FOR AGENDA

EBD/88/320

November 8, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Central African Republic - Policy Framework Paper - 1988-90

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for the Central African Republic. This subject, together with the staff report for the 1988 Article IV consultation with the Central African Republic and its request for the second annual arrangement under the structural adjustment facility (EBS/88/228, 11/9/88), will be brought to the agenda for discussion on a date to be announced.

Mr. Fiator (ext. 8731) or Mr. Bourhane (ext. 8666) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

CENTRAL AFRICAN REPUBLIC

Structural Adjustment Facility - Policy Framework Paper, 1988-90

Prepared by the C.A.R. authorities

(In collaboration with the staffs of the Fund and the World Bank)

November 8, 1988

I. Introduction

1. On June 1, 1987, the Government of the Central African Republic adopted a medium-term program designed to strengthen the country's economic structure and achieve satisfactory growth in a stable financial environment. The structural adjustment program is being supported by a three-year arrangement under the structural adjustment facility (SAF) of the International Monetary Fund and by a structural adjustment loan (SAL) and various sectoral programs from the International Development Association (IDA). The structural problems facing the Central African Republic and the policies that the authorities intended to implement during the three-year period 1987-89 were set out in the original policy framework paper (PFP) prepared in collaboration with the staffs of the Fund and the World Bank. This PFP updates the original one, by reviewing progress made in the first year of the adjustment program, extending the program horizon by one additional year, and describing the policies to be implemented during the period covering 1988-90.

2. The main long-term objective of the Government has been to increase gross domestic product (GDP) per capita growth for the improvement of the standard of living of the population. For the medium term the structural adjustment program thus endeavors to improve real income per capita while containing the rate of inflation, reducing the fiscal deficit, and aiming at balance of payments viability. These main objectives were to be achieved through the implementation of a coherent set of measures outlined in the original PFP, including those aimed at promoting an appropriate agricultural policy, the liberalization of the pricing system, the rationalization of the public sector, and the enhancement of budgetary revenue collection.

3. While most of the structural reforms envisaged in the PFP, the World Bank SAL I, and the first-year SAF program were implemented in 1987, real GDP growth was below target, the external position deteriorated and the fiscal objectives were not attained, owing to unfavorable developments on the world market for the Central African Republic's main export commodities and to the sluggishness of economic activity, but also to continued difficulties in revenue collection. The sharp appreciation of the CFA franc vis-à-vis the U.S. dollar and the low world market prices for coffee and cotton in 1987 resulted in a severe contraction of export earnings. Moreover, the donors' conference, held later than originally envisaged, in June 1987, entailed delays in the

full funding of the projected investment program. Consequently, growth targets have had to be revised along with the fiscal objectives. However, despite lower projected export earnings, control of domestic demand through a prudent credit policy and a reduction of the fiscal deficit should slow the increase in imports and will allow the adjustment trend of the external current account deficit to be maintained from 1988 onward. Thus, most of the original medium-term objectives appear attainable despite slightly lower projected economic growth, but the level of fiscal revenue remains a worrisome issue.

4. The Government's development strategy as detailed in the original PFP remains virtually unchanged. High priority will be attached to the pursuit of efforts to address such problems as insufficient incentives and low productivity in the agricultural sector, weaknesses in the system of economic planning, poor performance in revenue collection, the civil service wage bill which is still excessive, inefficiencies in the public enterprises sector, a low level of participation of the private sector in economic activity, and an education system that is ill adapted to the basic needs of the country.

II. The Adjustment Program for 1987-89 and Performance Under the 1987-88 Program

The basic objectives

5. The basic objectives set out in the original PFP for 1987-89 were developed in harmony with the medium- and long-term Development Plan for 1986-90, which was presented to a United Nations Development Program (UNDP) round table in June 1987. These objectives were consistent with the economic policy measures set forth in the SAL from the World Bank adopted in September 1986, including an average growth rate in real terms of 3.6 percent over the period 1987-89, the reduction in the external current account deficit (excluding official unrequited transfers) from 18.5 percent of GDP in 1986 to 15 percent in 1989, while containing the annual rate of inflation to an average of about 4.5 percent throughout the program period.

6. In 1987, the first year of the program, the Government's macroeconomic objectives were to achieve a real GDP growth of 3.3 percent, which would permit a slight improvement in real income per capita; to contain the rate of inflation to 4.5 percent; to reduce the external current account deficit (excluding official unrequited transfers) to 16 percent of GDP; and to reduce further the government budget deficit (on a commitment basis; including foreign-financed outlays and onlending, and excluding grants) to 12.2 percent of GDP. It was envisaged that by end-1987 gross reserves would cover 4.5 months of imports c.i.f., while domestic credit and broad money (in percent of beginning broad money stock) would increase by 5.2 percent and 9 percent, respectively.

Policy implementation and performance in 1987

7. Most of the economic and financial outturn in 1987 was below target. Real GDP is estimated to have grown by only 1.4 percent, despite a good food crop harvest. On the other hand the GDP deflator declined by 3.5 percent, compared with a 3 percent increase in 1986. The external current account deficit increased to 19.8 percent of GDP, or 3.8 percentage points over the program target, owing to a sharp decline in export and nonfactor services receipts. A larger-than-envisaged inflow of official unrequited transfers helped achieve a small surplus in overall balance of payments; however, a significant amount of external payments arrears was incurred, resulting in an increase in net foreign assets. The overall fiscal deficit (on a commitment basis, excluding grants) reached 14.4 percent of GDP, as against 12.2 percent under the program, reflecting a large shortfall in revenue, despite a slight decrease in total expenditure (Table 1). Total budgetary revenue amounted to CFAF 38.1 billion, as against CFAF 45.2 billion under the program, owing to lower revenue from customs duties and other indirect taxes, in the context of lower export receipts, a sluggishness of economic activity, and an increase in exempted and fraudulent imports. Current expenditure evolved broadly as programmed at about CFAF 42 billion; foreign-financed capital expenditure exceeded the targeted level, but the excess was more than offset by a lower level of net lending to some major public enterprises. Monetary aggregates in 1987 were substantially lower than those envisaged under the program, reflecting a much lower use of bank credit for cotton, coffee, and petroleum products. Domestic credit decreased by 5.6 percent of beginning broad money, as against a programmed increase of 5.2 percent. Credit to the private sector decreased by 4.3 percent, while credit to the Treasury increased by 0.7 percent, as against implicit programmed increases of 8.1 percent and 2.3 percent, respectively. Broad money increased by only 5 percent compared with 9.7 percent under the program.

