Appendix I. Letter of Intent

Ms. Kristalina Georgieva   Bangui, December 10, 2019
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
United States of America

Madam Managing Director:

1. Despite the significant progress made in recent years under the program supported by the Extended Credit Facility (ECF) arrangement, the Central African Republic (C.A.R.) continues to face considerable challenges. The implementation of a sound fiscal policy and ambitious structural reforms contributed to restoring sustained growth and contained inflation, reducing fiscal and external vulnerabilities, and substantially strengthening public administration capacity. Nevertheless, the security environment remains unstable, the humanitarian situation very challenging—as more than half of the population needs assistance—and social indicators worrisome, with a poverty rate estimated at 72.2 percent in 2017, high infant mortality, and one of the world's lowest human development indicator.

2. The Political Agreement for Peace and Reconciliation (*Accord politique pour la paix et la réconciliation* – APPR) signed in February 2019 is a unique opportunity to address these challenges. Its primary objective being to restore peace and stability in the C.A.R., it notably provides for a more inclusive government, enhanced governance and accountability, increased security, and the re-establishment of State authority across the entire territory. The government plans to make the most of the peace dividends arising from the APPR to accelerate the implementation of the country's Recovery and Peacebuilding Plan (*Plan de Relèvement et de Consolidation de la Paix* -RCPCA), which we are currently updating to refocus and extend until 2023.

3. To support us in implementing the APPR and RCPCA and to help us meet our external financing needs, we are requesting a new arrangement under the ECF for a period of three years and in an amount equivalent to SDR 83.55 million (or 75 percent of our quota). Building on the experience and achievements from the previous program, this new arrangement will aim to: provide a solid macroeconomic framework for the economic policies and reforms that we plan to carry out over the next three years (as described in the Memorandum of Economic and Financial Policies (MEFP)); foster the mobilization of financing from other technical and financial partners; strengthen public institutions and good governance; and increase the resources allocated to protecting the most vulnerable. We see these reforms are critical to meeting our objectives of

restoring a sustained inclusive growth and reducing poverty. The disbursements under the new arrangement will be subject to compliance with the performance criteria and structural benchmarks shown in tables 1 and 2 of the attached MEFP.

4. We believe that the economic and financial policies set out in the MEFP will enable us to achieve the objectives that we have set ourselves as part of this program. However, we stand ready to take any further measures that may prove necessary to meet these objectives. The government will consult with the IMF prior to adopting any revisions to the policies set forth in the MEFP, in accordance with the rules governing such consultations. We will also provide Fund staff with all data and information needed to assess the policies and measures contained in the Technical Memorandum of Understanding (TMU).

5. We intend to publish the IMF staff report, including this letter of intent and the attached MEFP and TMU. We therefore authorize Fund staff to publish these documents on the IMF website once the Executive Board has approved this new program under the ECF.

Very truly yours,

/s/	/s/
Henri-Marie Dondra	Firmin Ngrébada
Minister of Finance and Budget	Prime Minister

Attachments:
Memorandum of Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies (MEFP) for 2019

The MEFP describes recent macroeconomic developments, the objectives of the economic program supported by the Extended Credit Facility (ECF), the economic outlook and risks, as well as the macroeconomic policies and structural reforms that we intend to implement over the next three years.

BACKGROUND

1. **The program supported by the ECF that expired last July resulted in significant progress in terms of resumption of growth, reduction in fiscal and external vulnerabilities, and capacity building, all of which occurred in a challenging security environment.** Thus, the economic recovery accelerated after the 2013 crisis, while inflation remained moderate. Tax revenues grew by 0.7 percent of GDP per year in the period 2016–18, which contributed to a decline in the primary fiscal deficit and a substantial reduction in public debt. As far as the structural reforms are concerned, significant progress has been made in public financial management, controlling spending, strengthening the tax and customs administrations, the quality of economic data, and the capacity to implement macroeconomic policies.

2. **The government is pursuing its efforts to durably restore peace and stability in the Central African Republic (C.A.R.), in particular within the framework of the Political Agreement for Peace and Reconciliation (APPR).** Progress has been made since the signing of this agreement last February, including with the formation of an inclusive government, a gradual reduction in violations of the terms of the agreement by the armed groups, the strengthening of security forces, and the launching of joint security brigades. While significant, these results took a bit longer to materialize than initially planned. It is therefore crucial that we pursue our efforts to put an end to violence against the civilian population and allow for the redeployment of security forces and the restoration of public services throughout the country.

3. **The government will also continue to implement the National Recovery and Peacebuilding Plan (RCPCA).** In addition, we have decided to realign the objectives to improve our response to the most pressing needs of the entire population in general and the population in remote areas in particular. More specifically, once it has been formally extended in the first quarter of 2020, the RCPCA will focus first and foremost on basic social services, such as education, health, and food security, the agricultural and pastoral productive sectors, and improved governance (including justice and security). The government thus intends to take full advantage of the peace dividends arising from the APPR in order to accelerate the implementation of the RCPCA. The APPR and the RCPCA will therefore be the two essential pillars for the maintenance and strengthening of peace in the Central African Republic.

