Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 20-Mar-2017 | Report No: PIDISDSC21412

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Central African Republic	P161730		Public Administration Modernization Project (P161730)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	May 04, 2017	Jun 26, 2017	Governance
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Central African Republic	Ministry of Finance and Budget	

Proposed Development Objective(s)

Improving capacity for expenditure management as well as strategic planning and oversight

Financing (in USD Million)

Financing Source	Amount
IDA Grant	10.00
Total Project Cost	**10.00**

Environmental Assessment Category	Concept Review Decision
B-Partial Assessment	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Central African Republic (CAR) is a landlocked and highly fragile country with a history of recurrent conflict and domestic political instability.** Located in Central Africa, bordering six countries CAR has a land area of 620,000 square kilometers and is sparsely populated with an estimated population of 4.7 million. Since gaining independence, CAR has experienced only two peaceful transitions of power, in 1993 and 2016. 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 National Recovery and Peace Building Plan 2017-21 (RCPCA), 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]

2. **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.

3. **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**. Despite a wealth of natural resources such as uranium, oil, gold, diamonds, cobalt, lumber, wildlife, significant areas of arable land as well as hydropower, CAR is one of the poorest countries 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 region[2]. 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 population lacks access to safe drinking water, and more than three-quarters do not have access to adequate sanitation facilities or electricity.

4. **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

[1] The RCPCA is grounded in recognition of the need to address the five core drivers of fragility and crisis over time to break the cycle of violence: i) a lack of social cohesion; ii) political power and the capture of scare resources concentrated in the hands of a small elite that manages a state with very legitimacy; iii) imbalances between Bangui and the rest of the country, notably the north-east, which have fueled a sense of marginalization and exclusion; iv) a cycle of violence and trauma and a population in distress; and v) a lasting state of insecurity.
2 World Bank, Policy Note, Poverty, 2016 and WDI 2015.

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.

5. **The prioritized, sequenced and costed national development plan, the RCPCA, has received an unpreceded support by the international community.** Originally considered an aid orphan, CAR is currently heavily reliant on support from the international community although emergency aid is beginning to give way to long term development assistance. At a donor conference in Brussels held on November 17th 2016, the international community pledged an unparalleled US$2.2 billion to cover the most urgent needs and priorities for the period 2017-21 as reflected in the RCPCA. This five-year plan is based on a gradual increase of development aid, a progressive improvement of the security situation, the gradual redeployment of public administration throughout the country, and steady increase of fiduciary, administrative and absorptive capacity required for the government to take full charge of its implementation. The RCPCA is structured around three priority pillars: (i) Support promote peace, security, and reconciliation; (ii) Renew the social contract between the state and the population; and (iii) Promote economic recovery and boost productive sectors and a number of cross-cutting objectives as critical in addressing drivers of fragility, conflict, and violence, including promoting gender equality in all interventions – in particular equal access of women and girls to education, health care, decent work, and representation in political and economic decision-making processes. Each pillar has been articulated around a selected number of strategic objectives. Priority Pillar 2 include strategic objectives such as: (i) redeployment of the administration across the country; (ii) providing basic services to the population across the country by initiating a progressive transfer of capacities and resources to national structures; and (iii) strengthen macroeconomic stability and good governance, including public financial management and controls, revenue generation and anti-corruption measures.

Sectoral and Institutional Context

6. **Under the leadership of the Ministry of Finance, the Government is gradually rebuilding its PFM system, through the implementation of a reform plan.** Based on analytical work prepared with the support by development partners including the World Bank and the IMF, the authorities have prepared and 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.

7. **Revenues have increased but remain insufficient to cover basic expenditures and hampers the administration's capacity to delivery services.** 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 and 8 percent in 2016. Notwithstanding this progress, domestic revenues are significantly below the pre-crisis level and remain insufficient to pay for basic expenditures. This situation also creates significant challenges in terms of cash management, limits the possibility to recruit additional human resources as well as to finance public investments hence, limiting the administrations capacity to delivery services.

