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The World Bank

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Report No. 15237

PROJECT COMPLETION REPORT

CENTRAL AFRICAN REPUBLIC

THIRD STRUCTURAL ADJUSTMENT CREDIT
(CREDIT 2162-CA)

Country Operations Division
Central Africa and Indian Ocean Department
Africa Region

CURRENCY EQUIVALENTS

At project approval, the CFA franc (CFAF) was tied to the French Franc (FF) in the ratio of FF 1 to CFAF 50. Since January 12, 1994, the exchange rate is FF 1 to CFAF 100.

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

BEAC	Central Bank of Central African Countries
BIAO	Subsidiary of Meridien Africa BIAO Group
CAISTAB	Parastatal Stabilization Fund for Agricultural Products
CAR	Central African Republic
MOURA	Parastatal Coffee Export Company
PETROCA	Parastatal Petroleum Company
SAC	Structural Adjustment Credit
UBAC	Parastatal Bank in CAR

FISCAL YEAR

January 1 - December 31

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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

December 29, 1995

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Program Completion Report for the Central African Republic - Third Structural Adjustment Credit (SAC III) (Credit 2162-CA)

Attached is the Program Completion Report (PCR) for the Central African Republic Third Structural Adjustment Credit (SAC III, Credit 2162-CA, approved FY90), prepared by the Africa Region, with Part II contributed by the Borrower.

SAC III followed two earlier SACs, approved in FY87 and FY88, respectively. While some limited adjustment measures were implemented during the period covered by the first two SACs, notably the relaxation of price controls, major macroeconomic targets were not met. Thus, the outcome of both operations was rated as unsatisfactory by OED. Major problems included a too complex set of actions, insufficiently prioritized, inadequate internalization of the program, and weak Government administration and implementation capacity. In addition, the fiscal basis for the sustainability of many reforms remained very fragile.

The main lesson from the earlier experiences, i.e. the need to keep the program simple and focussed, was not heeded in the case of SAC III, possibly because of excessive optimism in the Bank and in the country: exports and GDP growth had been relatively robust during 1989 and the establishment of a Resident Mission in 1988 had led to excellent Bank-country relations. Thus, while SAC III extended the time-frame for many of the earlier reforms and added some new measures, it, again, was overly complex. Its overall objectives were an increase in economic growth, improved macroeconomic balances, strengthened administrative capacity of the Government and human resource development. Actions to achieve these objectives included macroeconomic management (with emphasis on resource mobilization, expenditure control and investment planning), civil service reform, reform of the enterprise and financial sectors, greater incentives for private sector expansion, reform of agricultural institutions and policies, and measures to address the social dimensions of adjustment.

The majority of the objectives of SAC III were not met. GDP declined, the fiscal situation worsened and human resource development came to a virtual standstill. The time required to implement the reforms was underestimated, priorities were not clearly set, and the conditionality package focussed too much on action plans and not enough on actions. The deterioration in the country's political situation, due to delays in an anticipated transition to democracy, compounded the problems. The Government's weak managerial capacity deteriorated further along with the political situation. Thus, the outcome of the program is rated as highly unsatisfactory and sustainability is rated as unlikely. The institutional development impact is rated as negligible.

The PCR is candid and of good quality. It concludes that it would have been preferable to close the credit earlier, instead of extending the closing date three times, and reconfirms the lesson that strong government commitment, evidenced by up-front reforms, is essential for the success of adjustment programs. No audit is planned.

Attachment

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PREFACE

This is the Project Completion Report (PCR) for the Third Structural Adjustment Credit in the Central African Republic (CAR) for which Cr. 2162-CA in the amount of SDR 34.5 million was approved in June 1990 and became effective in August 1990. The Credit Closing Date, originally anticipated for December 31, 1991, was postponed three times until June 30, 1994. The last supervision mission took place in May 1994.

This PCR was prepared by a consultant with the assistance from staff of the Country Operations Division (AF3C1) of the Central Africa and Indian Ocean Department of the Africa Region. A completion report was also prepared by the Borrower and a translation is included here as Part II. The original report is available in the Project file.

This PCR was compiled on the basis of information available in Washington. It is based, *inter alia*, on the Report and Recommendation of the President to the Executive Directors, the Development Credit Agreement, supervision reports, correspondence between the Bank and the Borrower, interviews with Bank staff involved in the project and internal Bank memoranda.

PROJECT COMPLETION REPORT

CENTRAL AFRICAN REPUBLIC

THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

EVALUATION SUMMARY

1. With a population of 3.2 million and a surface area exceeding that of France, the Central African Republic enjoys a wealth of agricultural and mineral resources. However, development of these resources is constrained by inadequate transport facilities, the high cost of reaching the sea, and problems of management. After the fall of Emperor Bokassa in 1979, the country was in need of extensive economic and political reforms; consequently, CAR sought the support of the Bretton Woods institutions. In 1981 and 1985, the Bank extended two technical assistance credits to the country. Three Stand-by Arrangements were approved by the IMF in 1983, 1984 and 1985, followed by two structural adjustment credits (SACs I and II) from IDA in September 1986 and June 1988.

2. This first phase of adjustment helped stabilize CAR's fiscal position but failed to restore economic growth. Over the second half of the 1980s, GNP grew 1% a year in real terms compared with annual population growth of 2.5%. The civil service wage bill was contained at about CFAF 25 billion but continued to absorb over 60% of public revenues, which remained flat around CFAF 40 billion annually over this period. Some progress was realized in the adjustment period covered by the first two SACs: price controls were relaxed and the number of public enterprises reduced. On the whole, however, the program's objectives were lost and the time required to implement the ambitious reforms was underestimated.

3. The preparation of SAC III got under way towards the end of 1989 amid a climate of optimism, before the second tranche of SAC II had been released. Export receipts saw strong gains that year and, one year after Bank's setting up a resident mission in Bangui, relations between the government and the Bank were excellent. A series of committees was created at end-1989 to help internalize the adjustment program, and the first draft of a Letter of Development Policy was drawn up in Bangui.

4. In the President's Report to the Board, the objectives of the program approved on July 2, 1990 were summarized as follows: "To achieve a real annual GDP growth rate of about 3.5% during the period of the program, while, at the same time, improving the major macro-economic balances, pursuing greater equity, strengthening the administrative capacity of the government, human resource development, and reducing the social costs of adjustment". A very different scenario materialized, however, with the deterioration in CAR's political situation. Indeed, GDP posted a decline of 1.5% per year instead of the 3.5% growth target. The public finance situation worsened considerably, yielding an accumulation of payment arrears four times greater than receipts collected in 1993. Without receiving regular payment, teachers stopped teaching and schools remained closed for over two years, between 1991 and 1993. The public health centers which were not financed by donors stopped functioning.

5. How could such a drastic change have occurred? Those who designed the program in the early months of 1990 believed that an opening up of the political arena was imminent following the

conclusions reached at the Party Congress (RDC, CAR's sole political party). The population awaited a declaration to that effect by President Kolingba. As no such declaration ensued, optimism gave way to impatience and led to unrest and strikes by the end of 1990. Strikes slowed the collection of tax receipts and the government became unable to pay civil servants, which resulted in more strikes.

6. In the early months of 1991, the authorities had hoped to break the vicious circle with external financing anticipated as an outcome of a Round Table held in Geneva on April 29-30, 1991; but the meeting was unsuccessful. The domestic political situation deteriorated, as the general strike launched on April 27 took widespread effect and the large size of the Central African delegation reflected poorly on the government's commitment to an austerity program. Following the Round Table, CAR was no longer able to count on any significant external assistance without putting its finances in order in the context of an IMF-supported program. This hardly appeared possible, however, without a resolution of the country's political crisis, which was growing progressively worse. Indeed, President Kolingba was becoming increasingly isolated, while the administration was grinding to a halt.

7. Public finances deteriorated in step with the political situation. In 1993, the Treasury's liquid resources were sufficient to meet only two thirds of its salary and scholarship obligations for that fiscal year and amounted to 15% of the outstanding stock of arrears which, not being consolidated, were in principle immediately due and payable. Given the wide disparity between resources and obligations, the Treasury did not attempt to draw up a financing program. It mainly allocated the resources received daily to meet the priorities of the hour.

8. The assertion of democracy through the election of President Patassé in September 1993 brought an end to the political crisis. The liquidity crisis was resolved by the devaluation of the CFA franc on January 12, 1994, followed by the signing of the Stand-by Arrangement with the IMF on March 28, the release of the second tranche of the third SAC on April 27 and disbursements from other donors during the second quarter of 1994.

