

**FOR
AGENDA**

EBS/07/108
Supplement 1

September 14, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Central African Republic—Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review—Informational Annex**

The attached informational annex is being issued as a supplement to the the staff report for the 2007 Article IV consultation with the Central African Republic, the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, the Central African Republic's request for a waiver of nonobservance and modification of performance criteria, and the financing assurances review (EBS/07/108, 9/14/07), which is tentatively scheduled for discussion on **Friday, September 28, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Central African Republic indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. York (ext. 36895), Mr. Kinoshita (ext. 39798), and Ms. Schumacher (ext. 39416) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, September 24, 2007; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

Att: (1)

Other Distribution
Department Heads

INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Staff Report for the 2007 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Nonobservance and Modification of Performance Criteria, and Financing Assurances Review—Informational Annex

Prepared by the African Department
(In consultation with other departments)

September 13, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. Outstanding Fund credit was SDR 28.14 million (50.53 percent of quota) at end-July 2007.
- **Relations with the World Bank Group.** Describes the World Bank Group strategy in lending and non-lending activities, the IMF-World Bank collaboration in specific areas, areas in which the IMF leads, areas in which the World Bank leads, and areas of shared responsibility.
- **Statistical Issues.** Assesses the quality of statistical data. Although economic data are generally adequate for surveillance, weaknesses hamper economic analysis.

Contents

Page

Appendices

I.	Relations with the Fund	3
II.	Relations with the World Bank Group	5
III.	Statistical Issues	9

Tables

1.	Recent Technical Assistance	4
2.	Summary of Bank-Fund Collaboration.....	6
3.	Table of Common Indicators Required for Surveillance.....	12

APPENDIX I. CENTRAL AFRICAN REPUBLIC: RELATIONS WITH THE FUND
(As of July 31, 2007)

I. **Membership Status:** Joined: 07/10/1963; Article VIII

II. General Resources Account:	<u>SDR million</u>	<u>%Quota</u>
Quota	55.70	100.00
Fund holdings of currency	55.55	99.73
Reserve position in Fund	0.16	0.29

III. SDR Department:	<u>SDR million</u>	<u>%Allocation</u>
Net cumulative allocation	9.33	100.00
Holdings	0.55	5.95

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>%Quota</u>
PRGF arrangements	28.14	50.53

V. **Latest Financial Arrangements:**

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved</u> <u>(In millions of SDRs)</u>	<u>Amount drawn</u>
PRGF	Dec 22, 2006	Dec 21, 2009	36.20	17.60
PRGF	Jul 20, 1998	Jan 19, 2002	49.44	24.48
Stand-By	Mar 28, 1994	Mar 27, 1995	16.48	10.71

VI. **Projected Obligations to the Fund**

(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal		4.90	3.25	1.60	0.80
Charges/interest	<u>0.24</u>	<u>0.50</u>	<u>0.48</u>	<u>0.47</u>	<u>0.47</u>
Total	0.24	5.40	3.73	2.07	1.27

VII. **Implementation of HIPC Initiative:** Not applicable.

VIII. **Safeguards Assessments:** The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which the Central African Republic is a member. A safeguards assessment of the BEAC was completed on August 30, 2004 and the main recommendations were reported in Country Report No. 05/424.

Exchange Rate Arrangement

The Central African Republic is a member of a monetary association with a common central bank, the Bank of Central African States (BEAC). The exchange system, common to all members, operates without restrictions on the making of payments and transfers for current international transactions. The CFA franc is pegged to the euro at the fixed rate of

CFAF 655.957 = € 1. On June 27, 2007, the rate of the CFA franc in terms of SDRs was SDR 1 = CFAF 738.37.

Article IV Consultations

The Central African Republic is currently on the standard 12-month cycle for Article IV consultations. The last Article IV consultation was concluded on October 24, 2005.

