International Monetary Fund

Central African Republic and the IMF

Press Release:
IMF Executive Board Approves US$12.9 Million Disbursement Under the Rapid Credit Facility for the Central African Republic
May 15, 2014

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

May 1, 2014

Letter of Intent

Bangui, May 1, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Madame Managing Director,

On June 25, 2012, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) in the amount of SDR 41.78 million in support of a reform program aimed at maintaining macroeconomic stability, laying a foundation for sustainable economic growth, and reducing poverty.

Since then, Central African Republic (C.A.R.) has faced many shocks. One such political shock emerged in December 2012 when a coalition of armed rebel groups (Seleka), headed by Mr. Djotodia, took control of a large part of the country. This led to the signing of the Libreville Agreements, but noncompliance with their terms resulted in the resumption of hostilities and the ousting of President Bozizé on March 24, 2013. Seleka's takeover sparked a security shock that plunged the country into a spiral of violence and intercommunity conflict. The widespread insecurity, looting, and destruction of administrative and economic infrastructures paralyzed the machinery of government and led to the mass displacement of 1 million people, a quarter of the population of C.A.R. This paved the way for an unprecedented humanitarian crisis.

Owing to these multiple shocks, slippages occurred under the ECF-supported program and our medium-term growth and poverty reduction strategy for 2011–15 became obsolete.

Confronted with these challenges, the new C.A.R. transitional government, which took over after Mr. Djotodia was forced out under international pressure, adopted a revised roadmap that was submitted to the Transitional National Council (Conseil National de Transition) after being approved by the implementing committee for the Libreville Agreements and the International Contact Group. On the basis of this roadmap, we refocused our priorities in the Emergency Program for Sustainable Recovery (Programme d'Urgence pour le Relèvement Durable – PURD) of C.A.R. In keeping with the roadmap and the PURD, we prepared a priority action plan.

In this context, we have decided to inform the IMF of our decision to cancel the ECF-supported program with immediate effect and to request a disbursement of SDR 8.355 million under the Rapid Credit Facility (RCF) upon Board approval to meet the urgent balance of payments need in 2014. A second RCF of SDR 5,570 million would be requested before the end of the year, conditional upon the presence of continued balance of payments needs and satisfactory implementation of the needs this RCF.

The attached Memorandum of Economic and Financial Policies (MEFP) describe the economic and financial situation in 2013. It also outlines the economic and financial policies C.A.R. transitional government plans to implement in 2014. The purpose is to address the people's urgent needs and to put in place a fiscal policy designed to restore stability and improve public financial management (PFM).

The transitional government believes that the measures and policies set forth in the attached MEFP are appropriate for attaining its program objectives, but is ready to take any additional measures that might be necessary. C.A.R. will consult with IMF staff on the adoption of such measures, and especially in advance of revisions to the policies contained in the attached MEFP, in accordance with the IMF's policies on such consultations. We will provide the IMF with such information as the IMF may request to be able to assess the progress made in implementing the economic and financial policies and achieving the objectives of the program. During the program period, we will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payment purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF Articles of Agreement.

In the event of a chronic deficit in the balance of payments, and driven by our determination to attain the program objectives under the MEFP, we plan to request additional assistance under the RCF, backed by new macroeconomic and PFM commitments. In so doing, we want to make it clear to our development partners that we are committed to continuing to implement sound policies until such time as the conditions for requesting financial support under the ECF have been met.

We intend to publish the IMF staff report, including this letter, the MEFP, the TMU, and the debt sustainability analysis document. We therefore authorize IMF staff to post these documents on the IMF's external website once the Executive Board approves the RCF.

Sincerely yours,

Minister of Finance and Budget	Prime Minister, Head of the Transitional Government
/s/	/s/
Remy Yakoro	André Nzapayeke

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum on Economic and Financial Policies, 2014

1. This memorandum describes the economic and financial policies supported by the Rapid Credit Facility (RCF) that the transitional government of Central African Republic (C.A.R.) plans to implement in 2014. These policies are in line with the emergency program established for the period 2014–16.

