International Monetary Fund

Central African Republic and the IMF

Press Release:
IMF Executive Board Approves New US$63.2 Million Extended Credit Facility Arrangement for the Central African Republic and US$10.5 Million Disbursement
June 25, 2012

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

June 11, 2012

The following item is a Letter of Intent of the government of Central African Republic, which describes the policies that Central African Republic intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Central African Republic, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC

LETTER OF INTENT

Bangui, June 11, 2012

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

Dear Madame Managing Director,

The government of the Central African Republic (C.A.R.) undertook, in the wake of the 2010–11 electoral process, to restore fiscal discipline, revitalize the mechanism for monitoring liquidity, and accelerate structural reforms. To this end, the government has implemented the reform of the Treasury Single Account (TSA), strengthened the institutional framework for cash management, and simplified the tax system. Following the adoption of its second generation Poverty Reduction Strategy Paper (PRSP II) for 2011–15, the government, in consultation with IMF staff, prepared an economic and financial program to support economic recovery for which it is seeking IMF assistance in the amount of SDR 41.775 million under an Extended Credit Facility (ECF) arrangement, including a disbursement equivalent to SDR 6.963 million upon Executive Board approval of this arrangement.

The government believes that the policies set forth in the attached Memorandum on Economic and Financial Policies (MEFP) will enable it to meet its program objectives but is ready to take any additional measures that might be necessary. The government of the C.A.R. will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. Moreover, we will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

The government has implemented the prior actions for consideration by the Executive Board of its request for support under the ECF, namely the adjustment in domestic petroleum prices and the preparation of an annual cash flow plan with a monthly breakdown taking into account the fiscal targets included in the program for 2012–13, in line with the provisions of ¶18–20 of the MEFP.

The government intends to make the contents of this letter and the attached MEFP, as well as the associated IMF staff report, available to the public. Therefore, we authorize the IMF to publish these documents on the IMF website once the Executive Board has concluded its consideration of our request.

Sincerely yours,

________/s/________	________/s/________
Faustin-Archange Touadéra	Albert Besse
Prime Minister	Minister of Finance and Budget

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

ATTACHMENT I

TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES, 2012–15

Bangui, June 11, 2012

I. INTRODUCTION

1. The Central African Republic (C.A.R.) exhibits, in many respects, the characteristics of a fragile state. Economic conditions have improved since end-2006 when the government began implementing its medium-term macroeconomic and financial program supported by the IMF's Extended Credit Facility (ECF). Political and social stability has been strengthened as a result of the Inclusive Political Dialogue (IPD) held in December 2008. While there were delays in mobilizing resources for the Demobilization, Disarmament and Reintegration (DDR) program, the pace picked up in 2010, thus contributing to national reconciliation and paving the way for the presidential and legislative elections in 2011. Nonetheless, these achievements remain fragile.

2. The economy is gradually recovering from the impact of the global economic slowdown, which hit the country very hard. We reacted quickly to strengthen our management of the economy and protect the most vulnerable segments of the population. With continuous support from the international community, we are determined to intensify our efforts and implement vigorous policies aimed at further stabilizing our economy and building the foundations for sustainable economic growth.

3. This memorandum presents the government's economic and financial policies for the period 2012–15. The priorities and objectives of the program are consistent with the second generation Poverty Reduction Strategy Paper (PRSP II) adopted in November 2011, which was the subject of extensive consultations with major stakeholders. In the context of the implementation of PRSP II, an inventory aimed at compiling an exhaustive list of national projects with the most realistic financing plans is being prepared with technical assistance from the World Bank. The final document is expected to be submitted by the end of the year to a Consultative group (CG) with a view to mobilizing the required financing. We remain committed to implementing the priorities of PRSP II, and to laying the foundation for accelerated and sustained growth conducive to reducing poverty and making progress toward reaching the Millennium Development Goals (MDGs), as this is an area in which C.A.R.'s performance is significantly lagging. Lastly, the main objective of the core strategy for the reform of the security sector is to improve security and consolidate peace.

II. Recent Economic Performance and Policies

A. Macroeconomic Performance in 2011

4. The economic recovery is gaining ground. After bottoming out at 1.7 percent in 2009, economic growth picked up, reaching 3 percent and 3.3 percent in 2010 and 2011, respectively. This performance is largely attributable to favorable weather conditions economic environment and improved security in the production areas. Buoyant activity in the primary sector, in particular subsistence and livestock farming, continues to underpin economic recovery. Credit to the private sector was robust in 2011, increasing by almost 18 percent. While the bulk of this credit consisted of short-term loans, this increase nevertheless signals a slight upturn in economic activity. Average inflation continued its downward trend, dropping to 1.2 percent in 2011, after peaking at 9.3 percent in 2008, owing essentially to the surge in global food and fuel prices.

