International Monetary Fund

Central African Republic and the IMF

Press Release:
IMF Executive Board Completes Fifth Review Under Extended Credit Facility Arrangement for Central African Republic and Approves US$31.6 Million Disbursement

December 21, 2018

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

December 6, 2018

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.

Appendix I. Letter of Intent

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

Bangui, December 6, 2018

Dear Madame Lagarde:

1. On July 2, 2018, the Executive Board completed the fourth review of the ECF arrangement and approved a disbursement of SDR 22.84 million. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent economic development in the C.A.R., progress that has been made in implementing our policies through end September 2018 and our medium-term reform agenda.

2. All performance criteria at end June 2018 have been met. Revenue overperformed, which is a reversal of the last two reviews. All structural benchmarks as of end June 2018, albeit with some delays, and end-September 2018 have been implemented. Projections of debt service and stock of debt are now produced in Sygade. All mining and forestry permits have been published on the Ministry of Finances and Budget website. The external audits of the forestry development fund and the telecommunications regulatory agency were completed, and the petroleum price structure was streamlined.

3. Our medium-term objectives remain to: strengthening revenue mobilization to widen our fiscal space, improving public spending efficiency, promoting transparency and good governance, reduce poverty and stimulate growth. To this end, we submitted to the National Assembly a draft budget law for 2019 consistent with the ECF-supported program. We are determined to redouble efforts to mobilize domestic revenue. To achieve our revenue target for 2019, we will implement all tax and customs measures described in the attached MEFP. We will also continue to rationalize and improve the efficiency of public spending and strengthen good governance.

4. We are committed to repaying domestic arrears in line with the government's strategy and avoiding new accumulation of arrears. We stayed current on all external debt service falling due. To restore long-term macroeconomic stability and debt sustainability, since the beginning of 2018, neither the central government, state-owned enterprises nor

government agencies have contracted or guaranteed new external loans, except for the highly concessional loan of CFAF 7.2 billion provided by the Arab Bank for Economic Development in Africa. We are mobilizing only grants and will contract highly concessional financing only within the borrowing limits of the program to finance our development projects. We reiterate our commitment to consult with IMF staff before contracting any new external borrowing.

5. Based on progress made so far, we are requesting the disbursement of the sixth tranche of the ECF arrangement, amounting to SDR 22.84 million (20.5 percent of our quota), to cover our persistent balance of payments needs.

6. We remain convinced that the measures and policies outlined in the attached MEFP are adequate to achieve the objectives of our program and to reduce our balance of payments needs going forward. We will not introduce any measures or policies that would compound our balance of payments difficulties. We will consult with the Fund on revisions to policies contained in the MEFP in accordance with the Fund's policies on such consultations. We will provide the Fund staff all data and information needed to assess our policies, particularly those mentioned in the Technical Memorandum of Understanding (TMU).

7. We intend to publish the IMF staff report, including this letter, the attached MEFP, and the TMU as an appendix. We therefore authorize the Fund staff to publish these documents on the IMF's external website once the Executive Board has completed the fifth review of the ECF arrangement.

Sincerely yours,

/s/	/s/
Henri-Marie Dondra	Henri-Marie Dondra
Minister of Finance and Budget	on behalf of the Prime Minister

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

Attachment I. Memorandum of Economic and Financial Policies

This memorandum updates the July 2018 MEFP prepared for the Fourth Review under the economic program supported by the Extended Credit Facility (ECF), approved by the IMF Executive Board in July 2016. The program objectives are to consolidate macroeconomic stability, create the conditions for sustainable and inclusive growth, fight poverty, and strengthen the government's efforts to promote peace and reconciliation. The MEFP describes recent macroeconomic developments, the program implementation at end-June 2018 and end-September 2018, the economic outlook and risks, and the macroeconomic and structural policy objectives for the remainder of 2018 and beyond.

RECENT MACROECONOMIC DEVELOPMENTS

1. **The security situation has improved but remains fragile. After the violence in May, which affected the cities of Bangui and Bambari in particular, the government took measures which helped to restore security in both cities**. Those efforts were accompanied by the continued installation of prefects and sub-prefects and redeployment of the army, security forces, and the administration in some provinces. The government also pursued talks with the 14-armed groups under the aegis of the African Union. However, the humanitarian situation continues to raise considerable concern.

2. **Economic growth is estimated at 4.3 percent in 2018. This momentum reflects the significant increase in externally financed investments and the sustained recovery of construction and forestry activities**. However, the insecurity in some rural areas affects agricultural activities and the mining sector. The inflation rate has declined slightly since May 2018 due to falling prices of food products and manufactured goods.