CONTEXT

2. The country is facing an exceptionally severe crisis with a profound, lasting economic impact. The crisis, which has gripped C.A.R. since December 2012 and more specifically as of March 24, 2013, and its worsening in December 2013, affects the country at all levels—political, security, social, humanitarian, and economic. The crisis has touched every corner of the nation and has led to thousands of deaths, both in Bangui and in the provinces. Nearly a quarter of C.A.R. population has been displaced, paralyzing the main sectors of the domestic economy. The agricultural sector, which accounts for close to half of GDP and employs up to 80 percent of the workforce, has suffered deep blows to its subsistence component, threatening to plunge a quarter of C.A.R. population into a food crisis in 2014.

3. Security risks remain pervasive. The French-led Operation Sangaris and a stronger MISCA (African-led International Support Mission in C.A.R.) contingent have thus far failed to restore peace and security to the country, even though a relative calm has descended on the region in recent months. The situation continues to be very fragile and unpredictable. Ongoing violence and insecurity are slowing the long-overdue end to the crisis.

4. An emergency economic program is in place to address the country’s daunting challenges. The new Central African authorities (established in January 2014) adopted the Emergency Program for Sustainable Recovery of C.A.R. (Programme d’Urgence pour le Relèvement Durable – PURD-RCA) for the period 2014–16. This Program is in line with the Revised Transition Roadmap (Feuille de Route Révisée de la Transition) and aims to secure community protection and ensure the country’s recovery during the transition phase. It is also aligned with the broad guidelines established for the transitional authorities by the Heads of State of the Economic Community of Central African States (ECCAS) to meet the urgent needs of the country’s people, restore peace and security, achieve greater economic stability, and revive economic growth. It also provides for the involvement of new players in the process of disarmament, demobilization, resettlement, reintegration, and

repatriation (DDRRR), necessitated by the events that occurred in December 2013. In the lead-up to the elections slated for February 2015, restoring security during the remaining phase of the transition is a necessity and priority for the new authorities, critical to bringing back the nation's people and reinvigorating economic activity in C.A.R.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENT AND PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

Recent Economic Developments

5. Deterioration in the security situation and the political and social unrest weighed heavily on the country's economic, financial, and administrative position in 2013. As a result, economic growth declined 36 percent in real terms, while exports slumped 44 percent in dollar terms. Imports were also down 27.1 percent in dollar terms. With grants falling 15 percent, the balance of payments current account deficit nearly doubled from 5.6 percent of GDP in 2012 to 10.4 percent of GDP in 2013. With respect to the budget, tax revenues dropped 63.5 percent, while current primary expenditure was down just 10 percent due in large part to higher security spending. Consequently, the domestic primary deficit was 6.8 percent of GDP compared to a surplus of 0.5 percent in 2012. Deteriorating public finances led to an accumulation of domestic payment arrears (2.3 percent of GDP), notably 5 months of wages and salaries at end February 2014. The consumer price index averaged 6.6 percent, twice the inflation rate over the four years preceding the conflict. The conflict led to the destruction of infrastructure and businesses and paralyzed the government and its operations, reducing the potential for economic growth. Public financial management (PFM) channels were also paralyzed and damaged.

Performance under the ECF-Supported Program

6. The ECF-supported program was derailed by the multifaceted crisis that gripped the country as of March 2013. Discussions and papers on the first review were finalized, but the Executive Board could not take the authorities' request into consideration given the events that shook the country. Continuation of the program was hampered by the worsening of the crisis, particularly in the latter part of 2013.

