PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

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Report No.: AB7872

Operation Name	State Consolidation Development Program
Region	AFRICA
Country	Central African Republic
Sector	General public administration sector (60%);Public administration- Agriculture, fishing and forestry (10%);Public administration- Energy and mining (10%);Public administration- Health (10%);Public administration- Education (10%)
Operation ID	P160123
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Borrower(s)	MINISTRY OF FINANCE
Implementing Agency	
Date PID Prepared	July 21, 2016
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Estimated Date of Board Approval	November 16, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

1. **CAR is a highly fragile country with a history of recurrent conflict, the most recent of which took place in 2013 between multiple armed groups.** As a result, roughly one-quarter of the population was internally displaced or had to flee as refugees to neighboring countries. The conflict had a devastating impact on economic activity as well, with GDP falling by an un-precedent 36 percent in 2013. A 46 percent drop in food production, 55 percent drop in livestock, and a one-third drop in the hunting and fishery sectors put half of the country in food insecurity. The poor security situation drove forest and mining firms to close their operations and CAR was suspended from the Kimberly Process Certification Scheme (KPCS), which halved exports and cut tax revenue by two-thirds. With a widening fiscal gap, the government was unable to pay public wages and salaries for five months, paralyzing government administration and public financial management. At the same time, the conflict severely degraded the capacity of the public administration in core areas, including revenue collection, expenditure management, public investment, and the maintenance of a hospitable business climate, particularly in the agriculture, energy, telecommunications, forestry, and mining sectors. Currently, Doing Business ranks CAR as the 4th worst place to conduct business in the world.

2. **The crisis drove poverty—which was already widespread and high before the 2013 crisis—even higher.** Gross national income (GNI) per capita fell sharply between 2012 and 2013, from US$917.4 to US$574.5. By 2014 CAR's GNI per capita of US$569.3 was 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—surged from 66 percent in 2008 to 76 percent in 2013. At the same time, CAR is ranked among the most unequal countries in Sub-Saharan Africa (SSA) and has the fourth-highest Gini coefficient in the region. CAR's score on the Multidimensional Poverty Index (MPI) is extremely high at 43, with 77.6 percent of the population deprived of one-third or more of the weighted

indicators. While the spatial distribution of poverty varies by region, two-thirds of CAR's population lives in rural areas, which are home to about 70 percent of the country's poor.

3. **The vast majority of the population continues to lack access to many public goods and services, which has had a stifling effect on human development.** In 2014, CAR ranked 187th out of 188 countries in the UN's Human Development Index (HDI), or 188th when adjusted for inequality. 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. The prevalence of stunting or chronic malnutrition was 40.8 percent in 2014, a level the World Health Organization defines as "critical," and the prevalence of wasting or acute malnutrition was 6.6 percent. Nearly half the population in these areas lacks access to safe drinking water, and more than three-quarters do not have access to adequate sanitation facilities or electricity.

4. **Limited economic opportunities and investments across all sectors have exacerbated—and continue to perpetuate—economic vulnerability.** While agriculture represents almost 45 percent of the CAR's GDP, as well as the main source of livelihood for the rural population, the sector has been completely decapitalized, with productivity remaining extremely low in both the crop and livestock subsectors, and extensive areas of arable land remain underexploited due to security concerns. Infrastructure is also extremely limited, with a network of less than 25,000 km of roads for the entire country in 2010. Mobile telecommunications networks only covered 59 percent of the population at the end of 2015 and many sites cannot be accessed for maintenance and other improvements due to persistent insecurity throughout the country.

5. **Despite these challenges, a return to political stability has brought an opportunity to consolidate peace and lay the groundwork for robust economic recovery.** The peaceful transition from President of the Transition Catherine Samba-Panza to democratically elected President Faustin Archange Touadera, inaugurated on 30 March 2016, represents a giant leap forward towards stabilizing the Central African Republic, which has enjoyed relative stability since Pope Francis' landmark visit in November 2015. As the security situation has improved and the new administration has taken office, early signs of an economic recovery have emerged: macroeconomic balances have returned to equilibrium; private investment has reached above its pre-crisis levels; public services have been gradually restored nationwide; and emergency aid flows have turned its attention to long-term development challenges.