9. Two questions appear legitimate. First, given the information available at the beginning of 1990, was the program supported by SAC III well formulated? Secondly, in view of the deterioration of the situation, should the credit have been closed earlier? The closing date of the credit was extended three times. Even under the assumption of a rapid resolution of the political problems, the program was too ambitious and did not establish priorities among objectives and among measures. Of the ten conditions set for releasing the second tranche, some were not essential to the success of the program. Improving the management of public finances was essential, but this objective was not sufficiently stressed. This management deficiency was well known, however, since the Borrower's section of the SAC II project completion report concluded that "the Treasury's difficult situation constituted the common denominator for all the problems encountered in the implementation of SAC II". In addition, the conditionality was too often expressed in terms of action plans, rather than the actual implementation of specific actions.

10. Although the conditions for second tranche release could have been relevant for the context that prevailed in early 1990, these conditions became less meaningful in January 1994, because the situation had changed fundamentally. For more than two years, implementation of the program supported by the SAC was no longer a serious concern for the government, and the interministerial committee responsible for implementing the program had practically ceased to exist. With the benefit of hindsight, it would have been preferable to close the credit earlier, by not extending the

closing date three times. Immediately after the devaluation, CAR could have benefited from an emergency program better suited to the conditions of the moment, as did many other countries of the CFA franc zone.

11. Overall, SAC III was not successful, and the country is still saddled with major problems that require urgent attention, particularly in the fiscal and public enterprise areas. The lesson learned is that strong government commitment to reform as evidenced by key up-front actions is essential for the success of adjustment.

PROJECT COMPLETION REPORT

CENTRAL AFRICAN REPUBLIC

THIRD STRUCTURAL ADJUSTMENT CREDIT
(Cr. 2162-CA)

PART I - PROJECT REVIEW FROM THE BANK'S PERSPECTIVE

A. Introduction

1.1 The Third Structural Adjustment Credit (SAC III, Cr. 2162-CA) to the Central African Republic (CAR) was approved by the Board on June 21, 1990 for an amount of 34.5 million SDRs (US$45 million equivalent), and the first tranche of US$27.5 million was released two months later. Following three extensions of the credit closing date, the second tranche of US$17 million was released on April 27, 1994, three and a half months after the devaluation of the CFA franc. The ten conditions for tranche release (Annex III, page 2) were met, with the exception of full implementation of the action plan for petroleum sector reform.

1.2 In the President's Report to the Board, the objectives of the program were summarized as follows: "To achieve a real annual GDP growth rate of about 3.5% during the period of the program, while, at the same time, improving the major macro-economic balances, pursuing greater equity, strengthening the administrative capacity of the government, human resource development, and reducing the social costs of adjustment". These objectives were not attained. GDP posted a decline of 1.5% a year instead of the target annual gain of 3.5%. Macroeconomic imbalances -- particularly those pertaining to public finances -- worsened considerably. Fiscal receipts declined steadily and, in December 1993, government payment arrears amounted to four times the level of revenue collected for the year 1993. The authority of the State and its management capability had so deteriorated that schools remained closed for over two years, while public health centers, without external financing, had ceased to function.

1.3 The decline in economic and social conditions mirrored the country's political situation. The civil servants' strike, in part conceived as a means to provoke the fall of President Kolingba, brought about a reduction in fiscal receipts and, as an indirect consequence, an increase in salary arrears to the civil service; this, in turn, induced a growing number of government employees to abandon their responsibilities. It is noteworthy, however, that the change of regime came about through a democratic process, which culminated in September 1993 by the election of President Patassé. Soon thereafter, the CFA franc was devalued (January 12, 1994).

B. Economic and Political Context

2.1 With a population of 3.2 million inhabitants and a surface area exceeding that of France, CAR has significant agricultural and mineral resources. The development of these resources has, however, been hindered by difficulties of transport, the high cost of reaching the sea, and problems of management. With an ever-precarious fiscal situation, in part due to a low and declining ratio of

revenue to GDP, the government has often had to seek external assistance to ensure payment of civil service salaries.

The First Phase of Adjustment: SACs I and II

2.2 After the fall of Emperor Bokassa in 1979, the country was in need of strong political and economic reforms; early in the 1980s, CAR decided to approach the Bretton Woods institutions for support. In 1981 and 1985 the Bank extended two technical assistance credits to the country. Three programs supported by Stand-by Arrangements were approved by the IMF's Board of Directors in 1983, 1984 and 1985. It was during the last of these three programs that the first Structural Adjustment Credit (SAC I) was approved by the Board of the Bank, on September 9, 1986.

2.3 CAR did not meet the IMF program targets for end-September or end-December 1986; as a result, the Stand-by Arrangement was interrupted shortly after SAC I became effective. Despite the slippage noted by the IMF on the macroeconomic front, the second tranche of SAC I was disbursed in March 1987. The project completion report (PCR) for this credit presents a positive assessment of SAC I in contrast to the critical evaluation contained in OED's audit report of project performance (overly ambitious, 144 measures, inadequate internalization).

2.4 The Second Structural Adjustment Credit (SAC II) was approved by IDA on June 9, 1988, and the first tranche was released three months later. The credit closing date, initially envisaged for the end of November 1988, was delayed by 18 months, and the second tranche was released in February 1990. The objectives of SAC II were similar to those of SAC I, but more substantial progress was realized in the course of the second program (reduction in size of PE sector and improvement in tax and customs administration). These results were in part due to better supervision, particularly by the Bank's resident mission that was established in Bangui in September 1988, when the SAC II became effective.

2.5 Nevertheless, the objectives of SAC II and the assumptions made regarding the time needed to implement reforms turned out, once again, to be too optimistic. In its portion of the PCR, the government acknowledged that the objectives were only partially realized, and attributed the difficulties encountered in program implementation to lack of liquidity in the Treasury.

The Second Phase: SAL III

2.6 The preparation of the Third Structural Adjustment Credit began several months before the release of the second tranche of SAC II. Spurred by the resident mission, a series of committees was established to ensure internalization of the program, and a first draft of the Letter of Development Policy was prepared in Bangui. The negotiations were conducted expeditiously: the President's Report recommending the approval of SAC III was dated May 31, 1990, just a day after SAC II was closed. On the other hand, two months passed between Board approval and credit effectiveness of SAC III.

2.7 Negotiations of SAC III took place amid a climate of optimism. The Party Congress (RDC, CAR's sole political party), held in Berberati in March 1990, had engendered hope of an imminent opening up in the country's political arena. In the absence of a clear stand by President Kolingba on the awaited measures, however, optimism gave way to impatience. Protests erupted -- sometimes

violent -- along with strikes, some of which severely paralyzed day-to-day activities across the country.

2.8 The strikes served to slow the collection of fiscal receipts; the resulting buildup of salary arrears, in turn, incited new strikes. To break the vicious circle, the government was in need of substantial external financing assistance. Indeed, such funding was the expected outcome of the Round Table held in Geneva on April 29-30, 1991, an event which was to mark the crowning-piece of CAR's adjustment efforts. The meeting ended unsuccessfully, however, for three reasons, discussed below:

(i) The IMF representative did not issue a positive statement, as needed for the Round Table's success. An IMF mission to Bangui in November 1990 had noted slippages in macro-economic performance relative to program targets but refrained from making alarmist statements. By the time of the following IMF mission in March 1991, however, the slippages had exacerbated, and the IMF could no longer continue its support to CAR in the context of the existing program.

(ii) Donors would have hoped for some reassurance in the evolution of the political situation in CAR. However, a general strike, which evoked heavy participation, was launched on the eve of the Round Table. Public schools were closed on April 27, 1991, and remained closed for a long time.

(iii) The meeting in Geneva reflected poorly on the government's implementation of its austerity program. Specifically, donors perceived the size of the CAR delegation to be excessive.

2.9 Having left Geneva without obtaining the anticipated commitments, the Finance Minister requested the Bank to accelerate release of the second tranche of SAC III. However, a Bank mission in Bangui from June 12-17, 1991 noted that only one of the ten conditions for tranche release had been fully met. It became clear that CAR would be unable to obtain the needed external assistance without first putting into order its public finances in the context of an IMF-supported program; this, in turn, did not appear possible without a resolution of the political crisis.

2.10 A primary source of discontent among Central Africans lay in the contrast between their loss of purchasing power since 1985 and the profits of certain individuals related or otherwise linked to the President. Frustration also originated in the continuation of single-party rule, while neighboring countries organized National Conferences. A dialogue between the government and the opposition had been initiated, but with few concrete results. The President surrounded himself with a small group of advisers, steadily isolating himself from the rest of the country, even from his own government.