5. Budget execution in 2010 and 2011 showed significant weaknesses. Exceptional procedures were used with increasing frequency in paying for government expenditure, circumventing normal budget procedures executed through the electronic expenditure chain management system, Gesco. The Treasury, through the issuance of cash payment orders (*OP-Caisse*), and the Directorate General of the Budget, in the form of budgetary payment orders (*OP-Budget*), accounted for the bulk of the use of exceptional payment procedures in 2010 and 2011, respectively. Priority spending for which budget allocations had been set aside suffered the most from these practices, resulting in the accumulation of domestic payments arrears amounting to CFAF 11.1 billion as of end-2011 (1.1 percent of GDP). Appropriate measures taken to deal with the problem meant that, at the end of 2011, cash payment orders were reduced to 7 percent of current expenditure, excluding wages and finance charges, compared to 80 percent in 2010. We recognize that further efforts need to be made to reach the 5 percent ceiling that we have set ourselves for the last three quarters of 2012. With that in mind, and with assistance from the European Union (EU), we have undertaken to conduct an audit of arrears accumulated through 2010 with the view to devising a plan for clearing these arrears. We are currently in talks with the EU to extend the scope of this audit to include 2011.

6. Poor budget execution also resulted in the accumulation of new external debt payment arrears of CFAF 11.6 billion at end-2011, of which CFAF 1.01 billion were owed to one Paris Club creditor (France), CFAF 9 billion to bilateral non-Paris Club creditors,[1] CFAF 0.4 billion to the European Investment Bank (EIB), and CFAF 1.3 billion to external private creditors. Progress was achieved in bilateral negotiations with both Paris and non-Paris Club creditors. Debt rescheduling and partial cancellation agreements were concluded with some creditors, while negotiations are ongoing with Russia and the United Kingdom as well as with non-Paris Club creditors. We are making good faith efforts to reach collaborative agreements with our external private creditors.

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[1] Comprising Equatorial Guinea, India, Kuwait, Libya, Saudi Arabia, and Taiwan Province of China.

7. In the external sector, in 2011 the current account deficit fell to 8.7 percent of GDP compared to 10.2 percent in 2010, owing mainly to the stronger performance of exports and the stabilization of imports. Exports rebounded in response to improvements in the international economic situation in 2010, rising by 32.3 percent in value. This strong performance in exports in 2011, coupled with a fall of around 18 percent of the volume of imports, led to the improvement in the external current account. In regard to financing, the mining, telecommunications, and transport sectors benefitted from higher foreign direct investment (FDI) flows.

B. Structural Reforms

8. The government has restarted the structural reform process. Following lax implementation of structural reforms during the pre- and post-electoral period, starting from November 2011, the government renewed its commitment to pursuing structural reforms to strengthen budget management and the monitoring of macroeconomic developments. Thus, based on the recommendations of IMF Technical Assistance (TA) missions, including by AFRITAC Center, as well as by technical and financial partners (TFPs), we have revitalized and streamlined the entities responsible for the monitoring of budget execution and liquidity. We have also strengthened the revenue collection agencies, in particular, the Revenue Authority (DGID), which implemented several actions in 2011 aimed at enhancing its performance, notably:

- Updating registered taxpayers' files;
- Enhancing the registration procedure;
- Improving the efficiency of tax control (use of information, program streamlining, higher quality audits).

9. The Treasury has started the process of streamlining its operations. We have created a Treasury Single Account (TSA) and reduced the number of accounts held with commercial banks to one account per bank (with two transfer accounts and accounts required by donors for project management purposes). However, in keeping with our new fiscal decentralization regulations, which provides for a share of the revenues from the provinces to be spent on local projects and gives the revenue collection agencies autonomy for managing a share of the fees they collect to meet their current spending needs, a limited number of decentralized accounts are, for the moment, still being held with commercial banks. All salaries are paid by bank transfer and we have made good progress in extending this mode of payment to retirees and to the government's regular suppliers. Initial results are encouraging. In light of these new banking services, we are currently in negotiation with commercial banks to reach agreement on clearly defined bank fees and interest and, consequently, encourage competition among them in line with CEMAC's regulations on the overall effective rate and the usury rate adopted by the Ministerial Committee of the Central African Monetary Union (UMAC) on April 5, 2012.

III. Macroeconomic Objectives and Medium-Term Policies

10. Program priorities for 2012–15 are in line with the strategic objectives of PRSP II, and are aimed at (i) consolidating macroeconomic stability by quickly restoring fiscal discipline; (ii) creating fiscal space through increased mobilization of domestic revenues, improved spending priorities and greater efficiency in government expenditure; (iii) strengthening human and institutional capacity; and (iv) removing obstacles to higher economic growth. In implementing PRSP II, the government will give priority to: (i) developing basic infrastructure (energy and roads) to overcome challenges faced by C.A.R. as a landlocked country and boost its competitiveness; (ii) implementing policies aimed at diversifying production, including by creating development clusters; and (iii) human and institutional capacity building.

11. The medium-term macroeconomic framework assumes a gradual improvement in macroeconomic aggregates. In the context of the improved security situation in the country, the average rate of growth for the program period is projected at 4.7 percent based on a resumption of investment in the mining sector and a sustained expansion of agricultural production (both food and export crops). Given the sharp rise in prices seen in the first quarter of 2012, inflation is expected to rise over the course of the year before falling in 2013 below CEMAC's convergence criterion. The current account deficit is projected to stabilize at just over 6 percent of GDP by 2014, as total imports are pushed up by rising imports of petroleum products.

12. The policies we intend to implement under the program will focus on stepping up domestic revenue mobilization, strengthening public financial management (PFM), and improving the business environment.