8. Concerning the structural reforms, policy efforts were focused on agriculture, trade and price liberalization policy, investment programming, the stimulation of small- and medium-sized enterprises, and on reforms of the mining and public enterprises sectors, the education system, and administration and management of the debt. In these areas, a number of policy measures have been successfully implemented.

To improve income and promote institutional efficiency in the agricultural sector, the Government has been implementing successfully the cotton sector program, designed to reduce the operating costs of the cotton development agency (SOCADA) and achieve the long-term viability of the cotton sector; a comprehensive study of the coffee sector is now available and is being used to define measures to improve the coffee development agency (ADECAF) and to reform the coffee cooperatives and the stabilization fund (CAISTAB). Decisions are about to be taken on a plan for the rehabilitation and maintenance of rural access roads, and two studies on livestock marketing and export possibilities to neighboring countries have been completed, with a view to identifying export diversification possibilities. Moreover, the abolition of administrative barriers to trade and of indicative prices (together with good weather conditions) have resulted in bumper harvests of food crops, entailing a significant decrease in the consumer price index for C.A.R. households. In an effort to expand forestry production and exports, the Government has reduced import tariffs on spare parts and equipment, freed the internal price of sawed wood, and prepared a new concession and tax system. However, high transport costs continue to hamper the exploitation of forestry resources.

The reform of the price and trade regimes is the most successful and far-reaching component of the adjustment program. The progressive liberalization of prices and trade has been on target. The first stage was completed in November 1986 by a liberalization of fixed margins on luxury goods, and the second stage in February 1987, when fixed margins on spare parts were abolished. The liberalization of the foreign trade regime was a parallel process through which import quotas were abolished in June 1986, the export authorization system replaced by an export declaration system in January 1987, and import licences abolished in April 1987. The pricing system was liberalized in three stages. Most recently, prices of locally manufactured goods were freed and fixed intermediation margins on imports of basic necessities were eliminated. Price controls remain for only a limited number of basic necessities. All these measures have created a more favorable environment for efficient resource allocation and for the development of private investment.

Concerning the improvement of the public investment programming process, the Government prepared for the first time in 1987 a budget that integrates domestic counterparts and foreign-financed investment outlays and on-lending. Owing to that new procedure, the coordination between physical and financial investment has improved significantly. Priority allocations to rural development and infrastructure in support of productive activities represent about 57 percent of the investment budget allocated to projects in 1987. Moreover, a unit for project evaluation was created. In addition progress is being made toward the preparation of a three-year rolling investment plan.

The Government's policy to promote the private sector has been to create a more favorable environment by liberalizing the price and trade regime, establishing a modest but effective small- and medium-scale enterprise (SME) promotional agency (CAPMEA), and preparing a new investment code. A study of the institutional setting and incentive structure affecting SMEs has been completed and a credit line for agricultural processing SMEs has been made available by the African Development Bank (ADB) through a local bank.

In the mining sector, in order to direct the bulk of diamond exports through official channels, in early 1987 the authorities defined a more appropriate diamond classification system and introduced a new valuation system making possible a 20 percent increase in unit export value (in U.S. dollar terms). In addition, national diamond evaluators are being trained with the assistance of resident experts. The Government has also adopted a new diamond export tax system to replace the present one, which will further reduce export taxes.

In the area of parastatal reforms, the basic objectives have been improvement of efficiency, rehabilitation, or divestiture. Though the program has been hampered by the limited data base and the weak administrative capacity of the public enterprises, by end-1986 the Government was able to prepare a rationalization plan for the whole sector that identified enterprises for divestiture (privatization or liquidation), those in need of restructuring, and those to be merged with others. In 1987 one enterprise (vegetable oil refining company) was privatized, while others (slaughtering and meat marketing company; insurance company) are being appraised by private investors for privatization. The rehabilitation of SOCADA is being handled within the context of an IDA-supported sectoral adjustment program that is well under way. A management and financial audit of OCPT (the post and telecommunications enterprise) was completed by end-1987. As for the CAISTAB, a study has been conducted and some of the interim measures (formulation of an annual budget; review of CAISTAB statutes) have been implemented. Moreover, a new list of enterprises that could be privatized in 1988 was prepared recently.

The Government has implemented a number of structural measures in the domain of education, including the development of training classes, and the setting up of a new scholarship-awarding system, designed to reduce the overall number of scholarships while increasing the proportion being awarded to science students. Finally, the Government continues to implement the civil service reform, with a view to reducing staffing levels by enforcing the "1 franc of recruitment for 3 francs of savings" rule, mandatory retirement, and the eligibility criteria for family allowances. Studies of the staffing needs of the various ministries are well under way, and a "personnel pool" is being established with a view to assisting the civil servants whose employment within the civil service is to be terminated.

9. The results achieved in 1987 in the structural areas were encouraging. However, the experience of 1987 underscored a number of problem areas that will require appropriate corrective measures in the period ahead, in order to achieve growth targets, resume the fiscal adjustment pace, and restore medium-term external sector viability. First, the reform of public enterprises has to be accelerated. In particular, the operating deficits of SOCADA and CAISTAB should be reduced further. Second, the tax revenue growth was negative both in 1986 and in 1987, owing to sluggish economic activity in the monetized sector, particularly the export sector, and the Government's difficulties in combatting fraud and improving revenue collection. Third, the size of the wage bill calls for the reinforcement of the civil service reform through the planned departure of a large number of civil servants. Fourth, state withdrawal from a number of productive activities and the reduction in

the size of the civil service calls for priority to be given to the creation of new jobs. This could be achieved in part by offering those leaving the civil service preferential access to credit to start small enterprises. Finally, the existence of the franc zone rules and the appreciation of the CFA franc particularly vis-à-vis the U.S. dollar will require a continued strengthening of the fiscal adjustment, together with an improvement of efficiency in production for the Central African Republic's economy, with a view to maintaining external competitiveness.

