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**Statement by Mr. Mozhin and Mr. Tolstikov on Central African Republic  
(Preliminary)  
Executive Board Meeting  
January 12, 2021**

We thank staff for the candid report and Mr. Andrianarivelo and Mr. Bangrim Kibassim for their informative Buff statement.

**The economic and political circumstances in the Central African Republic (CAR) remain very difficult.** The CAR is one of the poorest countries in the world, crippled by decades of internal conflict. About 60 percent of total population need humanitarian assistance. Despite some progress since the February 2019 peace agreement, the armed groups still operate in most of the country outside the capital. According to some media reports, the outcome of the presidential elections held on December 27, 2020 is challenged by the losing side, with the risk of resumed violence. *Could staff provide an update on the political and security situation?*

**The COVID-19 pandemic has exacerbated the challenges.** In terms of registered infections and COVID-related mortalities, the impact of the pandemic has been moderate. At the same time, the economy stagnated in 2020 due to low external demand, border trade disruptions, and initial pandemic containment measures, which were eventually relaxed. Fiscal revenues have declined, but then started to recover. Against such a background the ECF program performance has been weak, with most quantitative performance criteria and structural benchmarks missed.

**On the fiscal side, program underperformance cannot be fully explained by the pandemic.** A small decline in domestic revenue was accompanied by a large surge in expenditures from 16.9 percent of GDP to 24.3 percent of GDP. We note that in 2020 the CAR received an exceptionally high amount of grants -- CFAF 180 billion (more than US\$ 300 million, or 13.3 percent of GDP) -- almost twice as much as domestic tax collection. They were spent mostly on capital expenditure as well as current expenditure, while

performance criteria on domestic primary balance and arrears repayment were missed, highlighting loose fiscal discipline and weak program commitment. We note, however, that recently the revenue performance has improved. It is also encouraging that the authorities submitted a draft 2021 budget law consistent with the medium-term fiscal objectives set under the ECF.

**Going forward, the authorities should improve public finance management and reduce arrears.** The performance on the revenue side could be strengthened through digitalization and better coordination between customs and tax administrations. The elimination of taxes and fees levied directly by the public agencies and their transfer to the TSA will help streamline the tax system and improve revenue management. The authorities should continue strengthening the budget process and widen the use of electronic payment systems in public administration. The authorities' commitment to full transparency of public expenditures and contracts is welcomed.

**According to the DSA, the CAR remains at high risk of debt distress.** Therefore, the authorities agreed to prioritize grant financing with some limited use of concessional loans. The continued provision of donors' financing and extensive TA remains critical for sustaining the work of state institutions and implementation of reforms. Therefore, better coordination among donors is essential. It can also improve the fiscal performance.

**We take positive note of the efforts to strengthen governance and reduce corruption.** We welcome the submission to parliament of the improved asset declaration law. The introduction of structural benchmarks on a new anti-corruption law and on publication of all procurement contracts may also play a role in enhancing transparency and governance. However, while the adoption of legislation is welcome, its effective implementation and improvement in the business environment depends on the restoration of peace, stability and government control.

*Taking into account the CAR's balance of payment needs and the authorities' actions to improve their program performance, we support the completion of the first and second reviews under the ECF arrangement and the request for waivers for non-observance of performance criteria.*

With these remarks, we wish the authorities success.