PROGRAM FOR 2014

Implementation of an Emergency Macroeconomic Framework

7. The economic outlook for 2014 is expected to remain subdued. The security situation is expected to improve and movement of goods should resume, particularly via the customs corridor, which is a pass-through for close to half of imports from Cameroon. That coupled with political stability and the gradual return of the displaced populations, some of which will resume their pastoral, agricultural, and commercial activities, could bring economic recovery. It is therefore expected that (i) economic growth will reach 1.5 percent in real terms, owing mainly to the opening of the cotton ginning plant in Bossangoa, the lifting of the embargo on diamond exports, and the return of government operations across the country; (ii) the consumer price index will increase by 4.4 percent on average, compared to 6.6 percent in 2013, due to improved distribution of international aid, a larger supply of local goods, and the re-opening of economic channels; (iii) the primary deficit is projected to reach 7.6 percent of GDP, compared to 6.8 percent in 2013; and (iv) the balance of payments current account deficit will be capped at 14.1 percent of GDP.

A Public Finance Program to Address the Most Pressing Concerns in 2014

8. Our first concern is to restore the government's key functions and secure public finances with support from the international community. In so doing, we can reassure partners that we are committed to promptly regaining our capability to cover our primary expenditure and ensure proper use of public resources. To that end, we have prepared an emergency public finance plan based on the following priorities: (i) improve tax revenue performance; (ii) secure revenues; (iii) enhance cash flow management and monitoring to ensure greater control over revenue and expenditure; and (iv) set up the Central Accounting Agency of the Treasury (Agence Comptable Centrale du Trésor – ACCT) as the key institution charged with managing cash flow and ensuring that resource flows and expenditures have an audit trail.

9. Improved revenue performance is a major challenge for the transitional government. With a tax revenue rate of 5.2 percent of GDP in 2013, C.A.R. ranked lowest in the world in 2013 in terms of tax revenue collection. This is partly due to the country's deteriorating security situation since March 2013, which resulted in: (i) looting and complete disruption of government revenue entities; (ii) the government's inability to normally perform its regulatory activities (loss of control over the clearance process and difficulty for the Directorate General of Taxation to monitor filing of returns and oversee domestic taxation); and (iii) impact on economic operators (looting, destruction of tools of production, and drop in activity).

10. To rise to this challenge without compromising current and future revenue, the transitional government is committed to taking emergency measures with respect to the following central structures:

- Directorate General of Taxes and Government Property: (i) remove from the 2014 draft budget all references to post-conflict special investment incentives (mesures spéciales incitatives à l'investissement pendant la période post-conflit) pending an evaluation of this instrument by the IMF Fiscal Affairs Department; (ii) strengthen monitoring of the filing of returns by taxpayers; (iii) improve control over taxes on flows, particularly the VAT, by making it the focus of fiscal control operations; and (iv) limit exemptions strictly within the framework of the Law.

- Directorate General of Customs and Domestic Tariffs: (i) regain control of the customs clearance process with the support of international forces throughout the country; (ii) maintain, in the immediate future, the single customs clearance window (guichet unique) in Douala for goods transiting through Cameroon by regularly rotating staff; (iii) step up post-clearance audits and actions to combat fraud; and (iv) implement stricter monitoring of exemptions by increasing controls of destinations.

- Safeguarding of tax revenue addresses an old concern that has become more sharply felt in the context of the current crisis. The transitional government plans to improve the traceability of revenue paid back into the Treasury Single Account (TSA) through tax revenue repaid by the banks. In so doing, it will: (i) implement, in a timely manner, the recommendations issued in the two technical assistance reports on improved cash flow management, financed by the European Union; (ii) not sign any new agreements relating to debt, debt buybacks, or securitization with commercial banks; (iii) review all existing agreements binding the government and commercial banks (by identifying in its accounting entries all claims that have already been posted in the system); (iv) improve monitoring of taxes paid by taxpayers by placing personnel inside banks who would be responsible for tracking, in close detail and for each taxpayer, all taxes paid in order to reconcile them with the revenue paid back into the TSA pending the implementation of the GESCO taxation software; and (v) regularly monitor the status of reconciliations between agencies, commercial banks, and the Treasury.

