

International Monetary Fund

[Central African Republic](#) and the IMF

Central African Republic: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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Letter of Intent



Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Bangui, December 5, 2016

Dear Madame Lagarde:

1. **On July 20, 2016, the Executive Board of the International Monetary Fund (IMF)** approved an arrangement of SDR 83.55 million for the Central African Republic (C.A.R.), equivalent to 75 percent of its quota, under the Extended Credit Facility (ECF), in support of our policies designed to entrench macroeconomic stability and create the conditions for sustained and inclusive growth through structural reforms.
2. **The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic trends in the Central African Republic and progress that has been made in implementing our policies through end-August 2016.** In this connection, we would like to inform you that we have met all end-August performance criteria, except for the non-accumulation of external arrears. We have also implemented all structural benchmarks, albeit with some delays.
3. **This Memorandum also presents the economic and financial policies the government of the C.A.R. is implementing during the remainder of 2016 and during 2017 to consolidate macroeconomic stability,** support the economic recovery, improve revenue collection, strengthen public financial management, and advance its poverty reduction objectives. For that purpose, we have adopted a revised finance law for 2016 which is consistent with the ECF-supported program.
4. **In light of our satisfactory performance to date, and to cover our balance of payments needs,** we request the disbursement of the second tranche of financing equivalent to SDR 12.525 million under the ECF arrangement. We also request a waiver for the non-observance of the continuous performance criterion on non-accumulation of external payments arrears for which we have taken remedial measures outlined in this memorandum.

5. **We believe that the measures and policies outlined in the attached MEFP are appropriate to achieve the objectives of our program and reduce our balance of payments needs going forward.** We will not introduce any measures or policies that would compound balance of payments difficulties. Nonetheless, we stand ready to take additional measures that may be adequate for the successful implementation of the program. We will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP in accordance with the Fund's policies on such consultations. We will provide IMF staff all information needed to assess our policies, particularly as discussed in the Technical Memorandum of Understanding (TMU).

6. **We intend to publish the IMF staff report, including this letter, the attached MEFP, and the TMU.** We therefore authorize IMF staff to publish these documents on the IMF's external website once the Executive Board completes the first review of the arrangement under the ECF.

Sincerely yours,

/s/

Henri-Marie Dondra
Minister of Finance and Budget

/s/

Simplicie Mathieu Sarandji
Prime Minister

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies for 2016–17 Update

I. INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) provides updates on the implementation of the program for the 2016-19 period supported by the International Monetary Fund (IMF) through an arrangement under the Extended Credit Facility (ECF).**

Our economic and financial program aims at entrenching macroeconomic stability and creating the conditions for sustained broad-based and inclusive growth through structural reforms in line with the objectives of the national development plan currently being developed. This MEFP describes recent economic developments and takes stock of the implementation of the quantitative performance criteria and structural benchmarks at end-August 2016, in addition to laying down key directions for the rest of 2016 and 2017.

2. **Security conditions have deteriorated despite the government’s efforts to reach out to all armed groups and civil society.** In recent weeks, attacks on civilians and demonstrations resulted in loss of lives, more internally displaced refugees, destruction of infrastructure, and reduced economic activity. Some of the risks identified in our July 2016 MEFP have materialized, complicating implementation of our economic program. Despite these setbacks, work is ongoing, with the support of our development partners and the United Nations (UN), on a reform of the security sector (RSS), with the objective to integrate some ex-combatants, streamline the armed and police forces from old and untrained officers, and put together a new security model that will maintain peace and security. The government’s response to recent incidents include swift actions to avoid the escalation of violence, and the pursuit of our efforts to reach out to all stakeholders and build social cohesion and national consensus.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

3. **Despite stronger than expected economic activity in some sectors, rising insecurity and the poor execution of our investment plan as well as pressure on transportation services led to an overall reduction in economic growth.** Export agriculture, small-scale processing, transportation and trade rebounded during the first eight months of the year. However, the continued low execution of public investment projects, partly reflecting delayed disbursement of project aid, and renewed violence in Bangui and the rest of the country remain negatively affected economic activity. Average inflation increased to 5.1 percent, due to higher basic food prices resulting from difficulties in the livestock sub-sector, bad weather, additional demand from returning refugees and internally displaced people, and a short-lived strike in the transportation sector.

4. **Fiscal performance through end-August exceeded the program targets.** Good revenue performance and lower-than-planned domestically-financed capital spending resulted in

a better than programmed domestic primary deficit. Domestic revenue reached CFAF 52 billion in line with the program objective while primary current expenditure (at CFAF 55.4 billion) and domestically-financed capital spending (at CFAF 0.6 billion) were lower than projected, reflecting weak administrative capacity and a prudent attitude in light of delayed budget support disbursements.

5. **The external debt remains stable at end-August 2016.** It amounts to CFAF 156.1 billion (a slight decrease compared with the end-December 2015 level of CFAF 156.9 billion). External payments arrears reached CFAF 159 billion, up from CFAF 157.3 billion at end-2015. This increase reflects accumulation of new external payments arrears vis-à-vis a few creditors, including China and India.

A. Program Implementation

6. **Performance under the program was satisfactory.** All end-August quantitative performance criteria (PCs) were met, with the exception of the one related to the non-accumulation of external payments arrears. All structural benchmarks were implemented, albeit with delay, notably the one related to the adoption of a ministerial decision identifying all government accounts and their contents due to the delayed finalization of the audit on commercial banks. The structural benchmark on asset disclosure was met on time.