2.11 In short, the popularity of President Kolingba -- along with the credibility of the State -- deteriorated progressively. In such a context, implementation of a structural adjustment program was virtually impossible. One thus wonders whether it might not have been preferable to close the credit earlier, without granting three successive extensions -- for twelve months in December 1991, six months in December 1992 and twelve months, in June 1993.

2.12 CAR's problems following the election of President Patassé in September 1993 and the devaluation of the CFA franc in January 1994 were vastly different from those that the negotiators of SAL III had strived to resolve four years earlier. Conditions agreed in 1990 for release of the second

tranche were not those which would have been considered essential to economic recovery and improvement of social conditions in the changed environment of 1994.

C. SAC III

3.1 Considering the situation that prevailed during the early months of 1994, just before release of the second tranche, one is struck by the optimism of those who negotiated four years earlier the adjustment program supported by SAC III. The Letter of Development Policy constitutes, along with the Policy Matrix, a document of 42 single-spaced pages recommending a wide-ranging series of actions affecting CAR's economy. The program described in the President's Report covered five main areas: (i) macroeconomic management (public finances and investment program); (ii) reform of the civil service; (iii) enterprises (public enterprises, banks, private sector promotion); (iv) sectoral policies (agriculture, transport, education and health); and (v) social dimensions of adjustment.

3.2 A multi-faceted attack might have produced dramatic results, if successful. However, action failed on the fiscal front, which accounted for only a sub-section of one of the five above-mentioned components, and brought about failure of the entire program.

Public finances

3.3 The public finance situation has always constituted a critical challenge for the Government of CAR. Adjustment efforts enabled the public sector wage bill to be maintained at around CFAF 24 billion between 1985 and 1993. On the other hand, Government revenues, which were stagnant between 1985 and 1990, fell by 35% over 1990-1993. By 1993, more than three-fourths of the deficit (on a commitment basis) was accounted for by the buildup in payment arrears, which increased to CFAF 32 billion for the year, bringing the stock of arrears to over CFAF 100 billion at end-December 1993.

3.4 The build-up of arrears was the combined result of three factors. First, the Budget Law was based on a significant deficit, of which a very small part was offset by loans and grants not taken into consideration during budget preparation. Secondly, actual receipts fell far short of those estimated. Thirdly, current expenditures (on a commitment basis) exceeded budgetary allocations. Capital expenditures fell short of estimated levels, but, as loan disbursements and grants were correspondingly reduced, the deficit on a payment basis remained unaffected.

3.5 Government revenues fell to CFAF 28.3 billion in 1993; nearly 45% of this total did not represent available funds, as three items classified as revenue did not contribute liquid resources to the Treasury. The first related to CFAF 2.2 billion of fictitious customs receipts that the State would have collected if imports linked to externally-financed projects had not been exempted from duties. The second represented CFAF 6.4 billion in taxes that enterprises would have paid, had these taxes not been offset by arrears owed to them by the State. The third corresponded to about CFAF 4 billion in receipts earmarked for specific uses. Also, Treasury liquidity amounted to less than CFAF 16 billion in 1993, while the State's salary and scholarship obligations reached CFAF 24 billion.

3.6 The Treasury's liquid resources in 1993 thus represented only two thirds of its salary and scholarship obligations for that fiscal year and amounted to only 15% of the stock of arrears which, not being consolidated, were in principle immediately due and payable. Faced with such a disparity

between its resources and obligations, the Treasury did not even attempt to draw up a financing program. It mainly allocated resources received daily to meet the priority expenditures of the next day. Aware of this transient liquidity, the most enterprising among the creditors lined up at the Treasury to try to obtain priority access to any inflows of cash. The provincial teacher, for example, felt that leaving his school, to descend upon Bangui and harass the Treasury, would afford him his only chance of ever being paid. This hand-to-mouth existence created confusion. Staying on the alert to provide for the most immediate needs, the agents of the Treasury could no longer adhere to even the most basic treasury plan.

3.7 Precise monthly statistics were available for overall salary arrears but not for their breakdown across ministries or between Bangui and the rest of the country. Such a breakdown would have been more easily obtainable for civil servants paid by check, rather than those paid in cash, who periodically besieged the Treasury. As the cash payments were made in an atmosphere of crisis and disorder, the payment vouchers were usually piled up without being filed. Those with sufficient influence to obtain payment on a priority basis benefited from the confusion, and therefore, had little interest in the restoration of order.

3.8 CAR's fiscal problems stemmed essentially from the decline in government revenues: direct and indirect taxes fell by 47% and 40%, respectively, between 1990 and 1993. Moreover, this decline suggests little improvement in the customs administration -- a condition for second tranche release. The drop in receipts resulted partly from the progressive informalization of the economy but reflected more generally an erosion of the State authority.

3.9 The decline in nominal receipts was particularly serious in a country where (i) the civil service wage bill -- which accounted for some 60% of government revenues -- could not be reduced in nominal terms, and (ii) the exchange rate could not be modified unilaterally. SAC III, therefore, should have attached greater importance to strengthening the fiscal administration as the keystone of the entire adjustment program. This action, moreover, should have been closely coordinated between France, the IMF and the Bank, CAR's principal sources of external assistance. One difficulty, of course, was CAR's lack of a program with the IMF between the beginning of 1991 and March 1994.

Public Investment Program

3.10 The value of public investment diminished by a third in current terms from 1991 to 1993 due to the accumulation of CAR's external arrears. In particular, the programs financed by the Kuwait Fund and the African Development Bank were interrupted, as CAR had stopped repayment towards these institutions.

3.11 Given the scarcity of budgetary resources, an important part of operating expenditures was financed under externally-funded investment projects. It is estimated that nearly a third of expenditures labeled as investments in fact represented operating expenditures.

3.12 The presentation of a three-year rolling investment program acceptable to the Bank for the 1991-1993 period constituted one of the ten conditions for second tranche release. As the release occurred only in April 1994, it appears that it would have been preferable to have linked the conditionality to the presentation of the 1994-96 program, with the credit agreement stipulating that the first year of the three-year period could not, in any case, precede the year in which the tranche

was released. Indeed, the 1994-96 program had been approved by IDA at the time of the second tranche release. Since the beginning of 1994, significant progress appears to have been made in the formulation of the public investment program.

Civil Service Reform

3.13 An elaborate study on civil service reform was carried out in the context of the adjustment program supported by SAC III. Although a new civil service statute was adopted by the Parliament in February 1994, its provisions have not yet been implemented. Such reform could indeed, if implemented, have permitted a reduction in the wage bill, while at the same time, better motivating civil servants.

Public Enterprises

3.14 Two of the conditions for second tranche release were linked to enterprises in which President Kolingba was closely involved. The first related to the recovery of assets from MOURA, the company which managed the coffee plantations, but the file was closed with no amounts being recovered. A second condition was linked to reform of the distribution channels and pricing system of PETROCA, a petroleum-product import company which siphoned non-budgeted resources to the Presidency and was managed by the President's nephew. No progress was made on this matter prior to the departure of President Kolingba.

Banking Sector

3.15 An important stage was reached in the restructuring of the banking sector in 1991, when the BEAC assisted the government in liquidating four banks by rescheduling the debt assumed by the State following the liquidation. The banking system was thus limited to three banks which, by order of importance, were: UBAC, tied to Credit Lyonnais; BIAO, taken over by the Meridien group; and a Moroccan bank established at the end of 1990. Despite this restructuring, a new crisis looms with the two largest banks being affected by their foreign partners' problems.

Private Sector

3.16 Both conditions for disbursement related to the private sector were met. A law adopted in September 1991 authorized foreigners to effect real estate transactions, and price controls were abolished for all products except sugar. A project aimed at promoting the private sector was approved by the Board in May 1991, but yielded few results due to the economic climate. In general, the formal sector -- with the exception of breweries -- suffered as a result of the decline in public investment and the recession. Development of the informal sector, on the other hand, allowed the country to survive in the absence of a real government.

Agriculture

3.17 Despite price forecasts for a gradual but slow recovery, coffee and cotton, CAR's two main income-earning crops, suffered severely from the decline in world prices that lasted through 1992.

Export receipts from coffee fell from CFAF 10.6 billion in 1986 to CFAF 1.3 billion in 1992, while cotton receipts declined from CFAF 4.4 billion to CFAF 1.9 billion over the same period. This decline led to a sharp fall in the monetary income of farmers, with serious consequences.