6. **A recent 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 the joint assistance from the WB, the EU, and the UN. The RPBA identifies the country's main priorities in the form of three pillars and corresponding sub-objectives, as well as a number of crosscutting objectives:

a. ***Pillar 1: Support peace, reconciliation and security*.** This will be achieved through: (i) the reinsertion of former combatants and implementation of violence reduction activities; (ii) the reform and redeployment of defense and security forces; (iii) the reform of the justice system, and implementation of national mechanisms for the peaceful resolution of civil conflicts; (iv) the implementation of a reconciliation and social cohesion policy at both national and local levels to build on progress made during the Bangui Forum; and (iv) the establishment of the necessary conditions for the return of close to 900,000 internally displaced people and refugees.

b. ***Pillar 2: Renew the social compact between the state and the population*.** This will be achieved through: (i) the redeployment of the administration across the territory and the establishment of an inclusive local governance system; (ii) the delivery of basic public services throughout the country (targeting in particular the education, health, and water sectors); (iii) increasing food security and resilience, to meet the urgent livelihood needs of the population and reduce vulnerability; and (iv) the completion of ongoing PFM reforms and adoption of anti-corruption measures.

c. ***Pillar 3: Ensure economic recovery and boost productive sectors.*** This will be achieved through: (i) the support to productive sectors, notably agriculture, livestock farming, and extractive and forestry industries; (ii) the repair and building of key infrastructure (including electricity, roads, and telecommunication networks); (iii) the promotion of private sector development and employment; and (iv) ensuring macroeconomic stability.

d. ***Crosscutting Objectives:*** (i) reduce regional imbalances; (ii) promote transparency and accountability; (iii) build the capacity of public institutions and civil society organizations; and (iv) promote gender equity.

7. **The Government's General Policy Statement, dated June 7, 2016, supports the priorities and objectives identified in the RPBA**. The priorities have been identified as such: (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 through the control of internal procedures and restoring State authority; and (iv) support for social and humanitarian affairs.

8. **In addition to these general policy directions, the authorities are striving to reestablish the government's core Public Financial Management (PFM) functions, as a strong PFM system is crucial to an effective public administration.** Prior to the crisis, the government had made important progress in improving payroll and treasury management, including the merging of the public payroll and civil-service database into a single system, the adoption of a new organizational chart, and the payment of all salaries through the banking system. A Single Treasury Account was opened and a Treasury Committee, chaired by the Head of State, was established to manage expenditure priorities.

9. **As the political situation stabilized, the government began rebuilding its PFM systems.** 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 2012-16. The GESCO system (computerized budgeting and accounting system) is once again operational. In order to curb the use of exceptional budget-execution procedures, 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 testified by the improvement in the fiscal policy rating of the CPIA in 2016 to 3.0, up from 2.5 in 2015. The PCPI Governance rating also improved, marginally, moving from 2.2 in 2015 to 2.3 in 2016.

II. Proposed Objective(s)

10. **The State Consolidation Development Program (SCDP) DPO grant series is structured around two pillars, with parallel reforms designed to reestablish basic fiscal management and to support economic recovery.** Under the first pillar, Reestablishing Basic Fiscal Management, the DPO series seeks to increase fiscal revenues, reduce domestic arrears, improve payroll controls, strengthen the control of non-salary spending, and improve budget transparency. Under the second pillar, Support of 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 agriculture, forestry, transport, and ICT. The two pillars of the proposed SCDP DPO Grant series are designed to target the more critical constraints facing CAR's fragile economy and are mutually reinforcing. By selecting a series of upstream and structural reforms, the series aims to increase the fiscal space available to the government of CAR, which would eventually allow for more targeted spending in priority sectors. Since successful implementation of this ambitious program will require time, assistance, and flexibility, this programmatic series will support a progressive scaling-up of reforms over a three year period, 2016-2018.

11. **Pillar one seeks to restore basic fiscal management in CAR through increased revenues, reduced domestic arrears, improved control and transparency in budget execution and wage bill management.** This outcome will be achieved through support to a number of mutually reinforcing public financial management policy areas. First, the SCDP DPO series will support the government in increasing its revenues by harmonizing fiscal and customs exonerations as well as aligning petroleum prices with an international (Platt) reference price. Second, the proposed operation will support the adoption and implementation of a domestic arrears reduction plan, which is expected to both a have stimulating impact on the economy and contribute to restore the credibility of the State. Third, the SCDP DPO series will target payroll controls as a key measure to improve human resource management as well as the integrity and control of the public wage bill. Fourth, the SCDP grant series will put in place measures to reduce the scope for exceptional spending procedures and to regularly produce and publish financial accounts, including the clearance of the 2009-15 backlog of Settlement Laws of the Finance Laws in order to improve budget predictability, credibility and external oversight. Finally, pillar one of the SCDP DPO grant series will put in place measures to improve budget transparency and public access to fiscal information, which is critical to ensure citizen oversight and accountability in budget execution. Taken together, these actions are expected to increase budget predictability and control, which will introduce efficiencies and savings in comparison with current practices.