8. **Despite implementation of some reforms, the capacity of the fiscal administration remains weak and further revisions of tax policies are needed.** Fiscal revenues have increased as a result of initial reforms including the redeployment of civil servants (87% of the personnel of the Directorate General of Customs had resumed work as of October 2016 up from 10% in June 2014, steps to improve management and transparency of tax and customs exemptions, align tax and customs policies with CEMAC directives and petroleum taxation reforms. The fiscal administration has also stepped-up controls and audits, including joint controls and information sharing between the Customs and Tax Directorates as well as taken measures to improve collection and enlarge the taxpayer base. Reform

implementation have however been slower than expected and hampered by delays in implementing new regulation and legislation, lacking means and incentives of the administration (including but not only insufficient hard and soft IT infrastructure, transport, office buildings and functioning budget), low trust within the fiscal administration and between the administration and the private sector, insecurity as well as insufficient skills and competencies of fiscal administration staff both at a technical and managerial level. The result is a situation an overly complex system where level of compliance and the tax base remain low, transparency, recording and accounting of revenues are poor, para fiscal taxes have proliferated and are insufficiently controlled and levels of tax exemptions are high. Reforms are needed to improve the VAT system including its legislation. Fiscal legislation and regulation need to be updated in several sectors including Forestry, Mining and Telecommunication as well as the Investment Code. Furthermore, fiscal legislation and regulation needs to be further updated to ensure better compliance with CEMAC common regulations.

9. **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 prepare, execute, monitor and control the budget.** As the Government resumed its core functions in mid-2013, the authorities faced a number of serious challenges. The system for budget and financial information management (GESCO) 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 cash plans by the Ministry of Finance and Budget as well as of procurement and commitment plans by line ministries. 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 treasury balances, 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.

10. **Despite a fragile context some improvements have been made to improve expenditure management.** Since the transition, the authorities have implemented several important reforms in a challenging context and with limited capacity. This has resulted in some improvements in terms of cash management, accounting, reporting and transparency. Internal arrears have been contained and the authorities have started paying accumulated arrears of salaries and pensions. The level of spending using extraordinary procedures was reduced to about 7.9 percent in the third quarter of 2016. Improved HR management have contributed to contain expenditures, to ensure timely payment of salaries and for the resumption of work of a large number of civil servants. The authorities have started publishing budget expenditure reports and the draft and enacted budget.

11. **Nevertheless, significant weaknesses persist which limits the authorities' capacity to manage expenditures, including the expected increase in aid-flows.** Budget execution was weak at the end of September 2016: 58 percent for primary expenses, 14 percent for investment expenses funded on national resources and 22 percent for investments funded by development partners. This is partially explained by significant challenges in terms of resource mobilization including delays in disbursement of budget support. However, the situation can also be explained by weaknesses in planning and budget preparation, budget execution including procurement, accounting, cash management, public investment management, monitoring and evaluation, transparency, accountability and oversight. Low level of technical skills, high-staff turnover, low motivation, deficient IT systems and a structural deficit in functioning means are also factors that hampers expenditure management. As overall expenditures, by 2021, are expected to increase with 73% and capital expenditures are expected to increase with 116 percent, the latter mostly externally financed, it becomes urgent to address these weaknesses.

12. **Scaling up services is urgent but so is ensuring the quality of services delivered.** Following the success of the Brussels conference, which led to US$2.2 billion in commitments, there exists a realistic possibility that public service

delivery will indeed be scaled up. In fact, scaling up service delivery is urgent as citizens expect a Peace Dividend, following successful Presidential and Parliamentary elections. Bringing services to citizens in CAR requires innovative solutions that take into account the low capacity and reach of the public sector and low population density. It can be foreseen that in addition to services provided by public institutions, many services will need to be provided by non-state actors: private sector (forestry companies for example), NGOs and religious organizations (many services are already provided by humanitarian agencies), and private individuals (parent-teachers for instance). To facilitate such service delivery requires at least three elements: (i) setting of standards by the state; (ii) payment for services by the state when services are delivered; and (iii) verification of whether standards are met and services delivered.

