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Central African Republic

Governance Diagnostic Report

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ACRONYMS

ACCT	Central Accounting Agency—Treasury
AML/CFT	Anti-Money Laundering/Combating Financing of Terrorism
ANIF	National Financial Investigation Agency
ARMP	Procurement Regulation Agency
ART	Telecommunications Regulation Agency
CAR	Central African Republic
CAS-DF	Special Allocation Account for Forest Development
CDC	Accounting Office
CDS	Social Development Contribution
CEMAC	Economic and Monetary Community of Central Africa
CFA	Financial Cooperation in Africa
CGI	General Tax Code
CICEFD	Interministerial Committee in Charge of Tax and Customs Exemptions
CNLCCC	National Committee to Control Corruption in Central Africa
CS-REF	Unit for Monitoring Economic and Financial Reforms
DGDDI	General Directorate of Customs and Indirect Duties
DGIDD	General Directorate of Taxes and Government Property
DGMP	General Directorate of Procurement
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
EPIP	Country Policy and Institutional Assessment
FATF	Financial Action Task Force
GABAC	Task Force on Money Laundering in Central Africa
GESCO	Government Financial Management Information System
GICA	Groupement Interprofessionnel de l'Afrique Centrale
HABG	High Authority for Good Governance
IGE	National General Inspection Office
IGF	Office of the Inspector General of Finance
IMF	International Monetary Fund
LF	Budget Law
MFB	Ministry of Finance and the Budget
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic
OHADA	Organization for the Harmonization of Business Law in Africa
PPP	Public-Private Partnership
RPCA	National Plan for Recovery and Peace Consolidation in the Central African Republic
RGE	Exemption Management Fee
TSA	Treasury Single Account
UNCAC	United Nations Committee Against Corruption
UNDP	United Nations Development Program

PREFACE

At the request of the Prime Minister, Head of the Government of the Central African Republic, a joint FAD/LEG mission was in Bangui from August 27 to September 6, 2019, to report on the status of good governance and to analyze in particular the vulnerabilities to corruption that could jeopardize the achievement of the nation's development objectives or efforts to restore lasting peace. The recommendations were finalized during a meeting in Washington DC, held alongside the October 2019 IMF Annual Meetings, and additional input from the authorities was received. During its stay the mission met with the Prime Minister, Head of the Government, Mr. Firmin NGREBADA, and the Minister of Finance and the Budget, Mr. Henri-Marie DONDRA, accompanied by senior civil servants from the various institutions that have a key role in implementing good governance.

At the end of its stay, the mission submitted an aide-mémoire to the Prime Minister and to the Minister of Finance and the Budget.

The mission sincerely thanks everyone they met, both for their welcome and the excellent discussions, and particularly Mr. Augustin Feigouto, Coordinator of the Unit in charge of Monitoring Economic and Financial Reforms (CS-REF), for his effective cooperation.

The mission also thanks Mr. Olivier Benon, Resident Representative of the International Monetary Fund in Bangui, and Mr. Patrick Zoungarani, Economist at the resident mission, for their support.

SUMMARY—KEY RECOMMENDATIONS

The gradual return to peace in the Central African Republic (CAR) promises stronger and more equitable growth. Nonetheless, the country faces serious constraints with a security situation that remains vulnerable and an economy in the throes of reconstruction, including in terms of the government's administrative capacities. These constraints are reflected in problems of governance and greater vulnerability to corruption, and they find a favorable breeding ground in the country's weak capacities and result in resource allocations and uses that are sometimes inadequate. The authorities are aware of these weaknesses, and they have emphasized a national strategy to fight corruption, and more generally, to improve governance as a factor of development.

Aware of these vulnerabilities, the authorities renewed their efforts to improve governance and fight corruption. Thus, the government, which was reshuffled in February/March 2019 after a peace agreement was signed with the armed groups, placed emphasis on implementing the National Strategy to Fight Corruption (Annex II). This strategy is based on five essential pillars: strengthen the legal and judicial framework; transparency; digitize administration processes; invest in human capacities and strengthen supervision of government agencies. These are the same as those illustrated by the IMF in its recent publications¹ on improving governance and fighting corruption. This strategy also provides suitable foundations to support the development efforts of the authorities in their National Plan for Recovery and Peace Consolidation (RCPCA) in CAR.

The authorities asked the IMF to assess the vulnerabilities of their system of governance to support the implementation of their strategy's objectives. To respond to this request, IMF staff used the guides that were identified when the IMF governance policy was revised (Annex I). In particular, the fundamental criterion used to determine the scope of the work was to concentrate on vulnerabilities in governance that have significant macroeconomic consequences. The mission dealt with three major themes that focused on the objectives described in the National Strategy to Fight Corruption (SNLC, Annex II): (1) strengthen the statutory and institutional framework (see Section III); (2) strengthen the tax administration and Customs to support revenue collection (Section IV); and (3) manage public expenditure to improve the effectiveness and transparency of government action (Section V).

Even though many areas of vulnerabilities to corruption were identified, the country's weak capacities require a gradual approach. The recommendations are detailed in the content of the report and the key recommendations are summarized in Table 2 below. The most urgent points, which yield relatively swift improvements, pertain mainly to: (i) improving the statutory framework; and (ii) using transparency as a strategic instrument for fighting corruption. In substance, a strategy to fight corruption could be implemented by focusing on the following issues:

¹ See the following documents: the 2018 IMF Policy Paper entitled [Review of 1997 Guide Note on Governance](https://www.imf.org/fr/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance) (<https://www.imf.org/fr/Publications/Policy-Papers/Issues/2018/04/20/pp030918-review-of-1997-guidance-note-on-governance>) and the 2018 IMF Fiscal Monitor, [Curbing Corruption](https://www.imf.org/fr/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019) (<https://www.imf.org/fr/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019>).

- There should be a “multisectoral” policy for **improving transparency** because it applies to: (i) access to legal documents (laws, jurisprudence, Section III); (ii) transparency in the operation of the tax and Customs administrations as well (Section IV); and (iii) transparency in fiscal management procedures (Section V). Most of these stages are relatively easy to implement and will not generate any significant tension for the country’s capacities (priority should be placed on using internet publications when doing so is desirable);
- Solidify the **legal foundations of fighting corruption**, especially by making CAR juridical-statutory framework consistent with international fundamental standards identified by the Financial Action Task Force (FATF), United Nations Committee Against Corruption (UNCAC) and the Extractive Industries Transparency Initiative (EITI);
- **Strengthening human capacities and their integrity** must be a major focus of work for the authorities. Many activities will take time, such as training judges and developing human capacities in the revenue administrations and managing expenditure. Nonetheless, important stages can be completed in the short term, primarily by strengthening the framework for reporting on the financial assets of senior officials and disclosing essential information via the internet, such as jurisprudence and professional conduct frameworks,.
- Strengthen the **digitization and automation of processes**, both in the tax administration and in fiscal management, not only to prevent corruption, but more generally to improve the effectiveness of public activities;
- Finally, strengthen the **government supervisory entities and holders of public authority** to ensure that penalties or corrective action can be implemented for failure to provide good governance, including by acts of corruption. Internal controls in the public administrations (Office of General Government Inspection and Inspection of Finances), although they exist, are occasionally ineffective because they do not publish their findings and they depend excessively on administrative sanctions that are not enforced. The institutions that fight corruption, such as the High Authority for Good Governance, are seriously underfinanced for the extensive mandate they have.

Table 1. Central African Republic: Summary of Key Recommendations

Area of recommendations	Prioritization	Indicative Timeline	Unit in Charge
Establish a transparency and exemplarity pact to improve governance (Section III)			
<ul style="list-style-type: none"> • On the government website, publish a webpage dedicated to information supplied by the Constitutional Court, the list of those subject to declaring assets, and those that are current with their obligation 	High	2020	Constitutional Court and government
<ul style="list-style-type: none"> • Adopt and implement a law that provides for sanctions and penalties if the asset reporting requirement is not met or for untruthful declarations. 	High	2020	Government

Table 1. Central African Republic: Summary of Key Recommendations (continued)

<ul style="list-style-type: none"> Starting on a date to be determined, systematically publish all court decisions on the website of the institutions concerned, starting with the decisions of the Constitutional Court, the Court of Cassation and Courts of Appeals, the Council of State and Courts of Administrative Appeals. 	High	2020	Constitutional Court, Court of Cassation and Council of State
<ul style="list-style-type: none"> Adopt the organic law that creates the Accounting Office 	Medium	2020	Government
<ul style="list-style-type: none"> Revise the bylaws of the units that control government activity such as the IGE or Accounting Office so that they can publish their reports on the internet once they are finalized and ensure that the HABG exercises its power of self-referral to submit to the prosecutor's office the files for which court proceedings are recommended, and without prior authorization from other institutions. 	High	2020	Government
<ul style="list-style-type: none"> Adopt and implement a new anti-corruption law based on the items described in Section III 	High	2021	Government and Parliament
Reinvest in Human Resources (Sections IV and V)			
<ul style="list-style-type: none"> Promote leadership by example of senior officials who submit asset declarations and extend them gradually to all employees. 	High	2020	Tax and Customs Administration
Digitize and automate the budgetary, tax and Customs processes (Sections IV and V)			
<ul style="list-style-type: none"> Conduct an independent audit of the use of ASYCUDA. 	Medium	2020	Customs
<ul style="list-style-type: none"> Activate the plans to deploy remote procedures for large and medium-sized enterprises as well as payment procedures using mobile payment of taxes owed by small enterprises. 	High	2020	Parliament
<ul style="list-style-type: none"> Stabilize the GESCO information system dedicated to the management of government expenditure to expand its use if needed for 2 to 3 more years if there are unforeseen delays in making SIM-BA operational. 	High	Ongoing	Ministry of Finance and the Budget
<ul style="list-style-type: none"> Synchronize the gradual deployment of SIM-BA with that of the new fiscal management framework 	High	2021	Ministry of Finance and the Budget
Strengthen governance in the tax and Customs administrations (Section IV)			
<ul style="list-style-type: none"> Reactivate as soon as possible the joint "Tax Commission" that is to settle disputes. 	Medium	2020	Ministry of Finance and the Budget
<ul style="list-style-type: none"> Publish quarterly an online list of names of all de jure or de facto exemptions with the revenue losses they generate in the government coffers. 	High	2020	Ministry of Finance and the Budget

Table 1. Central African Republic: Summary of Key Recommendations (concluded)

<ul style="list-style-type: none"> Abolish the Interministerial Committee in charge of Tax and Customs Exemptions (CICEFD). 	High	2021	Ministry of Finance and the Budget
<ul style="list-style-type: none"> Continue abolishing parafiscal taxes that have no relevant economic justification. 	High	2020	Ministry of Finance and the Budget
<ul style="list-style-type: none"> Adopt a program to promote integrity and a plan to fight corruption and strengthen transparency in the tax and Customs administrations. 	High	2020	Tax and Customs Administration
Restore confidence in the State signature (Section V)			
<ul style="list-style-type: none"> Review the legal and institutional framework for procurement 	High	2020	Government
<ul style="list-style-type: none"> Develop a portal for government procurement in CAR, accessible to all citizens and all economic operators 	Medium	2020	Ministry of Finance and the Budget
<ul style="list-style-type: none"> Prepare for the implementation of the law on public establishments by preparing implementing regulations 	High	2020	Ministry of Finance and the Budget
<ul style="list-style-type: none"> In the short term begin deconcentrating the resources necessary to provide public services to the spending ministries and the government's deconcentrated entities. 	Medium	2020	Government
<ul style="list-style-type: none"> Design and implement a roadmap to decentralize in the medium term the resources necessary for performing the duties of local governments. Such a roadmap should identify decentralization in order to reestablish government authority throughout the country, in particular by establishing that delegations of authorities must be made with the support of civil servants and not just elected officials, as is currently the case. 	High	2021	Government

Source: IMF staff.

I. GOOD GOVERNANCE: A KEY COMPONENT OF THE NATION'S DEVELOPMENT OBJECTIVES

1. Despite a definite improvement in per capita income since the country returned to peace, considerable development issues remain. Since the end of the 2013 conflict, GDP is up sharply (Figure 1). This reflects a rebound in economic activity. Nonetheless, per capita GDP in constant dollars (adjusted by buying power parity) remains well below pre-crisis levels. In addition, the country's institutions are fragile.² Improving governance and fighting corruption are a major challenge for the country's development. Corruption, perceived as affecting most government functions (Figure 1),³ heightens inequalities and is generally associated with lower economic growth.⁴ Fighting corruption is essential as well for private sector development, which is still facing an unfavorable business environment.⁵

2. Solving governance issues in revenue collection could generate gains of roughly CFAF 135 billion (10½ percent of GDP).⁶ These gains are about 30 billion for the corporate income tax and 105 billion for the VAT. They were evaluated using data on the productivity of these two taxes⁷ (Figure 2). In both cases, the productivity observed in CAR is well below the median observed in Sub-Saharan Africa. Raising CAR's productivity to this median level would double collection of the corporate tax and quadruple the collection of the VAT. Such gains could also make revenue surpass the threshold (estimated at about 12–13 percent of GDP), above which countries can substantially accelerate growth and development.⁸ These potential gains, if they occur, may require significant changes in the governance of these taxes, both for tax exemptions (in particular exemptions granted outside the ordinary law regime) and for the tax administration. As a comparison, such gains would triple investment spending executed in 2018 and multiply investment in national resources by a factor of 14.

² OECD, "States of Fragility" <http://www3.compareyourcountry.org/states-of-fragility/overview/0/>.

³ It should nonetheless be noted that corruption perception indicators do not measure the direction of corruption, and that therefore, they may be biased by judgments of the persons who make them. Likewise, the "Doing Business" indicator also depends on the opinion of experts who may themselves be biased.