3. **The government's fiscal policy remains prudent. The government adopted a revised budget in July 2018 to incorporate new tax measures and adjust expenditures**. The primary fiscal on cash basis was balanced at end-June 2018. Tax revenue reached CFAF 56.7 billion compared to a forecast of CFAF 53.4 billion. This performance reflects the gradual integration of parafiscal taxes (road usage fees (RUR) and the airport security tax (TSA)) into the treasury single account, the encouraging outcomes of tax measures introduced in 2018, implementation of the new convention with banks for the mobilization of revenue and the intensification of tax audits. Primary expenditure totaled CFAF 56.7 billion. Priority social spending reached CFAF 12.5 billion. In addition, payment of salary arrears and domestic commercial arrears amounted CFAF 19 billion during the first half of 2018.

4. **The current account deficit is expected to remain constant in 2018 compared to 2017. Exports increased during the first half of 2018, driven primarily by wood and diamonds**. However, this solid performance in exports was followed by increased petroleum prices, which drove up the value of imports.

5. **The financial sector is in good shape. Credit to the economy increased by 8.5 percent at end-June 2018 compared to the same period of 2017**. Broad money expanded by 7.3 percent, driven by domestic credit. Based on available data at end-June 2018, the proportion of nonperforming loans declined with respect to 2017, and banks remain reasonably liquid and profitable. Banks are broadly compliant with prudential standards.

PROGRAM IMPLEMENTATION IN 2018

6. **Implementation of the program is broadly satisfactory**. Based on the available data, we met all the quantitative performance criteria at end-June 2018:

- Net domestic financing of the government stood at CFAF 1.5 billion at end-June 2018, for a ceiling of CFAF 8.0 billion.

- The domestic primary fiscal balance stood at CFAF 0.0 billion at end-June 2018, for a floor of -CFAF 10.0 billion.

- Total domestic government revenue stood at CFAF 56.8 billion as at end-June 2018, for a floor of CFAF 53.4 billion.

- Clearance of domestic payment arrears stood at CFAF 19.0 billion at end-June 2018, for a floor of CFAF 14.2 billion.

7. **All the continuous performance criteria were met**. The government did not contract or guarantee any new non-concessional external debt, nor did it accumulate external debt arrears. The government contracted one concessional external loan (grant element of 50.2 percent) of CFAF 7.2 billion, compared to an indicative ceiling of CFAF 9 billion. However, the indicative criterion on exceptional spending procedures was not met (9 percent compared to a ceiling of 5 percent).

8. **We have also implemented all structural benchmarks for end-June 2018, albeit with some delays**. The projections of external debt service and stock are now produced in SYGADE. External audits of the forestry development fund and telecommunications regulatory agency were conducted. The petroleum price structure was streamlined, which will limit the impact of the increase of oil prices on the budget. In addition, all structural benchmarks at end-September 2018 are met. All forestry permits issued prior to June 30, 2018 and mining permits issued since January 1, 2018 were published on the Ministry of Finance and Budget website.

ECONOMIC OUTLOOK AND RISKS

9. **The economic and financial prospects in the medium term is encouraging**:

- We maintain our forecast of 4.3 percent economic growth in 2018 and 5 percent in the medium term. This economic performance will result from the robust recovery of forestry activities and telecommunications, construction activities, externally financed investments, and improved execution of domestically financed investments. With support from the World Bank and other development partners, the government will increase significantly energy supply through two big solar projects, the extension of Boali 2, the reinforcement of transportation lines, the reconstruction of Boali 3 and the hydroelectric development that will start up in 2019. These projects will boost economic activity and help improve the country's business environment. Inflation will be contained at 2.5 percent in the medium term.

- The primary fiscal deficit is projected at 1.4 percent of GDP in 2018 and 1.2 percent of GDP in 2019, in line with the government's commitments under the ECF-supported program.
- The current account deficit would improve in the medium term, in particular with increased forestry and mining exports.

10. **However, these medium-term macroeconomic projections are not without risk. Indeed, a deterioration of the security situation could compromise the government's efforts**. In this regard, we will pursue negotiations with armed groups in the context of the African initiative, and we have elaborated some draft laws on military programming and domestic security forces aiming at reinforcing the redeployment of security forces and the administration throughout the national territory. Higher oil prices could harm economic activity and reduce tax revenue. A delay in the disbursement of external financing would pose a risk to public finances and could have an adverse effect on economic activity.

MACROECONOMIC AND STRUCTURAL POLICIES

11. **In line with the National Recovery and Peacebuilding Plan, we remain determined to pursue policies to maintain macroeconomic stability**, stimulate growth and job creation, and reduce poverty. The achievement of these objectives will require: (i) raising more domestic revenue to widen our fiscal space, (ii) strengthen public spending efficiency through the prioritization of social and infrastructure spending, without compromising the sustainability of public finances, (iii) promoting transparency and strengthening governance, and (iv) improving the business environment to boost private sector development and strengthen external competitiveness.