12. **Pillar two seeks to support economic recovery in productive sectors critical to CAR's growth and stability.** First, the SCDP grant series will support the agricultural sector by increasing access to high quality agricultural inputs, including seeds, fertilizers, and phytosanitary products. At the same time, the operation will support critical reforms to support the Road Maintenance Fund and the National Equipment Office in order to allow for a greater as well as more sustainable and efficient allocation of resources for the maintenance of secondary and rural roads, which are critical in connecting rural villages and producers to markets. Additionally, the proposed operation will support policy measures to start production in inoperative, attributed forestry licenses and in the adoption of a national cash-crop policy. Second, the SCDP series will support the development of the ICT sector by introducing reforms that will expand connectivity, in particular, mobile telephony penetration and 2G mobile network coverage across the county. Taken together, these measures will not only improve economic opportunities available to all citizens, but also target the poorest and most remote areas, which is critical to reducing poverty, 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 better connect the country, particularly those living in more rural and remote areas. Finally, the policy actions supported under pillar two will help to improve to the business environment, encourage private sector investment, as well as facilitate national, regional, and international trade.

13. **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 Recovery and Peace Building Assessment (RPBA), which was jointly produced by the World Bank, UN,

and EU, including (i) "renewing the social compact between the state and the population," through the reform areas contained in pillar one as well as (ii) "ensuring economic recovery and boosting productive sectors," through its focus on agriculture, transport, and ICT under pillar two. The Government 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.

14. **The SCDP DPO Grant series is closely aligned with the CAR Country Engagement Note (CEN), which describes the continuation of the crisis response and potential next steps for recovery and development until the end of 2016.** The strategy comprises two phases: (i) support for stabilization in order to assist international efforts to break the cycle of violence and maintain confidence in the fragile transition; and (ii) preliminary support for recovery and development. The operation's focus on reestablishing basic fiscal management and supporting economic recovery through targeted support to key sectors of growth responds fully to the second phase of the CEN. Moreover, the SCDP DPO series supports the CEN's three overarching objectives of (i) restoration of core public sector institutions; (ii) basic support to livelihoods; and (iii) support to basic social service delivery.

15. **At a higher level, the objectives of the SCDP grant support the 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 the efficiency in public spending. Likewise, by targeting key growth sectors under pillar two, the project 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. In addition to supporting the Bank's twin goals, the operation is also aligned with recent 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, as well the IEG evaluation of engagement in fragile states, which notes that the Bank's comparative advantage is the provision of support to early reconstruction and economic recovery.

16. **Finally, the SCDP DPO Grant is aligned with other Bank operations, including the crisis response of a US$100 million package in emergency operations, and is an integral part of the US$250 million IDA-funded Turn-Around Facility**. With respect to the former, the SCDP grant comes alongside a package of emergency operations including: (i) emergency line assistance to pay salaries and technical assistance to public financial management reforms, aiming to control expenditure and increase collected revenues (US$40 million); (ii) 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 implemented by WHO and INGO (US$10 million); and (iv) food crisis response project, supporting half a million people through food and seed distribution, implemented by the FAO and WFP (US$20 million). With respect to the later, the proposed SCDP DPO series is a critical element of the IDA-Funded Turn-Around Facility, which will facilitate parallel investments to support, inter alia, DDR (US$10 million); IDP reinsertion and non-formal education (US$5 million); Statistics for decision-making (US$10 million); Water, Sanitation, and Energy (US$20 million); Revival of agricultural production basins (US$40 million); and Natural Resource Governance TA (US$5 million).