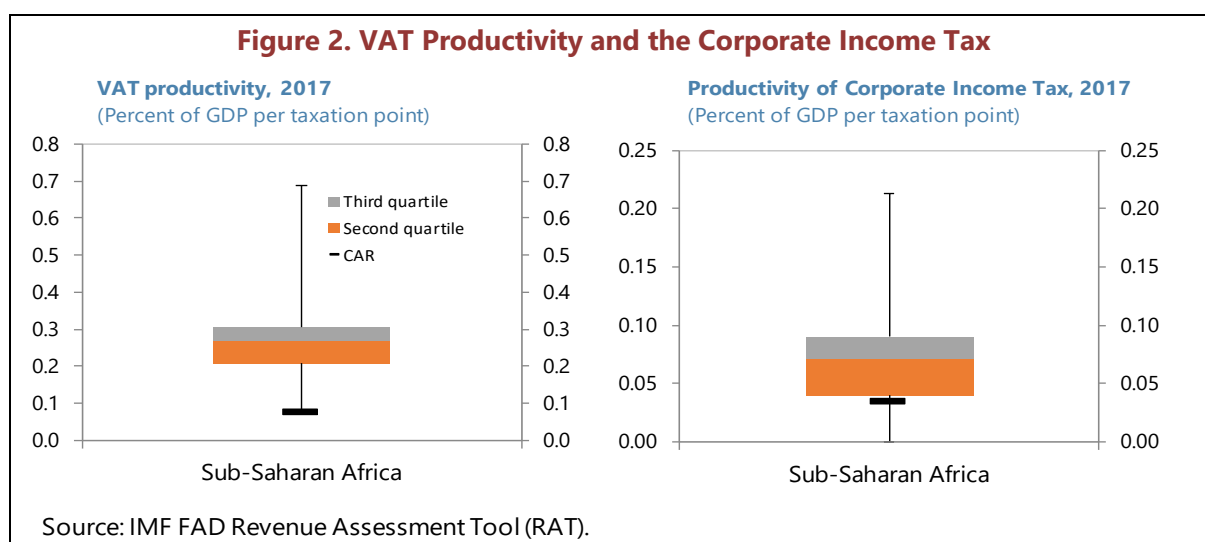
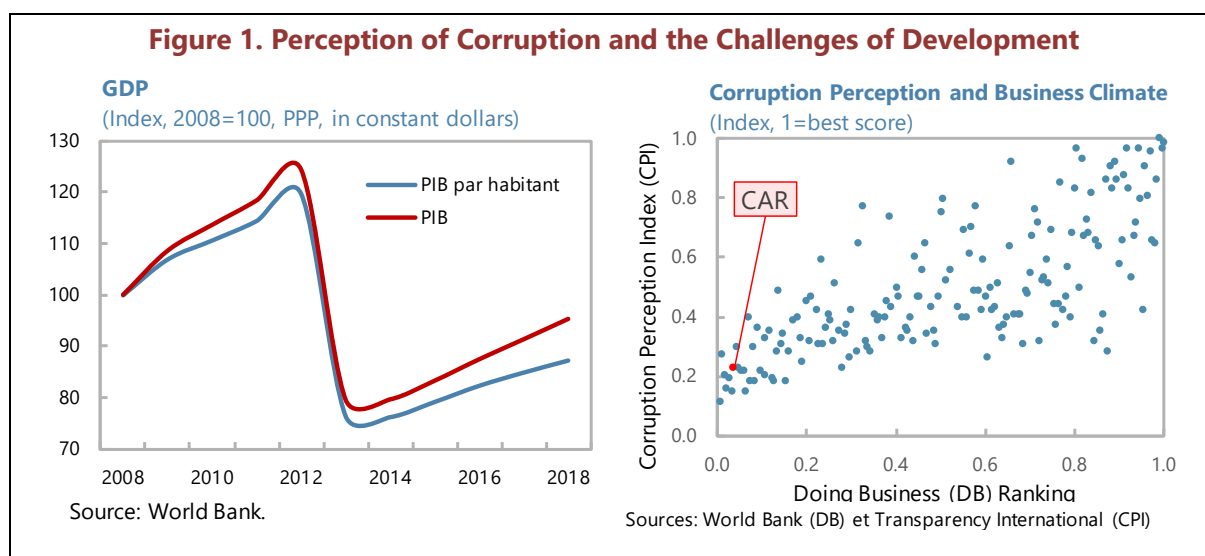
⁴ See the 2018 IMF Fiscal Monitor, Curbing Corruption <https://www.imf.org/fr/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019>.

⁵ World Bank, Doing Business 2019, <https://francais.doingbusiness.org/>

⁶ Estimates for 2018 are based on the "Revenue Assessment Tool" developed by IMF staff and on WEO data, equivalent to about 10 percent of GDP, see Section II.

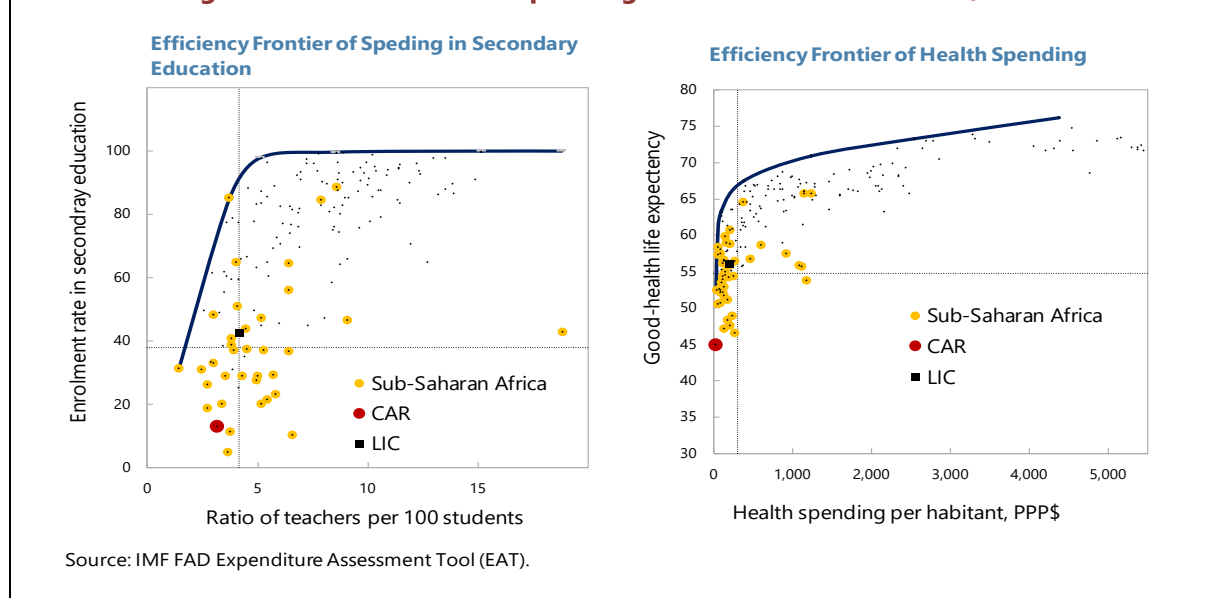
⁷ Productivity is measured by dividing revenue collected as a percentage of GDP by the representative taxation rate. Productivity measured in this manner yields the amount of revenue expected for each point of taxation.

⁸ See Gaspar, Jaramillo, and Wingender, 2016, "Tax Capacity and Growth: Is There a Tipping Point?" IMF Working Paper WP/16/234. <https://www.imf.org/external/pubs/ft/wp/2016/wp16234.pdf>



3. Governance vulnerabilities constrain the effectiveness of public spending. To illustrate this, we reproduced two charts (Figure 3) on the effectiveness of spending on education and health in CAR. They summarize the considerable challenges in public spending effectiveness. Because resources are quite modest, spending in these two sectors is reflected by a low impact on the quantitative indicators (enrollment rate and life expectancy in good health). Furthermore, even compared to countries whose resources are also modest, CAR score is well below most other countries in Sub-Saharan Africa. Improving the effectiveness of public spending should therefore resolve a twofold issue: it should mobilize more resources to be able to meet the needs of development and it should strengthen spending governance in order to maximize their impact.

Figure 3. Effectiveness of Spending on Health and Education, 2017



II. A TRANSPARENCY AND EXEMPLARITY PACT TO SUPPORT GOOD GOVERNANCE

4. Transparency and exemplarity in managing the government should be important tools for strengthening governance in CAR. They will bring about relatively rapid gains in governance without adding significant pressure to the nation's administrative capacities. This transparency is first of all reflected in legal and judicial transparency—foundations for the nation's activities. Next this section addresses a set of assessments and recommendations that cover: (i) the legal framework for fighting corruption; (ii) the legal framework for promoting transparency; (iii) the fight against impunity due to noncompliance with laws; (iv) rules of law that affect the business environment; and (v) anti-money laundering and the financing of terrorism. Improving governance for all of these five pillars would raise budgetary revenue to finance spending more efficiently and attract private investments necessary for the nation's development.

A. Strengthen Transparency and Law Enforcement

5. Two major weaknesses affect the governance structure in CAR: transparency and law enforcement, which are fundamental for laying the groundwork for good governance in CAR. They affect the fight against corruption, the rule of law and the business environment. They also generate risks in anti-money laundering and the financing of terrorism (AML/CFT). It is essential to address these key issues to instill confidence in the government and fight impunity.

Transparency

6. The RCPA in CAR recognizes the importance of improving transparency to control weaknesses. According to the RCPA, improving transparency is an essential step for building government legitimacy, in particular in a context in which a small elite has traditionally controlled

political and economic power.⁹ Other than this aspect, which is essential in CAR context, improving transparency is essential as well to address a certain number of areas of governance, in particular for the risks of corruption, the rule of law, and improving the business environment.

7. The statutory framework for transparency provides good foundations in a few areas, but urgent measures are needed to be completely effective. Fiscal transparency addressed by the law of December 2017 (No. 17.023).¹⁰ Although the statutory framework is overall adequate in this area, improvements are required for implementing it.¹¹ The transparency concept is broader than the subject matter of this law. At a fundamental level, it is difficult for the public to access the texts of laws and decrees.¹² Nor is the Official Gazette of CAR available online. The lack of transparency in the texts of laws is exacerbated by the fact that court decisions are not published. Reports produced by official agencies, including supervisory bodies, are not made public or are not easily accessible. Above and beyond procedural conditions, improving the effective transparency of the statutory framework is of paramount importance for citizens to better understand their rights and obligations. Thus, it directly affects all government functions discussed in this report (tax administration and customs, expenditure management, compliance with rules of law). In addition, it is a key component of social cohesion and strengthening peace, and it is also a pillar of the 2012 national policy to fight corruption. It is essential to develop a culture of transparency in government functions, which includes publishing basic information, documents and statutory regulations to fight corruption vulnerabilities, promote the rule of law and improve the business environment.

8. Transparency in natural resource management is also essential. Appropriate and transparent management of natural resources in CAR is of crucial importance. In 2010 CAR joined the Extractive Industries Transparency Initiative (EITI), which requires countries to “publish timely and accurate information on the key aspects of managing their natural resources.” Membership was suspended in 2013 as a result of the crisis.¹³ Until CAR is readmitted to EITI, it should take all possible measures to demonstrate transparency in the management of its natural resources. Aware of the issues for the nation, the authorities took measures to publish mining contracts on the Ministry of Finance and the Budget website. It is essential to continue improving transparency in managing natural resources in order to demonstrate the appropriate use of revenue, and this implies that the government accounts for the resources it uses and the amounts it receives in a transparent and public manner.

⁹ Central African Republic (2017) *National Plan for Recovery and Peace Consolidation* a 21.

¹⁰ This is supplemented by public access to the information that transcribes the CEMAC directives in this matter (CEMAC Directive No. 06/11-UEAC-190-CM-22).

¹¹ For example, a recent Accounting Office report was submitted to the National Assembly but not made public, contrary to article 43 of the law in respect of transparency.

¹² Although some laws were published on the National Assembly website, they are not comprehensive and they do not cover the period before 2017.

¹³ <https://eiti.org/central-african-republic>.

9. Recommendations to support transparency by disseminating information on the internet:

- Systematically publish all new laws, their implementing regulations, decrees and orders on the government website. Strengthen this database by including the existing laws and decrees that remain in effect.
- Beginning on a date to be determined, systematically publish all court decisions on the website of the applicable institutions (or, for the transition, on a government website such as the site of the Ministry of Finance). Begin with the decisions of the Constitutional Court; the Court of Cassation and the Courts of Appeals, the Council of State and the administrative courts of appeals.
- Initiate an awareness campaign for civil servants on the rights and obligations found in the law in respect of transparency.
- Set up a system of administrative sanctions for failing to publish information required by law.
- Publish all information that is required to be published under the law in respect of transparency on the government website.
- Support readmission to EITI by using the government website to publish not only all contracts that provide licensing rights for natural resources, but also for basic data on production and revenue allocated to the budget.

Law Enforcement

10. Law enforcement must be strengthened. Occasionally laws are misunderstood and are not systematically followed by the implementing regulations necessary to enforce them. Once the National Assembly enacts them, laws do not always have the secondary text needed to implement them. In addition, in a number of cases mentioned in the meetings, law enforcement is inconsistent in practice with current legal texts. This is largely explained by a need for training in the civil service in charge of implementing the laws (including judges and clerks), and a lack of public awareness or means. Nonetheless, unfamiliarity with laws was reported many times by mission participants. Private sector stakeholders mention that the failure to enforce laws in trade disputes is a deterrent to investments due to a perception of significant judicial uncertainty.

11. There is a universal culture of failure to sanction noncompliance with laws and regulations. First of all, there is a structural problem linked to the peace process: the government's authority is not yet fully restored in a large part of the country.¹⁴ As a result, a favorable breeding ground is created for a culture of noncompliance with the country's laws and regulations. The agencies in charge of supporting good governance asked questions about acts of corruption or presumed poor governance, and submitted these cases to the appropriate authorities,¹⁵ yet no sanctions were imposed. The most emblematic example is probably that of reporting assets. Even though the Constitution provides for the requirement to file these declarations, lawmakers have not provided for any imposition of penalties in cases of

¹⁴ <https://www.imf.org/~media/Files/Publications/CR/2020/English/1CAFEA2020001.ashx>

¹⁵ The RCPA recognizes as essential the necessity for an urgent reform of the institutions of justice and the promotion of ending impunity.

noncompliance.¹⁶ Thus, the Constitutional Court observed exceptions in compliance with the reporting requirements, even though most members of the government and National Assembly set an example by complying with the requirement. More basically, the fact that abuses are not sanctioned by administrative and judicial procedures, in particular for corruption offenses, creates a widespread culture of impunity.¹⁷

12. Law enforcement problems create important issues for the government. While acknowledging the difficult circumstances with which CAR is confronted, the problems of not enforcing the law and impunity undermine the government's authority and public confidence. These matters reflect the need to strengthen government capacities to enforce the law. Thus, it is essential for the authorities to ensure that the administration correctly and systematically enforces the law. To this end, it seems essential in the short term for civil servants and court employees to have appropriate access to the relevant laws and regulations and to train them properly. It is also essential to deal with noncompliance issues in a consistent and transparent manner.

13. Recommendations to curtail impunity by bolstering incentives to observe the law

- Publish the list of all laws that have no implementing regulations and prepare a proper timeline to publish said regulations.
- For each law and regulation that is enacted, publish the new law or regulation on the government website no later than two weeks after it is enacted.
- Each year count and publish on the government website the number of court proceedings brought for acts of corruption, the court status of their follow-up, information on property seized as proceeds from crime, and the number of sentences issued.
- For civil servants, strengthen their knowledge of the laws through: (i) awareness campaigns; and (ii) strictly applying administrative sanctions against civil servants who fail to comply with the relevant laws and regulations.
- Issue a decree making it mandatory to publish on the government website all internal control investigations and, for cases of corruption, those that are submitted to the prosecutor's office.
- Create an anonymous reporting system with a toll-free telephone line for citizens to report issues of poor governance or corruption to the HABG and the IGE.

B. Strengthen the General Legal Framework for Fighting Corruption

14. CAR is considered particularly vulnerable to corruption. The quantitative and qualitative indicators, as well as the meeting participants, indicated that corruption is considered a

¹⁶ Article 39 of the Constitution provides that a law must identify the nature of the applicable sanctions and penalties if no declaration is submitted or if the declaration is inaccurate.

