

**Central African Republic  
Diagnostic Trade Integration Study  
under the Integrated Framework  
Concept Paper**

**Background**

1. The proposed Diagnostic Trade Integration Study (DTIS) is being prepared under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). The IF is a multi-agency, multi-donor program established by WTO trade ministers in 1996 to promote the integration of the least developed countries (LDCs) into the global economy. The participating agencies are the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), the World Bank and the World Trade Organization (WTO).
2. The original IF entailed the preparation of a Needs Assessment for the eligible LDCs followed by a Roundtable or Consultative Group meeting to secure donor financing for the trade action plan. Progress in mobilizing donor support proved difficult, and the program started slowly. An independent review of the IF, completed in June 2000, highlighted both the absence of donor resources, as well as the lack of linkages to overall development strategies or programs. The outcome was the redefinition of the IF to ensure better integration of trade with national development strategies, complemented by a trust fund for IF activities financed by multilateral agencies and bilateral donors, with the latter being supplemented by resources of international agencies in terms of staff contributions.
3. The revised IF work program starts with the preparation of a DTIS, led by the World Bank. An important output of the DTIS is an action plan that lays out the policy and institutional measures, and investment and technical assistance needs that have been identified through the diagnostic work.
4. With the objective of strengthening its efforts in promoting trade integration, the Government of the Central African Republic (CAR) applied to participate in the IF process on October 17, 2003 for which it was approved on February 21, 2006.
5. After a period of civil strife and unrest during which the CAR built up arrears domestically and with the donor community, the country's political situation is now relatively stable. However, the negotiations with the donor community for their reengagement in the CAR have not yet been concluded. This constellation thus entails a risk for the IF process which, if delayed, may lose some of its momentum. However, this risk is mitigated by the current pace of the reengagement process which is promising and should lead to an agreement for clearance of the arrears by the end of 2006.

**Objective**

6. In line with the terms of reference of the IF, the objective of the proposed DTIS is to identify key constraints, both internal and external, to the expansion of CAR's trade, with a focus on how trade expansion can help stimulate shared growth and reduce poverty in the country.

7. The CAR is a small landlocked country, suffering from severe capacity constraints and domestic instability, as well as from instability in neighboring countries, notably Chad and Sudan. The DTIS will take this into consideration and will thus couch its recommendations in the context of (i) the Government's limited influence on some of the major constraints, (ii) the limited capacity in the public and private sector. Furthermore, the study will focus on how trade expansion may contribute to stabilization in the country through equitable growth and increased government revenue, but also through increased links with trading partners, both regional and international, and through strengthening the private sector as part of civil society.

8. Trade and export development are key aspects for growth and poverty reduction in the CAR's full PRSP that is currently under preparation<sup>1</sup>. The PRSP recognizes the key role of transport costs in holding back CAR's exports (in particular cash crops coffee and cotton). Transport costs are high for two reasons: the country is landlocked, and the state of transport infrastructure is very poor. The PRSP furthermore identifies governance issues – cross-cutting and specific to the key export sectors of mining and forestry – as key factors dampening the CAR's competitiveness.

9. The country's strategy to stimulate growth and poverty reduction is based on four pillars (macro framework (not yet formulated), revitalization of productive sectors, social sectors, and governance). The strategy to revive the productive sectors is based on improving transport infrastructure as the main lever for economic growth and poverty reduction through reducing costs for production and trade (internal and external). If this can be achieved, mining and forestry are expected to be key drivers of growth, as well as the revived cash crop sectors of cotton and coffee. The fourth pillar "governance" is focused on improving the business climate and addressing governance issues, thereby addressing another set of important constraints for a dynamic development of the private sector.

## **Economic Background**

### ***Country Context***

10. For most of the period since independence in 1960, CAR has experienced political instability, successive periods of armed conflict, poor governance, and – as a result – poor socio-economic outcomes. Much of the past decade was characterized by a vicious cycle of mutinies and coup attempts, a succession of regimes, and an increasingly bankrupt and ineffective government. In October 2002 a rebel group led by General Bozize waged war against the government and subsequently seized power. After an

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<sup>1</sup> RCA: Cadre Stratégique de Lutte contre la Pauvreté, draft 00 (version incomplete).

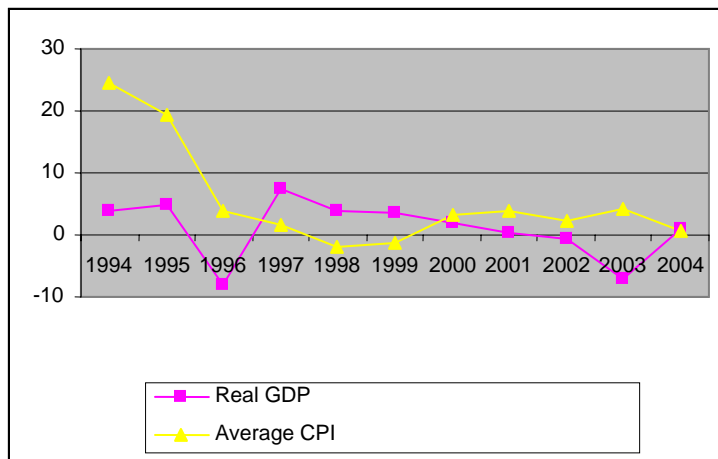
interim period, General Bozize was elected President in May 2005. During the transition period, persistent insecurity in the country led to poor economic performance and diminished service delivery on the part of the government. Since 2005, political stability has increased and the new government is trying to stimulate economic recovery. Increased security is yielding a dividend in terms of economic growth, yet the government is still crippled by significant external and internal arrears.