Table 1. Recent Technical Assistance

Date	Department	Purpose
April 2001	FAD	To follow up on the introduction of the VAT and discuss measures to improve tax and customs revenue collection.
Jan–Feb 2004	STA	To assist the authorities in reviewing and updating the General Data Dissemination System (GDDS) and to provide technical assistance in government finance statistics.
March 2004	FAD	To assist the authorities in the area of revenue administration.
April 2004	FAD	To assist the authorities in the area of public expenditure management.
Aug-Oct 2004	FAD	To assist the authorities improve tax administration.
Feb-Dec 2005	FAD	To assist the authorities improve public expenditure management.
May 2005	FAD	To follow up on implementation of tax administration reforms and review the progress made since the end of the three-month assignment of FAD tax expert.
Jun-July 2005	STA	To assist the authorities improve government finance statistics.
July 2005	STA	To assist the authorities improve real sector data.
March-May 2006	FAD	To assist authorities in enforcing tax compliance and recovering tax arrears.
Sept-Oct 2006	STA	To assist in the area of monetary and financial statistics
April-May 2007	FAD	To assist in the area of fiscal implications of alternative fuel pricing policies and their distributional impact on vulnerable household groups, including mitigating measures.

Resident Representative

The Fund's office in Bangui will reopen in the coming months (after being closed in September 2003). Mr. Joseph Ntamatungiro will be the next Resident Representative.

APPENDIX II. CENTRAL AFRICAN REPUBLIC: RELATIONS WITH THE WORLD BANK GROUP (As of July 5, 2007)

1. World Bank assistance to the Central African Republic (CAR) was disrupted by the recurrent conflicts during much of the past decade as well as arrears to IDA from January 2002-November 2006. The presidential and parliamentary elections in March and May 2005 marked the end of a two-year political transition, following a coup d'état in March 2003, and were generally deemed to have been satisfactorily conducted. The Bank's objective over the past two years has been to help the CAR design and implement a framework to guide the country's recovery and longer-term development and poverty reduction efforts, and pave the way for a coordinated settlement of external arrears by multilateral creditors and increased volumes of donor financing. This has now been done and the Bank is now working with the international community to help the CAR move from a situation of crisis and emergency towards reconstruction and longer term economic recovery.

The Bank Group strategy in lending and non-lending activities

2. The World Bank and African Development Bank (AfDB) strategy and program in CAR is outlined in a joint Interim Strategy Note for FY07–08.

3. The World Bank currently has four active projects in its portfolio totaling US\$148 million. The portfolio consists of a *Reengagement and Institution Building Support Program Grant* (US\$82 million) approved in November 2006, which cleared the country's arrears to the Bank, paving the way for resumed IDA. This project also provided budget support and focused on strengthening Governance and Natural Resource Management. An *Emergency Urban Infrastructure Rehabilitation and Maintenance* (US\$18 million) was approved in May 2007 to rapidly rehabilitate, restore, improve and expand sustainable access to basic infrastructure services for the population of the most deprived districts of Bangui. A *Regional Trade & Transportation Facilitation Project* (US\$24 million) approved in June 2007 aims to facilitate regional trade between Chad, Cameroon and CAR and improve their access to world markets through improving the implementation of the CEMAC Customs Union, and reducing barriers along the Douala-Bangui corridor. An *HIV/AIDS project* (US\$17 million) that was in the portfolio when the country went into non-accrual status was restructured in May 2007 to expand its scope to include health and education emergency support. A *second project funded by the Low Income Countries Under Stress (LICUS) Trust Fund* (US\$6.8 million) approved in October 2006 is also under implementation, covering Public Financial Management (PFM), Mining, Community Driven Development, HIV/AIDS and PFM aspects of Security. A third LICUS grant is under preparation.

4. The Bank is also providing several pieces of analytical and advisory assistance (AAA). AAA completed in FY07 include a Diagnostic Trade Integration Study; a Country Financial Accountability Assessment; Country Procurement Issues Paper; Poverty Report; and Education Country Status Report. The Bank is also providing support to the PRSP, TA

on Customs and support for debt relief. A Public Expenditure Review and Rural Sector Strategy are planned.

