Central African Republic

2011

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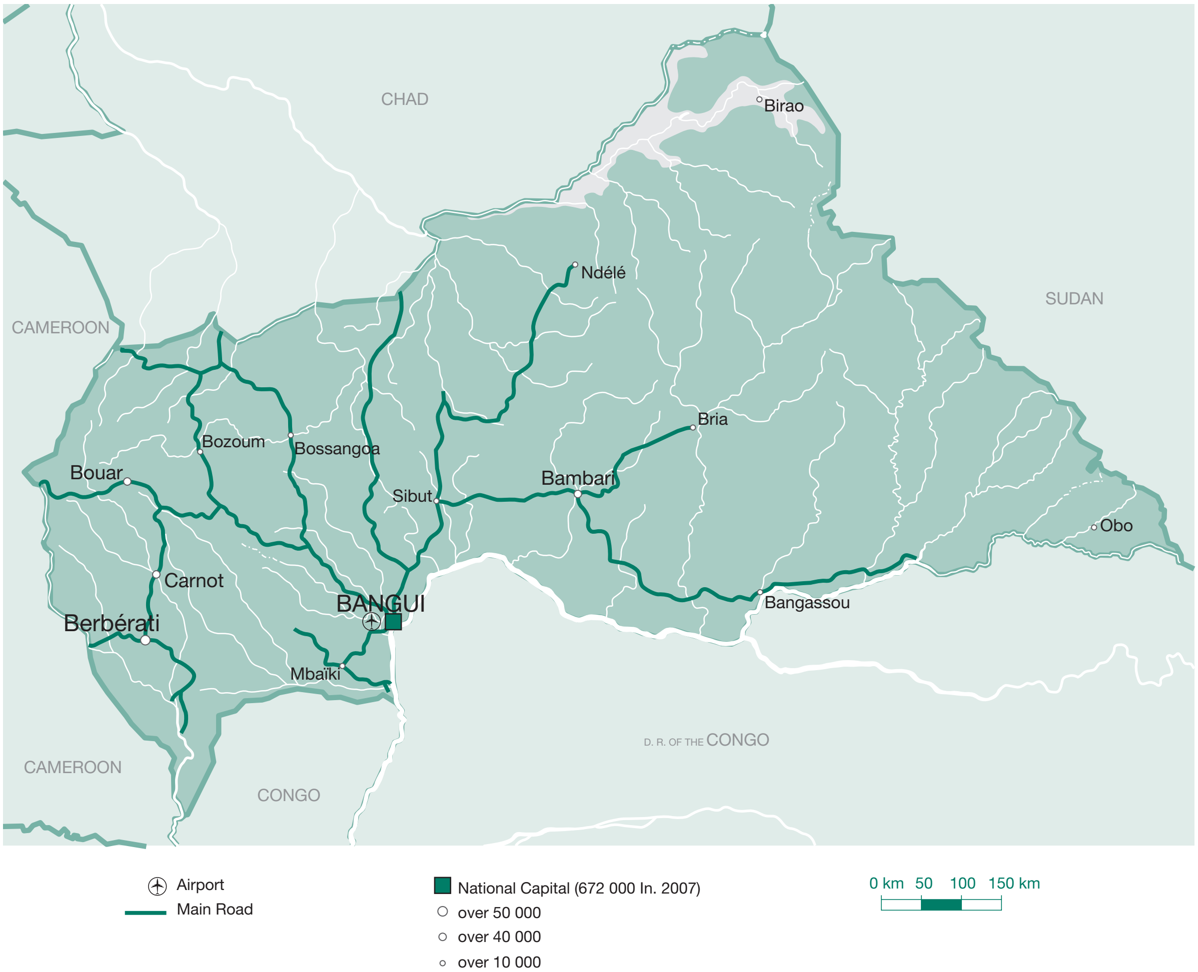

