel taxes and road tolls,

¹⁵ FLEGT stands for Forest Law Enforcement, Governance and Trade. The EU's FLEGT Action Plan was established in 2003. It aims to reduce illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber.

even before the crisis its resources were far from sufficient to finance the road network's maintenance. Currently, the RMF's resources only provide for five percent of the country's road maintenance needs.

52. Strengthening the governance and the functioning of the Road Maintenance Fund (RMF) and the NEO is imperative to restore the movement of goods and population, and is therefore a key prerequisite for the rapid recovery of the CAR economy. However, quality infrastructure and transport services will require large scale investments. An immediate priority of the sector is to establish a system of efficient programming and execution of road maintenance to protect existing infrastructure and to ensure the sustainability of future investments including through a secured increase of resources allocated to road maintenance. This requires a significant improvement of the governance of road maintenance in order to establish the conditions for achieving effective road maintenance and to attract investment in the sector. To do so, the RMF, the Ministry of Equipment, Transport, Civil Aviation and Integration, and the NEO need to initially focus on preventive maintenance on selected priority road segments. It is also necessary to better formalize the contractual relationship between the RMF and the NEO to avoid accumulation of debts between the two entities. Finally, existing debt between the RMF and the NEO needs to be audited and a plan for the repayment of the debt needs to be adopted and implemented.

53. To address some of the many cross-cutting issues that are hindering the revival of the agriculture, forestry, and transport sectors the SCDP will adopt an integrated short- to medium-term reform approach. Accordingly, the SCDP1 will support the adoption of an *Arrêté* through the Ministry of Transport, that adopts an Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the National Equipment Office (NEO), the Ministry of Roads and Transport, and the RMF (**SCDP1 Prior Action 6**). Likewise, the first operation will support the adoption of two instruments to operationalize the 2015 Seeds Law, namely: (i) a *Décret* approving the statutes of the National Seeds Office; and (ii) an *Arrêté interministeriel* creating the body of seeds inspectors and controllers of the National Seeds Office (**SCDP1 Prior Action 7**). In the second year of the programmatic series, the SCDP 2 will support the completion of an audit of the road Maintenance Fund (RMF), including a stocktaking of and a settlement plan for debt between the RMF and the National Equipment Office (NEO) (**SCDP2 Trigger 7**) as well as an *Arrêté interministeriel* by the Ministers in charge of Agriculture, rural development, and livestock defining temporary modalities on the import and distribution of agriculture inputs (e.g. fertilizer and phytosanitary products) (**SCDP2 Trigger 8**). In addition, SCDP 2 will support a technical and financial audit of the forestry companies in conformity with the national sector legislation in order to: (i) reach agreement on tax arrears from existing concessions; (ii) allocate unattributed concessions; and (iii) reach agreement from existing concession holders to activate dormant forestry concessions (**SCDP2 Trigger 9**).

54. The expected results of these prior actions and triggers include an increase in the budget execution rate (initially approved / executed) of the RMF (Baseline: 30 percent (2015); target 50 percent (2018)); the adoption and implementation of a 2017/2018 roads maintenance program in conformity with the new manual; and an increase in hectares cotton planted (in selected regions) (Baseline: 2980 (2015); Target: 16,000 (2018)) (N.B this indicator serves as a proxy for the increased use of improved agricultural inputs in critical cotton producing areas). Finally, the program aims to increase the number of active forestry concessions (Baseline: 5 (2015); Target: 8 (2018)).

2.2. Developing the ICT Sector for Greater Connectivity:

55. The CAR ICT sector is one of the least developed in sub-Saharan Africa. Indicators of quality and coverage are among the lowest in the world and the prices are high despite competition between several private telecommunications operators competing with state owned incumbent SOCATEL. The penetration

rate of the use of mobile phones reached 37 percent at the end of 2015, compared to 77 percent in sub-Saharan Africa as a whole. Moreover, according to government statistics, phone networks only covered 59 percent of the population at the end of 2015. Mobile payment services, which are key to increasing financial inclusion, were only launched in CAR in the first half of 2016.

56. Significantly improved access to mobile services (e.g. voice, text, and internet) would bring multiple benefits to Central African households. In particular, mobile phones can improve access to and use of information, thereby reducing search costs, improving coordination between different parties, and increasing market efficiency. Accordingly, the SCDP will support measures aiming to boost access to voice, text, and mobile payment in order to unleash an increase in the use of mobile networks. The SCDP1 grant, will support the adoption by the Council of Ministers of the draft law on electronic communication (**SCDP1 Prior Action 8**). In the second year of the operation, the SCDP will support the establishment of a system of traffic control by the Telecommunications Regulatory Authority (**SCDP2 Trigger 10**) as well as the adoption by the Council of Ministers of a strategy for the use of revenues from the Universal Access levy on operators to (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities (**SCDP2 Trigger 11**).

57. The expected results of these prior actions and triggers include expanding 2G network coverage as well as the penetration rate of mobile telephones, which are expected to increase from 59 and 37 percent (2015), to 65 and 45 percent (2018), respectively.

58. The SCDP was informed by analytical work undertaken by the World Bank, the IMF, and the authorities. The analytical underpinnings for each prior action is presented in Table 6.

Table 6: SCDP Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Reestablishing Basic Fiscal Management and Transparency	
Prior Action 1: Preparation of a table of fiscal exemptions by type, amount and month for an eight month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance.	<ul style="list-style-type: none"> Reestablishing Core PFM Function, WB Policy Notes, June 2016. Joint WB-IMF DSA 2016 and 2015, A Concerted Action Plan for the resilience of the PFM system. IMF/AFRITAC report on Fiscal and Customs reforms in CAR, March 2016. These reports identify the critical measures that need to be implemented to increase domestic revenues and to reestablish core PFM functions.
Prior Action 2: Adoption of a <i>Décret 16-288</i> , dated July 8, 2016, revising the methodology for the determination of the prices of petroleum products in its territory to conform with the “Platts” reference price.	
Prior Action 3: Adoption of an <i>Arrêté</i> through the Ministry of Finance, dated August 9, 2016, revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).	
Prior Action 4: Adoption of an <i>Arrêté</i> through the Ministry of Finance, dated May 13, 2016, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	

Prior Action 5: Preparation through the Directorate General of the Treasury and Public Accounting of the Ministry of Finance of the 2015 Trial Balance and the Trial Balance for the first semester, ending June 30 th , 2016,.	
Pillar 2: Supporting Economic Recovery	
Prior Action 6: Adoption of an <i>Arrêté</i> through the Ministry of Transport, Civil Aviation and Unlocking's, dated August 29, 2016, adopted an Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the National Equipment Office (NEO), the Recipient's Ministry of Roads and Transport, and the RMF.	<ul style="list-style-type: none"> • Rebuilding the Agriculture Sector in CAR, WB Policy Notes, June 2016, identified the need to increase affordable use of inputs through the adoption and implementation of the seeds law. • Transport Sector in CAR, WB Policy Notes, June 2016, identified the need to improve the governance of the RMF and the NEO as well as to reform the financing mechanism of the RMF. • Commercial Forestry Sector in CAR, WB Policy Notes, June 2016, identified the need for clearing arrears in the sector and the need to take actions to operationalize passive concessions.
Prior Action 7: Adoption of two instruments to operationalize the 2015 Seeds Law, namely: (i) a <i>Décret 16.351</i> , dated October 19, 2016 approving the statutes of the National Seeds Office (NSO); and (ii) an <i>Arrêté interministeriel 019/2016</i> , dated October 20, 2016, an Interministerial decision creating the body of seeds inspectors and controllers of the NSO.	
Prior Action 8: Adoption by the Council of Ministers of the draft law on electronic communication.	<ul style="list-style-type: none"> • ICT in CAR, WB Policy Notes, June 2016 identified the need to reform the fiscal policy in the sector and update the telecommunications law and strengthen the regulator.

4.3 LINKS TO THE CPS AND OTHER WORLD BANK OPERATIONS AND WORLD BANK GROUP STRATEGY

59. The SCDP series is closely aligned with the CAR Country Engagement Note (CEN) for FY16-FY17 (Report number 96209), approved by the Board in July 2015, which describes the continuation of the crisis response and potential next steps for recovery and development until the end of 2016. Accordingly, the SCDP supports the CEN's three overarching objectives of (i) basic support to public sector institutions; (ii) support to livelihoods; and (iii) support basic social service delivery. While the first two pillars will be addressed directly by the operation, the third pillar will be addressed indirectly through a variety of policy based measures. As noted above, creating a larger fiscal space through increased fiscal revenues and controlled spending, in addition to stimulating core sectors of the economy, will provide additional resources for spending in social sector service delivery.

60. At a higher level, the objectives of the SCDP support the World Bank's twin goals of reducing poverty and boosting shared prosperity. By targeting reforms under pillar one to support increased predictability, control, and transparency in budget execution, the operation seeks to increase fiscal space as well as efficiency in public spending. Likewise, by targeting key growth sectors, the program will improve the productive opportunities available to citizens through support to the agriculture, forestry, transport, and ICT sectors. Cutting across the operation are reforms designed to create a more inclusive and connected society as well as to ensure greater equity between the capital and regions. The operation is also aligned with recent World Bank analytics and strategies in FCS engagement, including the 2011 World Development Report on Conflict Security and Development, the IDA-17 emphasis on fragile and conflict-afflicted states (FCS), as well as the Independent Evaluation group (IEG) evaluation of engagement in fragile states, which notes that the World Bank's comparative advantage is the provision of support to early reconstruction and economic recovery.

61. Finally, the SCDP is aligned with other World Bank operations, including the crisis response of a US\$ 100 million in emergency operations. The SCDP follows a package of emergency operations including: (i) emergency assistance to pay salaries and technical assistance to public financial management reforms, aiming to control expenditure and increase collected revenues (US\$40 million); (ii) a cash-for-work program, providing temporary jobs and promoting social cohesion in and around Bangui during the crisis, as well as in 71 prefectures nationwide (US\$30 million); (iii) support to emergency health needs through the provision of free medication (US\$10 million); and (iv) a food crisis response project, supporting half a million people through food and seed distribution, implemented by the Food and Agriculture Organization of the United Nations (FAO) and World Food Program (WFP) (US\$20 million).

62. While the financing of the budget through the SCDP will contribute to finance all services, including social services, additional technical assistance and investment lending will be provided for the delivery of social services under other projects included in the IDA-Funded Turn-Around Facility. As such, the Turn-Around Facility will facilitate parallel investments to support, in FY18-FY19: Reintegration component of DDR (US\$150 million); Reinsertion of displaced persons into urban areas (US\$24 million); Statistics for decision-making (US\$10 million); Improving service delivery in the water and energy sectors (US\$ 18 million); Reopening access to production basins (US\$45 million); and Natural Resource Governance TA (US\$10 million); Revival of agricultural value chains in key production basins (US\$25 million); Teacher effectiveness and non-formal education (US\$25 million); a Health Services Additional Financing project (US\$10 million) as a Performance-Based Financing (PBF) program in order to improve the availability and quality of health services; ICT services (US\$13 million).

63. The SCDP has been designed to support critical reforms during CAR's post-transition phase as a two year operation to adapt to the uncertain, fragile, country context and could be followed by a third operation in FY19. The SCDP series is the first of the three DPOs planned for under the recently approved IDA financed Turn-Around Facility. The SCDP has been designed as a two year programmatic operation to reflect the uncertainties given the fragile country context, while providing for a framework to support policy reforms over a two year period. This approach introduces a certain flexibility to adapt to the country context while providing a framework allowing to support policy reforms beyond short-term measures. Subject to the country context and progress in implementation of the Government's reform program, the SCDP series could be followed by a third operation in FY19 as planned for in the Turn-Around Facility. The DPO will help address revenue shortfalls, improve budget spending, and execute reforms related to Public Financial Management (PFM) and other key strategic sectors including agriculture, forestry, transport and ICT. These measures could spur the economic recovery of the Central African Republic, as well as potentially contribute to increasing tax revenue to pre-crisis levels. The technical assistance program to Public sector reforms will be complementary to the DPO, and aims to consolidate reform achievements and gradually deepen reforms with the aim of improving public sector service delivery. It will focus in particular on improving tax and customs administration, budget preparation, transparency and accountability, treasury management and accounting, as well as human resource and wage-bill management. The investment lending operations under the Turn-Around Facility will benefit from and provide support to implement the institutional, legal and regulatory reforms in key strategic sectors supported by the SCDP series.

4.4 CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

64. The proposed operation has been prepared to ensure complementarity with ongoing recovery and development activities of development partners. Notably, this includes other operations such as the 11th European Development Fund (EDF), which is expected to provide US\$220 million during the 2016-2020 period. Preliminary planning sees approximately a quarter of the funds being allocated to budget support, with the remainder being split between creating local growth poles (focusing on agriculture) and

an educational and vocational training program. Likewise, the French Development Agency (AFD) portfolio in CAR is currently just over US\$40 million, and focuses on urban development, economic recovery, social protection, and reconciliation in the form of General Budget Support. The AFD also finances cash-for-work programs in urban areas and provides support to the forestry sector, as well as promoting public-private dialogue and supporting key infrastructure reconstruction. Finally, AFD also supports a health, food security and nutritional facility project, implemented via the French Red Cross, which benefits women and children in particular. Additional support provided by the Africa Development Bank amounts to approximately US\$80 million and includes: (i) a multi-sectoral emergency project in support of economic recovery from the crisis; (ii) a community reconstruction support program; (iii) a governance institutional support program; and (iv) a capacity building project. Finally, as noted above, the program has been prepared in parallel with the Mutual Accountability Framework of the UN Peacekeeping mission (MINUSCA).

65. The Government has adopted a participatory approach in conducting consultations with citizens. The 2015 Bangui Forum involved local consultations nationwide in order to discuss the peace-building program and define a vision for the future of the country, including the consultation of 700 representatives of transition authorities, armed groups, civil society, religious organizations, and youth and women's groups. This led to the elaboration of the Republican Pact on National Reconciliation. The Government also established and appointed members of a Bangui Forum monitoring committee who are responsible for monitoring the implementation of the Forum's recommendations. These measures have laid the foundation for the national reconciliation process. In the framework of the RPBA process, regional consultations and validation workshops are scheduled. Finally, the program implementation unit, CS-REF, will regularly consult with CSO and private sector representatives.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

66. As mentioned above, the SCDP series is expected to contribute to inclusiveness and poverty reduction. Under pillar one, the operation will support measures to increase revenues as well as enable more efficient budget execution and control. By creating more fiscal space, the program will help to alleviate poverty and contribute to improve service provision which could result in increased trust between citizens and the State. Likewise, under pillar two, the program will target poverty reduction and inclusion by providing support to key sectors, which are crucial to economic growth. However, due to limited data and related analytics¹⁶, the full impact of this project may be difficult to fully demonstrate during the relatively short, two-year implementation period. A full description of the SCDP's poverty, social, and distributional impacts is noted in Annex 4.

5.2 ENVIRONMENTAL ASPECTS

67. The specific policies supported by this programmatic operation are not expected to have negative effects on CAR's environment, forests, water resources, habitats or other natural resources, nor are there any short or long term climate change or disaster risks relevant to this operation. With respect to the forestry sector no major environmental issues are anticipated given that (i) a strong regulatory framework for the allocation and operation of forest concessions is in place, including participation in FLEGT; and (ii) support for the enforcement of this regulatory framework is being provided by other development partners (AFD and EU) and will be further strengthened by the proposed Technical Assistance project on Natural Resource Governance under the Turn-Around Facility. Likewise, the ICT

¹⁶ There is a high degree of uncertainty attached to the level and growth rate of real GDP, as estimates for informal sector activities are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not adequately tracked.

policy measure supported by the operation is not expected to have an adverse impact on environment. Expanding the coverage of telecommunications networks may require either upgrading of an active equipment on an already existing towers or set up of new towers, both of them under the generic and specific obligations that licensed telecommunications operators have to comply with. Finally, the agriculture measures supported by the SCDP are not expected to have adverse environmental or social impact, but rather to enhance poverty reduction in rural areas. A Climate Change Screening Assessment was undertaken and a full description of the SCDP DPO's environmental impacts is noted in Annex 4.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

68. As the political situation stabilizes, the Government has started to rebuild its core Public Financial Management (PFM) functions. In 2014, the authorities began to implement a weekly treasury plan as a first step toward returning to the Single Treasury Account system, and in 2015 a Central Accounting Agency of the Treasury (CAAT) was created. The CAAT has started preparing accounts for 2010-16. The GESCO system (computerized budgeting and accounting system) is once again operational. In order to curb expenditures, the authorities have reintroduced a weekly expenditure ceiling, which is approved by the Ministry of Finance and the Prime Minister. Payroll reforms, including a civil servant census, have allowed improvements in the control of the wage-bill and to initiate the deployment of the administration. The reforms have yielded some initial results as evidenced by an improvement in the CPIA fiscal policy rating between 2015 and 2016, as well as the publication of enacted budgets on the Ministry of Finance website since 2009. The authorities adopted a credible reform plan for PFM reforms in 2016 and has started its implementation. Nevertheless, fiduciary risk is high (see section 6 and Annex 7).

69. In 2013, the IMF staff carried out an on-site safeguards assessment of the BEAC. This assessment was conducted during a period of significant change at the institution, and it found that progress had been made in strengthening the regional central bank's safeguards framework since 2009, when the previous safeguard assessment was undertaken. The assessment concluded that the BEAC's reserves appeared to be broadly adequate, although it noted the need for a more active reserves-management strategy. The BEAC has initiated measures aimed at reinforcing its governance and control environment. In addition to the 2010 appointment of a new governor and replacement of five members of the senior management team, the status of the Audit Committee was strengthened. Furthermore, a new organizational structure was established for the Internal Audit Department. A risk-based auditing approach was implemented, and the scope of the external audit was widened to include the activities of the National Directorates and other agencies. The BEAC now publishes a full set of audited financial statements. The external auditors expressed unqualified opinions on the 2012-2014 financial statements. The reviews of the audit reports and the IMF 2013 safeguards assessment report found that since 2013 the BEAC has launched a series of reforms to enhance the capacity of its accounting system, including: (i) upgrading its practices to conform with international financial reporting standards; (ii) strengthening its computerized accounting system (SYSCOBAC) to improve information management; and (iii) implementing a computerized system for integrated risk management (SIRISBEAC) to better manage risks arising from the diversification of its activities and the integration of new technology. The recommendations of the 2013 assessment included revising the BEAC Charter, accelerating the implementation of the reform and modernization plan, and strengthening safeguards in accounting, information technology, reserves management, and currency operations. The implementation of these recommendations is being monitored by the IMF.

70. Disbursement, Accounting and Auditing. The Recipient is the Central African Republic (CAR), represented by the Ministry of Finance and Budget (MFB). The grant will be released in a single tranche of SDR 14.4 million (US\$20 million equivalent) upon effectiveness and provided that IDA is satisfied (i) with the program being carried out by the Recipient and (ii) with the adequacy of the Recipient's macroeconomic policy framework. The proposed operation will follow IDA's standard disbursement

procedures for development policy financing. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the grant will be disbursed by IDA into a dedicated account of the Government of the CAR for budget support at the central bank (the BEAC), which will form part of the country's foreign-exchange reserves. The proceeds of the grant will not be used to finance expenditures excluded under the Financing Agreement. The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system in a manner acceptable to the World Bank. Based on previous experience, the execution of such transactions between the BEAC and the MFB do not require more than four days. The Recipient will report to the World Bank on the amounts deposited in the dedicated foreign-currency account and credited in local currency (CFAF) to the budget management system in a manner acceptable to IDA. The equivalent amount in CFAF reported in the budgetary system will be based on the market rate effective on the date of the transfer. The Recipient will promptly notify the World Bank within thirty days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to IDA. .