13. **Addressing deficiencies in planning, budgeting, budget execution and monitoring and evaluation will be critical for the implementation of the RCPCA**. Capacity in the Ministry of Planning and the Ministry of Finance in planning and budgeting, including of public investments, is low after four years with hardly any investments. The current public investment framework needs to be improved to increase efficiency of public investments. Beyond the lack of technical capacity and functioning means which limits the use of current regulation and tools, some of the existing regulation and tools need to be updated including for the reporting, monitor and execution of projects. The Budget preparation process has traditionally been weak and there is no use of MTEFs to structure the process. Furthermore, the process has been characterized by low involvement of line ministries and stakeholders and insufficient time for preparation and scrutiny of the budget. Budget information has usually been insufficient. Overall, this has resulted in a challenging implementation of the budget, further exacerbated by little access to budget information by line ministries and stakeholders, insufficient technical competencies in budget execution and inadequate regulation. The recent modification of the budget preparation calendar as well as updated regulation are expected to improve the situation but implementation will require significant support. At the Brussels conference the CAR authorities presented the RCPCA which comprises the main development priorities for the next 5 years. The RCPCA comes with a clear results monitoring framework, that on the one hand monitors results and on the other offers analyses of trends, value for money and other implementation realities which are meant to inform the policy discussion. The framework will, however, need to be operationalized and capacity to do this within the Ministry of Planning is very weak. An RCPCA secretariat is being established and will have an important role translating the pledges made by Development Partners in to actual results and in the monitoring and evaluation of the RCPCA. The secretariat is being established with support from Development Partners, including the Bank but will require significant and continuous support in the short to medium term.

14. **The national procurement system which broke down as a consequence of the crisis is becoming a priority with the expected increase in public investments.** The national procurement system had seen significant improvements before the crisis as a result of reforms undertaken with support by development partners. Hence the procurement indicator (PI-19) in the 2010 Public Expenditure and Financial Assessment (PEFA) was given an “A”. The crisis led to a significant reduction in public procurement and full breakdown of the public procurement system. In the current context of an increase of public investments and spending, it has become urgent to rebuild capacity in the national procurement institutions including the Procurement Regulatory Agency, the Directorate General of Procurement in the Ministry of Finance and the procurement bodies in line ministries. There is a significant lack of qualified procurement personnel. Consequently, procurement plans are not prepared or prepared with significant delays which contributes to significantly delay budget execution. The lack of transparency and integrity of the procurement system, including because procurement opportunities are not systematically published, contribute to reduce the trust in the administration.

15. **The improvements in treasury management need to be consolidated.** With support from the ERSP and DPO as well as from other development partners such as the IMF, the EU, the AfDB and France several improvements in

treasury management has been achieved. 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. This has been a useful tool for the authorities to manage revenue and expenditure flows with a view to avoid accumulation of payment arrears. Treasury management remains nevertheless very challenging due to low technical capacity of staff, deficiency in the IT systems including lack of interconnections between the Treasury and the Banks, the continued use of exceptional spending procedures as well as insufficient regulation and tools. Budget regulation could be improved by strengthening the design and use of the cash plans and by re-introducing procurement and commitment plans. The latter would, allow to gradually move towards a commitment based budget regulation rather than the current cash based approach. The authorities have also taken measures to improve the implementation of the convention with banks that collect revenue on behalf of the government and the timely transfer of para fiscal taxes collected by line ministries to the Treasury Single Account (TSA). The authorities have also taken measures to limit the creation of new government accounts in banks. The TSA is, however, not yet fully operational as substantive amounts of revenues are still not recorded.