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Central African Republic

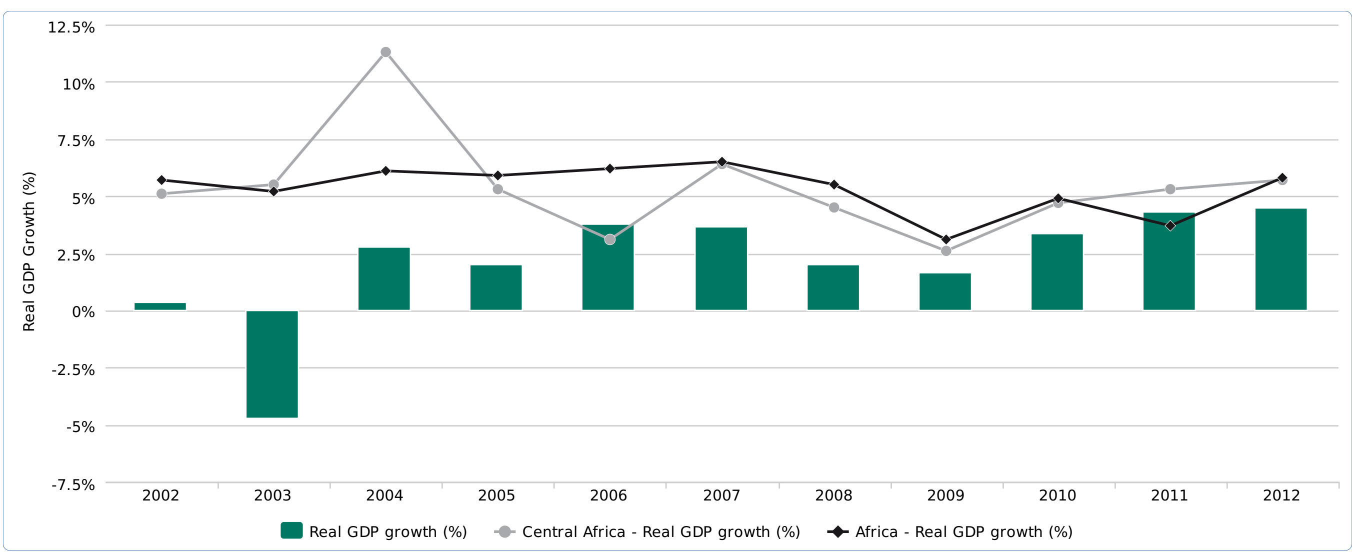
Overview

The economic recovery in the Central African Republic (CAR) was confirmed in 2010, with real gross domestic product (GDP) growth estimated at 3.4%. This positive growth came a year after the economy had suffered the full effects of the global economic and financial crisis that broke out in 2008. In 2010, the CAR also achieved the objectives set out in the 2008-10 poverty reduction strategy paper (PRSP) and the year saw its economic and financial programme negotiated with the International Monetary Fund (IMF), supported through the Extended Fund Facility (EFF) agreed upon with the IMF in December 2006. The sixth and final review of the EFF was approved by the IMF board on 25 August 2010, thus rewarding the efforts made in terms of economic and financial reform. The CAR reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

The recurring social, political and military crises of the past two decades have made the CAR a "fragile", "post-conflict" state. These crises have damaged the economic fabric and destroyed the basic socio-economic infrastructure. Since 2005, the CAR has been experiencing an economic recovery and political transition that culminated in the presidential and parliamentary elections on 23 January 2011. Blessed with abundant natural resources, the country is seeing an increase in economic stability and the implementation of financial and structural reforms, as well as the rehabilitation of basic social services.

Whether these economic and social improvements will be consolidated will depend largely on the country's capacity to complete the political stabilisation process and respect the peace agreements, notably through the Disarmament, Demobilisation and Reintegration (DDR) programme adopted during the "Inclusive Political Dialogue" (DPI) conference held in December 2008. The DPI conference brought together the presidential majority, the opposition, politico-military movements, civil society and public bodies. The success of the transition from a period of prolonged instability towards growth and development will also depend on the country's capacity to mobilise more resources than is currently the case. This concern has led the government, in agreement with its main development partners, to organise a roundtable meeting for donors, which is due to take place in 2011.

Figure 1: Real GDP growth (C)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	1.7	3.4	4.3	4.5
CPI inflation	3.5	1.8	2.5	1.8
Budget balance % GDP	0.7	-0.3	-0.3	-0.5
Current account % GDP	-9.2	-9.9	-12.3	-12.7

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	55	54.7
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	29.9	31.5
of which food crops	-	-
Mining and quarrying	3.1	1.9
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	6.4	6.8
of which hydrocarbon	-	-
Electricity, gas and water	0.9	0.7
Electricity, water and sewerage	-	-
Construction	3.9	4.4
Wholesale and retail trade, hotels and restaurants	12.1	13
of which hotels and restaurants	-	-
Transport, storage and communication	4.6	5.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	7.9	6.4
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	6.2	6.5
Gross domestic product at basic prices / factor cost	100	100

Sources: AfDB Statistics Department, based on data from national authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

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In 2010 sectoral distribution of the country's GDP was almost the same as in 2009, with a slight rise (+0.3%) in the share of agriculture to 54.9% of GDP. Food crops (28.7% of GDP) and agriculture (12.6%) continue to dominate the primary sector, while trade (12.1%) accounts for most of the tertiary sector, which overall has stabilised at 31.5% of GDP. The secondary sector (13.5% of GDP) is dominated by manufacturing and construction (10.3%). In respect of demand, final consumption is estimated to have been almost 96% of GDP in 2010, while the estimated figure for gross capital formation is around 13%.

From the perspective of supply, real GDP growth of 3.4% in 2010 is believed to be the result of the continued vigorous performance of food production (3.3%), the construction sector and market services (trade and telecommunications) and especially the relatively strong recovery of the main export sectors. For instance, forestry (logs and sawn wood) and mining production, which had fallen by 31.8% and 8.5% respectively in 2009, recorded positive growth of 8% and 4.5% respectively in 2010. As for demand, final consumption and investment have contributed to the economic recovery.

The performance of food crops was essentially the result of continued aid to producers, especially through the distribution of insecticides and fertilisers, the re-establishment of security in cultivated areas, the opening of the CAR-Sudan corridor, and good rainfall. Livestock farming has benefited from the re-establishment of public security, as well as from livestock vaccination campaigns, training in the rational management of pasture areas, the replacement of small livestock in the areas concerned, and the introduction of credits to communities with the aim of increasing animal production.

Export crops, especially cotton and coffee, have also benefited from the good rainfall and the recovery in prices, as well as the ongoing maintenance of coffee plantations and the supply and fitting of various units (the installation of six small depulping machines in two prefectures, the construction of a large depulping factory in one prefecture, the installation of a solar-powered coffee-drying unit, etc.). The forestry and mining sectors, which are the country's main export sectors, owe their recovery to fiscal support measures and an upturn (albeit limited) in demand, and to a rise in international commodity prices.

