

**EUROPEAN COMMISSION
AFRICAN DEVELOPMENT BANK**

**CENTRAL AFRICAN REPUBLIC
PUBLIC FINANCE MANAGEMENT ASSESSMENT BASED
ON PEFA (Public Expenditure and Financial Accountability)
FRAMEWORK**

**FINAL REPORT
July 2010**

Acronyms and Abbreviations

AFRITAC	:	Centre régional d'assistance technique et de formation, Afrique centrale
BEAC	:	Banque des Etats de l'Afrique Centrale
CDMT	:	Medium Term Expenditure Framework
DGB	:	Direction générale du Budget (Budget Directorate)
IFMIS	:	Integrated Finance Information Management System)
ERSP III	:	Economic Reform Support Programme, Phase III
PEFA	:	Public Expenditure and Financial Accountability
PARCGEF	:	Projet d'Appui au Renforcement des Capacités de Gestion Economique et Financière (Project to Build Economic and Financial Management Capacity)
ADF XII	:	12th African Development Fund Replenishment
IMF	:	International Monetary Fund
MFB	:	Ministry of Finance and Budget
MSFP	:	Statistics and Public Finance Manual
OHADA	:	Organization for Harmonization of Business Law in Africa
CAR	:	Central African Republic

I. INTRODUCTION AND CONTEXT

1. At the request of the Government of the Central African Republic (CAR), and in collaboration with the World Bank, the European Union (EU) and the International Monetary Fund (IMF), the Bank has contributed to the study entitled “CAR: Public Finance Management Assessment Based on the PEFA Framework”.

2. The aim of this assessment is to gauge progress made since the first PEFA exercise conducted in 2008 and identify existing weaknesses with a view to more clearly defining and charting the reforms required to remedy them.

3. In addition to diagnosis of the existing system, the study evaluates the performance of public finance management in line with international standards.

4. The report was very useful in the design and preparation of the Project to build Economic and Financial Management Capacity (PARCGEF) and the recent Institutional Support for Capacity Building approved on 31 January 2011 and launched in March 2011, and the same is expected for the design and preparation of the Economic Reform Support Programme (ERSP II) to be financed under ADF XII.

5. The following section presents the assessment summary. The list of indicators and the complete report make up the annexes

II- ASSESSMENT SUMMARY

Budget Credibility (performance indicators 1 to 4)

6. Despite the technical progress achieved by the Ministry of Finance and Budget (MFB) and owing mainly to the international financial and economic crisis prevailing in 2008/2009, the credibility of the budgets voted under initial budget laws was limited, while the extent of their implementation clearly leaves room for improvement. The absence of an audited budget is a sign of the weaknesses in the CAR fiscal management. Adoption of the new accounting software, “GES’CO”, and the practice of presenting quarterly expenditure statements, even in summary form, starting from 2008, and establishing an annual financial account are examples of significant steps that, if carried through, should curb budget disparities right at the level of the major spending entities. Still too often, capital budgets constitute a variable for adjustment to remedy salary payment delays and generally increase operating expenditure. Improvement is required with regard to income projections and the debt trends have generated substantial payment arrears. These are still being settled behind schedule and the arrears clearance plan drawn up in 2008 has not yet been concretely implemented.

Budget Comprehensiveness and Transparency (Performance indicators 5 to 10)

7. In order to improve the transparency of the government budget, the Authorities of the Central African Republic in 2009 adopted a new budget nomenclature and new chart of accounts. The new nomenclature was used in formulating the 2010 budget. It is modular and notably includes the three parts of a sound budget classification system, namely the functional classification, the administrative classification and the economic classification. The functional classification used draws on the IMF’s MSFP 2001.

8. The new government chart of accounts mainly reflects the OHADA principles. However, considering all the prior processes required, its effective date of application, initially set at 1 January 2010, was postponed to 1 January 2011. The budget and accounting nomenclatures have been harmonized, specifically in terms of the first three figures of the code signifying the economic nature of income and expenditure and the account categories. However, the new budget classifications, especially the functional classification, are being used very little for budget analysis.