2019 Budget

12. **The 2019 budget law put particular emphasis to economic and social development**. The challenges to overcome are immense, but our ambitions are limited by resource constraints. To achieve our objectives, we must increase domestic revenue and rigorously control non-priority spending while redoubling budget efforts for the social sectors. Our priorities for 2019 are structured around four key pillars: (i) strengthening peace and security, (ii) consolidating public finances, (iii) good governance, and (iv) social affairs and humanitarian actions. The budget figures are as follows: we commit to limit the domestic primary deficit to 1.2 percent of

GDP. Domestic revenue will reach 10.7 percent of GDP, which is an increase of 1.4 percent with respect to the 2018 revised budget, owing to the transfer of parafiscal taxes into the treasury single account. Primary spending will represent 11.9 percent of GDP, of which 10.2 for current expenditure and 1.7 for capital expenditure.

13. **To achieve the revenue objectives provided in the 2019 budget, we revised the petroleum price structure.** We will revise the reference price of wood following consultations with affected companies and will integrate some parafiscal taxes into the treasury single account. We will also pursue efforts to improve the revenue administration, in particular, fighting fraud and controlling VAT bases and income tax.

14. **In regard to public expenditure, the government will contain the wage bill and increase priority social spending in order to fight poverty**. The ministries of Education (+21.4 percent), and Health (+27.9 percent) will be the main beneficiaries. Transfers will increase by 0.6 percent of GDP due to the inclusion of expenses related to parafiscal agencies for which resources have been transferred into the treasury single account. We also confirm our commitment to limit exceptional spending to less than 5 percent of total expenditure (excluding salaries and debt service).

15. **We recognize the enormous uncertainties surrounding our budget forecast**. There are at least three key risks: (i) lower economic growth limiting the mobilization of tax revenues; (ii) lower-than-expected revenue from the parafiscal taxes integrated into the treasury single account and/or increased budget transfers to public agencies; and (iii) higher-than-expected international oil prices. Accordingly, we are determined to review the budget assumptions during the first semester of 2019 to decide whether revenue should be revised. Under such scenario, we are determined to preserve macroeconomic stability by reducing non-priority spending to achieve our objectives of containing the domestic primary deficit at 1.2 percent of GDP.

16. **Depending on the evolution of oil prices, and in addition to the adoption of the streamlined price structure**, the government will readjust prices at the pump if necessary to limit the impact of higher international oil prices on tax revenues.

Increase Revenue Mobilization

17. **The tax measures introduced in 2018 have produced encouraging outcomes**. The expansion of the 10 percent excise tax on locally-produced beverages and the implementation of the additional specific tax on alcoholic beverages generated tax revenue of CFAF 980.0 million at end-July 2018. Other administrative measures, such as the intensification of tax audits and the recovery of tax arrears, and the creation of the tax arrears collections management and monitoring unit, raised additional revenue estimated at CFAF 4.4 billion at end-September 2018. ASYCUDA has been in operation at the Beloko customs bureau since June 2018. However, we fell behind schedule in meeting several of our commitments to increase revenue: (i) revision of the reference price of wood; (ii) strengthening collaboration between the DGID and DGDDI and

between the DGDDI and BIVAC through monthly meetings and disclosure of the outcomes of these data reconciliations; (iii) the use of the BIVAC certified value as the minimum base for calculation of import taxes and duties; and (iv) the update of the configuration of VAT rates in ASYCUDA.

18. **Strengthening of the tax and customs administrations and more intense customs inspections and tax audits will be pursued**. Regarding the customs administration, all the incorrect VAT rates in the ASYCUDA system identified by the IMF technical assistance missions were corrected in October 2018, and we will scrupulously ensure that the values certified by BIVAC are used as the minimum base for the calculation of import taxes and duties. We are committed to arrange meetings at least once a month to reconcile BIVAC data with that of the customs administration and systematically release the outcomes of those reconciliations [new structural benchmark at end-December 2018]. We will invite the IMF representative office to take part in those meetings and will systematically publish the minutes of the meetings. As for the tax administration, as recommended by the IMF technical assistance missions, we will take steps to ensure that all data from tax declarations are entered in SISTEMIF upon their subscription to strengthen monitoring of reporting obligations and the clearance of tax arrears. We are also determined to step up tax audits and efforts to combat fraud. We commit to conducting annual audits of at least 60 percent of businesses that report VAT credits or declare a net VAT payable of zero.