III. Preliminary Description

Area	Prior actions agreed under SCDP1 (August 2016)	Proposed triggers under SCDP2 (June 2017)	Proposed triggers under SCDP3 (June 2018)
PILLAR 1: RESTORE BASIC FISCAL MANAGEMENT			
Increased Revenues	**Prior Action 1:** Adoption of a decree revising the duties and responsibilities of the Inter-ministerial Committee in charge of fiscal and customs exonerations.	**Trigger 1:** Introduction provisions in the 2017 Finance Law stipulating: (i) the conditions, structure, and nature of fiscal and customs exemptions; and (ii) a list of exempted products in line with CEMAC directives.	**Trigger 1:** Adoption of necessary measures to control/abolish/ensure the recording of administrative fees, taxes, fines, and levies ("*menues recettes*").
	Prior Action 2: Adoption of a decree revising the petroleum products taxation based on an international reference price (Platt).	**Trigger 2**: Adoption of a Ministerial decision introducing quarterly controls by the Inspector General of Finance (IGF) for tax collecting entities with an obligation for inspection at least once per FY.	
Reduced Domestic Arrears		**Trigger 3:** Adoption of an arrears clearance plan.	**Trigger 2:** Implementation of the arrears clearance plan with a special focus on cotton, forestry, and transport.
Improved Wage Bill Control	**Prior Action 3:** Adoption of a Ministerial Decision that revises the calendar of transmission of the wage-bill to the CAAT.	**Trigger 4:** Adoption of a revised wage structure (*table de solde*).	**Trigger 3:** Inclusion in the 2018 Finance Law of a table listing posts by grade, department, and place of assignment.
	Prior Action 4: Repatriation of 15 civil servants and consular agents in foreign service duty who have been relieved of their functions.		
Improved Budget Control and Transparency	**Prior Action 5:** Preparation of the 2015 financial statements by CAAT (allowing to identify outstanding third party	**Trigger 5:** Adoption of texts establishing rules for budget advances.	**Trigger 4:** Submission of the Settlement Law of the Finance Law (SLFL) 2009-2015 to Parliament.

Area	Prior actions agreed under SCDP1 (August 2016)	Proposed triggers under SCDP2 (June 2017)	Proposed triggers under SCDP3 (June 2018)
	balances, statements of income/expenses, and treasury flows) by the 1st semester of 2016.		
	Prior Action 6: Adoption of the nomenclature of the supporting documents.	**Trigger 6:** Centralization of all irregular accounts in the Single Treasury Account.	
		Trigger 7: Publication of (i) the draft 2017 FL; (ii) the enacted FL; (iii) a citizen's budget on the enacted FL and half-yearly budget execution reports; and (iv) budget execution reports on the MFB webpage.	
PILLAR 2: SUPPORT ECONOMIC RECOVERY AND PRO-POOR GROWTH			
Revival of the Agriculture and Forestry Sectors	**Prior Action 7:** Adoption of an operations manual for the Road Maintenance Fund, which (i) defines maintenance programming (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the NEO, Ministry of roads and Transport, and the RMF.	**Trigger 8:** Completion of an audit of the RMF, including a stocktaking of and a settlement plan for debt between the RMF and the NEO.	**Trigger 5:** Revisions of the financing mechanism of the RMF and adoption of a non-asymmetric petroleum products pricing mechanism reflecting international price fluctuations.
	Prior Action 8: Adoption of texts to operationalize the Seeds Law, including: (i) a decree approving the statutes if the National Seeds Office; and (ii) an Inter- ministerial decision creating the body of seeds inspectors and controllers of the National Seeds Office.	**Trigger 9:** Adoption of an inter-Ministerial Decision concerning temporary modalities on the import and distribution of agriculture inputs (e.g. fertilizer and phytosanitary products).	**Trigger 6:** Adoption of a Cash-Crop policy with a special focus on the cotton sector.

Area	Prior actions agreed under SCDP1 (August 2016)	Proposed triggers under SCDP2 (June 2017)	Proposed triggers under SCDP3 (June 2018)
		Trigger 10: Introduction of corrective measures based on a technical and financial audit of the forestry companies, including if necessary, cancellation by decrees of non-active concessions and attribution in conformity with the sector legislation of the concessions to new investors.	
Promote the Development of the ICT Sector	**Prior Action 9:** Adoption by the Council of Ministries of the draft law on electronic communication (LEC).	**Trigger 11:** Establishment of system of traffic control by the Telecommunications Regulatory Authority.	**Trigger 7:** Adoption of secondary legislation to the LEC, including that which defines : (i) electronic communication regime; (ii) access and interconnection; (iii) universal service ; (iv) frequency management ; (v) numbering and domain name ; and (vi) dispute resolution).
		Trigger 12: Adoption of measures to suppress taxes on imports of entry level mobile and of mobile network infrastructure equipment for 24 months.	**Trigger 8:** Adoption of a plan for the restructuring of Socatel.
		Trigger 13: Adoption by the Council of Ministers 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.	**Trigger 9:** Operationalization of a Universal Access Fund to establish (i) at least ten localities not yet covered by a telecommunications network and (ii) at least three community ICT centers.