9. The information provided to the National Assembly for consideration and approval of the Budget law is limited to: (i) minimal macroeconomic assumptions, (ii) detailed budget estimates for the current year and (iii) budgetary impact of the new measures.

10. Not all the income and expenditure related to projects has been envisaged in the budget, with the result that the project status set out in budget implementation reports is incomplete. Moreover, in a situation where the Treasury has no reliable figures on operations effected using exceptional procedures (receipt and advance facilities, advance funds) and on those of the entities receiving these funds, it is difficult to anticipate the budget content and reality in an exhaustive manner.

11. The distribution of the allocations transferred by the Government each year to the local councils is based on specific criteria that entail joint decrees by the Minister responsible for local administrations and the MFB. However the relevant information reaches these communities up to three months late, delaying finalization of the local budgets.

12. The detailed statements of execution of community budgets as well as the financial statements of the public agencies and corporations are not fed into consolidated reports that clearly present these entities' budget status. There is consequently no analysis of the risk that they would represent for the State.

13. Public access to budget information is limited, despite efforts made to publish it on the MFB internet site. Moreover this site is not consistently accessible throughout the country.

Policy-based Budgeting (performance indicators 11 and 12)

14. Despite progress in the budget preparation process, there remain several deficiencies. Government budget preparation does not follow a set calendar remaining within the major statutory timeframes and allowing the key actors adequate time. The budget schedule is drawn up each year and notified to the different actors of the process through the budget circular signed by the Prime Minister. Over the period of the current PEFA assessment, these annual budget calendars have never been respected, especially for transmission of the draft budget to the National Assembly.

15. The budget circular issued by the Prime Minister along with the technical directives from the Director General of Budget (DGB) provide the sector ministries with adequate information for preparation of their draft budgets, particularly the appropriations, however the time allowed them for these processes is insufficient and the expenditure ceilings communicated to them are not approved beforehand by the Council of Ministers.

16. The draft budget acts are transmitted far behind schedule to the National Assembly, which has, in the best of cases, had only three weeks to examine them and vote them into law. This clearly limits its proceedings. Over the past three financial years, only the 2008 budget has been approved and that was on 30 January 2008, one month behind schedule.

17. The Central African Republic government budget does not yet show a proper multi-year perspective. Global multi-year projections are presented by major expenditure category and by ministry in the 2010-2012 Medium-term Expenditure Framework (MTEF). A trial of the use of the projections contained in this new version of the MTEF was conducted for preparation of the 2010 budget. Certain ministries only have sector strategies. Where they exist, cost estimates are not sufficiently precise and are not systematically taken into account in budget preparation. These sector needs are still being determined in a rather speculative manner and are generally not consistent with such sector strategies as may exist. The recurrent expenditure relating to investments is rarely estimated so as to be reflected in the budget programming.

18. Under the HIPC Initiative, the public debt sustainability analysis was regularly conducted up to the attainment of the completion point in June 2009, with the support of Pôle-Dette and “Afritag centre”.

Predictability and Control in Budget Execution (performance indicators 13 to 21)

19. The MFB’s process of formulation of the government budget does not really involve the sector ministries, and these are not currently connected to the Ges’Co computerized budget management system. However the slow pace of commitment and especially of authorization of expenditure curbs the adverse effects of the lack of ministerial coordination. At the same time, the government receipts (fiscal and customs proceeds) do not reflect the country’s real potential, as there is no properly ordered and controlled tax basis, while customs levies remain limited by a high number of exceptional exemptions, all in the absence of State verification; the private company’s intervention in customs affairs appears unregulated and contrary to law.