III. Medium-Term Objectives and Policies: 1988-1990

10. The Government of the Central African Republic remains committed to the growth-oriented policies delineated in the original PFP. Accordingly, in consultation with the staffs of the Fund and the World Bank, it has updated and extended its medium-term policy framework to cover the period 1988-90. The revised medium-term program builds on the policies initiated in 1987, extending and reinforcing some of the measures already in place as well as introducing additional measures; it takes into account lower-than-originally-projected export receipts and assumes, beginning in 1989, a revival of economic activities in the monetized sector. Hence, the medium-term macroeconomic objectives for 1988-90 are: (a) to achieve an annual rate of real growth of about 2.5 percent on average; (b) to contain the rate of inflation to about 2 percent on average; and (c) to reduce progressively the external current account deficit, excluding official unrequited transfers, from 19.8 percent of GDP in 1987 to 13.9 percent in 1990 (Table 1). The growth of real GDP is expected to stem mainly from the development of the primary sector, principally in the livestock and food crops subsectors. On an average annual basis, the primary sector is projected to grow by 3.7 percent, the secondary sector by 3.4 percent, and the tertiary sector by 1.1 percent. The livestock growth will result from a larger herd with improved productivity, as a result of the implementation of a livestock development program financed by IDA which gives particular emphasis to the improvement of animal health. Food crops have considerable potential in the domestic market and their development is being stimulated by ongoing projects, lifting of marketing constraints, and improvement in efficiency for related extension services. In industry, the privatization and restructuring of a number of parastatals together with the fostering of SMEs should provide the basis for a resumption of growth in this area. Thus, barring unforeseen unfavorable developments for the Central African Republic's main export

commodities 1/ as well as unfavorable weather conditions, and under the assumption that the programmed concessional external financing will be forthcoming on a timely basis, the Central African Republic would attain by end-1991 an external payments position that would not require either debt rescheduling or other exceptional financing and would be consistent with sustained economic growth. Meanwhile, the Central African Republic will continue to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

To attain the macroeconomic objectives of the 1988-90 program, the Government intends to continue progressive opening of the economy to market forces, a retrenchment of the public sector, a stimulation of private sector initiatives, a mobilization of external financial assistance on concessional terms, and a strengthening of government finances. For this latter strategy, during the program period, the fiscal deficit (on a commitment basis and excluding all grants) will be reduced progressively from 14.4 percent of GDP in 1987 to 9.1 percent of GDP in 1990; all the verified domestic payments arrears (including the cross-debts with the public enterprises) will be eliminated, while external payments arrears will be eliminated either by cash payment or by rescheduling; domestic bank financing will be strictly limited to the counterparts of Fund resources. Gross domestic savings in terms of GDP are projected to increase from minus 3.3 percent in 1987 to 3.0 percent in 1990, reflecting mainly the continued improvement of the budgetary situation. Meanwhile, gross domestic investment is programmed to reach 11.4 percent of GDP on average throughout the program period, with improved returns on the projected investment outlays stemming from ongoing enhanced efforts to better select public investment projects and ameliorate the planning process.

11. Within the above-mentioned medium-term framework, in 1988 the Government intends to pursue a strategy based on prudent demand management, with emphasis on strengthening government finances, and on structural policies directed at encouraging the private sector to play a larger role in productive activities. Accordingly, high priority will be given to improved planning procedures and project selection for the public investment program; to the enlargement of the productive base of the economy, including the continued implementation of sectoral agricultural programs and industrial policies; to the improvement of public finances through the implementation of tax and tariff reforms, and an enhanced effort to combat fraud and reduce customs exemptions; to the reinforcement of the civil service and education system reforms; and to the acceleration of the rehabilitation of parastatals. The achievement of some of these objectives is subject to uncertainties relating mainly

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1/ Given the low world market prices and the constraints on the exchange rate, however, the agricultural sector will have to implement further cost-cutting measures for the related agencies (SOCADA, CAISTAB), and will also have to rely for some time on foreign-financed subsidies for cotton and coffee as in 1987.

to weather conditions, world market prices for the Central African Republic's main export commodities, and timely availability of external resources. A summary and the time frame of the Government's policies for the 1988-90 program period are provided in Table 2.

Investment programming

12. In terms of public investment programming, the Government will pursue the improvement of planning procedures and project evaluation, in the context of a three-year rolling investment plan. The C.A.R. authorities, in consultation with the Fund and the World Bank, have fixed the amount of the 1988 investment budget at CFAF 33 billion. Over the period 1988-90 the scenario adopted is based on the investment program approved by the authorities and the World Bank, to which an execution rate of about 85 percent has been applied. The amounts thus obtained will be revised in early 1989 in the framework of the three-year rolling program and at the time of the updating of the PFP. For this purpose, it has been agreed that if the Government is able to identify additional priority projects for which firm justification and appropriate concessionary financing exist, these projects might be added to the investment budget. However, some projects are in need of more thorough study, and the Government has undertaken not to begin execution of any project in the absence of a feasibility study demonstrating its economic, social, technical, and financial justification, and of concessional financing. Thus total public capital expenditure is projected to average CFAF 33.8 billion per annum during the program period; disbursements are expected to decrease by about 9 percent in 1988 relative to 1987 as a result of delays in disbursements for certain projects, to CFAF 33 billion. Over the period 1988-90, investment outlays for the rural sector, infrastructure, and human resource development (health, education and urban planning) will represent 29.4 percent, 28.2 percent and 12.4 percent of total public investment, respectively. The three-year rolling investment plan for the period 1988-90 is being put in place with technical assistance from the World Bank. A project evaluation system is currently being established and will allow for better selection, execution, and monitoring of the main public investment projects. The Government is firmly committed to reviewing systematically the public investment program, in the framework of its medium-term adjustment program.

In order to improve the rolling public investment planning system, the Planning Ministry, including its Statistics Department, will be reorganized in 1988; foreign and local staffing levels will be increased selectively, new departments will be created, in particular a macroeconomic management and monitoring unit, and coordination with technical ministries will be improved. In addition planning units are being set up in the Ministries of Transport and Rural Development.