71. The financial support provided under this operation is not intended to finance goods or services in the standard negative list. If, after being deposited in this the account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be canceled.

72. At the request of the Association, an audit of the dedicated account will be carried out by the Recipient and the result of such audit will be furnished to the Association within four months of the request and in accordance with the Terms of Reference satisfactory to IDA. All audit costs will be borne by the Government of CAR.

73. The closing date for the operation is December 31, 2017.

5.4 MONITORING AND EVALUATION AND ACCOUNTABILITY

74. The program will be implemented by the *Cellule Chargée du Suivi des Réformes Economiques et Financières (CS-REF)*, which will assume the monitoring and evaluation responsibility for the program. CS-REF is the central coordinating agency and has demonstrated sufficient capacity for monitoring and evaluation as well as for mobilizing support and participation from the agriculture, transport, and ICT ministries. The CS-REF has the appropriate expertise in managing such a program, as it is currently in charge of the IMF, the EU, the African Development Bank (AfDB) and the World Bank Programs, and plays a critical role in implementing and coordinating the WB-funded technical assistance projects. Finally, to ensure harmonization with other programs, the SCDP will seek to utilize indicators, where possible, included in the IMF's ECF, which can be more easily monitored during joint supervision missions.

75. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS),

please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

76. The overall risk rating for the proposed operation is substantial due to several interrelated risks that may jeopardize the achievement of the PDO. High and substantial risks will be presented below. All risks—including those rated Moderate or Low—are discussed in Annex 7.

Category	Risk Rating
1. Political and governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environmental and social	Moderate
8. Stakeholder	Substantial
9. Other (security)	High
Overall	Substantial

77. Political and Governance Risk is High: CAR has a fragile political environment with weak institutions, which are often captured by elite interests. While the authorities consolidated political stability following the recent elections, there is still a high risk of political instability given the country context. The Government's focus, with support from development partners, on post-conflict economic recovery, DDR, reconciliation and reforms to improve governance and institutional capacity contributes to mitigate the risk.

78. Macroeconomic Risk is High: CAR remains highly exposed to external and domestic factors that might put macroeconomic stability at risk, with negative impacts on investment and growth. A deterioration of the security conditions could severely limit the momentum for the economic recovery as could delays in the full lifting of the export ban on diamonds or the implementation of structural reforms. There is also a moderate risk related to delays in the delivery of external financial assistance based on pledges already made by development partners to provide budget support in 2016. Mitigating measures include, if necessary, expenditure cuts and delayed hiring of new staff, and a less ambitious arrears-clearance strategy. Moreover, strong leadership, a credible reform strategy, and a sustained political commitment to reform will be critical to foster a robust economic recovery and mitigate the risk of a return to conflict, especially in the second year of the operation where enabling conditions may have changed. The support by development partners is expected to ensure that the program is fully financed.

79. Institutional Capacity for Implementation and Sustainability Risk is Substantial. Capacity constraints also present a serious challenge that could delay reform implementation and the achievement of the PDO. The Government's implementation of its public sector reforms with support, including technical assistance, from the donor community can help to mitigate this risk. Moreover, the DPO series will support reforms targeting the improvement of the government's core public PFM functions, which is crucial to an effective public administration.

80. Fiduciary Risk is Substantial. This rating is based on the current status of CAR's PFM system and the BEAC safeguards framework, accounting systems, and auditing arrangements. However, the

Government of CAR has made critical progress in strengthening multiple aspects of public financial and budgetary management since 2006, and is continuing efforts to further strengthen PFM with support by the World Bank under the current program, as well as with the support of other Development Partners.

81. Stakeholder Risk is Substantial. Risks exist with respect to the various number of donors involved in CARs post-conflict recovery, which may result in competing priorities and duplication of efforts. To mitigate these risks, the government is preparing a development strategy and a multilateral conference will be held in Brussels in November 2016 to facilitate harmonization of donor interventions in the medium term. Finally, the RPBA process will also contribute to the smoothing of aid cycles, improvement of donor coordination, a strategically contribute to address risks linked to security, political capture, and institutional capacity.

82. Other Risks related to the program are High. CAR's volatile security situation is a transversal risk affecting all policy areas. The scarce presence of security forces outside of Bangui, a lack of access to basic police and judicial services contributes insecurity, especially acute in the country's northern and southeastern regions. The scarce presence of security forces outside Bangui allows for widespread weapons trafficking, often financed by illegal gold and diamond exports, and facilitate the movement of armed groups from neighboring countries into CAR. The UN peace keeping mission as well as the government's reform of the security sector and the DDR process are mitigating these risks.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions under SCDP1	Proposed triggers under SCDP2	Result
PILLAR 1: REESTABLISHING BASIC FISCAL MANAGEMENT AND TRANSPARENCY		
Policy Area 1: Increased Fiscal Revenues		
Prior Action 1: The Recipient has prepared a table of fiscal exemptions by type, amount and month for an eight month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance.	Trigger 1: Adoption of an <i>Arrêté</i> through the Ministry of Finance developing and beginning implementation of an action plan to reform fiscal exemptions in CAR and start its implementation.	Domestic revenues as a percent of GDP (Baseline: 7.1 percent of GDP (2015); Target: > 8.1 percent of GDP (2018).
	Trigger 2: Adoption of an <i>Arrêté</i> through the Ministry of Finance instructing the General Inspection of Finance to prepare and implement an annual control plan using a risk-based approach which identifies and controls the main revenue collecting entities (<i>postes fiscaux et douaniers</i>) on an annual basis.	
Prior Action 2: The Recipient has adopted the <i>Decrét 16-288</i> , dated July 8, 2016, revising the methodology for the determination of the prices of petroleum products in its territory to conform with the “Platts” reference price.		
Policy Area 2: Improved Wage Bill Management		
Prior Action 3: The Recipient has, through its Ministry of Finance adopted the <i>Arrêté 519/MFB/DIRCAB/IGF/C/16</i> , dated August 9, 2016, revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).	Trigger 3: Adoption of an <i>Arrêté</i> through the Ministry of Finance proposing a table that lists positions by grade, department, and place of assignment as part of the documentation used for the preparation of the 2018 Finance Law.	Share of the wage-bill reviewed and verified by CAAT (Baseline: 0 percent (2015); Target: 50 percent (2018)).
Policy Area 3: Improved Budget Control and Transparency		
Prior Action 4: The Recipient has, through its Ministry of Finance, adopted the <i>Arreté 0288/2016/MFB/DIRCAB</i> , dated May 13, 2016, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	Trigger 4: Adoption of an <i>Arrêté</i> through the Ministry of Finance establishing a manual of procedures of public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	Share of expenditures executed using exceptional spending procedures (Baseline: 80 percent (2015), Target: <25 percent (2018)).

Prior actions under SCDP1	Proposed triggers under SCDP2	Result
Prior Action 5: The Recipient has, through the Directorate General of the Treasury and Public Accounting of the Ministry of Finance. ¹⁷ , prepared the 2015 Trial Balance and the Trial Balance for the first semester, ending June 30 th , 2016.	Trigger 5: Preparation and publication of: (i) the draft 2017 Finance Law; (ii) the enacted Finance Law; (iii) a citizen's budget on the enacted Finance Law ¹⁸ ; and (iv) budget execution reports since Q1 2016. ¹⁹	Number of budget documents published on an annual basis (Baseline: 1 ²⁰ (2015); Target: 7 ²¹ (2018)).
	Trigger 6: Submission of the <i>Loi de règlement</i> (Settlement Law of the Finance Law) 2015 to the Parliament	Number of <i>Loi de règlement</i> (Settlement Law of the Finance Law submitted to Parliament (Baseline: 0 (2015); Target: 1 (2017) and 1 (2018)
PILLAR 2: SUPPORTING ECONOMIC RECOVERY		
Policy Area 4: Revival of the Agriculture and Forestry Sectors		
Prior Action 6: The Recipient, through its Ministry of Transport, Civil Aviation and Unlocking's adoption of the <i>Arrêté 117/16/METACD/DIRCAB</i> , dated August 29, 2016, adopted the Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the National Equipment Office (NEO), the Recipient's Ministry of Transport, Civil Aviation and Unlocking and the RMF.	Trigger 7: Completion of an audit of the road Maintenance Fund (RMF), including a stocktaking of and a settlement plan for debt between the RMF and the National Equipment Office (NEO).	Maintenance Program 2017 and 2018 adopted and implemented in line with new manual. (Baseline: No (2015); Target: Yes (2018)).
		Budget execution rate (initially approved / executed) of the RMF (Baseline: 30 percent (2015)); Target: 50 percent (2018).
Prior Action 7: The Recipient has adopted two instruments to operationalize the 2015 Seeds Law, namely: (i) a <i>Décret 16.351</i> , dated October 19, 2016, approving the statutes of the National Seeds Office (NSO); and (ii) an <i>Arrêté interministeriel 091/2016</i> , dated October 20, 2016, an Interministerial decision creating the body of seeds inspectors and controllers of the NSO.	Trigger 8: Adoption of an <i>Arrêté interministeriel</i> by the Ministers in charge of Agriculture, rural development, and livestock, defining temporary modalities on the import and distribution of agriculture inputs (e.g. fertilizer and phytosanitary products).	Hectares of cotton planted (in selected regions). (Baseline: 2980 (2015); Target: 16,000 (2018).

¹⁷ Continuous measure for the duration of the program.

¹⁸ Continuous measure for the duration of the program.

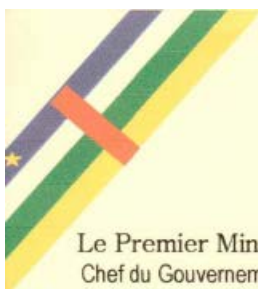
¹⁹ Continuous measure. Starting the third quarter 2016 the publication will be done within 45 days after the end of the quarter. This delay will be reduced to 30 days starting the second quarter 2017. The budget execution report will gradually include a performance analyses with forecasts and a presentation of the budget execution using at least two classifications

²⁰ The enacted Finance Law.

²¹ i) Quarterly budget execution reports (four per year); (ii) the draft 2017 and 2018 Finance Law; the enacted 2017 and 2018 Finance Law; and (iii) a Citizen's Budget on the enacted 2017 and 2018 Finance Law

Prior actions under SCDP1	Proposed triggers under SCDP2	Result
	Trigger 9: Following a technical and financial audit of the forestry companies and in conformity with the national sector legislation: (i) reach agreement on tax arrears from existing concessions; (ii) allocate unattributed concessions; and (iii) reach agreement from existing concession holders to activate dormant forestry concessions.	Number of Active Forestry Concessions (Baseline: 5 (2015); Target: 8 (2018)).
Policy Area 5: Developing the ICT Sector for Greater Connectivity		
Prior Action 8: The Recipient's Council of Ministers has, through its <i>Notification 199/MSGGRIRSEPP/DIR</i> , dated September 28, 2016, adopted the draft law on electronic communication.	Trigger 10: Establishment of a system of traffic control by the Telecommunications Regulatory Authority.	2G network coverage (Baseline: 59 percent (2015); Target 65 percent (2018)).
	Trigger 11: Adoption by the Council of Ministers of a strategy for the use of revenues from the Universal Access levy on operators to (i) expand geographic coverage of the mobile network in non-profitable rural areas and (ii) foster the development of community ICT centers for targeted rural communities.	Penetration rate of mobile telephony (Baseline: 37 percent (2015); Target: 45 percent (2018)).

ANNEX 2: LETTER OF DEVELOPMENT POLICY



REPUBLIQUE CENTRAFRICAINE
Unité – Dignité– Travail

Le Premier Ministre
Chef du Gouvernement

Cabinet
N° 652-1

Bangui, le **25 OCT 2016**

LETTRE DE POLITIQUE DE DEVELOPPEMENT DU GOUVERNEMENT

1- La présente Lettre de Politique de Développement fait le point sur le contexte politique ainsi que les axes stratégiques du gouvernement en matière économique et social. Elle rappelle les politiques économiques et financières que le gouvernement de la République centrafricaine (R.C.A.) mène actuellement de front et les place dans une perspective d'exécution à moyen terme.

2- Dans un contexte de stabilisation et de sortie progressive de la crise sécuritaire et politique qu'a connue la R.C.A. depuis 2013, le gouvernement fait face à des défis économiques et financiers majeurs et aux nombreuses attentes de la population. Nos priorités stratégiques pour relancer la croissance et réduire la pauvreté sont les suivantes : (i) restaurer la soutenabilité des finances publiques ; (ii) soutenir la compétitivité extérieure ainsi que l'élargissement des bases des activités économiques pour créer les conditions d'une croissance soutenable et inclusive ; (iii) asseoir les bases d'une bonne gouvernance ; et (iv) renforcer le cadre institutionnel ainsi que la capacité administrative du pays.


3- Le Gouvernement a déjà adopté un programme de réforme pour atteindre ces objectifs. Il sollicite un financement de la Banque mondiale pour appuyer la mise en œuvre de son programme de réforme à travers le Programme d'appui à la consolidation de l'Etat (PACE). Le programme sera exécuté sur deux ans : 2016 (PACE1) et 2017 (PACE2). L'objectif du PACE, aligné avec les priorités stratégiques du gouvernement, est le rétablissement d'une gestion budgétaire de base transparente, et la relance économique. Outre le financement du budget de l'Etat, le programme appuiera à la mise en œuvre des mesures de réformes économiques et financières.

I. CONTEXTE

4- L'organisation récente d'élections démocratiques, dans un contexte apaisé, marque la fin de trois années de crise sécuritaire et politique. Les perspectives pour la R.C.A. sont donc meilleures. Le référendum portant sur la nouvelle constitution de décembre 2015 et les élections de Février 2016, couplant les présidentielles et les législatives, ont été organisées dans un climat apaisé. Ceci a eu pour résultat le retour à la légalité constitutionnelle ainsi que la mise en place d'institutions républicaines garantes d'une gouvernance plus transparente et efficace.

5- Le pays sort lentement de la crise politique et sécuritaire de 2013. Cette crise, la dernière en date de celles récurrentes que notre pays vit depuis deux décennies, a eu pour résultat une crise humanitaire majeure, l'effondrement de l'économie et de l'administration ainsi qu'un affaiblissement marquées ressources financières internes. Face aux défis majeurs auxquels nous sommes

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confrontés, notre Gouvernement est fermement décidé à promouvoir la réconciliation nationale et la paix sociale. Nous voulons également consolider la sécurité notamment par la démobilisation et la réinsertion des groupes armés dans l'économie et la société. Enfin, notre priorité est également de mettre mise en œuvre un programme de réformes administratives, économiques et financières, en vue d'assurer la relance économique et réduire la pauvreté. Ces réformes visent à améliorer les capacités humaines et administratives par le redéploiement de l'administration ; promouvoir la transparence et la redevabilité ; consolider la gestion budgétaire de base à travers l'accroissement des recettes fiscales et une meilleure maîtrise de la répartition des dépenses publiques. A ce titre, elles ont pour objectif une hausse des dépenses dans les secteurs prioritaires tout en préservant le retour à la viabilité de la dette extérieure et la relance de l'économie.

6- La situation sécuritaire s'améliore progressivement. La sécurisation du pays a bénéficié de l'appui de la communauté internationale avec tout d'abord l'instauration de la Mission Internationale de Soutien à la RCA sous la conduite de l'Union Africaine (MISCA) et de la force française SANGARIS. Le transfert des opérations de maintien de la paix à la Mission multidimensionnelle intégrée des Nations Unies pour la stabilisation en République Centrafricaine (MINUSCA), sous le mandat des Nations Unies en septembre 2014, a permis le déploiement progressif des casques bleus sur l'ensemble du territoire national ainsi que des forces européennes (EUFOR). Cette synergie a débouché sur les bases de la pacification des principales zones de conflits, le rétablissement de la sécurité sur une grande partie du territoire, et le déploiement progressif des administrations publiques. Ces opérations ont contribué à la restauration de la paix et au processus de stabilisation politique dans le pays. Cependant, l'absence de désarmement, démobilisation, réinsertion et de réintégration des ex-combattants constitue un frein à une reprise économique forte. De plus, il est nécessaire de poursuivre les efforts de réformes des forces de sécurité nationale.

7- L'appui de la communauté internationale a été capital pour sortir de la crise et a permis de mettre en œuvre des réformes qui favorisent le processus de stabilisation du pays. La dernière crise militaro-politique qui a conduit aux changements politiques et institutionnels le 24 mars 2013 a eu pour conséquence la suspension des relations de coopération internationale. L'adoption de la Feuille de Route par les autorités de la Transition sur la période 2014 – 2015 et du Programme d'Urgence pour le Relèvement Durable (PURD) a permis de renouer les liens de coopération avec les principaux partenaires techniques et financiers du pays. Posant ainsi, de manière progressive, les bases de relance des activités de développement. Outre l'aide-humanitaire, la R.C.A a bénéficié d'appuis budgétaires, d'assistance technique et de projets d'investissements de la part de ses principaux partenaires financiers historiques : Fonds monétaire international (FMI) ; Banque mondiale ; Banque Africaine de développement ; Union Européenne ; Nations Unies ; France voire d'autres partenaires bilatéraux. Ces appuis ont ainsi permis : (i) d'aider les autorités à faire face à l'impact de la crise sur les populations notamment à travers la fourniture de services publics ; (ii) de favoriser la reprise des activités économiques dans le pays ; (iii) et, de mettre en œuvre des réformes économiques, financières et administratives. Celles-ci ont permis de réduire le déficit primaire, de sept pourcent (7%) du PIB en 2013 à trois pourcent (3%) en 2015, et améliorer la mobilisation des recettes tout en maîtrisant les dépenses. Ces réformes clés sont la mise en place d'un comité de gestion de la trésorerie ; l'opérationnalisation de l'Agence Centrale Comptable du Trésor (ACCT) ; un meilleur contrôle et recouvrement des impôts et des douanes ; la maîtrise de la masse salariale par l'examen attentif du fichier des effectifs de fonctionnaires civils, gendarmes et policiers. Nous avons également adopté un plan d'actions de réformes des finances publiques, avec les appuis de la Banque mondiale et d'autres partenaires techniques et financiers.

8- Pays enclavé avec près de cinq millions d'habitants en 2015, la R.C.A. couvre une superficie totale de 623.000 km² et dispose d'importantes potentialités naturelles. Les difficultés majeures auxquelles elle fait face ne lui permettent pas de les mettre en valeur voire d'en tirer profit pour un développement durable et inclusif. Par ailleurs, les crises récurrentes vécues depuis plus de deux (2) décennies ont fortement détérioré la cohésion sociale, la structure économique, l'outil de production, les ressources humaines et les capacités de l'administration. La fragilité de la R.C.A. trouve ses racines dans plusieurs facteurs qui se renforcent mutuellement : i) la faible capacité de l'Etat à

assurer la sécurité sur le territoire national ; et à fournir en quantité et qualité suffisantes et de façon équitable, des services de base, érodant ainsi le contrat social entre l'Etat et les populations ; ii) une économie faiblement développée, fortement dépendante des ressources extractives et, donc, peu inclusive ; et iii) des tensions intercommunautaires.