13. With respect to revenue mobilization we are aware that, at an average of 10.5 percent over 2006–10, the ratio of revenue to GDP is very low. Our efforts in this area are expected to yield additional resources amounting to 1.4 percentage points of GDP by 2014. To this end, we intend to prepare and implement a comprehensive reform policy covering the revenue collection agencies. One of the main expected outcomes of this initiative is the in-depth reform of the tax services and reorganization of the customs administration on the basis of the recommendations of IMF TA missions. Regarding tax administration, with the assistance of the IMF and the EU, reform will focus on simplification of the income tax system, more effective and better tailored taxation of small enterprises, and strict control of spending related to tax collection. Key aspects of the reform include the: (i) development of tools to enhance monitoring of the self-assessment system and improve the supervision of small enterprises so as to improve the taxation of such taxpayers; (ii) systematic reconciliation of the registered taxpayer files with physical taxpayer files; (iii) identification and systematic location of taxpayers in the field; (iv) modernization of the SYSTEMIF application (version 4) to include functionalities enabling data searches and cross checks, and make the application source programs available to the DGID; and (v) strengthening of the capacities of inspectors, as a priority, and of other DGID staff, in general. The DGID will continue its modernization efforts. As regards the customs services, the reform effort will focus primarily on

pursuing the implementation of the customs modernization plan devised with the support of the World Customs Organization, bringing the Beloko customs clearance center on stream and making use of the two scanners donated by China, continuing fraud prevention efforts, and strictly controlling exemptions.

Revenue Mobilization Measures	**Timing**
Tax Reforms	
Adjust petroleum product prices monthly	Done; continuous
Streamline petroleum product price structure	2012
Implement targeted support for groups vulnerable to fuel price increases	2012
Reconcile registered taxpayer files with physical taxpayer files	March 2013
Update and secure single taxpayer ID system	March 2013
Operationalize the pilot taxation center for medium-sized enterprises	June 2013
Identify and systematically locate taxpayers in the field	June 2013
Modernize SYSTEMIF, enabling data searches and cross-checks, and make it available to DGID	TBD
Strengthen capacities of inspectors and other DGID staff	TBD
Enhance monitoring of the tax self-assessment system	TBD
Improve taxation of small enterprises	TBD
Customs Reforms	
Implement modernization plans with WCO support	TBD
Operationalize the Beloko customs clearance center	TBD
Utilize scanners	TBD
Strictly limit exemptions	TBD

TBD = To be determined at the time of the first program review, based on the recommendations of an FAD mission to C.A.R. in June 2012.

14. With respect to PFM, our priorities are to (i) strengthen liquidity management, (ii) improve expenditure tracking and budget monitoring, and (iii) enhance debt management. We intend to adopt by 2014 a medium-term expenditure framework (MTEF) consistent with the CEMAC guidelines. In the meantime, we intend to streamline and simplify the expenditure chain and ensure that Gesco is fully operational by June 2013, by extending its functionalities to Treasury operations and taking on board the recommendations of the audit of the expenditure chain, financed by the EU and currently underway. The government requested support from the EU to commission an audit of the functional and administrative expenditure chain and from the IMF to implement the initial recommendations of FAD's February 2012 TA mission. Based on these recommendations, the government has prepared an action plan, which it plans to follow.

Expenditure and Debt Management	Timing
Expenditure Measures	
Set up CSGB to set caps on spending commitments bimonthly	Done
Prepare annual cash-flow plan broken down into quarterly and monthly plans	Done
Create mechanism for data sharing and the Budget Directorate	July 2012
Report monthly execution data on externally financed capital spending	September 2012
Limit the use of exceptional payment procedures to 5 percent of nonwage, noninterest current spending and domestically financed investment	Quarterly
Strengthen capacity of the technical secretariat of the CSL and the Treasury's technical unit on liquidity monitoring	December 2012
Implement an action plan to implement the recommendations of FAD February 2012 mission	December 2012
Streamline and simplify expenditure chain	June 2013
Fully operationalize Gesco	2013
Extend Gesco's coverage to Treasury operations	2013
Implement recommendations of the expenditure chain audit	2013
Adopt MTEF consistent with CEMAC guidelines	2014
Debt Management	
Operationalize the CNDP	September 2012
Adopt credible plan to clear audited domestic arrears	March 2013

15. We recognize that improving the business environment is essential to boost much-needed private investment and contribute to the development of our country. Over the medium term, the government intends to create a business friendly environment by strengthening the judicial system and the legal framework as well as simplifying the land tenure system, and boosting access to financing. It will also finalize the review of the investment charter and of the commercial code and enhance the role of the commercial court.

16. Clearance of domestic payment arrears will be accelerated as resource becomes available. Following completion of the audit of these arrears (¶5); we will adopt by March 2013 a plan to clear them on the basis of transparent criteria. Should budget support be higher than programmed, 50 percent of the excess will be used for arrears clearance.