III. THE NATIONAL DEVELOPMENT STRATEGY AND THE MEDIUM-TERM OUTLOOK

A. Pillars of The Strategy

7. **In the face of the significant economic challenges and the pervasive poverty that is hindering social progress and peace, we have developed our national development program called the Recovery and Peacebuilding Plan for the Central African Republic (RCPCA).** Underlying our RCPCA are four guiding principles:

- **A regional growth pole approach.** The latter is crucial to create conditions for balanced regional development to the benefit of the population at large.
- **A focus on economic integration and diversification to foster broad-based economic growth.** In this context, security and peace, agriculture, water and energy, transportation and telecommunications, and health and education will be the main vectors for sustainable growth.
- **The development of labor-intensive activities.** This will be key to absorb the large unemployment youth in the country.
- **The social resilience of the population.** This will help accompany and strengthen economic development.

8. **Accordingly, our RCPCA will seek to:**

- i. develop subsistence food producing activities and cash crops;
- ii. promoting agro-forestry and downstream operations to create value added and employment opportunities;
- iii. developing mining activities in a formalized context to make these activities more attractive to large operators;
- iv. repairing and restoring highways, rural roads, dry ports and provincial airports;
- v. expanding transportation and telecommunications infrastructure; and
- vi. developing energy capacities.

9. **On the social side, our RCPCA aims at enhancing the resilience of the population.**

This will require:

- i. restoring and providing assistance to internally displaced persons and refugees to ensure that socioeconomic activities effectively resume throughout the country;
- ii. restoring social cohesion and reduction of tensions in the community to support local economic recovery and create temporary jobs, primarily for young people;
- iii. redeploying the government infrastructure country-wide to support the economic rebound;
- iv. accessing drinking water, sanitation, and hygiene;
- v. strengthening the education sector to ensure overall education coverage and complete high-quality education, including access to all levels of education for all children of both genders, regardless of where they live;
- vi. giving new impetus to the health system; and
- vii. strengthening the fight against HIV.

B. Medium-Term Outlook

10. **The lifting of the remaining embargo on diamond exports from some parts of the country, the implementation of our macroeconomic policies and restoration of peace and security should improve the medium-term outlook.** Accordingly, the medium-term objectives (2016–19) underpinning our RPCP are as follows:

- Economic growth is projected to average 5.1 percent, with inflation in line with the CAEMC target of 3 percent by 2019 owing in part to an increase in agricultural output.
- A domestic primary deficit projected to progressively decline from 3.3 percent in 2016 to 1 percent in 2019, reflecting a steady rise in the revenue to GDP ratio (stemming from the implementation of the reforms) and better spending controls.
- An external current account deficit projected around 9.2 percent of GDP given the sizable reconstruction needs.

- Financing needs are projected to decline during the period from 4.8 percent of GDP in 2016 to 3.1 percent in 2019.

C. The Investment Program

11. **The public investment framework is weak and requires a comprehensive overhaul.**

We are committed to work with our technical and financial partners to put in place a new framework that will increase the efficiency of public investment, from the selection of projects to reporting, monitoring and execution. This will help improve portfolio management and restructuring to blend in the current small scale projects seeking to rehabilitate the administrative structures, health units, and schools with major infrastructure projects that will underpin the regional growth approach and an integrated development of the country. We have attached a list of projects to be implemented in 2017, which is also annexed to our 2017 budget.

IV. ECONOMIC AND FINANCIAL PROGRAM FOR THE REST OF 2016 AND 2017

A. Macroeconomic Framework for 2016-17

12. **For the rest of 2016, we have revised economic growth downward while maintaining unchanged the domestic primary balance, which is the anchor of our fiscal program.**

- Real GDP growth is adjusted downward to 4.5 percent in 2016, from an initial target of 5.2 percent in view of the deteriorating security environment, transportation bottlenecks, and low investment project execution.
- Despite lower domestic oil prices, average inflation was revised upward to 5.1 percent in 2016 for lower the aforementioned reasons.
- The domestic primary deficit, which will remain the anchor for our fiscal policy, remains unchanged at 3.3 percent of GDP in 2016, thus reducing the public debt by 0.6 percentage points of GDP to 46.6 percent of GDP. These targets underpin the revised budget for 2016 which was passed by the National Assembly in October 2016. In support of this objective, domestic revenue will be kept at 8 percent of GDP, while primary spending will be slightly reduced to 11.3 percent of GDP, notwithstanding the inclusion of new demobilization outlays from regional countries. Social spending will remain unchanged at CFAF 5 billion in 2016.
- The financing gap for the year remains unchanged at CFAF 50 billion. With CFAF 21.6 billion already disbursed, the balance (CFAF 28.4 billion) will be covered by the second tranche from the European Union and outstanding commitments from the World Bank, the African Development Bank and the IMF.

13. **Looking forward, and assuming better security conditions and appropriate policies, the key medium term macroeconomic objectives remain broadly unchanged, except for a slightly revised growth path in 2017:**

- **Real GDP growth of 5 percent** driven by the recovery of economic activities across all sectors and stimulation of public and private investments in infrastructure (water and electricity) and social sectors. Continued efforts to remove the Kimberley Process remaining embargo is expected to revive diamond production and export in this key sector.
- **Inflation should be brought down to 4.5 percent**, sustained by good performance in subsistence farming, continuous improvement of supply channels and prudent wage policies.
- **A reduction in the primary domestic deficit to 1.9 percent of GDP, compared to 3.3 percent in 2016.** The achievement of this objective is conditional on higher revenue and strict control over non-priority spending in order to allocate more resources to social sectors.
- **A reduction in the external current account deficit to 9.6 percent of GDP**, compared to 9 percent of GDP in 2015, reflective of increased import products.