4. **The support of the international community remains essential to the achievement of these objectives.** While we intend to continue our efforts aimed at expanding our own resources, these resources will remain insufficient to allow us to meet the country's considerable needs for humanitarian, social, security, and infrastructure spending and the financing needs for the 2020–21 elections. The implementation of the APPR and the RCPCA will therefore remain dependent upon the support of our technical and financial partners.

RECENT MACROECONOMIC DEVELOPMENTS

5. **Recent macroeconomic developments have been broadly in line with expectations:**

- Economic growth, driven by the mining, forestry, and construction sectors, is expected to rebound to 4½ percent this year.
- Following an increase in inflationary pressures in the wake of a rise in the price of firewood (resulting from deforestation of areas close to Bangui) and the blockade of the trade route between Bangui and Cameroon in March, these pressures have eased somewhat. While inflation is expected to average 3¼ percent in 2019, it should be slightly negative year-on-year at end- year.
- The current account deficit is expected to decline to 5½ percent of GDP in 2019, owing primarily to an increase in current grants.

6. **Over recent months domestic fiscal revenues were substantially lower than expected.** They amounted to CFAF 86.1 billion in the first three quarters of 2019, compared to a projected total of CFAF 99.3 billion. This shortfall can be explained primarily by: further delays in the transfer of parafiscal taxes into the treasury single account (TSA); the impact of tax exemptions granted on a derogatory basis; a decline in the recovery of tax arrears; and delays in the recording of revenues from the provinces. Primary domestic expenditures were also lower than projected (CFAF 116.9 billion compared to CFAF 132.2 billion), owing in, particular to smaller transfers to public agencies and to delays in the execution of investment spending. Overall, the primary domestic fiscal deficit amounted to CFAF 30.8 billion, which is slightly lower (+CFAF 2 billion) than projected. Social spending reached CFAF 35.6 billion, which was substantially higher than projected (CFAF 30 billion). At CFAF 19.7 billion, the settlement of wage and domestic commercial arrears was lower than projected (CFAF 23.4 billion), owing to delays arising from the need to reach an agreement with the unions on the payment schedule.

7. **Public debt stock estimates for 2017 and 2018 were revised upward** (by around 0.9 percent and 1.5 percent of GDP, respectively). This revision is explained primarily by the previously incorrect classification—as grants—of disbursements under a World Bank project loan to finance the upgrading of the main road linking the C.A.R. and Cameroon.

8. **The government has continued the reforms aimed at improving public financial management and revenue mobilization.** Thus, we have begun an audit of the potential arrears not included in the 2017 arrears payment strategy. To date, we have managed to audit CFAF 75 billion in potential arrears, of which CFAF 2.4 billion were validated, CFAF 45 billion were rejected, and CFAF 27 billion will be the subject of additional investigation owing to a lack of sufficient documentation. In addition, the transfer of parafiscal taxes collected by public authorities to the TSA has been operational since mid-November 2019. Based on an audit of the public agencies levying them, the General Inspectorate of Finance (IGF) was able to identify several public agencies and parafiscal taxes with no economic justification. Furthermore, we launched a request for tenders to recruit a new service provider to support the customs administration in the valuation of imports, as well as the securing and certification of timber exports. To reduce official travel costs, we have undertaken negotiations with airlines.

9. **The financial sector's situation remains sound overall.** Commercial banks are sufficiently liquid and capitalized: the capital adequacy ratio was 31.4 percent in June 2019, one of the highest in the Central African Economic and Monetary Community (CEMAC) zone. The proportion of nonperforming loans fell sharply between 2015 and the first six months of 2019, from 30.9 to 19.1 percent of all loans, thanks to the repayment settlement of the government's various commercial arrears. However, credit to the private sector fell by 3 percent year-on-year in September 2019.

PROGRAM OBJECTIVES AND MEDIUM-TERM POLICIES

10. **Our economic program will aim at further reducing our fiscal and external imbalances, while promoting robust and sustainable growth and reducing poverty.** It will be based on a sound fiscal policy aimed at ensuring the sustainable financing of our needs in terms of humanitarian, social, security, and infrastructure spending through further efforts to mobilize domestic revenue and rationalize non-priority expenditures. It will also be supported by an ambitious structural reform program that is intended to provide for: further strengthening of the country's institutions and governance, which is essential for building greater social cohesion; and the elimination of bottlenecks and regulatory barriers to private investment.

ECONOMIC OUTLOOK AND RISKS

11. **The medium-term outlook remains favorable.** Growth is expected to reach 5 percent over the medium term, thanks to an improved security situation, the recovery of the mining sector, the implementation of structural reforms, and the gradual easing of bottlenecks in the energy and transport sector. Inflation is expected to remain moderate, while the current account deficit is expected to stabilize at around 5½ percent of GDP over the medium term, with a gradual improvement in the balance of transactions in goods and services compensating for the expected decline in official transfers.