Agricultural policy

13. Considerable progress has been made in the coffee, cotton, food crops, and forestry sectors. Additional measures are now needed to enhance the results already achieved. The Government will pursue the restructuring of the Ministry of Rural Development in line with the targets of the manpower plan and the Ministry's leadership mandate for planning, research, management, coordination, and monitoring of agricultural development. This will entail a significant reduction in its staff and will improve its efficiency.

Under the first year of the coffee sector program, the policy applied was based on increasing incentives to coffee producers by increasing producer prices by 27 percent, and by improving the efficiency of public institutions involved in the sector. However, the recent decline in coffee export prices has necessitated subsidies for the sector as the CAISTAB did not have the necessary funds for stabilization purposes. In the future, the CAISTAB's functions will focus on control of stocks, relations with traders, and the supervision of the price system. Its export activities will be reviewed in the light of the new producer price system to be adopted. A coffee support fund was created in May 1988; its resources, which will initially be derived from the budget through the counterparts of on-lent loans, will be deposited with a commercial bank and managed by a management committee in which the private sector will have dominant voice, once the funds are available from the coffee sector itself. The fund should gradually become self- financing through the subsector.

The cotton program, already handled in the framework of a World Bank sectoral program, will be pursued. The revitalization of the forestry sector will be geared toward the improvement of the quality and competitiveness of processed wood exports, while the protection of the environment will be ensured. The Government will continue the revision of the forestry code, pursue the forestry tax regime reform, improve the transport system with a view to expanding production and exports, and undertake a survey to assess the potential of forestry output. In addition to the measures in the World Bank-supported project for the livestock sector spanning the period 1986-89, the Government will utilize the recommendations of two studies financed by UDEAC and BDEAC 1/ on the processing of livestock products (milk, hides, meat) and their marketing, to set out a plan designed to increase the value added of the livestock sector so as to promote exports, mainly to neighboring countries.

In the food crops sector, the Government's policy will be to further expand local markets. Monitoring of imports of food products (vegetable oil, sugar) will be stepped up through a strengthened customs

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1/ UDEAC: Union Douanière et Economique de l'Afrique Centrale.
BDEAC: Banque de Développement des Etats de l'Afrique Centrale.

administration. Food aid that competes directly with local products will be eliminated. Overall self-sufficiency will be consolidated and foodstuff surpluses will help the Government in its export diversification policy.

Industrial policy and mining

14. Substantial further reforms will be undertaken to promote industry that would allow for the absorption of part of the rapidly growing labor force as well as the diversification of the economic structure and exports. Following the gradual elimination of administrative controls and the increased reliance placed on price signals, the authorities will rationalize the tariff system within the context of UDEAC agreements in order to ensure an efficient allocation of resources and greater resource mobilization over the longer term. To this end a study of the UDEAC tariff structure has already been initiated in conjunction with the UDEAC secretariat. The Government will pursue its efforts to create an environment conducive to increasing the share of private investment in GDP by reorganizing the Ministry of Commerce and Industry to focus on the promotion of productive activities and export diversification, enacting a new investment code (which has already been reviewed and found appropriate by the World Bank), liberalizing road transport tariffs, further reducing the number of price-controlled products, creating a one-stop investment office, and fostering the management of CAPMEA, the newly created promotional agency for SMEs.

In the energy sector, the Government will endeavor to assure rational utilization of resources and their optimal development, and to improve service. In this context, studies of the petroleum sector are to be financed through the IDA-funded technical assistance project. In 1988 the national electricity company (ENERCA) will be financially restructured and granted larger management autonomy. Construction of a major hydroelectric scheme based on a dam at Mbali will make it possible to reduce costly oil imports. Precise targets will be set for ENERCA in a program contract linking Government support with the achievement of specific economic and financial goals designed to improve substantially the operating account. Essential elements of the reform will be the regular adjustment of energy tariffs (based on the long-term marginal costs of electricity generation and taking account of the need to incorporate an element of self-financing for new investment), improved billing and collection, and a reinforced effort to recover arrears on unpaid bills. Larger appropriations for government consumption of electricity have already been included in the 1988 state budget law. Concerning the national water company (SNE), a rehabilitation plan--designed to reduce sharply the operating deficit by reducing manpower, improving billing and collection, and enhancing the collection of unpaid bills--will be drawn up and implemented according to a precise timetable. This plan will also include the creation of a more reliable accounting system. In the transport sector, the Government will endeavor to reduce costs inherent to the landlocked position of the country, which raises transportation costs substantially and reduces its competitiveness in major export products (coffee, cotton, and wood). In particular the parastatal (BARC) that regulates international road traffic quotas and provides services to transporters will be streamlined, and its costs reduced. The aim is a sound organization of the sector, notably through increased competition. The Government will endeavor to improve regional cooperation with Cameroon and the Congo, study ways to regulate the flow of the Oubangui River, and launch a study on the usefulness of transport by airline cargo.

In the mining sector, the Government will pursue its efforts to direct diamond exports through official channels and increase diamond-related fiscal revenue, by improving the evaluation unit designed to assess the stones and their export value (valeur mercuriale), and adopting a tax incentive system. The Government will also continue to encourage gold mining and will launch a survey of all the Central African Republic's mineral resources, with a view to attracting foreign investors and diversifying exports.

Fiscal policy

15. In the area of public finance management, the program will aim at maintaining aggregate demand at the level of available resources. The Government is committed to resuming the pace of fiscal adjustment despite the protracted sluggish economic activity in the monetized sector. The key government fiscal actions involve tax reform (including reduction of customs exemptions) and reduction of the wage bill. These actions should lead to a gradual decrease in the ratio of the overall fiscal deficit (on a commitment basis) to GDP throughout the program period.

To achieve the revenue targets, the tax reform will focus on the consolidation and enlargement of the customs tariff base; the control of tax privileges and the revision of specific customs and tax regimes, the broadening of the domestic tax base, along the lines of the recommendations of the end-1987 Fund fiscal technical assistance mission. In particular, imports linked to new loan agreements and government contracts will be subject to the ordinary tax and customs regimes from 1988 onward; in addition, duty-free imports by embassies will be strictly limited to persons entrusted with a genuine diplomatic mission, while strict control will be exercised over exempted products in this regard. The Government is committed to reinforcing customs control and procedures, reorganizing the customs data base, enhancing the management and follow-up of the exemptions system, and setting up a customs valuation office; with due regard for the UDEAC rules, it will revise the regime of the single tax (taxe unique)--a production tax on the ex-factory value of selected products sold in UDEAC countries replacing all other taxes on these products --in order to reduce the erosion of the tax base caused by this tax. With regard to the domestic tax base, the general income tax system will be revised so as to broaden its base, which may enable marginal rates to be reduced. An emergency program will be introduced to reduce tax arrears substantially. Various measures will be introduced to reinforce tax administration.