11. Development and management of a monthly cash flow plan, as well as compliance with it, will improve financial resource allocation. The transitional government knows that more than two thirds of revenue required for execution of the 2014 budget (CFAF 80.9 billion out of a total of CFAF 107.8 billion in current primary expenditure) will come from external financing. Aware of the uniqueness of the situation and in the interest of transparency to reassure its partners, the transitional government created two committees: (i) the Treasury Committee (Comité de trésorerie – CT) entrusted with setting priorities and monitoring cash flow management on a monthly basis; and (ii) the PFM and Oversight Committee (Comité de suivi et de gestion des finances publiques – CSGFP) tasked with monitoring, on a quarterly or more frequent basis if necessary, the use of all public resources and the proper implementation of the cash flow plan. Adoption of legislation establishing the CT and the CSGFP and its effective implementation are prerequisites to submission of the IMF staff report to the IMF Executive Board. To facilitate the work of these two committees, a cash flow plan was developed by the transitional government and signed by the Minister of Finance for all of 2014, stating the monthly revenue and expenditure targets in order of priority. As the cash flow plan is implemented, it will track all the resources received and disbursements made on a cash basis. As a complement to this plan, the transitional government undertakes to provide detailed statements of income, expenditure, and all cash flow so that reconciliation with flows posted in the TSA at the BEAC can take place.

12. The creation of the ACCT will secure cash flow and strengthen accounting oversight. The ACCT was officially created on December 30, 2012, during a revision of the decree establishing the DGTCP, but has yet to be put in place. The purpose of this reform is to provide better coverage of and give greater autonomy to the two areas of responsibility currently held by the Director General of the Treasury: (i) cash flow, and (ii) government accountability. Integration of the ACCT within the DGTCP, an autonomous structure, the head of which would have senior accounting officer status, should rationalize the following operations within these two areas of responsibility: (i) management, safeguarding, centralization, and oversight of government cash flow; and (ii) monitoring and consolidation of accounting operations. To confirm its commitment to put in place the ACCT, the transitional government will recruit a Central Accounting Officer of the Treasury and his deputy by end September 2014 (**structural benchmark**). This will be one of the three structural benchmarks for monitoring the execution of the RCF.

13. The transitional government has undertaken to modernize government personnel and wage management and to further pursue the civil service reform, which has lagged behind since the adoption of the new civil service regulations in 2009. As part of the implementation of the urgent plan to restore public services supported by the World Bank, and with the assistance of the UNDP,

we will proceed with updating the government personnel roster and prepare a report to inform the IMF, including the defense and security forces, in order to streamline the civil servant payroll roster. At end-June 2014, an initial clean-up of the roster and a report to the IMF (**end-June structural benchmark**) will make it possible to make payments to civil servants in accordance with regulations. These employees will have first needed to produce a certificate of attendance, checked and certified by a joint committee comprising the relevant government staff in charge of this operation. Once the roster has been cleaned up, staff not in good standing will have the opportunity to justify their situation, and all contentious cases will be carefully examined by the appropriate civil service officials. The government intends to secure the databases and implement adequate procedures for managing civil servant positions and careers, from payroll to retirement. An interface will then be created to provide a link to the PFM system. The transitional government will, by end-2014 and with support from partners, ensures strict, prudent management of recruitment to fill positions in priority sectors using the salary scale in place. Moreover, authorities will need to clarify the situation of non-statutory staff (Hors Statuts). In keeping with this strict management, the authorities should attract talent with qualifications specific to C.A.R.'s situation, including from among the diaspora. Current recruitment and management of non statutory staff led to an all-out hiring effort, to such an extent that the increase in workforce is no longer consistent with the expenditure control sought by the authorities.