12. **The success of the program is subject to both upside and downside risks.** A deterioration in the security situation could compromise the government's efforts. In addition, the weakness of administrative capacities and vulnerabilities to corruption could slow down the pace of reforms and the implementation of the development strategy. Externally, an intensification of global trade tensions could undermine growth and affect commodity prices. A delay in the granting of external budgetary assistance could hinder the government's ability to respond to the most urgent spending needs. Nevertheless, a more rapid implementation of reforms and successful implementation of the peace agreement could stimulate growth over the medium term.

ECONOMIC AND FINANCIAL POLICIES

I. FISCAL POLICY

13. **We will continue to implement a sustainable fiscal policy aimed at ensuring the sustainable financing of the Central African Republic's most pressing needs**. This policy will be guided by the objective of gradually reducing public debt, from 50 percent of GDP at end-2018 to less than 40 percent at end-2022. In order to achieve this, we are committed to lowering the domestic primary balance to 2.5 percent over the medium term. This strategy will be backed up by a policy aimed at increased mobilization of domestic revenue, rationalization of non-priority spending, and an improvement in the efficiency of public spending. To avoid compromising fiscal sustainability, we will resort only to concessional loans to finance our investments and do so within the limits established under the ECF-supported program.

14. **The government is determined to contain the primary domestic fiscal deficit to less than 3 percent of GDP in 2019.** Given domestic revenues that are lower than projected, this will imply keeping domestic primary spending at CFAF 158.9 billion. This will be achieved primarily through smaller transfers to public agencies (to compensate for the decline in their own resources) and the postponement of some investment projects.

15. **We submitted to the National Assembly a draft budget law for 2020 that is in line with the program objectives (prior action).** This draft law calls for a significant increase in domestic revenue to contribute both to the financing of an increase in priority domestic spending and to a reduction in the domestic primary fiscal balance to 2.7 percent of GDP. An increase in domestic revenue by 1 percent of GDP should result from the impact of the transfer of parafiscal revenue to the treasury single account and from fiscal policy measures, such as the *ad valorem* taxation of used cars imports and the alignment of excise taxes with the new CEMAC regulations. The increase in spending affects primarily the Ministry of Education (+27 percent), the Ministry of Health (+35 percent), humanitarian actions (+10 percent), and elections (+30 percent). The draft law also provides for elimination of six public agencies without economic justification. The domestic primary deficit and the payment of domestic arrears (see below) will be financed by budgetary support from our partners and a decline in deposits held by the government with the Bank of Central African States (BEAC).

Text Table 1. Impact of tax measures

Revenue measures	Expected yield (CFAF billion)
Taxation ad valorem of used vehicles	1.0
Excise taxes on imported goods	0.5
Excise taxes on locally produced goods	0.3
Administrative measures	0.5
Total	2.3

II. PUBLIC FINANCIAL REFORM

The continuation of structural reforms is essential to achieve the fiscal policy objectives and to address some of the issues that were raised by the recent governance diagnostic mission.

Revenue Mobilization

16. **In accordance with our commitments under the previous program, we will ensure that all exemptions granted to companies by the government fall within the framework provided for by the law and are not granted on an exceptional basis.** As such, from now on, draft inter-ministerial orders granting tax and customs exemptions under the investment charter will be systematically submitted to the inter-ministerial committee responsible for tax and customs exemptions for approval prior to their adoption, and the committee will forward its opinion to the Minister of Finance. In addition, by end-March 2020 we will conduct a review of all the exemptions granted to companies in order to ensure that they follow the law. Measures taken on an exceptional basis will be brought into compliance. Finally, upon expiration of the agreements and extensions, we will verify that all the commitments made by the exempt companies are kept, otherwise reimbursement for the exemptions will be made.

17. **Along these same lines, in October 2019 the government launched a project to digitize tax procedures with the aim of reducing vulnerabilities to corruption, facilitating declaration formalities, and improving the business environment.** Over the short term, by end-June 2020 we will put into place a pilot electronic payment system for large companies and provide for the widespread use of electronic filing and electronic payment of taxes by these same companies by end-2020 (structural benchmark). We are also committed to ensuring that all corporate tax returns for 2018 and 2019 are entered in the SYSTEMIF software program by end-June 2020 (structural benchmark). Over the medium term, we intend to digitize all tax procedures with the support of our partners.

18. **Significant efforts will be made to strengthen controls on values declared at customs.** We are committed to recruiting a new provider by end-January 2020 to provide support in controlling import valuation and certifying and securing timber export revenues (structural benchmark). We will reinstate the monthly meeting for reconciliation of the provider's

data with customs data starting in March 2020 (based on February data) and we will evaluate the implementation of the new contract by end-September 2020. The government also intends to put into place a logistics and customs platform at the port of Douala as part of a public/private partnership. Negotiations with the partner who has been identified are in progress and the contract should be finalized by end-March 2020. Furthermore, the government is going to rehabilitate the PK 26 regional office to improve the control of goods intended for consumption in Bangui. In addition, we will continue to strengthen the controls on the profit tax and the income tax, as well as those on the VAT, in collaboration with customs department as part of the joint brigade.