The Government will pursue a prudent expenditure policy in particular by avoiding extrabudgetary expenditure 1/ and reducing the wage bill, while financing capital expenditure through grants and concessional loans. Nonpriority outlays will be curbed in real terms, while preventive health programs and primary and technical education will receive funding priority; scholarship expenditure will continue to be limited. The total wage bill will be reduced from CFAF 25.4 billion in 1987 to CFAF 24 billion in 1988, chiefly as a result of the reduction in civil service staffing levels and the downward revision of the system of family allowances. The fiscal deficit (on a commitment basis and excluding grants) will thus be reduced from 14.4 percent of GDP in 1987 to 13.6 percent of GDP in 1988. Including grants, the deficit should be reduced from 8.3 percent of GDP in 1987 to 3.7 percent of GDP in 1990. This scenario takes account of the subsidies paid to exporters of coffee and cotton, the payment of SOCADA's arrears, and the severance to be paid to the departing civil servants. The budgetary subsidies for cotton and coffee are indispensable for the long-term survival of these two key products in the C.A.R. economy, in an unfavorable environment of very low world market prices. These subsidies represented 1.5 percent of GDP in 1987 and 3.3 percent in 1988, and are granted as a counterpart to a gradual reduction in the operating deficits of SOCADA and CAISTAB. Moreover, the projected payments of external arrears accumulated by end-1987, the discharge of the net balance of cross-debts of the Treasury to public enterprises, together with a high debt service equivalent to 35.6 percent of projected total revenue, will imply a debt rescheduling involving exceptional terms in 1988, in order to close fully the fiscal gap.

Civil service and education reform

16. To improve the performance of the public administration, a comprehensive program involving education and civil service reforms will continue to be conducted during the program period. A number of measures have already been taken in recent years to streamline education expenditure and have been supported by an IDA-financed education and rehabilitation development project. This reform encompasses better control of the school system and decentralization of the procedures to give full responsibility to the supervisory units, so as to contain the provision of costly educational facilities, while making the existing infrastructure

1/ In this regard, the office in charge of financial control on budgetary expenditure in collaboration with the Treasury, will contribute to the closer monitoring of the projected treasury cashflow agreed on with the mission; moreover any expenditure outside the budget will be regularized by using budgetary appropriations earmarked for other purposes.

cost-effective. In 1988, the number of scholarship holders will be further reduced, and quotas favoring technical education and vocational training will continue to be applied in order to align higher education more closely with the needs of the economy. Concerning the civil service, a certain number of measures have already been taken, including the elimination of fictitious civil servants from the public payroll and better programming of the retirement scheme. To reduce the wage bill, the Government will cut back the number of civil servants by about 2,000 through a subsidized program of voluntary retirement or a program facilitating the deployment outside the civil service of other departing candidates (Personnel Bank). The employment census of all ministries will be completed before the end of 1988. At the same time, the authorities plan to rationalize and unify the regulations governing the civil service with a view to eliminating multiple premiums.

Parastatal sector reform

17. The Government, in the context of the World Bank structural adjustment credit, has embarked on a far-reaching parastatal sector reform, including measures to rationalize the sector, restore financial discipline, and strengthen the Government's ability to monitor public enterprises. The Government will commission a study designed to set up the institutional and legal framework of the parastatal sector, will complete the programmed audits necessary to achieve rehabilitation or divestiture, will foster improved productivity through cost-cutting measures, and continue to apply the "1 franc recruitment for 3 francs savings" rule, and will authorize public enterprises to establish their prices according to their actual costs. During the program period it will refrain from creating any new enterprises that are more than 50 percent government-owned. All cross-debts within the sector, including the banking system, will be settled. Moreover, the administrative capacity of the High Commission in charge of supervising public enterprises will be strengthened with a view to enhancing its monitoring prerogatives. The postal system (OCPT), and the electricity (ENERCA) and the water (SNE) companies will be rehabilitated, a process that will require staff reductions.

Monetary policy, financial reforms, and external debt management

18. To reinforce the above measures, the monetary authorities' policy will be consistent with the stated growth, inflation, and balance of payments objectives. A cautious credit policy will be oriented toward encouraging private sector activity and promoting growth in the productive sectors of the economy, involving the full financing of the marketing of the cash crops. Close monitoring of domestic liquidity will be geared toward achieving the targeted reduction in the external current account deficit. Interest rate policy, essentially determined jointly by the member countries of the Bank of Central African States (BEAC), will be used to the extent possible to stimulate financial savings by maintaining positive real rates of interest, as well as to foster an efficient allocation of resources.

The monetary authorities and the Government are developing a rehabilitation program to restructure the ailing banking system, notably with resources from shareholder foreign banks and bilateral partners, encompassing the settlement of payments arrears due to the banking system by public enterprises. Moreover, the Central Bank will enforce the strict application of the rules pertaining to regulatory ratios designed to keep a sound link between credits and deposits. Finally, a study will be conducted concerning the banking system, with a view, inter alia, to improving further resource mobilization.

During the three-year program the Government will pursue a prudent external debt management policy. To reduce debt servicing to manageable levels, there will be no new contracting or guaranteeing by the state of nonconcessional external loans in the maturity range of 1-12 years, nor any net increase in outstanding short-term external debt, excluding normal import credits. As the budgetary gap is expected to be financed through debt rescheduling, the proceeds of the SAF, and resources from the forthcoming World Bank SAL, cofinanced by the ADB and possibly by other donors, any new accumulation of external payments arrears will be avoided. The Government will reinforce its efforts to mobilize the bulk of external resources in the form of grants and to strengthen control procedures for government-guaranteed or on-lent debt in order to increase significantly the debt service effectively paid by the beneficiary public enterprises. Following the staff training program at the public debt management agency (CAADE), its managerial capacity will continue to be reinforced, notably by the improvement of its accounting system, the completion of its computerization, and the establishment of a internal audit unit. The strengthening and regular convening of the macroeconomic committee composed of technicians from the Ministry of Planning, central bank experts in charge of the balance of payments, and CAADE technicians, will foster a better link between the investment program procedures and drawings from external resources.