Measures to Improve the Business Environment	Timing
Private Sector Engagement	
Set up a framework for dialogue with the private sector	End-June 2012
Revitalize the Standing Consultative Group (CPC)	September 2012
CPC to make proposals on improving the business environment	December 2012
Review SODIF's performance and take appropriate actions	December 2012
Institutional Measures	
Align natural resources management framework with international best practices	September 2013
Strengthen judicial and legal framework	2014
Improve the land tenure system	2014
Boost access to financing	2014
Finalize review of the investment charter	2014
Finalize review of the Commercial Code and enhance the role of the Commercial Court	2014

IV. Program for 2012–13

17. Real GDP growth is expected to strengthen, rising to 4.1 percent in 2012 compared to 3.3 percent in 2011 as a result of strong agricultural production, more robust domestic demand and higher exports, in particular in the diamond and timber sectors. Given the price surge recorded in the first quarter of 2012, annual average inflation is projected to reach 6.8 percent for the whole year. The external current account deficit is expected to continue trending downwards, settling at 7.6 percent of GDP. FDI will be buoyed mainly by the mining sector—in particular, by the Aurafrique/Axmin project and oil exploration in the north-east of the country—rising to a projected total of CFAF 46 billion in 2012.

A. Fiscal Policy

18. The fiscal policy objectives for 2012–13 are to: (i) initiate the consolidation process by bringing current spending down from 2011 levels, and by achieving a modest increase in revenue; and (ii) strengthen budget execution and public financial management through spending controls and transparent recording of expenditure and domestic revenues with a view to generating a small surplus (0.6 percent of GDP) on the domestic primary balance. We have also set ourselves the further objective of normalizing relations with external creditors.

19. Domestic resource mobilization efforts will be intensified. Domestic revenues are forecast at CFAF 128.1 billion (11.4 percent of GDP), and current primary expenditure at CFAF 105.1 billion (9.4 percent of GDP). Over the remainder of the current year, we are committed to adjusting the composition of expenditure in line with the main components of the budget, as regards both current and capital spending. To safeguard fiscal revenue, we adjusted petroleum product prices in January 2012. However, the level of adjustment was not enough to eliminate the consumer subsidy allocated through the single tax on petroleum products (negative TUPP). We have increased prices on June 1 (prior action) and we plan to adjust petroleum product prices on a monthly basis for effective pass-through of world market prices to pump prices, thus eliminating the negative TUPP and safeguarding projected budget revenues from the taxation of petroleum products. In parallel, we intend to request TA from our TFPs to streamline the price structure further. Correct application of the value added tax (VAT) on petroleum products will be maintained so as to preserve the integrity of the VAT and revenues from the sector. In addition, we plan to implement a targeted support mechanism for the most vulnerable segments of society in order to mitigate the potential adverse effects of a fuel price increase on such groups.

20. To strengthen budget execution, we have prepared an annual cash-flow plan (prior action). This plan, based on the program fiscal targets, is broken down into quarterly and monthly sub-plans to facilitate closer monitoring and the setting of expenditure commitment ceilings consistent with available liquidity. The budget will be executed in conformity with applicable regulatory provisions. As mentioned above (¶ 8), a Liquidity Monitoring Commission (CSL) and technical units as well as a Budget Management Monitoring Committee (CSGB) have been set up to enhance the monitoring of liquidity and fiscal management. The CSGB will hold bimonthly meetings to set ceilings on expenditure commitments. So as to strengthen expenditure prioritization, we are introducing qualitative improvements to simplify the functioning of these entities. These reforms are designed to improve the control, monitoring and level of information on government liabilities vis-à-vis commercial banks. Further, quarterly budget execution reports are now published, in the interest of transparency and disclosure of the government's fiscal policy. In that same vein, we have published the 2012 budget law. The government is also committed to limiting the recourse to exceptional payment to no more than 5 percent of nonwage, noninterest current spending and domestically financed investment for the remaining three quarters of 2012.

B. Capacity and Institution Building Policies

21. There is a vital need to build human and institutional capacities. We are aware that the capacity weaknesses of our administration and of some of our institutions hinder efficient management of the economy and the capacity to absorb resources. To address these issues, we intend to strengthen our cooperation with development partners to enhance the effectiveness of TA resources and improve our operational capacity. As mentioned above, we have put in place a number of committees responsible for budget execution and control, liquidity management, and the monitoring of macroeconomic developments and structural reforms. Although the CSL is already operational, we are

striving to make it more efficient so that it can contribute more effectively to strengthening budget execution and preventing the accumulation of payments arrears, especially by regulating the flow of expenditures upstream through rigorous programming of expenditures at the commitment stage. In that regard, we intend to strengthen the capacity of the technical secretariat of the CSL and the technical unit of the Treasury to ensure better coordination in preparing and executing the cash management plan.

22. We are fully cognizant of the need to capitalize on the TA being provided. To this end, donor coordination is essential and we intend to hold regular meetings to ensure complementarities and avoid duplication. In association with our development partners, we are planning to adopt a policy aimed at supporting experienced senior staff to foster professional stability and harness their skills and knowledge to strengthen our administrative capacity.

23. Absorptive capacity of resource flows needs to be improved. To ensure efficient and transparent execution of projects, we will take steps to (i) prioritize investment programming on a realistic basis; (ii) improve the technical preparation of projects; (iii) enhance the pre-commitment process in the technical departments; (iv) ensure compliance with government procurement rules; and (v) maintain a continuous flow of information on project execution, particularly on financial data, to the Ministry of Finance to facilitate cash flow monitoring.

C. External Sector Policies

24. Despite the improvement in the export performance, which is expected to continue in 2012, the external position remains fragile as evidenced by the persistent current account deficit (6.2 percent by 2014). The aim of our external sector policies is to boost exports so as to raise C.A.R.'s contribution to the central bank's pool of foreign exchange reserves. Given the low level of reserves coverage of imports of goods and services (2.6 months at end-2011), IMF assistance under the ECF arrangement will contribute to a small build up of reserves.