3.18 The situation corrected itself radically in 1994 with the devaluation, strengthened world cotton prices and the sharp gain in coffee prices. A 50% price increase for cotton producers was announced the day following the devaluation, while the producer price for coffee was increased by 120% for the campaign beginning on February 1, 1994. In addition, livestock exports increased by some 30% after the devaluation. Thus, the monetary income of herders and small farmers in the coffee and cotton zones showed strong gains from the second half of 1994, with an appreciable demonstration effect. The split of CAISTAB (the coffee stabilization fund) into two distinct entities to separate its commercial and supervisory roles, was a condition of second tranche release. It does not appear, however, to have contributed to the improvement noted in 1994.

Human Resource Development

3.19 The most glaring area of deficiency in the government was in the area of human resources: public services which did not benefit from external financing practically stopped operating for more than two years.

Education

3.20 The crisis in primary education was already apparent before 1991/92 and 1992/93, when the country was altogether without schooling. By 1990/91, the repeater rate had risen to nearly 30% in each of the six years of primary education and the dropout rate reached 60% in the final year. Teachers were the largest group to benefit from the Voluntary Assisted Departure Program (PDVA); they accounted for 35% of departures, though representing fewer than 20% of active civil service employees. From 1987 to 1990, the number of teachers had diminished by a quarter while the number of students had risen by 12.5%; also, the average number of students per teacher had climbed from 60 to 90 over this period. Dissatisfaction was already prevalent in 1990: once payments became irregular, teachers stopped teaching, and many schools, which remained closed for over two years, fell victim to pillaging.

3.21 Overall resources allocated for education were insufficient; in addition, their distribution did not correspond to the country's needs. Only one Central African teacher licensed in mathematics taught at the high school level, and the number of university students graduating with a degree in the Sciences accounted for less than 1% of all graduates.

3.22 The inadequacy of training, in relation to employment, was particularly flagrant in higher education. Despite an annual increase of over 20% in the number of students in previous years, the university was not producing science teachers for its secondary schools and most graduating students were unable to find employment that corresponded to their university training. Scholarships still accounted for 56% of the total cost of higher education in 1992; even when the university was closed, students continued to receive their scholarships.

3.23 Schools reopened their doors in November 1993 with the support of donors, who financed, in particular, the rehabilitation of school buildings, the supply of desks and pedagogical materials, and

technical assistance. CAR's problems in primary education are far from being resolved, however; teachers' salaries account for about 95% of operating expenditures, and donors are not inclined to finance salaries.

Health

3.24 The quality of public health services worsened considerably from 1990 to 1993, and the inequality in the distribution of these services also increased over this period. In 1990, 85% of the health budget was allocated to Bangui; furthermore, 80% of the personnel attached to the Ministry of Health worked in the capital. In 1993, the distribution was even more unequal because the peripheral health regions were able to draw on only a minimum of the financing intended for them. The great majority of public health centers located in the interior of the country were not operational, lacking qualified personnel, equipment and medicine. The deficiencies in the public sector were in part compensated for by NGOs: the population living within the sphere of activities of an active NGO was able to receive satisfactory health care.

3.25 The situation in the health sector improved considerably beginning in the second half of 1994, as detailed discussions between the government and donors resulted in the latter financing a program to restart activities in the sector. All non-salary operating expenditures and most investment expenditures were financed in 1994 by external sources.

3.26 The policy matrix of SAC III specified that non-salary operating expenditures were to increase by 10% a year in the priority sectors of education and health. This increase did not materialize, but did not constitute one of the ten conditions of disbursement of the second tranche. The decline in benefits in health and education from 1990 to 1993 was largely due to the reduced motivation of civil servants who were paid on an irregular basis.

D. Follow-up

Follow-up by the Borrower

4.1 The Project Completion Report of SAC II noted that the follow-up by the authorities had not been very satisfactory. Unfortunately, the quality of the Borrower's performance did not improve in the course of SAC III. The Credit Agreement had provided for the creation of an interministerial follow-up committee responsible for evaluating progress and, in case of slippage, taking needed corrective measures on a timely basis. The committee's monthly meeting was to be presided by either the Head of State (at least once every three months) or the Minister of Finance, who was to send a quarterly report to the Bank. However, this did not happen. The Head of State never presided a meeting of the committee, which remained practically inactive from the end of 1991 until the beginning of 1994.

4.2 The follow-up on imports financed by the disbursement of the first tranche of SAC III, too, was not satisfactory. The first tranche audit was sent to the Bank in 1993, after much delay, and was found to be inadequate. The Bank sent to the government two requests for clarification on March 17 and May 24, 1993 and was informed that government practice was to destroy Customs documents older than three years. As those responses were also judged to be unsatisfactory, a second audit was

performed in November 1993. The results of the second audit were submitted to the Bank only at the end of March 1994, over three years after the related expenditures were made.

4.3 The Minister of Finance was informed of the release of the second tranche on April 27, 1994. The closing date of the credit was June 30, 1994 and the last disbursements took place in July. The audit of the expenditures on imports financed by the disbursement of the second tranche concludes that there was insufficient documentation of imports to justify the expenditures against which the funds were released. Anticipating second tranche release in 1991, Government had not kept Customs documents from 1990-1991 as back-up for invoices presented to IDA. The situation is being corrected with the installation of a computerized record-keeping system for imports and exports in Customs. In any case, future adjustment lending will be conditioned upon proof of a satisfactory system for tracking imports.

4.4 In short, neither the follow-up of the measures nor the accounting of expenses for imports financed by SAC III was satisfactory.

Follow-up by IDA

4.5 Ten supervision missions took place, but follow-up was not facilitated by the succession of three economists during the program period and by the delays which elapsed between the departure of one economist and the arrival of a successor. Follow-up on conditions for tranche release was made difficult by the lack of specificity in the definition of some of them. The report of the supervision mission which took place in July 1992 indicated that seven of the ten conditions related to second tranche release were met. Progress was not sustained, however, during the period of political unrest from 1991-1993. One condition has not been fully implemented (petroleum sector reform). A substantial improvement in the efficiency of customs services could be observed at one point but could not be maintained since receipts of indirect taxes fell by 40% between 1990 and 1993.

E. Medium-Term Outlook

5.1 Between the approval of SAC III by the Board on July 2, 1990 and the election of President Patassé in September 1993, CAR's economic and social situation worsened considerably. It would not therefore be meaningful to speak of the reforms implemented over the first 40 months of the program. The task of the new President was to restore the government's credibility by ensuring the resumption of public services, which was the thrust of the donors' meeting organized by the Central African government in Bangui in May 1994. This meeting took place after the devaluation of the CFA franc in January 1994 and the approval of a Stand-by Arrangement with the IMF in March 1994. The latter was followed by substantial external assistance towards the middle of the year, notably through the disbursement of the second tranche of SAC III.

5.2 A year after devaluation of the CFA franc by 50% in external currency terms, the overall results appeared positive. From December 1993 to December 1994, the consumer price index increased by about 35%, slightly less than that assumed in the program supported by the Stand-by Arrangement. The devaluation stimulated export growth, particularly of livestock, wood and diamonds. The total value of exports expressed in CFA francs increased by 120% in 1994 relative to the previous year. The

proportion of government revenues absorbed by the civil service wage bill declined in 1994, but it still accounted for 69% of revenue, which is high.

5.3 The problem is not just to control the wage bill but, more importantly, to raise the level of government receipts which represented only 7.5% of GDP in 1994, as in 1993, and remains far from the 12% reached in 1990. The slippage in fiscal performance resulted in the interruption of the program supported by the IMF Stand-by in November 1994. The restoration of budgetary discipline remains the key problem of CAR.

5.4 Over the eight years covered by the three SACs, real per capita income declined by more than 20%. This fall was partly due to the deterioration in the terms of trade, but reflects also the inefficiency of government management. Nevertheless, progress was made. The exchange rate was adjusted. Trade and prices were liberalized. A rationalization of the tariff and fiscal system was introduced in the context of the UDEAC reforms implemented following the devaluation. The government withdrew from a certain number of productive and marketing activities. Reform of the civil service was also initiated (freeze on recruitment; preparation of staffing plans for some ministries; promulgation of new civil service statute). However, much remains to be done to complete the process of adjustment and to create the conditions needed for sustainable growth.