The dynamism of the construction sector has continued thanks to the ongoing improvement works in the capital Bangui, the construction of a 100-bed hospital in Bangui, and the upgrading of public and administrative buildings. The tertiary sector was driven by trade and spurred on by the improvements to transport and infrastructure, thanks mainly to the Transport-Transit Facilitation Project for the Central African Economic and Monetary Community (CEMAC), cofinanced by the African Development Bank (AfDB), the World Bank and the European Union (EU).

In respect of demand, consumption, the main driving force behind growth because of its size, has benefited from greater household revenues resulting from the regularisation of salaries and additional public sector workers in government departments, as well as extra jobs in the private sector, boosted by continued investment and labour-intensive works. Total consumption, which grew by 2.9% in 2010, contributed 2.9 percentage points to real GDP growth (see Table 1). Overall investment grew by only 5.7%, in particular because private operators adopted a wait-and-see policy in the light of the political uncertainty (following several postponements of elections in 2010) and the postponement of several major investments that were planned for the mining sector (Arvea, Aurafrique and GEM Diamond). The contribution made by overall investment to growth was limited to 0.7 percentage points in 2010, despite the public sector increasing its share by around 7%. The effect of net external demand on growth was negligible. Increases in exports and imports largely cancelled each other out in terms of growth.

The economic recovery in 2010 should be consolidated over the next two years: GDP growth could reach 4.3% in 2011 and 4.5% in 2012. This accelerated growth is based on the consolidation of the peace process and the improved political climate since presidential and parliamentary elections went smoothly on 23 January 2011; the materialisation of major investment from mining companies; continued public and private investment; a recovery in food and cash crops envisaged in the PRSP 2 currently being produced; and the consolidation of relations with the international community. However, if the social climate and security situation get worse, this could discourage donors and affect investor confidence. Exogenous shocks, particularly the continued effects of the economic crisis on exports, could also hold back growth. Furthermore, the insufficient investment in infrastructure and the slowness of the improvement in the business climate could also delay the private investment that the CAR so badly needs to revive its economy.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	9.6	11.3	5.7	3.8	9	0.7	0.5	1.1
Public	4.2	4.2	7	5	9	0.3	0.2	0.4
Private	5.4	7.1	5	3	9	0.4	0.2	0.7
Consumption	94.6	100.7	2.9	3.9	3.5	2.9	3.9	3.5
Public	13.8	8.4	3.1	15.5	-6.7	0.3	1.3	-0.6
Private	80.7	92.3	2.9	2.8	4.6	2.6	2.5	4.1
External sector	-4.2	-12	-	-	-	-0.1	0	-0.1
Exports	16	10.2	5.8	5.7	8.5	0.7	0.7	1
Imports	-20.1	-22.2	3.3	2.9	4.9	-0.8	-0.7	-1.1
Real GDP growth rate	-	-	-	-	-	3.4	4.3	4.5

Sources: AfDB Statistics Department based on data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

The authorities continued with the introduction of macroeconomic reforms in 2010 despite a difficult international and domestic situation. The country has thus been able to satisfy the performance criteria set out in the economic and financial programme supported by the IMF through the EFF, which ended on 31 December 2010. On 25 August 2010, the EFF board approved the sixth and final review of the programme, enabling the CAR to benefit from 8.67 million Special Drawing Rights (SDRs), equal to approximately XAF 6.3 billion (CFA Franc BCEAO).

Fiscal Policy

In 2010 fiscal policy continued to support economic growth, as seen in the increase in the overall deficit, and political and financial consolidation. The fiscal programme aimed to stabilise demand through spending while preserving medium-term fiscal discipline. The use of fiscal policy to stabilise the economy was further justified by the absence of the expected recovery in 2009 and the limitation that the pegging of the CFA franc to the euro places on the use of monetary policy. Furthermore, the channels for the transmission of monetary policy are distorted.

As demonstrated by the final, conclusive review of the Poverty Reduction Growth Facility (PRGF) programme, the authorities have continued with their programme of economic and financial reforms. These reforms have improved the credibility of public finance by mobilising more domestic resources, conducting prudent spending and reducing domestic arrears, thus strengthening the viability of public debt.

Despite the efforts in 2010 total revenue (including grants) as a share of GDP decreased from 16.1% in 2009 to 15.7% in 2010. This downward trend was a result of the wait-and-see policy of economic operators and the delays in the disbursements of certain foreign investment. Tax revenue improved as a percentage of GDP from 8.7% in 2009 to 8.9% in 2010, but the effort to mobilise tax revenue was not sufficient for the 12.9% objective that the government set in its 2008-10 PRSP to be achieved. The increase in tax revenue was mainly the result of better administration of revenue, earlier reforms of tax in the oil sector, and the use of an effective value added tax recovery procedure. Non-tax revenue, on the other hand, decreased its share of GDP by 0.3 percentage points compared with 2009. This was mainly due to the non-recurring nature of revenue resulting from payments for telecommunications licences and the sale of public land.

Government spending represented 15.9% of GDP in 2010. This increase since 2009 was mainly due to the rise in expenditure brought about by the holding of presidential and parliamentary elections, the execution of expenditure for the DDR programme, which was initially planned for 2009 but was postponed until 2010, and the authorities' decision to participate in the recapitalisation of the BICA commercial bank (*Banque internationale pour la Centrafrique*), which was experiencing difficulties. The current expenditure share of GDP thus increased by 1.9 percentage points, despite the prudence set out in the 2009 budget. Although wages and salaries grew in volume following the payment of salary arrears and the recruitment of new public service workers, they stabilised as a percentage of GDP at the same level as was recorded in 2009 (4.5%). Investment expenditure rose to 5.2% of GDP in 2010, supported in particular by an improved management and absorptive capacity and the urgent need to repair and expand basic infrastructure, improve services and develop the social sector.