IV. Social Impact

19. Until 1990, average GDP per capita is expected to remain fairly stable, after which it is expected to grow modestly. However, under the structural adjustment program, the distribution of income will shift in the direction of the rural sector, which will benefit the large majority of the population. The cost of adjustment will be borne largely by civil servants, but arrangements specifically designed to protect this group from undue hardship will be put into place. Incomes in the rural areas will benefit from the expected rapid growth in the production of foodstuffs and livestock which provide approximately 90 percent of value added in the agricultural sector. The foodstuff sector will benefit from the market liberalization that was initiated during the last two years, from the implementation of the policy measures that will follow the review of the food aid program, and from the improved collection and dissemination of market information. The livestock sector will benefit from the World Bank National Livestock Project. The export subsidy

scheme will maintain incomes derived from coffee and cotton production despite the deterioration of external circumstances, while the structural changes in that sector are laying the foundation for productivity growth.

20. Urban incomes are expected to suffer as the civil service and parastatal sectors are being cut back. However, the SAF program strongly emphasizes a more positive environment for private enterprise. In addition, the burden of transition will be eased by granting severance payments to civil servants departing voluntarily or in response to incentives. These payments can be used as "seed money" to help them start in private business. The departing civil servants will also be provided with training to facilitate their absorption into the private sector. In addition, the authorities are studying the provision of a special line of credit to the departing civil servants within the context of SME projects, in particular in the transport sector (end-1988). The Government is also examining the possibility of subdividing some of the large abandoned coffee plantations, and of providing departing civil servants with mini-plantations and financially assist the cooperative movement that should help them become financially self-supporting rapidly.

21. With a lower share of current expenditure that is used to finance civil service wages, and the reduction in nonpriority current outlays, expenditures in the education and health sectors will increase, benefiting sectors that for many years have been denied adequate supplies and have operated at a sub-optimal level. The Government will also explore ways of assisting economically weak sections of the population through increased collaboration with nongovernmental organizations (NGOs).

V. External Financing Requirements

22. The full implementation of the measures envisaged under the three-year program should contribute to strengthening the Central African Republic's external position, leading to a reduction of the current account deficit (excluding official transfers) from an estimated 19.8 percent of GDP in 1987 to 13.9 percent in 1990. Including official transfers, the deficit should be reduced from 8.9 percent of GDP in 1987 to about 4.2 percent in 1990. These projections represent some modifications of those delineated in the original PFP and the first-year SAF program, as they include in particular more conservative export forecasts, owing to lower projected volumes and prices for the Central African Republic's main export commodities. However, imports of consumer goods have been adjusted downward, consistent with the evolving pattern of credit to the private sector and the scaling down of the fiscal deficit, thus allowing total financing requirements for current account transactions (excluding official grants) over the three-year program to be reduced to about SDR 435 million, compared with SDR 456 million in the first-year SAF program. Taking into account an

increase in official transfers compared with initial targets, after the successful June 1987 round table, the current account deficit (including official transfers) is projected to be SDR 69 million in 1988 and to total SDR 157 million over the three-year program period, compared with SDR 72.5 million and SDR 227.5 million, respectively, projected under the first-year SAF program. With respect to the financing of this deficit, the projections for the capital account over the period are based on estimated disbursements under ongoing projects, and on loans under commitments made at the UNDP round table and under bilateral agreements. The Government expects that donors will disburse on a timely basis the expected concessional financing, especially the World Bank program loans, for which the authorities will be making enhanced efforts to collect and process the necessary import bills to meet the disbursement conditions. Consequently, the authorities expect the capital account to register a net inflow of SDR 62.1 million in 1988 and of SDR 140.2 million over the 1988-90 period (Table 3). On the basis of these projections, taking into account scheduled Fund repurchases of SDR 21.3 million over the three-year period, net official reserves would increase from 1988 onward. Additional concessional resources are expected to be obtained through the eligibility of the Central African Republic to the special program of assistance for heavily indebted sub-Saharan countries. The target of building up and maintaining gross official reserves at about the level of 4 months of imports c.i.f. during 1988-90 would be met through expected disbursements under the SAF.

The problems of the C.A.R. economy are structural in nature, and can thus only be solved in a medium- to long-term time frame. Consequently, the C.A.R. authorities intend resolutely to pursue their present adjustment efforts which, if they are to be effective, must continue to enjoy the support of the international community and financial institutions, with adequate and appropriate resources.