25. We are mindful of the risk of deterioration in the debt indicators, even despite reaching the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative and having benefited from debt relief under the Multilateral Debt Relief Initiative (MDRI) in 2009. We intend to strengthen public debt management and implement a prudent debt policy. The Department of Debt and Equity Participation (DDP) is to be strengthened and called upon to play an effective role in all debt negotiations. On a more general note, we have established a National Committee on Public Debt (CNDP), for which the relevant legislative texts have already been prepared, with responsibility for oversight of long-term debt sustainability. The CNDP will officially become operational in September 2012, following the validation of the legislative texts governing its functioning. We are committed to consulting IMF staff on all new loans that we plan to contract—before signing the loan agreement—so as to ensure compliance with the minimum concessionality requirement of 35 percent.

D. Other Structural Policies

26. ***Financial sector***. The government reaffirms its commitment to finding a strategic shareholder to takeover its equity stake in the CBCA. In the context of the restructuring, pursuant to the recommendations of the joint shareholders' meeting of June 2011 that signed off on the 2010 accounts and agreed to the bank's recapitalization plan, the government has made approximately CFAF 5.5 billion available to the CBCA to temporarily acquire 57 percent of the bank's shares pending the entry of the strategic shareholder. We are committed to continuing our efforts to revitalize and privatize the bank. With a view to completing the process, COBAC recently extended the mandate of the temporary administrator of the bank by three months.

27. ***Public enterprises***. Good management of public enterprises and offices (EOPs) is another of the government's priorities. The transitional measures adopted in January 2012 have made it possible to discover slippages in the financial management of the entities concerned and to take corrective measures. We are planning to restore the bodies of the EOPs to their normal mode of functioning and to impose requirements for their regular reporting and sound management to facilitate the proper exercise of government oversight. Implementation of remedial measures will continue with all parties concerned and with support from the TFPs.

28. ***Good governance and transparency***. The government is determined to strengthen good governance and ensure the efficient use of public resources. In the interest of transparency, we intend to continue the process of bringing all government accounts within the scope of the TSA, in particular, those related to bonus payments in respect of natural resource exploitation, in conformity with the Extractive Industries Transparency Initiative (EITI), and regarding the licensing of mobile telephone companies. In compliance with centralized cash management, we are committed to incorporating any windfall revenues received into the budget. As we begin industrial exploitation of C.A.R.'s mineral resources, we will seek TA to put in place a framework for effectively managing these resources.

29. ***Business environment***. The government will effectively renew the dialogue with the private sector. By June 30, 2012 a framework for a dialogue will be put in place and will, first of all, be entrusted with identifying existing bottlenecks and revitalizing the Standing Consultative Steering Group (CPC) to come up with a set of proposals by December 31, 2012 aimed at improving the business environment. Further, the government has decided to undertake a performance assessment of SODIF, whose activities seem to have strayed somewhat from the terms of its original contract, in order to determine whether that is in fact the case and take the appropriate decisions.

E. Program Monitoring

30. Performance under the program would be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria have been set for end-June and end-December 2012, and indicative targets have been set for end-September 2012 and March 2013 (Table I.1). The prior

actions under the ECF arrangement and the structural benchmarks are described in Table I.2. The first program review would be completed before December 15, 2012, based on end-June 2012 test date, and the second review would be completed before June 15, 2013, based on end-December 2012 test date.

Table I.1. Central African Republic: Quantitative Performance Criteria and Indicative Targets Under the ECF Arrangement, 2012–13

(CFAF billions; cumulative from beginning of the year; ceilings, unless otherwise indicated)

	End-December 2011	End-March 2012	End-June 2012	End-Sept. 2012	End-Dec. 2012	End-March 2013
		Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets[1]
	SM/12/12	Prel.	Program	Program	Program	Program
Performance criteria						
Floor on total domestic government revenue [2]	111.8	32.6	66.6	96.1	128.1	34.5
Floor on domestic primary fiscal balance [3, 4]	-13.6	6.0	6.2	6.0	6.3	4.0
Net domestic financing[5]	20.7	-3.1	-1.2	-2.4	4.3	1.6
New nonconcessional external debt contracted or guaranteed by the government [6, 7]	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of new external payments arrears [7]	…	0.0	0.0	0.0	0.0	0.0
Indicative targets						
Floor on poverty-related spending [8]	…	5.0	12.0	15.0	30.0	7.0
Floor on the reduction in domestic payments arrears[9]	…	0.0	0.0	2.5	5.0	5.0
Ceiling on accumulation of new domestic payment arrears	…	0.0	0.0	0.0	0.0	0.0
Memorandum item:						
Projected grants for budget support	0.0	2.2	2.2	8.4	11.0	5.0

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

[1] Will be firmed up during the first review mission.

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

[3] 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.

[4] The floor will be adjusted downward by 50 percent of any higher-than-programmed grants at the test date.

[5] Net domestic financing covers all bank and nonbank financing, including bonds issued in the regional market. The floor will be adjusted upward by 100 percent in cases of temporary shortfalls in programmed grants (see the TMU).

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

[7] These objectives will be monitored continuously.