14. A technical assistance (TA) program will help the authorities complete the emergency plan. The authorities began soliciting partners to mobilize short-and medium-term TA so that the emergency plan could be completed in the various areas concerned. This assistance has for the most part already been identified and the dates set. Two long term TA providers will be made available during the second half of the year by the European Union for the ACCT and Directorate General of Budget, respectively, to support the implementation of the ACCT and the return to fiscal discipline. The World Bank intends to lend to the transitional authorities two TA providers for customs and tax revenue collection agencies, respectively, and will provide other technical support to the Directorate General of Civil Service. Lastly, a number of short-term TA missions are also planned by the World Bank, the European Union, the French development agency (Coopération française), and the AfDB, which agreed with the authorities on a restructuring of the institutional support project on public finances underway with a view to providing urgent assistance to financial administrations (Project to Build Economic and Financial Management Capacity (PARGEF in French). Monthly updates will be provided to assess the implementation of this TA and the progress made in achieving the set objectives.

2015 Fiscal Program Milestones

15. In respect of the framework we are gradually putting in place to end the crisis, the 2015 budget year will be a transitional one as efforts to stabilize our public finances continue. The 2015 budget should bring us out of the crisis and into a normal state. In a context of enhancing security and restoring the government's basic functions, economic growth is expected to continue to edge up progressively to about at least 5 percent in real terms, and will likely continue to be driven by agriculture and services. Inflation is expected to be further contained at around 4 percent. As regards government finance, the budget outline being prepared shows an improvement in the collection of revenue, which is expected to reach 12.6 percent of GDP. This increase will likely be due primarily to the favorable performance of tax on revenue and international trade. Current primary expenditure is expected to drop to 11.2 percent of GDP owing to a lower payroll (clean-up of the civil servant and wage roster, and streamlined recruitment), transfers, and goods and services. This effort to control current expenditure should free up additional resources in order to raise domestically financed capital spending by 0.2 percentage point of GDP compared to 2014. Consequently, the domestic primary deficit is expected to decline from 7.6 percent of GDP in 2014 to 3.2 percent of GDP, generating a financing gap of CFAF 56.4 billion, equivalent to 6.4 percent of GDP.

Medium-term Reforms and a Return to Fiscal Discipline

16. The transitional government wants to reinstate normal budget procedures as soon as possible. The transitional government recognizes that exceptional procedures for executing expenditure charged to the treasury (cash payment orders and budgetary payment orders) are widely used for: (i) expenditure on goods and services, and (ii) transfers and subsidies. This situation, a departure from normal budget procedures for expenditure execution (commitment, validation, payment authorization, and payment), seriously limits the usefulness of the budget and prevents normal ex ante expenditure control as well as pre payment accounting control. This in turn greatly heightens fiduciary risk, alters the traceability of expenditure, and affects the capability of the authorizing officer and accountant to be able to report accordingly. The quality of the budget procedure is not responsible for the fact that the procedure is circumvented. Many expert reports show that the difficulties arise when expenditure is committed without reference to the fiscal framework. Accordingly, the transitional government will reinstate normal budget procedures by limiting to 7 percent the amount of expenditure executed by way of the exceptional procedure (budgetary payment order). Such spending includes missions, transportation, health-related evacuations, student travel, and repatriations of diplomats and mortal remains.

17. To help reinstate normal budget procedures, the transitional government will reconnect the GESCO-Budget and GESCO-comptabilité applications during the second half of the year. The break in the Budget/Treasury chain due to looting and the disconnection of the respective computer applications arising from it (GESCO-Budget/GESCO-comptabilité) prevents reconciliation of fiscal and accounting data from a technical standpoint. Noting that this problem interferes with proper budget execution, the transitional government wants to, first and foremost, reconnect GESCO-Budget/GESCO-comptabilité and undertakes, with support from partners, to have them back up by end-September 2014 (**structural benchmark**).

18. The transitional government recognizes that the conditions for collecting petroleum taxes will need to be redefined. The transitional government will seek support from partners to entrust an international audit firm with reconstructing all the cross-debt between the government and petroleum sector operators. TA will be available from the IMF so that the petroleum product price structure may be revised.

19. Collection of fiscal revenue must also be reviewed in relation to gold, diamonds, mobile telephony, and forestry products. The transitional government wants to improve monitoring of all revenue generated by these sectors. It undertook to produce, starting in January 2014, a monthly detailed statistical overview of all tax and nontax revenues received for these three sectors.