Rationalize Parafiscal Taxes

19. **The rationalization of parafiscal taxes remains an absolute priority for the government**. The Office of the Inspector General of Finance (IGF) launched the audit of 22 of the 43 entities and agencies to which the taxes are allocated. A draft note from the Council of Ministers has been initiated to eliminate all the 9 non-operational agencies. Of the seven most critical agencies, two (ARCEP ex ART, FDF) have already been audited., The external audits of the remaining five (FNE, ANR, ANAC, CASDTA, SODIAC) will be launched in [November 2018] with support from the French Development Agency (AFD). Government accounting officers were assigned to 20 public entities and agencies which are under audit. To rationalize taxes and organizational units, and in keeping with our commitments, the draft 2019 budget law provides for the elimination of the environmental tax related to the production, manufacturing, and imports of cigarettes, alcohol and non-alcohol beverages in glass and/or plastic and telecommunications, and the electromagnetic pollution. The draft 2019 budget law also provides for the integration of identified parafiscal taxes in the amount of CFAF 10.9 billion in the treasury single account (TSA) in return of transfers to the entities to which those taxes were allocated.

20. **We will finalize the audits of the parafiscal entities and agencies already identified by end-December 2018**, and we confirm our commitment to pursue the elimination of unjustified parafiscal taxes and transfer those that are justified to the TSA (structural benchmark at end-December 2018). We also confirm our commitment not to create new parafiscal taxes.

Rationalize and Strengthen Public Expenditure Management

21. **The government is determined to improve the quality and transparency of the public spending chain**. We finalized and transmitted the management accounts of 2016 and 2017 to the Court of auditors, which will allow upon their approval the establishment of discharge bills for these years. To achieve our objective of limiting exceptional spending to 5 percent total spending, we will regulate the modalities for medical evacuations (structural benchmark, end-March 2019) and will close all cash funds and imprest accounts prior to the end of each fiscal year (structural benchmark, end-December 2018). Also, the budget execution circular for 2019 is ongoing and will be finalized by end-December 2018 (structural benchmark, end-December 2018). The circular will cap the spending amount for imprest accounts. We are committed to decentralizing the payment authorization process in order to reduce delays and improve budget execution. To this end, a ministerial circular on delegation of the spending commitment and validation functions at the ten priority ministries(primary, secondary and technical education, and alphabetization, scientific research and technological innovation, tertiary education, health, humanitarian actions and national reconciliation, promotion of women, family and infant protection, agriculture and rural development, livestock and animal health, development of energy and hydraulic resources, and small and medium enterprises) was adopted in September 2018 and will take effect on January 1, 2019. We will put in place an IT platform to operationalize the deconcentration of the spending commitment process at the sectoral level (structural benchmark at end-December 2018).

22. **We are committed to strengthening the governance and financial oversight of public agencies and state-owned enterprises and the government's holdings in public corporations**. With technical support from the IMF, we are revising the laws and regulations governing the para-public sector [structural benchmark, end-March 2019].

23. **In line with our regional commitments, the organic law relating to finance laws and the law on transparency in public finances management were promulgated**. The implementation of new management principles introduced by the new legal framework requires reorganization of the Ministry of Finances and Budget, which is under way with technical support from the IMF. A draft new ministry organizational structure, which will strengthen financial oversight and monitoring of public entities and SOEs, is being finalized and is expected to be submitted to the Council of Ministers for adoption during the first quarter of 2019. We are also determined to limit the use of direct contracts by revising the public procurement code to strengthen the capacities of priority sector ministries in procurement.

Clear Arrears and Improve Debt Management

24. **The government intends to pursue its strategy of clearing salary and commercial arrears**. The government has taken significant steps to clear all 2003 salary arrears and those of November and December 2002 by the end of 2018. Also, no domestic payment arrears have accumulated since the beginning of 2018. However, there were delays in implementing the domestic arrears clearance strategy adopted in December 2017. Some payments planned in 2018 will be postponed to 2019. In addition, we identified some spending validated but not committed or paid from budget years prior to 2014. Arrears in the deposit account opened until 2016 were also identified. With support from our partners, we will audit those arrears during the fourth quarter of 2018 to evaluate the amounts.

25. **In line with our commitments, we remain determined to control the external public debt**. We have not accumulated any new external debt arrears honoring all external debt service payments falling due since the beginning of 2018. Negotiations with our creditors has produced notable progress. We concluded a new convention with India in August 2018 that extends the term of the debt to 25 years at an interest rate of 1.5 percent and with a five-year grace period. We have cleared all arrears to the International Fund for Agricultural Development (FIDA) and have agreed on the amount of the debt and the terms of repayment. The government is determined to pursue negotiations with the creditors with which conventions have been signed prior to the Heavily Indebted Poor Countries Initiative. We remain determined to mobilize only grants and highly concessional financing within the borrowing limits of the ECF program.