16. **Progress in accounting and control needs to be further enhanced including external oversight.** The Government, with support from Development Partners including the Bank through the ERSP, also established the Central Accounting Agency of the Treasury (CAAT). It is staffed with agents recruited through a competitive hiring process and funded by Development Partners, including the Bank. 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. This together with the updated general accounting rules (2015) and the introduction in 2016 of a nomenclature of supporting documents of public expenditures have contributed to reduce the use of exceptional spending procedures. The adoption of an updated manual of procedures of public spending will further contribute to re-establish budget execution orthodoxy. The CAAT has also been crucial in the reduction of the back-log in the production of financial accounts and in the regular production of monthly treasury balances. It is expected that it will result in the submission of budget execution laws for 2015 in 2017. The submission of the budget execution law is a policy measure supported by the DPO for FY18 Internal control has been improved with the increase of activities of the General Inspection of Finance and with the operationalization of the CAAT but the progress is fragile and will require significant support to be consolidated and enhanced. External oversight is very insufficient with a Supreme Audit Institution and Parliament with very limited capacity. Given the importance of improving accountability in the current context, providing support to these institutions to improve their capacity to provide oversight will be crucial.

17. **The budget and financial information management system (GESCO) continues to encounter significant challenges and urgently needs to be replaced by a new system**. GESCO stopped functioning during the crisis but its functioning has been reestablished with support by the ERSP financed by the Bank, the EU and France. The connections between the different modules (Budget preparation, budget execution cash management and accounting) remain challenging and the system encounters significant, unpredictable and regular dysfunctions which requires continuous interventions to repair. This has a significant adverse impact on expenditure management and accounting. In 2016, the budget execution was done manually for several months due to bugs with GESCO creating significant delays. Thus, the system is unable to produce reliable and timely financial information on budget execution. A recent audit[3] found that GESCO was technologically outdated and that the system was extremely fragile given that the technical team at the Ministry of Finance fully rely upon continuous and sometimes remote support from the application developer (a single person) to maintain and debug the system. The audit, hence, strongly recommends; (i) the urgent replacement of the existing system by a Financial Management Information System (FMIS) adapted to the fragile environment and to the

[3] Audit of GESCO, July 2016 undertaken by Expertise France for the Ministry of Finance and Budget and financed by the European Union.

existing and emerging needs of the administration; and (ii) in the short term (18-36 months), support should be provided to stabilize GESCO while a the system is being acquired, customized and implemented.

18. **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 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, 2010-2017. The authorities have also, with support by the Bank financed DPO, for the first time, published the draft Finance Law 2017 and have started published budget execution reports. The quality of the information in the finance laws and in the budget execution reports needs to be improved. Also, to further improve accountability, additional budget information including procurement opportunities, audit reports and on service delivery should be provided including through the use of citizen's budget and citizen's budget reports.

19. **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.

20. **Supported by CAR's development partners including through the ERSP and the DPO, 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.[4] 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 5.2 percent of GDP in 2016.

21. **Going forward, continued implementation of HR reforms and control of the wage bill will be critical to implement the RCPCA.** Continued efforts to contain the wage-bill including through payroll audits, the implementation of the recently adopted organic frameworks, improvement of the strategic workforce planning and revisions to the wage and benefits structure. This will also be done with a view of improving motivation of civil servants and reducing turn-over. To ensure improvements in attendance and to minimize absenteeism, continued controls and audits of presence will be required. Furthermore, reforms will need to be implemented to improve the accountability of civil servants and promote competitive and transparent recruitment. While the vast majority of civil servants are paid through banks, payments of civil servants need to be further modernized including through the use of mobile phone

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

payment systems. Finally, to attend the structural deficit in competencies and skills, an approach to training of a vast number of persons using existing national training institutions such as the ENAM will have to be developed and implemented including capacity building of the said institutions.