¹⁷ Various stakeholders described a culture of impunity to the mission. This culture of impunity is definitely affected by circumstances in CAR and the government's incomplete footprint everywhere in the country, but confronting this situation is essential in order to bolster the government's legitimacy. See also Bertelsmann Stiftung, BTI 2018 Country Report - Central African Republic.

major problem in CAR, and that the ability of governments to control it is deemed poor.¹⁸ This is complicated by persistent insecurity in the country.¹⁹ A 2006 UNDP and Transparency International survey confirmed that for the people of CAR, corruption is a real societal phenomenon, present in every sector of national life.²⁰ It seems that this is still true, since the 2019 Transparency International report on corruption perceptions indicates that there are major corruption risks in CAR.²¹

15. Many objectives of the 2012 national strategy to fight corruption have yet to be achieved, and the strategy should be reviewed. The current national strategy for fighting corruption was adopted in 2012²² after a lengthy public consultation process, and it yielded an assessment of corruption risks with which CAR is confronted, as well as a plan for addressing it. In the context of this strategy, the March 30, 2016 Constitution created the High Authority for Good Governance (HABG).²³ One of the strong points of the HABG lies in the fact that its members, High Commissioners, come from a very broad sampling of society.

16. There have been improvements in the legal toolkit for combating corruption, but greater efforts are necessary regarding the criminalization of corruption and the transparency of court decisions. CAR ratified the United Nations Convention Against Corruption (UNCAC),²⁴ and the 2010 penal code includes various offenses related to corruption.²⁵ A certain number of gaps in the official legal framework were identified in the system for examining the implementation of the UNCAC. Key weaknesses include the technical definitions of offenses related to corruption, the lack of statistics on investigations and proceedings, and the lack of cases reported. However, major gaps persist in the criminalization of offenses linked to acts of corruption covered by the UNCAC.²⁶ To be sure, the lack of data on the prosecution of offenses related to corruption makes it very difficult to evaluate the extent to which corruption matters are systematically brought before the courts. Anecdotal evidence indicates that corruption proceedings are extremely rare.

¹⁸ The World Governance Indicator score (WGI) places CAR among the lowest countries in the world for controlling corruption. Although the CAR's score has improved slightly over the last few years, it has yet to return to its pre-crisis level.

¹⁹ Berlesman Stiftung (2018).

²⁰ The results of this investigation are detailed in the 2012 national anti-corruption strategy. For example, this investigation found that 94 percent of those questioned believe that corruption is a problem in the police and gendarmerie. In addition, 93 percent of those questioned believe the problem exists in Customs and 90 percent in the courts.

²¹ According to its 2019 report, CAR obtained a score of 25 out of 100 for corruption perceptions (a score of 100 indicates that the citizens do not perceive the country as corrupt).

²² Central African Republic *Document de Politique Nationale de Lutte Contre la Corruption*, October 2012.

²³ Constitution, Article 146 and Law No. 17/005 of February 15, 2017 on the composition, organization and operation of the High Authority for Good Governance.

²⁴ The UNCAC was ratified on October 6, 2006. CAR examined the implementation of chapters III and IV of the UNCAC in 2017 as part of the system for implementing the UNCAC. UNODC CAC/COSP/IRG/I/2/1/Add.38

²⁵ Law No. 10.001 of January 6, 2010.

²⁶ See the country report of the first cycle of the UNCAC:
https://www.unodc.org/documents/treaties/UNCAC/CountryVisitFinalReports/2018_06_14_CAR_Final_Country_Report.pdf

17. The HABG has a very wide-ranging mandate, but resources are limited. The High Authority is charged with improving governance in many areas and in different ways, mainly by protecting minority rights and evenly distributing the profits obtained from natural resources. For fighting corruption, the HABG is responsible for general awareness of corruption risks, cooperation among institutions that help fight corruption risks, and strengthening the ability of government institutions to deal with corruption risks.²⁷ The HABG also has the power to require any administration, institution or person (individual or legal entity) to submit the information it deems necessary for its activities.²⁸ Unjustified refusal to cooperate with its requests constitutes a violation sanctioned by the penal code. With a very broad mandate and resources that are currently limited, it will be important for the HABG to prioritize its activities carefully. In particular, it will be important for the HABG to concentrate its work on the areas at high risk for corruption in CAR and, consequently, it should ensure that these risks are fully understood.

18. The legal system for punishing corruption is affected by larger weaknesses in the judicial system. As indicated elsewhere in this report, CAR legal system suffers from a certain number of weaknesses, caused in part by considerable limitations of resources and the current context in CAR. These weaknesses, especially the lack of access to basic legal documents for judges in some regions, naturally affect prosecutions for corruption. In this regard, no statistics are available on the number of corruption cases that are prosecuted. The lack of published rulings, including those for corruption matters, affects legal security and also indicates that the higher jurisdictions do not provide any guidelines to the lower jurisdictions on these matters. The lack of statistical data and rulings issued also makes it impossible to measure efforts to fight corruption, which supports the culture of impunity.

19. Asset reporting, introduced in the 2015 Constitution, for political officials and senior civil servants,²⁹ is an important component of fighting corruption,³⁰ yet there are no penalties for noncompliance and improvements are needed in accordance with best practices. Two reports are supposed to be filed: one before taking office and another after leaving office. However, procedures vary according to the persons to whom this applies, and this aids in creating confusion for implementing them. They are filed with the Constitutional Court and the Court makes them public. The 2015 Constitution provides that a law must determine the nature of sanctions for failing to declare and/or false declarations. However, such a law has yet to be drafted, which forces the Constitutional Court to limit itself to reminders for the requirement to report assets. Although most of those required to do so published their assets, some continue to fail to comply with their obligation, thereby helping to reinforce the sentiment of impunity. The

²⁷ Law No. 17/005, Article 32.

²⁸ Law No. 17/005, Article 34.

²⁹ Under the 2015 Constitution, the following are required to report their assets: the president of the CAR; (article 39 of the Constitution); the prime minister and members of the government (article 57 of the Constitution); members of parliament (article 66 of the Constitution), the Constitutional Court (article 104 of the Constitution), the Economic and Social Council (article 132 of the Constitution), the National Mediation Council (article 135 of the Constitution), the High Communication Council (article 142 of the Constitution), and the HABG (article 150 of the Constitution).

³⁰ The systems for disclosing financial information serve several purposes for combating corruption: prevention, detection, investigation, prosecutions and sanctions.

HABG has the authority to evaluate financial information that is provided.³¹ Other key reforms to be planned according to good international practices are increasing coverage to include high-risk professions and close relatives and partners, and clarification of the nature of the assets to be disclosed to include tangible and intangible assets and interests held or held in real property in CAR or abroad. Finally, a verification system should be envisaged.

20. A targeted and realistic strategy to fight corruption should be able to attack the culture of impunity by strengthening the formal punishment of corruption. Since the HABG is in charge of developing and disseminating CAR anti-corruption strategy, it will be very important to base any anti-corruption strategy on key matters taking CAR's limited human and financial resources into account. In particular, the HABG should have the resources needed to perform its vital mandate. It would also be important for CAR to take specific measures to bolster the legal framework for fighting corruption by introducing new legislation to modify the areas for improvement that are identified in the legal framework, while strengthening the capacities of the prosecutor and the judiciary for prosecuting and punishing corruption. This would be strengthened by publishing court rulings on corruption. Also, producing baseline data on court proceedings for corruption would better measure the fight against corruption. Finally, given the multifaceted role that financial disclosure plays, attention should be paid to reforms that aim to align this regime with best international practices.

21. Recommendations to strengthen the general anti-corruption framework:

- Make it mandatory for the Ministry of Justice to publish a table twice a year that indicates: (i) the number of referrals it received from the HABG, the National Finance Investigation Agency (ANIF), and other control entities; (ii) the number of cases that were investigated; (iii) the number of proceedings brought; and (iv) the number of sentencings for corruption.
- Adopt a new anti-corruption law consistent with UNCAC provisions, and in particular with regard to the incrimination of corruption offenses. This new law should be based on the evaluation of the first cycle of the review for implementing the UNCAC.
- Strengthen the system of asset declarations with a law that provides for: (i) sanctions and penalties if the requirement to submit the declaration is not met, or in the event of an untruthful declaration; (ii) expand the coverage of persons who must declare their assets and include high-risk professions not mentioned in the Constitution; (iii) clarify the form for reporting assets (including foreign holdings); and (iv) expand the asset declaration to include the closest family members and associates.
- Evaluate the implementation of the 2012 national anti-corruption strategy and update it, taking prudent measures by order of priority and taking into account the country's capacity and resources. The new strategy should focus on the main risks of corruption in CAR.
- Monitor the truthfulness of information submitted in asset declarations, mainly by crosschecking information with the information the tax administration has.
- Give the HABG the human and financial resources it needs for its mission. Revise the bylaws of agencies in charge of supervising public activities, such as the IGF and the IGE, so that they

³¹ Law No. 17/005, Article 32.

are able to submit their documentation when the HABG requests it. This will enable the HABG to use its right of self-referral to submit the files for which court proceedings are recommended to the prosecutor's office.

C. Improve the Rule of Law³²

22. The quantitative indicators show that the rule of law in CAR faces major challenges. Two aspects related to the rule of law are evaluated in Doing Business, namely: (i) contract enforcement; and (ii) resolving insolvency.³³ Although CAR is deemed to have a better performance for resolving insolvency, both scores are poor.³⁴ In both cases, costs and delays promote low scores and the general lack of efficiency in processes. Even though performance in CAR in the composite evaluation composite of *Worldwide Governance Indicators* for the rule of law showed a certain improvement over these last years, the overall evaluation indicates serious weaknesses.³⁵ This trend is also reflected in the World Bank Country Policy and Institution Assessment (EPIP).³⁶

23. The integrity of court processes for enforcing claims is rendered vulnerable due to judicial insecurity, which increases the cost of cases substantially.³⁷ In the judicial system, delays are considerable, and it can take up to eight long years to process applications brought before the courts. Many stakeholders mentioned this to the mission, and the lack of any official data on judicial performance makes a more qualified evaluation impossible. Once rulings are issued, enforcement is often complicated. Due to delays, it is often impossible to locate underlying assets or determine if in the meantime they were destroyed (due to the security situation). These problems are exacerbated by insufficient administrative capacity due to the lack of material means (such as the necessary statutes) and specialized training in the judicial system. The fact that court decisions are not published may lead judges to make decisions that are sometimes arbitrary. The mission was informed of this and the authorities are attempting to resolve it. Greater specialization for the courts of justice is needed, in particular for settling trade disputes.³⁸ Moreover, opportunities for recourse against the judiciary are not used because of the perception of a risk of retaliation or a risk of lack of effect. In sum, all of these vulnerabilities affect the cost of doing business, for example, by increasing the amount of collateral needed to obtain a

³² Under the 2018 IMF governance policy, two aspects are relevant for analyzing the rule of law: (i) the execution of claims; and (ii) the protection of property rights. In this report references to the rule of law should be understood as making reference to these aspects.

³³ <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/central-african-republic/CAF.pdf>.

³⁴ For resolving insolvency, in Doing Business 2019, CAR obtained a score of 28.1 (in which the border is 100). This score is lower than a number of regional peers, but higher than others. For implementing contracts, CAR score of 31.4 is lower than the score of its regional peers and among the lowest in the world.

³⁵ The CAR's assessment in the WGI is in the decile below the world scale.

³⁶ The CAR's score of 2.0 since 2017 (EPIP scores vary from 1.0 to 6.0) reflects a slight improvement over previous years.

³⁷ The quality of processing applications for compensation is among the lowest five percent, and is below that of the CAR's regional peers <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/central-african-republic/CAF.pdf>.

³⁸ Although the conception of the judiciary is beyond the scope of this report, the existence of specialized courts should not be a substitute for ensuring that the fundamental aspects of the judicial system operate properly.

bank loan. Nonetheless, it should be emphasized that courts are not functioning in a number of regions in the country due to the current situation.

24. The protection of property rights is weakened by the fact that notarized transfers of real property are not compulsory. CAR Constitution acknowledges the right of everyone (individuals and legal entities) to own property.³⁹ Under the Constitution, the government can deprive persons of their property only in cases of public interest declared legally and only in exchange for paying equitable compensation before expropriation. Even though these provisions provide for legal protection of property, in practice there is often uncertainty with regard to real property rights. The use of private transactions instead of using notarized documents introduces a level of uncertainty for ownership of real property. In addition, an effective system of asset reporting by civil servants can function optimally only if transfers of real property are notarized.⁴⁰ Yet private transfers of real property are also risky and ineffective in that they may be considered illegal because they are not recorded. The mission was informed that lawsuits over ownership are common. Finally, such transactions also ultimately affect the accuracy of the property register.

25. Recommendations to strengthen the rule of law:

- Have the Ministry of Justice publish data once a year, court by court, on: (i) the number of new cases settled during the year; (ii) the total number of cases brought before the courts; and (iii) the average amount of time it takes for the courts to process a case.
- Initially, ensure that all judges have access to basic legal documents. Next, schedule specialized training sessions for commercial court judges.
- Review how to strengthen the statutory requirement of the 1958 law under which transfers of real property require notarized documents in order to decrease the number of private transactions.
- Provide for administrative sanctions for judges who would render rulings contrary to the law.

D. Strengthen Market Regulation to Foster Inclusive Growth

26. The legal organization of markets requires strengthening the rules of law. The statutory and regulatory framework for markets is perceived as inadequate. *Worldwide Governance Indicators* deems that the quality of regulation CAR is –1.48, one of the worst scores in the world, while the *Doing Business* indicators on starting businesses place CAR in the lowest decile in the world.⁴¹ One key vulnerability factor in the market regulation framework is the absence of transparency (see section above). Other more specific aspects also have a negative impact on the business environment. For example, dismissals deemed “wrongful” pave the way to compensation that is difficult to sustain financially and that can amount to several decades of salaries. The authorities are aware of these vulnerabilities and have made significant efforts;

³⁹ Constitution, Article 18.

⁴⁰ One key aspect of the asset reporting system that works well is that declarations are checked to ensure that the reported information is in fact accurate. If the ownership of real property in CAR is not necessarily accurately reflected in the property register, it complicates the verification of asset declarations.

⁴¹ <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/central-african-republic/CAF.pdf>.

including: streamlining parafiscal taxes; establishing a one-stop shop for the tax administration, digitization of tax, Customs and spending procedures, and a revision of the labor code to limit compensation for wrongful dismissals. More fundamentally, it will be important in the coming years for the authorities to implement structural reforms that facilitate trade. In the short and medium term, essential issues are emerging in Customs operations (see Section IV) and in implementing reforms to resume the country's mining exports.

27. Starting a business is costly and time-consuming, which makes it difficult to fight the informal sector. According to the *Doing Business* assessment, CAR compares poorly to its regional peers in starting businesses.⁴² Ten individual steps are necessary with a timeline for implementation estimated at 22 days. Although there is a "one-stop shop" for starting businesses, in practice, a certain number of additional steps are required. The Bangui Chamber of Commerce keeps the records of companies registered in Bangui. The registrations are on paper and cannot be viewed online. In addition, the public cannot access these documents and they do not contain information on beneficial owners of businesses.

28. Recommendations to strengthen market regulation:

- Finalize the audit of all parafiscal taxes and abolish those with no relevant economic justification.
- Strengthen the one-stop shop for starting companies and provide support to taxpayers.
- Establish a register of legally founded businesses that the public is able to access online.

E. Anti-Money Laundering and Combating the Financing of Terrorism

29. Strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime in CAR is very important to assist in combating corruption.

CAR is exposed to serious AML/CFT risks. These risks include the country's porous borders, the high level of the informal sector, the economic nature of the economy and the illegal mining of natural resources. The domestic real property sector was identified as a key area in which there is money laundering. In addition, corruption usually causes its proceeds to be laundered. To address these risks and strengthen the AML/CFT regime, a certain number of measures should be taken.