Promote Transparency and Strengthen Good Governance

26. **Public institutions remain weakened by the crises the country has faced in recent years**. The government is committed to fight corruption and improve good governance. To this end, we will propose measures to tighten requirements to declare assets. This will consist of a draft law to clarify the conditions of this obligation to declare and the consequences in case of failure. [We also acknowledge gaps in implementation of the United Nations Convention against Corruption, particularly, in regard to the criminalization of corrupt acts and we are committed to rectify these gaps]. In this regard, we are committed to sanction offenses with respect to accountability and/or integrity as provided by the Law. To deal with the considerable challenges regarding the management of natural resources, we have started the process of resuming membership in the Extractive Industries Transparency Initiative. In addition, we have also published all forestry permits issued through June 30, 2018 on the Ministry of Finance and Budget (MFB) website. We have also instituted the quarterly disclosure of all new mining permits issued since January 1, 2018 on the MFB website. We have submitted all these information to the permanent secretariat for economic and financial reforms of CEMAC (PREF-CEMAC) as per of our regional commitments.

Improve the Business Environment

27. **The business environment faces constraints that hinder private investment by local as well as foreign entrepreneurs**. Those constraints include inadequate electricity supply, high transportation costs due to encirclement and deterioration of road infrastructures, and limited access to credit. Gaps in the legal system pose additional constraints. The government is determined to improve the business environment to promote private sector development. To this end, the law on the investment charter was promulgated in June 2018, and the draft law setting the conditions of public-private partnerships has been sent to the parliament for adoption. Other structural and institutional reforms will be implemented. They will concern the modernization and update of the legal framework for the key economic sectors, notably the revision of the mining code to ensure its compliance with the regional standards on foreign exchange. We also intend to strengthen the Joint Consultation Framework for Business Improvement (CMCAA) to promote and strengthen dialogue between the government and the private sector.

Reduce Poverty and Promote Gender Equality

28. **We pursue the implementation of the National Recovery and Peacebuilding Plan (RCPCA)**. In that context, the significant increase in priority social spending will contribute to reduce poverty. The government also supports women's promotion and equality, in line with the RCPCA objectives and national laws governing gender equality. Women's participation in political and economic affairs is essential to sustainable peace and economic progress. In the medium term, we plan to collect data by gender in order to monitor our commitments and inform the public, in particular through the creation of the national gender observatory.

Financial Sector

29. **The government is determined to promote the development of the financial sector and financial inclusion of the entire population, including the most vulnerable**. To this end, we intend to promote the use of mobile banking services, which could help to compensate the absence of banking service branches in provinces. In addition, the recommendations of the 2017 COBAC mission are being implemented. Bank governance and prudential standards were strengthened, and progress has been made in regard to internal control mechanisms and measures to fight money laundering and terrorism financing. The government intends to closely monitor the implementation of the remaining measures.

CAPACITY BUILDING

30. **Strengthening administrative and technical capacities is key to ensure a successful implementation of our economic program**. To this end, we benefit from sustained technical assistance from our partners to improve revenue mobilization, ensure better cash management, and reinforce the spending chain. We have established a capacity building framework with the

IMF, and the implementation of this program in ongoing. The main priorities are domestic revenue mobilization, the management of public finances, the management of public debt, macroeconomic statistics, and macro-budgetary capacity.

31. **Similar strategies will be defined with the other development partners on their respective fields of intervention. In the same vein, we will strengthen the coordination of partners' support to maximize the benefit from all available technical assistance**. To this end, we have strengthened the entity in charge of monitoring economic and financial reforms and ensuring the coordination of technical assistance and training (CS-REF).

PROGRAM MONITORING

32. **The program will be monitored semi-annually by the IMF Executive Board**. Performance criteria at end-December 2018 are maintained, and indicative criteria for March 2019 are proposed, reflecting the 2019 macroeconomic outlook and budget. The end-December 2018 performance criteria will be assessed as part of the sixth review in the first half of 2019.

33. We propose new structural benchmarks for end-December 2018, including:

- Publish the outcomes of the reconciliation between customs and BIVAC data (structural benchmark at end-December 2018)
- Set up a IT platform at the General directorate of budget to operationalize the deconcentration of the spending commitment process (structural benchmark at end-December 2018)

34. **Exchange restrictions:** Throughout the duration of the program, we are committed to not impose or expand restrictions on payments and transfers on current international transactions, or to resort to multiple currency practices, to conclude bilateral agreements that do not comply with Article VIII of the IMF's Articles of Agreement, or impose or expand restrictions to influence the balance of payments. In addition, the authorities commit to adopt, in consultation with IMF staff, any new financial or structural measures that may be necessary to ensure the success of the program.