[8] Total spending on health, education, rural development, and social affairs, including wages and salaries, goods and services, and capital expenditure.

[9] The floor will be adjusted upward by 50 percent of any higher-than-programmed grants at the test date.

Table I.2. Central African Republic: Prior Actions and Structural Benchmarks, 2012–13

Measures	Timeline	Macroeconomic Rationale
Public Financial Management		
Prepare an annual cash flow plan with a monthly breakdown taking into account the fiscal targets included in the 2012 program and the budget law for each year of the program.	Prior action (done). Annual structural benchmark (SB)	Strengthen budget execution.
Adopt a credible plan to clear the audited stock of domestic payments arrears with transparent criteria communicated to all parties concerned.	March 2013.	Restore confidence in the government's signature and reduce total domestic debt.
Limit recourse to exceptional payment procedures for current expenditure, excluding wages and finance charges, for the three remaining quarters of 2012 to 5 percent at most.	Quarterly (SB)	Improve compliance with established budget procedures.
Report monthly execution data regarding externally-financed capital expenditure to the Ministry of Finance.	September 2012, and monthly thereafter	Include capital expenditure in the budget reporting system.
Create a mechanism for data sharing between the Treasury and Budget Directorate so as to facilitate the preparation of complete, detailed budget execution reports.	July 2012	Strengthen the transparency, timeliness, and accuracy of budget reports and create the conditions for effective liquidity management.
Revenue administration and tax policy		
Make the pilot taxation site for medium-sized enterprises functional.	End-June 2013 (SB)	Broaden the tax base and improve the efficiency of the tax system.
Update and secure the single taxpayer identification number (TIN, tax and customs administrations).	End-March 2013 (SB)	Improve taxpayer identification and strengthen tax compliance.
Adjust petroleum product prices in full conformity with the 2011 automatic price setting formula and regularly apply the formula.	Prior action (done). Monthly (SB)	Insulate the budget from the risk of fluctuation in petroleum product prices; create the fiscal space needed to mitigate the social impact of change in petroleum product prices.
Debt management		
Adopt all the legislative texts governing the functioning of the National Public Debt Committee (CNDP) to ensure rigorous monitoring of government borrowing, the issuance of government securities, and loan guarantees.	End-September 2012 (SB)	Strengthen the capacity for active debt management and monitoring of debt sustainability based on the outcome of the Evaluation of the Debt Management Plan.
Management of natural resource		
Review current mining legislation and align it with international best practice.	End-September 2013 (SB)	Strengthen natural resource management and maximize benefit to the population.

ATTACHMENT II

TRANSLATED FROM FRENCH

CENTRAL AFRICAN REPUBLIC

TECHNICAL MEMORANDUM OF UNDERSTANDING

Bangui, June 11, 2012

I. INTRODUCTION

1. This Technical Memorandum of Understanding (TMU) defines the performance criteria for the first year of the program supported by the Extended Credit Facility (ECF) arrangement (from June 25, 2012 to June 24, 2013). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes. Unless otherwise indicated, all the performance criteria and indicative targets will be assessed on the basis of cumulative flows from the beginning of the year.

II. PROGRAM ASSUMPTIONS

2. **Program exchange rates**. 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 program exchange rates. The key exchange rates are shown below.[1]

CFAF/US$	506.96
CFAF/euro	655.96
CFAF/SDR	778.32

3. **Oil price assumption**. The program assumes an average price of a barrel of oil of US$114 in 2012.[2]

[1] Exchange rates as of December 31, 2011.

[2] April 2012 WEO.

III. Definitions

4. Unless otherwise indicated, the government is understood to mean the central government of the 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'Etat*—TOFE).

5. **Definition of debt**. The definition of debt is set out in point 9 of Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended on August 31, 2009 by decision No. 14416-(09/91) of the Executive Board:

(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) **"Domestic debt"** is defined as debt denominated in CFA francs unless it is contracted with another member state of the Central African Economic and Monetary Community (CEMAC).

(d) **"External debt"** is defined as debt denominated in a currency other than the CFA franc and debt contracted with another member state of the CEMAC.

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 concessional if it includes a grant element of at least 35 percent,[3] the grant element of a debt being the difference between the present value of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The present value of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[4] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs) for each currency as published by the Organization for Economic Cooperation and Development (OECD).[5] For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the present value of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for repayment periods of 15 years to 19 years, 1.15 percent for repayment periods of 20 years to 29 years, and 1.25 percent for repayment periods of 30 years or more).

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[3] The following link to the IMF website leads to a tool for the calculation of the grant element for a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[4] The calculation of concessionality takes account of all aspects of the loan contract, including the maturity, the grace period, the schedule, the commitment fees, and the management costs.

[5] In the case of loans denominated in foreign currencies for which the OECD does not calculate the CIRR, calculation of the grant element must be based on the composite CIRR (weighted average) for the currencies included in the SDR.

IV. Performance Criteria and Quantitative Benchmarks

A. Performance Criteria

Floor for total domestic revenue of the government

8. **Domestic revenue of the government** includes the revenues shown in the TOFE, specifically tax and nontax revenue, earmarked revenue, checks for project-related customs duties, and withholdings from the wages and salaries of government employees, and excludes foreign grants and the proceeds of privatizations or government divestments. The performance criterion (PC) on government domestic revenue will be set at CFAF 66.6 billion and CFAF 128.1 billion as of end-June and end-December 2012, respectively. The indicative targets (ITs) for end-September 2012 and end-March 2013 will be CFAF 96.1 and 34.5 billion, respectively.