30. The CEMAC community directive/regulation in respect of the prevention and punishment of money laundering is the main source of AML/CFT legislation in CAR. CAR is a member of the Task Force on Money Laundering in Central Africa (GABAC), the regional FATF-type organization. There was an assessment of the money laundering and financing of terrorism regime in CAR in 2010 and the report indicated significant weaknesses in implementing the FATF standard. Following this mutual assessment report, there were six follow-up reports on CAR that evaluated the measures taken to remedy the issues that were identified. Another follow-up report should be produced in 2020.

31. In CAR, the ANIF is the key stakeholder in AML/CFT. Created by a decree in 2004, the ANIF is in charge of obtaining information on money laundering and the financing of terrorism

⁴² <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/central-african-republic/CAF.pdf>.

and submitting it to the judicial authorities. The ANIF must operate properly to ensure the effectiveness of the AML/CFT regime in CAR. In this regard, it has faced a number of difficulties.⁴³ To strengthen its work, the ANIF could consider having CAR join the Egmont group, which brings together about 164 financial investigation agencies throughout the world and assists with sharing information among them to make the AML/CFT frameworks more effective.

32. The effectiveness of the AML/CFT regime requires close cooperation among a number of stakeholders and the judicial system. Even though the institutions are supposed to report suspicious transactions to the ANIF, cooperation with other government entities is necessary. This includes the Customs and tax administrations, which can provide information on tax evasion and the transportation of cash. This cooperation should be strengthened. The judicial system is essential for prosecuting AML/CFT offenses. In this regard, police capabilities must be strengthened for investigations into these offenses and prosecution for the management of cases to prosecute them. The judiciary should be trained in matters of financial crime. The current absence of capacities in these areas can be demonstrated by the fact that as of today, no one in CAR has been prosecuted for money laundering crimes.

33. AML/CFT surveillance of banks and other financial institutions by a supranational organization – the Central African Banking Commission (COBAC) - is inadequate and compliance is poor.⁴⁴ The requirements for politically exposed persons (PPE) and beneficial owners are incorrectly covered in the CEMAC legal framework and they are not implemented. The CEMAC regulation should be adjusted to bring these requirements into full conformity with international standards. The obligations should be extended to domestic and foreign PPEs, including senior officials of international organizations and their beneficial owners. It should also be specified whether the PPE is from the CEMAC region or abroad. The CEMAC and COBAC regulations do not correctly define beneficial ownership and they do not indicate the detailed requirements to identify and verify them. Finally, the requirements of reporting suspicious transactions are not entirely compliant with the standards and they are not correctly implemented. Banks have filed a limited number of reports and other institutions have never submitted any suspicious transaction reports (STR). Although it is acknowledged that COBAC is not under the control of the national authorities, its supervisory role has a direct impact on the AML/CFT regime in CAR.

34. COBAC surveillance of financial institutions for AML/CFT is limited to a small number of requirements and is ineffective. The designated businesses and professions (for example, attorneys, accountants and real property agents) are not correctly regulated or supervised. There is no risk-based supervision of institutions, geographical locations, proceeds and clients (for example, PPEs and the beneficial owner). Moreover, there are no appropriate adequacy or verification tests of financial institutions during the authorization and change of ownership process. Effective and deterrent sanctions to improve compliance with the rules have not been imposed for violations of the obligations of financial institutions. Foreign exchange houses, brokerage companies, insurance companies and companies that transfer funds are not

⁴³ The ANIF is in the Ministry of Finance. It reported a number of substantial obstacles for its ability to perform its duties properly. These include the lack of sufficient material and human resources, including secure office space.

⁴⁴ Financial sector supervision is a regional issue for the CEMAC region.

subject to AML/CFT requirements nor are they supervised. Designated nonfinancial businesses and professions are not regulated or supervised.

35. The lack of availability of information on the final beneficiaries of legal entities causes a certain number of governance problems, in particular for corruption and money laundering. The Organization for the Harmonization of Business Law in Africa (OHADA) issued uniform laws that include certain requirements to improve the transparency of legal entities. Commercial law requires persons involved in registering a business to provide and update basic information on the legal ownership and control structure of companies in the commercial register. In practice, basic information is available manually only. It is difficult to access and is not always accurate. Information on real ownership is not available and cannot be accessed in a timely manner.

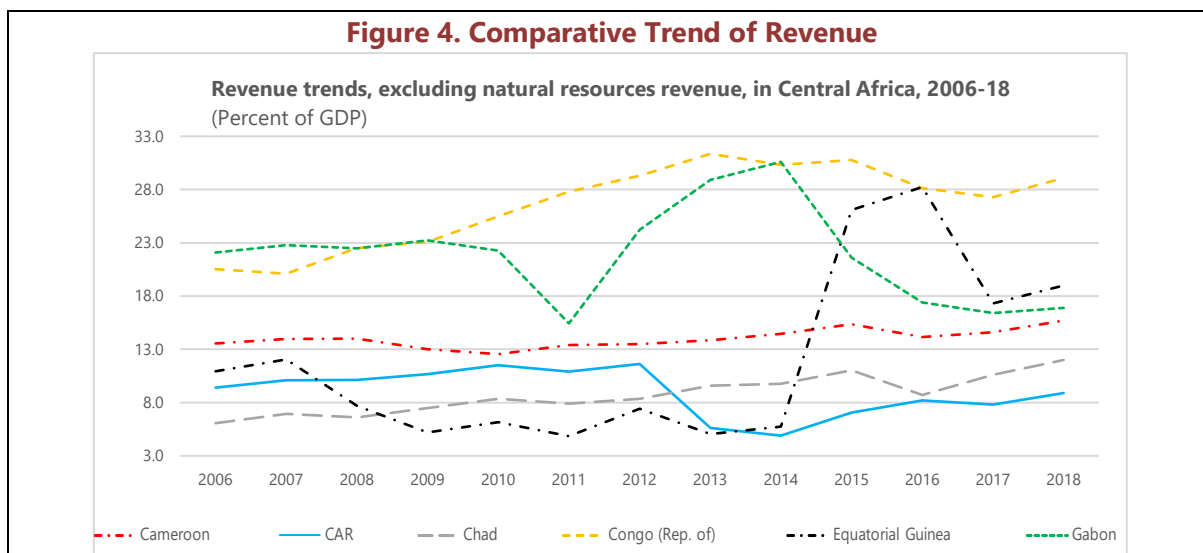
36. Recommendations for fighting money laundering and the financing of terrorism:

- Quantify and detail the material and financial needs of the ANIF in order to improve its effectiveness.
- Encourage the sharing of financial information among jurisdictions. In addition to efforts made in COBAC and for FATF, CAR could consider applying to join the Egmont group, a global initiative in which one of the main objectives is to promote these types of exchanges.
- Require including information on beneficial owners in the articles of incorporation of companies and include it in the commercial register.
- Intensify training in financial crimes for the police, gendarmerie, the prosecutor's office and the judiciary to improve the ability of the judicial system to prosecute perpetrators of financial crimes.

III. STRENGTHEN THE GOVERNANCE OF THE TAX AND CUSTOMS ADMINISTRATIONS

37. This section analyzes the fundamental vulnerabilities in CAR Customs and tax system, which can weaken governance and the nation's development objectives. Raising more tax and Customs resources would give the authorities sufficient budgetary leeway to strengthen the financing of priority public spending and major investments. Unfortunately, the level of revenue raised is very low in CAR (Figure 4) compared to the countries of the sub-region, mainly due to the following: (i) a complex and generous tax system that is undermined by a multiple of parafiscal taxes; (ii) vulnerabilities in the management of human resources, with an exemplarity framework that needs to be strengthened; (iii) procedures that are not updated, not transparent and only slightly computerized; and (iv) the lack of sanctions after the few cases of internal controls or audits of staff, which thereby promotes the impunity of dubious employees and the practice of favoritism in the central government entities.

Figure 4. Comparative Trend of Revenue



Sources: Countries' authorities and IMF staff.

A. Adopt a Tax and Customs System that Meets the Criteria of Transparency, Fairness, Neutrality and Effectiveness

38. The process of adopting tax and Customs statutes or statutes that require withholding from businesses or citizens suffers from a lack of civil society participation. For example, the Economic and Social Council should be consulted according to the law. However, in practice it is in fact excluded from the process of adopting the budget law. In addition, the private sector is not always informed of new tax and Customs provisions in the draft budget law before it is submitted to Parliament. This situation encourages a climate of uncertainty for businesses and promotes the practice of lobbying in order to pass parliamentary amendments that are often specific. The process of preparing tax or Customs statutes should: (i) be managed by the tax and Customs administrations; and (ii) provide a reasonable amount of time for consultation by the private sector and the Economic and Social Council.

39. The Central African ordinary law tax system remains cumbersome and complex. There are numerous cases of double taxation (turnover, salaries and compensation)⁴⁵ despite work to upgrade the tax and Customs system driven by the CEMAC Commission⁴⁶ with the support of the IMF Fiscal Affairs Department (FAD). For Customs, the mission found no fewer than 15 revenue items that were allocated and validated (even if many of them originated in the community), in addition to the main duties and taxes (indirect customs duties—DDI, specific customs duties—DDS, VAT, DA—excise taxes and the income tax/corporate tax) provided for by the Customs Code and the General Tax Code. The January 2017 FAD tax policy mission⁴⁷ found no fewer than 75 different withholdings on economic operators, with 22 special allocation

⁴⁵ Examples can be mentioned, such as turnover taxed for the VAT and the Business License Tax, and the wage bill taxed for the income tax and Social Development Contribution.

⁴⁶ The new Community Customs Code, adopted in 2018, the new Directive in respect of Excise Taxes adopted in 2018, the draft VAT Directive now being finalized, the upcoming launch of the new Corporate Tax Directive, the drafting of a Community Tax Procedures Book, etc.

⁴⁷ Central African Republic, "Mobiliser et rationaliser les recettes," Anne-Marie Geourjon et al., January 2017.

accounts for a total estimated amount of 1.7 points of GDP. The authorities should accelerate the implementation of the action plan⁴⁸ that seeks to abolish these inefficient parafiscal taxes that are earmarked for the special allocation accounts (SAC) of some public entities and offices and that are often taken outside the budget law.

40. Tax exemptions contribute to the complexity of the tax system, and hence to its vulnerability to corruption. The large number of exemptions has weakened the business environment, leaving taxpayers to deal with a complex system, which makes it vulnerable to corruption. Exceptional exemptions granted by the authorities still persist. For imports, they were up from CFAF 36 billion in 2017 to 47 billion in 2018. These exemptions, often granted on an individual basis, contrary to statutory exemptions that are geared to business sectors, may create losses of revenue for the public treasury and they distort the system's neutrality (except when they apply to international organizations, for example). Likewise, the tax administration continues to discover favorable tax regimes (convention on eligibility for the temporary preferential tax regime, establishment approval, etc.) that are granted individually to businesses outside any statutory framework. These practices generate unfair competition among businesses and thus they lend themselves to favoritism. Therefore, to better deal with the many exemption requests from various ministerial departments, in 2017 the decision was made to establish the Interministerial Committee in charge of Tax and Customs Exemptions (CICEFD). Nonetheless, given the efforts made by the authorities in the last few years to reduce exceptional exemptions, the very existence of the CICEFD, which actually processes exemption applications that are not provided for by current statutes, should no longer have to be justified. Good practices in this area consist of having exemptions or eligibility for tax/Customs advantages processed solely by the tax or Customs units that have jurisdiction to do so in the DGID and DGDDI.

41. The Exemption Management Fee⁴⁹ (RGE) is not consistent with the principles issued by the World Trade Organization (WTO), fails to recognize the initial objectives of statutory exemptions, and perpetuates rent-seeking in the administrations. The RGE is an amount to be withheld based on Order No. 93-006 of May 5, 1993, which establishes the Central African Republic budget for 1993, currently levies a tax of:

- 5 percent on "exempt" goods that are: (i) imported for administrations, local governments, public enterprises or government-owned corporations; (ii) imported as part of procurement; (iii) suspended from payment or exempt from duties by Customs tariffs or regulations (except for goods of CEMAC origin that pay only the VAT); or (iv) imported as part of establishment conventions signed by the government and some companies;
- 15 percent for imports of businesses licensed under the investment code regime and the preferential regime as established by law No. 88-014 for Central African SMEs and SMLs.

⁴⁸ Considerable work has been done as part of the 2019 budget. FAD assisted the Office of the Inspector General of Finance (IGF) in identifying 10 agencies and 36 parafiscal taxes to be abolished based on the findings of the audits.

⁴⁹ The Exemption Management Fee (RGE) was put in place by Articles 35 et seq. of the 1993 budget law, amended by articles 13 of the 1994 Amending Budget Law, 48 and 49 of the 1995 Budget Law, 33 of the 1996 Budget Law and 39 of the 2001 Budget Law.

This withholding conflicts with both: (i) the WTO rules⁵⁰ that provide that a fee must be for a service actually rendered and that its amount is not necessarily correlated with the value of the goods (which excludes from the outset the proportional rates of 5 and 15 percent and instead argue for lump-sum amounts); and (ii) the expected objectives of lowering the cost of goods by exempting them, because in the end RGE rates are often higher than the normal taxation rate provided for by the CEMAC Customs tariffs⁵¹ (5 percent for essential goods and 10 percent for raw materials and capital goods 10 percent). In addition, the allocation for the RGE is not clearly defined and hence, it remains a tool that works for arbitrary decisions and the good will of some civil servants that are assigned to collecting it. For all these reasons, the mission proposes abolishing it unconditionally.

42. The tax code is so complex that it makes it difficult for taxpayers to comply with obligations and it promotes discretionary tax audits, which in turn generates risks of corruption. The Central African tax system is based on a system of filing tax returns and is designed to promote voluntary compliance with tax obligations. Unfortunately, the General Tax Code (CGI) still contains too many redundant provisions that are poorly arranged for penalties, fines and sanctions. This situation, for example, facilitates the practice of ad hoc negotiations by users who are unable to understand it and prefer to buy the benevolence of an employee to settle their case as quickly as possible. Likewise, tax audits that are conducted have no objective or updated analysis of risks, and too often they are still based on the discretionary authority of the officers in the entities. Thus, some enterprises are systematically audited each year, while others, with higher risks, are almost never audited. Finally, a “settlement” mechanism,⁵² which revises the results of an audit downward based on a decision of the Minister of Finance, is provided for in the CGI. These few examples of discretionary authority, which unfortunately are incomplete, perpetuate uncertainty and further undermine confidence in the tax administration by enterprises and society in general.

43. Settling conflicts with the tax administration is complex as well and paves the way for arbitrary decisions. The CGI provided for a joint entity known as the “Tax Commission,” called upon to arbitrate disputes over the tax base and some contentious cases. It is comprised of an equal number of private sector representatives and administration representatives. Unfortunately, it has never been operational. Making it operational could lower the number of contentious matters, the processing of which leaves much to be desired. To be sure, the current organization of processing complaints allows direct committal by the Minister of Finance and the Budget, who has three months to render his decision, and provides for just two decision-making

⁵⁰ WTO Trade Facilitation Agreement. Art. 6.2. Fees and charges for Customs Processing: i) must be limited in amount to the approximate costs of the services rendered on or in connection with the specific import or export in question when the transaction occurs; and ii) are not required to be linked to a specific import or export operation provided they are charged for services that are closely connected to the Customs processing of goods.