Table 1. Central African Republic: Performance Criteria (PC) and Indicative Targets, 2017–19

(CFAF billions)

	End-December 2017				End-March 2018			End-June 2018			End-September 2018			End-December 2018	End-March 2019
	PC	Adjusted PC [6]	Actual	Status	Indicative Target	Actual	Status	PC	Actual	Status	Indicative Target	Actual	Status	PC	Indicative Target
Quantitative performance criteria															
Domestic government financing (ceiling, cumulative flows for the year)	-5.3	2.2	-16.4	Met	15.1	15.0	Met	8.0	1.5	Met	17.9			14.0	16.0
Domestic revenue (floor, cumulative for the year) [1]	102.0	102.0	93.4	Not met	27.9	28.6	Met	53.4	56.8	Met	82.1	83.4	Met	112.0	34.0
Domestic primary deficit (ceiling, cumulative for the year) [2]	-21.9	-29.4	-24.7	Met	-5.0	2.4	Met	-10.0	0.0	Met	-15.0	-11.9	Met	-18.0	-5.0
Reduction in domestic payments arrears (floor, cumulative for the year)	-7.5	-7.5	-9.0	Met	-7.1	-15.3	Met	-14.2	-19.0	Met	-21.5	-24.1	Met	-30.0	-7.5
Continuous performance criteria															
Contracting or guaranteeing of new external non concessional debt (ceiling) [3,4]	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year) [3,4]	0.0	0.0	0.0	Met	0.0	0.0	Not Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Indicative targets															
Social spending (floor, cumulative for the year) [5]	6.0	6.0	13.9	Met	3.0	3.6	Met	9.0	12.5	Met	16.0	28.5	Met	24.0	10.0
Spending through extraordinary procedures (ceiling, cumulative for the year)					1.0	1.6	Not met	1.8	4.7	Not Met	2.6			3.4	1.2
Memorandum item:															
New concessional/external debt contracted or guaranteed by the government	8.8	8.8	8.8	Met	9.0	0.0	Met	9.0	7.2	Met	9.0	7.2	Met	9.0	6.0

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

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

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

[3] These objectives will be monitored continuously.

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

[5] Social spending is defined as public non-wage spending on primary and secondary eduction, health, social action, water and sanitation, microfinance, agriculture and rural development (see TMU).

[6] Adjusted for other than programmed budget support (see the TMU).

Table 2. Central African Republic: Structural Benchmarks, 2017–19

Measures	Timeline	Macroeconomic Rationale	Status	Comment
Quarterly publication of budget execution reports within 30 days from the end of the quarter	Quarterly, from end September	Improve transparency and accountability	Met	
Adoption of an action plan to eliminate unjustified para-fiscal taxes and transfer of other revenues to the Single Treasury Account	End December 2017	Improve transparency and revenue collection	Met	
Full utilization of ASYCUDA at customs in Beloko	End December 2017	Improve transparency and revenue collection	Not Met	Completed in July 2018.
The publication of all existing tax exemptions	End December 2017	Improve transparency and accountability	Not Met	Completed in February 2018.
Publication of all laws or decrees creating the 54 structures that were identified to collect para-fiscal taxes	End March 2018	Improve transparency and revenue collection	Not met	Completed in May 2018.
Completion of an external audit of the forestry fund and the telecommunications regulations agency	End June 2018	Improve transparency and revenue collection	Not met	Completed in October 2018.
Publish projections for monthly external debt service payments and the external debt stock from June 2018 to May 2019 generated by Sygade	End June 2018	Strengthen debt management	Met	
Revision of the price structure of petroleum products at the pump	End June 2018	Improve transparency and revenue collection	Not met	Completed in November 2018.
Publish all forestry permits issued before June 30, 2018 on a government website, notably on the Ministry of Finance and Budget website	End September 2018	Improve transparency in the management of natural resources and the business environment	Met	
From September 30, 2018, publish quarterly all new mining permits issued since January 1, 2018 on a government website, notably on the Ministry of Finance and Budget website	Quarterly, from end September 2018	Improve transparency in the management of natural resources and the business environment	Met	
Removal of all identified parafiscal taxes without economic justification	End December 2018	Improve transparency and revenue collection		
Close systematically all cash fund agencies on December 31, 2018	End December 2018	Strengthen the efficiency of public spending		
Establish budget execution circular from LF 2019	End December 2018	Rationalize public spending execution procedures		
Revise legislation governing public agencies to strengthen financial oversight	End March 2019	Strengthen the efficiency of public spending		
Establish inter-ministerial decree laying down the conditions and terms of medical evacuations	End March 2019	Strengthen the efficiency of public spending		
Proposed new measures				
Publication of the results of monthly meetings between customs and the pre-inspection company to reconcile valuations	End December 2018	Improve transparency and revenue collection		
Set up a IT platform at the Ministry of Finance to operationalize the deconcentration of the spending process	End December 2018	Strengthen the efficiency of public spending		

Attachment II. Technical Memorandum of Understanding 2018

INTRODUCTION

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

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

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

A. Program Assumptions

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

CFAF/US$: 585

CFAF/Euro: 656

CFAF/SDR: 815

B. Definitions

4. **Unless otherwise specified, the government is defined as 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 government financial operations table(*Tableau des operations financières de l'État*—TOFE).

