

**EXECUTIVE
BOARD
MEETING**

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Supplement 2

January 8, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Central African Republic—First and Second Reviews Under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria—Supplementary Information**

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| Board Action: | Executive Directors' consideration (Formal) |
| Tentative Board Date: | Tuesday, January 12, 2021 |
| Publication: | Yes* |
| Questions: | Mr. Martin, AFR (ext. 38323) Mr. Million, AFR (ext. 39602) Mr. Nshimiyimana, AFR (ext. 37204) Mr. Diaby, AFR (ext. 39621) Ms. Esham, AFR (ext. 39826) |
| Document Transmittal in the Absence of an Objection and in accordance with Board policy: | After Board Consideration—African Development Bank, World Trade Organization |

*The authorities have indicated that they consent to the Fund's publication of this paper.



CENTRAL AFRICAN REPUBLIC

FIRST AND SECOND REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

January 8, 2021

Prepared By

The African Department

1. **This supplement provides staff's assessment of the ability of the Fund to provide financing to the Central African Republic (C.A.R.) notwithstanding official bilateral external arrears to Libya.** It does not alter staff's assessment of policy issues and recommendations contained in the report.
2. **The Libyan authorities have informed staff of their objection to the provision of Fund financing to the Central African Republic, but staff assesses that the Fund can nevertheless provide financing to the C.A.R.** Under the Fund's lending-into-official-arrears (LIOA) policy, in the absence of creditor consent, the Fund can only lend into official bilateral arrears under carefully circumscribed circumstances. In the case of the arrears of the Central African Republic to Libya, staff assesses that these circumstances are met. Specifically, since the arrears are related to official sector involvement under a non-representative Paris Club agreement, staff had to assess whether a set of three criteria is met. Staff's detailed assessment is provided as part of this supplement, which will be added to the staff report. Staff continues to support completion of the first and second reviews under the Extended Credit Facility arrangement notwithstanding official bilateral arrears to Libya.

Annex I. Lending into Arrears to Official Bilateral Creditors

Staff assesses that the conditions are met for the Fund to provide financing to C.A.R. in line with the policy on arrears to official bilateral creditors, notwithstanding its outstanding arrears to Libya. In particular:

- **Prompt financial support from the Fund is considered essential and the member is pursuing appropriate policies.** C.A.R. continues to face significant macroeconomic challenges, which have been accentuated by the pandemic, and deep-seated structural rigidities hindering growth. Financial support from the Fund is considered essential to allow for orderly adjustment by covering the protracted balance of payment need, catalyzing external support, and supporting the successful implementation of C.A.R.'s program. C.A.R.'s policies in the context of the ongoing ECF-supported program are aiming at strengthening macroeconomic stability and external viability through fiscal and structural reforms, notably by enhancing domestic revenue mobilization, public financial management and spending efficiency, restoring and building basic infrastructure and utilities, and improving governance and the business environment.
- **The debtor is making *good faith efforts* to reach agreement with the creditor on a contribution consistent with the parameters of the Fund-supported program:**
 - *In terms of process*, the C.A.R. authorities have contacted the Libyan authorities bilaterally through letters (most recently on January 8, 2021) offering to pursue a collaborative process toward resolving the outstanding arrears. Relevant information has been shared with the Libyan authorities on a timely basis. The C.A.R. authorities are committed to continue making their good faith efforts until all the remaining arrears are resolved.
 - *The terms offered* by the C.A.R. authorities to the Libyan authorities are in line with the financing and debt objectives of the Fund-supported program and would not result in financing contributions that exceed the requirements of the Fund-supported program. The terms offered imply a contribution that is not disproportionate relative to those sought from other official bilateral creditors at the time of the HIPC operation. Indeed, the authorities are seeking from Libya exactly comparable HIPC terms of 94 percent debt cancellation.
- **The decision to provide financing despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize official financing packages in future cases.** The contribution sought from Libya did not account for the majority of financing contributions required from official bilateral creditors in the context of the HIPC operation. Libya does not appear to have a strong track record of providing contributions in the context of Fund-supported programs (having undertaken only 5 HIPC restructurings out of its total 18 Completion-Point debtors). Therefore, in staff's view, providing financing to C.A.R. despite the arrears is not expected to have an undue negative effect on the Fund's ability to mobilize future financing packages, given strong support from the international community in the context of the Fund-supported program for C.A.R. and the C.A.R. authorities' efforts to resolve this in a timely manner.