5.5 The State should withdraw from activities that can be carried out more efficiently by the private sector, and should concentrate its resources on essential public services such as basic education, primary health care, maintenance of infrastructure, public finance management, and security. The State should be selective because its resources are limited. However, in those areas where it continues to operate, the State should provide quality services, which implies regular payment of its staff and suppliers.

F. Lessons Learned

6.1 When the program supported by SAC III was designed, it was expected that a solution to the prevailing political problems was imminent. Even under this assumption -- which failed to materialize -- the program was too ambitious and did not establish priorities among objectives and among measures. Of the ten conditions set for second tranche release, some were not essential to the success of the program. On the other hand, the improvement in the management of public finances was essential, and the program did not attach sufficient importance to it.

6.2 Conditionality was tied too often to studies and not enough to actions. The two conditions for effectiveness related to recruitment of consultants to prepare studies. Several conditions for release of the second tranche required adoption of action plans, which were not followed by subsequent actions.

6.3 Since it is difficult to forecast the future, it is important to adjust to realities. The conditions for disbursement of the second tranche could have been relevant for the context that prevailed in early 1990 but became less meaningful in January 1994, because the situation had changed fundamentally. For more than two years, implementation of the program supported by SAC III was no longer a serious concern for the government, and the interministerial committee responsible for monitoring the program had practically ceased to exist. Under such conditions, it would have been preferable to close the credit earlier by not extending the closing date three times and, immediately after the devaluation, to put in place an emergency program better suited to the conditions of the moment, as was done for most of the countries in the CFA franc zone.

PART II - PROJECT REVIEW FROM THE BORROWER'S PERSPECTIVE

I. INTRODUCTION

In 1986, the Central African Republic (CAR) embarked on a policy of structural adjustment in 1986 which was steadily pursued for about five years until it was interrupted by the strike movements of 1991. Three programs were implemented:

- SAL I from September 1986 to June 1998;
- SAL II from June 1988 to July 1990; and
- SAL III which followed on from SAC II in August 1990 and was scheduled to be completed in December 1991 but which was subject to slippage.

These programs, supported by the Bretton Woods institutions and other bilateral and multilateral donors, enabled the Government to undertake structural reforms, notably in the areas of public finance, trade, the civil service and the parastatal and financial sectors.

The results of the programs under the first two structural adjustment programs were examined in the 1990 report prepared by Ahmed Ould Daddah (consultant).

The purpose of the present report is to assess the progress of SAL III and examine its results in light of the program's declared objectives. There are, however, methodological problems in trying to do this:

- the first relates to the fact that some of the measures under SAL III were by nature, continuous and progressive, and their implementation required a longer spread of time than the life of the program of which they were a part.

This was the case under the first two SALs. Most of the measures under those programs had to be carried over into SAL III. This highlights the difficulty of separating the various SALs in time and of evaluating the real impact of the measures under a given program in isolation from the programs which preceded it.

- the second difficulty in evaluating SAL III results relates to the particular context of transition towards democracy in which the program was carried out. This did not facilitate smooth execution of program measures.

Because of these difficulties, compounded by the fragmentary nature of available statistics on the economy, we are unable to give any quantified or precise assessment of the results of SAL III.

That being said, the present report will try first to detail the efforts made towards effective implementation of the program and secondly, to give a qualitative analysis of the conceptual bases of the adjustment process and of the prospects for any future possible program in light of the Central African economic context.

II. IMPLEMENTATION OF SAL III REFORMS

The principal objective of SAL III was to achieve a 3.5 percent per year rate of economic growth while at the same time restoring macro-economic balance, strengthening the government's management capacity, bringing about a greater degree of social justice and reducing the social costs of adjustment.

The bases of the strategy adopted to pursue these ends were:

- improvement of macro-economic management with special emphasis on prudent monetary policies, reduction of the structural budget deficit and better planning and programming of public investments;
- greater efficiency in public services through reform of the civil service;
- speeding up of parastatal and financial sector reforms to establish a more favorable environment for private initiative;
- reform of agricultural institutions and policies in line with program objectives;
- balanced development of modern businesses and SMEs in the secondary and tertiary sectors; and
- incorporation into the program of measures relating to the social and regional dimensions of adjustment.

Was this strategy, which was supposed to be followed for the period of the program, in fact, applied? In other words, what efforts did the Government make to carry out these reforms? And with what results?

A. Overview

Of the one hundred and ten (110) measures included under SAL III, more than 60 percent were fully implemented. Of those remaining at the end of the project period, thirty-three (33) were of a progressive nature and were well advanced. Only those measures whose implementation required a considerable financial effort on the part of the State were significantly delayed (Enterprises in default or in the process of liquidation, such as EFBACA, SAFCA, CND, etcetera).

With respect to the ten (10) specific conditions for release of the second tranche, eight (8) had been fully implemented by the end of 1992. The general Credit Agreement condition relative to the establishment of a viable macro-economic framework and the adoption of an action plan for the petroleum sector were the only conditions not fulfilled.

B. Results As Measured Against Objectives

Improvement of Macro-Economic Management

The SAL III measures under this heading were aimed at improvement of budgetary procedures and the efficiency of public investments, the control of inflation and reduction of the budgetary deficit through an increase in receipts and better control of public spending.

Budgetary Receipts. Among measures taken were the setting up of the SYDONIA system, the drawing up of decrees relative to diplomatic exemptions and the reduction of such exemptions in the 1992 budget; the adoption of law No. 88.011b on the taxation of foreign-financed projects, the buildings census to permit real estate to be taxed, more efficient recording of business turnover figures through retrieval of financial, fiscal and economic data, the setting up of the NUMECA system, strengthening of BECDOR operations, the establishment of a supervisory company and the operational start-up of a value verification service.

Public Expenditure

Efforts at debt consolidation were made under the aegis of the Paris Club in 1990, conditions for the award of student grants were made more stringent, the number of embassies was reduced and civil service salaries were frozen and subject to reduction.

The following table, taken from the table of state financial operations and completed by the statistics services of the Ministry of Plan, shows how the major macro-economic aggregates evolved from 1990 to 1992, the period covered by SAL III.

TABLE I: FINANCIAL OPERATIONS 1990/1992				
TITLE/YEAR	1990 Actual	1991 Actual	1992 Projected	1992 Actual
Total Receipts	43.11	36.28	46.80	33.74
Tax Receipts	40.98	32.40	43.20	30.00
Other Receipts	2.13	3.88	3.60	3.74
Total Expenditure	85.94	87.05	78.86	76.47
Current Expenditure	48.31	47.93	44.48	45.59
Salaries and Allowances	23.84	25.13	24.41	24.40
Interest	5.05	4.60	4.70	5.15
Transfers and Grants	4.36	5.86	5.68	5.00
Other	11.34	10.34	9.69	10.44
PDVA (Voluntary Departures)	3.72	2.00	0.00	0.60
Equipment and Supplies	33.19	36.02	31.28	24.98
Budget	8.54	7.75	8.76	5.58
External Funds	24.65	28.27	22.52	19.40
Coffee and Cotton Subsidies	4.44	3.10	3.10	1.30
Unattributed	0.00	0.00	0.00	4.60
Deficit (Commitment Basis)	-42.83	-50.77	-32.06	-42.73
Arrears (Reduction--)	3.25	15.09	-23.20	16.52
Domestic	2.25	9.80	-13.90	10.02
Foreign	1.00	5.29	-9.30	6.50
Deficit (Treasury Basis)	-39.83	-35.68	-55.26	-26.21
Net Financing	39.57	35.68	34.07	26.21
Foreign	42.21	35.67	35.47	30.25
Grants	21.62	23.15	17.62	14.20
Budget	7.75	5.88	7.95	4.00
Capital	13.87	17.27	9.67	10.20
Loan Drawdown	24.48	17.98	24.15	21.65
Treasury	13.70	6.98	11.30	12.45
Project Loans	10.78	11.00	12.85	9.20
Amortization	-6.94	-5.46	-6.30	-5.60
Debt Relief	3.05	0.00	0.00	0.00
Domestic	- 2.64	0.01	-1.40	-4.04
Banking System	-3.12	-0.29	-1.70	-3.72
BEAC	-1.35	0.03	-1.70	-2.82
IMF	0.13	-0.96	-0.90	-1.42
Drawdown	2.27	0.00	0.00	0.00
Repurchase	-2.14	-0.96	-0.90	-1.42
Other	-1.48	0.99	0.80	-1.40
Commercial Banks	-1.77	-0.32	0.00	-0.90
Other	0.48	0.30	0.30	-0.32
Financing Deficit	-0.01	0.00	-21.29	0.00
GDP Market Prices	354.34	361.43	379.50	354.46
Total Receipts	12.17	10.04	12.33	9.52
Tax Receipts	11.57	8.96	11.38	8.46
Salaries/Receipts	55.30	69.27	52.16	72.32
Total Expenditure	24.25	24.08	20.78	21.57
Current Expenditure	13.63	13.26	11.72	12.86
Supplies and Equipment	9.37	9.97	8.24	7.07

Analysis of the above figures reveals:

- a downward trend in total receipts over the period 1990 to 1992 in the order of 22 percent. This was principally due to weakening fiscal receipts (27 percent);

- relatively firm control of public expenditures, which fell from CFAF 85.94 billion in 1990 to CFAF 76.47 billion in 1992.