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

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

i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property.

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

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

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

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

7. **Concessional debt.** A debt is considered concessional if its grant element is at least 50 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of the nominal value. The present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt. The discount rate used for this purpose is 5 percent.

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

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

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

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

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

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

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

13. **External payment arrears** are defined as arrears on external debt obligations. They are the difference between the amount required to be paid under the contract or legal document and the amount actually paid after the payment deadline specified in the pertinent contract. An obligation that has not been paid within 30 days after falling due is considered an external payments arrear.

C. Quantitative Targets

14. The **quantitative targets (QTs)** listed below are those specified in Table 1 of the MEFP. Adjusters of the quantitative targets are specified in Section D.

Ceiling on domestic financing of the State budget

- **Domestic public financing to the government** is defined as the sum of the (i) the bank credit to the government, defined below; and (ii) non-bank financing to the government, including proceeds from the sale of government assets, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations, Treasury bills, and other securitized obligations issued by the government and denominated in CFA Francs on the CEMAC regional financial market, and any Bank of Central African States (BEAC) credit to the government, including any drawings on the CFA Franc counterpart of the allocation of Special Drawing Rights (SDRs).

- **Bank credit to the government** is defined as the balance between the debts and claims of the government vis-à-vis the central bank, excluding the use of IMF credit, and the national commercial banks. The scope of credit to the government is that used by the BEAC and is in keeping with general IMF practice in this area. It implies a definition of government that is broader than the one indicated in paragraph 3. Government claims include the CFA Franc cash balance, postal checking accounts, subordinated debt (*obligations cautionnées*), and all deposits with the BEAC and commercial banks of government owned entities, with the exception of industrial or commercial public agencies (*établissements publics à caractère industriel et commercial—EPICs*) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

Floor for Total Domestic Government Revenue

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

Floor for Government Social Spending

- **Poverty-reducing social spending** comprises public non-wage spending on national education (primary, secondary and tertiary education), health, social action (promotion of women, family and humanitarian actions), water and sanitation, microfinance (SME – SMI), agriculture, livestock, and rural development. Its execution is monitored on a payment-order basis during the program.

Ceiling on Domestic Primary Deficit

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

Floor on Reduction of Domestic Payments Arrears

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

Ceiling on Contracting or Guaranteeing of New External Non-Concessional Debt

- **The government undertakes not to contract or guarantee non-concessional debt**. Loans for financing projects must not exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the WB and the IMF. Financing from the IMF is excluded from this criterion.

Non-Accumulation of New External Payment Arrears by the Government

External payment arrears are defined in paragraph 13.

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

Limitation of Spending Through Extraordinary Procedures to 5 percent of Expenditure (Non-Salary or Debt Service)

- In addition to measures taken in 2018, all necessary provisions will be taken in the 2019 Budget Law and the total of all expenditure following extraordinary disbursement procedures (exceptional procedures, cash operations, etc.,) will not exceed 5 percent of total expenditure on non-salary spending or debt service (principal and interests) on average per quarter. Observation of this indicative target is assessed quarterly since March 2018.

D. Adjusters of Quantitative Targets

15. To take into account the factors or changes that are essentially outside the government's performance, **various quantitative targets for 2017 and beyond** will be adjusted as follows:

a. If the total revenue from privatization or renewal of telecommunication licenses or forestry or oil licenses is greater than the amount programmed, the following adjustments will be made:

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

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

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

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

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

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

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

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

E. Structural Benchmarks

The Production of the Revenue and Expenditure Account for 2016

- The revenue and expenditure account for 2016 will have to be prepared and published by end of September 2017.

The Publication of all Existing Tax Exemptions

- All existing tax exemptions, both statutory and discretionary, should be identified and made public by the end of December 2017, for purposes of transparency, in order to reduce the scale of tax exemptions.

Retrospective Control of Customs Values Set from January 1, 2016 to May 31, 2017

- By end of September 2017, all values of imported goods set for the period January 1, 2016 to May 31, 2017 will have to be checked for compliance with the minimum values determined by the pre-inspection company and, if need be, impose the specified customs clearance tariffs and related penalties, to ensure the regularity of customs clearance operations.

Produce a Quarterly Budget Execution Report within 30 days of the end of the Quarter

- A quarterly budget execution report will be produced as from the end of September 2017, and thereafter every quarter within 30 days of the end of the quarter. The first report will cover the second quarter of 2017.