9- Par ailleurs, la reprise économique est lente et ne compensera pas rapidement la contraction de 36.7% qu'a subie le PIB en 2013. Le pays est encore fortement dépendant de l'aide extérieure pour financer ses dépenses primaires dont les salaires, les retraites et le paiement de la dette – à fin 2015, les recettes intérieures ne couvraient que 73% des dépenses. Enfin, il existe plusieurs rigidités structurelles, dont le manque d'électricité, des infrastructures inadéquates, des coûts de transport et de télécommunications élevés, un système éducatif faible, et un secteur financier peu développé. Ces rigidités structurelles ralentissent la reprise économique et entravent l'investissement privé.

10- Les acquis de la stabilisation sécuritaire et politique ainsi que la reprise des activités économiques enregistrée en 2015 ont permis au Gouvernement de solliciter auprès du FMI une mission de supervision, au titre de l'article IV et la préparation d'une Facilité Elargie de Crédit (FEC). Cette mission, conduite avec la participation d'autres partenaires (Banque mondiale, Banque africaine de développement, Union européenne), s'est déroulée en mai 2016. Elle a permis d'une part d'évaluer le cadre macroéconomique du pays et d'autre part d'identifier des mesures de réformes économiques et financières. Le Conseil d'Administration du FMI a approuvé le programme du Gouvernement soutenu par la FEC le 20 juillet 2016. L'appui de la Banque, du FMI et des autres partenaires techniques et financiers, ont également permis de disposer d'un ensemble d'études analytiques. Elles ont donc servi à préparer des stratégies et des plans d'actions tant sur les réformes économiques, que financières, administratives ou sectorielles.

II. PROGRAMME DU GOUVERNEMENT

11- Une déclaration de politique générale du gouvernement a été présentée à l'Assemblée Nationale début juin 2016 et approuvée à travers un vote de confiance. Celle-ci, traduite en programme du gouvernement, s'articule autour de quatre piliers : i) sécurité et la cohésion sociale, ii) relance économique, iii) politique et bonne gouvernance et iv) affaires sociales et actions humanitaires.

12- Ces grandes orientations s'inspirent des recommandations du Forum National de Bangui, enrichies par les récents débats, ainsi que bon nombre de rencontres incluant différentes catégories d'acteurs. Les autorités, avec l'appui de la Banque mondiale et de ses partenaires techniques et financiers, finalisent une évaluation des priorités et besoins de relèvement et de consolidation de la paix en R.C.A. Elle sera présentée lors de la conférence de bailleurs en novembre 2016 et servira également à orienter les politiques de développement économique et social du Gouvernement. La déclaration de politique générale sera un des documents de référence pour les interventions des partenaires au développement et en faveur des financements des projets de développement identifiés pour la période 2016-2018 selon les priorités suivantes :

1. Paix, Sécurité et cohésion sociale

13- La sécurité durable et la cohésion sociale constituent selon le Président de la République la première priorité. A cet effet, le Gouvernement se propose, une fois les ressources mobilisées, de mettre en œuvre le Processus de Désarmement, Démobilisation, Réinsertion et Rapatriement (DDRR) ainsi que la Réforme du Secteur de Sécurité (RSS). Il s'agit d'un préalable à la stabilisation et à la relance économique.

14- Une politique nationale de sécurité en vue de concrétiser les actions à mettre en œuvre sera élaborée et sa mise en œuvre s'articulera autour de quatre axes, à savoir : (i) l'organisation et l'opérationnalité de l'armée nationale ; (ii) le renforcement des capacités opérationnelles des forces



armées ; (iii) la doctrine et la mise en œuvre d'une politique de défense et de sécurité ; et (iv) la stratégie de la mobilisation des ressources. La sécurité impulsera la poursuite du redéploiement de l'administration sur l'ensemble du territoire ainsi que la restauration de l'autorité de l'Etat, étant entendu, que le retour des autorités déconcentrées devra s'accompagner d'une politique de décentralisation, facteur de cohésion sociale et de paix.

2. Relance économique

15- Afin d'améliorer les conditions de vie de la population, trois objectifs sont visés : (i) l'assainissement des finances publiques ; (ii) la réforme du secteur productif ; et (iii) la coopération internationale.

16- La relance économique passe d'abord par une meilleure gestion des finances publiques. Il s'agira en effet : (i) d'assainir les finances publiques afin de créer les meilleures conditions pour optimiser des recettes de l'Etat ; (ii) de gérer de manière rigoureuse les dépenses publiques ; et (iii) d'allouer de façon optimale les ressources en vue de stimuler le développement économique. Dans cette optique, les réformes envisagées pour accroître la mobilisation des ressources internes, la maîtrise des dépenses publiques - principalement de la masse salariale - se poursuivront par la mise en exécution des plans d'actions dans les régies et l'assainissement du fichier de la solde. Par ailleurs, une attention sera accordée sur les procédures de passation des marchés publics.

17- La réforme du secteur productif repose principalement sur les orientations stratégiques de chaque secteur d'activité. Il s'agit notamment de : (i) la relance des activités du secteur agro-pastoral et de la modernisation dudit secteur ; (ii) l'assainissement du secteur forestier grâce à l'application effective du Code forestier et la traçabilité de la filière bois ; (iii) la réorganisation de la production du secteur extractif et la mise à jour de son cadre juridique ; (iv) l'amélioration du taux d'accès à l'électricité et la diversification des sources de production ; (v) la relance à grande échelle de travaux d'entretien routier efficaces et la réalisation des projets qui visent à moderniser l'aéroport de Bangui M'Poko ; (vi) l'amélioration des services de transports routiers, fluviaux et aériens, tant pour les passagers que pour les marchandises ; et (vii) l'amélioration du climat des affaires afin de promouvoir le développement des investissements et des entreprises.

18- Dans le cadre de la Coopération internationale et de la mobilisation des ressources externes, le Gouvernement négociera avec les bailleurs de fonds la formulation et l'adoption des nouveaux programmes de coopération pour le financement des programmes et projets de développement.

3. Politique et Bonne Gouvernance

19- Cette priorité, découle des recommandations du Forum de Bangui tenu en mai 2015 avec la participation de toutes les couches sociales du pays. Ainsi, les actions visent à : (i) parachever la mise en œuvre des résolutions prises dans le cadre dudit Forum ; (ii) restaurer l'autorité de l'Etat ; (iii) développer les échanges avec l'extérieur, ainsi que sur les mécanismes de marché ; et, (iv) activer les relations avec les Pays Emergents et le Monde Arabe.

4. Affaires Sociales et Actions Humanitaires

20- Les actions prioritaires s'inscrivent dans la lutte contre les fléaux qui portent atteinte aux droits humains. A cet effet, un ensemble d'actions sera mis en œuvre. Il s'agit de : (i) la protection des droits de la femme et de l'enfant ; (ii) développer les actions humanitaires au profit des populations ; (iii) mettre en place les Comités locaux de Paix et de Réconciliation (CLPR) et la Commission Vérité, Justice, Réparations et Réconciliation ; (iv) développer le sport qui contribuera à la paix, la cohésion sociale et le vivre ensemble ; (v) mettre en place une politique de promotion de l'emploi et de l'insertion professionnelle, clé d'un retour rapide à la cohésion sociale, la stabilité, la croissance économique et une paix durable ; (vi) développer les infrastructures sanitaires et de la lutte contre le

Sida, deuxième cause de mortalité après le paludisme ; (vii) relever le niveau de l'éducation nationale, un des secteurs profondément touché par les crises récurrentes.

III. EVOLUTIONS ECONOMIQUES RECENTES ET PERSPECTIVES A MOYEN TERME

21- L'économie nationale repose essentiellement sur le secteur agro pastoral-qui représente un peu plus de 50% du produit intérieur brut, et emploie plus de 70% de la main-d'œuvre active. Confrontée à d'énormes contraintes sécuritaires, lors de la crise de 2013, l'économie a connu une contraction du PIB de l'ordre de 36,7% suivi d'une croissance de 4% enregistrée en 2012. Ceci était la conséquence d'une contreperformance de tous les secteurs d'activités économiques, liée aux destructions et pillages massifs des outils de production, des semences agricoles, ainsi qu'aux déplacements des populations, notamment en milieu agricole et rural. En conséquence, les recettes intérieures ont chuté de plus de la moitié pendant que les échanges extérieurs (nets) se sont dégradés drastiquement.

22- Si la situation sécuritaire est restée globalement instable et volatile de 2013 à 2015, la mise en œuvre de la Feuille de route et du Programme d'Urgence et de Relèvement Durable (PURD) du Gouvernement de transition a mené à une stabilisation des agrégats macroéconomiques. La conduite de ce programme a permis une reprise graduelle des activités économiques avec un soutien réel de la communauté internationale. Ainsi, a-t-on pu assister à une reprise économique matérialisée par un taux de croissance du PIB réel de 1% en 2014 et de 4,8% en 2015. L'inflation a connu une baisse de 11,6% en 2014 à 4,5% en 2015. Cette situation s'explique par la mise en œuvre de la politique économique-budgétaire du Gouvernement et le soutien des partenaires au développement. Avec entre autres, la mobilisation d'appuis budgétaires de 74 milliards de Francs CFA en 2014 et de 42 milliards en 2015. Sur le plan de l'exécution budgétaire, le taux de pression fiscale a atteint 7,1% du PIB en 2015 contre 4,9% en 2014. Cette amélioration est liée au relèvement substantiel du niveau des recettes publiques dû à la détermination des autorités à poursuivre la mise en œuvre de réformes, et ce, en dépit du contexte sécuritaire particulièrement difficile. Les dépenses primaires ont été contenues à 10,1% du PIB ce qui a permis de réduire le déficit primaire à 3% du PIB en 2015. La dette publique s'élève à 48,5% du PIB comparé à 51% en 2014.

23- Les perspectives économiques pour le moyen terme se sont améliorées. Elles sont basées sur les hypothèses suivantes : (i) le rétablissement de la paix et de la sécurité sur toute l'étendue du territoire ; (ii) la poursuite du processus de réconciliation nationale et du redéploiement de l'administration ; et (iii) la mise en œuvre effective du processus du DDRR. Auxquelles on pourrait ajouter la levée de l'embargo sur les exportations de diamants et la mise en œuvre de notre programme de réformes économiques, financières et administratives. La mise en œuvre d'une politique macroéconomique et budgétaire adéquate et de notre programme d'investissement publics permettra au Gouvernement de : (i) restaurer la soutenabilité des finances publiques ; (ii) impulser la viabilité de la dette extérieure ; (iii) soutenir la compétitivité ainsi que l'élargissement des bases des activités économiques ; et (iv) créer les conditions d'une croissance soutenable et inclusive notamment à travers la prestation de services publics. Ce processus, appuyé par nos partenaires techniques et financiers, accompagnera le renforcement des capacités de l'administration ainsi que la mise en œuvre de réformes des finances publiques et de la bonne gouvernance notamment à travers une plus grande transparence et une meilleure redevabilité. Ainsi, la croissance économique devrait se situer à 5,5 % en moyenne sur la période 2016-2019. Le déficit du compte courant extérieur devrait se situer autour de 9,7% du PIB, en raison des besoins importants de reconstruction tandis que le besoin de financement devrait baisser de 4,8% en 2016 à 3,2% en 2019. Par ailleurs, en lien avec le contexte de stabilité des prix, l'inflation pourrait décélérer progressivement sous l'effet de l'augmentation de la production agro pastorale, pour se situer en dessous de 3% à partir de l'année 2018, et respecter ce critère de convergence de la CEMAC. En matière de politique budgétaires, nous conduirons une politique viable, tout en accumulant des volants de sécurité pour nous prémunir contre des chocs potentiels. Le déficit primaire domestique – qui sera le point d'ancrage de la politique budgétaire se situera à 3.3% en 2016 et sera réduit progressivement à 0,9% du PIB en 2019. Ceci permettra de réduire la dette publique.

IV. REFORMES FINANCIERES ET ECONOMIQUES

Réformes financières

24- En vue d'améliorer notre gestion des finances publiques, nous mettons en œuvre un plan de réformes de 2016 à 2018 organisé autour de cinq axes : (i) revitaliser les recettes ; (ii) sécuriser et gérer la trésorerie de l'Etat ; (iii) débloquer et normaliser la gestion budgétaire ; (iv) rétablir l'image fidèle comptable ; et (v) rétablir le crédit de l'Etat. Nous nous engageons à mettre en œuvre avec diligence ce plan de réformes ainsi que les plans d'actions à court et moyens terme sur la période 2016-18.

25- La révision du budget 2016 est le point de départ des réformes qui se poursuivront dans les Lois des finances futures. Ces réformes permettront de prendre en compte les nouvelles stratégies préconisées afin de restaurer à moyen terme la viabilité des finances publiques et relancer l'économie dont les fondements ont été perturbés par la dernière crise. De ce point de vue, les perspectives à moyen terme se traduiraient par l'accroissement de la mobilisation des recettes intérieures et la maîtrise des dépenses publiques.

26- Le nouveau Gouvernement mettra en œuvre une politique de rupture visant à combattre la corruption et la fraude sous toutes ses formes. Dans ce contexte, le gouvernement assurera une meilleure utilisation des ressources publiques et renforcera la bonne gouvernance en plus des cadres existants de suivi et de concertation sur l'exécution budgétaire. Tels que le Comité de Suivi et de Gestion des Finances Publiques (CSGFP) et le Comité de Trésorerie (CT) dans lesquels les Partenaires Techniques et Financiers sont représentés pour assurer une co-gestion à la fois des ressources propres et des ressources issues des aides extérieures.. Cette volonté se traduit dans l'application stricte de la loi obligeant toute personne nommée au poste de ministre de soumettre une déclaration de son patrimoine avant la prise de fonction. Par ailleurs, il se propose de créer un comité de sages qui rassemblera les éléments qui aideront à apprêter les conditions en vue d'instaurer un cadre cohérent de lutte contre la corruption, en respect des dispositions internationales en vigueur. L'autre défi de la bonne gouvernance passera par le renforcement des institutions de contrôle dès 2016.

27- La poursuite des réformes pour accroître la mobilisation des recettes est une priorité pour le gouvernement. Avec des recettes budgétaires de seulement 7% du PIB, nous reconnaissons que la situation des finances publiques n'est pas viable car les recettes restent insuffisantes pour couvrir nos dépenses primaires et honorer nos engagements de nos dettes. Face à cette situation, nous allons mettre en œuvre les mesures identifiées dans notre plan d'action préparé et adopté en 2016. L'objectif des réformes est d'augmenter les recettes intérieures de 7% du PIB en 2015 à 10,1% du PIB en 2016. Les réformes porteront sur :

- Le renforcement de la base taxable et la simplification des procédures. Plusieurs mesures entrent dans ce cadre. D'une part, nous allons améliorer la gestion de la TVA y compris par l'interdiction de la retenue à la source de la TVA à titre de compensation des recettes de l'État. D'autre part, nous allons améliorer les bases de valorisation des exportations, un renforcement des contrôles et de la surveillance, notamment dans les filières bois et diamants, ainsi que la simplification des procédures voire la réduction de la parafiscalité. Dans ce contexte, nous comptons assurer : (i) la réforme de la mercuriale des prix dans le secteur forestier pour refléter les cours internationaux, assurer une valorisation adéquate des transactions commerciales et un contrôle renforcé des structures de coûts de revient et de transport pour une valorisation intérieure adéquate ; (ii) un meilleur recouvrement des taxes d'abattage et de reboisement et frais de concessions; et (iii) la révision de la fiscalité dans la branche diamantifère, le renforcement du contrôle du système de distribution, la réduction de la fraude et l'amélioration du processus de certification. En matière de fiscalité pétrolière, nous allons adopter le décret portant révision de la structure des prix pétroliers afin d'intégrer les prix Platts internationaux comme nouvelle base de calcul (action préalable au PACE1) pour un rendement de 1,5 milliards de Franc CFA sur les trois derniers mois de 2016.



- L'amélioration de l'administration fiscale et douanière. A ce titre, nous poursuivrons la mise en œuvre des actions avec l'appui de nos partenaires techniques et financiers dont la Banque mondiale et le FMI ainsi que la politique fiscale entre 2016 et 2018. Les éléments-clés de la réforme porteront sur la révision des conventions bancaires pour assurer un meilleur recouvrement des recettes ; la réalisation d'une étude pour identifier les menues recettes ; la mise en place de la déclaration pré-remplie en matière de contribution immobilière ; et la révision des conventions portant mesures dérogatoires. D'autres aspects clés de la réforme portent sur l'harmonisation du Code Général des Impôts par la mise en œuvre des directives CEMAC sur la TVA et les droits d'accise ; le renforcement du contrôle sur l'impôt global unique (IGU) ; le renforcement de la gestion des opérations fiscales des grandes entreprises ; la mise en place du statut d'entreprise citoyenne ; le recouvrement des arriérés ; et un meilleur rapprochement contribuables-administration publique. En arrière-plan de ces efforts, nous conduirons une informatisation intégrée des réseaux de la douane et des impôts, en commençant par le bureau de douane de Bêloko, puis la liaison entre les bureaux de douane de Douala et Bangui. Enfin, nous accentuerons les contrôles menés par l'administration des régies. A ce titre, le Ministre des Finances et du Budget adoptera un arrêté introduisant une approche basée sur la gestion des risques et instaurant des contrôles trimestriels de postes fiscaux et douaniers par l'Inspection générale des finances (IGF), imposant que les principales postes fiscaux et douaniers soient identifiées et au minimum contrôlées une fois par année fiscale (action préalable au PACE2).

- Une meilleure gestion des exonérations afin de les minimiser. Elle consiste en une application stricte des textes en vigueur, à ne plus octroyer des exonérations ad-hoc, la mise en place de critères transparent et restrictifs relatifs à l'octroi des exonérations, et une relecture de toutes les conventions actuelles. Dans ce contexte, nous publierons les exonérations fiscales et douanières octroyées du 01 Janvier au 30 août 2016 sur le site web du Ministère des Finances. Cette liste indiquera le montant, la nature de l'exonération et le mois de l'exonération et la liste des conventions d'exonérations (Action préalable au PACE1). Pour minimiser les exonérations fiscales notamment à travers l'adoption de conditions d'octroi des exonérations fiscales plus transparentes et plus restrictives, Le Ministre des Finances et du Budget adoptera et commencera la mise en œuvre d'un plan d'action conforme aux recommandations de l'étude réalisée en 2016 sur la rationalisation de la gestion des exonérations en R.C.A et des études sur la politique et l'administration fiscale réalisées par les services du FMI (action préalable PACE2).

28- Afin d'améliorer la gestion des finances publiques, les défis sont multiples. Aussi, nous engageons-nous à : (i) à la discipline budgétaire ; (ii) au rétablissement et la normalisation de la chaîne de la dépense ; (iii) à la poursuite des efforts de maîtrise de la masse salariale ; et (iv) à l'opérationnalisation de la fonction comptable. Le Gouvernement renforcera la gouvernance des finances publiques par le biais d'un retour aux procédures budgétaires normales.