IMF-World Bank collaboration in specific areas

5. The World Bank has worked closely with the IMF on the reform program in the CAR, and generally share the same views on policy issues. There is broad agreement on the core reform program in the CAR, namely: (i) reinforcement of public expenditure and public payroll management; (ii) revenue mobilization and improvement of tax and custom administration; (iii) improving governance and transparency; and (iv) improving the delivery of public services, including education and health.

Table 2: Bank-Fund Collaboration

Area	Lead Institution
1. Fiscal area	
Public expenditure management	IMF/World Bank
Tax administration	IMF
2. Governance	
Transparency efforts	IMF/ World Bank
Natural resource management	World Bank
3. Other	
Monetary and credit policy	IMF
Social sector assessment	World Bank
Poverty reduction strategy	World Bank
External sector	IMF
Debt sustainability analysis	IMF/World Bank

Areas in which the World Bank leads and there is no direct IMF involvement

6. The Government has advanced in its preparation of the (full) PRSP, which is in the process of finalization, with assistance from UNDP. The Bank is working closely with the UNDP and the Government on the PRSP process, and has scaled up its support to ensure that the PRSP will provide the requisite medium-term framework with sufficient depth and breadth of coverage of the country's recovery and longer term development and poverty reduction needs. The Bank has also added support to ensure that the PRSP document would include a monitoring and evaluation mechanism, as well as a comprehensive participation of major stakeholders. In the meantime, the Government has prepared (August 06) an Economic and Social Policy Framework (ESPF), supported by Government Matrix of Priority actions as well as a Reconstruction Strategy presented to the International Community at a donors meeting in June 2007.

7. To assist demobilization and socio-economic reintegration of ex-combatants into their home communities, the Bank approved the Reintegration of Ex-combatants and Support

to Communities Special Project in an amount of US\$9.8 million in April 2004. The project, funded through the Multi-Donor Trust Fund (MDTF) of the Multi-Country Demobilization and Reintegration Program (MDRP), closed in February 2007. Its objectives were to contribute to the overall stability of the country by (i) demobilizing ex-combatants and reintegrating them socially and economically back into their community; (ii) strengthening the capacity of communities of return to ensure the sustainable reintegration of the ex-combatants; and (iii) supporting projects on security and conflict prevention in communities that are most affected by security problems. This work is being followed up through the security component of LICUS2 and a multidonor effort in security sector reform.

9. To support the emergency rehabilitation of at least 80 communities in four prefectures (Kemo, Ouaka, Kemo, Basse Kotto and Mbomou), the Bank has signed a Grant agreement with an international NGO and with the Government in an amount of US\$2.75 million. The project is funded entirely through the LICUS TF and is expected to establish a model for a community-driven approach that helps build social capital, provide critical social services, and restart some level of economic activity in the selected communities.

Areas in which the World Bank leads and its analysis serves as input into the IMF-supported programs

10 The Bank is taking the lead on laying the groundwork for the preparation of a medium term structural reform framework in the context of the PRSP. In addition to the LICUS Trust Fund activities, the Bank has continued to engage in analytical and advisory work. In collaboration with other partners, it prepared a set of Policy Notes, focusing on key thematic areas including security, natural resource management, social sectors and public finance. The IMF has a strong interest in the financial sector from a macroeconomic perspective, including growth and the monitoring of quasi-fiscal deficits and contingent public liabilities, as well as an interest in governance and transparency issues in natural resources management.

11. During 2006, the Bank has also prepared a report on public procurement (CPIP), on trade (DTIS) and on public finance management (CFAA). In the latter area, reports were prepared on cash management and accounting nomenclature on civil service reform and payroll control. In the context of the LICUS2 grant, and the Reengagement and Institution-Building Support Program, the Bank funded and is supporting governance-enhancing activities in the sectors of mining, forestry and telecommunications and in the judicial area. The objective pursued is to create an environment conducive to private sector development and to ensure the respect of investors' rights.

Areas of shared responsibility

12. The Bank and the IMF are working together to assess debt sustainability and HIPC eligibility for the C.A.R. The Bank and the IMF are also active in the area of regional integration. The Bank has been implementing a Regional Assistance Strategy for the CEMAC countries, including a support to the payments systems, while the IMF has been active in regional macroeconomic surveillance. An FSAP is expected to be undertaken for CAR.