20. Though taxpayer census data is stored in a single file of the software used by the tax authorities, this file is not totally secure and contains duplications. Since the Government does not have clear ownership of the software, it is not evolving and many of its modules cannot be used, with the result that there is major malfunctioning such as late penalties not being automatically generated, while disparities exist between taxes assessed, those collected and those recorded by the Treasury.

21. “There is also great incertitude concerning the actual amounts of government arrears, which are constantly determined behind schedule following the year-end, and especially without any immediate validation of the figures.

22. All these circumstances do not facilitate public cash management, which should be the factor for regulated budget execution. Its lack of close monitoring, in addition to its chronic weakness, has warranted payment of considerable fees, totaling 1.3 billion in 2009. In 2009, the shortfall of fiscal and cash resources obliged the Government to conclude with local banking establishments several agreements for consolidation and rescheduling of the amounts due them.

The same action was taken concerning various national corporations. This recent consolidation of government debt to national banks and enterprises should nevertheless be seen as a positive trend in liquidity management.

23. The situation is not conducive to stable expenditure, even if in 2009, the Government was able to clear several months' salary arrears owed to civil servants for 2008. Improved management of public orders is also in sight with the adoption of a public procurement code that is well drafted and up to international standards, provided suppliers are at last paid within reasonable timeframes. The current context does not facilitate the exercise of internal control, be it a priori, under the direction of the Financial Control Department, or a posteriori, notably under the General Finance Inspectorate.

24. As both departments lack adequate and stable human and material resources, their programmes, being drawn up without any risk analysis, are often only partially implemented.

Accounting, recording and reporting (performance indicators 22 to 25)

25. CAR prepared its first financial account at end 2009, concerning the 2008 fiscal year. The importance of this step does not however conceal the flaws of the document, which in fact reflect those of its accounting system.

The CAR accounting system does not systematically allow for accurate, regular and rapid recording of accounting transactions. Some accounts still show entries that are contrary to the established standards and, for lack of supporting documents, suspense accounts are being used, with amounts piling up and rendering it impossible to effect any of the settlements authorized within a reasonable period. When accounts are not settled at the close of the financial year, there can be no immediate and real perception of the outturn.

26. The management of the account at the Treasury, particularly the justification of its balance, truly leaves much to be desired. The Central Directorate of the Treasury determines its resource availability based on BEAC statements, and reconciliation with its own accounts is conducted at irregular intervals and too late to be of use. While the reduction of the number of accounts opened in the name of the Treasury in commercial banks is a clear step in the right direction, some of these are maintained as transfer accounts with no fund ceiling set, which would indicate that in reality, the single account at the Treasury is not effective. The Treasury Central Directorate is not aware of the level of liquidity held by commercial banks to cover payments in respect of externally-funded projects.

27. Improvement of the country's accounting system would also require optimal management of real accounts. To date, justifications are provided only for loan accounts and there is currently no means of inventorying and valuing State assets.

Overall, in the absence of administrative accounts to record the execution of ministry budgets, there can be no reconciliation of accounts between the authorizing entity and the Treasury Accountant. (The MFB 2008 administrative account dated 25 June 2010 was presented to the mission on 28 June; it is incomplete, particularly regarding income).

28. The lack of an audited budget, only partially remedied by the budget implementation reports, complicates budget monitoring, mainly owing to the difference in the level of aggregation of accounts between the budget law and the budget implementation reports. A concrete example of this disparate budget document processing is encountered in monitoring loans in respect of the PRSP. While these loans have been identified since 2009 in the budget law, that is no longer the case with the budget implementation reports.

External Scrutiny and Audit (performance indicators 26 to 28)

29. In the absence of any real activity by the Central African Republic's sole high-level oversight institution, external control has become extremely inconsistent, even inexistent. Indeed no performance audit reports, jurisdictional control reports and, particularly, no reports on approval or verification of government accounts have been produced in the past three years. The members of the audit court have not approached Parliament to acquaint themselves with its needs so as to identify and organize assistance or technical support in its favor.