Table 1. Central African Republic: Key Indicators, 1984-1992 1/

	1984	1985	1986	1987 Est.	1988 Prog.	1989	1990	1991	1992
						Projections			
	(In percentages, unless otherwise indicated)								
GDP growth rate	8.8	3.8	1.5	1.4	2.0	2.6	3.0	3.2	4.0
GDY growth rate 2/	...	4.6	2.4	-1.1	1.7	2.5	3.0	3.0	4.4
GDY per capita growth rate	...	2.0	-0.2	-3.6	-0.8	-0.1	0.4	0.4	1.8
Consumption per capita growth rate	...	-1.9	0.4	5.8	-1.8	-2.2	-1.7	-0.7	4.3
GDP deflator	2.1	9.3	3.1	-3.5	1.0	2.0	3.0	3.5	3.5
Broad money supply	...	8.5	4.1	5.0	3.0	4.7	6.1	6.8	7.6
Debt service (in millions of U.S.$)	26.3	23.3	30.7	41.6	48.7	42.1	33.7	30.4	27.1
Debt service/Exports of goods and nonfactor services (excl. IMF)	11.2	11.8	14.3	19.8	22.7	21.8	18.9	17.2	18.1
Debt service/Exports of goods and nonfactor services (incl. IMF)	16.8	18.1	18.3	22.6	28.0	27.9	22.6	18.6	19.3
Outstanding debt/GDP	42.8	41.4	42.9	49.1	55.1	56.4	55.7	55.5	55.0
Total investment/GDP 3/	10.5	15.5	14.6	13.0	11.7	11.2	11.3	11.5	11.3
Domestic savings/GDP	-2.0	0.8	0.2	-3.3	-1.7	-1.4	3.0	1.9	1.2
National savings/GDP	6.2	7.8	7.5	4.0	8.4	9.8	9.4	7.4	7.2
Public investment/GDP	9.9	13.5	12.7	11.2	9.9	9.5	9.5	9.6	9.5
Private investment/GDP	0.6	2.0	1.9	1.9	1.8	1.7	1.8	1.9	1.8
Public savings/GDP 4/	2.6	3.2	2.6	1.6	3.9	4.0	4.6	5.0	5.3
Ratio public/private investment	17.1	6.8	6.7	6.0	5.5	5.5	5.4	5.1	5.4
Icor (capital output ratio)	2.8	10.4	10.7	6.7	4.5	3.7	3.5	2.9	...
Government revenue/GDP	14.2	13.2	12.1	11.8	13.5 5/	12.9	13.1	13.1	13.1
Government expenditure/GDP	23.2	26.3	25.7	26.2	27.1 6/	23.8	22.2	21.8	21.5
Fiscal Deficit (-) or surplus/GDP 7/	-9.0	-13.1	-13.6	-14.4	-13.6	-10.9	-9.1	-8.6	-8.3
Fiscal Deficit (-) or surplus/GDP 8/	-3.8	-8.1	-8.5	-8.3	-6.8	-5.4	-3.7	-3.5	-3.5
Export growth rate 9/	...	12.8	-16.1	-6.1	-2.1	8.5	8.0	5.7	1.0
Import growth rate 9/	...	...	-0.4	-2.3	-5.5	-4.5	1.9	2.0	2.2
Exports/GDP 10/	23.5	25.2	19.5	16.8	16.6	18.1	19.2	19.8	19.3
Imports/GDP 10/	36.0	39.9	33.8	33.2	31.4	30.1	30.1	29.9	29.0
Current account (incl. official transfers; in millions of U.S.$)	-27.5	-54.3	-67.4	-95.7	-93.7	-63.3	-56.2	-57.0	-63.0
Current account/GDP (incl. official transfers)	-4.3	-7.7	-7.1	-8.9	-7.9	-5.1	-4.3	-3.9	-4.1
Current account/GDP (excl. official transfers)	-15.8	-18.0	-17.0	-19.8	-18.4	-15.1	-13.9	-13.0	-12.6
Overall balance (in millions of SDR)	25.7	-5.4	9.1	0.7	-6.9	-5.1	-4.9	2.4	1.8
Official reserves (in weeks of imports c.i.f.)	11.1	9.4	10.9	13.6	16.6	16.2	15.3	14.6	...
GDP at current prices (in millions of U.S.$)	637.82	703.87	955.53	1,076.96	1,190.25	1,245.57	1,321.86	1,412.11	1,519.99
GDP at current prices (in billions of CFA francs)	278.70	316.22	330.91	323.67	333.27	348.76	370.12	395.39	425.60

Sources: Data provided by the C.A.R. authorities; and World Bank and Fund staff estimates and projections.

1/ The adjustment path envisaged in these projections is somewhat faster than the one in the macroeconomic framework of World Bank SAL II, where the disbursement pace for public investment as well as import and capital inflows are assumed to be higher.
2/ GDP, adjusted by terms of trade.
3/ The public investment concept used here is budgetary capital expenditure. Ongoing studies at the Ministry of Planning would allow the authorities in the future to better define investment for national account purposes as gross fixed capital investment, through careful breakdown of expenditure involved in investment projects.
4/ Budgetary savings, owing to difficulties in assessing the public enterprises' financial situation.
5/ This increase is due to the regularization of CFAF 3 billion (0.9 percent of GDP) as receipts from the settlement of cross-debt arrears between the Treasury and the public enterprises.
6/ This increase stems mainly from expenditure covered by on-lent resources to SOCADA to settle its arrears with the banking system, and from CFAF 3 billion in severance pay for the departing civil servants.
7/ On a commitment basis, before grants.
8/ On a commitment basis, after grants.
9/ At 1984 constant prices; goods and nonfactor services.
10/ In nominal terms; goods and nonfactor services.

Table 2. Central African Republic: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1988-90

Policy areas	Objectives	Strategies/measures	Time frame
1. Agriculture	improvement of rural income; export diversification; elimination of institutional inefficiencies	- continuation of ongoing reforms	1988-90
a. coffee	increase the competitiveness of the sector and exports	- review of the flexible producer price system - privatization of cooperatives - creation of coffee fund	1988-89 1989-90 1988
b. cotton	definition and implementation of long-term strategy for the viability of the sector	- pursuit of the SOCADA program - settlement of SOCADA arrears	1988-90 1988
c. food crops	increase of production	- establishment and implementation of rural roads program - food crop research - export diversification	1988 1988-90 1988-90
d. forestry	reform of incentive structure, upgrading of infrastructure and transport services; increase of production and exports	- revision of forestry code - assessment of forestry potential - pursuit of forestry tax regime reform	1988 1988 1988-90
e. livestock	stimulation of livestock development	- studies for valorization of livestock products - promotion of exports	1988 1988-90
f. reform of the Ministry of Rural Development	improvement of the functioning of the Ministry and preparation of a national plan for agricultural extension services	- reorganization of the Ministry - creation of a national research service and definition of a national extension services strategy	1988 1988-89
2. Investment programming	increase of investment share in GDP and improvement of the investment program process	- improvement of project evaluation unit - systematic review of the public investment program - introduction of a three-year rolling investment program - monitoring of the level of private investment	1988-90 1988-90 1988 1988-90
3. Industrial and liberalization policy	liberalization of trade regime; promotion of small- and medium-sized private enterprises	- reform of tariff system - follow-up of elimination of price controls - reorganization of Ministry of Commerce and Industry - liberalization of road transportation regulations - enhancement of regional cooperation in transportation sector	1988 1988-90 1988 1988-89 1988-90
4. Parastatal sector	improvement of efficiency; restructuring; divestiture	- no new state enterprise (over 50 percent government-owned) for four years - elimination of cross-debt arrears - application of the "1 franc recruitment for 3 francs savings" rule - establishment of institutional and legal framework for the subsector continuation of efforts to privatize a number of public enterprises - preparation and implementation of rehabilitation plans for OCPT, SNE, ENERCA	1988-90 1988 1988-90 1988-90 1988-89 1988-89
a. OCPT	restructuring; reduction in operating deficit	- implementation of measures from 1987 audit report (reduction in personnel; settlement of postal debt)	1988
b. CAISTAB	redefinition of mission and role	- audit - reorganization to improve efficiency - reinforcement of control on stock; of relations with coffee operators - review of involvement in marketing in light of flexible prices system to be adopted for the crop year 1989-90	1988 1988 1989-90 1988