PILLAR 1: REESTABLISHING BASIC FISCAL MANAGEMENT

17. **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 PFM reforms, including the treasury plan. However, limited financing and weak treasury management capacity continues 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. To reduce expenses, the authorities have undertaken a payroll audit and taken corrective measures to remove ineligible civil servants from the payroll, which has yielded significant savings and allowed for the resumption of basic services. Nonetheless, the implementation of certain key measures that would reduce the wage bill to a more sustainable level, such as the repatriation of diplomatic personnel relieved from their functions and the reduction in ineligible civil servants "*hors statut*" are encountering delays. Strengthened control of the fiscal and customs administration has permitted an increase in fiscal revenues. The controls need further strengthening combined with the implementation of key measures such as the revision of the petroleum pricing structure to bring fiscal revenues back to the pre-crisis levels.

18. **To address the weaknesses, authorities have adopted plans for further PFM reforms**. The PFM reform program focuses on: (i) increasing revenue collection by rationalizing fiscal and customs exemptions as well as revising petroleum product taxation; (ii) reducing the accumulation of domestic arrears; (iii) strengthening wage-bill management through stronger controls, thereby revising the wage structure and adopting improved procedures for recruiting civil servants; (iv) strengthening control over budget execution and reducing the use of exceptional budget procedures, while improving budget transparency.

1.1 Increased Revenues:

19. **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 timid economic recovery following the crisis and the efforts made by the administration allowed an increase in domestic revenues to an estimated 7.1 percent of GDP in 2015. Despite this progress, domestic revenues are significantly below the pre-crisis level and are insufficient to pay for basic expenditures of the Government. The low level of revenues is the result of a low level of economic activity, which stood at 5.7 percent of GDP in 2015 after the significant drop of 36 percent of GDP in 2013 and the modest increase in GDP of 1 percent in 2014. Fiscal administration has weakened as a consequence of the conflict, numerous tax exemptions and conventions, as well as weak fiscal policies in several economic sectors.

20. **To boost revenues, the authorities aim to reduce tax exemptions and revise the petroleum taxation and increase controls.** Tax exemptions are a major source of fiscal expenses and reached FCFA 27.6 billion at end-June 2016 compared to projections of FCFA 8 billion. To better manage tax exemptions, the authorities intend to review the existing system and tighten oversight of exemptions for

customs duties. To support the government's reform efforts, the SCDP 1 grant will support a series of scalable reforms, including the Adoption of a decree revising the duties and responsibilities of the Inter-ministerial Committee in charge of fiscal and customs exonerations **(SCDP 1 Prior Action 1)**. The new Committee will be in charge of evaluation all requests for exonerations including ensuring conformity with fiscal and customs legislation, audit the use of the exemptions and evaluate the economic, social, and fiscal impact of the exonerations. The revised Decree will also establish rules for the approval, monitoring, control, and evaluation of exemptions. At the same time, current petroleum product taxation does not allow full cost recovery; therefore, in order to contribute to increasing revenues, the grant will support the adoption of a decree revising the petroleum products taxation based on an international reference price (Platt) **(SCDP 1 Prior Action 2)** with a view to generating tax revenue which is expected to generate a gain of FCFA1.5 billion in the 4th quarter of 2016. Once these reforms are in place, they will be scaled-up during the second phase of the operation when authorities will introduce provisions in the 2017 Finance Law stipulating: (i) the conditions, structure, and nature of fiscal and customs exemptions; and (ii) a list of exempted products in line with CEMAC directives **(SCDP 2 Trigger 1)**. Furthermore, the authorities will adopt a Ministerial decision introducing quarterly controls by the Inspector General of Finance (IGF) for tax collecting entities with an obligation that each entity is inspected at least once per FY **(SCDP 2 Trigger 2)**. In the third and final year of the programmatic series, the government will adopt necessary measures to control/abolish/ensure the recording of administrative fees, taxes, fines, and levies ("*menues recettes*") **(SCDP 3 Trigger 1)**.

21. **The expected results of these prior actions and triggers, combined with measures supported by other Development Partners such as the IMF, is an increase of domestic revenues to 8.1 percent of GDP in 2016 and 10.1 percent of GDP in 2019.**

1.2 Reduced Domestic Arrears

22. **The crisis led to the rapid accumulation of domestic arrears (16.3 percent of GDP from 2012 to 2015) which increased vulnerabilities of the domestic debt and reduced the credibility of the State.** The crisis led to the collapse in the functioning of the administration and, as a consequence, the accumulation of domestic arrears. At end-May 2016, domestic arrears amounted to FCFA 157 billion including: (i) arrears to the Central Bank in the amount of FCFA 22.4 billion; (ii) arrears to commercial banks in the amount of FCFA 26 billion; (iii) commercial arrears (including to cotton farmers and providers), social arrears (salaries and pensions) and cross-debt (such as to forestry companies and between state agencies such as the Roads Maintenance Fund (RMF) and the National Equipment Office (NEO) totaling FCFA 132 billion.