Relationship to CPF

22. **The proposed operation is fully aligned with the Bank's engagement strategy.** Following the political crisis that erupted in 2012, the Bank put CAR under Op 7.30 (Dealing with De Facto Government). As the country emerged from the crisis, the Bank, in July 2015, adopted a Country Engagement Note (CEN) for FY16-FY17 which describes the continuation of the crisis response and potential next steps for recovery and development until the end of 2016. The CEN's three overarching objectives was: (i) restauration of core public sector institutions; (ii) support to livelihoods; and (iii) support basic social service delivery. Following the elections of the new president in February-March 2016 and subsequent establishment of the constitutional government, the Bank, at the end of 2016, adopted a USD 250 million Turn-Around Program for FY17-19. The program, designed to address the fragility factors of CAR and combining stabilization efforts alongside early recovery, focuses on: i) Improving state capacity and allocation of resources; ii) supporting the stability and peace process; iii) rebuilding the state-population social contract; and iv) supporting economic recovery and livelihoods. A Systematic Country Diagnostic (SCD) is under preparation and will be followed by a Country Partnership Framework mid-FY18. The project is fully aligned with the Bank's strategic orientations in the short and medium-term. Particularly, the project focuses on strengthening capacity for an effective use of public resources, which will be a critical factor to improve service provision, and on improving trust and legitimacy in government through increased transparency, accountability and citizen's engagement, which is a prior requirement to rebuild the social compact.

C. Proposed Development Objective(s)

Improving the management and transparency of public expenditures

Key Results (From PCN)

Budget execution rate – disaggregated for investment budget (Funded on the national budget and through external financing)

Revenue and Bank account reconciliation undertaken on a quarterly basis

Reports on service and public infrastructure delivery as well as on the implementation of the RCPCA published and disseminated

D. Concept Description

23. **The proposed IDA funded IPF seeks to leverage results from ongoing and upcoming operations.** The project is a continuation of activities implemented with support from the Emergency Public Services Response Project (EPSRP) which will be closed by the end of 2017. The ESPRP has been a critical contribution to restore basic capacity in expenditure management and to allow civil servants to resume work and, consequently, support resumption of public services. The operation is also complementary to projects funded by other development partners including the IMF, EU, AfDB, the UN and France as well as other World Bank funded project including the DPO, the statistics for decision making project, the mining and forest governance project and the Bank's support to the establishment of the RCPCA secretariat. Technical assistance and capacity building provided through the EPSRP has been particularly important for the successful implementation of the Bank funded DPO which is structured around reestablishing Basic Fiscal Management and Transparency and Supporting economic recovery through policy reforms in agriculture, transport, forestry and ICT as well as for the implementation of the IMF supported Extended Credit Facility. Going forward, continued complementary technical assistance and capacity building will be critical for the implementation of the DPO.

As a result, it is expected that the new project will contribute to leverage the outcomes of the ongoing and upcoming operations.

24. **The design of the operation has been informed by analytical work undertaken by the Bank, other development partners and by ongoing operations as well as from experiences drawn from the implementation of operations**. There is an important amount of existing analytical work both from before the crisis, and which remain relevant, and more recent studies which identify actionable priorities and which have served as a basis for the design of the project. This include the 2010 PEFA assessment, the 2010 training and capacity building in procurement strategy and the 2012 Bank Public Expenditure Review. Since march 2016 there has also been a significant production of analytical work including: the World Bank's PFM policy note and Security Sector PER, the IMF concerted plan to improve the resilience of the PFM system, piloting of the budget execution report and mobilization of tax and customs revenues report prepared with support from the IMF, and the EU funded audit of the IFMIS system and identification of technical assistance needs. There has also been a significant production of analytical work through the ERSP including a diagnostic of the organization and capacity of the Court of Accounts, a report of the preparation, execution and monitoring of the public investment program, an audit on fiscal expenses, a study on use payment modalities of civil servants, a study on the revisions of the salary structure and strategic HR management and a study on the General Inspection of Finance. Additional studies are under preparation and will also serve to inform the project design.