FISCAL POLICY AND REFORMS

B. Revenue Reforms

14. **For the remainder of 2016, we have identified additional revenue measures to achieve our revenue target, despite significant revenue shortfall in September.** The shortfall is attributable to the delayed implementation of the new price structure for domestic petroleum products, and lower than projected revenue intake, as oil importers requested a moratorium to clear their stock. We will, therefore, implement additional revenue administration measures to meet the 2016 revenue target. The new measures will be incorporated into the medium-term action plan that will be revised with IMF's technical assistance. In addition to the measures laid out in the July 20 MEFP, we intend to:

- Launch a collection enforcement campaign to collect unpaid tax arrears.
- Focus on identification of VAT stop filers among large and medium-sized businesses.
- Ensure the full implementation of the market price listings and international prices valuation in the forestry sector. In the oil sector, we will step up VAT control and enforce prohibition on offsetting unpaid VAT credits against other taxes between importers and the State.

- Discontinue the practice of clearing goods before payment of customs duties is made and control payments of unsettled cases
- Accelerate the customs operations for the large volume of cars in the dry port,
- Increase the number of weekly rotations between Douala and Bangui from 2 to 3.

15. **While the treasury situation was in line with program objectives through end-August 2016, the outlook for the rest of the year is difficult.** Due to the revenue shortfall in September (CFAF 1.4 billion) and the concentration of the remaining budgetary aid disbursements in December and the need to clear external payments arrears accumulated in the first 8 months of the year, the authorities will introduce measures to contain expenditure including:

- i. the suspension of the clearing of domestic payments arrears incurred before 2016;
- ii. the suspension of cash advances on salaries; (iii) the suspension of cash payments on unused leave;
- iv. a ceiling of CFAF 50 million on spending for overseas mission;
- v. the cessation of new spending commitments by November 5, 2016. The implementation of these measures will keep spending at CFAF 145 billion. Furthermore, the Treasury committee will meet once a week to closely monitor revenue flows and calibrate spending accordingly. Lastly, in addition we will increase the fiscal buffer, to at least CFA 15 billion by end-year to ensure non-accumulation of domestic and external payments arrears, and help us cover domestic primary outlays for the first 4 months of 2017 during which no disbursements of budget support are expected.

16. **For 2017, the fiscal strategy will continue to aim at a higher coverage of domestic primary spending by domestic resources.** In line with the ECF-supported program, the 2017 draft budget targets a domestic revenue to GDP ratio of 8.7 percent. New fiscal measures are projected to bring about CFA 5.5 billion in additional revenue, pertaining to tax and customs policy CFAF 1.9 billion, improvements in tax and customs administration CFAF 3 billion, and a rationalization of exemptions CFAF 400 million. This objective will be achieved through:

- Further revision of the tax law and customs tariff to ensure compliance with the CEMAC common external tariff and tax regulations (CFA 1.5 billion), notably the introduction of an excise tax on phone communications (CFA 750 million) and increase of customs duty rates applied to imported wheat flour, palm oil and frozen fish (CFAF 750 million).
- Restriction of exemptions to only those provided for by law and a freeze on new tax exemptions from January 2017 and, accordingly, the phasing out of the inter-ministerial committee in charge of granting tax exemptions. Moreover, all existing tax exemptions and their revenue impact will be published by end-2017 [**a December 2017 structural benchmark**] and subsequently reviewed and restricted.

- Further improvements in tax and customs and tax operations through the steady implementation of the medium-term action plans developed since March 2016 by the revenue departments.

17. In addition, based on recommendations from a November 2016 TA mission on revenue administration, we have updated our actions plans to include additional measures and rationalize exemptions:

- Strengthening controls of exemptions to ensure that both the quality and quantity of exempted goods are aligned with those specified in the authorization, and that leakages are deterred and sanctioned
- Securing customs transit operations from the port of Douala to the destination customs office in Bangui; and
- Improving compliance management, especially through systematic exchange of information between the tax and customs department and cross-checking of customs and tax returns.

18. Another update of the action plan will be undertaken in the aftermath of the upcoming TA mission on tax policy scheduled for January 2017. These new reforms will be properly sequenced, taking into account revenue administration capacity and development needs. At the same time, the mission will also review para fiscal taxes, indirect taxation (excises, VAT), the exemptions, and tax reforms in the diamond, telecommunications, and forestry sectors. In the meantime, we intend to:

- conduct a revision of the excise and VAT legislation and identification of design improvements related notably to the tax base and rate structure that can be included in the (revised 2017 budget/2018 budget law).
- conduct a complete inventory of the indirect taxes and an action plan to reduce their number and control their utilization [a September 2017 performance criteria].
- introduce a new pricing mechanism that will ensure full pass through of international prices to domestic petroleum prices at the pump.

Public financial management reforms

19. We remain committed to implement our public financial management reform agenda, along the lines of the July 2016 MEFP. For the rest of 2016 and 2017, we are committed to:

- **Improve our accounting framework and ensure better reporting of budget execution.** We will accelerate the technical work needed to establish the treasury

balances for 2010–14 while continuing to produce in a timely fashion the monthly treasury balances for the rest of 2016 and 2017. For this purpose, we will: (i) continue to maintain and remedy hitches in the GESCO, whilst considering migrating to a new system with assistance from our partners; and (ii) strictly adhere to the regulatory provisions on the use of exceptional payments procedures, which should not exceed 5 percent of non-wage and non-debt expenditure; (iii) include the latter provision in the 2017 budget law. All these measures are crucial to improve the accounting framework and submit the budget law executions for 2015 and 2016 in 2017.

- **Strengthening treasury management:** This measure will help us to plan revenue flows and calibrate spending with a view to avoid accumulation of payments arrears and coordinate donor commitments. We will continue to associate the donor community to our regular treasury committee meetings.
- **Pursuing the civil service reform.** We will continue the cleaning of the civil service roster to eliminate ghost employees, ensure that diplomats are not overstaying in the country of their assignment at the end of their tour of duty, secure the final register of civil servants and put in place new hiring and management procedures.

C. Domestic Payments Arrears Strategy

20. **The clearance of domestic payments arrears remains key to the restoration of creditor confidence and the credibility of the government.** They include arrears due to social institutions, private suppliers, commercial banks, the BEAC and cross debts.

- **Social payments arrears:** the government stepped up the clearance of wage and pensions arrears accumulated in previous years and is committed to remain current on salaries and pensions. As at end-2016, the stock of domestic social payments totaled CFAF 72.3 billion. Further technical work will continue before proceeding to the next steps, which will aim at auditing (by end-January 2017) and validating (by end-April 2017) the claims that will be settled.
- **Commercial arrears:** are estimated at CFA 14 billion, excluding the arrears accumulated in 2015 and 2016 which are being reviewed. It is expected that an audit will be conducted by January 2017 and the outcome validated in April 2017.
- **Commercial banks arrears** have been recently reviewed by an external consultant. They are for now estimated at CFAF 25.6 billion. The next phase is to enter into discussions with commercial banks to validate the final amount. Once this step is completed, before end 2016, the government intends to settle them through securitization in the form of marketable treasury bills, bearing market interest rates, in the second quarter of 2017. The operation should have a positive fiscal impact through a reduction in interest payments to banks. It will also be allowing banks to rebalance their balance sheets.

- **BEAC payments arrears.** The April 2016 agreement consolidates all liabilities and unpaid loans (excluding exceptional and statutory advances) to CFAF 55.9 billion. The agreement calls for postponing the repayments to March 2018.

21. **To better track the arrears and their status, we will produce, and update on a quarterly basis, a list by type of creditors (Table 1).**

D. External Debt Management and Sustainability

22. **The accumulation of external payments arrears vis-a-vis some of our creditors highlights weaknesses in our debt management units and insufficient liquidity buffers to absorb delays in donor funding.** External payment arrears were accumulated in 2016, which we intend to clear before the end of the year. In addition, we are taking steps to prevent accumulation of external payments arrears in the future, consistent with the program. New hiring and training will strengthen the debt management directorate which is expected to provide monthly report on debt services. In addition, to we intend to increase our cash buffer to cushion against delays in donor funding and limit the risks of arrears accumulation.

23. **In addition, we are committed to step up our efforts to resolve pre-HIPC arrears with those creditors with which no agreement has been reached.** Our country owes pre-HIPC arrears to Argentina, Equatorial Guinea, Iraq, Libya, and Montenegro and the government reached out to those creditors with a view to resume discussions and seek debt relief consistent with the 2009 Paris Club agreement. Following the political and civil crises, our country has accumulated post-HIPC arrears to China, India and the Saudi Development Fund. The government remains committed to resolve these arrears and reach out to those creditors. Lastly, consistent with the outcomes of the last DSA, the government remain committed to secure grants to finance our economic development plan, while recourse to highly concessional loan be limited to critical projects for which grants could not be secured.

E. Other Structural Reforms

24. **We will undertake structural and institutional reforms to promote the development of the private sector.** These reforms, which are aimed at improving the business climate, will focus on the modernizing and updating the legal framework in key economic sectors. To this end, the government intends to implement the Joint Business Improvement Framework (CMAA) to promote and enhance the government-private sector dialogue. Two laws are in preparation to revitalize telecommunications activities. In the same spirit, we will update the investment charter, the mining code, the telecommunications code and the regulations in effect in the forestry sector. The government intends to submit the revised legal texts in March 2017 to the National Assembly. Lastly, a one-stop shop will be established to facilitate administrative procedures for investors.

V. INCREASING FINANCIAL INTERMEDIATION

25. **We recognize the need to enhance financial intermediation.** Provision of better services by commercial banks and loan repayment by borrowers will be key in achieving this goal. The June 2015 seminar, followed by a National Credit Council design of a work plan that identified a set of measures to strengthen the judicial system to help settle disputes between bank borrowers and lenders, expand the network of microfinance institutions and diversify the supply of financial products with a view to enhance financial inclusion, and improve risk management and lending practices. In this context, we are planning to ask the regional supervision body COBAC to conduct a mission to review prudential ratios of the local banking system. We are also implementing the action plan to set up commercial and land registries and taking steps to encourage and authorize more banks to conduct mobile banking and conducting training seminars to educate banks and the public on provision of financial services. In addition, we are focusing on measures to monitor risk management and lending practices to address prudential risks. Lastly, we are exploring options to enable the agricultural sector to access bank financing, including the feasibility of an agricultural bank with the support of technical and financial partners.

VI. CAPACITY BUILDING AND TECHNICAL ASSISTANCE

26. **We will continue to rebuild capacity to ensure successful implementation of the program.** TA was delivered in 2016 by development partners to enhance customs revenue collection, improve treasury management, strengthen the interconnection between budget and accounting computerized modules to ensure work continuity of the Government Financial Management Information System (GESCO) and pursue the civil service reform. For 2017, we have reached understandings with the IMF on a comprehensive capacity building strategy in the context of the Capacity Building Framework (CBF) pilot project. Within this framework, our priorities remain on domestic revenue collection, PFM, public debt management, macroeconomic statistics, civil service reform and macro fiscal capacity. The outcomes will be first to strengthen the institutional framework in place that coordinates TA and training with a view to increasing revenue, enhancing spending efficiency, restoring budget discipline, strengthening debt management and creating a core macro fiscal capacity. If security risk heightens, we are planning to send staff to outside locations for training. We are also looking forward to take full advantage of additional TA that is expected to be provided by the IMF on tax policy, revenue administration, PFM, national accounts data compilation, and external trade data (Table 4). As part of the CBF pilot, we are committed to improve capacity and make the best use of the TA and training that will be provided by the development partners and the Fund. To offset the lack of specialized local staff, we plan to hire young college graduates and train them in the specialty identified as crucial to improve capacity. Modernization of equipment is also underway with donor support.

VII. PROGRAM MONITORING

27. **Performance under the program will continue to be monitored using quantitative performance criteria (PCs) and indicative targets together with structural benchmarks (Table 2).** Performance criteria for end-December 2016 were maintained.

Indicative targets for end-September 2017, and PCs for end-June 2017 and end-December 2017 are proposed. The submission to parliament of the 2017 budget consistent with the program will be a **prior action** to the first ECF review. In addition, semi-annual reviews will be conducted to assess overall performance under the program. The end-December 2016 PCs will be assessed in the context of the second review in March 2017, the end-June 2017 PCs will be assessed in the context of the third review in September 2017, and the end-December 2017 PCs will be assessed in the context of the fourth review in March 2018.

28. **On the structural side, we have adopted new structural benchmarks for 2017 (Table 3).** They include:

- i. the re-negotiation of the convention with banks (end-June 2017);
- ii. the launching of the audits of the social debt, supplier debt and cross debts (end-February 2017);
- iii. restriction of exemptions solely on those provided by the law and a freeze on new tax exemptions (as part of the 2017 budget);
- iv. the publication of all existing exemptions (ongoing);
- v. a complete inventory of the para fiscal taxes and an action plan to ensure their timely transfer to the TSA (end-September 2017); and
- vi. the production of the revenue and expenditure account for 2016 (end-September 2017).

29. **Throughout the duration of the program, we commit to not introduce or intensify restrictions on payments and transfers related to current international procedures, nor to introduce multiple exchange rate practices, engage in bilateral agreements not consistent with the Article VIII of the Articles of Agreement, impose or broaden impose restrictions to influence the balance of payments.** In addition, the government commits to adopt, in consultation with Fund staff any new measures, financial or structural, that may prove necessary to ensure the success of the program.

Table 1: Central African Republic: Stock of Domestic and External Arrears
(Billions of CFAF)

Type of Creditor	Aug-16.	Dec-16 proj.	Mar-17 proj.	Jun-17 proj.	Sep-17 proj.	Dec-17 proj.	Mar-18 proj.	Jun-18 proj.	Sep-18 proj.	Dec-18 proj.
Domestic										
Total	176.4	173.9	171.9	169.9	167.9	166.4				156.3
BEAC ¹	55.9	55.9	55.9	55.9	55.9	55.9				52.9
Commercial Banks ²	25.6	25.6	25.6	25.6	25.6	25.6				25.6
Private Suppliers ²	14.0	14.0	14.0	14.0	14.0	14.0				14.0
Social Payments ²	72.3	69.8	67.8	66.8	64.8	63.8				56.8
Cross Debt and Other	8.6	8.6	8.6	7.6	7.6	7.1				7.0
External										
Total	159.9	158.4				158.4				158.4
Bilateral Debt ³	153.7	152.2				152.2				152.2
Multilateral Debt ⁴	6.2	6.2				6.2				6.2

Source: C.A.R. authorities.

¹ The April 2016 agreement consolidates all audited liabilities and unpaid loans (excluding exceptional and statutory advances which amount to CFAF 22.5 billion).

The agreement calls for postponement of the repayments to March 2018.

² Estimate. Audit and validation expected in early 2017. Arrears to private suppliers exclude arrears in 2015 and 2016 which are being reviewed.

³ The authorities are negotiating to resolve these arrears, many of which are pre-HIPC. Under the Paris Club agreement,

C.A.R. has committed to negotiate the Non-Paris Club debt under the same conditions granted by the Paris Club.

⁴ Mainly overdue contributions to international organizations.

■

Table 2. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2016–17
(CFAF billion; cumulative from beginning of the year)

	End-December 2015		August 31, 2016		End-December 2016		End-March 2017	End-June 2017	End-September 2017	End-December 2017
	Stock	PC	Actual	Status	PC	Indicative Target	PC	Indicative Target	PC	
Quantitative performance criteria										
Domestic government financing (ceiling, cumulative flows for the year)	186.0	4.5	-6.0	Met	3.2	-1.7	-2.5	-4.0	-5.3	
Domestic revenue (floor, cumulative for the year) ¹		51.0	52.3	Met	84.7	25.0	50.1	74.7	102.0	
Domestic primary deficit (ceiling, cumulative for the year) ²		-19.9	-3.1	Met	-34.7	-7.2	-13.7	-16.0	-21.9	
Reduction in domestic payments arrears (floor, cumulative for the year)		-3.7	-7.3	Met	-5.6	-2.0	-4.0	-6.0	-7.5	
Continuous performance criteria										
Contracting or guaranteeing of new external non concessional debt (ceiling) ^{3,4}		0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	
Non accumulation of external payments arrears (ceiling, cumulative for the year) ^{3,4}		0.0	1.5	Not met	0.0	0.0	0.0	0.0	0.0	
Indicative targets										
Social spending (floor, cumulative for the year)		3.3	5.4	Met	5.0	1.5	3.0	4.5	6.0	
Memorandum item:										
New concessional/external debt contracted or guaranteed by the government		6.0	0.0		6.0	3.0	6.0	6.0	6.0	

Sources: C.A.R. authorities; and IMF staff estimates.

¹ Domestic revenue, which excludes foreign grants and divestiture receipts (see the TMU for more details).

² The domestic primary balance is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditure.

³ These objectives will be monitored continuously.

⁴ Contracted or guaranteed by the government (see the TMU).

Table 3. Central African Republic: Structural Benchmarks, 2016–17

Measures	Timeline	Macroeconomic Rationale	Status
Adoption of ministerial decision to cease the creation of new government bank accounts.	End July 2016	Improve public financial management.	Not Met. Implemented in August
Presentation to parliament by the government of a revised budget for 2016 consistent with the program.	End August 2016	Improve accountability	Met
Adoption of a ministerial decision identifying all government accounts and their contents.	End August 2016	Improve public financial management	Not Met. Implemented in September
Adoption of an inter-ministerial decision basing the price structure for domestic petroleum products on Platts international prices.	End July 2016	Improve revenue collection	Not Met. Implemented in August
Require assets disclosures by cabinet members in compliance with existing legal requirements.	End July 2016	Improve governance.	Not Met. Implemented in August
Provision by the Ministry of Foreign Affairs of airline transportation tickets to all diplomats when assignments have ended to facilitate their repatriation.	End-December 2016	Rationalize the wage bill.	
Consolidate the TSA by closing non-donors and non essential government's accounts opened in Commercial Banks.	End March 2017	Improve public financial management	
Adoption by the minister of finance of a domestic payment arrears clearance plan.	End June 2017	Improve public financial management and debt management	
Proposed new benchmarks:			
Submission of 2017 budget to parliament consistent with the program	Prior Action		
Restriction of exemptions solely on those provided by the law and a freeze on new tax exemptions (as part of the 2017 budget)	End December 2016	Improve transparency and revenue collection	
The launching of the audits of the social debt, supplier debt and cross debts	End February 2017	Improve public financial management and debt management	
The renegotiation of the convention with banks	End June 2017	Strengthening treasury management	
A complete inventory of the para fiscal taxes and an action plan to ensure their timely transfer to the TSA	End September 2017	Improve public financial management	
The production of the revenue and expenditure account for 2016	End September 2017	Improve accountability	
The publication of all existing tax exemptions	End December 2017	Improve transparency and accountability	

Table 4. Central African Republic: Technical Assistant Activities, 2016–17

Date	Department	Mission Purpose
Sep-16	AFR	Staff visit
	FAD	Strengthening CEMAC customs union
Oct-16	FAD	AFC: Revenue Administration
Nov-16	STA	AFC: Governance Finance Statistics
	FAD	Revenue Administration
Dec-16	STA	Balance of Payments Statistics
	FAD	AFC : Public Financial Management
Jan-17	MCM	AFC: Liability Management Framework
	FAD	Tax policy
	FAD	AFC: Revenue Administration
	FAD	AFC: Tax Administration
Feb-17	FAD	AFC: Public Financial Management
	MCM	AFC: Liability Management
	FAD	Public Finance management
	FAD	AFC: Tax administration
Apr-17	STA	AFC :Government Finance Statistics
	STA	AFC: National Accounts
Apr-17	FAD	AFC : Public Financial Management

2016 Technical Memorandum of Understanding

VIII. INTRODUCTION

1. **This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Memorandum of Economic and Financial Policies (MEFP)** prepared by the authorities of the Central African Republic. More specifically, it describes:

- data reporting periodicity and timeframes;
- definitions and computation methods;
- quantitative targets;
- adjusters of quantitative targets;
- structural benchmarks; and
- other commitments made within the MEFP.

2. **Unless otherwise specified**, all performance criteria and indicative targets are assessed on a cumulative basis as of January 1 of the same year.

A. Program Assumptions

3. **Exchange rate.** For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into CFA francs (CFAF), the currency of the Central African Republic (C.A.R.), on the basis of the exchange rates used to prepare the ECF. The key exchange rates are shown below.

CFAF/US\$: 585

CFAF/euro: 656

CFAF/SDR: 815

Definitions

4. **Unless otherwise specified, the government is understood to mean the central government of C.A.R. and does not include any local governments**, the central bank, or any public entity with separate legal personality (i.e., enterprises wholly or partially owned by the government) that are not included in the table on government financial operations (*Tableau des opérations financières de l'État*—TOFE).

5. **Definition of debt.** The definition of debt is set out in point 8 of Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended on December 5, 2014, by Executive Board Decision No. 15688-(14/107):

(a) **“Debt”** is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- ii. suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- iii. leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(c) **External debt** is defined as debt borrowed or serviced in a currency other than the CFA franc of the Financial Cooperation of Africa (CFAF).

(d) **Internal debt** is defined as debt borrowed or serviced in the CFA franc of the Financial Cooperation of Africa (CFAF).

6. **Guaranteed debt.** The guaranteeing of a debt by the government is understood to be an explicit legal obligation to service a debt in the event of nonpayment by the borrower (by means of settlements in cash or in kind).

7. **Concessional debt.** A debt is considered concessional if its grant element is at least 50 percent. The grant element is the difference between the nominal value of the loan and its

present value, expressed as a percentage of the nominal value. The present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt. The discount rate used for this purpose is 5 percent.

8. **Total government revenue** is tax and non-tax revenue or other revenue (as defined in *GFSM 2001*, Chapter 5) and is recorded on a cash basis. Proceeds from taxation on contracts, asset sales, revenue from privatization or from the granting or renewal of licenses, and placement proceeds on government assets and grants are not considered government revenue for the purposes of the program.

9. **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Total government expenditure also includes expenditure executed before payment authorization (*dépenses avant ordonnancement*—DAO) and not yet regularized.

10. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8–6.18 of *GFSM 2001*, namely, all employees (permanent and temporary), including civil servants and members of the armed and security forces. Compensation is defined as the sum of wages and salaries, allowances, bonuses, pension fund contributions on behalf of civil servants, and any other form of monetary or non-monetary payment.

11. **For the purposes of this memorandum, the term arrears** are defined as any debt obligations (as defined in paragraph 5 above) that have not been amortized in conformity with the conditions specified in the pertinent contract establishing them.

12. **Domestic payment arrears** are the sum of: (i) payment arrears on expenditure; and (ii) payment arrears on domestic debt.

- **Payment arrears on expenditures** are defined as all payment orders to the Treasury created by the entity responsible for authorizing expenditure payments but not yet paid 90 days after authorization to pay given by the treasury. Expenditure payment arrears so defined are part of “balance payable” (or “amounts due”). Balance payable corresponds to government unpaid financial obligations and include the domestic floating debt besides the expenditure arrears. They are defined as expenditure incurred, validated and certified by the financial controller and authorized by the public Treasury but which have not been paid yet. These obligations include bills payable but not paid to public and private companies, but do not include domestic debt financing (principal plus interest). For the program target, domestic payment arrears are “balances payable” whose maturity goes beyond the 90-day regulatory deadline, while floating debt represents “balances payable” whose maturity does not go beyond the 90-day deadline.

- **Payment arrears on domestic debt** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract;
13. **External payment arrears** are defined as the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract.

B. Quantitative Targets

14. The quantitative targets (QTs) listed below are those specified in Table 2 of the MEFP. Adjusters of the quantitative targets are specified in Section D.

- **Ceiling on domestic budgetary financing to the government.**
- **Domestic public financing to the government** is defined as the sum of the i) the bank credit to the government, defined below; and ii) non-bank financing to the government, including proceeds from the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and denominated in CFA francs on the CEMAC regional financial market, and any Bank of Central African States (BEAC) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).
- **Bank credit to the government** is defined as the balance between the debts and claims of the government vis-à-vis the central bank and the national commercial banks. The scope of credit to the government is that used by the BEAC and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 3. Government claims include the CFA franc cash balance, [postal checking accounts], subordinated debt (obligations cautionnées), and all deposits with the BEAC and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (établissements publics à caractère industriel et.) commercial—EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

Floor for total domestic government revenue

- **Domestic government revenue:** only cash revenues (tax and non-tax revenue) will be taken into account for the TOFE.

Floor for government social spending

- **Poverty-reducing social spending** comprises public non-wage spending on primary and secondary education, health, social action, water and sanitation, microfinance, agriculture, and rural development. Its execution is monitored on a payment-order basis during the program.

Ceiling on domestic primary deficit

- **The domestic primary fiscal balance** (commitment basis) is defined as the difference between government domestic revenue and government expenditure, less all interest payments, externally financed capital expenditure and spending financed by grants. Payments on arrears are not included in the calculation of the domestic primary balance.

Floor on reduction of domestic payments arrears

- **The government undertakes to settle some priority arrears that were validated.**

Non-Accumulation of External Debt Contracted or Guaranteed by the Government

- **The government undertakes not to contract or guarantee non-concessional debt.** Loans for financing projects must not exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the World Bank and the IMF.

Non-Accumulation of New External Payment Arrears by the Government

- **External payment arrears** are defined in paragraph 12.
- **The government undertakes not to accumulate external payment arrears**, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. This quantitative performance criterion applies on a continuous basis. For the purposes of this performance criterion, an obligation that has not been paid within 30 days after falling due is considered an external payments arrear.

Non-Accumulation of New Domestic Payment Arrears by the Government

- **Domestic payment arrears** are defined in paragraph 13.
- **The government undertakes not to accumulate domestic payment arrears.**

Adjusters of Quantitative Targets

- **To take into account the factors or changes that are essentially outside the government's** performance, various quantitative targets for 2016 will be adjusted as follows:
- **If the total revenue from privatization or renewal of telecommunication licenses or forestry or oil licenses** is greater than the amount programmed, the following adjustments will be made:

i. The floor for the primary budget balance can be adjusted downward by 50 percent of these additional receipts;

ii. The ceiling on net domestic financing of the government will be adjusted downward by the remained of the additional receipts.

b. If the total budget support is below the programmed amount, the following adjustments will be made:

i. The ceiling on net domestic financing of the government will be adjusted upward by 50 percent of disbursements programmed but not made.

ii. The floor for the primary budget balance will be adjusted downward by 50 percent of disbursements programmed but not made.

c. If the total budget support is above the programmed amount, the following adjustments can be made:

i. The ceiling on net domestic financing of the government will be adjusted downward by 50 percent of disbursements above the programmed amounts.

ii. The floor for the primary budget balance will be adjusted upward by 50 percent of disbursements above the programmed amounts.

Structural Benchmarks

15. Adoption of a decision ending the practice of opening new bank accounts in commercial banks on behalf of the government, except accounts for projects covered by an agreement with donors.

- A decision will have to be reached to end the practice of opening new bank accounts in commercial banks on behalf of the government, except accounts for projects covered by an agreement with donors. This decision will strengthen and consolidate public finances.

Submission of a 2016 Supplementary Budget to the National Assembly.

- The 2016 supplementary budget will have to be submitted to the National Assembly. This will help return public financial management to normal.

Adoption of a Decision by the Ministry of Finance Identifying all Government accounts and their Contents.

- A decision will have to be reached to identify all government accounts and their contents in commercial banks in order to secure and enhance management of the Treasury Single Account.

Adoption of a decree basing the price structure for national petroleum products on international Platts prices.

- A decision will have to be reached to base the price structure for national petroleum products on international Platts prices to increase transparency in the price structure and boost domestic revenue.

Reporting of assets by ministers in accordance with the legal provisions in force.

- The implementation of these legal provisions aims to increase transparency and good governance.

Repatriation of diplomats at the end of their mission.

- Diplomats will have to be repatriated to C.A.R. upon the conclusion of their mission abroad to limit public spending.

Consolidation of the Treasury Single Account by closing accounts that do not belong to donors and non-essential government accounts open in commercial banks.

- A decision will have to be made to close government bank accounts open in commercial banks and managed outside the government's centralized cash flow management system, with the exception of accounts for projects, and to consolidate the Treasury Single Account.

Adoption by the Minister of Finance of a Domestic Arrears Clearance Plan

- A domestic arrears clearance plan will have to be adopted to rebuild the government's credibility by restoring creditor confidence.

Submission of 2017 budget to parliament consistent with the program

- A 2017 budget consistent with the program will have to be submitted to Parliament for consideration as a prior action for the first review.

Restriction of exemptions solely on those provided by the law and a freeze on new tax exemptions (as part of the 2017 budget)

- A decision will have to be made to restrict exemptions only on those provided for by law and also impose a freeze on any new tax exemptions. This will improve transparency and revenue collection.

The launching of the audits of the social debt, supplier debt and cross debts

- The aim is to improve public financial management and enhance debt management practices.

The renegotiation of the convention with banks

- The aim is to strengthen treasury management system.

A complete inventory of the para fiscal taxes and an action plan to ensure their timely transfer to the TSA

- An action plan will have to be developed to undertake a complete inventory of the para fiscal taxes and to ensure their timely transfer to the TSA. The aim is to improve public financial management.

The production of the revenue and expenditure account for 2016

- A decision will have to be taken to ensure the timely production of the revenue and expenditure account for 2016.

The publication of all existing tax exemptions

- A decision has to be reached to publish all existing tax exemption, to enhance transparency and accountability.

Reporting to the IMF

16. **Quantitative data on the government's indicative targets will be reported to IMF staff according to the periodicity described in Table III.1.** Moreover, all data revisions will be promptly communicated. The authorities undertake to consult Fund staff regarding any and all information or data not specifically addressed in this TMU but which is necessary for program implementation, and inform Fund staff whether the program objectives have been reached.

Table 1. Central African Republic: Reporting to the IMF as Part of Financing Under the ECF Arrangement	
Description of data	Deadline
Bi-annual report evaluating quantitative indicators and structural measures (tables 11 and 12 of MEFP), with supporting documents	Within four weeks of the end of each quarter.
Monetary position, monthly central bank and commercial bank accounts	Within four weeks of the end of each month.
Monthly cash flow operations table	Within ten days of the end of each month.
Government financial operations table	Within four weeks of the end of each month.
Total monthly amount of domestic payment arrears on goods and services and on wages, including unpaid pensions and bonuses	Within four weeks of the end of each month.
External debt stock at end of period	Within four weeks of the end of each month.
Breakdown of expenditures listed in TOFE (goods and services, wages, interest, etc.)	Within four weeks of the end of each month.
Summary table of actual expenditures in priority areas, such as health, education, and security	Within four weeks of the end of each quarter.
Breakdown of current expenditure and capital disbursements, financed with own and external resources	Within four weeks of the end of each quarter.
Breakdown of revenues by institution and economic classification	Within four weeks of the end of each quarter.
Revenues and expenditures recognized against one another without a cash settlement (by expenditure and revenue type)	Within four weeks of the end of each quarter.
Breakdown of debt service and external arrears, particularly by interest and principal, and by main creditor	Within four weeks of the end of each month.
Amount of new non-concessional and concessional external debt contracted by the government	Within four weeks of the end of each month.
Actual disbursements for projects and programs receiving foreign financial assistance and relief of external debt granted by external creditors (including the date, amount, and creditor)	Within four weeks of the end of each month.