Table 2. (concluded) Central African Republic: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1988-90

Policy areas	Objectives	Strategies/measures	Time frame
c. ENERCA, SNE	restructuring	- preparation of program contract	1988
		- regular adjustment of tariffs	1988-90
		- increase of budget appropriations for utilities	1988-90
		- reduction of manpower	1988-90
5. Fiscal policy	limit budget deficit; enhance revenue collection; and contain increase of current expenditure	- improvement of revenue collection and implementation of tight spending policy; reduction of the size of the civil service	1988-90
a. revenue		- continued implementation of measures recommended by the 1986 Fund fiscal mission	1988-90
		- consolidation and enlargement of customs base	1988-90
		- consolidation and enlargement of tax base	1988-90
		- control of tax privileges	1988-90
		- revision of specific tax and customs regime	1988-90
b. expenditure		- quarterly targets for wages and salaries; goods and services; transfers and subsidies	1988-90
		- reduction of the wage bill	1988-90
c. arrears		- allocate adequate resources to settle domestic arrears	1988-90
		- elimination of external arrears	1988
6. Education and civil service reform	adapt education system to basic economic and social needs; improve efficiency of civil service	- enhance control on education expenditure	1988-90
		- reinforcement of scholarship-awarding system	1988-90
		- completion of "pool of departing civil servants"	1988
		- reduction of size of civil service	1988-90
7. Small- and medium-sized private enterprises; mining; private investment	improvement of institutional environment of the private sector; channeling of diamond exports through official channels	- adoption of new investment code	1988-90
		- enhancement of operationality of promotional agency (CAPMEA)	1988
		- new tax incentive regime in the mining sector	1988-90
		- promotion of gold production	1988-90
8. Credit policy and external debt management	appropriate provision of credit to the private sector; limitation of credit to the Treasury; improvement of banking system; limit external debt service to manageable levels; strengthening of debt management agency	- strict enforcement of banking rules	1988-90
		- restructuring of banking system	1988-90
		- flexible interest rate policy	1988-90
		- no nonconcessional borrowing	1988-90
		- intensification of efforts to mobilize resources in the form of grants	1988-90
		- reinforcement of management capacity of debt agency	1988-90

Table 3. Central African Republic: External Financing Requirements, 1984-92

(In millions of SDRs)

	1984	1985	1986	1987 Est.	1988 Prog.	1989	1990	1991	1992
						Projections			
External current account deficit (excluding official unrequited transfers)	98.37	124.46	138.69	165.73	161.70	138.64	135.13	135.13	140.66
Amortization	10.94	13.20	14.30	17.50	21.16	23.05	20.61	19.45	20.24
Repurchases	6.25	9.51	5.00	2.32	6.13	9.00	6.13	2.44	2.44
Subtotal	115.57	147.17	157.99	185.55	188.99	170.69	161.87	157.50	162.70
Change in arrears (decrease -)	-14.51	-2.19	-2.83	8.07	-13.58	—	—	—	—
Change in reserves (increase -)	-11.41	5.88	-6.10	-12.11	-2.63	-2.79	0.53	—	—
Total financing requirement	141.49	143.49	166.92	189.59	205.20	173.48	162.39	157.50	162.70
Disbursements: firm commitments	104.71	130.44	148.82	168.99	119.34	57.32	59.33	60.05	62.19
Official unrequited transfers	71.67	71.03	81.20	91.47	46.35	46.00	46.87	46.80	47.12
Multilateral and bilateral loans	33.04	59.41	67.62	77.52	72.99	11.32	12.46	13.70	15.07
IDA program credits	(...)	(...)	(5.64)	(16.27)	(45.39)	(—)	(—)	(—)	(—)
CCCE (SOCADA)	(...)	(...)	(...)	(8.57)	(3.58)	(—)	(—)	(—)	(—)
Project loans	(...)	(...)	(59.07)	(52.68)	(24.02)	(11.32)	(12.46)	(13.70)	(15.07)
Disbursements: existing commitments 1/	—	—	—	—	56.64	96.63	86.25	89.82	93.34
Official unrequited transfers	—	—	—	—	46.35	46.00	46.87	46.80	47.12
Multilateral and bilateral loans	—	—	—	—	10.29	50.63	39.38	43.02	46.22
IDA program credits	—	—	—	—	—	(24.21)	(10.32)	(11.05)	(11.05)
Project loans	—	—	—	—	(10.29)	(26.42)	(29.07)	(31.97)	(35.17)
Total available financing	104.71	130.44	148.82	168.99	175.99	153.96	145.57	150.33	155.33
Financing needs	36.77	13.05	18.11	20.60	29.21	19.52	16.82	7.16	7.16
Additional financing	36.77	13.04	18.11	20.60	9.12	2.63	5.32	7.16	7.16
Stand-by arrangement	6.47	11.18	4.82	1.00	—	—	—	—	—
SAF	—	—	—	6.10	9.12	4.10	—	—	—
Debt rescheduling 2/	22.55	8.11	7.48	6.38	—	—	—	—	—
Other nonmonetary capital	7.75	-6.25	5.81	7.12	—	2.63	5.32	7.16	7.16
Financing gap (-)	—	—	—	—	-20.06	-16.89	-11.50	—	—

Source: Data provided by the C.A.R. authorities; and staff estimates, and projections.

1/ Following June 1987 round table.
2/ In 1987, rescheduling of postal and hospital arrears.