Areas in which the Fund leads and its analysis serves as input into the World Bank-supported programs

13. The IMF has taken the lead on core macroeconomic and fiscal policies, on revenue mobilization and the management of aggregate expenditures. The Bank has been working with the IMF to ensure consistency between its own projects and policy advice and the overall fiscal framework. In the framework of a donor partnership, the Bank has provided training and technical assistance to strengthen the CAR public finance administration.

Areas in which the IMF leads and there is no direct World Bank involvement

14. The IMF has been leading the dialogue on monetary policy, exchange rate management, and balance of payments issues, although given the nature of the CFA franc arrangement, there is little scope for policy action in these areas at the national level.

Questions may be addressed to Eric Bell (202-458-7490) or Luc Razafimandimby (202-458-9539).

APPENDIX III: CENTRAL AFRICAN REPUBLIC: STATISTICAL ISSUES

1. The statistical database is adequate for surveillance purposes but it suffers from weaknesses due to years of neglect, inadequate resources, and various conflicts. On the basis of the 1999 multi-sector statistical mission, efforts were initiated to improve the national statistical system including through adopting an statistics law and setting up a National Statistical Board in 2001.
2. With the support of a statistics expert mission during January 26–February 13, 2004, the Central African Republic (C.A.R.) became a participant in the GDDS and first posted metadata on the IMF's Dissemination Standards Bulletin Board (DSBB) on June 14, 2004. However, most of the metadata, excluding for financial sector statistics, has not been updated and certified. Issues of source data, compilation, and dissemination affect all sectors, but are particularly severe in the areas of the real sector, government finance, and external trade.

Real sector

3. The compilation of national accounts is the responsibility of the General Directorate of Statistics and Economic and Social Studies (DGSEES) of the Ministry of Finance. The 1999 multisector mission found serious deficiencies in the institutional arrangements for compiling statistics as well as weaknesses in data collection procedures and compilation techniques. The authorities should continue efforts to improve the quality of national accounts estimates and the reporting of quarterly foreign trade data. At the same time, revisions are needed for the wholesale and the consumer price indices as the limited coverage and the obsolescence of the weights used in compiling these indices cast serious doubts on their accuracy.
4. A statistical expert visit in mid-2005 found a serious resource gap at the DGSEES and recommended a number of measures, particularly the redeployment of resources to strengthen the national accounts area. There is an urgent need to develop source data, by conducting surveys, particularly for the subsistence agriculture sector which represents an estimated 30 percent of the economy. In addition, estimates of activity in the informal sector are still based on a 1982 survey. In the manufacturing sector, estimation is based on an outdated list of enterprises and likely overestimates activity, given that many of these enterprises either do not exist or have reduced their production considerably. There is the pressing need to update the business register through a survey of enterprises and to reinstate publication of the industrial production index.

Government finance

5. The 1999 multisector statistics mission noted that there was no single primary data source that could be used for the production of government finance statistics and that the available information was not communicated to the Ministry of Finance. In February 2004, a mission underscored that, in order to establish a systematic compilation of government finance statistics, substantial additional assistance will be required, notably in the area of Treasury accounting and expenditure management, with a view to producing reliable source data and improving the accuracy of the measures of domestic arrears. The mission made

specific recommendations toward this objective, and a subsequent March 2004 FAD mission confirmed and reinforced these recommendations. Support in this area is provided by an FAD public expenditure management advisor currently stationed in the Central African Republic. A follow-up STA mission in mid-2005 reviewed recent developments and proposed further steps in the framework of the earlier action plan for improving the source data for the compilation of the government financial operations table (Tableau des Opérations Financières de l'État, TOFE) and for further development and use of the Treasury cash plan.