23. **Clearing domestic arrears is a priority of the Government and is at the core of the program for restoring basic public financial management.** The arrears are currently being audited with the support of Development partners including the Bank. On this basis, an arrears clearance plan will be adopted **(SCDP2 Trigger 2).** In the third year of the operation, the arrears clearance will be implemented, with a special focus on cotton, forestry, and transport **(SCDP3 Trigger 2).**

24. **The expected results of these reforms supported by the DPO series, combined with support by other Development partners, is the reduction to 22 percent of GDP of domestic debt by end-2019.** The priority of the authorities in 2016-17 will be to manage arrears to the Central Bank, commercial banks and commercial and social arrears from 2013-14 amounting to FCFA 13.2 billion.

1.3 Improved Payroll Controls:

25. **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 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. The Government also increased wages by four percent. 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.[1] Overall, the efforts have resulted in the reduction of the number civil servants and agents from 21,088 in 2014 to 20,679 in 2016 and the overall wage-bill was reduced from 6.5 percent of GDP in 2014 to 6 percent of GDP in 2016. Despite these efforts, personnel records for public servants are still not regularly updated, and new staff were added directly to the payroll system without being incorporated into the HR database. In the absence of reliable civil service records, even secure payment methods are not sufficient to guarantee the integrity of the public payroll.

26. **Efforts to control personnel costs would help consolidate recent progress in improving the integrity of the public payroll.** To allow for recruitments in education, health, and priority sectors (estimated to FCFA 1.2 billion in 2016), the authorities intend to implement several cost saving measures such as the continuous updating of the HR database (FCFA 150 million), retirement of civil servants (FCFA 150 million), the progressive elimination of ineligible "*hors statut*" (FCFA 150 million), and the repatriation of 50 diplomats whose mission has ended (FCFA 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. To that end, the SCDP1 grant will support the adoption of a Ministerial Decision that revises the calendar of transmission of the wage-bill to the CAAT **(SCDP 1 Prior Action 3)**, as well as the repatriation of 15 civil servants and consular agents in foreign service duty who have been relieved of their functions **(SCDP 1 Prior Action 4)**. Subsequently, the SCDP2 will support efforts to adopt a revised wage structure (*table de solde*) **(SCDP 2 Trigger 4)**. In the third and final year of the operation, SCDP 3 will address transparency and accountability in the management of human resources through the adoption of a budget table by grade, department, and place of assignment **(SCDP 3 Trigger 3).**

27. **The expected results of these prior actions and triggers include an increase in the control of the wage bill as measured by the share of the wage bill that CAAT is controlling which is expected to increase gradually from 0 to 75 percent of the wage bill on an annual basis at the end of the series.**

1.4 Improved Budget Control and Transparency:

28. **During the 2013 crisis, property damage and widespread looting took a heavy toll on public facilities and equipment, while the economic collapse caused domestic revenues to fall by two-thirds.** 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

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

procurement and commitment plans by line ministries, and as a result, procurement procedures became more opaque during the transition period. Budgetary reconciliation under 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 – the last and only Settlement Law of the Finance law dates from 2008. To tackle the issue, the government established the Central Accounting Agency of the Treasury (ACCT) which 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.

29. **The public administration has traditionally been governed by a small elite operating with little popular support or accountability, which has repeatedly undermined trust in national leaders.** In 2011 the government passed a set of reforms designed to increase budgetary 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 reign in armed militias, 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 on May, 2016. The Ministers of the Government declared their assets, in conformity with legal provisions, end-July 2016. In terms of budget transparency, very initial measures have led to the publication of the enacted Finance Laws.

30. **Accordingly, 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 preparation of the 2015 financial statements by CAAT, thereby allowing for the identification of outstanding third party balances, statements of income/expenses, and treasury flows by the 1st semester of 2016 **(SCDP 1 Prior Action 5)** as well as the adoption of the nomenclature of the supporting documents **(SCDP 1 Prior Action 6)**. To deepen the reforms in the second year of the operation, SCDP2 will support the adoption of texts establishing rules for budget advances **(SCDP 2 Trigger 5)**, the centralization of all irregular accounts into a Single Treasury Account **(SCDP 2 Trigger 6)**, and the publication key fiscal documents[2] on the MFB webpage **(SCDP 2 Trigger 7)**. In the third and final year of the series, SCDP 3 will support the Submission of the Settlement Law of the Finance Law (SLFL) 2009-2015 to Parliament **(SCDP 3 Trigger 4).**