In 2010 the CAR consolidated the results of the debt reduction resulting from achievement of the completion point of the HIPC Initiative, which had enabled the country to reduce its public debt stock from 83.4% of GDP in 2008 to 32.0% in 2009. Thus, in 2010, the public debt stock is estimated to have been equal to 29.2% of GDP, including 17.7% of GDP in domestic debt. The government also used a large part of the IMF's allocation of SDRs to reimburse arrears on expensive loans from commercial banks. This significantly reduced its domestic public debt service, improved the state's credibility and made its relations with the banking system more transparent.

Regarding the viability of the debt, the study published by the IMF and the World Bank in 2010 revealed that, following its achievement of the completion point, the CAR still has a moderate risk of over-indebtedness. The study shows that in the long term as a result of the policies implemented the CAR remains vulnerable to certain shocks that could lead to the thresholds of the external debt and exports ratios being breached. It also shows that the country should respect the minimum concessionality level for future borrowing, since its over-indebtedness is linked to highly concessional financing.

The current account deficit, including grants, is estimated to have been equal to 0.3% of GDP in 2010. The corresponding financing required as a result (approximately XAF 71.8 billion) was mainly provided by external aid, especially the allocation of SDRs by the IMF and supplementary aid from the EU.

The 2011 budget targeted four policy objectives: *i)* to improve the capacity to mobilise domestic government revenue; *ii)* to stabilise domestic demand by maintaining the expenses earmarked in the budget, settling domestic arrears and accelerating the implementation of expenditure scheduled in the DDR programme; *iii)* to consolidate the financial reputation by honouring the state's obligations; and *iv)* continue with the reforms of public finance management. Based on these objectives, the 2011 budget envisages an improvement in the mobilisation of revenue equal to 0.4% of GDP, a reduction in the domestic primary deficit equal to 0.2% of GDP, and a XAF 21.9 billion financing gap (2.1% of GDP).

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	15.4	14.4	15.2	16.1	15.7	15.5	15.4
Tax revenue	8.9	7.3	7.9	8.7	8.9	9.1	9.1
Oil revenue	-	-	-	-	-	-	-
Grants	4	4.1	4.8	5.3	4.6	4.4	4.2
Other revenues	2.5	3	2.5	2.1	2.1	2.1	2.1
Total expenditure and net lending (a)	16.6	13.2	16.2	15.4	15.9	15.9	16
Current expenditure	9.9	9.6	11.7	10.5	10.7	10.5	10.3
Excluding interest	8.3	8.2	9.8	9.6	9.9	9.8	9.6
Wages and salaries	4.8	4.6	4.3	4.5	4.5	4.3	4.3
Goods and services	2.5	1.8	2.7	2.9	3.1	3.1	3.1
Interest	1.6	1.4	1.9	0.9	0.8	0.7	0.6
Capital expenditure	6.7	3.6	4.5	4.9	5.2	5.4	5.7
Primary balance	0.4	2.6	0.9	1.6	0.5	0.4	0.1
Overall balance	-1.2	1.2	-1	0.7	-0.3	-0.3	-0.5

a. Only major items are reported.

Sources: AfDB Statistics Department based on data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The CAR is a member of the CEMAC along with five of its neighbours, and its monetary policy is conducted regionally by the Bank of Central African States (BEAC). Because of the regional monetary policy of structural stability and the fixed exchange rate with the euro, inflation in the CAR is essentially determined by the prices of food products and imported energy. In 2010, the downward trend in inflation that began during the final six months of 2009 continued. However, it was contained at an estimated 1.8% on a year-on-year basis, with an estimated average annual rate of 0.9%. The prices of energy products stabilised, while improved agricultural production enabled inflationary pressure on food products to be contained.

This reduction in inflationary pressure took place while the BEAC reduced its official intervention rate to 4% in 2010, from 4.25% in 2009, and the volume of credits to the economy increased by 23.2% from XAF 63.2 billion in 2009 to XAF 77.9 billion in 2010. Estimates suggest that the money supply, however, increased by only 6.9% to XAF 168.4 billion, with the structure of its different components remaining relatively stable, while net foreign assets shrank by 27.4%. The rise in domestic credit, which is mainly short term, was due to the support of companies selling oil products and, to a lesser extent, the services sector (telecommunications and transport). The fall in foreign assets was brought about by increased imports linked to the public investment programme and the upturn in imports of oil products at a time when prices rose and the dollar appreciated against the euro.

In 2010, the current account deteriorated because of the increase in the trade deficit and in the deficit on the services account. The 18.2% increase in exports, driven by forestry and mining products and cash crops (coffee and cotton), was less than the 19.7% increase in imports, bringing the current account deficit to 9.9% of GDP, up from 9.2% in 2009. The increase in imports was mainly due to the growth in demand for oil products and for the equipment needed for public and private investments. Meanwhile, the services account deficit deteriorated to XAF 55.7 billion following the rise in the prices of freight and insurance for imported goods, but the income balance stabilised at XAF 1.9 billion as a result of the achievement of the PRSP completion point. The surplus of transfers, meanwhile, is estimated to be higher than initial forecasts (XAF 16.2 billion, up from XAF 10.3 billion in 2009) thanks to the increase in grants.