This positive result is due in large part to Government efforts to reduce current expenditure (salaries, study grants and other subsidies), which fell by about 10 percent in the period.

- a worsening of the budget deficit on a commitment basis, which peaked in 1991 (-16 percent between 1990 and 1991) before stabilizing in 1992 following further expenditure reduction measures (salary cuts); and

- progressive drying up of public investment as seen in the continuous decline in capital spending (-17 percent) during the program period.

Moreover, the ratio of investments to GDP also deteriorated over the same period, falling from 10.4 percent in 1990 to 8.4 percent in 1992 as the following table illustrates.

TABLE II: INVESTMENT EXPENDITURE BY THE STATE: 1990 TO 1992						
YEARS	1990		1991		1992	
SECTORS	Projecte	Actual	Projected	Actual	Projected	Actual
Rural Development	11.60	10.20	11.40	8.70	6.90	9.60
Industry	0.60	0.60	0.70	0.40	1.80	1.00
Economic Infrastructure	17.60	14.40	20.30	15.70	16.70	13.00
Social Infrastructure	11.40	7.80	10.30	9.80	11.00	10.20
Ration Inv/GDP	11.30%	9.30%	11.00%	9.60%	9.50%	8.80%
Domestic Financing	4.50	4.20	6.10	4.40	4.80	3.10
Foreign Financing	36.70	28.80	36.60	30.20	31.60	30.70
Subsidies	20.60	15.90	16.00	18.20	13.60	21.90
Loans	16.10	11.90	20.60	12.00	18.00	8.80
GDP	36.40	353.00	389.00	361.00	382.00	370.00
TOTAL	41.20	33.00	42.70	34.70	36.40	33.80

The above figures confirm the steady decline in investment by the State. The reasons for this harmful fall of in public investment were:

- the delay in drawing up the Development Plan which should have followed in the wake of the P.D.E.S for 1986-1990. This prevented the Government from elaborating new development policies and strategies;

- the fact that the Government's commitments under SAL III obliged it to be more rigorous in selecting projects for inclusion in the investment budget;

- the withdrawal of the State from non-strategic production activities following implementation of the structural adjustment program; and

- inadequate mobilization of external and domestic financing.

Civil Service Reform

Since the inception of the structural adjustment program, the Central African Government has pursued a courageous policy of streamlining the public administration.

Under SAL III, the following measures were taken:

- the setting up of three computerized management systems: ministry staffing plans in 1990; the creation of budget line items in 1991; and cleanup of the civil service payroll in 1992.

These actions were further reinforced by:

- training in 1992 for 16 national experts in the operational support for human resources managers;

- the training and appointment of directors and service chiefs for personnel management in the various ministerial departments in 1993 and the promulgation of the General Statute of the civil service on June 13, 1993.

Seminars on reform policy were organized for members of the National Assembly, trade union organizations and senior personnel managers to sensitize them to program objectives and the decrees setting up the four bodies responsible for putting the new policy on personnel management into action were signed in October 1994.

In addition to these measures:

- 279 civil servants were retired in 1994, corresponding to real savings of CFAF 75 million; and

- verification checks of civil servants and other State employees in 1994 led to the identification of CFAF 1.156 billion in overpayment of allowances; these were taken into account beginning in September 1994.

Financial Restructuring

The government reduced the range of subsidies to enterprises with the definition of clear policy on support to the cotton and coffee subsectors, reduction of public water, telephone and electricity consumption and regularization of expenditures in the budget with a view to their regular payment.

The financial resources needed for the proper functioning of the sector were assessed, taking into account the settlement of arrears and cross-debts as well as the cost of the restructuring or liquidation of enterprises.

Rehabilitation of the Financial System

In CAR, the role of financial institutions has traditionally been limited to short-term operations such as commercial or seasonal credit. This state of affairs, together with heavy dependence of investments and financing of the budget deficit by foreign aid, is a reflection of the weakness of the financial intermediation system. This weakness is manifest in the large share of the monetary mass which is kept in cash form and savings outside the banking system.

To redress this situation, the Government, in collaboration with BEAC and in the context of SAL III, adopted and implemented a plan of action for the banking system which led to:

- the signing of three agreements (conventions) consolidating BEAC's debt claims against UBAC and the three banks in liquidation (BCAD,BCI and BCND) in June 1991;

- the recapitalization of BIAO following the acquisition of Afri-trust by the Meridien International Group;

- the creation of a Moroccan-Central African Bank;

- the settlement of parastatal sector arrears through the State's paying BEAC claims in the amount of CFAF 1.314 billion against BCI/BCND and through swapping CFAF 3.8 billion in BEAC claims on UBAC for claims on the State under the MOURA company's debts.

In addition, control systems were reinforced with the creation of an Inter-States Commission to act as an arm of BEAC with greater powers of control and sanction.

Agricultural Policies and Institutions Reform

The SAL III reforms adopted in these areas were:

- the strengthening of the directorate's development planning capacity;

- merging of the agricultural research and extension services.

These measures were taken as part of the reforms adopted in 1989 when the roles of the Ministry of Rural Development was redefined and implementation responsibilities were delegated to line services and the department responsible for planning, monitoring, evaluation and coordination.

Recommendations were made for putting the integrated rural development strategy into action and the adoption of approaches which involve the population in a systemic, participatory way.

This led to:

- the splitting of SOCADA into two entities: one, SOCOCA (*the Société Cotonnière Centrafricaine*), responsible for industrial and commercial activities in the cotton sector; the second, ACDA (*Agence Centrafricaine de Développement Agricole*), responsible for farmer training and extension activities for all agricultural production;

- the creation of ICRA (*Institut Centrafricain de Recherche Agricole*) under the aegis of the Agricultural Institutions Support Project. ICRA is engaged in the whole range of agro-pastoral production activities along the lines of the systemic approach;

- the splitting up of CAISTAB into ORCCPA (*Office de Réglementation, de Contrôle et de Conditionnement des Produits Agricoles*) and SCC (*Société de Commercialisation du Café*) to allow the separation of commercial and regulatory functions;

In addition, measures were taken under the program to reduce the coffee and cotton subsectors' deficits (reduction of intermediation and processing costs and of production costs).

Private Initiative Incentives

The Government's strategy for developing the private sector was based on greater mobilization of resources in the local banking system and rationalization of how these resources were allocated between the various sectors of the economy by allowing market forces to determine prices.

Thus, the prices of all commodities except sugar were liberalized under SAL III.

On the institutional front, in preparation for restructuring the Chamber of Commerce to be elected in March 1995, the Government opened a "One Stop" window for foreign investors.

Law 88.14, which establishes favorable treatment for SMEs, was modified to allow foreigners to acquire real estate.

Finally, the Government undertook a study of the supply, pricing and distribution system in the petroleum sector which served as basis for drawing up a sectoral plan of action.

The Social Dimensions of Adjustment

The launching of the Social Dimensions of Adjustment and Development (SDAD) Project gave greater insight into social aspects of the financial stabilization and structural adjustment programs and allowed their impact on the socio-economic condition of vulnerable groups to be monitored for incorporation into the design of future programs.

Activities under the SDAD included:

- the inclusion of socio-economic indicators in macro-economic analysis through the development of a statistics and information system to be taken into account in formulation of future policy. A socio-economic study was also done of the mechanics of how decisions taken at a macro-economic or sectoral level impact household life and various other activities.

- the identification and implementation of social action programs aimed at promoting growth with equity through support for the formation of training networks which match employment possibilities and through promotion of disadvantaged groups' participation in the development process.

In light of the above results, can it be said that SAL III reached its objectives?

If not, what were the principal causes of the program's weak performance?