Floor for the domestic primary fiscal balance

9. **The domestic primary fiscal balance,** on a commitment basis, is defined as the difference between domestic revenue and expenditure of the government, excluding interest payments and externally financed capital expenditure. The PC on the domestic primary fiscal balance will be set at CFAF 6.2 billion and CFAF 6.3 billion at end-June and end-December 2012, respectively. The QB for end-September 2012 and end-March 2013 will be CFAF 6.0 and 4.0 billion, respectively.

Adjuster. If external budgetary grants received exceed the program forecasts as of the date of assessment, the floor for the primary fiscal balance will be adjusted downward by the equivalent of 50 percent of the excess grants.

Ceiling on net domestic financing of the government

10. Net domestic financing of the government is defined as the sum of: (i) the net government position vis-à-vis the banking system as defined below; (ii) the amount of issues of government securities (net of redemptions) subscribed by individuals or legal entities outside the banking system or nonresident banks domiciled in the CEMAC; and (iii) privatization proceeds or exceptional revenue recorded "above the line."

11. The net government position is defined as the balance between the debts and claims of the government vis-à-vis the central bank and commercial banks. The scope of the net government position is that used by the Bank of Central African States (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 the TMU (¶ 4) and includes local governments and some projects and administrative public entities. Government claims include the CFA franc cash

balance, postal checking accounts, customs duty bills, and all deposits with the BEAC and commercial banks of public entities with the exception of industrial or commercial public entities (EPICs) and government corporations, which are excluded from the calculation. The government debt to the banking system includes all debts vis-à-vis these same financial institutions.

Adjuster. If external budgetary grants received are below program forecasts or temporarily delayed, the ceiling on net domestic financing of the government will be adjusted upward by 100 percent of the grant shortfall. A grant is deemed to be temporarily delayed if the payment of said grant takes place later in the fiscal year during which it is programmed.

Ceiling on nonconcessional external debt contracted or guaranteed by the government

12. This PC applies not only to debt as defined in the TMU (¶5), but also to liabilities contracted or guaranteed by the government (including lease-purchase contracts) for which no funds have been received. This PC also applies to private debt guaranteed by the government, which constitutes a contingent liability for the government. As indicated in paragraph 5 of the TMU, external debt excludes bonds and treasury bills denominated in CFA francs issued on the CEMAC regional market. Nonconcessional debt is debt other than concessional debt defined in paragraph 7. This PC applies here and also applies to short-term debts (with an initial maturity of one year or less) and to medium- and long-term debts (with an initial maturity of more than one year). This PC applies on a continuous basis. Normal import-related credits are excluded from this PC. “Normal import-related credit” is understood to be self-liquidating credit where the proceeds from sales of imports are used to retire the debt.

13. The term "government" used for purposes of this performance criterion and for the performance criterion on short-term external debt newly contracted or guaranteed by the government includes the government as defined in paragraph 4 of the TMU, local governments, and all public enterprises, including administrative public entities (EPA), scientific and technical public entities, professional public entities, and entities jointly owned by the government of the C.A.R. with the government(s) of another country or countries.

14. No nonconcessional loans will be contracted or guaranteed by the government. During program reviews (after approval by the Executive Board of the IMF), changes may be made to the ceiling for specific investment projects, the financial viability and profitability of which have been evaluated and approved by the World Bank or the African Development Bank, and on condition that the loan does not significantly exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the World Bank and the IMF.

15. The government also undertakes not to contract or guarantee any external loans during the program implementation period without first having determined their concessionality with IMF staff.

Non-accumulation of new external payment arrears by the government

16. External payment arrears are defined as payments in respect of the external debt of the government or guaranteed by the government that are due and not paid by the government at the maturity specified in the contract. The definitions of debt and external debt indicated in paragraph 5 and of government indicated in paragraph 4 apply here.

17. 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 performance criterion applies on a continuous basis.

B. Indicative Targets

Floor for priority poverty reduction expenditures

18. Priority poverty reduction expenditures are defined as the sum of expenditures by the Ministry of Social Affairs, National Solidarity and the Family; the Ministry of National Education, Higher Education and Research; and the Ministry of Public Health, Population and AIDS Prevention, including expenditures for the year under way and repayment of arrears for these sectors. They exclude capital expenditures financed by external technical and financial partners in the form of projects.

Floor for the reduction of domestic payments arrears of the government

19. The reduction of domestic payments arrears measures the change in the total stock of arrears during the program period. Domestic payments arrears are defined as domestic payments due and not paid by the government after a 90-day grace period, unless the terms and conditions for settlement specify a longer grace period. The DDP and Treasury record and update the data concerning the accumulation of domestic payments arrears and their reduction. The definitions of debt and domestic debt specified in paragraph 5 and of government specified in paragraph 4 apply here. The stock of domestic payments arrears was CFAF 123 billion as of end-December 2011; this amount will be the subject of an audit conducted with EU support.

Adjuster. If external budgetary grants received are higher than program forecasts as of the date of assessment, the floor for the reduction of domestic payments arrears will be adjusted upward by the equivalent of 50 percent of the excess grants.