19. **We will also strengthen further security with regard to the use of the ASYCUDA (Automated System for Customs Data) information system.** With a view to reducing vulnerabilities to corruption, we have halted the use of temporary tax identification numbers for imports and the entry of declarations by customs agents, and we reiterate our commitment to eliminating the fast-track customs clearance units by end-January 2020. Moreover, we are committed to continuing the rollout of the ASYCUDA software to the main customs clearance offices. In the short term, by June 30, 2020, we will ensure the interconnection of the Douala single window and the offices in Berberati and Mongoumba with the central customs services in Bangui. In the medium term, the government intends to roll out ASYCUDA World, which offers greater flexibility and is more secure.

Consolidation of the TSA

20. **We will continue to consolidate the TSA and to implement a strict management of the government's cash flow.** Pursuant to the IMF's recommendations, we are committed to conducting a daily reconciliation of the revenue data provided by the tax and customs administrations with the Treasury data starting on January 1, 2020. In order to facilitate this reconciliation, we will adopt a manual on the relevant procedures (prior action). We are also committed to launching the SygmaSystac software on that same date, which will allow for the real-time processing of operations on the Treasury account at the BEAC, automated tracking of the cash balance, and its reconciliation with monetary data. Consistent with the IGF recommendations, we will also submit to parliament by end-June 2020 a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification (structural benchmark).

21. **We will identify all the fees and minor revenues collected by the ministries.** We are aware that certain fees or charges collected by the ministries are not reflected in the budget, in terms of both revenues and expenditures. The corresponding revenues are not accounted for correctly nor are they transferred to the Treasury and their use is not consistent with public expenditure standards. We therefore intend to identify all these revenues and monitor their use during the first quarter of 2020. Based on this identification process and the outcome of the monitoring, we will subsequently adopt an action plan aiming at eliminating the unjustified fees

and transferring other revenues to the TSA by end-2020. We will integrate these revenues and the corresponding expenditures into the draft budget law for 2021.

Public financial management

22. **The government remains determined to implement the public financial management reform program**, the action plan for which was updated during the IMF technical assistance mission in November 2019. With the support of the World Bank, the development of the new budget and accounting management software (Sim-ba) is under way and it is expected to be completed by end-June 2020 and tested during the second half of the year. The software will be put into use starting on January 1, 2021, in parallel with GESCO, the old application. We will also redouble our efforts to limit the use of exceptional spending procedures to 5 percent of non-salary spending. We are committed to the strict application of the regulatory provisions adopted in 2019 to limit expenditures related to medical evacuations and to the regularization of mission expenses. We also intend to finalize by December 31, 2019, the draft agreements with airline companies to reduce mission expenses. In addition, with a view to the conversion of budget management to medium-term programming, as of January 1, 2020, we will expand the delegation of expenditure commitments to five additional line ministries. Finally, within the framework of the project to digitize revenue-collecting agencies, we will use electronic transfer to pay the salaries of the officials living in two localities in early 2020.

23. **We are determined to improve governance in the management of public procurement in order to increase the efficiency of expenditures.** We will revise the public procurement code, with the support of the World Bank, in order to submit the revised legislation to the National Assembly by December 31, 2020. During the overhaul of public procurement management procedures, we will focus on the following elements:

- Submit public investments above a certain threshold to mandatory cost-benefit analysis (which will initially require support from the funding entities).
- Publish these assessments.
- Introduce a legal obligation—accompanied by sanctions in the event of noncompliance—to publish tenders on the government's website.
- Publish criteria for the selection of the companies.

In the medium term, the General Directorate for Public Procurement will work on developing a management tool backed up by a public procurement portal to ensure full transparency of the public procurement mechanism.

Clearance of domestic arrears and public debt management

24. **We will continue the implementation of the action plan for the clearance of domestic arrears approved in 2017, which we will complete in 2020.** We are also committed to auditing all the potential domestic arrears identified in the Spring of 2019. Before

end-June 2020 we will conduct additional investigations of the CFAF 27 billion whose audit could not be completed owing to a lack of sufficient documentation, as well as an audit of the CFAF 46 billion that have not yet been audited. During the third quarter of 2020, we will adopt a schedule for the clearance of these arrears before end-December 2021. In order to avoid the accumulation of new domestic arrears, in addition to the consolidation of the TSA, we will continue to improve the cash flow plan and its synchronization with the consolidated commitment plan and the plan for issuing debt securities.

25. **We will also continue our efforts to improve public debt management.** We have taken the necessary measures to ensure that the Public Debt Directorate has all the information required to perform comprehensive monitoring of our commitments and that this information is reflected in the Sygade program. We are committed to preparing the debt management report [on an annual basis] and publishing it on the website of the Ministry of Finance. We will continue to negotiate in good faith with creditors to whom pre-HIPC arrears are owed and with whom we do not yet have debt relief agreements with a view to concluding such agreements.

26. **Given the high risk of debt distress, the government will continue to rely on grants and will not enter into any non-concessional loan agreement.** The use of concessional loans will be limited to investment projects critical to the country's development for which it will not be possible to obtain grants, and within the limits agreed upon with the IMF (a total of 5 percent of GDP for the duration of the program). So as to not increase further the already elevated debt-service-to exports and -to-revenue ratios projected over the medium term these loans will need to have long grace periods and/or repayments schedules.