During the same period, the surplus in the capital account and financial transactions accounts fell from XAF 106.3 billion in 2009 to XAF 89.0 billion in 2010 because of the downward revision in project grants (XAF 38 billion instead of the forecast XAF 58.9 billion). Foreign direct investment (FDI) was limited to XAF 30.4 billion because of the delays in major investments in the mining sector and the political uncertainty in 2010 caused by the the postponement of presidential and parliamentary elections. Overall, the balance of payments deficit deteriorated more then expected to XAF 10.5 billion, compared with a forecast deficit of XAF 8.9 billion. The financing needed as a result is expected to be provided by foreign exchange reserves.

In 2011 and 2012, the recovery in exports is expected to continue thanks to increased global demand for minerals and wood, but the deficit in foreign trade is forecast to deteriorate as a result of increased imports due to sustained growth of private investment. This deficit could be financed by the increase in FDI, highly concessional project loans, and the access of government securities to the regional market that will be available to the CAR in 2011. These hypotheses are made all the more plausible by the realistic prospects for improvement in the political climate and in security, especially thanks to the successful presidential and parliamentary elections held in January 2011.

The analysis of the viability of the debt carried out in 2010 by the IMF and the World Bank shows that all the external debt indicators remain particularly sensitive to growth in exports, the flow of net FDI inflows, and the deterioration of lending conditions. This indicates that policies to diversify exports, especially the creation of a business climate that is attractive to foreign investment, better productivity and prudent borrowing are essential to maintaining the viability of external debt.

For the co-ordination of aid, at the end of 2010 the government signed a memorandum of understanding with its main partners (AfDB, World Bank, United Nations Development Programme [UNDP] and the EU) with the aim of harmonising budget support projects in the CAR in accordance with the Paris Declaration. This framework for consultation and the co-ordination of the budget support from technical and financial partners should improve the existing aid-coordination mechanism, built around the institutional framework of the implementation of the PRSP.

In 2010, the CAR continued to participate in regional integration initiatives as a member of the Economic Community of Central African States (ECCAS) and CEMAC.While respecting regional agreements on trade and customs policy, the government has negotiated access for government securities, which should be implemented in CEMAC in 2011. Furthermore, the CAR, in co-ordination with the CEMAC member countries, is involved in negotiations aimed at entering into an Economic Partnership Agreement (EPA) with the EU.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	2.7	-4.2	-7.6	-7.4	-8.3	-8.9	-8.5
Exports of goods (f.o.b.)	14.8	10.5	7.6	6.3	6.7	7	7.5
Imports of goods (f.o.b.)	12.1	14.7	15.1	13.7	15	15.9	16
Services	-7.6	-5.1	-4.9	-4.6	-5.7	-6.3	-6.6
Factor income	-0.9	-0.9	-1.1	-1.1	-0.2	-0.7	-1
Current transfers	4.1	3.7	3.6	3.9	4.3	3.7	3.4
Current account balance	-1.6	-6.4	-9.9	-9.2	-9.9	-12.3	-12.7

Sources: AfDB Statistics Department based on data from Central Bank (BEAC); estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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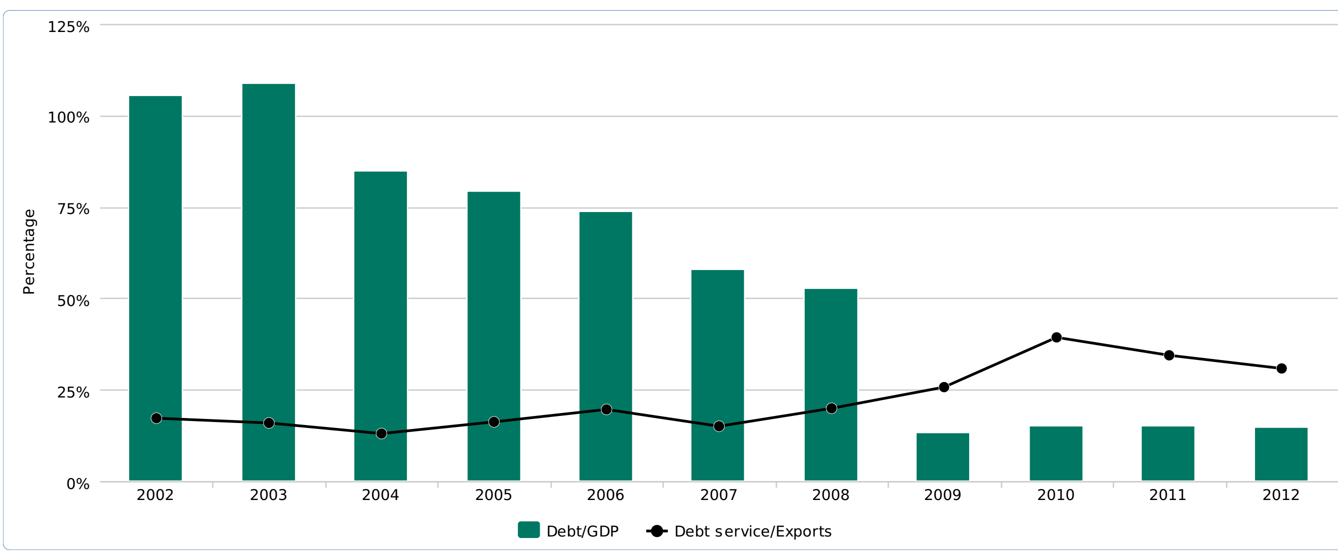
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