Non-accumulation of new domestic payment arrears by the government

20. The government undertakes not to accumulate domestic payment arrears as defined in ¶19. This PC applies on a continuous basis.

V. PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

A. Prior Actions

Annual cash-flow plan broken down by month (also SB)

21. The annual cash-flow plan approved on April 30, 2012 is based on the TOFE for the 2012 program, broken down by quarter and by month. It establishes the cash flow programming for the government by including all elements affecting the government's cash flow, including, in particular, anticipated revenue and revenue forecast in the budget in accordance with the 2012 program objectives. According to the provisions governing the monitoring agencies established by the government, the monthly plans will be used by the Budget Management Monitoring Committee (CSGB) to set ceilings on commitments during its bimonthly meetings; the reports of the CSGB will be shared with IMF staff for regular follow-up.

Adjustments in domestic petroleum prices

22. The government adjusted domestic petroleum prices in June 2012 and undertakes to adjust prices monthly (¶ 29).

B. Structural Benchmarks

Plan for the clearance of domestic payments arrears

23. Following the EU audit of domestic payments arrears, the government will adopt a plan for clearing these arrears, including clearly defined repayment conditions and transparent criteria communicated to all parties concerned.

Ceiling on the use of exceptional procedures

24. Exceptional procedures are understood to mean recourse to cash payment orders (OP–Caisse) and budgetary payment orders (OP–Budget) in the execution of the government budget. The ceiling on recourse to these exceptional procedures during the period April to December 2012 will be set at CFAF 2.8 billion, or 5 percent of total expenditures, excluding wages, finance charges, and externally-financed investments during the last three quarters of 2012. This SB will be monitored quarterly.

Data reporting on execution of the capital budget

25. Data on the execution of the capital budget must be reported to the Ministry of Finance and Budget by the beginning of June 2012 and monthly thereafter. These data will be shared with IMF staff for follow up.

Data sharing mechanism

26. A mechanism for data sharing between the Treasury and the DGB will be set up to facilitate the preparation of complete, detailed reports on budget execution by June 2012, which will be communicated to IMF staff.

Pilot taxation center for medium-sized enterprises

27. The government undertakes to provide the necessary resources to make the pilot taxation center for medium-sized enterprises operational by June 2013.

Single taxpayer identification number

28. The single identification number is the number common to customs and taxation for purposes of crosschecking of the data of these two administrations. It should be made more reliable and secure by the introduction of a lockout system.

Use of the automatic price-setting formula for petroleum products

29. The automatic retail price-setting formula for petroleum products should be applied monthly for full pass-through of changes in international oil prices and all costs in the price structure approved in 2008, including customs duties, the specific tax on petroleum products (TSPP), VAT at the normal rate, the single tax on petroleum products (TUPP), and distribution margins so as to avoid any subsidies (negative TUPP or government support for the sector). The periodic monthly adjustments will regularly reflect changes in international oil prices and protect forecasts of revenues expected from the taxation of petroleum products included in the 2012 budget law amounting to a total of CFAF 17.9 billion.

Adoption of legislative texts governing the operation of the CNDP

30. By September 30, 2012, the government will have validated all laws and regulations governing the operation of the CNDP in order to make it fully operational.

Framework for natural resource management

31. The government will review the existing legislation (mining code) and align it with international best practice.

VI. Data Reporting to the IMF

32. Quantitative data on the PCs and other indicative targets will be reported to the IMF staff in accordance with the schedule set out in Table I.3. In addition, any changes to the data will be reported as soon as possible. The government undertakes to consult the IMF staff on any information or data not specifically discussed in this TMU that are relevant for the assessment and monitoring of the attainment of the program objectives.

Table I.3. Central African Republic—Data Reporting to the IMF under the ECF Arrangement

Description of data	Deadline
Quarterly report assessing the quantitative indicators and structural measures (relating, in particular, to the structural benchmarks; see Table 2 of the MEFP), along with supporting documentation.	Within four weeks after the end of each quarter.
Monetary survey, monthly accounts of the central bank and commercial banks.	Within four weeks after the end of each month.
Table of monthly cash flow operations.	Within 10 days after the end of each month.
Fiscal reporting table (TOFE).	Within four weeks after the end of each month.
Monthly total of domestic payments arrears on goods and services and wages, including unpaid pensions and bonuses.	Within four weeks after the end of each month.
End-of-period stock of external debt.	Within four weeks after the end of each month.
Breakdown of expenditure included in the TOFE (goods and services, wages, interest, etc.).	Within four weeks after the end of each quarter.
Summary table of real expenditure in the priority sectors, specifically health, education and security.	Within four weeks after the end of each quarter.
Breakdown of current and capital expenditure, both domestically and externally financed.	Within four weeks after the end of each quarter.
Breakdown of revenue by institution and economic classification.	Within four weeks after the end of each quarter.
Revenue and expenditure offset against each other without cash settlements (by type of expenditure and revenue).	Within four weeks after the end of each quarter.
Breakdown of debt service and external arrears, in particular by interest and principal and by main creditors.	Within four weeks after the end of each month.
Amount of new concessional and nonconcessional external debt contracted or guaranteed by the government.	Within four weeks after the end of each month.
Actual disbursements for projects and programs benefiting from foreign financial aid and external debt relief granted by external creditors (including the date, amount and creditor).	Within four weeks after the end of each quarter