Social Component

20. As of 2014, social sectors are one of the top priorities for the authorities. The budget provides for CFAF 43 billion, including CFAF 6.5 billion in current expenditure. A total of CFAF 26 billion is slated for health, including CFAF 4 billion for current expenditure to combat malaria, strengthen the Expanded Program on Immunization (EPI), expand prevention of parent-to-child transmission (PPTCT), and provide overall services to people living with HIV (PLHIV) to mitigate the impact. Appropriations for current expenditure and capital with respect to education amount to CFAF 3.9 billion. Focus will be placed on capacity building in preschool education, basic education 1, basic education 2, secondary education, and technical and vocational training. The amount provided for water and sanitation spending is CFAF 12.9 billion, including CFAF 2 billion for current expenditure, to enhance national management and planning capabilities, and to build and rehabilitate drinking water supply and sanitation structures. Support to vulnerable groups, particularly women and children, for community development is also programmed.

Other Structural Reforms

21. The primary concern is to reassure and instill confidence in economic operators so that business can resume. In this context, the transitional authorities will conduct a joint evaluation of the damages sustained by public and private enterprises, and to put in place support measures for those that have been affected. Moreover, the transitional government will take steps in the short term to facilitate the return of displaced individuals, notably traders and farmers. In the same vein, it is crucial to inject renewed impetus into the joint committee responsible for improving the business climate and into the permanent framework for government-private sector cooperation. The reforms to be put in place in the medium term include: (i) lowering the cost of credit and providing access to financing; (ii) strengthening the judicial governance framework; (iii) revising the investment charter; and (iv) building the capacities of consular chambers.

22. Strengthening governance is also a key aspect of the structural reforms aimed at promoting private-sector activity. In this context, the authorities are considering issuing implementing decrees that would give legal standing to the National Authority for Combating Corruption (Autorité Nationale de Lutte contre la Corruption – ANLC). Together with donors, the authorities will mobilize the human and physical resources necessary to jumpstart the ANLC's operations by the end of the year.

Sustainable Debt Policy

23. The external debt sustainability (EDS) analysis recently conducted by IMF and World Bank staff found that the situation has deteriorated considerably. This deterioration is associated with the political crisis that led to the collapse of economic activity, a significant drop in exports, and slow economic recovery. Moreover, loans were contracted during the months of crisis to cover the payment of wages as well as fiscal and external financing needs.

24. The low levels of debt inherited from the 2009 debt relief created conditions favorable to better external debt management, but the political crisis has had an adverse effect. Thus, the worsening of the external debt-to-export and debt service to export ratios exposes the country to a high risk of debt distress, including in the baseline scenario. However, a turnaround is possible as soon as the country's economic growth, exports, and foreign direct investment resume. These two ratios would then return to sustainable levels.

25. In the meantime, the transitional government undertakes to conduct a prudent debt policy. We are committed to meeting the bulk of our financing needs through grants and the rest through concessional loans with a grant element of at least 35 percent (continuous benchmark, Table 1).

Program Monitoring

26. The program will be monitored using quantitative indicators and structural benchmarks. The indicators will be used to assess progress in economic and financial performance at June 30, September 30, and December 31, 2014 (Table I.1.). The structural benchmarks will lay a solid foundation for the macroeconomic policies and will be conducive to preparing for exit from the emergency phase. The indicators and benchmarks are defined in the Technical Memorandum of Understanding (TMU), which also sets out the nature and frequency of data to be provided for program monitoring.

27. An institutional framework adapted to the program's implementation is in place. The Interministerial Steering Committee on Economic and Financial Reforms (Comité Interministériel de Pilotage des Réformes Economiques et Financières – CIPREF), headed by the Prime Minister, is the political body in charge of reform strategy and direction. From a technical standpoint, program monitoring is overseen by the Minister of Budget, supported chiefly by the Economic and Financial Reform Monitoring Unit (Cellule de Suivi des Reformes Economiques et Financières – CS-REF) and the PRSP National Technical Secretariat (Secrétariat Technique National du DRSP) as far as monitoring of reform implementation is concerned.