To make the country's business environment more attractive still presents a major challenge. In 2010 the CAR remained in last place (183rd) in the *Doing Business* ranking of the World Bank's report on the business environment. The authorities are taking measures to improve the business climate, enabling the country to improve its ranking for "Starting a business" from 169th in 2009 to 158th in 2010. In April 2010 a joint committee involving the private sector and government departments was created as a decision-making body to complement the permanent public-private co-operation framework set up in 2006. The committee's remit is to define measures aimed at creating a business climate that fosters investment and the development of a competitive, dynamic private sector that promotes growth and job creation. With the support of the International Finance Corporation (IFC) the committee has already created five technical commissions corresponding to the *Doing Business* indicators and put them to work. The joint committee has also approved a series of reforms for business start-up and property transfer, in particular a reduction of more than 50% in the registration fees for business start-up and property transfer; the abolition of the trading permit and of ministerial registration, and of related start-up costs; the abolition of charges for the publication of business creation notices; and the abolition of advance payment of social security registration costs.

Other initiatives financed by the IFC were also undertaken in 2010. As part of the programme to support small and medium-sized enterprises (SMEs) in Africa, the IFC is helping a private bank based in the CAR to increase its capacity to support them. The IFC has already provided technical assistance to strengthen the capacities of the one-stop shop and the joint committee. Furthermore, in collaboration with the African Fund for Guarantee and Economic Co-operation (FAGACE), the ministry for SMEs organised a roundtable on the problem of private sector funding in the CAR. This event enabled participants to better understand the difficulties and constraints related to private sector development in the country and to analyse ways and means of introducing a win-win partnership between donors and economic operators in the CAR.

The financial system, which is limited to four commercial banks and a few microcredit institutions, contributes little to economic development. Financial intermediation remains very weak, with the consolidated balance sheet of banks representing only 12.5% of GDP and deposits and credits representing 8.5% and 6.5% of GDP respectively. Growth of bank loans continues to be hampered by structural weaknesses such as deficiencies in the legal and regulatory structure, the short-term nature of bank resources and the small number of bankable projects.

To promote and consolidate the sector, the authorities have adopted various measures, including the payment of salaries through banks, starting in 2009, and the obligation to pay taxes through banks, starting in February 2010. These measures have encouraged banking intermediation and contributed towards the formalisation of the economy. Furthermore, the reimbursement of government bonds to commercial banks has enabled the latter to improve their position in terms of the risks of dealing with public authorities and to strengthen their liquidity and private-sector lending activities, even if the banks' profitability was affected. In 2010 the volume of credits grew by 23.2%, with most credits being awarded to trade and telecommunications companies through short-term loans.

The authorities continued to preserve the stability of the banking system in 2010. In particular, they ordered the reorganisation of a commercial bank in difficulty in close co-operation with the regional regulatory and supervisory body, the Central African Banking Commission (COBAC).

Other Recent Developments

The country is faced with other obstacles, especially in the public sector and in infrastructure, that hold back domestic production.

As shown in the mid-term review of the 2009-12 Joint Country Partnership Strategy Paper (CPSP) by the AfDB and the World Bank, significant progress has been made in the public sector and the management of public finances. The chapter on administrative and economic governance, which is the chief topic of the CPSP, mentions the encouraging results in terms of the effectiveness and transparency of public finances, the management of natural resources, and the planning and implementation of development programmes. Thanks to the projects and programmes supported by the two institutions, the public expenditure system has been fully computerised and the computer systems of the inland revenue (Systemif) and customs (Sydonia) have been connected to each other. For the first time, management accounts were created in 2010 with a view to the parliament adopting a budget review law. Also, other projects supported by the AfDB and the World Bank as part of the CPSP have enabled central and regional government officials to acquire and improve skills in macroeconomics, planning, results-based management, and especially in monitoring and evaluating projects and programmes. These projects contributed to the completion in 2010 of the 2008-10 PRSP, progress in the implementation of the 2009-12 CPSP identified in the mid-term review, and the adoption of the IMF's EFF programme following the final review in 2010.

The country has made significant progress in terms of the management of natural resources, especially in observing the principles of the Extractive Industries Transparency Initiative (EITI). Following the creation of the new mining code and the publication in 2009 of the first EITI report, relating to 2006, the CAR published in 2010 reports on the years 2007, 2008 and 2009, stating the revenues from diamond, gold and uranium production. These advances, combined with the strengthening of the capacities of the EITI-CAR (technical secretariat, steering committee and national council), should enable the CAR to achieve the status of a country complying with the EITI principles in the near future. In the forestry sector, the country is continuing to implement the African Forest Law Enforcement and Governance (AFLEG) plan, while the revision of the forestry code has enabled the provisions to local communities for the transfer of 30% of stumpage fees and 25% of reforestation taxes to be made effective.

The population still faces major difficulties in accessing basic socio-economic infrastructure (roads, transport, water and energy). The level of transport infrastructure remains among the lowest in Africa, even though the country's geographical position (a landlocked country with no direct access to the sea) makes such infrastructure essential for its economic development. Nevertheless, transport infrastructure absorbs a large proportion of public investment. The sector's main obstacles are: *i)* the absence of a permanent link for the development of imports and exports by sea; *ii)* the inadequacy and poor maintenance of existing infrastructure; *iii)* the lack of density of the network; and *iv)* unbalanced land use. The country's landlocked position is exacerbated by the plethora of administrative checks that make transport expensive.