⁵¹ Customs duty rates applicable to products from third-party countries imported into the CEMAC zone are set as follows: Category I Essential Goods, 5 percent; Category II Raw Materials and Capital Goods, 10 percent; Category III Semi-processed and Miscellaneous Goods, 20 percent; and Category IV Everyday Consumer Goods, 30 percent.

⁵² CGI. Art. 388 et seq. Taxpayers who face sanctions such as penalties, fines or increases due to an audit may request a settlement to mitigate said sanctions. Taxpayers or the entity may apply for settlement and the decision is rendered by the Minister of Finance.

levels for tax relief (less than CFAF 5 million for the Director General of Taxes and directly for the Minister of Finance for larger amounts).

44. Recommendations in favor of a more equitable tax and Customs system

- Reorganize the administrative and judicial phases of the dispute based on good practices that safeguard taxpayer rights.
- Reactivate the joint “Tax Commission” as soon as possible; it is to settle disputes and put in place an independent right of appeal for Customs matters.⁵³
- Final stage: a review by a higher court of appeals to settle pending disputes on the facts and on legal interpretation.
- Each quarter publish online the list of names of beneficiaries of all de jure or de facto exemptions with the losses of revenue they generate for the government coffers.
- Re-establish confidence in the tax system by: (i) abolishing the Interministerial Committee in charge of Tax and Customs Exemptions (CICEFD); (ii) strengthening the monitoring of usage and the final destination of exempt goods and services; and (iii) repealing the statutory provisions that put the Exemption Management Fee (RGE) in place.

B. Make the Administrations more Autonomous, Establish Real Leadership and Improve the Human Resources Management Policy

45. The tax and Customs administrations have limited autonomy. After the last restructuring, the organization chart of both administrations are relatively well designed, even though there is room for improvement. The management lines are well defined and there is clear separation between the functions of the central and operational administrations. Unfortunately, in reality, the General Directorate of Taxes and Government Property (DGID) and the General Directorate of Customs and Indirect Taxes (DGDDI) have limited management autonomy:

- Even though they have some of their own resources such as the information system fee, the leeway the two general directorates have is very limited, and the needs they express are not always correctly budgeted or available in a timely manner;
- Hiring does not always consider the needs of the administrations with regard to the skills of the employees that are hired. Government employees that have no qualifications in taxes or Customs (military, primary school teachers, etc.) are sometimes placed in Customs or Taxes;
- The senior officials of the tax and Customs administrations are not appointed for a fixed period and they have no assurance of stability when policy changes occur. Moreover, they do not always choose their associates since often they are appointed by the same decree that appoints the directors and unit chiefs;
- Both directors general have only a warning available to them, which is tantamount to a call to order, to reprimand employees with abnormal conduct. The Minister of Finance alone is responsible for implementing the various sanctions provided for by the statutes.

⁵³ Such a right of appeal is explicitly mentioned in the revised Kyoto Convention (chapter 10), and Central African Customs is a full member. The right of appeal is also provided for by article 358 of the new Community Customs Code, which requires putting an independent national commission in place to settle disputes.

46. All of these weaknesses in autonomy have direct consequences on the vulnerability of managers and employees of the tax and Customs administrations for corruption. With the lack of resources, employees are led to use any and all means of funds to “advance” purchases of materials, which is a de facto incentive to collect these advances from taxpayers. Employees who are assigned permanently to entities with major issues such as the DFGE and Customs revenue in Bangui are perceived as establishing a clientele of “regulars.” This leads to jealousy among the other employees. Finally, it is impossible for the directors general to issue disciplinary sanctions such as reprimands, salary withholding and freezing of shares, which encourages rent-seeking and fosters a sense of impunity among some employees.

47. Recommendations to promote the autonomy of the tax and Customs administrations and strengthen the management of human resources:

- Promote leadership by example, primarily by introducing a requirement for senior officials to report their assets (see Box 1);

Box 1. A Manager’s Commitments to Develop Strong Leadership

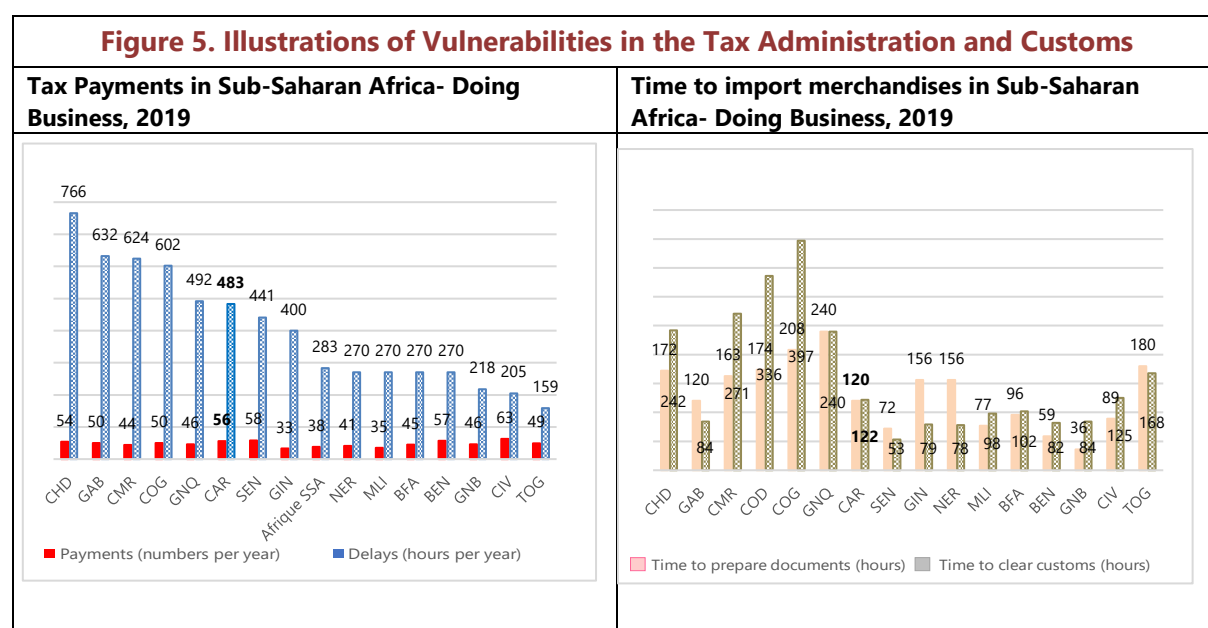
- Periodic reporting of income and assets as the statutes provide;
- Gradual delegation of authority for decisions and signatures;
- Pledge to not intervene in the hiring or assignment process;
- Lower the means and “lifestyle” of the General Directorate;
- Develop prevention activities with the organizations that promote integrity;
- Support the work of the entities in charge of investigating abnormal conduct;
- Disseminate the organization’s values and objectives through intensive internal communication;
- Hold internal workshops on awareness of the fight against corruption;
- Attend conferences in conjunction with organizations that support integrity;
- Have their close associates of all ranks arrange their own evaluation.

Source: IMF staff.

- Implement a real HR strategy incorporated into the multiyear strategy of the two administrations based on sound principles and practices to limit the vulnerability of employees to corruption. The principles are as follows: (i) hire personnel with the required qualifications and skills who also strictly observe ethics; (ii) provide ongoing support for training and ensure that promotion and assignment decisions are impartial and free of favoritism; (iii) limit the term of serving in vulnerable positions to no more than four years; and (iv) equitably distribute the advantages to which tax and Customs employees are entitled using timelines (refund of contributions, share of penalties, costs of proceedings, overtime [travail extra légal], and income generated by disputes).
- Implement a reliable, objective and transparent system to measure performances and for compliance with the rules of ethics in order to create emulation among the employees. The following are required to implement this measure: (i) in the DGDDI, create job descriptions and procedures manuals in ASYCUDA; and (ii) update what the DGID currently has in order to take into account the latest developments in SYSTEMIF 4.0. The reliability of the extractions by the systems of employee performance indicators will ensure maximum objectivity and better comparability of performances of employees assigned to performing the same tasks.

C. Digitize Tax and Customs Procedures

48. More digitization would support revenue collection efforts (Figure 5). There is still too much time spent on preparing tax and Customs declarations: (i) on the average, a business uses one full-time employee for one and a half months per year to complete tax returns; and (ii) it takes a declarant two weeks to prepare the documents necessary to clear Customs for his client's goods. These long delays are rooted in the complexity of the systems and the result is a high risk of corruption.



49. The tax administration is currently being digitized in order to curb risks of corruption and poor governance. As recommended by the successive FAD missions⁵⁴ that took place as part of the RMTF project,⁵⁵ the strategy of the authorities is based on the following three pillars: (i) create an online remote reporting platform for large and medium-sized enterprises; (ii) implement remote payment as part of connecting the public treasury's information system to the SYGMA and SYSTAC payment systems in the BEAC; and (iii) launch the test phase for payment of the single comprehensive tax owed by micro- and small enterprises in Bangui.

50. In support of these efforts, the authorities are using the deployment of the SYSTEMIF 4.0 system which, in its current architecture, does not meet the DGID's needs since it has no functionality: data tabulation, analysis and risk management, time and case management, performance management and automatic production of management indicators, etc. Nonetheless, to improve the transparency of the administration's activities, to protect taxpayer rights, and to facilitate performance monitoring, it is essential to use SYSTEMIF to digitize all documents and to have the procedures that impact users (reminders, audits and collection). The mission also congratulates the authorities for having issued instructions making

⁵⁴ Central African Republic, "Sécurisation et modernisation de l'encaissement et de la comptabilisation des recettes de l'Etat," Bernard Limal., July 2019.

⁵⁵ Revenue Mobilization Trust Fund project (RMTF), implementation by the IMF Fiscal Affairs Department since 2017 and supporting the strengthening of VAT administration.

the use of SYSTEMIF mandatory and making documents not generated by SYSTEMIF unenforceable against users.

51. Recommendations in favor of the tax and Customs administration information systems:

- Conduct an independent audit of the performances, administration and use of SYSTEMIF 4 and ASYCUDA++;
- Secure the use of ASYCUDA to restore user confidence (Table 2);
- Make permanent the efforts made to eliminate temporary tax identification numbers by issuing an instruction abolishing the fast-track Customs clearance units [*unités banalisées de dédouanement*], and by prohibiting Customs officers from submitting declarations on behalf of declarants;
- Use a specialized link with the central server to interconnect the Central African Transit Facility in Douala and the Customs clearance offices in Beloko, Berberarti, Mongoumba and Gamboula;
- Accelerate the work of the Steering Committee for the project to design and implement remote tax procedures, created by order No. 0279/MFB/DIR-CAB of March 21, 2019, and expand its work to the study of paying taxes using mobile terminals;
- Replace the IT hardware in the DFGE and DFME, which are the main suppliers of DGID revenue (soon they are to implement remote procedures).
- Interconnect among them the tax and Customs administrations with the main partners (public treasury, budget, commercial bank, telephone companies, electrical utilities, etc.) to ensure data reliability and integrity. These interconnections will check some taxpayer information (address, status, activity level, etc.) and thus they will manage the proper management of tax and Customs documentation.
- Enhance transparency and give the users tools by making more information available on the websites of the administrations. Currently, the tax administration's website is still inaccessible, and the latest update of the Customs administration website goes back to April 2018. Table 3, which describes the main information which, if published, may reduce vulnerability to corruption. Users of the tax and Customs administrations are entitled to expect that their transactions with them: (i) have a high degree of certainty and predictability; and (ii) are applied uniformly and consistently. Thus, discretionary powers should be transparent and managed.

Table 2. Central African Republic: Measures to Curtail Corruption Linked to the use of ASYCUDA

Measures to be taken	Impact on curbing vulnerability to corruption	Priority
Disable the codes of employees who introduce declarations or T1s	Discontinue interactions between employees and declarants. Ensure the integrity of decisions and define responsibilities. Enhance transparency and improve the monitoring of goods.	High
Interconnect the Douala Facility with Bangui over a dedicated line	Make pre-assessment data available in real time. Ensure the integrity of decisions and define responsibilities. Enhance transparency and improve the monitoring of goods.	High
Close the fast-track Customs clearance units	Discontinue interactions between employees and Customs declarants and hold declarants and their clients accountable.	Medium
Improve authorizations in ASYCUDA	Hold the employees accountable and enhance transparency. Curb cases of data manipulation in ASYCUDA.	Medium
Interconnect the offices of Mongoumba, Berberati and Gamboula to the central network	Make pre-assessment data available in real time. Ensure the integrity of decisions and define responsibilities. Enhance transparency and improve the monitoring of goods.	Medium
Make the use of the inspection certificate mandatory	Hold the employees accountable and enhance transparency. Trace violations that are found and the amounts paid.	Medium
Systematically use the values submitted by the supplier in charge of checking declared Customs values.	Enhance transparency and improve the valuation of goods.	Medium
Interconnect ASYCUDA with SYSTEMIF to the DGID	Share data of a tax nature and ensure transparency. Discontinue employee use of the P999999P numbers.	Low
Computer charter for using ASYCUDA	Describe the positions, authorizations, procedures used, responsibilities and the data protection protocol.	Low
Migrate the current system to ASYCUDA World	Improve system security and data integrity.	Low

Source: IMF staff.

Table 3. Central African Republic: Examples of Information to be Published on the Tax Administration and Customs Website

Type of information	Impacts on curtailing corruption	Frequency
Vision and strategic plan of the tax and Customs administrations	Restore the confidence of the public in general and of businesses in particular	Annual
Forum and electronic grievance boxes on the social networks	Support the detection and prevention of unethical behaviors	Ongoing
Performance statistics for tax and Customs revenue	- Restore the confidence of businesses - Improve the accountability of the administrations	Quarterly
Statistics on fighting fraud by business sector	- Ensure that an administration is neutral and that the tax system is fair and not discretionary	Monthly
Lists of taxpayers with Tax ID numbers, tax liability status, location and up-to-date status	- Facilitate meeting tax or Customs obligations for users - Public surveillance of inveterate fraudsters	Monthly
Statutes related to taxes or Customs (CGI, Customs Code, etc.)	- Facilitate meeting tax or Customs obligations for users	Ongoing

Table 3. Central African Republic: Examples of Information to be Published on the Tax Administration and Customs Website (concluded)

Code of Professional Conduct for DGID and DGDDI staff	- Support the detection and prevention of unethical behaviors	Ongoing
Clientele service charters and standards for performing tasks	- Strengthen the rights of tax and Customs administrations users	Ongoing
Procedures manual and functional job descriptions	- Facilitate meeting tax or Customs obligations for users	Ongoing
Practical user guide for SYSTEMIF and ASYCUDA	- Support the detection and prevention of unethical behaviors	Ongoing
Organization chart and employee job directory	- Make civil servants responsible - Increase transparency in the administration	Ongoing
Signature authority and authority for decisions and delegations	- Protect users against arbitrary decisions - Guarantee user rights	Ongoing

Source: IMF staff.