29- Afin de répondre aux défis d'une gestion simple, robuste et transparente des crédits et deniers de l'Etat, des mesures préparatoires ont été prises. Dans celles-ci figurent le lancement des engagements du budget 2016 et le rétablissement des interconnexions du système intégré de gestion budgétaire et comptable GESCO. L'interconnexion des modules GESCO budget et GESCO comptabilité a permis de créer les conditions d'un rétablissement de la chaîne de dépenses. Toutefois, la connexion entre les modules budget et comptabilité demeure problématique, limitant la portée de la mesure. D'autres mesures, telles que l'opérationnalisation de l'Agence Centrale Comptable du Trésor (ACCT), ont été des étapes fondamentales du processus de réforme des finances publiques, étapes essentielles vers une plus grande transparence dans la gestion des dépenses publiques. Pour sécuriser la gestion de la trésorerie de l'Etat et étendre progressivement le champ du Trésor, nous poursuivrons la mise en adéquation des ressources disponibles avec les dépenses prioritaires afin d'assurer une solide exécution du plan de trésorerie et éviter l'accumulation d'arriérés de paiements ou d'encours fournisseurs en attente de paiement. Dans ce contexte, nous avons préparé un plan de trésorerie mensuel pour 2016 et 2017. Sa mise en œuvre sera suivie par le Comité de trésorerie qui continuera de se réunir mensuellement sous la présidence du Ministre des Finances et du Budget.

30- Les actions stratégiques porteront entre autres, sur la réforme de la fonction publique dont la conclusion de la première phase avec l'appui de la Banque Mondiale et du PNUD a permis de nettoyer le fichier des effectifs des fonctionnaires civils, gendarmes et policiers. Le gouvernement souhaite poursuivre les efforts en vue d'améliorer le contrôle de la masse salariale. La maîtrise de celle-ci se fera à travers la poursuite de nettoyage du fichier de la solde et de la fonction publique ainsi que d'autres actions telles que le rapatriement des diplomates en doublon dans les missions diplomatiques et la mise à la retraite des FACA ayant atteint la limite d'âge. Pour 2016, le coût des nouveaux recrutements dans les secteurs sociaux et prioritaires (1,2 milliards de francs CFA par an) devrait être compensé par les gains réalisés par la poursuite du nettoyage du fichier (100 millions de franc CFA), le départ à la retraite de fonctionnaires éligibles (150 millions de franc CFA), l'élimination graduelle des employés hors statuts non-éligibles (150 millions de francs CFA) et enfin, le rapatriement des 50 diplomates (60 millions de francs CFA par mois) dont la mission est arrivée à terme. Ces gains nets sur la masse salariale permettront d'accroître les dépenses prioritaires en matière de biens et services, transferts et subventions (4,8 % du PIB) ainsi que les dépenses en capital financées sur ressources. Pour assurer un meilleur contrôle de la masse salariale, le Ministre des Finances et du Budget adoptera un arrêté portant révision du calendrier de transmission des éléments de la solde sur proposition de l'ACCT en consultation avec l'IGF afin de favoriser les nécessaires contrôles mensuels (mesure préalable PACE1). L'objectif de cette mesure est qu'un minimum de 50% de la masse salariale soit contrôlé par l'ACCT. Enfin, afin de contribuer à mieux maîtriser la masse salariale, nous allons adopter un tableau de postes budgétaires par grade, service et affectation pour faire partie de la documentation de la préparation de la LF2018 et commencer le déploiement de fiches de poste (mesure préalable PACE2).

31- Le gouvernement entend poursuivre et accélérer la mise en œuvre des mesures visant à renforcer la gestion des finances publiques. Ces mesures couvrant la période 2016-18, sont organisées autour de quatre objectifs prioritaires: (i) sécuriser et gérer la trésorerie de l'Etat pour étendre progressivement le champ du Trésor; (ii) débloquer et normaliser la gestion budgétaire en vue de ramener progressivement à 5% le montant des dépenses dérogoires; (iii) rétablir l'image comptable fidèle sur la totalité du budget général et des budgets annexes; et (iv) rétablir la crédibilité de l'Etat en luttant contre la fraude et en rétablissant la confiance des créanciers. Les principales actions afin d'améliorer le contrôle et la transparence budget sont décrites ci-après :

- Le gouvernement s'engage à finaliser d'une part les opérations de saisies comptables en cours dans le système GESCO pour produire les états financiers (classes 4 à 7) de 2015 et d'autre part celles des 6 premiers mois de 2016 d'ici au 30 août 2016. Ainsi, l'ACCT produira la Balance générale des comptes 2015 et la Balance générale des comptes au 30 juin 2016 (mesure préalable PACE1) que le Directeur Général du Trésor et de la Comptabilité Publique transmettra au Ministre des Finances et du Budget. Le gouvernement s'engage à passer les écritures de manière systématique à partir du 1er juin 2016. A compter de cette date, la balance des comptes, éditée par le système GESCO, et les balances seront produites tous les mois. La balance générale d'entrée de chaque année suivante sera également produite. Progressivement, la couverture des restitutions comptables sera élargie pour produire en 2017 la balance générale de qualité couvrant l'intégralité du budget général et les budgets annexes 2018. Le Gouvernement prendra également des dispositions pour préparer et transmettre à l'Assemblée Nationale la loi de règlement de la loi des finances 2015 (Action préalable PACE2) et prendra également des mesures pour rattraper les lois de règlements des lois des finances 2009-14. Afin d'améliorer la transparence et la redevabilité, le Ministre des Finances et du Budget publiera sur son site web et dans d'autres médias: (i) le projet de loi des finances (LF) 2017 ; (ii) la LF 2017 promulguée ; et (iii) un budget citoyen de la loi des finances 2017 promulguée et, à partir du 1er trimestre 2016, le rapport d'exécution budgétaire semestriel (Mesures préalable PACE2).

- Le Gouvernement entend également : (i) adopter la nomenclature des pièces justificatives de la dépense régissant les interactions entre les ordonnateurs et les comptables par un arrêté du Ministre des Finances et du Budget (Mesures préalable PACE1); (ii) Adopter par arrêté du Ministre des Finances et du Budget le manuel de procédure de la dépense (action préalable PACE2) ; (iii) sécuriser et renforcer la gestion du Trésor à travers l'extension de l'envergure des opérations de l'Etat et l'identification de tous les comptes bancaires de l'Etat dans les banques commerciales; (iv) rétablir la chaîne des dépenses, (v) respecter un strict contingentement du recours aux procédures exceptionnelles (ordres de paiement budget et ordres de paiement caisse) à hauteur de 5 % maximum des dépenses globales hors salaires; (vi) rétablir les procédures normales de dépenses budgétaires (engagement/liquidation/ordonnancement /paiement), avec notamment un Compte unique du Trésor renforcé (pour inclure toutes les recettes recouvrées par les ministères sectoriels, les banques commerciales, les organismes publics et le secteur de la distribution des produits pétroliers), une ACCT qui fonctionne et l'activation des modules budgétaire et comptable du système informatique GESCO à l'appui de la gestion des finances publiques. A cette fin, l'ouverture de nouveaux comptes du Trésor dans les banques commerciales sera interdite, à l'exception des comptes entrant dans le cadre de conventions et des comptes liés aux projets. Nous envisageons également de consolider le compte unique du trésor en clôturant tous les comptes de l'Etat auprès des banques commerciales, à l'exception des comptes liés aux projets tout en préservant la stabilité du système bancaire. Enfin, des mesures seront prises pour améliorer le processus de préparation budgétaire et de s'assurer que le budget sera préparé dans les délais constitutionnels dès le Projet de loi de finances 2018.
- L'ACCT entamera une campagne d'information pour expliquer la réforme aux ordonnateurs et agents comptables. Elle produira un rapport mensuel de tous les manquements constatés quant au non prélèvement d'office par les banques des comptes de recettes. Par ailleurs, elle aura un accès garanti aux informations et relevés de tous les comptes du trésor dans les banques commerciales.

32- L'apurement des arriérés de paiements intérieurs est au centre de notre programme d'assainissement des finances publiques, et de rétablissement de la confiance des créanciers. La RCA a signé une convention de consolidation des engagements dus au titre des crédits consolidés et impayés vis-à-vis de la BEAC, portant sur un montant d'arriérés à la BEAC de 55 milliards de francs CFA. L'audit en cours des créances des banques commerciales sur l'Etat, les audits dans d'autres secteurs tels que le coton et la forêt et l'audit de nos dettes commerciales, sociales et autres que nous comptons réaliser avec l'appui de nos partenaires techniques et financier servira de base pour préparer et adopter un plan de règlement des arriérés d'ici le 30 juin 2017. Nous comptons explorer, en collaboration avec les services du FMI et de la Banque mondiale, la possibilité de titrisation de ces créances bancaires. Nous comptons également procéder à une évaluation des crédits de TVA afin de préparer un plan de règlement et éliminer tout recours à des opérations de compensation. Dans l'immédiat, priorité sera donnée aux encours fournisseurs non réglés de 2015 et 2016, puis aux arriérés commerciaux, de salaires et pensions de 2013-14 d'un montant de 13,2 milliards de franc CFA qui seront apurés en 2016 et 2017 respectivement.

33- Nous renforcerons la gestion de la dette. L'analyse de la viabilité de la dette extérieure classe la RCA comme pays à haut risque de surendettement. Pour pallier le risque de surendettement de la dette extérieure engendré par l'effondrement des recettes fiscales et des exportations, le gouvernement cherchera à mobiliser des financements en priorité sous forme de dons et, en consultation avec les services du FMI, à travers des prêts concessionnels, ayant un élément don de 50 pourcents. Il poursuivra également des efforts pour améliorer la gestion de la dette publique en procédant à l'installation du nouveau logiciel de gestion et d'analyse de la dette SYGADE 6.0. Enfin, le

gouvernement s'engage, à travers la Loi de finances rectificative de 2016 et des Lois de finances suivantes, à ne contracter de nouveaux prêts que sur la décision unique du Ministre en charge des Finances.

Relance économique

34- La RCA vient de sortir de la phase d'urgence et doit s'orienter sur la voie de la reconstruction de son économie. A cet effet, elle fait le choix de définir et mettre en œuvre des stratégies de développement sur la base de ses potentiels économiques. Le défi du gouvernement est de créer simultanément un climat des affaires favorable au secteur privé et d'apporter des soutiens aux entreprises victimes de la crise de 2013 afin de réduire la pauvreté, favoriser la reprise des activités économiques et soutenir la compétitivité de l'économie nationale. Les politiques devront favoriser une croissance soutenue, durable, inclusive et créatrice d'emplois, particulièrement pour les jeunes et défavorisés.

35- Pour saisir l'occasion de la reprise économique, des réformes sont nécessaires pour stimuler la croissance et promouvoir la formalisation dans les secteurs à forte intensité d'emploi tels que l'agriculture, en particulier les secteurs du coton et de l'exploitation forestière. De nouveaux emplois avec un potentiel évident pour générer des revenus permettront d'offrir à de jeunes travailleurs, et en particulier les anciens combattants et victimes de violence, une occasion de progrès économique par des moyens pacifiques, qui diminuera les incitations à chercher des revenus par de la criminalité et des conflits. A l'inverse, un échec à créer suffisamment d'emplois afin d'accueillir les nouveaux employés pourraient compromettre la stabilité sociale et politique et d'encourager un retour à la violence. Dans le même temps, la relance de l'agriculture et le secteur forestier dépendra de l'investissement dans le secteur des transports, en particulier l'entretien des routes secondaires et rurales qui sont essentielles pour relier les producteurs aux marchés. Un dernier aspect pour améliorer le potentiel de croissance consiste à développer le secteur des Technologies de l'Information et de la Communication (TIC) afin de permettre une plus grande connectivité-en particulier, l'accès aux données voix, texte, et les paiements mobiles, à travers le pays et à l'étranger.

36- Pilier fondamental de l'économie centrafricaine, le secteur agro-pastoral représente près de 50% du PIB et plus de 70% des emplois. Ce secteur, fragilisé lors de la crise de 2013, suite aux incessants pillages et destructions des outils de production à tous les niveaux, y compris chez les agriculteurs, représente ainsi de cruciaux défis à relever. La productivité marginale est faible et a essentiellement stagné au fil du temps. Les systèmes agricoles, qui sont pour la plupart du temps de petite taille, sont toujours principalement axés vers la subsistance et dépendent largement des aléas climatiques. Le potentiel d'irrigation du pays reste largement sous-développé. La plupart des agriculteurs produisent principalement des cultures vivrières à l'aide de méthodes traditionnelles. L'agriculture commerciale est une composante marginale du secteur, et l'utilisation de technologies modernes ainsi que d'intrants améliorés est très limitée. Les institutions publiques et privées, élément décisif pour soutenir un secteur agricole solide, sont soit faibles soit absentes. De nombreuses années de sous-financement et d'instabilité politique ont érodé les services de recherche et de vulgarisation agricoles du pays. Nombre de producteurs manquent de connaissances techniques ; de plus, la taille et la portée réduites des marchés agricoles et des systèmes de distribution d'intrants limitent la disponibilité des semences de haute qualité et d'engrais, d'espèces animales améliorées, des consommables vétérinaires, des outils et de l'équipement agricole. Les autorités ont adopté une loi sur les semences en 2015, dont les décrets d'application n'ont pas encore été signés, ce qui a retardé sa mise en œuvre. En outre, la capacité des producteurs à acquérir des intrants améliorés ou à investir dans le capital physique est compromise par un accès insuffisant au crédit, la RCA présentant de graves déficiences en matière d'infrastructures financières rurales. L'accès aux marchés extérieurs est également sous-développé en raison du coût élevé du transport des produits sur des voies rurales en mauvais état et en déficit d'entretien. Cet état de fait réduit les débouchés et la compétitivité des producteurs et, ce faisant, obère les initiatives pouvant viser une augmentation et/ou diversification des productions agricoles.



37- A cet effet, la réponse gouvernementale se traduit par la définition d'une stratégie à quatre axes : (i) relancer durablement le secteur agro pastoral et développement économique ; (ii) Agriculture, facteur de réconciliation nationale ; (iii) accroître l'insertion professionnelle des jeunes pour la modernisation de l'agriculture ; et (iv) améliorer la gouvernance et compétitivité de l'agriculture.

38- Le secteur forestier est entré dans la phase de la réglementation avec l'adoption d'une loi créant le Code forestier en octobre 2010 afin d'en encadrer l'exploitation. Pour assurer une transparence dans la filière, les autorités ont adopté une stratégie de mise en œuvre du processus FLEGT développé par l'Union Européenne en signant un Accord de Partenariat Volontaire avec cette institution en 2010. Mais cette mise en œuvre a connu un retard en raison de la crise de 2013 qui avait grandement affecté la filière, exacerbant les difficultés auxquelles elle était confrontée telle que la faible transformation de bois à hauteur de 70% prévue par le Code. Il y a une demande importante pour les produits de bois tropicaux sur les marchés internationaux, et le bois de la R.C.A. reste compétitif malgré les frais élevés de transport. Avant la crise de 2013 le secteur forestier représentait plus de 6 % du PIB, soit environ la moitié du total des exportations et environ 10% des revenus de l'Etat. Le secteur est également créateur d'emplois important surtout dans les provinces. Avant la crise le secteur représentait environ 4 000 emplois directs et 6 000 emplois indirects. Dans le cadre de partage des avantages, les entreprises forestières ont été tenues de payer les collectivités locales à concurrence de FCFA 1 milliards de dollars par année. La R.C.A. a signé un¹ accord de partenariat volontaire, FLEGT, avec l'UE et fait des progrès dans la lutte contre l'exploitation forestière illégale. Le secteur forestier a un cadre juridique et réglementaire très fort et respecte les standards internationaux. Enfin, le pays a participé activement à des systèmes internationaux de certification et les efforts multilatéraux de lutte contre le changement climatique.

39- En dépit de ces mesures positives, la crise a largement stoppé l'activité dans le secteur forestier. Presque toutes les entreprises forestières ont suspendu leurs opérations, et la plupart ont subi un important degré de dommages. Le réseau routier forestier a, par exemple, été fortement dégradé et les entreprises forestières n'ont pas toujours les moyens nécessaires pour le remettre en état. Des problèmes d'arriérés de taxes freinent le développement du secteur. Seulement 5 des 14 sociétés d'exploitation forestière sont actuellement actives. La recherche de solutions concernant les arriérés de taxes et la réattribution sous conditions transparentes de concessions inactives à des nouveaux investisseurs seront donc déterminants pour l'évolution positive de ce secteur dans l'avenir.

40- Tout aussi important pour les secteurs agricoles et forestier est un réseau routier bien entretenu qui assure la connectivité et mobilité entre zones rurales et urbaines. Le réseau routier en République Centrafricaine (RCA) est à la base de système de transport du pays. Sur 24 137 km de routes nationales, régionales et rurales, seulement 3,5 % (855 km) sont bitumées. Environ 80% du commerce international passe par le corridor Douala-Bangui, qui n'est pas encore entièrement bitumé, et où les lourdes barrières administratives officielles et informelles contribuent à de longs retards et à élever les coûts de transport. Les 15 500 kilomètres de réseau routier rural sont non seulement insuffisants, mais souffrent aussi d'une insuffisance d'entretien. La mauvaise qualité de la route affecte particulièrement les populations rurales, tout comme elle limite leur accès aux marchés et aux services essentiels, comme les écoles et les établissements de santé. Depuis le début de la crise, l'entretien des routes a été limité à quelques districts autour de Bangui, où les conditions de sécurité demeurent relativement stables. L'entretien insuffisant a été principalement causé par un niveau insuffisant de ressources et les questions de gouvernance dans le fonctionnement du Fonds d'entretien routier (FER) et l'Office d'équipement National.

¹ Le FLEGT est l'acronyme de l'application des lois forestières, gouvernance et échanges commerciaux. Le Plan d'action FLEGT de l'UE a été créé en 2003. Il vise à réduire l'exploitation illégale par le renforcement de la gestion forestière durable et juridique, l'amélioration de la gouvernance et de la promotion du commerce des bois produit légalement.

41- Renforcer la gouvernance, le fonctionnement et la santé financière du Fonds d'entretien routier (FER) et de l'Office National du Matériel (ONM) est impératif pour assurer un entretien efficace de notre réseau routier afin de rétablir une circulation fluide des marchandises et de la population ; de facto, cela devient une condition préalable à la reprise rapide de l'économie. Nos infrastructures et services de transport ont besoin d'investissements à grande échelle pour tendre vers la qualité et l'efficacité nécessaires à la relance de notre économie. Dans l'immédiat, la priorité du secteur est : (i) d'établir un système de programmation et d'exécution efficaces de l'entretien routier pour protéger l'infrastructure existante ; et (ii) d'assurer la durabilité des investissements futurs, notamment par un accroissement des ressources allouées à l'entretien des routes. Cela nécessite une amélioration significative de la gouvernance de l'entretien des routes en vue d'établir les conditions d'un entretien routier durable et efficace afin d'attirer les investissements nécessaires dans ce secteur.

42- Pour répondre à ces défis, le gouvernement entend prendre un nombre de mesures visant à relancer le secteur agricole, forestier et de transport. Ainsi, dans l'optique d'améliorer la gouvernance du secteur du transport, le gouvernement a adopté le manuel d'opération du Fonds d'Entretien Routier (FER) définissant notamment la programmation des travaux d'entretien (en régie ou à l'entreprise); la définition des travaux routiers éligibles au financement du FER; et la formalisation des relations contractuelles entre l'Office National du Matériel (ONM), le Ministère et le FER (action préalable PACE1). En appui direct au secteur agricole, le gouvernement adoptera les textes portant sur l'opérationnalisation du Code Semencier. Pour cette mesure, il s'agit notamment du décret portant approbation des statuts de l'Office national des semences (ONASEM) et de l'arrêté interministériel portant création du corps des inspecteurs et contrôleurs des semences au sein de l'ONASEM (Action préalable PACE1).