The main form of transport for travel, freight and supplies is by road. The country has 24 000 km of roads, of which about 1 000 are asphalted. The network consists of 5 400 km of national roads, 4 000 km of regional roads and 15 000 km of tracks. Like most countries in Central Africa, the CAR has abundant water and is crossed by tributaries of the Congo river, providing many potentially navigable waterways within its borders. There is only one international airport in the country, through which almost 90% of traffic passes. The other three airports have paved runways in a poor state of repair. Efforts have been made to promote the development of infrastructure, with various major public works having begun in 2010. The AfDB, the World Bank and the EU, through the Transport-Transit Facilitation Programme for the CEMAC, support a transport development policy based on three primary objectives: opening up access to import and export ports for raw materials and manufactured goods; diversifying access routes; and making development hubs viable and interconnected. One-fifth of the work planned for this programme was carried out in 2010. In December 2010, the AfDB agreed to a study on the plans to build a road between Ouesso in the Republic of Congo, Bangui in the CAR and N'Djamena in Chad and the plans for river transport on the Congo River and two of its tributaries, the Ubangi and the Sangha.

The energy situation in the CAR remains very precarious. Barely 4% of the population had access to electricity in 2010 (15% in Bangui and 1% in smaller towns). In rural areas, where most poor people live, access to electricity is almost non-existent. This precariousness exists despite reforms that have been undertaken, most notably the adoption in 2004 of a national energy policy framework aimed at reducing poverty between 2005 and 2010. The authorities liberalised the sector by publishing the electricity code, creating a regulatory body (Arsec) and creating an autonomous agency for rural electricity (Acer) responsible for regulating the sector and implementing government policy on rural electricity. Despite the lack of energy, the country has a fairly dense river system with various sites that have a high potential for hydroelectricity, with outputs of between several hundred kilowatts (KW) and several dozen megawatts (MW). Firewood accounts for 90% of energy consumption, the rest coming from imported oil products and hydroelectric resources, the latter providing barely 4%. Development of the energy sector is in particular held back by a legislative and regulatory framework that is not adapted; the lack of an energy information system; deficiencies in the way the sector is run, especially in Enerca, the company that holds a monopoly on the production and commercialisation of electricity; and limited human and financial resources. The infrastructure consists of: *i)* two hydroelectric power stations (Boali 1 and Boali 2); *ii)* a hydroelectric dam (Boali 3); *iii)* a thermal power station in Bangui; *iv)* two transmission lines connecting Bangui to Boali 1 and Boali 2; and *v)* a distribution network. The five Boali 1 generators and the two other Boali 2 generators have a total capacity of around 15 MW. Boali 3 still has only two turbines with a total capacity of 10 MW.

The government's energy policy focuses on three priorities: upgrading the Boali 1 and Boali 2 hydroelectric power stations and the distribution network; increasing the production of Boali 3 with new equipment and increasing the production of Boali 2; and restructuring the sector and improving the running of Enerca. Some of this work has already begun, such as making the Boali 1 and Boali 2 hydroelectric installations safe, as part of the agreement signed in 2008 with the French Development Agency (AFD), which provided a 4.2 million euro (EUR) grant. Protective relays were installed in the Boali generators, exciter transformers at Boali 2, a high-voltage system at Boali 2, and high-voltage coupling cells were fitted to the Boali generators, thus stabilising the electricity supply to Bangui and the surrounding area and markedly reducing the circuit breakages of the Boali-Bangui network. Support from the AfDB and China concerns equipment for the enlargement of the Boali 3 station. The conception phase of these projects, which is of Chinese origin, was completed in April 2010, and the projects are forecast to be undertaken towards the end of the second quarter of 2011.

The water and sewerage sector was particularly affected by the years of conflict. Access to safe drinking water stands at 30.2%, well below the African average of 60%, and access to sewerage stands at only 5.3%, also below the African average, which is 31%. In May 2005, the government adopted a national water and sewerage policy and strategies document and in April 2006 it published the water code and the water and sewerage master plan. The water code led to the creation of the ANEA water and sewerage agency (Agence nationale de l'eau et de l'assainissement) and the implementation of a water and sewerage sector committee (Comité sectoriel eau et assainissement) with the United Nations Children's Fund (UNICEF) as the main partner. Two AfDB projects approved in 2009 following an audit of the 16 regional capitals started behind schedule in 2010. These two projects were the AEPA water and sewerage supply project (*Projet d'appui institutionnel pour l'approvisionnement en eau et assainissement)* and a project to provide drinking water and sewerage to three regional capitals (Berberati, Bouar and Bossangoa).

Telecommunications and information technology services have improved significantly over the past few years. Since December 2007, the mobile telephone market has been split between four operators (Telecel, Moov Centrafrique, Nationlink, and Orange Centrafrique). Fixed-line services, however, are provided by a single company, the wholly state-owned Socatel (*Société centrafricaine de télécommunications*), although the market is open to competition. The number of subscribers is expected to break the one-million barrier in 2010, up from 700 000 in 2009. This represents growth of nearly 50%, and has brought the penetration rate up to 23% of the population. These advances were made possible by the increased supply of mobile telephone services to users with low purchasing power, the introduction of telephones at affordable prices, and the increased coverage of the various networks. For the past five years the government has been initiating reforms aimed at creating a coherent and efficient legal framework for the sector to ensure the development of basic infrastructure and coverage of the entire population. As part of their joint strategy to support development policies in the country, the AfDB and the World Bank are financing a regional fibre-optic project for the CAR, Cameroon and Chad called the Central Africa Backbone (CAB). This project envisages a fibre-optic link between Bangui and Maédougou (Cameroon), following the line of the oil pipeline from Kribi (Cameroon) to Doba (Chad). The CAR would then be able to link up more cheaply to the intercontinental SAT-3/WASC undersea cable. The CAR should also benefit from the signal from the Pan-African RASCOM satellite launched in August 2010. This signal aims to cover more than 130 000 African towns and cities and will reduce the cost of Internet and telephone services on the continent.