III. QUANTITATIVE ANALYSIS OF SAL III

A. SAL III and the Resumption of Economic Growth

The principal objective of SAL III, as noted in the introduction to this report, was to get the Central African economy back into a growth mode at the rate of 3.5 percent a year. This aim grew out of the traditional idea of what an adjustment program should be and was justified by the fact that the first two SAL programs had been thought of as straightforward stabilization programs aimed at correcting macro-economic disequilibria in the economy.

Thus, after the relatively successful implementation of the public finance rehabilitation measures contained in SALs I and II, it was thought that implementation of SAL III measures should allow the national economy to be put back on a growth path.

Measured against these criteria, the results obtained do not allow us to conclude that SAL III reached its objectives.

Two principal causes account for the weak performance:

- First, a lack of administrative rigor in implementing the program's revenue-boosting measures. This caused the government to try to balance the budget through drastic spending cuts (salary freezes and salary reductions, elimination of subsidies on agricultural inputs) and led to a contraction of demand and recessionary effects on the economy;

- Second, the drop in world prices for Central Africa's principal exports deprived the State of a part of its export receipts and led to a general fall in economic activity.

But these two external causes aside, it was still true that SAL III did not sufficiently emphasize accompanying measures to stimulate economic growth through appropriate investment.

It is legitimate to ask whether the conditions necessary for such a relaunching of the economy were, in fact, created by SAL III in the specific context of the CAR.

In other words, were the measures included under SAL III such as to allow the Central African economy to get going again?

The striking feature of the SAL III reform matrix is the predominance of financial stabilization measures. Whether in the parastatal domain or in that of public finance, the program emphasis was on restoring macro-economic equilibria.

The civil service salary freeze and the downward revision of the investment program, far from being offset by an increase in private consumption, were, in fact, the cause of recessionary effects in the economy.

Moreover, this situation was compounded by the drop in prices for CAR's principal exports and the decline in foreign aid which were reflected in diminishing public revenue, and arrears in the payment of public servants' salaries. The resulting social tension led to work stoppages in the administration and compromised the implementation of program measures.

SAL III's weak growth performance (GDP growth was nil), coupled with the results of the two previous SALs lead us to question the whole SAC concept.

B. The SAL Concept

The conceptual basis for structural adjustment operations is the interplay and relative weights of various economic variables and economic sectors (the real sector, the public sector, banking and the external sector). Economic variables which are common to different sectors are identified with a view to making links between the sectors in the financial programming process.

The relationship between the monetary sector, expressed as a function of the demand for money (to meet economic transaction needs), and the real sector shows that any economy has need for a certain amount of money. The speed with which this money circulates depends on the level of

transactions. In other words, money is indispensable to the development of real sector transactions, while interest rates and prices influence the production of goods and services.

Two sorts of consequence stem from this fact:

- first, to develop, an economy needs a certain amount of money;
- next, limiting internal credit can, through the monetary sector, correct both internal and external disequilibria and redress the balance of payments.

The logic of this has led SAL theoreticians to believe that one can easily pursue the simultaneous objectives of stabilization and economic growth. But they often neglect the first part of the proposition and put the main emphasis on stabilization.

In fact, the fundamental concepts of stabilization and growth call for different policies whose objectives are difficult to reconcile over the short term.

Stabilization is a short-term policy designed to control inflation and re-establish macro-economic equilibria, often by way of a reduction in overall demand and public spending as well as of consumer demand via the control of credit to the economy.

Such action can only have a deleterious effect on growth in the short term. This is particularly so in the case of a country like the CAR where the low level of monetarization of the economy and the embryonic state of private sector activity make private demand highly dependent upon the public sector. In these conditions, any drastic reduction in public demand entails a contraction of overall demand and is quickly reflected in the overall level of supply, causing a general decrease of activity and increase of unemployment.

In such a context, only an adequate injection of investment capital can allow economic growth to take off.

However, not only do SAL conditionalities limit the State's recourse to borrowing (only concessional borrowing is allowed under the programs), they also as a rule earmark credits from the Bretton Woods institutions made under such programs for the implementation of specified measures or for provisional offsetting of revenue loss as a consequence of these measures.

This sort of short-term measure does not fit in with a policy of growth which often requires a longer time-spread than the SAL measures.

Indeed, while the achievement of the financial stabilization objective can be foreseen in the short-term, that of economic growth often calls for the modification of economic structures and sometimes their adaptation to meet the needs of a given context.

In the case of the CAR's economy, the weakness of the financial structures and the fragility of the private sector mean that when prices for the country's principal exports are not strong, the economic rehabilitation effort has to focus on modification of the structures of production and must also take account in doing so of the country's comparative trade advantages.

This priority was not given the attention it deserves in the design of SAL III which above all emphasized stabilization measures.

Each national economy has specific characteristics which should be taken into account in the design of reform policies. But most of the time, the various structural adjustment programs are developed as standardized solutions to be applied anywhere without variation. This does not seem to be a realistic approach, in that it does not take into account differences that can exist between different economic spaces and structures.

In the case of the CAR, the lack of adequate attention to this problem in the design of SAL III led to the real financing needs of the national economy being under-estimated and this hampered program performance in the area of growth.

Tables 3 and 4 below show the evolution of the balance of payments and of GDP by sector respectively.

TABLE III: BALANCE OF PAYMENTS: 1989-1992 (CFA Billions)

YEAR TITLE	1989	1990	1991	1992
FOB Exports	47.243	40.984	35.439	30.666
FOB Imports	59.334	65.778	50.399	50.036
Trade Balance	-12.091	-24.794	-14.960	-19.370
Net Services	-32.286	-33.036	-28.109	-32.634
Net Transfers	33.418	33.487	25.643	30.020
Current Balance	-10.959	-24.343	-17.426	-21.984
Public Capital	12.270	23.804	14.879	15.282
Private Capital	-3.087	-3.854	-7.838	-4.913
Debt Relief	2.260	-	-	-
Capital Balance	9.183	19.950	7.041	10.369
Omissions	0.059	0.782	-0.413	1.673
Overall Balance	-1.717	-3.611	-10.798	-9.942

The figures in the above Table illustrate the fact that capital flows to CAR declined over the period of SAL III.

Between 1990 and 1992, public capital received from abroad fell from CFA 23.804 billion to 15.282 billion -- equivalent to a drop of 46 percent while private capital flows stayed negative for the period of the program.

Moreover, the drop in world prices for CAR's principal export commodities aggravated the balance of payments deficit, which went from minus 1.717 *(sic)* to minus 9.942 *(sic)* in 1992.

At the sectoral level, the recessionary effects of the adjustment measures were reflected in a general stagnation of economic activity as is shown by Table 4 below.

TABLE IV: GDP VOLUME BY SECTOR 1989-1992 (Base 1985)				
YEAR TITLE	1989	1990	1991	1992
Primary Sector	106.60	104.40	107.00	108.20
Secondary Sector	117.80	126.60	123.20	113.90
Tertiary Sector	95.30	94.60	96.30	93.50
GNP at Factor Costs	103.80	103.50	105.10	103.50
GNP at Market Prices	103.40	104.10	103.20	101.30

However, despite the difficulty of reconciling the stabilization and growth objectives in the short term, both elements are necessary and should be rigorously phased so as to allow each component to be successfully carried out.

SALs designed for the short term should not be substituted for national economic development plans which are oriented toward the long term.

Unfortunately, the financial crisis in countries undergoing adjustment and the weakness of their institutional capacity for making macroeconomic projections leads some of them to substitute SALs for those economic and social development plans which should, in the normal course of events, provide the framework for shorter term economic programs. Even where such development plans do exist, their objectives are often in contradiction with SAL objectives.

This has been the case of the Central African structural adjustment programs which were never able to be reconciled with the objectives of the Social and Economic Development Plan for 1986-1990 which was based on the growth of public investment.

Above and beyond explanations arising from the financial difficulties of the CAR at the time the various structural adjustment programs were set in place, this poses the thorny problem of what are the optimal resources necessary for successful implementation of an economic program.

While stabilization policies can be pursued through the reduction of overall demand, growth policies require sustained financial support, especially in an open economy which does not have a diverse production base.

The argument that the African countries are alone responsible for their own balance of payments and growth problems has often led the international institutions into a sort of conceptual asymmetry in which the perception is that countries in deficit alone are able to resolve the economic crisis through unilateral action. This approach does not make it possible for the various structural adjustment programs to funnel sufficient funds to sustain those economic activities most likely to re-establish growth in the countries in question.

This problem, compounded by the low level of "nationalization" of SAL III, brought about a fall in public investment and a deflationary process which accentuated the disintegration of the CAR's weak industrial fabric and aggravated the impediments to economic growth.