Table I.1. Central African Republic: Indicative Targets under the RCF Arrangement, 2014

(CFAF billion; cumulative from beginning of the year)

	End-March 2014	End-June 2014	End-Sept. 2014	End-Dec. 2014
	Prel. Outcome	Indicative Targets	Indicative Targets	Indicative Targets
Indicative targets				
Floor on total domestic government revenue [1]	5.8	21.1	34.7	51.9
Floor on domestic primary fiscal balance [2]	-18.6	-34.2	-48.9	-61.4
New nonconcessional external debt contracted or guaranteed by the government [3, 4]	0.0	0.0	0.0	0.0
Accumulation of new external payments arrears [4]	0.0	0.0	0.0	0.0
Floor on the reduction in domestic payments arrears	0.0	5.4	10.9	16.5
Ceiling on accumulation of new domestic payment arrears	0.0	0.0	0.0	0.0

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

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

[4] These objectives will be monitored continuously.

Table I.2. Central African Republic: Prior Actions and Structural Benchmarks, 2014

Measures	Timeline	Macroeconomic Rationale	Status
Public Financial Management			
Signing of the decree creating the Treasury Committee (TC) and the effective initiation of its operation.[1,2]	**Prior action**	Improve treasury cash management.	Done
Signing of the decree creating the Committee to Monitor and Manage Public Finance (CSGFP) and the effective initiation of its operation.[1,2]	**Prior action**	Improve monitoring and management of public resources.	Done
Adoption of the 2014 budget by the Transition government and transmission to the National Transition Council (NTC).	**Prior action**	Rationalize public finance management.	Done
Completion of the first stage of the cleaning process of the civil service payment roster.	Structural benchmark (End-June 2014)	Rationalize the civil service roster and improve civil service efficiency.	
Reconnection of the computer softwares GESCO-Budget and GESCO-Accounting.	Structural benchmark (End-Sept. 2014)	Strengthen budgetary procedures and accounting traceability.	
Recruit the central treasury agent and the executive delegate.	Structural benchmark (End-Sept. 2014)	Improve treasury management and centralize accounting operations.	

[1] The minutes of the first meeting will be used to confirm the beginning of operations.

[2] These prior actions were critical to help reduce fiduciary risks and facilitate the disbursement of budget support for addressing the urgent balance of payments need of the country.

Attachment II. Technical Memorandum of Understanding, 2014

Introduction

1. This Technical Memorandum of Understanding (TMU) defines the indicators and benchmarks for the Rapid Credit Facility (RCF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring. Unless otherwise indicated, all indicative benchmarks will be assessed on the basis of cumulative flows from January 1, 2014.

Program Assumptions

2. Program exchange rates. For this TMU, the value of transactions denominated in foreign currencies will be converted into CFA francs (CFAF), the currency of Central African Republic (C.A.R.), on the basis of the program exchange rates. The key exchange rates are shown below.[1]

CFAF/US$	475.00
CFAF/euro	655.96
CFAF/SDR	732.43

3. **Oil price assumption**. The program assumes an average price per barrel of oil of US$104.17 for 2014.[1]

[1] March 4, 2014, WEO General Assumptions. Average price for 2014.

Definitions

4. Unless otherwise indicated, the government is understood to mean the central government of C.A.R. and does not include any local governments, the central bank, or any public entity with separate legal personality (i.e., enterprises wholly or partially owned by the government) that are not included in the table on government financial operations (*Tableau des opérations financières de l'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) **External debt** is defined as debt borrowed or serviced in a currency other than the CFA franc of the Financial Cooperation of Africa (FCAF).

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

7. **Concessional debt**. A debt is considered concessional if its grant element is at least 35 percent, the net present value (NPV) of the debt being calculated with a 5 percent discount rate.

Indicative targets

Floor for total domestic revenue of the government

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

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.