Emerging Economic Partnerships

The CAR still relies upon aid from both traditional and emerging partners. This situation, brought about by two decades of armed conflict and political instability, has not significantly changed since the peace consolidation process began and the DPI took place in 2008. Nevertheless, China, and more recently in 2010 India, are increasing the number of initiatives to develop economic partnerships. The first partnerships with China were established soon after the CAR gained its independence. According to the data held by the debt and international co-operation department (Direction générale de la dette et de la coopération internationale), partnerships with China are worth 88 million US dollars (USD) in official development assistance (ODA) and USD 35 million in infrastructure.

These Chinese commitments are currently taking shape in the form of an assistance project for the Boali 3 hydroelectric power station for the transmission and transformation of electricity. The Chinese government decided, in agreement with the government of the CAR, to use ODA for the Boalia 3 hydroelectric power station and to install two turbines and several transmission lines. A call for tenders was issued to Chinese companies with the means to execute the work. Following the most recent Sino-African summit, China is also participating in solar energy projects, the value of which has not yet been quantified. The AfDB is also involved in the energy sector.

Outside energy, Chinese co-operation is present in construction and the renovation of public and administrative buildings. China is also financing the construction of the 100-bed regional hospital in Bimbo, at a cost of XAF 4.5 billion. As of the end of 2010, the work was at a very advanced stage.

The Chinese private sector is involved in various areas, especially the sale of medical drugs and equipment and the construction of professional buildings and housing. In addition, a private Sino-Central African company has just launched the first digital television service in the CEMAC region, with a lower subscription cost than that of competing services. Finally, the contract for the regional transport facilitation project for the Bangui–N'Djamena corridor was awarded to the China Communications Constructions Company (CCCC).

Other non-traditional partners such as India and Turkey are also interested in the CAR. India is committed to USD 600 million of investment in the coming years, most notably through a private company. These commitments concern in particular the construction and opening of a cement factory in the Nzila region and a public transport service, which is already operational in Bangui, using buses imported from India, and is run by a mixed Indo-Central African company. Co-operation with Turkey is currently limited to the construction and opening of primary and secondary schools in Bangui.

Overall, the presence of traditional and emerging partners in the CAR remains very limited. But this situation is bound to change quickly because of the country's significant natural resources. Nevertheless, the CAR will have to improve its security and political situation and create the necessary conditions to attract direct investment. The authorities will also have to do more to produce a viable strategy to optimise future emerging partnerships.

Political Context

The political situation in 2010 was dominated by the three postponements of the presidential and parliamentary elections. Initially planned for 25 May 2010, the elections were postponed at the request of the main opposition parties and the development partners to ensure that they were held fairly. The National Assembly and the Constitutional Court had to be called upon to enable President Bozizé to remain in power beyond the expiry of his mandate on 11 June 2010 without breaching the constitution.

The presidential and parliamentary elections finally took place on 23 January 2011, and the incumbent president was re-elected in the first round. Both the presidential and the parliamentary elections went well, despite some protests from the main parties. This should allow the CAR to consolidate the peace and political stabilisation process initiated after the return to constitutional legality in 2005.

Nevertheless, this remains a fragile, post-conflict state, despite the efforts made. The implementation of the DDR programme, which was initiated following the DPI in 2008, was plagued by delays in 2010. The DDR, which aims to demobilise more than 8 000 former combatants, still encounters many political disputes, especially on the value of food subsidies to the rebels. In any case, the attacks on 17 July and 23 November 2010, including the taking of Birao, the main town in the north of the country, were a reminder of the need to be vigilant, even if, a few days later, the government regained control of Birao.

Social Context and Human Resource Development

The 2010 UNDP report ranked the CAR 179th out of 182 countries in the Human Development Index (HDI). Two decades of political instability, conflict and violence have taken their toll on all the social indicators, and the country has fallen back in respect of most of the Millennium Development Goals (MDGs). The ECASEB national survey for the monitoring and evaluation of welfare (Enquête centrafricaine pour le suivi évaluation du bien-être) estimated that 62% of the population were living below the poverty threshold in 2008.

Approximately 86% of the population do not have access to basic social services, and life expectancy at birth is just 45.1 years. There is a very strong disparity between men and women: the country is ranked 153rd out of 177 countries in terms of gender equality and women's empowerment. The access of women to health care during pregnancy and childbirth is limited, as are family planning services.

Little progress has been made in terms of the MDG objectives. There are encouraging trends in primary education, the schooling of girls and access to safe drinking water but there has not been progress in the other indicators, such as poverty, employment, maternal and child mortality, and the CAR will not achieve the MDGs before 2015.

Among the efforts made, in accordance with the PRSP objectives, expenditure on reducing poverty, improving security and keeping the peace increased in 2009 and 2010. Education, health and targeted poverty-reduction programmes are being increasingly prioritised in the 2010-12 medium-term expenditure framework (MTEF). Finally, the payment of salary arrears and the recruitment of new public sector workers, combined with control of inflation, have calmed social tensions.