Supervision of public enterprises

27. **The government intends to implement without delay a reform of the supervision of public and para-public institutions and enterprises.** The draft legal framework that we presented to the National Assembly will allow for an improvement in the financial oversight and supervision of these structures. We intend to approve its secondary legislations by end-March 2020 (structural benchmark) and include the first annual report on their performance as an annex to the draft budget law for 2021.

III. PROMOTE GOVERNANCE AND THE BUSINESS ENVIRONMENT

Promote transparency and good governance

28. **We will publish the final report of the IMF diagnostic mission on governance by end-March 2020.** We globally agree with the diagnostic assessment and the recommendations made in the report, which we intend to use to update our anti-corruption strategy (a first draft of which will be prepared by March 2020 and which will be published later). We intend to continue our dialogue with IMF staff and technical and financial partners to ensure that this strategy is focused on the most critical areas at the macroeconomic level and that it can benefit from the necessary technical assistance.

29. **We intend to articulate this anti-corruption strategy around a pact of transparency and exemplarity.** We will stress the following issues in particular:

- ***Strengthening the transparency framework*** through: (i) the systematic publication of all laws on the government's website (all new laws will be published immediately after their enactment), along with their implementing documents, decrees, and orders, starting in 2021; (ii) as of July 1, 2020, the publication of all judicial rulings on the websites of the institutions concerned, or in the absence of dedicated websites, on the government's site, starting with judicial decisions of the Constitutional Court, the Court of Cassation, Appeals Courts, the Council of State, and Administrative Appeals Courts; (iii) a campaign to make officials aware of the rights and obligations contained in the law on transparency through publications in the press before end-June 2020; (iv) as of July 1, 2020, the application of administrative sanctions for failure to publish the information required by the law on transparency; and (v) readmission, in the future, to the Extractive Industries Transparency Initiative (EITI) through the use of the government's website to publish not only all contracts granting licensing rights for natural resources, [but also] basic data on production and revenues allocated to the budget, to allow for a comparison of revenues owed to the government against those actually received.
- ***Reducing impunity by strengthening incentives to comply with the law.*** We will strengthen awareness of the laws among officials and government employees through: (i) public awareness campaigns; and (ii) the strict application of administrative sanctions against officials who do not comply with the law.
- ***Strengthening the legal arsenal to help combat corruption.*** The asset declaration regime will be brought into alignment with the applicable international good practices via a law that will be submitted to the National Assembly by September 2020 (structural benchmark) and will include: (i) sanctions and penalties in the event that the declaration obligation is not met or a false declaration is made; (ii) broadening the range of persons who are required to declare their assets; (iii) redesign of the form for the declaration of assets (including external assets); (iv) extension of the asset declaration requirement to family members and close associates; (v) declaration verification procedures; and (vi) a mechanism to implement the constitutional requirement to publish declarations. Finally, we will allow for the possibility of verifying the accuracy of information provided in asset declarations, through the cross-checking of declarations against information available to the tax administration. We will submit a new anti-corruption law to the National Assembly in line with the provisions of the United Nations Convention against Corruption (UNCAC) by March 2021. Under this law, it is our intention to create an anonymous reporting system via a free telephone hotline that allows citizens to raise alerts regarding problems of bad governance or corruption with the competent authorities, while providing the necessary protections for whistleblowers. Finally, we will submit to the National Assembly

by end-March 2021 a draft organic law setting formally the Audit Court's responsibilities and providing for the systematic publication of its reports.

- ***Strengthening the rule of law.*** Starting in 2021 we are planning on the annual publication of data, court by court, on: (i) the number of new cases settled during the year; (ii) the total number of cases brought before the court; and (iii) the average time it takes for a case to be handled by the courts. We will put into place specialized training for commercial court judges and we will launch public awareness campaigns regarding the legal requirement (according to the 1958 law) to have real property transfers performed based on notarized deeds (thereby excluding transfers by private arrangement), through announcements in the media in particular.

Improvement of the business environment

30. **The government is determined to improve the business environment in order to promote the development of the private sector**. The draft law capping the fines in the event of unlawful employment termination is expected to be approved by the National Assembly soon. With the support of the United Nations Development Programme (UNDP), we have undertaken an updating of the Labor Code, a revised version of which is expected to be submitted to the National Assembly by end-March 2020. We are also working with the World Bank on a draft electronic business guide, and on a diagnostic assessment of the private sector. This diagnostic assessment, which will be completed by end-June 2020, will evaluate the major opportunities for and constraints on private sector development and it will seek to identify the priority actions and political reforms needed over the next three to five years for the mobilization of private investment. In addition, we intend to continue the strengthening of the Joint Consultation Framework for Business Improvement (CMCAA) in order to promote and strengthen the government-private sector dialogue.

31. **Other structural and institutional reforms will be implemented**. They will regard in particular the updating and simplification of tax and customs procedures within the context of the project to digitize revenue-collecting agencies that was launched in October 2019. With the support of the World Bank, we are in the process of drafting a new mining code, which we intend to submit to the National Assembly by end-March 2020. Furthermore, we will carry out a reform of the judicial sector in line with the strategy approved in September 2019.