43- En attendant l'adoption du code des intrants, le gouvernement s'engage à prendre en 2017 un arrêté interministériel portant sur les modalités temporaires relatives à l'importation et à la distribution des intrants (les engrais, les produits phytosanitaires et les produits vétérinaires - Action préalable PACE2). Pour renforcer les réformes de gouvernance du secteur du transport, nous nous engageons à réaliser un audit du fonds d'entretien routier, incluant un état des lieux des dettes entre le FER et l'ONM et un plan d'apurement desdites dettes (Action préalable PACE2). Afin de stimuler le développement du secteur forestier, le gouvernement s'engage à réaliser un audit technique et financier des sociétés forestières qui n'appliqueraient pas leur plan d'aménagement. Sur la base de l'audit, les autorités vont : i) arriver à un accord sur les questions d'arriérés fiscaux dans le secteur ; ii) allouer les concessions non attribuées ; et iii) arriver à un accord avec les concessionnaires existantes pour activer des concessions non-actives. (Action préalable PACE2).

44- Le secteur des TIC en RCA est l'un des moins développés en Afrique subsaharienne (ASS) et ses indicateurs de qualité et de couverture se classent parmi les plus bas au monde. La RCA est notée 0,2 sur l'échelle de 0 à 1 de l'indice d'accès numérique (DAI) pris en compte par le Rapport sur le développement dans le monde (RDM) de la Banque mondiale de 2016, plaçant ainsi la RCA parmi les 7 derniers pays les plus mal notés du rapport. Selon l'indice de développement des TIC (IDT) élaboré par l'Union internationale des télécommunications (UIT), la RCA a été classée en 2014 à la 167e place sur les 167 pays couverts par l'UIT, et n'a même pas pu être incluse dans l'indice 2015 en raison du manque de données disponibles. Elle se classe également dans les 5 derniers centiles des 193 pays pris en compte par l'étude bisannuelle sur l'e-gouvernement et l'e-participation réalisée par le Département des affaires économiques et sociales des Nations Unies (ONUDES) en 2014.

45- La République centrafricaine (RCA) dispose d'un cadre juridique et réglementaire des technologies de l'information et de la communication (TIC) obsolète et les institutions publiques chargées de régir le secteur n'ont pas la capacité de remplir leur mandat. La connectivité internationale limitée conduit à des prix élevés et une bande passante disponible insuffisante. Les services de téléphonie mobile dominent le secteur des TIC, mais les prix restent élevés et la qualité du service est médiocre. Le service national de téléphonie fixe souffre de graves défaillances techniques



et financières. Malgré la forte concurrence qui existe entre les opérateurs du marché des télécommunications mobiles, la couverture reste très limitée, en particulier dans les zones rurales reculées. Cette situation est due à la fois à la faible rentabilité des services proposés dans un marché de faible consommation et à l'impact négatif de l'instabilité sécuritaire sur le développement et la maintenance des infrastructures.

46- Pour rendre compétitif le secteur des TIC, le Gouvernement s'engage à mener une étude sur la fiscalité dudit secteur en complément des autres études sur la politique et l'administration fiscale en R.C.A. Sur la base des recommandations de ces études, le Gouvernement mettra en place une politique fiscale et para fiscale incitative en faveur du développement de ce secteur à partir de 2017.

47- Afin de promouvoir le développement du secteur des télécommunications, secteur dont le développement revêt d'une importance particulière et qui nécessite rapidement un accroissement du taux d'accès de la population aux réseaux, le gouvernement mettra en œuvre des réformes visant sa promotion. Ainsi, le gouvernement fera adopter par le Conseil des Ministres le projet de Loi sur les communications électroniques (Action préalable PACE1) et de transmettre ledit projet de Loi à l'Assemblée nationale avant la fin de l'année 2016. Le gouvernement poursuivra les réformes du secteur en 2017, à travers les mesures suivantes (actions préalables au PACE2): (i) opérationnaliser un système de contrôle du trafic par l'Autorité de Régulation des Télécommunications (ART) ; et (ii) adopter une loi pour opérationnaliser le fonds de service universel par le Conseil des ministres afin de: (a) étendre la couverture géographique des réseaux mobiles dans les zones rurales à faible potentiel de revenu ; et (b) promouvoir le développement centres communautaires TIC dans des communautés rurales ciblées.

V. CADRE INSTITUTIONNEL DE MISE EN OEUVRE DU PROGRAMME

48- La Cellule chargée du Suivi des Réformes Economiques et Financières (CS-REF), constitue l'organe permanent de coordination et de suivi des activités de réformes économiques et financières. Elle est créée par décret n°11.273 du 21 Octobre 2011 et placée sous le Comité Interministériel de Pilotage des Réformes Economiques et Financières (CIPREF), lui-même créé par Décret n°11.272 du 21 Octobre 2011, qui est un organe politique chargé de l'orientation et du pilotage des réformes. Elle a fait ses preuves dans la mise en œuvre et le suivi des programmes placés sous sa responsabilité. Pour cet appui de la Banque Mondiale, le dispositif technique pour le suivi et l'évaluation des différentes mesures définies dans le cadre du programme sera le cadre idéal de mise en œuvre. Il consiste en la désignation des responsables relevant des structures de mise en œuvre de ces mesures. Ces points focaux assureront le suivi de la mise en œuvre du PACE auprès de la CS-REF. La CS-REF organisera également des réunions régulières avec les parties prenantes clés des réformes, dont la société civile et le secteur privé.



Simplicie Mathieu SARANDJI



GOVERNMENT LETTER OF DEVELOPMENT POLICY (ENGLISH TRANSLATION)

1- This Letter of Development Policy reports on the political context and strategic pillars of the government in economic and social terms. It describes the economic and fiscal policies that the government of the Central African Republic (CAR) is currently pursuing, and places them in a perspective of medium-term execution.

2- In a context of stabilization and gradually exiting the security and political crisis that the CAR has experienced since 2013, the government is dealing with major economic and financial challenges and the many expectations of its people. Our strategic priorities to restart growth and reduce poverty are as follows: (i) restore the sustainability of public finances; (ii) support external competitiveness and the expansion of the bases of economic activity to create the conditions for sustainable and inclusive growth; (iii) establish the bases for good governance; and (iv) strengthen the institutional framework and the administrative capacity of the country.

3- The government has already adopted a program of reforms to meet these objectives. It requests funding from the World Bank to support the implementation of its reform program through the State Consolidation Development Program (Programme d'Appui à la Consolidation de l'Etat – PACE). The program will be executed over two years: 2016 (PACE1) and 2017 (PACE2). The aim of PACE, aligned with the strategic priorities of government, is to restore transparent budgetary management, and economic recovery. In addition to funding the state budget, the program will support the implementation of economic and financial reform measures.

I. CONTEXT

4- The recent democratic elections, held in an atmosphere of calm, marked the end of three years of security and political crisis. The outlook for the CAR has consequently improved. The referendum on the new constitution of December 2015 and the elections of February 2016, combining presidential and legislative elections, were organized against a backdrop of calm. This led to the return of constitutional rule and the establishment of republican institutions guaranteeing a more transparent and effective governance.

5- The country is slowly emerging from the security and political crisis of 2013. This crisis, the latest in a series of recurrent crises that our country has experienced over the past two decades, resulted in a major humanitarian crisis, the collapse of the economy and the government, and a significant weakening of domestic financial resources. Faced with these major challenges, our government is determined to promote national reconciliation and social peace. We also seek to consolidate security, particularly through demobilization and reinsertion into the economy and society of armed groups. Finally, our priority is also to implement a program of administrative, economic and financial reforms, with a view to securing the economic recovery and reducing poverty. These reforms are aimed at improving human and administrative capacity by redeploying the administration; promoting transparency and accountability; consolidating basic fiscal management by increasing tax revenues, and improved control over the allocation of public spending. As such, they aim at increasing expenditure in priority sectors while securing a return to sustainability of the external debt, and reviving the economy.

6- The security situation is gradually improving. Security in the country has benefited from the support of the international community, firstly with the creation of the International Support Mission to the Central African Republic under the leadership of the African Union (MISCA) and the French SANGARIS force. The transfer of peacekeeping operations to the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA), under the mandate of the United Nations, in September 2014 enabled the progressive deployment of the Blue Helmets across the national territory, together with European forces (EUFOR). This synergy led to the pacification of the principal zones of conflict, the reestablishment of security over much of the country, and the progressive deployment of government. These operations contributed to restoring peace and to the process of political stabilization in the country. However, the absence of disarmament, demobilization, reinsertion and reintegration of ex-combatants represents an obstacle to strong economic recovery. Furthermore, it is necessary to continue the efforts to reform the national security forces.

7- The support of the international community was essential to overcome the crisis and helped to implement reforms that promote the country's stabilization process. The most recent military and political crisis that led to political and institutional changes on March 24, 2013 led to the suspension of relations with international development agencies. The adoption of the Roadmap by the Transitional Authorities for the 2014-2015 period, and of the Emergency Program for Sustainable Recovery (*Programme d'Urgence pour le Relèvement Durable – PURD*), helped to reestablish ties of cooperation with the country's principal technical and financial partners. In this way, the foundations for relaunching development activities were progressively established. In addition to humanitarian aid, the CAR has benefitted from budgetary support, technical assistance and investment projects from its principal historical financial partners: the International Monetary Fund (IMF), the World Bank, the African Development Bank, the European Union, the United Nations, France and other bilateral partners. This support has enabled: (i) support for the authorities to confront the impact of the crisis on the population, especially through the provision of public services; (ii) encouragement for the resumption of economic activities in the country; and (iii) implementation of economic, financial and administrative reforms. These have made it possible to reduce the primary deficit from seven percent (7 percent) of GDP in 2013 to three percent (3 percent) in 2015, and to improve revenue mobilization while controlling expenditure. These key reforms include the establishment of a treasury management committee; the entry into operation of the Central Accounting Agency of the Treasury (*Agence Centrale Comptable du Trésor – ACCT*); better control and collection of taxes and customs duties; control of payroll by careful examination of staffing files for civil servants, gendarmes and police officers. We have also adopted a plan of action for the reform of public finances, with the support of the World Bank and other technical and financial partners.

8- A landlocked country with nearly five million inhabitants in 2015, the CAR covers a total surface area of 623,000 km² and has significant natural potential. The major difficulties that it faces prevent it from exploiting these for sustainable and inclusive development. In addition, the recurrent crises experienced over more than two (2) decades have significantly damaged social cohesion, the economic structure, production equipment, human resources and administrative capacities. The roots of the CAR's fragility lie in a number of mutually-reinforcing factors: i) the weak capacity of the state to guarantee security across the national territory, and to provide a sufficient quantity and quality of basic services in an equitable manner, thereby eroding the social contract between the state and the people; ii) a poorly developed economy, strongly dependent on extractive resources and therefore non-inclusive; and iii) inter-community tensions.

9- Moreover, the economic recovery is slow, and will take some time to compensate the 36.7 percent contraction in GDP that was experienced in 2013. The country is still strongly dependent on foreign aid to fund its primary expenditure, including salaries, pensions and the payment of foreign debt; at the end of 2015, domestic revenue only covered 73 percent of expenditure. Finally, there are a number of structural rigidities, including electricity shortages, inadequate infrastructure, high transport and telecommunications costs, a weak education system, and an undeveloped financial sector. These structural rigidities act as a brake on economic recovery and an obstacle to private investment.

10- The advances in security and political stabilization together with the resumption of economic activities recorded in 2015 led the government to request a supervision mission from the IMF, under Article IV and the preparation of an Extended Credit Facility (ECF). This mission, conducted with the participation of other partners (World Bank, the African Development Bank, the European Union), took place in May 2016. This enabled both an evaluation of the macroeconomic framework of the country, and identification of the economic and financial reform measures needed. The IMF Executive Board approved the government program supported by the ECF on July 20, 2016. The support of the World Bank, the IMF and other technical and financial partners also made available a set of analytical studies. They served to prepare strategies and action plans for economic, financial, administrative and sectoral reforms alike.

II. GOVERNMENT PROGRAM

11- A general government policy statement was presented to the National Assembly in early June 2016 and approved via a vote of confidence. Translated into a government program, this is built around four pillars: i) security and social cohesion, ii) economic recovery, iii) policy and good governance, and iv) social affairs and humanitarian actions.

12- These broad policy orientations are based on recommendations made at the National Forum of Bangui, enriched by recent debates, together with multiple meetings with different categories of stakeholders. The authorities, with the support of the World Bank and their technical and financial partners, are finalizing an assessment of the priorities and needs for recovery and peacebuilding in the CAR. This will be presented at the donors' conference in November 2016 and will also serve to guide the economic and social development policies of the government. The general government policy statement will be one of the reference documents for interventions by development partners, and for funding for development projects for the 2016-2018 period, according to the following priorities:

1. Peace, security and social cohesion

13- Lasting security and social cohesion constitute the first priority, according to the country's president. To this end, the government proposes, once the resources are mobilized, to implement the Process of Disarmament, Demobilization, Rehabilitation and Repatriation (DDRR) and the Security Sector Reform (SSR). This is a prerequisite for stabilization and economic recovery.

14- A national security policy to define actions to be implemented will be prepared, and its implementation will be built around four pillars, namely: (i) the organization and operational capacity of the national army; (ii) strengthening of the operational capabilities of the armed forces; (iii) the doctrine and implementation of a defense and security policy; and (iv) the strategy for resource mobilization. Security will drive the redeployment of government throughout the country, and the restoration of state authority, in the understanding that the return of the devolved authorities must be accompanied by a policy of decentralization, a factor in social cohesion and peace.

2. Economic recovery

15- In order to improve the living conditions of the population, three objectives are anticipated: (i) stabilization of public finances; (ii) reform of the productive sector; and (iii) international cooperation.

16- Economic recovery starts with better management of public finances. This will effectively involve: (i) stabilization of public finances **in order to create the best conditions for increasing state revenue; (ii) rigorous control of public spending; and (iii) optimal allocation of resources to stimulate economic development. In this context, the reforms envisaged to increase the mobilization of domestic resources, control of public expenditure – mainly of payroll – will be carried out with the implementation of action plans in public corporations and purging the lists of public employees. Furthermore, emphasis will be placed on public procurement procedures.**

17- Reform of the productive sector is primarily based on the strategic orientations of each sector of activity. This will especially involve: (i) recommencement of activities in the agricultural sector and the modernization of this sector; (ii) stabilization of the forestry sector with the effective application of the Forestry Code and traceability in the timber industry; (iii) the reorganization of production in the extractive sector and the updating of its legal framework; (iv) improving levels of access to electricity and diversification of sources of production; (v) large-scale resumption of effective road maintenance work and projects aimed at modernizing Bangui M'Poko international airport; (vi) improving road, river and air transport services for both passengers and goods; and (vii) improving the business environment in order to promote the development of investment and companies.

18- In the framework of international cooperation and the mobilization of external resources, the government will negotiate with donors the formulation and adoption of new cooperation programs for the funding of development programs and projects.

3. Policy and good governance

19- This priority emerges from the recommendations of the Bangui Forum held in May 2015 with the participation of all the social groups in the country. As a result, actions are aimed at: (i) finalizing the implementation of the resolutions taken in the context of this Forum; (ii) restoring state authority; (iii) developing foreign trade, together with market mechanisms; and (iv) activating relationships with Emerging Countries and the Arab World.

4. Social affairs and humanitarian actions

20- Priority actions are part of the fight against the different scourges that violate human rights. To this end, a series of actions will be implemented, including: (i) protection of the rights of women and children; (ii) undertaking humanitarian actions to the benefit of the population; (iii) establishing local Peace and Reconciliation Committees (*Comités locaux de Paix et de Réconciliation* – CLPR) and the Truth, Justice, Reparations and Reconciliation Commission; (iv) developing sporting activities, which contribute to peace, social cohesion and to coexistence; (v) establishing a policy of promoting employment and employability, which is key to a swift return to social cohesion, stability, economic growth and lasting peace; (vi) developing health infrastructure and fighting AIDS, the second leading cause of death after malaria; and (vii) raising the quality of education nationwide, one of the sectors most severely hit by the recurrent crises.

III. RECENT ECONOMIC DEVELOPMENTS AND THE MEDIUM-TERM OUTLOOK

21- The national economy is mainly based on the agricultural and livestock sector, representing a little over 50 percent of gross domestic production, and employing more than 70 percent of the active workforce. Confronted with severe security challenges during the 2013 crisis, the economy experienced a fall in GDP of 36.7 percent, followed by growth of 4 percent in 2012. This was the result of underperformance of all economic sectors, linked to the destruction and mass pillaging of production equipment, agricultural seeds, and the displacement of populations, above all in the agricultural and rural sectors. As a result, domestic revenues plummeted by more than half, while net foreign trade also fell drastically.

22- Although the security situation remained generally unstable and volatile between 2013 and 2015, the implementation of the Roadmap and the Program for Sustainable Recovery (PURD) by the Transitional Government led to a stabilization of macroeconomic aggregates. Carrying out this program has enabled a gradual return to economic activities with real support from the international community. In this way, we have witnessed an economic recovery shown by a growth rate for real GDP of 1 percent in 2014 and of 4.8 percent in 2015. Inflation fell from 11.6 percent in 2014 to 4.5 percent in 2015. This situation is explained by the implementation of the government's economic and budgetary policy and the support of development partners. This includes the mobilization of budgetary support valued at 74 billion CFA francs in 2014 and 42 billion in 2015. In terms of budget implementation, the tax ratio was 7.1 percent of GDP in 2015, compared to 4.9 percent in 2014. This improvement is connected to the substantial growth in the level of public revenue, due to the determination of the authorities to pursue the implementation of reforms, despite the difficult security situation. Primary expenditure was contained at 10.1 percent of GDP, which made it possible to reduce the primary deficit to 3 percent of GDP in 2015. Public debt is equivalent to 48.5 percent of GDP, compared to 51 percent in 2014.

23- The economic outlook for the medium term has improved. This is based on the following assumptions: (i) the restoration of peace and security throughout the territory; (ii) continuation of the process of national reconciliation and the redeployment of the administration; and (iii) the effective implementation of the DDRR process. To these, we may add the lifting of the embargo on diamond exports and the implementation of our program of economic, financial and administrative reforms. The implementation of an appropriate macroeconomic and fiscal policy and our public investment program will enable the government to: (i) restore the sustainability of public finances; (ii) boost the viability of the external debt; (iii) support the competitiveness and the expansion of the base of economic activities; and (iv) create the conditions for sustainable and inclusive growth including through the provision of public services. This process, supported by our technical and financial partners, will accompany the capacity-building of the administration and the implementation of reforms to public finances and good governance, especially through greater transparency and accountability. As a result, economic growth should be established at an average of 5.5 percent for the 2016-2019 period. The deficit in the external current account should stand at around 9.7 percent of GDP, due to the major needs for reconstruction, while the funding gap should fall from 4.8 percent in 2016 to 3.2 percent in 2019. Moreover, linked to the background of price stability, inflation could gradually decelerate under the influence of increasing agricultural production, to fall below 3 percent from 2018, meeting the convergence criteria of the Central African Economic and Monetary Community (CEMAC). In terms of budgetary policy, we will pursue a viable policy while accumulating capital buffers to guard against potential shocks. The primary domestic deficit – which will be the anchor point for the budgetary policy – will be less than 3.3 percent in 2016 and gradually fall to 0.9 percent of GDP in 2019. This will make it possible to reduce public debt.