25. **The proposed project will combine technical assistance, structured training as well as equipment and materials to build capacity in public resource management in the Ministry of Finance, Planning, Civil Service and selected Ministries and institutions to improve the capacity to deliver services and provide public goods in a more transparent and accountable manner.** Specifically, the activities will support : i) improvement and implementation of the regulation and procedures governing expenditure management; ii) strengthening of institutional capacity by supporting improved use and development of administrative tools and procedures as well as through enhancing leadership, management and technical skills and competencies of employees of the state engaged in expenditure management; augmentation of transparency and accountability through better coordination, monitoring and evaluation, production and access to information and citizens' feedback mechanisms. Capacity building activities will privilege on-site and on the job training and the involvement of national training institutions. The support to the project will provide support to critical central ministries and institutions involved in expenditure management as well as to some selected line ministries in charge of Agriculture, rural development, transport and equipment.

26. **The project is designed taking into key strategic priorities of the authorities, the Bank and takes into account support from other development partners and tailored to available financing.** The project is fully aligned to the RCPCA, particularly pillar 2. But, given that the project's support will improve expenditure management in general, it is expected to also have a positive impact in general on the state's capacity to delivery services. Furthermore, the proposed operation is in line with the focus area 2, 3, 4 and 5 of the PFM strategy. The project is fully aligned with the Bank's country engagement strategy and particularly pillar (i) Improving state capacity and allocation of resources through the support to improved expenditure management including public investment and development aid management and (iii) rebuilding the state-population social contract via its support to enhanced transparency, accountability and citizen's engagement. The project will also indirectly support the pillar (ii) supporting the stability and peace process of the Turn-around engagement and, given its support to build capacity ministries in charge of agriculture, rural development, transport and equipment, to pillar (iv) supporting economic recovery and livelihoods. The needs for capacity building are very important both in terms of revenue mobilization and expenditure management. The IMF has scaled up its support to fiscal administration reforms and is expected to remain highly engaged in this area through support provided by AFRITAC, Trust Funds managed by the IMF and its new pilot capacity building program. Given that it is critical to rapidly improve public expenditure management in the context of a rapidly

increasing levels of development assistance, the proposed project will focus only on this area. The project will also ensure complementarities and synergies with support from the EU, AfDB, France and other development partners.

1. Description

Component 1: Consolidating core expenditure management functions and the budgeting processes (US$ 3.0 million)

27. This component aims to consolidate core functions in terms of expenditure management and the budget processes in some selected sectors, all the way from budgeting to oversight. To this end, the component will first consolidate the budget reform process and expenditure management in the three critical ministries (planning and international cooperation, finance and budget and civil service and public administration), and second address issues that impede adequate implementation of budgets in the two priority line ministries (Ministry in charge of agriculture and rural development and Ministry in charge of transport and equipment[5]) Support to continue improvement of the management of expenditures related to human-resources will also be included. The component will include capacity building and change management activities and is organized around the following sub-components:

(a) *Strengthening budget cycle and the expenditure chain (USD 550,000)*: the sub-component will provide support to: (i) improve strategic allocation of resources (forecasting, revision of the sectoral strategies, ensuring that medium term budget frameworks (MTBF) and medium term expenditure frameworks (MTEF) are including full costing of recurrent and investment expenditures, alignment of the sectoral strategies/MBTF/MTEFs/annual budgets); (ii) enforcing a more transparent and credible budget circular and implement the redesigned budget calendar clarifying the required steps and roles/responsibilities of the players – including their updates as necessary (iii) disseminate and improve the design of new budget procedures and regulation including procurement regulation and standards procurement documents adapted to the country context, (iv) provide hands-on-support to Budget and Finance Managers, procurement officers as well as other staff involved in the budget cycle in selected line ministries to better prepare/execute their budgets, and (iv) support the deployment of Financial Controllers and Procurement Specialists within the selected line ministries.