D. Promote Integrity and Develop a System of Administrative Sanctions

52. The digitization of procedures, which improves transparency, is a necessary but insufficient condition to limit vulnerability to corruption. Table 4 below shows that dysfunctions emerged in the Beloko Customs clearance office during the period of July to August 2019: (i) 91 percent of declarations were introduced by Customs officers, contrary to current statutes;⁵⁶ (ii) 92 percent of tax identification numbers (NIF) used were anonymous NIFs [NIF banalisés] (P999999P) that fail to identify the real recipients of goods; and (iii) 91 percent of declarations were submitted as simplified declarations (DS4), but regularizing them remains hypothetical because they are introduced exclusively by Customs officers with anonymous NIFs.

Table 4. Central African Republic: Analysis a Sample of 859 Declarations Subscribed Between July 4 and August 30, 2019, at the Beloko Customs Clearance Office (BD0008)

Declarant		Recipient of goods			Type of declaration		
	Number	Individual with NIF	Legal entity with NIF	Anonymous NIF P999999P	Simplified declaraiton DS4	Detailed declaration IM4	Total
Commissioner	2	9	4	62	0	75	75
Customs	-	72	6	706	784	0	784
Total		81	10	768	784	75	859

Source: DGDDI, August 2019.

53. These dysfunctions can be corrected easily by taking control of the administration of the ASYCUDA system, mainly by implementing the following measures: (i) a stricter access

⁵⁶ Articles 145 et seq. of the CEMAC Customs Code identifies the two types of declarations in detail (IM4) and the simplified procedure (DS4). They will be completed or reviewed subsequently as complementary declarations. In any case, only authorized persons can file Customs declarations and are legally authorized to have the goods, as well as all documents that must be produced in order to apply the provisions that govern the Customs regime for which the goods are declared. Cases in which a Customs officer can introduce a declaration are: automatic liquidation in case of findings of fraud or automatic correction in cases of obvious errors on the declaration in detail.

authorization policy; (ii) an ASYCUDA usage charter; and (iii) more frequent audits of system benchmarking and use. Streamlining procedures for issuing NIFs.

54. The tax and Customs administrations have no strategy to promote integrity.

However, the DGDDI has a code of professional conduct and tools to design a national program for good governance and ethics in Customs matters, reproduced in the revised Arusha (1993) and Maputo (2002) declarations, developed by the Customs Cooperation Council.⁵⁷ The tax and Customs administrations have just reinstated *Unit Inspections* as part of the last reorganization⁵⁸ of the Ministry of Finance and the Budget. Unfortunately, this decree contains little information about the responsibilities of the Inspection Units, and it is still redundant in terms of the responsibilities of the Office of the Inspector General of Finance (IGF). In addition, it sets the number of unit inspectors per general directorate at five. This number is insufficient to properly carry out activities to supervise the proper implementation of the statutes and audits of the units.

55. Strengthen tools to promote the transparency of management operations in the tax and Customs administrations and the responsibility of managers. It is necessary to strengthen the internal control function: consistency of procedures and operations; observance of rules of professional conduct; relevance of indicators and reliability of performance measures; data integrity and reliability of IT tools; compliance with the rules for using IT tools, etc. It is also necessary to streamline the exercise of supervising the tax and Customs administrations (Accounting Office, the Office of the Inspector General of Finance and the Office of the Inspector General of Finance, see Section V.E). In addition, the production and publication of activity reports (performances and management of public funds), and the dissemination thereof to Parliament and civil society will send strong signals.

56. Recommendations to develop staff integrity:

- Strengthen the capacities of the two offices of the two-unit inspection entities that will be in charge of internal control and audit programs. These programs should strike an appropriate balance among positive strategies that promote a high level of ethics and sanctions in order to severely and effectively punish perpetrators of proven corruption with disciplinary procedures or court proceedings.
- Encourage staff, users and the public to report corrupt and unethical conduct or conduct that does not implement sanctions that are ordered. These practices are such that they place pressure on civil servants to strictly comply with the rules of ethics and conduct themselves in a professional manner in carrying out their duties. They will also restore public confidence because attempts to not prosecute some cases of failing to implement sanctions will be monitored publicly by civil society organizations or ordinary citizens.
- Conduct external audits in cases of serious and prevalent issues. When it is appropriate to conduct complex or large-scale investigations, or when corruption is widespread, the Office of the Inspector General of Finance (IGF) or the National General Inspection Office (IGE) may be enlisted to conduct comprehensive investigations and issue recommendations when they

⁵⁷ Official name of the World Customs Organization (WCO), founded in 1952 and with 182 members.

⁵⁸ Decree No. 19-149 of May 20, 2019 in respect of the organization and operation of the Ministry of Finance and the Budget and establishing the minister's remit.

complete their work. Publishing the general points of their work and the results would further strengthen public confidence in government institutions.

- Adopt a program to foster integrity and a plan to fight corruption and strengthen the transparency of the tax and Customs administrations.

IV. RESTORE CONFIDENCE IN THE GOVERNMENT SIGNATURE

57. This section evaluates the key pillars of good fiscal governance: integrity of key fiscal management processes; cash management; the internal and external control framework and fiscal transparency; and two fundamental components: the legal framework and the integrated financial management system. It is based on findings from 2016 by the IMF and other partners in development. It concentrates on a few points of attention that call for corrective action to establish good governance, further enhance transparency, and combat corruption and fraud in budget execution.

A. Further Digitization and Automation of Budgetary Processes

58. Carrying out budgetary processes is based on effective management systems and a legal framework that is now being modernized. In theory, automated systems ensure that the management framework is used properly. With these systems, stakeholders can perform their tasks for the expenditure chain and their controls on an ongoing basis and in compliance with current rules. They can also be used to automate the production of financial statements. Thus, these systems have become one of the guarantors of good public management. The legal framework for managing public expenditure is adequate overall and is being boosted by the modernization in progress. The authorities have committed to overhauling the legal framework to bring it into compliance with the CEMAC harmonized fiscal framework. To ensure that these statutes are effectively implemented, a gradual approach may be considered, in particular with regard to the implementation of a program budget, for example, through ad hoc trials. The transposition of the directives is now deemed complete, but there are still blind spots in the areas of procurement and external control, whose statutory and regulatory frameworks are old and seem obsolete (Table 5).

59. There are many issues with the information system that the administration is attempting to resolve (Box 2). This is a recurring problem. In 2016 users reported weaknesses in the Government Financial Management Information System (GESCO) and blamed the system for the proliferation of exceptional procedures that were not corrected and delays in the production of financial statements. Deficiencies in the interfaces between systems were also mentioned, and they prevent reconciliations between Customs and tax files. Finally, the balance and the debt were not connected to the budgetary system. Since then, the minister has attempted to overcome the system's deficiencies and train users to stabilize GESCO and provide more normal budgetary management. These praiseworthy efforts bring to light the need to push the digitization of government expenditure by acquiring a new integrated and more effective system.

Table 5. Central African Republic: Status Update of the Public Expenditure Management Framework

	Area	Transposition	Implementation
Budget Framework Law	Multiyear budget	Organic Law 18-013 of July 13, 2018.	In progress: Medium term budgetary framework
	Program budget	Implementing regulations still to be drafted	Scheduled for 2021
	Deconcentration of management		In progress. Trials in 7 ministries
	Moving financial supervision out of its current location		
	Cash management		Functional Treasury Single Account; room for improvement in cash flow plan
	Accountability regime		To be put in place for the managers
General Public Accounting Regulation	Execution procedures	Decree 19.091 of March 27, 2019	Normalization in progress
	Public accounting		
Government Chart of Accounts	Financial statements and accounting standards	Decree by Decree 19.093 of March 27, 2019	Chart of accounts now being prepared
	Balance sheet and accrual basis accounting		Gradual implementation by 2024
Government Budget Classification	Budget execution by program	Decree No. 19.094 of March 27, 2019	Program classification in progress
Table of Government Operations (TOFE)	Financial statistics	Decree 19.092 of March 27, 2019	TOFE completely overhauled by 2024
Directives currently under discussion	Procurement	2008 Code creating the DGMP and ARMP	Institutions in place, assessment of the investment management and procurement framework scheduled in 2019, overhaul 2020
	Public-private partnerships	None	
	External audit	2008 Organic Law	Law apparently obsolete, but the Accounting Office is functional and relatively independent (see INTOSAI criteria).

Sources: CAR authorities and IMF staff.

60. The acquisition of a new government fiscal management information system (SIM-BA) is justified, but there are risks in the deployment timeline. The acquisition of SIM-BA is justified by the prospect that statutes derived from CEMAC fiscal management directives will come into effect. The January 1, 2021 deployment schedule, after a trial period in 2020, may prove to be ambitious. It does in fact require a set of related measures, mainly the formal adoption of the new CEMAC legal framework for public finances. Work to develop budgetary macro-processes in order to prepare specifications has begun based on draft statutes that comprise this new legal framework. Therefore, there is one more risk on the schedule since

the stakeholders in the entities involved will have to learn the new budgetary and accounting management concepts.

Box 2. GESCO is an Old and Misused Management System

This software was implemented in 2004 using an incremental process based on the needs at the time. There were successive modules for implementing GESCO: (i) GESCO Accounting and GESCO Cash Position; and (ii) GESCO Budgetary Preparation & GESCO Budgetary Execution, based on the needs the Ministry of Finance expressed. The essential basic documents, namely the specifications and technical design documentation, had not been prepared. A documentary base with more than 24 documents, including various user manuals and presentations, were available but not used. The system developer was called periodically for maintenance operations and to make the changeover between two fiscal years.

Situation in 2016: The main users reported that from 2010 to 2016 the system was incapable of producing the Treasury accounts (*comptes de gestion*), while the 2008 and 2009 accounts had been produced. The trial balances that were produced were not balanced and required manual reprocessing. The system did not produce the budgetary execution reports or the quarterly management accounts.

Action taken: a multidisciplinary team was formed to support the work of closing out the fiscal years, providing functional support to users as well as IT support, advice and quality control for the use of the software, with periodic support from the developer. With this approach, GESCO was finally stabilized until 2018.

Situation as of end-2018: The GESCO system is operational for central government expenditures with no major roadblocks. Yet it still fails to provide good traceability of the expenditure chain. In addition to not being benchmarked to take validation data (*liquidations*) into account, the system traces payments in an accounting module that no longer communicates with the budget module. That is why the summary budgetary statements and expenditure execution reports still require manual reprocessing. In addition, the GESCO budget module does not adjust budgetary commitments for payment orders to update the temporary posting accounts.

Sources: 2017 World Bank Audit and 2018 IMF Report.

61. Recommendations to prepare for a more gradual deployment of SIM–BA

- **The GESCO system could be stabilized to extend its useful life for two or three more years.** Despite GESCO's weaknesses, it should be kept for a transition period that will necessarily be longer. To do so, the IT managers must be encouraged to finalize the technical adaptation work to correct the deficiencies in GESCO and to maintain user support in order to continue to standardize the management processes.
- **Finalize the information systems master plan to provide for an interface among the various information systems that assist in managing public finances.** The new SIM–BA system should be the backbone of budget execution and thus be incorporated into an updated master plan. The administrative and technical processes must be in place in order to facilitate information sharing between SIM–BA, the revenue applications (now under development), and the balance management and debt management applications. This will also require, among other things, interfaces between SIM–BA and the other relevant information systems.

- **Synchronize the gradual deployment of SIM–BA with the deployment of the new management framework.** Effective governance is needed for implementing the project and there should be rigorous acceptance testing phases, cross-cutting project management and effective communication in order to include all the stakeholders in the reform (mainly and especially the users).

B. Strengthen the Expenditure Execution Procedures

62. The civil conflict had a profound effect on confidence in the government. From 2013 to 2015, the government attempted to pay the essential expenses except for two months of wages and two quarters of pensions. To do so it contracted massive loans. As of end-2015, more than 50 percent of the public debt was external arrears (18 percent of GDP) and domestic arrears (17 percent of GDP). This undermined the government's signature abroad and created cash tensions for the local economic system. With facilities and essential services lacking, business environment deteriorated significantly. Confidence in the government as payer was seriously altered. Only a handful of suppliers agreed to be paid after the service was provided, and there were also very few local and foreign investors since the outlook for returns on investments in the medium term was nonexistent.

63. The authorities adopted a plan to clear the domestic arrears, which paved the way for renewed confidence in the government, even though the process is a bit flawed. Harnessing domestic arrears (supplier debts) thus became a priority for the government. A comprehensive plan to clear the arrears was adopted along with a schedule. The plan contains firm guarantees to ensure that the reimbursement process is transparent, including the quarterly progress reports produced by an international auditor. Periodic reports prepared by an external auditor confirm the implementation of the strategy and the application of the rule. This approach seems to be bearing fruit in terms of the provisional figures the mission was given (Table 6), even though strict control and identification requirements delayed some reimbursements that were initially scheduled in 2019. Other than the initial payment plan, the audit identified amounts that were placed in deposit accounts⁵⁹ that created claims that were not yet paid up. These domestic arrears were added to the existing stock and are in the process of being recorded. Another payment plan will be prepared for them, in theory in 2020. Despite efforts to clear the arrears made by the authorities, the intra-annual monitoring system does not provide an alert on the establishment of new stocks. Payment timelines are computed starting on the date the expense is accepted instead of the validation date. Due to this deficiency, stocks of trade arrears, which are expenses that are validated albeit without payment authorization or without acceptance by the accounting officer, are not taken into account in the administrative phase. Although the authorities acknowledge that these arrears exist, they are unable to estimate the volume. Moreover, accounting arrears are not monitored in the course of the year based on regulatory payment deadlines—not to exceed three months as required by the community directives and the Organization for the Harmonization of Business Law in Africa (OHADA).

⁵⁹ Deposit accounts include transactions validated and accepted by the Treasury that have yet to be placed in the bank settlement system [*règlement bancaire*].

Table 6. Central African Republic: Monitoring of Arrears and Exceptional Expenditures

<i>Stocks in billions of CFAF</i>	Jan. 31, 2017	Jan. 31, 2018	Jan 31, 2019
Wage arrears	64.89	56.93	22.43
Trade arrears		9.30	8.80
Arrears excluding the plan			115
Exceptional expenditures (% of expenditure excluding debt and wages)	26%	17%	7%

Sources: CAR authorities and IMF staff.

64. As the arrears are being cleared, the Ministry of Finance and the Budget continues to normalize expenditure by curtailing the use of exceptional procedures. The aggressive action taken regarding the arrears seems to have had the effect of having economic operators regain at least some confidence and strengthening the local economic system. Consequently, the use of exceptional expenditure procedures⁶⁰ with payment before the service is provided may once again become a more marginal occurrence. The goal of lowering exceptional expenditures to less than 5 percent of central government spending, excluding balances and debt, was set in the program supported by the Extended Credit Facility (ECF). In a standardized expenditure procedure, two stages are critical: procurement and cash management. Procurement procedures, in particular those applied to investment projects, are particularly vulnerable⁶¹ to corruption. Practices of commissions or secret kickbacks [*rétro commissions*], when proven, may affect the effectiveness of investment spending by considerably increasing production costs. Likewise, the handling of public funds, a function that is reserved for government accounting officers under the law, creates temptations for misappropriation in varying degrees. If these become widespread, they drain the government coffers and destroy the trust of citizens in the government's financial function. In this context, the revenue and Treasury units have automated cash transactions to reduce human intervention to a minimum. Special attention should be paid to these two critical points (contracts and cash), and they are discussed below.