IV. FINANCIAL AND ECONOMIC REFORMS

Financial reforms

24- In order to improve our management of public finances, we are implementing a 2016-2018 reform plan organized around five pillars: (i) revitalizing revenues; (ii) securing and managing the state treasury; (iii) unblocking and normalizing budgetary management; (iv) reestablish trust in fair accounting; and (v) reestablish the credibility of the state. We are committed to diligently implementing this reform plan together with the short and medium term action plans for the 2016-18 period.

25- The review of the 2016 budget is the starting point for reforms that will be pursued in future finance laws. These reforms will make it possible to take into account the new strategies recommended in order to restore the sustainability of public finances in the medium term and boost the economy, whose foundations have been shaken by the most recent crisis. From this perspective, the medium-term outlook would result in increased mobilization of domestic revenue and control of public expenditure.

26- The new government will implement a radical policy to combat corruption and fraud in all their forms. In this context, the government will ensure better use of public resources and strengthen good governance in addition to existing monitoring and consultation frameworks on budget execution. These include the Committee for Monitoring and Management of Public Finances (Comité de Suivi et de Gestion des Finances Publiques – CSGFP) and the Treasury Committee (Comité de Trésorerie – CT) where our technical and financial partners are represented to ensure co-management of both our own resources and those contributed by foreign aid. This determination is reflected in the strict application of the law obliging all those named to ministerial posts to submit a declaration of their patrimony before taking up their responsibilities. Meanwhile, it is proposed to create a “committee of the wise” to assemble the components to help prepare the conditions for setting up a coherent framework for fighting corruption, in accordance with international provisions. The other challenge of good governance involves the strengthening of auditing institutions from 2016.

27- The pursuit of reforms to increase the mobilization of revenue is a priority for this government. With budgetary receipts standing at just 7 percent of GDP, we acknowledge that the public financial situation is not viable, since receipts are too low to meet our primary expenditure and honor our debt commitments. In light of this situation, we are going to implement the measures identified in our plan of action prepared and adopted in 2016. The aim of the reforms is to increase domestic revenues from 7 percent of GDP in 2015 to 10.1 percent of GDP in 2016. The reforms will entail:

- Strengthening the tax base and simplifying procedures. Several measures fall within this context. First, we will improve the management of VAT, including the prohibition of withholding of VAT at source in compensation of government revenue. Second, we will improve the bases for the valuation of exports, tighten controls and surveillance, particularly in the timber and diamond sectors, as well as simplifying procedures, and reducing incidental (parafiscal) taxes. In this context we intend to secure: (i) the reform of the market price list in the forestry sector to reflect international prices, ensure proper valuation of commercial transactions and enhanced control of cost structures for production and transportation for proper domestic valuation; (ii) better recovery of felling and reforestation taxes and concession fees; and (iii) review of taxation in the diamond industry, strengthening control of the distribution system, reducing fraud and improving the certification process. In terms of oil taxes, we will adopt the decree

revising the oil price structure to integrate the international Platts price as the new calculation base (prior action for PACE1) for a return of 1.5 billion CFA francs in the last three months of 2016.

- Improving the tax and customs administration. In this regard, we will continue implementing actions with the support of our technical and financial partners, including the World Bank and the IMF, together with the fiscal policy between 2016 and 2018. The key elements of the reform will focus on the review of banking arrangements to ensure better revenue collection; conducting a study to identify minor revenues; implementation of the pre-completed declaration form for real estate contributions; and review of conventions relating to derogatory measures. Other key aspects of the reform concern the harmonization of the General Tax Code by the implementation of CEMAC guidelines on VAT and excise duties; strengthening of control over the single unique tax (*impôt global unique* – IGU); strengthening of the management of fiscal operations by large companies; the establishment of corporate citizenship status; the collection of arrears; and a better relationship between taxpayers and government. In the background of these efforts, we will carry out a comprehensive computerization of the customs and taxes networks, starting with the customs office at Béloko, followed by the connection between the Douala and Bangui customs offices. Finally, we will step up the checks carried out by the administration of public corporations. In this regard, the Minister of Finance and Budget will adopt a decree introducing a risk management-based approach, establishing quarterly inspections of tax and customs offices by the General Finance Inspectorate (Inspection Générale des Finances – IGF), requiring that the main tax and customs offices are identified and checked at least once per fiscal year (trigger PACE2).
- Better management of exemptions, in order to minimize these. This consists of a strict application of the laws in force, no longer granting ad hoc exemptions, the establishment of transparent and specific criteria for the granting of exemptions, and a review of all current agreements. In this context, we will publish the tax and customs exemptions granted from January 1 to August 30, 2016 on the Ministry of Finance website. This list will indicate the amount, the type of the exemption and the month of the exemption and the list of exemption conventions (prior action for PACE1). In order to minimize tax exemptions, in particular through the adoption of more transparent and restrictive conditions for granting tax exemptions, the Minister of Finance and Budget will adopt and begin implementing an action plan in line with the recommendations of the study conducted in 2016 on streamlining the management of exemptions in the CAR, and the studies on tax policy and administration carried out by the IMF (trigger PACE2).

28- There are many challenges to improving public financial management. We also commit ourselves to: (i) fiscal discipline; (ii) the reestablishment and regularization of the expenditure chain; (iii) the continuation of efforts to control the payroll; and (iv) the establishment of the accounting department. The government will strengthen the governance of public finances through a return to normal budgetary procedures.

29- In order to respond to the challenges of a simple, robust and transparent management of state credits and public funds, preparatory measures have been taken. These include the introduction of commitments in the 2016 budget and the restoration of the interconnection of the integrated budget and accounting management system (GESCO). The interconnection of the GESCO budget and GESCO accounting modules has created the conditions for reestablishing the expenditure chain. However, the connection between the budget and accounting modules remains problematic, limiting the scope of the measure. Other measures, such as the establishment of the Central Accounting Agency of the Treasury (ACCT), were fundamental stages in the public finance reform, and essential steps towards greater transparency in the management of public expenditure. In order to secure the management of the state Treasury and progressively expand the scope of the Treasury, we will continue to match available

resources to the priority areas of expenditure in order to ensure the robust execution of the Treasury plan and avoid the accumulation of arrears or outstanding payments to suppliers. In this context, we have prepared a monthly Treasury plan for 2016 and 2017. Its implementation will be monitored by the Treasury Committee, which will continue to meet monthly, chaired by the Minister of Finance and Budget.

30- The strategic actions will focus on, among other things, the reform of the civil service. In this regard, the conclusion of the first phase, with the support of the World Bank and UNDP, has enabled the lists of public employees, gendarmes and police officers to be purged. The government wants to continue these efforts in order to improve payroll control. This control will be carried out by purging the **lists of public employees** and the civil service, and other actions such as the repatriation of duplicate diplomats in diplomatic missions and the forced retirement of FACA (Central African Armed Forces) members who have reached the age limit. In 2016, the cost of new recruitment in the social and priority sectors (1.2 billion CFA francs per year) should be compensated by the savings made following purging of the lists (100 million CFA francs), the retirement of eligible public employees (150 million CFA francs), the gradual elimination of non-eligible irregular employees (150 million CFA francs) and finally, the repatriation of 50 diplomats (60 million CFA francs per month) whose missions have concluded. These net savings on the payroll will make it possible to increase priority expenditure on goods and services, transfers and subsidies (4.8 percent of GDP) as well as financed capital spending on resources. To ensure better control of payroll, the Minister of Finance and Budget will adopt a decree on review of the schedule for transferring components of the **public employee base**, as proposed by the ACCT in consultation with the IGF in order to promote the necessary monthly checks (prior action for PACE1). The objective of this measure is that a minimum of 50 percent of the payroll is controlled by the ACCT. Finally, in order to contribute to improved control of the payroll, we will adopt a table of budget items by grade, service and assignment to form part of the preparatory documentation for the finance law 2018 and to commence the deployment of job descriptions (trigger PACE2).

31- The government intends to continue and speed up the implementation of measures aimed at strengthening the management of public finances. These measures, covering the period 2016-18, are organized around four main objectives: (i) secure and manage the state Treasury to gradually expand its scope; (ii) unblock and normalize budgetary management to gradually reduce the amount of derogatory expenditure to 5 percent; (iii) reestablish trust in fair accounting for the whole general budget and supplementary budgets; and (iv) restore the credibility of the state by fighting against fraud and restoring the confidence of creditors. The main actions to improve the budget control and transparency are described below:

- The government is committed to finalizing, on the one hand, the input of accounting data currently underway to the GESCO system in order to produce the financial statements (classes 4 to 7) for 2015, and on the other, those for the first six months of 2016, by August 30, 2016. Thereby, the ACCT will produce the overall balance of accounts for 2015 and the overall balance of accounts as of June 30, 2016 (prior action PACE1) that the Director-General of the Treasury and of Public Accounts will deliver to the Minister of Finance and Budget. The government commits to posting accounts in a systematic manner from June 1, 2016. From this date, the balance of accounts, published by the GESCO system, and the balances will be produced every month. The general balance for each subsequent year will also be produced. Gradually, coverage of accounting reports will be expanded, to include the overall balance of quality covering the entire general budget in 2017, and the supplementary budgets in 2018. The government will also make provisions to prepare and present to the National Assembly the regulatory law for the 2015 Law

on Finance (trigger PACE2) and will also take measures to update the regulations for the 2009-14 finance laws. In order to improve transparency and accountability, the Ministry of Finance and Budget will publish on its website and in other media: (i) the draft finance law (LF) 2017; (ii) the enacted LF 2017; and (iii) a citizens' budget for the enacted finance law 2017 and, from the first quarter of 2016, the six-monthly report on budget execution (trigger PACE2).

- The government also intends to: (i) adopt the nomenclature of documentary evidence of expenditure governing interactions between ordering and accounting staff, by decree of the Minister of Finance and Budget (prior action PACE1); (ii) adopt by decree of the Minister of Finance and Budget the expenditure procedures manual (prerequisite action for PACE2); (iii) secure and strengthen the management of the Treasury through the expansion of the scope of operations of the state and the identification of all bank accounts belonging to the state in commercial banks; (iv) restore the expenditure chain; (v) comply with a strict quota system for the use of exceptional procedures (budget payment orders and cash payment orders) up to a maximum of 5 percent of total expenditure, excluding salaries; (vi) restore the normal procedures of budgetary expenditure (undertaking/liquidation/ordering/payment), including a single enhanced Treasury account (to include all the revenue collected by sectoral ministries, commercial banks, public bodies and the petroleum products distribution sector), a functioning ACCT, and the activation of budgetary and accounting modules in the GESCO computer system in support of the management of public finances. To this end, the opening of new Treasury accounts at commercial banks will be prohibited, with the exception of accounts within the framework of agreements and project-related accounts. We also envisage consolidating a single Treasury account by closing all state accounts at commercial banks, with the exception of project-related accounts, while preserving the stability of the banking system. Finally, measures will be taken to improve the budget preparation process and to ensure that the budget is prepared within the timeframe set out by the constitution in the draft finance law for 2018.
- The ACCT will initiate an information campaign to explain the reform to the ordering and accounting staff. It will produce a monthly report of all failures on the part of banks to automatically charge revenue accounts. Moreover, it will have guaranteed access to information and records from all Treasury accounts at commercial banks.

32- The settlement of outstanding domestic payments is at the center of our program for stabilizing public finances, and for restoring the confidence of creditors. The CAR has signed an agreement on consolidation of its commitments owing as consolidated and delinquent loans with the Bank of Central African States (BEAC), involving an amount in arrears at the BEAC of 55 billion CFA francs. The ongoing audit of claims by commercial banks on the state, the audits in other sectors such as the cotton and forestry sectors and the audit of our commercial, social and other debts that we expect to complete with the support of our technical and financial partners will serve as a basis for preparing and adopting an arrears payment plan between now and June 30, 2017. We intend to explore, in collaboration with the IMF and the World Bank, the possibility of securitization of these bank debts. We also intend to conduct an assessment of VAT credits in order to prepare a settlement plan and eliminate any recourse to offsets. First priority will be given to outstanding unpaid suppliers from 2015 and 2016, and then to commercial

arrears, wages and pensions from 2013-14, which amount to 13.2 billion CFA francs, and will be cleared in 2016 and 2017 respectively.

33- We will strengthen debt management. Analysis of the sustainability of external debt classes the CAR as a country at high risk of debt distress. To mitigate the risk of debt distress from external debt caused by the collapse in fiscal revenues and exports, the government will seek to mobilize priority funding in the form of grants and, in consultation with IMF services, of concessionary loans, with a grant component of 50 percent. It will also pursue efforts to improve the management of the public debt by proceeding with the installation of a new debt management and analysis software SYGADE 6.0. Finally, the government is committed, through the amended finance law 2016 and subsequent finance laws, to only contracting new loans by sole decision of the Minister in charge of Finances.

Economic recovery

34- The CAR has just emerged from an emergency period and must orient itself towards the reconstruction of its economy. To this end, it is making a choice to define and implement development strategies on the basis of its economic potential. The challenge of the government is to simultaneously create a favorable business environment for the private sector and to provide support to companies that were victims of the 2013 crisis, in order to reduce poverty, promote the resumption of economic activities and support the competitiveness of the national economy. Policies must favor growth that is sustained, enduring, inclusive and job-creating, particularly for the young and disadvantaged.

35- To seize the opportunity of economic recovery, reforms are needed to boost growth and promote formalization in job-intensive sectors such as agriculture, in particular the cotton and forestry sectors. New jobs with clear potential for revenue generation will make it possible to offer young workers, and in particular former combatants and victims of violence, an opportunity for economic progress by peaceful means, which will reduce the temptation to seek money via criminality and conflict. Conversely, a failure to create enough jobs to accommodate new employees could compromise social and political stability and encourage a return to violence. At the same time, the resumption of the agriculture and forestry sectors will depend on investment in the transport sector, in particular the maintenance of secondary and rural roads that are essential for transporting goods to markets. A last aspect to improve the potential for growth involves developing the Information and Communication Technologies (ICT) sector in order to enable greater connectivity, in particular access to voice data, text and mobile payments, throughout the country and abroad.

36- A fundamental pillar of the Central African economy, the agricultural sector represents almost 50 percent of GDP and more than 70 percent of jobs. This sector, weakened by the 2013 crisis, following the incessant looting and destruction of production equipment at all levels, including among farmers, thus represents a crucial challenge to overcome. Marginal productivity is weak and has more or less stagnated over time. The farming systems are mostly small-scale, still mainly oriented towards subsistence, and largely dependent on weather conditions. The country's irrigation potential remains largely underdeveloped. Most farmers grow mainly food crops using traditional methods. Commercial agriculture is a marginal component of the sector, and the use of modern technologies and improved inputs is very limited. Public and private institutions, a decisive element for supporting a robust agricultural sector, are either weak or absent. Many years of under-funding and political instability have eroded agricultural research and education in the country. Many farmers lack technical knowledge; in addition, the reduced scale and scope of the agricultural markets and distribution systems limit the availability of high quality seeds and fertilizer, improved animal breeds, veterinary supplies, tools and agricultural equipment. The

government adopted a law on seeds in 2015, however the implementing decrees have not yet been signed, which has delayed its entry into force. In addition, the capacity of producers to purchase improved inputs or to invest in physical capital is compromised by insufficient access to credit, given that the CAR presents serious deficiencies in rural financial infrastructure. Access to external markets is also underdeveloped due to the elevated cost of transporting products using rural roads that are poorly maintained and in disrepair. This reduces the opportunities and competitiveness of farmers, and thereby hampers initiatives that aim to increase and/or diversify agricultural production.

37- To this end, the government response is reflected in the definition of a strategy based on four pillars: (i) reviving the agricultural sector and economic development in a sustainable manner; (ii) agriculture as a factor in national reconciliation; (iii) increasing the employability of young people for the modernization of agriculture; and (iv) improving the regulation and competitiveness of agriculture.

38- The forestry sector entered the regulatory phase with the adoption of a law establishing the Forestry Code in October 2010 in order to monitor exploitation. To ensure transparency in the sector, the authorities have adopted a strategy of implementing the Forest Law Enforcement, Governance and Trade (FLEGT) process developed by the European Union, signing a Voluntary Partnership Agreement with this body in 2010. However, this implementation was delayed by the 2013 crisis, which had a severe effect on the sector, increasing the difficulties it was confronting, such as the low level of wood processing vis-à-vis the 70 percent level set out in the Code. There is significant demand for tropical wood products on international markets, and timber from the CAR remains competitive despite the high transport costs. Prior to the 2013 crisis, the forestry sector represented more than 6 percent of the country's GDP, equal to almost half of exports and around 10 percent of state revenue. The sector is also an important creator of jobs, especially in the provinces. Before the crisis, the sector represented around 4,000 direct jobs and 6,000 indirect jobs. In the context of benefit sharing, forestry companies have been obliged to pay local communities up to 1 billion CFA francs per year. The CAR has signed a Voluntary Partnership Agreement, FLEGT,²² with the EU and made progress in the fight against illegal timber felling. The forestry sector has a robust legal and regulatory framework that respects international standards. Finally, the country has actively participated in international certification schemes and multilateral efforts to combat climate change.

39- Despite these positive measures, the crisis more or less halted activity in the forestry sector. Almost all forestry companies suspended their operations, and most suffered a significant level of losses. The forest road network, for example, was significantly damaged and forestry companies do not always have the means necessary to restore them. Problems with tax arrears have also been an obstacle to the development of the sector. Only 5 out of 14 forestry companies are currently active. The search for solutions to the tax arrears issue and the transparent reassignment of inactive concessions to new investors will therefore be decisive in achieving a positive evolution of this sector in the future.

40- Of equal importance for the agricultural and forestry sectors is a well-maintained road network that assures connectivity and mobility between rural and urban zones. The road network in the CAR is the foundation of the country's transport system. Out of 24,137 km of national, regional and rural routes only 3.5 percent (855 km) are asphalted. Around 80 percent of international trade travels along the Douala-

²² FLEGT is an acronym for Forest Law Enforcement, Governance and Trade. The EU's FLEGT Plan of Action was created in 2003. It aims to reduce illegal felling by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber.

Bangui corridor, which is still not fully asphalted, and where burdensome official and informal administrative barriers contribute to long delays and increase transport costs. The 15,500 kilometers of the rural road network are not only insufficient, but also suffer from a lack of maintenance. The poor quality of the roads disproportionately affect rural populations, while at the same time limiting their access to markets and essential services, such as schools and health facilities. During the crisis, road maintenance was limited to a number of districts around Bangui, where the security conditions remained relatively stable. The lack of maintenance is mainly the result of a lack of resources and governance issues in the operation of the Road Maintenance Fund (Fonds d'Entretien Routier – FER) and the National Equipment Office.

41- Strengthening governance, functioning and the financial health of the FER and the National Materials Office (Office National du Matériel – ONM) is essential to ensure the effective maintenance of our road network in order to reestablish the smooth flow of goods and people; in fact, it is a prerequisite for the swift recovery of the economy. Our infrastructure and transport services require large-scale investment in order to move towards the quality and efficiency needed to relaunch our economy. In the short term, the sector priorities are to: (i) establish an effective system of planning and undertaking road maintenance to protect the existing infrastructure; and (ii) ensure the sustainability of future investments, including an increase in the resources allocated to road maintenance. This requires a significant improvement in the governance of road maintenance in order to establish the conditions for sustainable and effective road maintenance that will attract the investment required by the sector.