(b) *Consolidating the Central Accounting Treasury Agency (CATA) reform (USD 550,000)*: this sub-component will support the consolidation of the CATA reform initiated under the ongoing PFM project. To this end the project will (i) cover the recurrent cost associated with the position of the Head of CATA and his deputy, (ii) support to the production of the 2016-20 financial statements, (iii) consolidate the platform of dialogue put in place between the CATA, the Directorate of Budget, the Supreme Audit Institution and the Parliament as to improve the quality of public spending, (iv) and finalize the ongoing work aiming at establishing the Treasury Single Account.

(c) *Supporting budget oversight, transparency and accountability (USD 500,000)*: this sub-component will support the Supreme Audit Institution and the Public Account Committee of the Parliament to increase accountability by an improved external overtight. To this end, the Supreme Audit Institution will be supported to (i) revise it Organic Law as to comply with provision in the new PFM Act, (ii) conduct various audit using a risk based approach, (iii) issue its annual report, and (iv) strengthen the coordination with the Inspectorate General of Finance (IGF). The Public Account Committee will be supported to be in better position to review the Finance Law, the Financial Statements and the audit report of the Supreme Audit Institution. Support will also be provided to establish citizen's budget (on both adopted budgets and on budget execution) and to establish a mechanism to better involve citizens in the preparation and execution of budgets.

[5] The project will focus its activities on a selected set of ministries which will be defined during the next stages of the preparation of the project and which will take into account demand from the authorities and support provided by other development partners such as the EU, AfDB and France.

(d) Further enhancing the management of expenditures related to human-resources *(USD 500,000)*: This sub-component will support (i) updating data on civil servants in the human resources and the payroll data base; (ii) payroll audits and physical presence of civil servants controls; (iii) review and improve wage and benefits structures including undertaking a study aiming at introducing a medical insurance scheme for civil servants; (iv) improving the structure, organization and management in selected ministries including clarifying missions; (v) piloting the payment of civil servant wages using the mobile banking; and (vi) improve wage-bill management by improving planning, recruitment and deployment of human resources.

(e) *Strengthening leadership, management and technical skills and competencies of public officials in the Ministry of Finance, Planning and Selected Ministries (USD 900,000).* This sub-component will finance training in expenditure management and human resource management including public investment management, project management, procurement and accounting. This will include the training / certification of a large group (100 - 120) of budget, accounting, financial management and procurement staff in Ministry of Finance and Ministry of Economy, and those staff assigned to the targeted - ministries. Support to leadership and management development as well as to change management activities will also be included. Training will be provided by the National Administration Training Institute (ENAM). To this end, ENAM will be reinforced under the project and will partner with other sub regional Institutes to provide such training locally in various PFM (budget cycle, procurement) and administrative topics. The project will support the preparation and implementation of a national training capacity building strategy for PFM.

Component 2: Strengthening Planning, coordination, monitoring and evaluation including citizen's engagement and transparency of public investments and development assistance (US$ 6.0 million)

28. The purpose of this component is to improve the performance of the public administration in managing public investments and development assistance. The component will complement on-going activities funded by the Bank and on-going and up-coming activities from other development partners. Support will target strengthening planning, coordination, monitoring and evaluation, including citizen's engagement, as well as transparency of public investments and development assistance. The two sub-components are:

(a) *Strengthening Planning and budgeting of public investments (USD 1.0 million)*: (i) defining and implementing public investment activities, in particular project preparation and selection (policy note/decree/order on a new PIM cycle[6]; stocktaking of existing investment projects agreed during the Brussels conference to identify projects to be supported from appraisal to selection); (ii) provide technical support to formulate projects and estimate their cost; (iii) establishing a more credible data base of investment projects and which will allow to undertake investment project monitoring; and (iv) undertake regular reviews of the investment project portfolio .