31. **The expected results of the these prior actions and triggers include a reduction of the level of exceptional spending procedures to less than 5%, in line with the government's target, an increase in the level of budget transparency as measured by an increase of the number of budget documents that are published on an annual basis increases from one in 2015 to six in 2019, and improved external oversight and accountability as the Settlement Acts of the Finance Laws 2009-15 are submitted to Parliament.**

PILLAR 2: SUPPORTING THE ECONOMIC RECOVERY

32. **A strong economic recovery, marked by accelerated employment growth, will be essential to the maintenance of political stability and the consolidation of the peace process.** CAR has experienced

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[2] These include (i) the draft 2017 FL; (ii) the enacted FL; (iii) a citizen's budget on the enacted FL and half-yearly budget execution reports ; and (iv) budget execution reports since Q1 2016

rapid economic expansions in the past, accompanied by continued political stability, an enduring peace process and a well-designed policy framework which allowed for robust and broad-based growth. If it could achieve annual growth rates in the range of 5-6 percent rate[3], the economy would double in size every 8-9 years, creating much-needed employment for an expanding labor force.

33. **To seize the opportunity for economic recovery, reforms are needed to spur growth and promote formalization in employment-intensive sectors such as agriculture and forestry.** New jobs with a clear 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. Conversely, a failure to create sufficient jobs to accommodate the growing workforce could undermine social and political stability and encourage a return to violence. 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.

2.1 Revival of the Agricultural and Forestry Sectors

34. **Despite its recent decline, agriculture accounts for 45% of GDP, 70% of jobs, and over 75% of national food consumption.** About 7 out of 10 household heads in CAR are farmers. Low productivity and the protracted conflict have contributed to the poor performance of the agriculture sector resulting in about 50% of the population living in a situation of food insecurity. Therefore, increasing agricultural and livestock production remain one of the most urgent priorities and challenging issues. To that end, provision and retention of improved seeds is critical to avoid famine and prevent farm households from eating their seeds. However, to sustain increased productivity, the use of manure and or the acquisition of fertilizer at a low cost is fundamental. The authorities adopted a Seed Law in 2015, for which the implementation decrees have not yet been adopted, thus delaying the application of the law.

35. **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 and about 10 percent of state revenues. It also employed a significant workforce in remote regions, accounting for about 4,000 direct jobs and 6,000 indirect jobs. Under the country's benefit sharing framework, the quality standard of which is very high, forestry companies were required to pay local communities about FCFA 1 billion per year. The CAR has signed a FLEGT[4] Voluntary Partnership Agreement with the EU and is making progress in fighting illegal logging. 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. Finally, the country has actively participated in international certification systems and multilateral efforts to combat climate change.

36. **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

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[3] CAR has enjoyed two brief periods of rapid growth, in 1984-85 and in 1994-95, in which the GDP growth rate averaged 5-6 percent per year.

[4] 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.

damage and looting. The forestry road network has for example deteriorated significantly and the forestry firms do not always have the necessary means to rehabilitate it. The Government of the 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 six of eleven logging companies are currently active. Finding solutions concerning tax arrears and the reattribution under transparent conditions of passive concessions to new investors will consequently be determinant for the positive evolution of the sector in the future.

37. **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 Central African Republic (CAR) forms the backbone of the country's transport system, accounting for 90 percent of total transportation in the country. 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 raise transport costs. The 15,500 km rural road network is not only insufficient in scope, but also suffers from inadequate maintenance. Poor road quality has an especially negative impact on rural populations, as it limits their access to markets and essential 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 mainly caused by an insufficient level of resources as well persistent governance issues in the functioning of the Road Maintenance Fund (RMF) and the National Equipment Office (NEO). While the country operates the RMF financed by fuel taxes and road tolls, even before the crisis its resources were far from sufficient to finance the road network's maintenance and operations costs. The RMF's resources currently only provide for five percent of the country's road maintenance needs.

38. **Strengthening the governance and the functioning of the Road Maintenance Fund (RMF) and the National Equipment Office (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.** Quality infrastructure and transport services will however 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 (MINETACD), and the NEO, tasked with responsibilities in terms of support to contracting authorities, service delivery to Small and Medium Enterprises, training of sector technicians including training in the use of equipment and providing subsidized access to equipment needs to initially focus on preventive maintenance and emergency 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.