This issue of SAL accompanying measures, seen in the light of the politico-economic cycle, is a subject of prime interest and should be accorded more attention by the international institutions in the design of programs, particularly as concerns the newly democratic regimes in Africa where a

low level of fundamental needs satisfaction often leads the population more toward claiming rights than accepting sacrifices.

But in the final analysis, this problem raises the question of the responsibility of the program designers in respect of the poor performance that these programs record.

While not wishing to make sweeping generalizations, we do feel that the success of a given program depends not only on the rigor with which it is executed but also, indeed above all, on the quality of the accompanying measures it carries.

In the case of SAL III, the insufficient attention given to this question, coupled with the lack of care in timing the phases of the program, led the World Bank to underestimate the real financing needs of the Central African economy -- already in deep recession. This compromised to some extent the program's objective of re-starting economic growth.

While recognizing the significant efforts the international community has made to support the social sectors in CAR, we think it is just as necessary that resources be channeled to the development of productive activities. In this way, the national economy can become more diversified and, over time, generate sufficient revenue for the State to assume responsibility for financing the social infrastructure. For instance, the Apex line of the IDA-financed PARDEP Credit could be improved and expanded in light of the specificities of the CAR's economy.

IV. CONCLUSION

Despite the weak performance of the SACs in promoting growth, structural adjustment policies are still needed and should be improved so as to produce their full effect. Their implementation period should be carefully timed. That is to say, policy implementation should span distinct phases which would allow appropriate accompanying measures to be taken.

Moreover, the links between adjustment programs and the various development projects should be carefully analyzed and made explicit to avoid possible clashes of purpose or self-defeating activity. This would require structured overall coordination of all projects at the national level.

If these questions, and the urgent question of greater coordination of adjustment policies, are taken into account, then the level of "internalization" of these policies could be raised with consequent improvement in their results. This is particularly relevant now that the CFA franc has been devalued and the former structural difficulties linked to over-valuation of the currency no longer apply.

Finally, one cannot examine the performance of any economic program without asking what would have happened without the program the "counter-factual scenario". Such a study might well be costly but, if approached from the angle of opportunity costs, would provide the different actors (the international financial institutions and the governments implementing adjustment) a better understanding of the nature of SALs and permit them to make improvements.

PROJECT COMPLETION REPORT
CENTRAL AFRICAN REPUBLIC
THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

PART III - BASIC CREDIT DATA

Initiating Memorandum	March 28, 1990
Letter of Development Policy	April 14, 1990
Negotiations	May 23-25, 1990
Board Approval	June 21, 1990
Credit Agreement Signing Date	July 2, 1990
Effectiveness	August 24, 1990
Original Credit Closing	December 31, 1991
Actual Credit Closing	June 30, 1994

CUMULATIVE CREDIT DISBURSEMENTS

	FY91	FY92	FY93	FY94
	Amount (SDR 34,500,000.00)			
(i) Planned	22,500,000	12,000,000	-	-
(ii) Actual	22,500,000	-	-	12,000,000
(iii) (ii) as % of (i)	(100%)	(0%)		

PROJECT COMPLETION REPORT
CENTRAL AFRICAN REPUBLIC
THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

PART III - BASIC CREDIT DATA

MISSION DATA

	Month/Year	No. of weeks	No. of persons	Date of Report
Preparation	02/90	1.5	6	03/07/90
Appraisal	04/90	1.5	6	05/02/90
Supervision I	02/91	2.0	5	02/28/91
Supervision II (AG)[1]	07/91	1.0	1	07/22/91
Supervision III (IE)[2]	07/91	1.0	1	08/15/91
Supervision IV	11/91	1.5	1	11/26/91
Supervision V (IE)[2]	12/91	1.5	3	12/20/91
Supervision VI	07/92	2.0	1	07/14/92
Supervision VII	01/93	2.0	1	03/12/93
Supervision VIII	12/93	1.5	1	12/30/93
Supervision IX	01/94	2.0	1	02/17/94
Supervision X	05/94	2.0	1	06/13/94

STAFF INPUTS

	FY89	FY90	FY91	FY92	FY93	FY94	FY95
				- staffweeks -			
LENP	0.5	72.9					
LENA		18.9					
LENN		18.9					
SPN		1.6	70.0	35.6	21.5	19.4	
PCR							7.0

Staff inputs: 266.30 staffweeks

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[1] AG: Agriculture mission support to SAL III related conditionality.

[2] IE: Industry/Energy mission support to SAL III related conditionality.

ANNEX II

PROJECT COMPLETION REPORT
CENTRAL AFRICAN REPUBLIC
THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

RELATED BANK CREDITS

Credit No.	Title	Purpose	Year	Status
Cr. 1971-CA	Economic Management Project	To support the Government's reform program and strengthen core economic ministries.	1989	On-going. After three years of stalled progress due to political unrest, project activities restarted in late-1993. Closing date extended once to December 1995.
Cr. 2275-CA	Social Dimensions of Adjustment and Development Project	To help Government in its attempt to achieve a more equitable pattern of growth and to mitigate negative effects of the economic crisis and adjustment program.	1991	On-going. After four years of data-gathering, project now being re-oriented to focus upon exploitation and diffusion of available information within country.

PROJECT COMPLETION REPORT
CENTRAL AFRICAN REPUBLIC
THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

STATUS OF CREDIT COVENANTS

Credit Agreement Section	Subject	Status	Remarks
Section 3.01 (a)	Borrower and IDA to exchange views, from time to time, on progress achieved in carrying out the Program and the actions specified in Schedule 3.	Complied with.	Done on a regular basis during supervision missions and recorded in proces-verbaux of same.
Section 3.01 (b)	Borrower to report on the progress achieved before exchange of views required under 3.01 (a).	Complied with.	Secretariat prepared progress reports on project activities in preparation for supervision missions.
Section 3.03 (a)	Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with consistently maintained sound accounting practices, the expenditures financed out of the proceeds of the Credit. Have records and accounts audited by independent auditors. Furnish to IDA a certified copy of the report of such audit by said auditors. Maintain records and accounts reflecting such expenditures; retain, until at least one year after IDA has received the audit for the fiscal year in which the last withdrawal from the credit account was made, all records evidencing such expenditures.	Partially complied with.	No disbursements took place in 1991-93. Audit of first tranche was carried out in 1993 and redone in 1994, in effort to obtain ample documentation to justify that funds disbursed were spent on goods actually imported. (Customs Department habitually destroyed documents older than three years.) Audit of second tranche in 1995 resulted in same conclusion: insufficient documentation of imports to justify expenditures against which funds were released. Anticipating second tranche release in 1991, Government had not kept Customs documents from 1990-91 as back-up for invoices presented to IDA. Situation is being corrected with installation of a computerized record-keeping system for imports and exports in Customs.

PROJECT COMPLETION REPORT
CENTRAL AFRICAN REPUBLIC
THIRD STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 2162-CA)

STATUS OF CREDIT COVENANTS

Credit Agreement Section	Subject	Status	Remarks
Schedule 4	Second Tranche Conditions: i) a three-year rolling public investment program for 1991-1993 has been agreed upon with the Association. ii) substantial progress has been achieved in the execution of the Action Plan for improving the efficiency of the customs services iii) the two entities successor to CAISTAB have been legally established. iv) substantial progress has been achieved in the execution of the civil service reform including, inter alia, freeze of new recruitment into the civil service at levels in effect on June 30, 1990, and receipt by the Association of draft legislation revising the current civil service general statute. v) an Action Plan to restructure the Borrower's financial sector has been adopted and carried out in accordance with a schedule agreed upon with the Association. vi) an Action Plan to settle the liabilities of the Moura Company and to dispose of its assets has been adopted. vii) an Action Plan to restructure the pricing and distribution system of petroleum products has been adopted and carried out in accordance with a schedule agreed upon with the Association. viii) measures have been taken to permit foreigners to buy and sell existing buildings. ix) a law setting up the general legal and institutional framework for public enterprises has been enacted. x) the control of price has been abolished for the following products: wheat flour, ordinary salt imported in bulk, table oil except for olive oil, milk, canned sardines, oilchard and corned beef, tomato extract, lamps, school textbooks, charcoal smoothing-iron, hoes, and machetes.	Complied with.	Conditions were considered satisfactorily complied with. However, this assessment was not supported by sustained results in the case of improving the efficiency of customs services.

IMAGING

Report No: 15237
Type: PCR