65. The authorities intend to use competitive procedures in all cases for procurement. The use of noncompetitive procedures (private and direct contracts, or contracts with inappropriate clauses) are on the decline (Table 7), yet they are still considerable and contribute to the public sentiment that there is massive collusion between economic operators and public decision-makers. This sentiment is particularly entrenched in civil society (see the meetings the mission held as well as articles in the local press). This in turn harms the business environment and especially the country's attractiveness for investors. Two factors account for these circumstances at least to some extent: the lengthiness and complexity of procurement procedures which may discourage bidders; and the poor competitiveness of some economic sectors because there is limited market diversification. Mindful of these vulnerabilities, the authorities wish to prepare a status update in 2020 to assess areas where there is room of improvement in

⁶⁰ The standard procedure for expenditure commitments is based on rules of prior commitment, balancing entry and payment after the service is rendered. In this report, all expenditures must necessarily go through the four successive stages of commitment, validation, authorization and payment. Procedures that fail to observe these four stages are termed exceptional.

⁶¹ See Fiscal Monitor April 2019, on curbing corruption.

procurement. An assessment of public investment and procurement procedures should take place soon with World Bank support.⁶²

Table 7. Central African Republic: Procurement Procedures by Category

<i>In value (billions of CFAF)</i>	2016	2017	2018
Invitations to bid	Not reported	Not reported	43.73
Procedures without competition or avenants	Not reported	Not reported	8.12
Invitations to bid (% of total)	Not reported	Not reported	84.34%

Sources: General Procurement Directorate (DGMP) and IMF staff.

66. Law 19.007 in respect of the legal framework for public-private partnerships (PPP) was enacted on June 24, 2019 and calls for ongoing efforts to strengthen the management framework for major PPP projects. The recommendation is to conduct studies promptly to give the administration a legal and institutional framework with reliable management for this type of partnership.

67. Despite hard work to put a Treasury Single Account (TSA) in place, its coverage is still partial and available information on liquidity remains limited. The TSA, which CAR pioneered in CEMAC, automatically transfers available balances in commercial banks. Donor funds, for example, are deposited in TSA sub-accounts and are subject to clearly established fungibility rules. Nonetheless, TSA coverage is still partial. The public administrative establishments (EPA) and associated agencies, whether they receive government grants or not, kept accounts opened in the commercial banks. During the exchanges in 2018 on this subject, some officials of organizations with their own legal status deemed that these entities should not be in the TSA because they are financially autonomous. Such an interpretation conflicts with CEMAC directives, the organic law in respect of the budget law, and it risks discouraging the streamlining of parafiscal taxes begun by the 2018 budget law. Finally, the quality of financial information remains very poor for available liquidities. In 2018, the various statements submitted by the Central Accounting Agency—Treasury (ACCT) show dissimilar amounts, so that it is difficult to determine the actual level of government cash. The daily and monthly extrabudgetary cash statement [situation extracomptable de la trésorerie] cannot be verified as it relates to the accounting entries. The reconciliation between the monetary survey and the net Treasury position is incomplete and is being discussed as part of the program supported by the ECF (Table 8). Finally, despite increased use of banks, the government is not protected against serious irregularities. The approximations that were found for liquidity management make it impossible, for example, to check whether this revenue was actually fully deposited in the TSA (and not embezzled), and whether all disbursements were in fact entered in the books. Finally, funds unduly held by de facto managers (for example, the government agencies), escape the automatic audits performed by the Accounting Office and internal control.

⁶² As part of the AGIR project.

Table 8. Central African Republic: Gaps Found Between the Monetary Survey and the Net Treasury Position

<i>In billions of CFAF</i>	End-2017	End-2018
Net government position (see BEAC)	40.36	32.38
Net Treasury position (see Treasury cash flow)	34.46	30.22
Gaps	5.90	2.15
Gaps as a % of budgetary revenue	3.83%	1.02%

Sources: CAR authorities and IMF staff.

68. Recommendations:

- Continue clearing domestic arrears and normalizing expenditure procedures. Paying government liabilities on the correct date is essential for restoring government credibility and ensuring the return to the normal procedure. In this respect, the execution of the clearing plan, now in progress, should be completed. To prevent the formation of new stocks of arrears, the following measures should be taken: (i) continue improving Treasury cash flow and its synchronization with the consolidated commitment plan and the plan for issuing debt securities; (ii) discontinue the exceptional practice of deposit accounts; and (iii) continue to reduce the volume of transactions carried out using exceptional procedures.
- The revision of the procurement management framework could include: (i) a requirement to perform cost-benefit analyses for government investments above a threshold (to be determined based on capacities and amounts considered); this will require support from donors initially; (ii) publication of these assessments; (iii) the statutory requirement – along with penalties for noncompliance – to publish invitations to bid on the government website; and (iv) publication of the criteria for selecting businesses. In the medium term, the DGMP should strive to develop a management application backed by a procurement portal to ensure that government procurement is entirely transparent.
- **Continue to consolidate the TSA and make the accounting data reliable.** The blind spots and the accounting inaccuracies described above generate major risks for the embezzlement of funds. In addition, it is important for the authorities to expand the perimeter of the TSA to all legal entities subject to public law: the government, public administrative establishments and local governments. To be successful, all stakeholders must accept this, and work should be done in advance to raise awareness of the strategic issues it represents. This will also depend especially on Treasury staff capacities to reform to be able to provide integrated management of government funds.

C. Strengthen Fiscal Transparency

69. The IMF defined fiscal transparency in its 2014 Fiscal Transparency Code, updated in 2019. There are four pillars in this code: (I) fiscal reporting; (II) fiscal forecasting and budgeting; (III) fiscal risk analysis and management; and (IV) natural resource management. Elementary transparency practices assume in particular that fiscal reporting provides a complete, relevant, current and reliable view of the situation and the fiscal results of government administrations (pillar I of the code).

70. Since the end of the transition period, the authorities have made considerable efforts to improve accounting information. The Central Accounting Agency--Treasury (ACCT) was established in 2015 to return to normal the accounting situation that had deteriorated significantly during the crisis. A data entry center reconstructed the missing accounting data for the fiscal years from 2012 to 2015. A general balance of the accounts was prepared in 2016 and 2017 but the quality was poor. These accounting statements were subsequently improved over the years. As of the mission date, the 2016 financial statements had been submitted to the National Assembly, which approved them. The 2017 and 2018 draft budget review laws were submitted to the office of the assembly and were being reviewed by the Accounting Office. In 2019, an internal control unit was put in place and its capacities are gradually increasing. This paves the way for remedying the vulnerabilities that were found in 2017 regarding the lack of quality verification of accounting information.

71. Despite substantial progress, vulnerabilities persist in the quality of accounting information, both in terms of covering accounting operations and in transparency. The scope of accounting operations is still limited in that only recently did it begin to include the entities presented in the budget law in the specific budget (agencies, special funds and special allocation accounts). The management accounts in the specific budget and the special Treasury accounts were submitted late to the Office, and the accounts of the agencies, funds and other decentralized budget agencies [*démembrements budgétaires*] are not included. This amounts to more than 20 percent of the budget that is not monitored and that may be the source of major fiscal risks. Finally, fiscal accounting is improving yet it is still not transparent. The payment authorization officer produced his administrative accounts in 2016, 2017 and 2018. The General Directorate of the Budget has made considerable progress in that since 2018 it has produced quarterly execution reports. However, these documents are still factual in that they merely mention the accounts with no assessment of the fiscal situation, so that there should still be more comprehensive publication of the government accounts.

72. Information on tenders and procurement management is still problematic and thus it undermines the business environment. The DGMP does not yet have a website. The sectoral ministries do not have sufficient funding to publish invitations to bid on a widespread basis. Since it does not have a sophisticated tool, the DGMP has no statistical data in real time and it does not publish them. This lack of transparency is even more flagrant for contracts made without invitations to bid (19 percent of contracts in 2018) that are made with no transparency whatsoever. The poor transparency and dysfunctions in the procurement system weaken the business environment and discourage investors from coming to the Central African economy. For this reason, the structure of the local market remains uncompetitive, which makes implementing competition even more difficult. For example, there are only two operators in the automobile sector and the health and education sectors are faced with oligopsonies. Finally, many SMEs have decided not to submit their bids, fearing the administrative costs associated with doing so.

73. Recommendations:

- **Continue to improve accounting quality.** The substantial efforts made by the Treasury units to improve accounting quality, set up internal control and prepare for the changeover to the new CEMAC standards must continue. The implementation of more modern general

accounting should remain a medium-term goal that will be achieved using a roadmap that involves all accounting stakeholders, including the Accounting Office and the payment authorization officer.

- **Organize institutional communication on budgetary operations.** The government should improve the dissemination of budget execution reports and communicate more actively on the year's fiscal data. These transparency efforts can be solidified by having the Central African Republic join the open budget initiative, the results of which are published annually.
- **Develop a procurement portal in CAR to support improved transparency in procurement procedures.** This crucial reform for improving the procurement system requires implementing a procurement management application. Such an application, organized as a workflow, traces manager operations in real time (purchasing units, the DGMP and the ARMP) and publishes contracts on a procurement portal from bidding to completion. There are models in Sub-Saharan Africa, so that exorbitant costs are not needed.

D. Expand Financial Governance to the Entire Public Sector

74. Public sector governance is poor. In Central Africa, in addition to local governments, the public sector consists of public establishments and enterprises. The supervision of these entities, especially financial supervision, is a major challenge. Many of these establishments, agencies, offices and enterprises obtain allocated parafiscal taxes. They submit income statements, sometimes with delays, but they seldom submit balance sheets that indicate their assets and liabilities. Government supervision needs to be strengthened, mainly by developing a public sector management strategy.

Streamline the Parapublic Sector Supervision

75. The government has committed to strengthen public sector governance using a set of measures. The statutes in respect of public sector entities (52 agencies and offices) and parafiscal taxes were surveyed and published on the MFB website. In addition, all known parafiscal taxes were entered in the 2019 budget law in the amount of CFAF 13 billion, with a counterpart of CFAF 8 billion (about 60 percent) for transfers to public entities that do not have these taxes. The action plan for streamlining parafiscal taxes was updated to include the new recommendations from the technical assistance missions and the major delays in carrying out some activities. Finally, the audit of the public agencies and offices is ongoing.

76. The law in respect of the supervision of public enterprises and establishments was enacted in late 2019 and is based on principles of good management. The law clarifies that the mode of normal management of public entities is the public administration and that the mode of management of a public service by a parapublic sector entity is an exception. The law frames the creation or modification of a parapublic sector entity. It illustrates the close relationship between the public and parapublic sectors. It identifies the governance of establishments, enterprises and semi-public companies and specifies budgetary execution procedures. Finally, with a clear differentiation between technical and financial supervision, it strengthens the latter.

77. Provisions should be made for implementing the law so that it does not remain a dead letter. A number of implementing regulations should be prepared as soon as Parliament adopts the law. The suggestion is to prepare drafts without waiting in order to save precious time for implementation.

Table 9. Central African Republic: Implementing Regulations for the Law in Respect of Public Sector Supervision

Reference	Level	Purpose
Article 64	A decree	Statute on the operation and financial regime of public establishments and enterprises, with possible exemptions to corporate law.
Article 5 Article 19 Article 28 Article 34 Article 50 Article 79 Article 83	One decree per entity involved	Modify the charters of public enterprises and establishments. This law establishes the following according to entity: composition of the board of directors and of entities represented on the board, and the conditions for appointing directors. For public establishments: procedures for governance of the establishment, procedures for managing resources and limitations on the establishment's autonomy.
Article 56	MFB order annexed to the budget law	List of public enterprises, public establishments and government interests.
Article 61	Circular	Application for grants, to be completed by the sectoral ministries for public enterprises, with an analysis of the costs and justification of the activities to which the grant is to be given. The form used for the application should be established by MFB circular or in a framework letter.
	MFB decision	Allocation decision that establishes the procedures and timelines for transferring grants

Source: Draft law in respect of the organization of the legal and financial institutional framework applicable to public enterprises and establishments.

Roadmap for Successful Budgetary Decentralization

78. A thought process began in 2017 on the advisability of increasing decentralization by modifying the local government code. The avenues for thought are for creating local levels that would be in addition to the provincial and communal level, increasing local budgets, transferring powers that are currently in the realm of the central government, and implementing new decentralized administrative structures.

79. Decentralization is leverage for economic development and social progress, with a number of political, economic and social objectives as follows: (i) preserve unity and deal with diversity; (ii) optimize economic development in sectors in which community-based management is a source of efficiency; and (iii) consolidate the authority of citizens to manage the community in the best interests of its members.

80. The decentralization process is nonetheless replete with inherent risks. Decentralization consists of assigning to local governments responsibility for managing amounts

of funding to carry out ambitious and important projects for the country's harmonious and balanced development. Thus, the challenges are significant, and the risks associated with them are no less significant. The risks are mainly the higher number and even the scattering of means and stakeholders, making it more difficult to harness and control public activity. The insufficient capacity of local governments to fulfill their new responsibilities would be another risk that destabilizes overall development efforts because available resources are not allocated optimally; or they are distributed inefficiently and not in accordance with the objectives of the public interest and support for public activities. Harnessing these risks assumes that there are appropriate resources, primarily a sufficient number of qualified employees, but there is more: the implementation and application of a robust and effective governance system is a key factor of success for decentralization.

81. Therefore, the local governance framework should be based on an administration that is organized, structured, competent and held accountable. Governance is understood as a series of clear procedures, appropriate for the local context, that provide a framework for public activity and internal and external control systems that detect, correct and sanction errors and irregularities. Governance encompasses all aspects of management, planning and feedback. It assumes that the respective responsibilities of each stakeholder are identified that there are operational and documented procedures, and qualified staff assigned throughout the country based on needs. If the managerial structures and financial accountability framework are not in place, all types of financial decentralization may be counterproductive and become a breeding ground where fraud, corruption and misappropriation of resources flourish.

82. Recommendations:

- **Deconcentrate the resources necessary for delivering public services as the central government regains authority in the regions.** This prerequisite to decentralization assumes that there is once again public order and civil peace and that government services have resumed throughout the country to provide the functions that are vital for the people's well-being as promptly as possible.
- **Evaluate the own resources of local governments and their administrative capacities.** Review and streamline the tax and local fee system to foster taxation aligned with economic activity, tailored to the specific needs of local governments and adjusted to changes in the local economic environment.
- **Identify the authority of the various levels of local governments.** One widespread approach is to assign the management of local services to the communes, such as dispensaries and communal schools. Crosscutting infrastructure such as roads and local economic development would be assigned to the other levels.
- **Design and implement a judicious roadmap to decentralize in the medium term those resources that local governments need to exercise authority.** This roadmap should include strengthening capacities and implementing a system of good governance, which seems to be in progress today.

E. Strengthen Surveillance of the Budgetary Institutions

83. The fight against fraud and corruption is based on two essential factors: the system of accountability and proper management of human resources. Academic research on corruption based on a few natural experiences (Box 3) brought to light some equivalencies, including this one:⁶³ the amount of a bribe needed to influence an employee to engage in fraudulent practices correlates with material perspectives (salary and career prospects) assigned to the risk the employee runs of losing his benefits if the control systems in place reveal his practices. In light of these experiences, a good managerial policy that aims to combat corruption will be based on these two levers: a dissuasive internal and external control framework; an incentivizing human resources policy for the civil service that is based on a decent system of compensation and prospects for stable careers.