Adoption of an Action Plan to Eliminate Unjustified Parafiscal Fees and Transfer their Proceeds to the Treasury Single Account

- On the basis of an inventory of all parafiscal charges to be drawn up, an action plan will be adopted before the end of December 2017 with a view to eliminating all illegal and unjustified parafiscal charges. The plan will be accompanied by an instruction to transfer the proceeds of the parafiscal taxes collected to the treasury single account.

Full Utilization of ASYCUDA at the Beloko Customs Post

- The main customs office in Beloko will be equipped with all facilities for ASYCUDA operation and data transmission, and all ASYCUDA modules will be fully deployed by end-December 2017.

Completion of an External Audit on the Forestry Fund and the Telecommunications Regulatory Agency

- The forestry fund and the telecommunications regulatory agency should be audited by end-June 2018, in order to analyze the nature and use of the taxation and resources allocated to these entities.

Publication of Monthly Public Debt Service Projections

- Monthly estimates of the public debt service, and the debt stock for the period running from June 2018 to end-May 2019, generated directly from the SYGADE system will be published by the end of June 2018, so as to pursue efforts to strengthen debt management.

Revision of the Petroleum Price Structure

- Petroleum price structure will be revised by the end of June 2018, with the view to its simplification.

Elimination of Parafiscal Taxes Considered to have no Economic Justification.

- Based on the results of the inventory of parafiscal taxes, those with no economic justification must be eliminated before the end of December 2018.

Publication of all Forestry Permits on a Government Website, Notably on the Ministry of Finance and Budget Website

- All forestry permits that have been issued by June 30, 2018 will be published on a government website by September 30, 2018

Quarterly Publication of all Mining Permits on a Government Website, Notably on the Ministry of Finance and Budget Website

- All new mining permits that have been issued since January 1, 2018 will be published on a government website, starting from September 30, 2018

Closure of all Cash Funds and Imprest Accounts at end December 2018

- All cash funds and imprest accounts will be closed at December 31, 2018

Implementation of a Budget Execution Circular Starting from the Budget Law 2019

- To streamline public expenditure execution procedures, we will introduce a budget execution circular starting from the LF 2019 by end December 2018.

Revision of the Legislation on Public Agencies

- The February 13, 2008 law -08-011- governing the institutional framework of public agencies will be revised by end March 2019

Elaboration of an Inter-Ministerial Decree Establishing the Conditions and Modalities for Medical Evacuations by end-March 2019

- An inter-ministerial decree establishing the conditions and modalities for medical evacuations will be elaborated by end March 2019.

New Measures

Set up an IT Platform at the General Directorate of Budget by end-December 2018

- In order to operationalize the deconcentration of the spending commitment process, an IT platform will be set up at the general directorate of budget by end-December 2018.

Publish the Outcomes of the Customs and BIVAC Data Reconciliation at end-December 2018

- The outcomes of the customs and BIVAC data reconciliation exercise will be published on the Ministry of finances and budget website at end-December 2018 after the meeting between the two entities, which should be held within two weeks of the end of the month.

Reporting to the IMF

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

Table 1. Central African Republic: Reporting to the IMF as Part of Financing Under the ECF Arrangement	
Description of data	Deadline
Bi-annual report evaluating quantitative indicators and structural measures (tables 1 and 2 of MEFP), with supporting documents	Within four weeks of the end of each quarter.
Monetary position, monthly central bank and commercial bank accounts	Within four weeks of the end of each month.
Monthly cash flow operations table	Within ten days of the end of each month.
Government financial operations table	Within four weeks of the end of each month.
Total monthly amount of domestic payment arrears on goods and services and on wages, including unpaid pensions and bonuses	Within four weeks of the end of each month.
External debt stock at end of period	Within four weeks of the end of each month.
Breakdown of expenditures listed in TOFE (goods and services, wages, interest, etc.)	Within four weeks of the end of each month.
Summary table of actual expenditures in priority areas, such as health, education, and security	Within four weeks of the end of each quarter.
Breakdown of current expenditure and capital disbursements, financed with own and external resources	Within four weeks of the end of each quarter.
Breakdown of revenues by institution and economic classification	Within four weeks of the end of each quarter.
Revenues and expenditures recognized against one another without a cash settlement (by expenditure and revenue type)	Within four weeks of the end of each quarter.
Breakdown of debt service and external arrears, particularly by interest and principal, and by main creditor	Within four weeks of the end of each month.
Amount of new non-concessional and concessional external debt contracted by the government	Within four weeks of the end of each month.
Actual disbursements for projects and programs receiving foreign financial assistance and relief of external debt granted by external creditors (including the date, amount, and creditor)	Within four weeks of the end of each month.