39. **To address some of the many cross-cutting issues that are hindering the revival of the agriculture and forestry sectors, the SCDP will adopt an integrated short to medium term reform approach.** Accordingly, the SCDP1 will support the adoption of an operations manual for the Road Maintenance Fund, which (i) defines maintenance programming (ii) defines road maintenance work eligible for funding by the RMF; and (iii) formalizes the contractual relationships between the NEO, Ministry of roads and Transport, and the RMF **(SCDP 1 Prior Action 7)**. Likewise, the first operation will support the adoption of texts to operationalize the Seeds Law, including: (i) a decree approving the

statutes if the National Seeds Office; and (ii) an Inter- ministerial decision creating the body of seeds inspectors and controllers of the National Seeds Office **(SCDP 1 Prior Action 8).** In the second year of the programmatic series, the SCDP 2 will support the completion of an audit of the RMF, including a stocktaking of and a settlement plan for debt between the RMF and the NEO **(SCDP 2 Trigger 8);** the adoption of an inter-Ministerial Decision concerning temporary modalities on the import and distribution of agriculture inputs (e.g. fertilizer and phytosanitary products) **(SCDP 2 Trigger 9);** and the introduction of corrective measures based on a technical and financial audit of the forestry companies, including if necessary, cancellation by decrees of non-active concessions and attribution in conformity with the sector legislation of the concessions to new investors **(SCDP 2 Trigger 10).** In the third and final year of the series, SCDP 3 will support revisions of the financing mechanism of the RMF and adoption of a non-asymmetric petroleum products pricing mechanism reflecting international price fluctuations **(SCDP 3 Trigger 5),** as well as support the adoption of a Cash-Crop policy with a special focus on the cotton sector **(SCDP 3 Trigger 6).**

40. **The expected results of these prior actions and triggers, including increased budget allocation to the roads sector, are expected to contribute to an increase in the annual agriculture production, from 813,120 tons in 2015 to 940,000 tons in 2019 and an increase in the annual production and export in the forestry sector from 315, 000 M^3 to 540, 000 M^3 in 2019.**

2.2 Developing the ICT Sector for Greater Connectivity:

41. **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 increase financial inclusion, were launched in CAR only in the first half of 2016. Significantly improved access to mobile services (voice, text and internet) would bring multiple benefits to Central African households. In the absence of fiber link to submarine cable stations as in coastal countries, the costs of international connectivity remain too high to allow the development of Internet services in CAR.

42. **Consequently, 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.** Under the SCDP1 grant, the government will support the Adoption by the Council of Ministries of the draft law on electronic communication (LEC) **(SCDP 1 Prior Action 9)**. In the second year of the operation, the SCDP will support establishment of system of traffic control by the Telecommunications Regulatory Authority **(SCDP 2 Trigger 11)**; the adoption of measures to suppress taxes on imports of entry level mobile and of mobile network infrastructure equipment for 24 months **(SCDP 2 Trigger 12)**; and the adoption by the Council of Ministers a strategy for the use of revenues from the Universal Access levy on operators in order 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 **(SCDP 2 Trigger 13)**. In the third and final year of the programmatic series, SCDP 3 will support the adoption of secondary legislation to the LEC, including that which defines, inter alia: (i) electronic communication regime; (ii) access and interconnection; (iii) universal service; (iv) frequency management; (v) numbering and domain name; and (vi) dispute resolution) **(SCDP 3 Trigger 7)**. In addition, SCDP 3 will support the adoption of a plan for the restructuring of Socatel **(SCDP 3 Trigger 8),** as well as the operationalization of a Universal Access Fund to establish (i) at least ten localities not yet covered by a telecommunications network and (ii) at least three community ICT centers **(SCDP 3 Trigger 9).**

43. **The expected results of these prior actions and triggers include increasing ICT connectivity as measured by the penetration rate of mobile telephones as well as 2G network coverage which are expected to increase from 37 percent (2015) to 55 percent (2019 and from 59 percent (2015) to 70 percent (2019), respectively.**

IV. Poverty and Social Impacts and Environment Aspects

44. **The SCDP DPO grant series is expected to contribute to inclusiveness and poverty reduction through two main channels.** 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 project will help to alleviate poverty and address weak and unequal service provision, which has eroded the trust between citizens and the State. Likewise, under pillar two the project will target poverty reduction and inclusion by providing support to key sectors, which are crucial to economic growth. This includes the acquisition of critical inputs, such as seeds and fertilizers, to support the agricultural sector where the vast majority of the extreme poor work, particularly in areas outside of the capital. Additional investments to support secondary roads and the deepening of mobile networks and other ICT technologies will serve to better connect the country, which should both improve the business environment and ameliorate intra-regional disparities.

45. **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**

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
IDA Grant		20.00
Borrower/Recipient		
IBRD		
Others (specifiy)		
	Total	20.00

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