30. It is true that the audit court is administratively isolated, partly because it is attached to the Ministry of Justice whereas its role of control requires it to guarantee the smooth functioning of public finance, which mainly falls under the responsibility of the Ministry of Finance and Budget.

31. In a context of salient reforms (new budget nomenclature, new accounts chart, the country's first financial account prepared for the 2008 fiscal year), the Audit court has rarely, if ever, been called upon to actively contribute to their implementation. The technical resources granted it are moreover insufficient to enable it sustain its action.

32. In practice, external control hinges solely on the budget review by the Parliament, which lacks the human and financial means to carry out its control missions to the required extent with significant input by experts. Nevertheless, through the parliamentary commissions, its efforts are fully invested in analysis of the initial budget act.

33. In sum, the CAR Administration's justification of the budget implementation conditions must be considered incomplete, since it fails to present the financial account along with supporting income and expenditure statements within the statutory period, as well as produce administrative accounts, the finance administration general account and, lastly, the audited budget statement.

Donor Practices (performance indicators D1 to D3)

34. The donors' budgetary procedures and schedules are not such that the Central African Republic's budget authorities can clearly anticipate their financial support and monitor disbursements satisfactorily. Not all the donors communicate their disbursement forecasts to the country's authorities. The projections they do communicate are generally not exhaustive and they are disparate, as each party follows its own classification system. In terms of implementation, resources mobilization exceeds the estimates. Moreover, the budgetary support does not follow any quarterly disbursement plan. The rate of financial reporting differs for the respective donors. It tends to be half-yearly or yearly.

35. Lastly, generally concerning the procedures applicable, budget support is managed according to country procedures and project support, according to those of donors. As project aid exceeds budget support for the PEFA period, over 50% of the financial support is managed in line with the particular procedures of the donors concerned.

ANNEX1-LIST OF INDICATORS AND SCORING

Public Finance Management Performance Indicators	Overall Score
A PUBLIC FINANCE MANAGEMENT SYSTEM RESULTS: Credibility of Budget	
PI-1 Aggregate expenditure out-turn compared to original approved budget	D
PI-2 Composition of expenditure out-turn compared to original approved budget	D
PI-3 Aggregate revenue out –turn compared to original approved budget	C
PI-4 Stock and monitoring of expenditure payment arrears	D+
B. COMPREHENSIVENESS AND TRANSPARENCY	
PI-5 Classification of the budget	B
PI-6 Comprehensiveness of information included in budget documentation	C
PI-7 Extent of unreported government operations	D
PI-8 Transparency of inter-government fiscal relations	C
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C
PI-10 Public access to key fiscal information	C
C. BUDGET CYCLE	
C(i) Policy-based budgeting	
PI-11 Orderliness and participation in the annual budget process	C+
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and control in budget execution	
PI-13 Transparency of taxpayer obligations and liabilities	C
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15 Effectiveness of collection of tax payments	D+
PI-16 Predictability in the availability of funds or commitment of expenditure	D+
PI-17 Recording and management of cash balances, debt and guarantees	D+
PI-18 Effectiveness of payroll contracts	D
PI-19 Competition, value for money and controls in procurement	A
PI-20 Effectiveness of internal controls for non-salary expenditure	C
PI-21 Effectiveness of internal controls for non-salary expenditure	C+
C(iii) Accounting, recording and reporting	
PI-22 Timeliness and regularity of accounts reconciliation	D
PI-23 Availability of information on resources received by service delivery units	D
PI-24 Quality and timeliness of in-year budget reports	D+
PI-25 Quality and timeliness of annual financial statements	D+
C(iv) External scrutiny and audit	
PI-26 Scope, nature and follow-up of external audit	D
PI-27 legislative scrutiny of the annual budget law	D+

PI-28 Legislative scrutiny of external audit reports	D
D. DONOR PRACTICES	
D-1 Predictability of Direct Budget Support	D
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3 Proportion of aid that is managed by use of national procedures	D