(b) *Support the operationalization of the RCPCA secretariat to improve coordination, monitoring and evaluation including citizen's engagement and transparency of public investments and development assistance (USD 5.0* million): The project will fund activities to establish the secretariat and to support its functioning. Support to the office will focus on its core mission of improving coordination mechanisms between government, stakeholders and development partners, and concentrate on organizing half-yearly reviews of pillars and sectors progress, and the planning and updating of pillar / sectoral objectives in line with the National Plan. These reviews will be aligned with the budget cycle, to improve and align spending and project preparations with the National Plan (forward looking), and evaluate the progress made and lessons learned (backward looking). Support will also be provided to establish and operationalize a monitoring and evaluation system of public investments and service delivery – including by non-state actors and which will involve citizens. It is proposed is to hire 16 controllers: one based in each prefecture and which will be managed out of the RCPCA monitoring unit. In addition, two

[6] Strategic guidance and appraisal, project selection procedure and criteria, implementation, and evaluation and audit.

rounds of the municipality census will be funded. In combination this should facilitate closing of the feedback loop from policy making, to implementation, to monitoring to adapted policy making. It should also facilitate the transition towards service delivery by non-state actors. In addition, beneficiaries' feedbacks will be gathered to monitor and improve the effectiveness of projects' implementation. Access to information will be improved by making publicly available donors' projects information. This information will be synthetized and processed in the forms of easy to understand, simple briefs that are produced regularly, that can be understood by a large public, and feed the communication strategy of the National Plan. Moreover, analysis on the strategic relevance and impact of programs (impact evaluation, expenditure reviews) will be facilitated to offer higher level feedbacks for policy decisions.

Component 3: Procurement and deployment of an Integrated Financial Management System (USD 5,000,000)

29. This component will pursue the activities under the ongoing PFM project aiming to stabilize GESCO, the existing financial management system, prepare the acquisition and implementation of a new integrated financial management system (IFMIS) and support the deployment of the new IFMIS. With support from the ongoing project, a study is being organized to several countries to learn from their experience. The component will finance: (i) the setting of the required governance structures and IFMIS project management organization, with the required expertise and skills; (ii) the definition and validation of business process and procedures; (iii) the development and validation of the functional and technical specifications of the new system as well as the request for proposal (RFP); (iv) the procurement of the soft and hardware necessary for the deployment of the new IFMIS in at least the Ministry of Finance; (v) and all required capacity building and change management activities.

Component 4: Project coordination (USD 1.0 million)

This purpose of this component is to support the Project Coordination Unit (PCU) in coordinating and managing the implementation of the Project. Activities would include:

(a) *Management support*, such as (i) developing annual work programs and procurement plans; (ii) ensuring proper fiduciary management and monitoring; (iii) coordinating technical work and support to the technical units within the relevant Ministries; (iv) monitoring and reporting on project's implementation; and (v) implementing the Problem-Driven Iterative Adaptation (PDIA) approach into project management to ensure close monitoring, stakeholders' ownership and project's adaptation.

(b) *Contingency Fund*, the contingency fund will enable the PCU to be flexible and highly responsive to emerging opportunities to support initiatives increasing public sector management effectiveness and efficiency. The component may finance scale-up of existing activities, pilots, technical assistance or cross-cutting analytical studies, for example related to (i) the integration of CEMAC PFM Directives into CAR legislation and regulation; (ii) a new PFM modernization plan; (iii) implementation of the Development Policy Operation; and (iv) a PEFA. The use of the Contingency Funds would be subject to prior validation by the World Bank and the Steering Committee.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Bangui, 16 prefectures of CAR

B. Borrower's Institutional Capacity for Safeguard Policies

C. Environmental and Social Safeguards Specialists on the Team

Benjamin Burckhart

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Mar 03, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The project is expected to not have any adverse social or environmental impacts and is a Category C project. Hence, safeguard related studies are not expected to be needed.

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APPROVAL

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Note to Task Teams: End of system generated content, document is editable from here.