Box 3. Example of the Philippine “Bureau of Internal Revenue” (1975–80)

Corruption of employees in the Philippine tax administration had become widespread. This resulted in substantial losses of tax revenue. The government decided to correct the situation and appointed a new bureau chief, with a managerial policy that is based on two key levers:

- Salary incentives and career prospects;
- Stronger controls and sanctions against proven cases of fraud.

This policy did indeed reduce corruption in the tax administration significantly and substantially increased the level of revenue the office collected. But this edifying experiment did not last long. In 1980, after the bureau chief left, the share of taxes in GDP was down sharply, thus demonstrating the merits of the managerial policy that had been abandoned and the need to make governance reforms permanent.

Source: Klitgaard, R., 1988, Controlling Corruption, Berkeley, University of California Press.

Strengthen Internal and External Reviews

84. Parliament and the Accounting Office are increasing capacity to exercise their constitutional review. Even though the 2016 Constitution gives them this role of review for the action of the executive, the resources of the Assembly and later of the Senate (the lower house, created by the Constitution but not yet in place) are lessened. The Accounting Office, established in 1996, began operating only in 2006. Since then it seems to have had difficulty preparing its final reports and had apparently never issued a restitution order against a government account. Since 2016 its capacity has been enhanced to review government accounts and conduct investigations at the request of Parliament or the executive.

85. The executive has a complete inspection toolkit, but capacities are poor:

- **Two inspection offices have areas of intervention that are basically comparable:** The National General Inspection Office (IGE), founded in 1980, is the older. It is under the direct authority of the Head of State. The Office of the Inspector General of Finance (IGF) is part of the Ministry of Finance and the Budget. It has interministerial authority and inspects the

⁶³ Plagne and Klitgaard, 1988: [bribe or undue advantage] = [job losses for the employee] x [risk of being discovered]

entities and audits the administrations, but it also assists them with advice on management and organization and training programs. The IGF plays an essential role in clearing arrears and updating financial regulation.

- **The sectoral ministries have their own inspection offices**, and they cooperate with the IGE and IGF as needed. These inspection offices can contribute know-how in the field by enhancing financial investigations.
- **The Office of General Parapublic Sector Review, under the prime minister**, ensures that there is good governance of the establishments, enterprises and semi-public companies. It ensures that technical and supervision are working properly and that resources are correctly used. It also reviews budgets and accounts.

86. Financial supervision is where deconcentration of budgetary expenditure begins. An experiment to deconcentrate financial supervision to seven priority departments is in progress, and supervisors are in place permanently in all public establishments and enterprises.

87. However, the supervision entities have limited capacities. Recently a headquarters was established for the Office, but it has no auditors and only a few inspectors. The expertise of the auditors is diverse, and all the entities that were visited reported low budgetary resources.

88. There is no follow-up on the recommendations made by the supervisory entities. Follow-up on the recommendations, in particular those that have legal consequences, such as additions to regulations, or judicial consequences, such as reporting procedures, is an essential requirement for the audit system and the effectiveness of sanctions. This function is nonexistent in practice.

89. Audits fail to deter. The system of accountability for payment authorization officers and government accounting officers is well established in principle. The former are covered by the budgetary and financial disciplinary framework, and the latter can be subject to personal and monetary liability. In addition, just like all citizens, civil servants are liable to criminal sanctions if they are found guilty of offenses or tortious acts. The Code of Criminal Procedure requires that all civil servants who have knowledge of facts that potentially constitute such acts to report them to the court system. In practice, few reports are submitted to the prosecutor's office and it seems that no restitution orders have been issued against accounting officers. The budgetary and financial discipline office is not operational.

90. Finally, the cases that are submitted to the courts are processed slowly at best and there is no processing in the worst case. Economic operators involved in corruption matters are rarely prosecuted. Embezzlement in procurement is punished by the Penal Code, but here again sentencing is the exception and not the rule. Administratively speaking, there are provisions for sanctioning bidders and government contractors for inciting corruption or for committing fraudulent acts. However, in practice, enforcement is weak or nonexistent.

91. Recommendations:

- **Improve the coordination of internal control entities for fiscal management.** Put in place a control program, with quality control of audit reports, investigation methods and follow-up

of recommendations. This coordination could be assigned to the IGF in conjunction with the IGE. In the long run it could be molded into a strategy to modernize internal control.

- **Make audits transparent by publishing reports.** This means strengthening institutional communication on the government and Accounting Office websites (the latter is still nonexistent).
- **Continue to strengthen the Accounting Office by enacting an organic law that creates it.**
- **Strengthen capacities in the auditing entities.** External funding and targeted training would be advantageous for this activity. The main needs are digitization, institutional communication, and techniques of analysis and investigation.

Strengthen the Government's Administrative Capacities

92. Everyone we met mentioned the weak human capacities in the Central African government.⁶⁴ Titles are used instead of competitive testing to hire new employees, so that there is no guarantee that new employees are qualified. Centralized management by the civil service does not seem to satisfy the managers of the entities and financial institutions. Some academic courses of study have become nonexistent (such as public finance and markets). The sanctioning system seems difficult to implement and there are few levels. Finally, civil servant salaries are unattractive and even insufficient to cover the needs of some, who find a second compensated position in the private sector at the risk of creating conflicts of interest or absenteeism.

93. These weaknesses affect the government finance function in particular. This function should be seen as a consistent and interconnected whole, implemented to provide integrated fiscal management. The financial function is not limited to the Ministry of Finance and the Budget alone. It also affects all stakeholders involved in public management, and first of all the sectoral ministries through their units and directorates in charge of financial matters or planning. These stakeholders should be considered the natural extension of MFB units in the ministries.

94. The need to reestablish the initial training system and the Central African academic courses of study is urgent. These areas are in need of enhancement after the damage they suffered during the crisis period, and its courses should involve practitioners of the government finance function. This will prepare the students, especially for careers as managers and accounting officers, and it will also integrate them through selective streams. In this respect, partnerships with the schools that train senior civil servants in finance in the sub-region are to be encouraged.

95. As part of the strategy to combat corruption, the basis used could be the administration charter adopted in June 2018 by the President of the Republic, and it should be widely disseminated in each public administration. A personal copy of this charter could be sent to each civil servant, along with a message noting the importance and scope of this document.

⁶⁴ The complaints reported in this paragraph are expressed by the managers we met and representatives of civil society, or entities that represent the private sector. The mission did not analyze them. They suggest that the need to fully examine the civil service management system and to upgrade it is urgent in order to raise it to standards more commensurate with civil service requirements.

96. Recommendations:

- **Assess the civil service management system.** This politically risky approach requires substantial communication between labor and management and civil society representatives. The assessment should take into account the procedures for training, hiring and compensating civil servants. In particular it should review the safeguards or incentives to restore greater integrity to the civil service and instill values of ethics and professional conduct in the civil service in the public interest.
- **Revitalize the curriculum for initial training in the government finance function.** This effort can be based on a status update of education in the accounting and administration courses of study (the National Administration and Judiciary School--ENAM Bangui) and on administration specifications to determine each curriculum's needs. The partners in development may be enlisted to revitalize the academic courses of study.
- **Strengthen the capacities of the government finance function through professional development provided by the MFB.** The MFB's role of coordination needs to be developed. It should take charge by providing periodic communication, conducting targeted training, and sharing experience so that these stakeholders can fully play their roles. The networked directorates (Treasury Financial Supervision and Budget for example) seem to be the most capable of disseminating best practices. Institutional communication by the MFB cabinet is also necessary leverage for launching this professional development. The creation of a professional development center is continuing in the MFB.
- **Disseminate the professional conduct charter in each administration for the most complete ownership possible.** Formalize the individual commitment to observe the principles in the charter in the form of a "commitment document" that each employee signs. In addition, the dissemination of the charter should be accompanied by a plan for awareness and for training civil servants in the rules of conduct. Sanctions should be levied if these rules are not observed. Users in the administration should know the rules of professional conduct that are adopted in the charter. To this end, it would be advisable to post the charter wherever there are users of the administration. There should be an extensive communication campaign on the content of the charter. It should point out the rules of conduct expected of civil servants and inappropriate practices, and doing so would also increase ownership by each civil servant and the people.

Annex I. Definitions of Governance and Corruption According to the 2017 IMF Policy

1. In 2017 the IMF adopted a policy on the Fund's role in Governance and Corruption Issues.¹ The policy defines some key terms, and the work done by other entities is based on this. The definitions are repeated here because they are relevant for this assessment.
2. Governance refers to the institutions, mechanisms and practices through which governmental power is exercised, including for the management of public resources and the regulation of the economy. This includes processes at the country level, including institution-level structural arrangements. It is an inherently neutral term, describing the framework for exercising authority without illustrating its results.
3. Good governance is a more normative concept, which recognizes that the quality of governance can impact its effectiveness and efficiency in achieving desired outcomes. Although the Guidance Note encompasses governance and, in particular, "good governance," it would not be feasible in a single review to examine the Fund's work in these broader areas. The reason is that the Fund's work to promote good governance has grown tremendously, as discussed below. Indeed, promoting good economic governance is central to the Fund's everyday work in surveillance, use of Fund resources, and capacity development. Moreover, work under each of these areas of involvement is assessed through dedicated policy reviews. Accordingly, this stocktaking does not attempt to provide additional perspectives on the Fund's involvement in the broad levels of governance and good governance. Instead, it focuses on that part of the Fund's involvement that relates to analyzing and providing advice on corruption issues.
4. Regarding corruption, a generally accepted definition is the abuse of public office for private gain. This definition has been adopted by a variety of organizations and is consistent with the provisions of the United Nations Convention against Corruption (UNCAC).² The definition focuses on abuse by public stakeholders, meaning that fraudulent acts perpetrated exclusively by private citizens are not covered.³ It is recognized, of course, that corruption is often facilitated—and sometimes initiated—by private stakeholders (for example, offering a bribe). Therefore, any meaningful anti-corruption strategy needs to address conduct within the private sector. It should be emphasized that an act can be corrupt even if it does not result in direct financial gain; an official also engages in a corrupt act if, as a result of political interference, he or she abuses public

¹ Available at <https://www.imf.org/~media/Files/Publications/PP/2017/pp080217-the-role-of-the-fund-in-governance-issues-revue-de-la-guidance-note.ashx>. This document lays the analytical foundations of current IMF policies on involvement in matters of governance, published in April 2018 (<https://www.imf.org/~media/Files/Publications/PP/2018/pp030918govpaper.ashx>).

² Article 19 of the United Nations Convention Against Corruption (UNCAC) on abuse of functions provides that "Each State Party shall consider adopting such legislative and other measures as may be necessary to establish as a criminal offence, when committed intentionally, the abuse of functions or position, that is, the performance of or failure to perform an act, in violation of laws, by a public official in the discharge of his or her functions, for the purpose of obtaining an undue advantage for himself or herself or for another person or entity." UN General Assembly, 2003.

³ For example, tax evasion and illicit cross-border flows committed solely by private actors are generally outside the scope of this paper except to the extent they relate to the proceeds of corruption.

5. office. Initially, although corruption is often associated with the misapplication of the law, it can also pervert the law-making process itself, i.e., where the decisions of legislators are motivated exclusively by private interests, often as result of the influence of powerful business networks (“state capture”).⁴

6. The foregoing discussion illustrates that governance and good governance are broader concepts than corruption. It is possible for a country to have poor governance even in the absence of significant corruption, for example, because of ineffective, inefficient, or inequitable policies and institutions. The presence of corruption, however, generally indicates shortcomings in good governance. The premise of the ongoing review—and indeed the IMFC’s guidance—is that systemic corruption has a particularly pernicious effect on economic performance. It should be acknowledged, however, that any effective strategy for addressing corruption problems must be more comprehensive than simply anti-corruption measures to have a lasting impact; durable solutions will encompass governance improvements more broadly, including with regard to transparency, accountability, appropriately balanced regulation, and effective institutions. In sum, promoting good governance is the most durable way of addressing systemic corruption.

⁴ The May 2016 IMF Staff Discussion Note entitled “Corruption: Costs and Mitigating Strategies” (SDN / 16/05) defines “systemic corruption” as a circumstance in which “corruption is no longer a deviation from the norm but is manifested in a pattern of behavior. Systemic corruption was also defined as “omnipresent and organized, affecting a variety of levels of government and practiced by bureaucrats and politicians in nearly every ministry.” Alam, M Shahid, 1989, “Anatomy of Corruption: An Approach to the Political Economy of Underdevelopment,” *The American Journal of Economics and Sociology*, Vol. 48(4), pages 441-456.

Annex II. Presentations of the Essential Pillars of the SNLC

Pillars	Issues	Coverage in this report
Strengthen the legal and judicial framework ...	A major corruption risk is the sentiment of impunity regarding noncompliance with the rules of law. This impunity is in part linked to the fact that some laws are incomplete. For example, the statutory requirement to report assets, even though it is adequate in terms of principles, fails to provide any sanctions for noncompliance and it is enforced only partially (According to the 2017 annual activity report of the High Authority for Good Governance. The decree in respect of assets for categories of senior civil servants is not implemented). The legal framework for combating corruption needs to be strengthened and supported by more efficient operation of the judicial system, avoiding excessively long wait times for issuing judgments, publishing judgments, etc.).	Chapter III (transparency, strengthen the legal framework for combating corruption, market regulation and protection of investor rights, and anti-money laundering).
... supported by an active transparency policy and public awareness.	CAR has a set of complementary institutions: the National General Inspection Office – IGE; Office of the Inspector General of Finance – IGF; the Accounting Office – CDC; the National Committee to Control Corruption in Central Africa – CNLCCC; and the High Authority for Good Governance -HAGB, which is involved in developing a transparency policy that is consistent with UN and OECD principles. Despite some very clear outcomes obtained for transparency (for example, more government contracts are now using invitations to bid), vulnerabilities persist. More systematic dissemination of decisions (court rulings, invitations to bid for government contracts, etc.) would boost confidence in the public institutions.	Chapter III.A (in the legal field), and Chapter V.C (fiscal transparency)

Pillars	Issues	Coverage in this report
<p>Digitize and automate the processes of budgetary and tax administration ...</p>	<p>For the tax and Customs administrations, and for the management of public expenditure, substantial efforts are being made to upgrade the digitization of processes. Nonetheless, significant vulnerabilities remain, for example, in the tax and Customs information system, which is permeable to interventions by officials that are not authorized to access the system.</p>	<p>Chapter IV.C (digitize the tax administration), and Chapter V.A (digitize public finance)</p>
<p>... supported by human investment in the civil service.</p>	<p>Another vulnerability found in most institutions that were visited is the lack of material resources, for example, computer hardware, and human resources, such as staff and skills. For example, the judicial system needs to train the judges; more generally, it should use specialized courses as a basis, such as the commercial court, which themselves assume that specialized magistrates will be available.</p>	<p>Chapter IV.B (Human resources management in the tax and Customs administrations) and Chapter V.E (Human Resources Management in Public Finance)</p>
<p>Strengthen the structures that supervise public agencies for successful decentralization.</p>	<p>The above-mentioned problems come to the fore in the area of supervision of public agencies. This is found in the supervision of the central government with, for example, reports from the Accounting Office or the National Government Inspection Office that are not systematically followed up by judicial action even though doing so is advisable. Hence, it is necessary to develop the supervisory structure and make progress in deconcentrating decisions.</p>	<p>Chapter V.D (supervision of public agencies and decentralization)</p>

Sources: CAR authorities and IMF staff.