32. **We will pursue financial sector reforms**. With the development of banking transactions via mobile phone (which grew from CFAF 2.9 billion to CFAF 10.9 billion between 2017 and 2018), financial inclusion is progressing for the entire population. A working group has been created to follow up on the recommendations from the "Financial Sector and Justice in the C.A.R." conference that was organized by the National Credit Council (CNC) in June 2018. The group has prepared and submitted to the CNC draft laws and inter-ministerial orders regarding the creation of and operating procedures for an arbitration and mediation center, as well as an arbitration chamber under the commercial court that would be responsible for banking and financial disputes.

SUPPORT FOR THE IMPLEMENTATION OF REGIONAL FOREIGN EXCHANGE REGULATIONS

33. **In order to make a meaningful contribution to rebuilding the subregion's foreign exchange reserves, the government will continue to support the implementation of the new foreign exchange regulations by the regional institutions:**

- From the identification of accounts abroad held by state-owned enterprises, it was determined that only the SODIAC company held an account abroad as required by the IATA. The company will file a request with the BEAC by end-December 2019 for an exception to the foreign exchange regulations in order to be able to keep its account.
- The contracts concluded with extractive industry operators, specifying revenue sharing, the procedures for repatriating this revenue, and the financial terms, have been shared with the BEAC and the Technical Secretariat of the CEMAC's Economic and Financial Reform Program (PREF-CEMAC). The government will set a timetable to make certain that these contracts are in full compliance with the new foreign exchange regulations by end-March 2020. Lastly, we are committed to consulting with BEAC staff prior to the signature of new mining concession contracts/permits or revenue-sharing agreements with extractive industries to ensure they are following foreign exchange regulations.
- The BEAC has held high-level consultative meetings with commercial banks, the private sector, and government agencies to clarify the new foreign exchange regulations and to examine all issues relating to their implementation.
- The government has instructed the unit responsible for the repatriation of export earnings within the Ministry of Finance to do its due diligence with respect to the new body of regulations on the domiciliation of all export transactions with a resident commercial bank.

CAPACITY BUILDING

34. **The technical assistance (TA) and training provided by the IMF will be vital in the coming years for building our institutional capacity and ensuring the successful implementation of this new program supported by the ECF.** We have designed and are implementing with the IMF a capacity-building strategy, which was updated in May 2019. To this end, we are receiving ongoing technical assistance to improve customs and tax revenue collection, ensure better cash management, and strengthen the public expenditure chain.

35. **We will implement this capacity-building strategy with the support of the Fund, the World Bank Group, the European Union, France, and other development partners.** Our priorities in terms of TA are as follows: (i) improvement of revenue administration; (ii) strengthening of public financial management and improvement of fiscal governance and anti-corruption mechanisms; (iii) building macroeconomic programming and debt management capacity; and (iv) improvement of the quality of economic and financial statistics.

36. **Similar strategies were designed in coordination with other donors in their own fields of intervention.** Similarly, we will continue efforts to strengthen and coordinate the support of our partners to make the most of available technical assistance. To this end, we have increased the staff of the Economic and Financial Reform Monitoring Unit (*Cellule de suivi des réformes économiques et financières*, or CS-REF) in charge of following up on the reform program and coordinating the technical assistance and training provided by all partners.

PROGRAM MONITORING

37. **Program monitoring will be carried out using quantitative performance criteria, indicative targets, and structural benchmarks as defined in the Technical Memorandum of Understanding** (Attachment II). The quantitative performance criteria have been set for end-December 2019 and end-June 2020, and the indicative targets have been set for end-March and end-September 2020 (Table 1). Structural benchmarks have been set up to December 2020 (Table 2). It is envisaged that the first review of the ECF arrangement concerning performance at end-December 2019 will take place by end-June 2020 and that the second review concerning performance at end-June 2020 will take place by end-December 2020.

38. **Exchange restrictions**: Throughout the duration of the program, we are committed not to impose or expand restrictions on payments and transfers relating to current international transactions, resort to multiple currency practices, conclude bilateral agreements that do not comply with Article VIII of the IMF's Articles of Agreement, or impose or expand restrictions in order 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. In accordance with the recommendations from the tripartite discussion, we support the efforts by the BEAC in the implementation of the exchange regulations by pursuing the full repatriation of export earnings and the centralization of foreign currency holdings on the BEAC's books, including actions to ensure that all public entities repatriate and surrender their foreign currency holdings.