42- To respond to these challenges, the government intends to take a number of measures aimed at reviving the agricultural, forestry and transport sectors. In this light, with a view to improving governance of the transport sector, the government has adopted the operating manual of the FER, which specifically defines the planning of maintenance works (for public corporations or companies); the definition of roads eligible for funding from the FER; and the formalization of contractual relations between the ONM, the Ministry and the FER (prior action PACE1). In direct support of the agricultural sector, the government will adopt texts relating to the implementation of the Seed Code. This measure specifically involves the decree concerning approval of the statutes of the National Seed Office (*Office National des Semences* – ONASEM) and the interministerial decree concerning creation of the corps of inspectors and controllers of seeds at the ONASEM (prior action PACE1).

43- Pending the adoption of the code of inputs, the government is committed to issuing a decree on temporary arrangements for the import and distribution of inputs in 2017 (fertilizers, pesticides and veterinary supplies – trigger PACE2). To reinforce the governance reforms to the transport sector, we commit to undertaking an in-depth audit of road maintenance, including a status review of debts between the FER and the ONM and a plan for clearance of these debts (trigger PACE2). In order to stimulate the development of the forestry sector, the government is committed to carrying out a technical and financial audit of forestry companies that are no longer applying their land management plan. On the basis of this audit, the authorities will: i) reach an agreement about the issue of tax arrears in the sector; ii) allocate non-assigned concessions; and iii) reach an agreement with existing concession holders to activate inactive concessions (trigger PACE2).

44- The ICT sector in the CAR is one of the least developed in Sub-Saharan Africa and its quality and coverage indicators are classed among the lowest in the world. The CAR is ranked 0.2 on a scale of 0 to 1 on the Digital Adoption Index (DAI) used in the 2016 World Development Report by the World Bank, thus placing the CAR among the seven lowest-ranking countries in the world. According to the ICT development index (IDI) drawn up by the International Telecommunication Union (ITU), in 2014 the CAR was ranked

167th out of 167 countries covered by the ITU, and wasn't even included in the index in 2015 due to the lack of available data. It is also ranked among the last 5 percentiles of the 193 countries included in the biannual survey of e-government and e-participation conducted by the United Nations Department of Economic and Social Affairs (DESA) in 2014.

45- The Central African Republic has a legal and regulatory framework for information and communication technologies that is obsolete and the public institutions responsible for regulating the sector lack the capacity to fulfill their mandate. The limited international connectivity leads to high prices and insufficient available bandwidth. Mobile services dominate the ICT service, but prices remain high and the quality of service is mediocre. The national landline telephone service suffers from serious technical and financial failings. Despite the strong competition between operators in the mobile communications market, coverage remains very limited, particularly in remote rural areas. This situation is due to both the low profitability of services offered in a weak consumer market and the negative impact of security instability on the development and maintenance of infrastructure.

46- To make the ICT sector competitive, the government is committed to carrying out a study of taxation in this sector, complementing other studies of fiscal policy and administration in the CAR. On the basis of the recommendations made by these studies, the government will put in place a fiscal and parafiscal policy initiative to boost the development of this sector from 2017.

47- In order to promote the development of the telecommunications sector, a sector where development is of special importance and that needs rapid growth in the rate of access to networks by the population, the government will implement reforms aimed at its promotion. In this light, the government will ask the Council of Ministers to adopt the draft law on electronic communications (prerequisite action for PACE1) and to transmit this draft law to the National Assembly before the end of 2016. The government will pursue reforms to the sector in 2017 by means of the following measures (trigger PACE2): (i) implement a system for control of traffic by the Telecommunications Regulation Authority (TRA); and (ii) adopt a law to implement the universal service fund by the Council of Ministers in order to: (a) extend the geographical coverage of mobile networks to rural areas with low revenue potential; and (b) promote the development of ICT community centers in targeted rural communities.

V. INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION OF THE PROGRAM

The unit responsible for monitoring economic and financial reform (Cellule chargée du Suivi des Réformes Economiques et Financières – CS-REF) constitutes the permanent body for coordination and monitoring of the economic and financial reform activities. It was created by decree no. 11,273 of October 21, 2011 and placed under the Interministerial Steering Committee for Economic and Financial Reforms (CIPREF), itself created by Decree no. 11,272 of October 21, 2011, which is the policy body responsible for guiding and steering the reforms. This has proved itself in implementing and monitoring the programs placed under its responsibility. With this support from the World Bank, the technical mechanism for the monitoring and evaluation of the different measures set out in the context of the program offers the ideal implementation framework. This involves the appointment of officials arising from the structure for implementation of these measures. These focal points will ensure the monitoring of the implementation of the PACE by the CS-REF. The CS-REF will also organize regular meetings with key stakeholders, including civil society and the private sector.

Prime Minister, Central African Republic

Simplice Mathieu SARANDJI

ANNEX 3: IMF RELATIONS NOTE

IMF Executive Board Approves Three-Year US\$115.8 Million Arrangement under the ECF for the Central African Republic

July 21, 2016

On July 20, the Executive Board of the International Monetary Fund (IMF) approved a three-year SDR83.55 million (about US\$115.8 million, 75 percent of quota) arrangement under the Extended Credit Facility (ECF) for the Central African Republic. The approval enables the immediate disbursement of SDR12.525 million (about US\$17.4 million), while the remaining amount will be phased over the duration of the arrangement, subject to program reviews.

The authorities' ECF-supported program aims to entrench macroeconomic stability and create the conditions for sustained and inclusive growth, through structural reforms.

Following the Executive Board's discussion on the Central African Republic, Mr. Mitsuhiro Furusawa, Deputy Managing Director, and Acting Chair, made the following statement:

"The return to democratic institutions in April 2016 offers the Central African Republic a unique opportunity to consolidate peace, foster inclusive economic growth, and rebuild national cohesion to exit the current state of fragility. Going forward, and building upon progress made during the transition, economic reforms and consolidation of peace should ensure lasting improvements in security conditions and economic development of the country.

"The new three-year program supported by the Extended Credit Facility seeks to restore macroeconomic stability through lowering the domestic primary deficit in order to restore debt sustainability, while ramping up poverty-reducing spending and critical capital investment. Donor support ensures the full financing of the first year of the program, and there are good prospects for financing the remainder of the program.

"The program's structural reform agenda focuses on raising domestic revenue to bring it to the pre-crisis level through a review of tax policy, strengthening tax administration, and streamlining tax exemptions. Raising domestic resource mobilization to the country's potential over the medium term will be key to allow the government to scale up pro-poor and investment spending. Structural reforms also focus on strengthening public financial management, improving the efficiency of spending, and restoring control and transparency in the execution of the budget. Better control of the wage-bill would allow new hiring in the priority health and education sectors. In addition, the authorities' structural reform agenda also comprises measures to increase banking intermediation, improve the business environment, and build institutional capacity. Technical assistance to strengthen capacity development is a critical element of the program and the authorities have agreed to participate in the pilot IMF Capacity Building Framework."

Annex

Recent Economic Developments

The 2013 crises and a protracted political transition in 2014–15 provide the context for recent economic developments. The economy contracted by an estimated 36.7 percent in 2013, and economic growth remained anemic in the subsequent years, due to structural rigidities, poor infrastructure and limited energy supply. Inflation reached 11.6 percent in 2014, and receded to 4.5 percent in 2015 thanks to improved supply conditions and a fall in the prices of basic imports. During this period, the fiscal deficit widened on the back of declining domestic revenue, which collapsed to below 5 percent of GDP in 2014. Corrective measures implemented in 2015 allowed revenue to reach 7.1 percent. However, domestic

revenue remains insufficient to cover salary payments and critical expenditure. The current account deficit has doubled to 9 percent of GDP, mainly reflecting a collapse in exports of diamonds and forestry products.

Program Summary

The government program, supported by the ECF, aims at restoring macroeconomic stability, economic growth, job creation and poverty reduction. The program focuses on enhancing revenue mobilization and improving expenditure efficiency to lower the primary fiscal deficit and scale-up social and infrastructure spending. Measures to improve the business environment and access to credit should support private sector activity. Technical assistance and training will be critical to support the implementation of key reforms that will underpin an economic recovery.

Additional Background

The Central African Republic, which became a member of the IMF on July 10, 1963, has an IMF quota of SDR111.4 million. For additional background information on the IMF and the Central African Republic, see: <http://www.imf.org/external/country/CAF/index.html>

Table 1. Central African Republic: Selected Economic and Financial Indicators, 2012–21												
	2012	2013	2014		2015		2016	2017	2018	2019	2020	2021
	Est.				Prel.		Proj.					
(Annual percentage change; unless otherwise indicated)												
National income and prices												
GDP at constant prices	4.1	-36.7	1.0		4.8		5.2	5.5	5.8	5.8	5.8	5.8
GDP at current prices	6.9	-32.3	12.2		11.3		11.3	11.1	10.9	10.9	10.8	9.3
GDP deflator	2.7	7.0	11.1		6.2		5.8	5.3	4.8	4.7	4.7	3.3
CPI (annual average)	5.9	6.6	11.6		4.5		4.0	3.5	3.0	3.0	3.0	3.0
CPI (end-of-period)	5.9	5.9	9.7		4.8		4.0	3.5	3.0	3.0	3.0	3.0
Money and credit												
Broad money	1.6	5.6	14.6		5.3		11.8	12.8	10.9	10.9	10.8	9.3
Credit to the economy	30.2	-16.3	4.0		-3.0		10.3	10.8	10.7	10.6	10.6	9.2
External sector												
Export volume of goods	11.3	-50.8	-28.1		4.9		32.4	21.6	7.3	21.9	8.9	21.6
Import volume of goods	22.1	-29.6	77.5		18.8		12.6	2.4	5.8	12.7	1.2	7.1
Terms of trade	2.8	19.4	8.2		26.6		5.8	-7.9	0.6	-2.7	0.7	0.0

(Percent of GDP; unless otherwise indicated)										
Gross national savings	10.4	5.7	4.6	4.9	6.7	7.3	8.6	9.8	12.2	14.3
Of which: current official transfers	1.0	1.3	8.7	3.3	0.5	0.0	0.0	0.0	0.0	0.0
Gross domestic savings	3.6	-1.9	-14.3	-8.0	-2.5	-1.0	0.7	2.2	5.0	7.4
Government	1.4	-7.3	-5.3	-2.8	-2.4	-0.9	-0.3	0.6	1.4	2.4
Private sector	2.2	5.4	-9.0	-5.2	-0.1	-0.1	1.0	1.6	3.6	5.1
Consumption	96.4	101.9	114.3	108.0	102.5	101.0	99.3	97.8	95.0	92.6
Government	7.4	10.2	8.2	7.7	7.5	7.1	7.1	6.9	7.4	7.4
Private sector	89.0	91.6	106.1	100.4	95.0	94.0	92.2	90.9	87.6	85.1
Gross investment	15.0	8.7	10.2	13.9	16.9	17.2	17.9	19.0	19.9	21.0
Government	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Private sector	8.8	7.0	8.1	9.3	10.6	11.2	11.7	12.3	12.9	13.6
External current account balance	-4.6	-3.0	-5.6	-9.0	-10.1	-9.9	-9.3	-9.2	-7.7	-6.7
Overall balance of payments	3.0	2.8	-2.6	-2.2	-4.4	-2.2	-2.0	-2.1	-1.0	-0.6
Central government finance										
Total revenue (including grants)	16.4	8.4	15.7	14.3	13.0	13.2	13.7	14.3	15.5	16.5
of which: domestic revenue	11.5	5.6	4.9	7.1	8.1	8.9	9.5	10.1	11.6	12.6
Total expenditure 2	16.4	14.9	12.7	14.9	17.1	16.0	16.0	16.4	17.5	17.7
of which: capital spending	6.2	1.7	2.1	4.7	6.2	6.0	6.2	6.7	7.0	7.4
Overall balance 1										
Excluding grants	-4.9	-9.3	-7.8	-7.8	-9.0	-7.2	-6.6	-6.3	-5.8	-5.1
Including grants	0.0	-6.5	3.0	-0.6	-4.1	-2.8	-2.3	-2.1	-1.9	-1.2
Domestic primary balance 2	0.5	-7.0	-5.1	-3.0	-3.3	-1.8	-1.4	-0.9	-0.5	0.0
Public sector debt	23.5	38.5	51.1	48.5	47.2	41.2	35.8	31.2	27.7	24.7
Of which: domestic debt 3	13.8	24.0	36.3	34.0	30.3	26.2	22.5	18.9	16.0	13.4
Gross official foreign reserves										

(US\$ millions, end-of-period)	175.6	205.8	258.7	199.4	207.6	248.5	288.8	319.2	364.1	406.3
(months of imports, f.o.b.)	5.6	3.7	5.1	4.2	4.0	4.5	4.7	5.0	5.2	5.5
Nominal GDP (CFAF billions)	1108	750	842	937	1042	1158	1285	1424	1578	1726
Sources: C.A.R. authorities; and IMF staff estimates and projections.										
1 Expenditure is on a cash basis in 2014 and 2015 in the context of the Rapid Credit Facility.										
2 Excludes grants, interest payments, and externally-financed capital expenditure.										
3 Comprises government debt to BEAC, commercial banks and government arrears.										

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social, or distributional effects (yes/no/to be determined)
Pillar 1: Reestablishing Basic Fiscal Management and Transparency		
Prior Action 1: The Recipient has prepared a table of fiscal exemptions by type, amount and month for an eight month period beginning January 1, 2016, as well as a list of fiscal exemptions conventions, published on the website of the Ministry of Finance.	No. Prior action 1 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.	Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, prior action 1 will allow for a better view of fiscal exemptions and potentially allow the government to increase its fiscal space for critical service delivery.
Prior Action 2: The Recipient has adopted the <i>Decrét</i> , dated July 8, 2016, revising the methodology for the determination of the prices of petroleum products in its territory to conform with the “Platts” reference price.	No. Prior action 2 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.	Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, prior action 2 will allow for significant cost savings and less distorted fuel prices, which will allow the government to increase its fiscal space for critical service delivery.
Prior Action 3: The Recipient has, through its Ministry of Finance adopted the <i>Arrêté</i> , dated August 9, 2016, revising the monthly processing schedule of salaries of civil servants and state agents, both civilian and military, including the transmission of the statement of movements of civil servants and state agents and all supporting documents to the Directorate General of Treasury and Public Accounting including the Central Accounting Agency of the Treasury (CAAT).	No. Prior action 3 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.	Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, prior action 3 will allow for better control of the wage-bill, which should yield significant cost savings and will allow the government to increase its fiscal space for critical service delivery.
Prior Action 4: The Recipient has, through the Ministry of Finance, adopted the <i>Arreté</i> , dated May 13, 2016, which establishes the nomenclature of supporting documents for public expenditures in conformity with the Organic Finance Law of July 2006 and the procurement code of June 2008.	No. Prior action 4 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including concerning climate and disaster risk management.	Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, prior action 4 will limit extraordinary spending, which should yield significant cost savings and will allow the government to increase its fiscal space for critical service delivery.
Prior Action 5: The Recipient, has through the Directorate General of the Treasury and Public Accounting of the Ministry of Finance, prepared the 2015 Trial Balance and the Trial Balance for the 1 st semester, ending June 30 th , 2016,.	No. Prior action 5 is expected to have no adverse impact on the environment; rather, the reforms are expected to improve basic fiscal management and ultimately lead to an improved capacity to manage policy formulation and implementation including	Yes. Overall the PFM reforms are expected to have a positive social and distributional impact as well as positive effects on poverty reduction. In particular, prior action 5 will allow for a better view of public financial accounts and will potentially allow the government

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social, or distributional effects (yes/no/to be determined)
	concerning climate and disaster risk management.	to increase its fiscal space for critical service delivery.
Pillar 2: Supporting Economic Recovery		
Prior Action 6: The Recipient has, through the Ministry of Transport, Civil Aviation and Unlocking's adoption of an <i>Arrêté</i> , dated August 29, 2016, adopted an Operations Manual for the Road Maintenance Fund (RMF), which: (i) defines maintenance programming; (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the National Equipment Office (NEO), the Recipient's Ministry of Transport, Civil Aviation and Unlocking and the RMF.	No. The strengthening the governance of the RMF and the NEO are not expected to have any adverse impact on the environment. This policy action will increase allocations to the RMF and improve its budget execution; however, these funds are not intended for a particular infrastructure project as they will only be provided to the general budget.	Yes. Overall, measures are expected to have a positive social, poverty and distributional impact. In particular, prior action 6 will support investments to support secondary roads, which should both improve the business environment and ameliorate intra-regional disparities. Moreover, the rehabilitation of rural and feeder roads should facilitate the growth of both the agriculture and forestry sectors.
Prior Action 7: The Recipient has adopted two instruments to operationalize the 2015 Seeds Law, namely: (i) a <i>Décret</i> , dated October 19, 2016 approving the statutes of the National Seeds Office (NSO); and (ii) an <i>Arrêté interministeriel</i> , dated October 20, 2016, an Interministerial decision creating the body of seeds inspectors and controllers of the NSO.	No. The operationalization of the Seeds law will establish the National Seeds Office and the Body of seeds inspectors and controllers. This will contribute to promote increased access to agriculture inputs and is not expected to have any adverse environmental impact.	Yes. Overall, prior action 7 is expected to have a positive social, poverty and distributional impact. Increased access to quality seeds is expected to support job creation in remote rural areas and will benefit the majority of the population as most of it works in the agriculture sector.
Prior Action 8: The Recipient's Council of Ministers has, through its <i>Notification</i> , dated September 28, 2016, adopted the draft law on electronic communication.	No. The ICT policy measure supported by the operation is expected to have no adverse impact on environment. Expanding the coverage of telecommunications networks may require either upgrading of active equipment on already existing towers or set up of a new tower, both measures function under the generic and specific obligations that licensed telecommunications operators have to comply with (in particular Decree 005/MPTNT/DIRCAB/DGART from March 10, 2010 ²³ regulating authorizations to set up new towers).	Yes. Prior action 8 is expected to contribute to increase the access to mobile phone services and is hence expected to have a positive social and poverty impacts. Improved access to mobile phone services (voice, text, mobile money and banking, internet) benefits households in multiple ways. Mobile phones can improve access to and use of information, thereby reducing search costs, improving coordination between different parties, and increasing market efficiency.

²³ http://www.art-rca.org/media/documents/textes_reglementaires/arretes/ARR005MPTNT09.pdf

ANNEX 5: DONOR MAPPING OF BUDGET SUPPORT AND TECHNICAL ASSISTANCE (TA)

Directorate	Donor	Amount (US\$ millions)	Area of intervention
Directorate of Public Accounting and Treasury	EU	4.08	Support to the establishment of the Pay Master and his deputy, construction of Pay Master Office
	World Bank	1.25	Pay Master and his deputy, Follow up on the resetting up of the computerized budgeting and accounting system (GesCo), Reestablishment of the TSA, IT equipment
		0.75	Follow up of Pay Master and his deputy,
	AfDB	0.85	Training in debt and risk management and Windev, rehabilitation of debt department building, acquisition of new version of SYGADE, debt pro, Development of interface SYGADE/GesCo
	France	TBD	Elaboration of treasury plan, Resetting up of computerized budgeting and accounting system (GesCo)
Directorate of Customs	World Bank	0.45	Audit of the operational procedures, IT equipment
		0.51	Reinforcement of the customs exemptions process, implementation of audit of the operational procedures
	EU	4.20	Implementation of SYDONIA ++, Establishment of mobile surveillance patrol
	AfDB	0.64	Training in the assessment of the values of key minerals, Training in ex post control, Dissemination of Code of Ethics, cars and other IT equipment
	France	TBD	Audit of oil tax management, Redeployment of surveillance patrol in Bouar, IT equipment of Bekolo and Bangui
Directorate of Taxes	World Bank	0.51	Reinforcement of the operational procedures, IT equipment
		0.45	Reinforcement of the technical capacity on sectoral taxation management (telecommunication, forest, mining)
	AfDB	0.50	Training of the tax inspectors, Training of the economic players, Dissemination of the Code of Ethics, Cars and IT equipment
Directorate of Budget	World Bank	0.05	IT equipment
		0.60	Support the preparation of the 2015 budget backed with a clear investment program, including procurement and budget implementation tools in targeted ministries
	EU	TBD	Budget formulation, preparation and execution. Modernization of the PFM Acts to comply with CEMAC PFM Directives
	France	TBD	Budget formulation
General Inspectorate of Finances	World Bank	0.20	Review of the payroll databases, physical verification of civil servants at their duties station, IT equipment

Directorate of Civil Service	World Bank	0.34	Improvement of the HR database, support to the 5 line ministries HR Directorates. IT equipment
Total		11.30	

Donor	2016 Amount (millions)	2017 Amount (millions)	Area of intervention
World Bank	US\$15	US\$15	Measures to restore basic fiscal management and support economic growth.
AfDB	US\$14.4	TBD	Management of public finances and business/productive sector environment.
EU	€15	€15	Management of Domestic Payments Arrears.
France	€8	€8	Management of Domestic Payments Arrears.
IMF	SDR 25.05 million	SDR 23.6 million	Balance of payments support with structural benchmarks in the areas of: rationalization of the wage-bill, debt management, public financial management, accountability, revenue collection, governance.