Monetary accounts

6. Monthly data for the C.A.R., as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are regularly reported to the Fund in electronic form by the Bank of Central African States (BEAC). Accuracy of data on currency in circulation is affected by large cross-border movements of currency among CEMAC member countries. Only 30 percent of banknotes issued in the C.A.R. by the BEAC National Directorate remain in the territory, 49 percent circulate in Cameroon and about 16 percent in Chad, while currency in circulation in the C.A.R. includes some 6 percent of banknotes from Republic of Congo, 6 percent of banknotes from Cameroon, and 4 percent of banknotes from Gabon.

7. The monetary and financial statistics (MFS) mission in October 2006 assisted the authorities in assessing consistency between government finance statistics (bank financing) and monetary statistics (net position of the government). The mission also provided guidance in migrating to the new Standardized Report Forms (SRFs) for the submission of monetary statistics to STA, and helped update the metadata for the financial sector posted on the IMF website within the framework of the GDDS. However, the BEAC has yet to submit, for any of its member countries, test data using the SRFs. Key recommendations from the MFS mission included: (i) expansion of monetary statistics to include the largest microfinance institution in the country (Crédit mutuel de Centrafrique); (ii) finalization and implementation of the updated sectorized list of public entities to improve accuracy of monetary statistics and consistency with GFS; and (iii) verification of the reliability of source data reported by commercial banks through the new electronic reporting system.

Balance of payments

8. As in other CEMAC countries, the agency responsible for the compilation of balance of payments statistics is the Balance of Payments Unit of the national agency of the BEAC. Past delays with data compilation and dissemination, which were mainly related to the transition from the fourth to the fifth edition of the *Balance of Payments Manual*, have been addressed through the recent implementation of methodological improvements. The last complete reporting, prepared by the national balance of payments committee, covered 2002 annual data. Preliminary statements for 2003–05 are available from the national BEAC office in Bangui, and have been transmitted to the African Department. However, balance of payments data are transmitted to the Statistics Department only through 1994.

9. The 1999 multisector mission also provided a thorough assessment of needs in balance of payments statistics. Efforts have been made to address some of the problems identified by the mission, including training, compilation system, and development of a flexible questionnaire. Nonetheless, problems remain and the main issues concern data sources, including the need to update the BOP survey (list of respondents, reporting forms, and codification). Various methodologies or statistical techniques need to be reviewed, such as the computation of freight and insurance and procedures for attributing banknote movements among transactions. The timeliness of the biannual balance of payments (presently 90 days) needs to be improved.

External and domestic debt

10. External and domestic debt statistics are compiled by the Debt Directorate of the Ministry of Finance. The quality of data needs to be significantly improved and efforts have been underway to verify with creditors the stock of external debt outstanding and of external arrears. Similarly, domestic debt data are of poor quality, due in part to the difficulty of monitoring public expenditure on a commitment basis. However, the actual stock of government domestic arrears has been verified by a working group, with the help of a World Bank consultant. The reconciliation process was completed in June 2007, with 99 percent of the multilateral, bilateral and commercial debt as of end-2006 reconciled. The Debt Directorate is currently seeking funding and technical expertise to upgrade their outdated debt data management software.

**Table 3. Central African Republic: Table of Common Indicators Required for Surveillance
(As of August 31, 2007)**

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	July 2007	Aug 2007	D	D	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar 2007	May 2007	M	M	M
Reserve/Base Money	May 2007	Aug 2007	M	M	M
Broad Money	May 2007	Aug 2007	M	M	M
Central Bank Balance Sheet	May 2007	Aug 2007	M	M	M
Consolidated Balance Sheet of the Banking System	May 2007	Aug 2007	M	M	M
Interest Rates ²	Jan. 2007	Feb. 2007	M	M	M
Consumer Price Index	Mar 2007	May 2007	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Mar. 2007	May 2007	Q	Q	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Mar 2007	May 2007	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Mar 2007	May 2007	M	O	M
External Current Account Balance	2006	May 2007	A	A	A
Exports and Imports of Goods and Services	2006	May 2007	A	A	A
GDP/GNP	2006	May 2007	A	A	A
Gross External Debt	Mar 2007	May 2007	M	O	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic non-bank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA)