International Monetary Fund

Central African Republic and the IMF

Press Release:
IMF Completes Sixth Review Under the Central African Republic's ECF Arrangement and Approves US$13.1 Million Disbursement
August 25, 2010

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

May 10, 2010

TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC
LETTER OF INTENT

Bangui, May 10, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC, 20431
USA

Dear Mr. Strauss-Kahn:

The government of the Central African Republic has successfully implemented the measures contained in the economic and financial program with the support of the International Monetary Fund through its Extended Credit Facility (ECF).

The attached memorandum of economic and financial policies (MEFP) supplements previous memoranda attached to the letters dated November 30, 2006, September 7, 2007, June 3, 2008, December 4, 2008, June 5, 2009, and November 18, 2009. The latest sets out quantitative performance criteria for end-December 2009 for completion of the sixth review (seventh and last disbursement) of the ECF arrangement.

All quantitative performance criteria for completion of the sixth review under the ECF arrangement were observed. On the basis of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the sixth and last ECF review. We request disbursement of the seventh loan in the amount of SDR 8.67 million (15.6 percent of quota).

The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives but is ready to take any other measures that might be necessary. The Central African Republic will, in accordance with Fund policy, consult with the Fund on the adoption of any measures that may be appropriate and before revising the policies set out in the attached MEFP.

The government intends to reach understandings on a successor arrangement under the new ECF in the second half of 2010.

We recognize that the Fund is concerned about safeguarding its resources and, in this regard, understand that it would not be in a position to complete this review unless it is satisfied that related concerns are being addressed. To this end, we emphasize that the Central African authorities will continue to work closely with the BEAC and fellow BEAC member countries to ensure the timely implementation of the remedial measures that are necessary to demonstrate satisfactory progress in resolving safeguards concerns at the BEAC. BEAC has recently reaffirmed to Fund Management its intention to work closely with the Fund in resolving these problems. BEAC has implemented the initial remedial actions called for by the Fund to allow reviews to be completed through end May 2010. We understand that the next round of remedial measures that would be applicable for reviews after that date will be determined based on the findings of the special audit of BEAC's accounting and budgetary practices.

The government implemented one prior action before Executive Board consideration of our request for completion of the sixth and last review of the ECF-supported arrangement, namely the adjustment of all petroleum prices as described in paragraph 9 of the MEFP.

The government intends to make the contents of this letter, the attached MEFP and the related staff report available to the public. Therefore, it authorizes the IMF to post these documents on its web site once the Executive Board has concluded the review.

Sincerely yours,

/s/	/s/
Prof. Faustin Archange Touadéra Prime Minister	Albert Besse Minister of Finance and Budget

Attachment: Memorandum of Economic and Financial Policies

Attachment I
Translated from French

Central African Republic
Memorandum of Economic and Financial Policies, 2010

Bangui, May 10, 2010

I. Introduction

1. Economic conditions have been improving since the government of the Central African Republic (C.A.R.) began implementing its medium-term macroeconomic and financial program in late 2006 with Fund support. Political and social stability has been strengthened as a result of the Inclusive Political Dialogue (IPD) held in December 2008. Expenditures related to the Demobilization, Disarmament and Reintegration (DDR) program have been initiated, albeit with some delay, and have been accelerated since the beginning of the year to contribute to national reconciliation ahead of the general elections scheduled for 2010.

2. Debt relief secured by reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in June 2009 has significantly improved debt sustainability, reducing our external debt to about CFAF 90 billion by the end of 2009, and we work strenuously with our Paris Club and non-Paris Club creditors to conclude consistent bilateral agreements.

3. We are slowly recovering from the effects of the global economic slowdown, which has seriously affected our economy. We have taken early measures to strengthen our economic management and prevent the consequences of the crisis from spreading to the most vulnerable segments of our population. With continued support from the international community, we are committed to intensify our efforts and pursue strong policies to further stabilize our economy and create the basis for sustainable economic growth.

4. This memorandum presents the government's economic and financial policies for the rest of 2010. Our policies are consistent with the Poverty Reduction and Strategy Paper (PRSP) of June 2007 and the first PRSP implementation report of 2009, both adopted after extensive consultations with major stakeholders. We remain committed to increase expenditure aimed at poverty reduction and enhanced security and peace.

II. Recent Economic Performance and Policies

A. Macroeconomic Performance and Program Implementation

5. Economic growth bottomed out at 1.7 percent in 2009, despite an important contribution from agriculture, which accounts for almost a third of GDP. Export sectors remained weak but have started to respond to improving world market conditions. Average annual inflation has fallen to 3.5 percent after reaching 9.3 percent in 2008. End-2009 prices were 1.2 percent lower than one year earlier, mainly thanks to decelerating food prices, which provided substantial social relief to consumers.

6. Our two main export commodities, diamonds and wood products, decreased by 18 percent and 31 percent, respectively, in volume terms in 2009. Recent data, however, show clear signs of recovery in external demand. Sustained domestic economic activity in the primary sector, especially subsistence and animal farming, compensated somewhat for the negative external shocks thanks to good weather and improving security in the production areas. Credit to the private sector declined slightly in 2009 probably reflecting contraction in trade. The banking system has not been directly affected by the global financial crisis, and commercial banks' liquidity position was strengthened by early repayments of government loans at the end of 2009.

7. Macro-fiscal performance in 2009 was broadly in line with the program. We met performance criteria (PC) on total domestic revenue, collecting CFAF 100.8 billion, CFAF 1.9 billion more than programmed, despite the adverse economic environment, sustained by revenue from taxes on profits and on international trade and property taxes—partly compensating for lower revenue on other taxes on goods and services—and from nontax sources. We also managed to reduce tax arrears by CFAF 1.7 billion, thus meeting the related quantitative benchmark (QB).

8. We met the PC on the domestic primary balance by a large margin by tightly controlling cash expenditures, but also as a result of delayed expenditure on the peace process and lower-than-expected domestically-financed capital spending. We still managed to increase spending in priority social areas, notably health and education, and reached the related QB. The PC on net claims of the commercial banking system on the government was also met by a substantial amount following the early use of funds from the SDR allocation to reduce our exposure to commercial bank loans. Expenditure arrears from previous years were reduced by CFAF 19.2 billion in 2009, including a reduction of social debt (arrears in salary, pension and stipends) and payment to small suppliers, in line with the relevant QB. However, we accumulated new arrears in 2009 because our expenditure management system, Gesco, was not yet fully operational, which we intend to correct in 2010; we will also determine the precise amount of arrears through an audit by the *Inspection générale des finances*. Nonetheless, we met our main fiscal targets. We met the end-December 2009 QBs related to the collection ratio of the utility companies and payment of government utility bills. Already

we have paid all utility bills submitted to the government before end-December 2009 for an amount of CFAF 1.2 billion. These improvements should contribute to the strengthening of the financial performance of these companies.

B. Progress in Structural Reforms

9. The government has implemented important structural reform measures. The quarterly petroleum product pricing mechanism has contributed to strong revenue from the petroleum sector in 2009. The mechanism ensures full pass-through to consumers of all costs, distribution margins, and taxes, including value added tax (VAT) at the regular rate. We recognize the importance of the principle of regularly passing-through to consumers world oil price changes and safeguarding our domestic tax revenues from petroleum products. Also, we appreciate the fact that petroleum product taxation falls mainly on the non-poor because fuel products are predominantly consumed by the non-poor, although the relatively minor consumption by the poor still places a heavy burden on them. We were not in a position to align petroleum product prices fully with those required by the formula in January, resulting in a revenue loss of some CFAF 0.5 billion for the first quarter of 2010. However, we have increased prices by 5.3 percent on average on May 1. Specifically, we raised the per-liter prices of kerosene (by CFAF 20), diesel (CFAF 50), gasoline (CFAF 30), and heavy fuel oil (CFAF 57). We thus eliminated subsidies on all these products, although kerosene and diesel still show a negative residual tax (*Taxe unitaire sur produits pétroliers*, (TUPP)) in the price structure for the importation by road—which is relevant for the coming months. The price increases were not fully in line with the relevant structural benchmark (SB), which would have called for a weighted average increase of about 12 percent. However already this adjustment was extremely difficult politically given the upcoming elections, and we therefore decided to undertake the necessary adjustment in two steps. The loss for the second quarter is estimated at CFAF 0.3 billion. By also reapplying the adjustment formula fully again from July 2010 onwards, the government will avoid losing CFAF 4½ billion in revenues for the remainder of the year in case of non-adjustment, which would not have been affordable. To minimize the impact of the price adjustment for kerosene on the poor, we intend to provide for a better distribution of this product, particularly in the country-side.

10. More progress has been made in revenue administration reform. We have further reduced customs exemptions to CFAF 8.9 billion in 2009, thus meeting the structural benchmark (SB). We have also met the end-March SB related to publishing a detailed reform strategy for the revenue administration, which lays out the priorities and next steps for our ongoing reforms aimed at mobilizing more domestic revenue and making tax administration more effective. In 2009, we audited 60 percent of large taxpayers and, with a delay of not more than 30 days, all stop-filers and VAT declarations with a credit or zero balance. This allowed us to achieve a non-filer rate of 7 percent for 2009. Furthermore, we have stepped up the training of staff and established a working group to define mutual data exchange needs to use these systems widely and effectively. The end-December SB related to paying validated VAT refund requests by taxpayers could not be met. In the process of validating the requests

received through end-February 2010, we discovered that previous requests had not included the proper documentation, in particular proof of exportation and repatriation of export receipts. We therefore informed the companies that had submitted requests to furnish the required documentation. We intend to process the requests and pay any validated amounts expeditiously and to adhere to the objectives of the benchmark in the future. In addition, we have clarified the procedures regarding VAT payments for major investment projects in the context of the CEMAC investment code. In this context, the tax administration will put into place a procedure, which allows for such deferrals for reliable taxpayers to help with their cash flow without a loss to the treasury over the life of the investment project.

11. In the area of public financial management (PFM), we are making progress, and we are working hard to compile the final accounts for 2008 and for 2009, with a view to issue C.A.R.'s first budget execution law. The government financial management system Gesco has been applied to all stages of the expenditure process, but the treasury department's payment stage was only integrated in early January, thus narrowly missing the related end-December SB. With a feedback mechanism between the budget and the treasury departments' computer systems established to link payments to the corresponding budget categories, we can now generate detailed and comprehensive reports on budget execution, more easily regularize expenditures initiated by the treasury, and automatically establish accruing payment arrears. However, the full use of the new system's potential will need to be achieved by overcoming persistent capacity and organizational constraints, including by ensuring that the system has the necessary hardware support with data backup capabilities and an independent electricity supply.

12. Gesco will eventually include all expenditures without prior commitment or payment orders (for example those for debt service, salaries, travel advances, utility bills, and government petroleum product consumption), and other payments not following the standard expenditure procedures. We intend to regularize all non-standard expenditure procedures with a delay of less than 30 days, and to keep these spending categories at about 5 percent of primary current expenditures in 2010. We will continue to further develop Gesco and intend, in 2010, to extend it to cover all revenues registered by the Treasury. We intend to finalize a plan for the incorporation into Gesco of the expenditures executed by public agencies with their own resources before end-December 2010, and operationalize it for the 2011 budget. This would require all earmarked and own revenues of public agencies to be integrated into the treasury single account. We will also establish a link between Gesco and the debt management database (SYGADE) and the simplified wage management system.

13. Our objective is to have an integrated system that enables the government to have daily information about its fiscal position and serve as a fully integrated information base for budget implementation and liquidity management. Already, we can produce reports on expenditure commitments to help project upcoming payment obligations. The work of the liquidity commission has a central role to play in this respect, preparing rolling budget projections of expenditure commitments, revenues, and debt service requirements for the

forthcoming week, month, quarter, and remainder of the year. Unfortunately, we were unable to conduct a full-fledged review of the committee, and we have encountered some delay in producing the required detailed written recommendations on adjusting expenditure commitments in line with the rolling forecasts (end-March SB). However, we did produce weekly recommendations on required payments since end-2009. Moreover, presidential instructions are about to be signed clarifying the necessary elements for the liquidity commission report, and we have prepared detailed recommendations in line with the benchmark beginning in May 2010, thus meeting the SB with a delay.

14. Our debt database has become a central tool for debt management, since we have recorded all verified domestic arrears until end-2007 in the computerized debt database of the debt department on an arrear by arrear basis, thus meeting the relevant end-December SB. It will serve as a comprehensive database for all public debt by including also public sector cross-debts. Once the link to Gesco is established, payment arrears will automatically be recorded in the debt database. We continue to record all verified domestic arrears in the computerized debt database, and in April 2010, we have created an inventory of public sector cross-debt, established a schedule for the clearance of cross-debt between the three main State-Owned Enterprises (SOEs) and local and central governments, thus meeting the end-March structural benchmark with a delay. All debts of SOEs have also been recorded in the government debt database as an essential step to put financial relations within the public sector on a transparent and sound basis.

15. We have implemented the treasury single account (TSA). We have reduced treasury accounts to one in each commercial bank (and two transfer accounts and donor-mandated accounts required for project management), which is the minimum necessary to maintain transactions through banks. We are striving to operate these accounts on a zero-balance basis and reconcile their positions daily. Also, we have reclassified the account for reimbursements of VAT refund requests as a subaccount of the main account, but we have maintained the account for the CEMAC-financed DDR spending as a project account. In line with our new regulations on fiscal decentralization, which provides for part of the provincial revenue to be spent locally, and revenue-generating agencies' rights to manage part of the fees they collect for current expenditure directly, a limited number of decentralized accounts were also maintained at commercial banks for the time being. We make all wage payments through our bank accounts and have made good progress in extending the system to pensioners and regular suppliers. Furthermore, taxpayers are now also required to use bank transfers for payments, with positive initial results. To take account of these new bank services, we intend to negotiate comprehensive agreements with the commercial banks to clearly establish banking fees and interest payments with a view to encouraging competition between banks.

16. We are publishing quarterly budget execution reports to increase transparency and better communicate government fiscal policies. In addition, we have published the 2010 budget.

17. We have strengthened commercial banks' liquidity positions by making early repayments of CFAF 9 billion in commercial bank loans which allowed them to reduce their single-customer exposure to the government, and we hope that banks now will enhance their lending to the economy. In addition, we have eliminated our debts with the petroleum companies and with banks domiciled in the CEMAC region for a total of CFAF 9.6 billion and we have repaid domestic expenditure arrears in the amount of CFAF 19.2 billion. For these repayments, we have used funding made available, through BEAC, from the general SDR allocation. We have included another CFAF 12 billion in our financial program to further reduce our costly exposure to commercial bank financing during 2010. We intend to use resulting savings on our interest bill for additional expenditure in priority sectors.

18. We are committed to preserving the stability of our banking system and are working with one commercial bank to fully restore its financial viability. The bank is committed to follow through on a restructuring strategy, which requires recapitalization of some CFAF 5 billion. The strategy will need to be approved by COBAC before end-June 2010. We intend to participate in the bank's recapitalization, but only in conjunction with a fit-and-proper strategic investor, who should be able to obtain at least 51 percent of the shares. In light of the binding time constraint, it might not be possible to find such an investor immediately, in which case we would temporarily increase our present 10 percent stake to around 70 percent to facilitate an eventual sale to a long-term investor. We will not support shareholders that do not currently have the financial resources to fully participate in the recapitalization. Before recapitalization we will insist on writing down the capital of the bank to its residual value and then bringing it up to the required CFAF 5 billion. We are also considering the advantages and disadvantages of creating a new bank in the restructuring process. A contingency of CFAF 3.5 billion to finance the government's participation through a long-term interest-bearing bond has been added to our 2010 financial program.

III. The Program for 2010

19. Our priorities for 2010 and beyond remain essentially unchanged, namely to stabilize the economy and prepare the basis for increased economic growth by consolidating our export sectors and facilitating internal demand while preserving a prudent fiscal stance. Specifically, we will continue (i) improving our domestic revenue collection; (ii) supporting domestic demand and enhancing growth and investment prospects by maintaining budgeted expenditures, paying domestic arrears, accelerating the implementation of expenditure programs related to the DDR process and the investment budget; (iii) paying all current government obligations and improving its financial standing; and (iv) maintaining the momentum in public financial management reforms. Moreover, we are working toward further enhancing the stability of our banking system.

A. Macroeconomic Objectives for 2010

20. We expect real GDP growth to pick up on the basis of sustained agricultural production, strengthened domestic demand, and increased exports to about 3¼ percent compared to 1.7 percent in 2009. Price pressures have all but subsided and inflation is expected to return to a more stable long-term path of 2½ percent, with average inflation at around 2 percent. External trade should revert to more normal levels of exports. Total exports of goods are projected to increase by CFAF 10 billion to CFAF 68 billion, in line with program. Imports will moderately expand and are projected to increase by 13 percent in volume terms, or CFAF 13 billion compared to program mainly due to the increased import relating to donor aid inflows. The current account deficit is projected to remain at around 8 percent of GDP, broadly the same level as in 2009, as the recovery of diamond prices and forestry exports and higher aid inflows is offset by higher oil imports and imports for the public investment program. The overall balance of payments is expected to improve somewhat compared to 2009, leading to a small gain in C.A.R.'s gross international reserves in dollar terms and in terms of imports, which are projected at 4.2 months. C.A.R.'s share in CEMAC common currency reserves is likely to be broadly stable.

B. Fiscal Policy

21. Fiscal policy will continue to support demand while raising our low tax revenue ratio. Domestic revenue in 2010 is projected to consolidate the gains of the strong 2009 outcome of 10.8 percent of GDP—0.3 percentage point higher than programmed. We intend to increase our tax revenue ratio by 0.2 percent of GDP through improved revenue administration and better VAT collection procedures. However, nontax revenue will be 0.3 percent of GDP lower than in 2009, mainly because of the non-recurrence of one-off receipts related to telecommunication licenses and a public land sale. Due to the large impact of nontax revenues, our domestic revenue ratio will decline by 0.1 percentage points of GDP in 2010 relative to 2009, but will still be 0.2 percentage points of GDP higher than programmed.

22. The 2010 budget, adopted on December 31, 2009, reflects a prudent stance on current expenditure, including the wage bill. Relative to the budget, we have identified some areas where additional spending is needed, but which remains in line with the expenditure envelope defined by the program. The overall level of primary current expenditures will thus rise by 1.9 percentage point of GDP, mainly due to the carry-over of DDR expenditure from 2009 and election-related spending (1.4 percent of GDP on budget). To improve the fairness and incentives of our civil servants' remuneration system, we intend to unfreeze civil servant salaries and we have allocated an additional CFAF 3 billion to the budgeted wage bill for this purpose. In addition, we have added CFAF 1 billion to expenditures on goods and services to ensure sufficient allocations for utility consumption. Social expenditures are expected to increase by more than 5 percent in real terms both for domestically and foreign financed social spending. In particular, we have allocated more to health and education, where we intend to hire some additional 500 health and education workers.

23. We had to shift a substantial part of spending on the DDR to 2010 for a variety of reasons, including bottlenecks in implementation capacity. In 2009, of the CFAF 2 billion allocated for such spending, we only used CFAF 420 million. We expect to spend CFAF 7.3 billion on the DDR in 2010. This amount includes CFAF 5 billion earmarked from CEMAC contributions. In addition, we intend to advance CFAF 2 billion from our own resources while we wait for the remaining CFAF 3 billion in grants from CEMAC countries to be disbursed. Total planned expenditure for the DDR is still estimated at CFAF 10 billion (1.1 percent of GDP). We expect to receive additional donor assistance both inside and outside the budget in relation for the peace process, including first measures related to the security systems' reform and the elections, as an expression of international solidarity and confidence, which we acknowledge. For example, we recently received US$20 million from the UN system to be administered off-budget, of which $1.5 million was for security and elections. We had already budgeted CFAF 5.1 billion for the elections. The program will now add an additional amount of CFAF 1.6 billion financed by the European Union. In addition, we include a contingency for CFAF 1 billion from own resources in case the elections turn out to be more costly, for example, due to the recent depreciation of the CFA franc with respect to the US dollar. In total the program thus includes CFAF 7.7 billion for the 2010 elections with CFAF 3.5 billion from own resources, although we hope to be reimbursed by donors for a large share of what we spend on our own resources.

24. Our capital budget is ambitious in the face of urgent needs to rehabilitate and extend basic infrastructure, upgrade public services, and enhance social investment. First and foremost, we intend to improve our capacity to implement investment projects through better collaboration between the line ministries and the ministries of finance and planning. For this purpose, we also intend to put in place an access platform in all spending ministries and to accelerate training for using Gesco in all ministries. The ministry of planning commits to communicating data on the implementation of the investment budget to the ministry of finance—and to the public through its internet site—with a delay of not more than 15 working days. Considering the administrative and logistic challenges to handle our investment program, we would like to call on our financial and technical partners to continue their efforts to harmonize their procedures and better coordinate their assistance, and help us reduce delays in capital budget execution to avoid uncertainties and undue strains on our treasury function.

25. In sum, after the much better-than-programmed outcome of the domestic primary balance in 2009, we expect a deficit of 1.5 percent of GDP, which is slightly higher than programmed reflecting the bank recapitalization costs and despite substantial shifts of non-implemented spending from last year and additional spending needs related to the elections. Identified financing, including a reduction to more normal levels of the comfortable government deposit position at the BEAC, partly representing treasury balances originating from the SDR allocation, would allow for repayment of arrears (2 percent of GDP), in addition to the complete elimination of all outstanding loans from commercial banks over the year 2010. The allocation for repaying arrears was increased by CFAF 5 billion on top of the

regular arrears repayment plan. To this effect, the clearance of these arrears was made more transparent by establishing clear criteria for their repayment. Including scheduled ECF disbursements, our program for the first half of 2010 is financed, but a financing gap of around CFAF 17 billion (1.6 percent of GDP) exists for the remainder of the year.

26. Public debt should decline from 32 percent of GDP in 2009 to about 28 percent of GDP at end-2010. We maintain all efforts to come to agreements with all our bilateral creditors on debt relief consistent with the terms of the HIPC completion point and comparable to Paris Club treatment. In line with our debt strategy after the HIPC completion point, we will keep a zero ceiling on new non-concessional debt to avoid excessive debt accumulation.

C. Future Structural Reforms

27. The government intends to work with the Fund toward a new ECF program, as a backstop for its reform efforts and a means to further strengthen donor relations. Efforts to improve coordination with the donors operating in C.A.R. have proven fruitful so far and progress has been achieved to harmonize the structural reform and technical assistance programs. The General Framework for Budget Support to the PRSP (CGAB-DSRP), agreed last October, should improve the predictability of aid and facilitate administration of donor support. In particular, we continue to work with our donors on a common technical assistance program for the public finance reform.

28. We continue to make the tax system work better. We are committed to the full and automatic implementation of the quarterly petroleum product price adjustment mechanism, which has proved successful to increase revenue and make industry relations more transparent. The emphasis of tax administration is on audit selection, taxpayer registration and collection follow-through, and VAT refund processing. We will step up security in granting the tax identification number (TIN) to ensure that each taxpayer is uniquely identified by his TIN.

29. We intend to reinforce our policy and administrative efforts in the area of customs administration. The main challenge of reform will be the decision on how to best reorganize the customs clearance and transit procedures while reassessing the role and the effectiveness of the Guichet unique in Douala. We will make good use of the ASYCUDA system and its connection with SYSTEMIF and expand its use and capabilities forcefully in cooperation with our technical assistance partners. We will also step up efforts to train personnel in various priority areas. The *Inspection générale des finances* will undertake detailed assessments of the operational effectiveness and financial performance of the private company SODIF on a quarterly basis, and we intend to clearly define the role of this company and reduce its role as the effectiveness of the customs and tax administration increases. Finally, the exemptions review committee will proceed in tightening operational

procedures for exemptions and review legislation with a view to eliminating further categories of exemptions.

30. We hope to receive technical assistance from the Fund for a comprehensive tax policy reform later in 2010 so as to implement a new tax code with the 2012 budget. The objective of the reform would be to further reduce exemptions and nuisance taxes, streamlining tax payment procedures, and shifting from trade taxes to domestic consumption and income taxation, with a view to enhancing revenue and administrative efficiency, and improving the investment climate. The reforms will usefully build on the reform proposals and reports recently prepared by consultants of the European Union.

31. The government's priorities for public financial management reforms continue to be to (i) strengthen liquidity management; (ii) improve expenditure tracking and budget monitoring; (iii) enhance debt management; and (iv) increase fiscal transparency. To this end, we intend to take the following steps during 2010:

- Improve the use of Gesco by integrating ministries' spending on own resources and the revenue agencies. In addition, severely limit the use of exceptional expenditure procedures.

- Continue publishing quarterly budget execution reports.

- Undertake an audit by the *Inspection générale des finances* of the arrears accumulated between 2008 and 2009 and add the validated arrears to the debt database by end-June 2010.

- Increase the transparency of the system for the repayment of expenditure arrears.

32. We will continue to improve the financial performance of the public utility companies. The government intends to timely pay all of its current utility bills as an essential element of our strategy to improve the financial and overall performance of utility companies. Moreover, the government will start monitoring closely the financial performance of public enterprises to ensure that additional resources are used effectively. We intend to require SOEs to present comprehensive plans by end-June 2010 on how to achieve medium-term financial sustainability. We will then sign performance contracts with SOE management to monitor the implementation of the plans. In order to reduce interest costs, the government will prioritize the payment of the commercial bank debt on behalf of those companies to whom the government is in a net debt situation. Already, the improvement of the financial situation of the public utility companies should enable them to pay their current tax obligations, because their tax arrears were eliminated in the context of the public sector cross-debt clearance exercise. An agreement clarifying the responsibility for the payment for public lighting (maintenance and electricity consumption) in the city of Bangui will be signed between ENERCA and the Bangui municipality.

33. Securing and increasing electricity supply is essential for growth. The Chinese authorities intend to rebuild our electricity generating capacity with the supply of two turbines for Boali III, increasing electricity production by 10 megawatts. We will upgrade the electricity generation plant in Boali, our main hydro-generation facility, with technical and financial support from the World Bank (US$10 million) and the French Development Agency (€4.2 million). These reforms would reduce the short-term supply problems and produce large economic benefits.

34. We are working to improve the business and investment climate, with the objective of attracting major new investment projects and facilitating the generation of employment opportunities for our population. We are committed to pursuing our efforts to enhance communication with our business community, and step up vigilance with regard to the proper application of tax and investment legislation and the regulations governing economic activity.

D. Program Monitoring

35. We have established quantitative targets for end-June and end-December 2010 (Table I.1), to monitor the program for the period until the new arrangement with the Fund is put into place. The prior action for this review is described in Table I.2.

Table I.1. Central African Republic: Quantitative Criteria, June–December 2010

(billions of CFA francs; cumulative from December 31, 2009 for 2010; ceilings, unless otherwise indicated)

	End-Dec. 2009 Performance Criteria		End-Jun. 2010 Proj.	End-Dec. 2010 Proj.
	Revised Program	Prel.		
Main objectives				
Floor on total government revenue [1]	97.9	100.8	55.5	107.2
Floor on domestic primary balance [2]	-9.6	13.6	-5.9	-14.6
Change in net claims of the commercial banking system on the government, excluding bonds issued on the regional market	0.6	-12.1	-6.0	-12.0
New nonconcessional external debt [3 4]	0.0	0.0	0.0	0.0
Accumulation of government external payments arrears [5]	0.0	0.0	0.0	0.0
Additional objectives				
NPV of external debt	111.0	99.8	…	…
Floor on poverty-related spending [5]	21.0	30.1	12.0	26.2
Floor on reduction in domestic payments arrears	12.1	19.2	10.0	20.0
Net accumulation of tax arrears	0.0	-1.7	0.0	0.0
Floor on cash collections of utility companies (in percent)	82.4	90.4	87.5	90.0
Floor on government payment of utility bills (in percent)	98.0	112.4	98.0	98.0
Memorandum items:				
Projected grants for budget support	16.6	16.6	12.6	16.2
Projected bonds issued in the regional market	0.0	0.0	0.0	0.0
Of which: held by domestic commercial banks	0.0	0.0	0.0	0.0
Maximum adjustor for government net claims on commercial banks in case of grants shortfalls	6.0	6.0	6.0	6.0
External financing without project loan disbursement	-0.5	-0.5	2.0	-1.2
Repayments to oil companies and on commercial loans [6]	9.6	9.6	…	…

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

[1] Domestic revenue, which excludes foreign grants and divestiture receipts (see the Technical Memorandum of Understanding, TMU, for more details).

[2] The domestic primary balance (cash basis) is defined as the difference between government domestic revenue and government total expenditure, less all interest payments and externally-financed capital expenditures.

[3] Contracted or guaranteed by the government (see the TMU).

[4] These objectives will be monitored continuously.

[5] Total spending on health and education including wages and salaries, goods and services, and capital expenditure.

[6] Debt owed to oil companies and loan covenants with financial groups domiciliated in the CEMAC, classified as nonbanks.

Table I.2. Central African Republic: Structural Conditionality, 2010

Measure	Macroeconomic Rationale	Timeline
Prior Action		
REVENUE ADMINISTRATION AND TAX POLICY		
Adjust petroleum product prices to ensure pass-through to the consumer of costs, distribution margins, VAT, and a specific excise by product as agreed with Fund staff (MEFP ¶ 9).	Protect the budget from risks of fluctuating petroleum prices; create room for measures to mitigate the social impact of petroleum price changes.	Implemented.