Table 1. Central African Republic: Proposed Performance Criteria and Indicative Targets, 2019–20

(in CFAF billions)

	End December 2019	End-March 2020	End-June 2020	End-September 2020	End-December 2020
	PC	Indicative Target	PC	Indicative Target	Indicative target
Quantitative performance criteria					
Domestic government financing (ceiling, cumulative for the year)	-27.0	17.0	-4.0	25.0	18.0
Domestic revenue (floor, cumulative for the year) [1]	118.0	34.6	70.8	104.2	141.7
Domestic primary fiscal balance (floor, cumulative for the year)[2]	-40.9	-3.6	-9.4	-26.5	-39.9
Repayments of domestic arrears (floor, cumulative for the year)	29.5	9.0	18.0	27.0	36.4
Continuous performance criteria					
Contracting or guaranteeing of new external non concessional debt (ceiling) [3,4]	0.0	0.0	0.0	0.0	0.0
Non accumulation of external payments arrears (ceiling, cumulative for the year)[3,4]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Social spending (floor, cumulative for the year)[5]	25.0	5.9	12.4	20.2	28.0
Spending through extraordinary procedures (ceiling, cumulative for the year)	4.7	1.2	2.5	4.0	5.6
Memorandum item: [6]					
New concessional/external debt contracted or guaranteed by the government	6.0	25.0	25.0	25.0	25.0
Budget support	81.9	0.0	31.1	31.1	54.1
Privatization receipts	0.0	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.

[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.

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

[6] Projected on a cumulative basis.

Table 2. Central African Republic: Prior Actions and Structural Benchmarks, January 2020–December 2020

Measures	Timeline	Macroeconomic Rationale
Submit to parliament the 2020 draft budget in line with program objectives	Prior action-Met	Improve accountability
Adopt a procedures manual for the daily reconciliation of the customs and tax departments' revenue estimates with those of the treasury department	Prior action	Improve transparency and revenue collection
Recruit new service provider to assist the custom authorities in controlling import valuation and certifying and securing timber export revenues	End-January 2020	Improve transparency and revenue collection
Approve secondary legislations to support the implementation of the new legal framework for public and para-public institutions and enterprises	End-March 2020	Improve oversight of SOEs
Submit to parliament a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification identified by the IGF	End-June 2020	Improve transparency and revenue collection
Capture all the 2018 and 2019 corporate tax returns into the SYSTEMIF IT system	End-June 2020	Reduce corruption and improve revenue collection
Submit to Parliament a law to bring the asset declaration regime into alignment with the applicable international good practices	End-September 2020	Improve accountability
Deploy e-procedures (declaration and payments) for large companies	End-December 2020	Improve transparency and revenue collection

Attachment II. Technical Memorandum of Understanding 2019

1. **This Technical Memorandum of Understanding (TMU) defines the quantitative targets (performance criteria and indicative targets) and structural benchmarks that will be used to evaluate performance under the program for the Central African Republic (C.A.R.) presented in the Memorandum of Economic and Financial Policies.** The TMU also establishes the framework and deadlines for the reporting of data which will enable IMF staff to evaluate the program's implementation.

E. Definitions

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

3. **Definition of debt**. The definition of debt is set out in point 8 of the Attachment to IMF 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.

(d) **Domestic debt** is defined as debt borrowed or serviced in the CFA franc.

4. **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).

5. **Concessional debt.** A debt is considered concessional if its grant element is at least 35 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.

6. **Total government revenue** is tax and nontax revenue or other revenue recorded on a cash basis. Proceeds from financial 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.

7. **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 investment expenditure, recorded on a settlement basis, unless otherwise stated. Total government expenditure also includes expenditures executed before payment authorization and not yet settled.

8. **Wages and salaries** correspond to the compensation of government employees as described in paragraphs 6.8–6.18 of *GFSM 2014*, 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, and any other form of monetary or non-monetary payment

9. **For the purposes of this memorandum, the term arrears** is defined as any debt obligation (as defined in paragraph 3 above) that has not been paid in conformity with the conditions specified in the pertinent contract establishing them.

10. **Domestic payment arrears** are the sum of: (i) payment arrears on expenditures; 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 "balances payable" (or "amounts due"). Balances payable correspond to government unpaid financial obligations and include the domestic floating debt in addition to expenditure arrears. They are defined as expenditures incurred, validated by the financial controller, settled (authorized), and assumed by the public Treasury, but which have not yet been paid. These obligations include bills payable but not paid to public and private companies, but they do not include domestic debt financing (principal plus interest). For the program target, domestic payment arrears are "balances payable" whose maturity goes beyond the 90-day regulatory deadline, while floating debt represents "balances payable" whose maturity does not go beyond the 90-day deadline.

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

11. **External payment arrears** are defined as arrears on external debt obligations. They represent the difference between the amount required to be paid under the contract and the amount actually paid after the payment deadline specified in the pertinent contract.

F. Quantitative Targets

12. **The quantitative targets listed below are those specified in Table 1 of the MEFP.** Adjusters of the quantitative targets are specified in Section D**.** Unless otherwise indicated, all performance criteria and indicative benchmarks are assessed on a cumulative basis from the beginning of the calendar year in which they are set.

a) Performance Criteria

Ceiling on net domestic financing of the government

- **Net domestic financing of the government** is defined as the sum of (i) net bank credit to the government, defined below; and (ii) non-bank financing of the government, including proceeds from the sale of financial assets, proceeds from privatization or the granting of licenses, Treasury bills, and other securitized debt issued by the government in the CEMAC regional financial market and denominated in CFA francs, 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).