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 (paragraph 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.

12. No non-concessional 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.

Non-accumulation of new external payment arrears by the government

13. 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.

14. 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.

Non-accumulation of new domestic payment arrears by the government

15. The government undertakes not to accumulate domestic payment arrears as defined in paragraph 17. This IT applies on a continuous basis.

Prior Action and Indicative Benchmarks

Prior Actions

Adoption of the decree establishing effectively the Treasury Committee (TC)

16. The government of transition will adopt the decree establishing the TC and communicate the minutes of the first meeting of the Committee, which should validate and approve the annual cash flow plan. The TC will also be responsible for monitoring the implementation of the annual cash flow plan, which should incorporate all monthly cash revenue and expenditure.

Signing of the decree establishing the Monitoring Committee and the Public Finance Management with an effective implementation of its works

17. The government of transition will adopt the decree establishing the Committee to Monitor and Manage Public Finance and communicate the minutes of the first meeting of the Committee to the staff. The aim of this committee is to plan and monitor the use of all public resources in coordination with technical and financial partners.

Adoption by the transitional government of the draft budget 2014 and its submission to the National Transitional Council

18. The transition government will finalize and adopt the draft 2014 budget in accordance with the commitments taken in the Letter of intent and the MEFP, and transmit it to the National Council transition for its approval.

Indicative benchmarks

Completion of the first stage of the payroll clearance for civil servants

19. The first step in the clearance of the payroll file is to identify civil servants in accordance with existing rules. The civil servants in possession of a certificate of attendance will be tested and certified by an ad hoc committee, including the relevant government departments in charge of the operation. Staffs that are not in good standing will have the opportunity to contest any unfavorable results. Contested cases will be carefully reviewed by the public services in charge.

Reconnection of the IT applications GESCO-budget and GESCO-accounting

20. The transition government is committed to reconnect the IT applications GESCO - Budget/GESCO - accounting to enable the reconciliation of budgetary and accounting information and limit the use of exceptional budgetary procedures (OP - Cash and OP - Budget). During the fiscal year, the use of exceptional budgetary procedures should not exceed 7 percent of total expenditure, excluding salaries and financial costs.

Recruitment of the Central Treasury Accountant and his deputy

21. The Central Accounting Agency of the Treasury is set up to centralize the treasury and ensure compliance with the rules and accounting procedures. The indicative benchmark will be considered complete when the recruitment process of the central treasury accountant and its deputy are finalized.

Data Reporting to the IMF

22. Quantitative data on the indicative targets will be reported to the IMF staff in accordance with the schedule set out in Table III.1. 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 III.1. Central African Republic—Data Reporting to the IMF under the RCF Financing

Description of Data	Deadline
Quarterly report assessing the quantitative indicators and structural measures (Table 1.2. of the MEFP), along with supporting documentation.	Within four weeks of the end of each quarter.
Monetary survey, monthly accounts of the central bank and commercial banks.	Within four weeks of the end of each month.
Table of monthly cash flow operations.	Within ten days of the end of each month.
Fiscal reporting table (TOFE).	Within four weeks of the end of each month.
Monthly total domestic payments arrears on goods and services and wages, including unpaid pensions and bonuses.	Within four weeks of the end of each month.
End-of-period stock of external debt.	Within four weeks of the end of each month.
Breakdown of expenditure included in the TOFE (goods and services, wages, interest, etc.).	Within four weeks of the end of each quarter.
Summary table of real expenditure in the priority sectors, specifically health, education, and security.	Within four weeks of the end of each quarter.
Breakdown of current and capital expenditure, both domestically- and externally-financed.	Within four weeks of the end of each quarter.
Breakdown of revenue by institution and economic classification.	Within four weeks of the end of each quarter.
Revenue and expenditure offset against each other without cash settlements (by type of expenditure and revenue).	Within four weeks of 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 of the end of each month.
Amount of new concessional and non-concessional external debt contracted or guaranteed by the government.	Within four weeks of 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 of the end of each quarter