ANNEX 6: LESSONS LEARNED

- 1. A first lesson learned is the importance of identifying priorities that are likely to immediately improve the living conditions of the population.** As emphasized by the RPBA, projects in fragile and conflict affected states (FCS) must focus on identifying the most urgent priorities, to be immediately designed and implemented. Accordingly, the proposed operation will targets critical reform areas where there is the greatest immediate potential of reducing poverty and restoring trust in government institutions. Tangentially, the recent CAR Fragility Assessment noted that it is essential to address regional imbalances, which create grievances and limit the opportunities to build national and social cohesion. This objective includes the need to address the marginalization of the North East, and more broadly the imbalance between Bangui and the rest of the country in terms of access to services, security, and economic opportunities. To this end, the proposed operations focus on public financial management reforms to increase the capacity of the state to deliver services to the population and on reforms in the agricultural, transport and telecommunications sector which are expected to benefit a large part of the population.
- 2. A second lesson learned from previous DPOs in CAR is that future DPOs should seek to link more strongly the public sector and economic governance reforms with measures to promote private sector development.** Likewise, focused reforms are needed to restore the government’s basic financial functions and increase their transparency. Moreover, it is essential that support be provided to areas where the government has demonstrated commitment. With respect to pillar 1, the proposed operation will focus on reforms to which the government has expressed commitment, particularly through its ongoing efforts to simultaneously address PFM capacity and transparency. Likewise, the reform priorities of the new government mark a new commitment to agricultural production, which will support a pro-poor growth trajectory. Underpinning these efforts are parallel commitment to reforms that promote private sector development through investments in transport, and telecommunications. All the reforms supported by the operation will benefit from technical assistance from the World Bank as well as from other development partners.
- 3. A third lesson learned comes from the recent Country Portfolio Performance Review (CPPR), which proposes to harmonize institutional arrangements by reducing the number of delivery mechanisms, which are numerous in CAR.**²⁴ Accordingly, the CPPR advised that institutional arrangements should be harmonized into one mechanism that comprises one fiduciary agency and the various technical units that are housed in the relevant ministries. Furthermore, the CPPR recommended a comprehensive monitoring and evaluation system in order to document the broader impact of development. Drawing on these lessons, the program will be managed solely by the *Cellule Chargée du Suivi des Réformes Economique et Financières* (CS-REF), but which will involve active dialogue and participation from the related line ministries of agriculture, transport, and ICT. In addition to assuming the overall coordination, implementation, and fiduciary responsibility for the program, the CS-REF will also be responsible for the monitoring and evaluation of the program.
- 4. A fourth lesson drawn from previous experience from fragile states suggests that close donor coordination and alignment to Government development objectives is extremely important for the success of reforms, as cohesion among donors helps to maintain focus on implementation of key reforms.** Moreover, the recent CAR Fragility Assessment notes that donors should apply the “do no harm”

²⁴ These include “classic” Project Implementation Units (PIU) (e.g. health system support projects), PIUs anchored within Ministries (e.g. PURSeP and CEMAC transport projects), and PIUs with delegated project management agreements (e.g. Energy, Emergency Urban Infrastructure Support and LONDO projects).

principle in CAR, which means first and foremost engaging for years – if not decades – and avoiding a “stop-and-go” aid flow. Drawing on this lesson, ongoing support provided by other partners—particularly the IMF, AfDB, EU and AFD—has been taken into account and reflected in the program design, to maximize synergies and complementarities of the programs. Moreover, in addition to building partnerships, the RPBA process will also contribute to the smoothing of aid cycles, improvement of donor coordination, a strategically contribute to address risks linked to security, political capture, and institutional capacity.

5. A fifth and final lesson learned comes from the most recent IEG Retrospective of World Bank DPOs, which suggests that monitoring and evaluation (M&E) has been a challenge with many Bank DPOs. In particular, creating a set of relevant indicators in many cases is hampered by weaknesses in country data, while arrangements to generate or collect data specifically for the M&E framework of DPOs may not always work. To remedy this issue, the proposed operation has worked with the government to strategically select indicators for which data currently exists. Moreover, to ensure harmonization with other programs, the program will use indicators included in the IMF’s Extended Credit facility, which can be more easily monitored during joint supervision missions.

ANNEX 7: RISKS AND MITIGATION

1. The overall risk rating for the proposed operation is substantial do to several interrelated risks that may jeopardize the achievement of the PDO.

Category	Risk Rating
1. Political and governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Substantial
7. Environmental and social	Moderate
8. Stakeholder	Substantial
9. Other (security)	High
Overall	Substantial

2. Political and Governance Risk is High: CAR has a fragile political environment with weak institutions, which are often captured by elite interests. Therefore, an enduring commitment to PFM reform within the public administration will be necessary to overcome bureaucratic inertia and the opposition of interest groups that benefit from lax financial management. As the authorities continue to consolidate political stability following the recent presidential elections, the government has the opportunity to shift its focus from crisis response to post-conflict recovery. In order to mitigate this risk, some donors are already preparing to reorient their programming from emergency interventions to capacity building and technical assistance. Increasing political stability and a renewed focus on institutional development will likely contribute to the successful implementation of the government's PFM reforms, provided that the authorities can effectively address the challenges and risks. While not all of the political and governance risks can be mitigated, the DPO series will use the triggers where there is broad support for reforms.

3. Macroeconomic Risk is High. CAR remains highly exposed to external and domestic risks that might put macroeconomic stability at risk, with negative impacts on investment and growth. First, on the domestic front, the road to peace and stability is usually bumpy, and the highest risk stems from continued insecurity and violence. A deterioration of security conditions could severely limit the momentum for the economic recovery. The repercussions of the outburst of violence in September 2015, which killed more than 90 people, reduced by 0.9 percentage points the real growth rate. Diamonds produced in the Central-Eastern region, which account for about half of the national diamond output, remain under an export ban under the Kimberly process of certification. Medium-term projections assume a full lift of the diamond export ban, which may prove optimistic given persistent violence. This would result in widened domestic primary and current account deficits, and an increase in public debt. Mitigating measures might include expenditure cuts and delayed hiring of new staff, and a less ambitious arrears-clearance strategy. While the results related to the second pillar are more vulnerable to the sociopolitical environment, growth and

related job creation are critical elements for preserving political stability in an environment where expectations for a peace dividend are high. The program would still be able to support the maintenance of fiscal control and basic spending. Strong leadership, backed by a well-designed strategy and a sustained political commitment to reform will be critical to foster a robust economic recovery and mitigate the risk of a return to conflict. Previous reform efforts, however, have been undermined by a lack of consensus or the political will necessary to implement difficult policy decisions. In order to maximize its chances for success, the government's policy agenda should reflect the input of multiple stakeholders, including representatives from the private sector and civil society, and a highly qualified and widely respected team should lead its implementation with the full support of CAR development partners. Key structural reforms need to be strengthened, with fiscal policy focusing on revenue mobilization, and efficient service delivery.

4. Risk related to delays in the delivery of external financial assistance are considered moderate based on pledges already made by development partners (including the AfDB, EU, and France) to provide budget support in 2016. Moreover, the IMF's Extended Credit Facility will take into account factors that are outside the government's influence to ensure that the macroeconomic stability objective is respected, should there be a change in the expected external financing. The support by development partners is expected to play a catalytic role in mobilizing additional budget support from multilateral and bilateral partners to help ensure that the program is fully financed. Indeed, the World Bank is leading the joint effort with the UN to prepare for a donors' conference in Brussels in November.

5. **A degree of uncertainty is also added to the forecasts due to the poor data quality.** With respect to national accounts, a high degree of uncertainty is attached to the level and growth rate of real GDP, as estimates for informal sector activities are still based on a 1982 survey. Furthermore, developments in the subsistence agriculture sector, accounting for an estimated 30 percent of the economy, are not adequately tracked. The measurement of inflation is subject to a high degree of uncertainty. The CPI is collected monthly but only reflects the price development in Bangui. The index is highly skewed toward food items (70 percent), in particular basic foodstuff, and covers only a limited number of service items. With the crisis, prices are not collected regularly for lack of resources. A World Bank funded statistics project will contribute to mitigate the situation in the medium-term. On the external front, risks include: volatile commodity prices, a global slowdown in emerging economies, and persistent regional instability. Recent forecasts predict global economic activity will remain weak. Growth momentum is slowing down in many markets, including the European Union and China—which will inevitably affect CAR by delaying exports recovery and lowering the growth prospects.

6. **Despite these diverse and interrelated macroeconomic risks, the overall macroeconomic framework is deemed appropriate to proceed with the operation.**

7. **Sector Strategies and Policies Risk is Moderate.** The proposed operation is aligned with the Recovery and Peace Building Assessment (RPBA). This exercise was led by the Government and has provided the overarching framework of CAR's development agenda for the next five years (2016-2021). Moreover, the Government's General Policy Statement, dated June 7, 2016, supports the priorities and objectives identified in the RPBA. However, there is a risk that the proposed strategies and policies could be reversed or delayed due to a possible deterioration of the security situation, stakeholder opposition or if future elections result in a change in the composition of the government. In order to mitigate this risk, the operation will ensure its alignment with the Government's reform priorities as will be further discussed at a donor conference in Brussels, which is scheduled for November 2016. The operations support to improve transparency and accountability will also contribute to mitigate the risk.

8. **Technical Design of Program Risk is Moderate.** There is a risk that the implementation of reform measures are delayed due to limited capacity and hence may not sufficiently address the underlying

governance problems to the degree and within the ambitious timeframe proposed by the program. Moreover, poverty reducing impacts may be dampened during the second phase of the operation, as further macroeconomic challenges may emerge as noted in the macroeconomic risks section. To mitigate these risks, articulating a program around the most pressing issues of fiscal management and growth will help consolidate basic fiscal management and transparency as well as support economic recovery and pro poor growth. This will contribute to economic recovery and to sustain peace. The coordinated support by other development partners is also a mitigating factor of this risk. In the current context, a DPO providing critical financing to the budget to allow the state to pay its primary expenditures while supporting the implementation of key reforms and which is complemented by technical assistance and investment lending is important to assist the country in exiting its fragile situation. The PFM reform program that the Government is implementing is credible and was based on a diagnostic that identified core weaknesses.

9. Institutional capacity for implementation and sustainability risk is substantial. Capacity constraints present a serious challenge to the implementation of the reform program. The focus on basic reforms that will strengthen the country's PFM functions, including increasing revenues to build a more effective public administration, limits the risk. The focus on a limited number of key reforms to support economic recovery also limits the risk. However, the crisis has significantly deteriorated the administration's capacity and it will take time to strengthen it. The risk is mitigated by the complementary technical assistance that will be provided to the operation by the World Bank and other development partners. Moreover, the scope of reforms has been tailored to ensure that it incorporates a reform program for which there is sufficient political backing, with all of the reforms in SCDP 1 are already achieved as well as substantial implementation progress on SCDP 2 triggers.

10. Fiduciary Risk is Substantial. This assessment is based on the current status of CAR's PFM system and the BEAC safeguards framework, accounting systems, and auditing arrangements. However, the Government of CAR has made critical progress in strengthening multiple aspects of public financial and budgetary management since 2006. It has also accelerated the reform process during the transition period. In addition, it adopted a credible reform program that it has demonstrated commitment to implementation. This, and the technical assistance and support by the World Bank and its Development Partners, are mitigating measures to the risk.

11. Environmental and Social Risk is Moderate. The specific policies supported by this programmatic operation are not expected to have negative effects on CAR's environment, forests, water resources, habitats or other natural resources, nor are there any short or long term climate change or disaster risks relevant to this operation. Through its measures targeting the restoration of basic fiscal management and transparency as well as the measures supporting economic recovery and pro poor growth, the operation will contribute to address citizen and civil society needs. This is particularly relevant given the socio-economic disparities between the capital and the various outlying provinces. The CS-REF will also undertake stakeholder consultations, including with the private sector and civil society, during program implementation. The agriculture measures supported by the operation are not expected to have adverse environmental or social impact. With respect to the forestry sector in particular, no major environmental issues are anticipated given that: (i) a strong regulatory framework for the allocation and operation of forest concessions is in place, including participation in FLEGT; and (ii) support for the enforcement of this regulatory framework is being provided by other development partners (AFD and EU) and will be further strengthened by the proposed Technical Assistance project on Natural Resource Governance under the Turn-Around Facility. The ICT policy measure supported by the operation is expected to have no adverse impact on environment. Expanding the coverage of telecommunications networks may require either upgrading of an active equipment on an already existing towers or set up of a new tower, both of them under the generic and specific obligations that licensed telecommunications operators have to comply

with (in particular Decree 005/MPTNT/DIRCAB/DGART from March 10, 2010²⁵ regulating authorizations to set up new towers).

12. Stakeholder Risk is substantial. Risks exist with respect to the various number of donors involved in CARs post-conflict recovery, which may result in competing priorities and duplication of efforts. To mitigate these risks, a multilateral conference will be held in Brussels in November 2016 to facilitate harmonization of donor interventions in the medium term. Donor coordination in country and joint missions are also important mitigating factors to this risk. There is also a substantial risk for opposition to the reforms that are supported by the operation. Continued policy dialogue by the World Bank and other development partners as well as regular consultations with stakeholders by the CS-REF during program implementation are mitigating measures to this risk. Finally, the RPBA process will also contribute to the smoothing of aid cycles, improvement of donor coordination, a strategically contribute to address risks linked to security, political capture, and institutional capacity.

13. Other Risks related to the program are high. CAR's volatile security situation is a transversal risk affecting all policy areas supported by the operation. The scarce presence of security forces outside of Bangui and a lack of access to basic police and judicial services contributes to insecurity, especially acute in the country's northern and southeastern regions. The scarce presence of security forces outside of Bangui allows for widespread weapons trafficking, often financed by illegal gold and diamond exports, and facilitates the movement of armed groups from Nigeria, Chad, Sudan, and Uganda into CAR. The control of mining areas, as well as pastoral lands in the North, have been a driving factor in CAR's recent multidimensional conflict. Mitigating factors of this risk include the government's effort with support from the World Bank and other development partners to reform its security sector and to disarm, demobilize, and reintegrate armed groups. The MINUSCA support to secure the country is also critical to maintain security and peace.

²⁵ http://www.art-rca.org/media/documents/textes_reglementaires/arretes/ARR005MPTNT09.pdf

ANNEX 8: PILLARS OF THE RECOVERY AND PEACE BUILDING ASSESSMENT

Priority objectives	Sub-objectives
Support peace, reconciliation and security	Support the reinsertion of combatants and the reduction of violence
	Ensure the entire territory is secured by renewed defense and security forces
	Reform the justice system and end impunity
	Adopt a reconciliation and social cohesion policy and create the conditions for a return of displaced individuals and refugees
Renew the social compact between the state and the population	Redeploy the administration across the country and put in place an inclusive local governance system
	Provide basic services to the population across the country, particularly in the areas of education, health and water, by initiating a progressive transfer of capacities and resources to national structures
	Ensure food security and resiliency
	Strengthen good governance (public finance management and controls, higher tax revenue and anti-corruption measures)
Ensure economic recovery and boost productive sectors	Boost and durably develop productive sectors (agriculture and livestock farming, extractive and forestry industries)
	Repair and build infrastructures (including electricity, roads and communication network)
	Ensure that overarching conditions are suitable for private sector development and employment (vocational training responsive to the job market, improved financial services)
	Ensure the stability of the macroeconomic framework
Crosscutting objectives: Reduce regional imbalances; reduce gender-based inequalities; promote transparency and accountability at all levels and help build national capacities (in government and civil society)	

ANNEX 9: FISCAL IMPACT OF THE SCDP

1. The operation is expected to have a positive fiscal Impact. It is estimated to be around 0.6 percent of GDP the first year, which represents about a third of the projected impact of the measures being adopted under the Government's tax reform (Table below). Most measures supported by this operation are thus part of the tax strategy for the next four years of Government. The strategy aims to raise domestic revenue from 7.1 percent of GDP in 2015 to 10.1 percent of GDP in 2019 (and 8.9 percent of GDP in 2017). Higher revenue under this particular DPO series will mainly result from a combination of (i) tax policy measures to reduce exemptions and harmonize taxation with CEMAC directives, and (ii) tax administration measures to simplify procedures, improve control and modernize revenue administration. In two years, the revision of tax exemptions should produce fiscal gains equivalent to about CFAF 1,085 million; the harmonization of tax rates (including VAT) following CEMAC directives should bring about CFAF 914 million; and the application of Platt prices for importing oil derivative should generate no less than 1,600 Million CFAF. Furthermore, there would be modest gains associated to tax administration measures adopted from enhanced control of revenue by regional collecting agencies. These fiscal impact estimates are conservative, as the country-wide re-establishment of tax administration and collection by the Authorities has markedly improved revenue over the past year.

Fiscal Impact under CAR DPO supported Actions in CY16 (Millions of CFAF)

	2016	2017
I. REVISION OF TAX EXEMPTIONS	550	535
Elimination of Customs tax exemptions	400	385
Elimination of domestic tax exemptions	150	150
II. TAX POLICY	1260	1254
Customs tariffs adjustment according to CEMAC directives	300	300
VAT harmonization following CEMAC Directives	160	154
New imported petroleum products taxation on Platts prices (1/3 total impact)	800	800
Reduction of Customs tariffs on mobile phones and infrastructure equipment	0	0
III. TAX ADMINISTRATION	480	625
New quarterly controls on tax collecting agencies	180	240
Reduction in number of tax exemptions by stricter approval procedures	300	385
IV. OTHER MEASURES	635	1090
Tighter control of exceptional spending procedures (minimum savings)	420	660
Arrears recovery from forest companies as result of the audits	215	430
ESTIMATED NET FISCAL SPACE FROM REFORMS (Millions of CFAF)	2,925	3,504
ESTIMATED NET FISCAL SPACE FROM FISCAL REFORMS (% of GDP)	0.3	0.3
Memo: Nominal GDP (Billions of CFAF)	1,042	1,158

Source: Ministry of Finance, IMF and World Bank staff estimates.