- **Net 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], securitized 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 local commercial banks, including Treasury bills and other securitized debt.

Floor for domestic government revenue

- **Domestic government revenue:** only revenue on a cash basis (tax and nontax revenue) will be taken into account in the TOFE.

Floor for the domestic primary fiscal balance

- **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 for the payment of domestic arrears

- The government undertakes to settle on a priority basis **domestic arrears** that have been validated.

Ceiling on new external debt contracted or guaranteed by the government

- **The government undertakes not to contract or guarantee non-concessional loans.**

Non-accumulation of new external payment arrears by the government

- **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 is applied on a continuous basis.

b) Indicative targets

Floor for social spending

- Poverty-reducing social spending comprises public non-wage spending on national education (primary, secondary, and higher education), health, social action (promotion of women and families, humanitarian actions), water and sanitation, microfinance (small and medium-sized enterprises and industries), agriculture, livestock, and rural development. Only domestically-financed spending is taken into account. Its execution is monitored on a payment-order basis during the program.

Ceiling on spending through extraordinary procedures

- This ceiling is set at 5 percent of total non-salary spending or debt service (principal and interest) and funded by external resources.

c) Memorandum item

Ceiling on new external concessional debt contracted or guaranteed by the government

- Recourse to concessional debt will be limited to investment projects critical to the country's development for which it will not be possible to obtain grants.

G. Adjusters of Quantitative Targets

13. To take into account the factors or changes that are essentially outside the government's performance, **various quantitative targets for 2020 and beyond** will be adjusted as follows:

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

   i. The ceiling on net domestic financing of the government will be adjusted upward by an amount equivalent to 50 percent of these additional receipts;

ii. The floor for the primary domestic budget balance will be adjusted downward by an amount equivalent to 50 percent of these additional receipts.

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

i. The ceiling on net domestic financing of the government will be adjusted downward by an amount equivalent to 50 percent of the disbursements in excess of the programmed amounts;

ii. The floor for the primary domestic budget balance will be adjusted downward by an amount equivalent to 50 percent of the disbursements in excess of the programmed amounts.

c. **If the total budget support is less than the programmed amount**, the following adjustments will be made:

i. The ceiling on net domestic financing of the government will be adjusted upward by an amount equivalent to the remainder of disbursements programmed but not made, that is, 50 percent of the disbursements programmed but not made;

ii. The floor for the primary domestic budget balance will be adjusted upward by an amount equivalent to 50 percent of the disbursements programmed but not made.

H. Structural Benchmarks

a) Prior actions

These measures need to be implemented prior to the discussion of the new ECF arrangement by the IMF Executive Board.

Submit to parliament the 2020 draft budget in line with the program objectives

- This draft should be in line with the commitments made under paragraph 15 of the MEFP.

Adopt a procedures manual for the daily reconciliation of customs and tax departments' revenues estimates with those of the treasury department

- This manual will define the procedures to be followed in the daily reconciliation of customs and tax data with Treasury data in order to improve transparency and the mobilization of budget resources.

b) Structural benchmarks

Recruit new service provider to assist the custom authorities in controlling import valuation and certifying and securing timber export revenues

- By end-January 2020 a new service provider should be recruited to assist the customs administration and to carry out a valuation of imports and secure the export revenues of the forestry sector.

Approve secondary legislations to support the implementation of the new legal framework for public and para-public institutions and enterprises

- These implementing decrees should be adopted by end-March 2020.

Submit to parliament a draft supplementary budget law providing for the elimination of the seven remaining public agencies without economic justification identified by the IGF.

- This draft law should be submitted by end-June 2020.

Capture all the 2018 and 2019 corporate tax returns into the SYSTEMIF IT system

- All corporate tax returns for 2018 and 2019 should be entered into the SYSTEMIF IT system before end-June 2020.

Submit to Parliament a law to bring the asset declaration regime into alignment with the applicable international good practices.

- This law, which is expected to be presented to parliament by end-September 2020, will, inter alia, specify the assets that are supposed to be declared, the persons concerned, the means for the publication of declarations, and penalties in the event of failure to comply with the law.

Deploy e-procedures (declaration and payments) for large companies

- Online procedures for filing tax returns and making tax payments are expected to be put into place for large taxpayers before end-December 2020.

I. Reporting of Data to the IMF

14. **Quantitative data on the government's indicative targets will be reported to IMF staff according to the periodicity described in Table III.** 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 3. Central African Republic – Reporting of Data to the IMF under the ECF Funding Arrangement	
Description of data to be provided in Excel format	**Deadline**
Semi-annual evaluation report on qualitative indicators and structural measures (Tables 1 and 2 in the MEFP), accompanied by supporting documents	Within four weeks of the end of each quarter
Monetary survey, monthly central bank and commercial bank accounts	Within four weeks of the end of each month
Table of the government's monthly cash flow operations, reconciled with the BEAC	Within 10 days of the end of each month
Government financial operations table (TOFE)	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
Stock of external debt at end of period	Within four weeks of the end of each month
Breakdown of expenditures listed in the TOFE (goods, 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, whether domestically or externally funded	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 netted out 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 creditors	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