***Economic Performance over the Past Decade***

*Growth, inflation and poverty indicators over the past 10 years*

11. Since the 1994 devaluation of the CFA franc, CAR’s economic growth record has been mixed as can be seen in Figure 1. The devaluation stimulated export competitiveness which, together with structural reforms aimed at unleashing the private sector resulted in relatively high growth rates of about 5 percent for between 1994 and 1998, with the exception of 1996 which was marked by a sharp drop in cotton and coffee prices. After 1998, economic growth slowed and public finances deteriorated: salary payments, external and internal debt obligations were unmet, and the country slid into arrears. Subsequently, civil unrest erupted, leading to several attempted coups and civil war. This in turn further depressed economic activity which contracted for a few years at the beginning of the new millennium. CAR’s public finance record worsened during this period as revenue could not keep up with expenditures, leading to an increased budget deficit that continued to be financed through arrears accumulation, bank financing, and advances from private companies. Most recently, the economy has reversed its decline, and the newly elected government is trying to stimulate a sustainable economic recovery through support to productive sectors, improved governance and maintenance of a stable macro-framework, including clearing of internal and external arrears.

Figure 1: Real GDP Growth and Inflation (percent)



Source: IMF

12. In the past decade, CAR has made some progress towards stabilizing inflation as can be seen in Figure 1. Following a short surge above 20 percent after the CFA franc devaluation in 1994, inflation has been contained because of CAR’s adherence to the

prudent monetary policies set by the Banque des Etats de l'Afrique Centrale (BEAC); inflation averaged 1.1 percent from 1997-2001. However, table 1 below shows that other key economic indicators are still weak, such as domestic investment below 10 percent, and private investment below 5 percent, a widening current account imbalance, and a widening fiscal deficit.

**Table 1: Key Economic Indicators**

	1995/96	2000/01	2001/02	2002/03	2003/04	2004/05
<b>Real Sector</b>						
GDP (m. US\$)	1070.1	968.3	1045.2	1197.5	1309.1	1375.2
Real GDP growth	-8.1	0.3	-0.6	-7.6	1.3	2.2
GNI per capita (PPP, International \$)	290	270	250	270	310	n/a
Gross Domestic Investment/GDP (%)	5.9	8.4	9.0	6.0	6.1	7.2
Public Investment/GDP (%)	1.9	3.4	4.8	2.1	2.0	2.3
Private Investment/GDP (%)	4.0	4.9	4.2	3.9	4.1	4.9
<b>External Accounts (US\$m)</b>						
Exports of Goods & Services	185.3	160.0	154.1	109.1	111.5	127.4
Imports of Goods & Services	225.2	203.5	204.0	165.6	172.5	188.0
Current Account Balance excl. grants (percent of GDP)	-39.9 -5.9	-43.5 -2.5	-49.9 -3.1	-56.5 -4.9	-61 -4.3	-60.6 -3.9
Gross official reserves (in months of imports)		13.6	10.9	12.4	12.0	10.9
<b>Fiscal Accounts (% of GDP)</b>						
Revenues	6.4	8.9	10.8	7.7	8.1	8.3
Expenditures	11.7	13.2	15.8	12.3	13.5	12.8
Overall balance, excluding grants	-5.3	-4.3	-5.0	-4.6	-5.5	-4.5
Overall balance, including grants	-1.1	-3.1	-1.0	-1.6	-2.2	-2.7
<b>Prices, Exchange Rates (period average)</b>						
Inflation (CPI, annual average)	1.6	3.8	2.3	4.4	-2.2	2.4
Exchange rate (CFA francs per dollar)	511.5	732.4	694.8	580.1	527.6	525.3
Export Price Index (2000=100)	85.9	94.8	88.4	87.9	82.1	83.6
Import Price Index (2000=100)	93.4	103.5	105.7	103.0	116.9	134.2
Terms of Trade (2000=100)	91.9	91.6	83.6	85.3	70.2	62.3
<b>Social Indicators</b>						
Population (in millions)	3.4	3.8	3.9	3.9	4.0	4.1
Primary School Enrollment(%)	71.0	66.1	65.5	n/a	n/a	n/a

Source: IMF

13. As a result of the conflict and political turmoil of the past decades, poverty has deepened with an estimated 71 percent of people living below the poverty line and 36 percent living in extreme poverty.<sup>2</sup> CAR is ranked 168<sup>th</sup> among the 175 countries in the UNDP's 2003 Human Development Index. Real GDP growth averaged 1.9 percent over the period 1994-2004, implying a real deterioration in per capita income since the population growth is estimated at 2 percent per year. The GNP per capita fell from an average of US\$280 during the period 1980-85 to US\$260 in 1995-2001. Statistics for other poverty dimensions are equally dismal: life expectancy has fallen from roughly 50

<sup>2</sup> 2003 UNDP household survey.

years in the late 1990s to less than 40 years in 2002. HIV/AIDS is taking its toll on the country with a 15 percent prevalence rate in 2002 for the adult population and as much as 20 to 30 percent in certain parts of the country. Literacy rates have fallen to below the levels seen at independence in 1960.

### *Sectoral contributions to growth*

14. CAR is predominantly an agrarian economy producing crops, livestock, timber, and hunting and finishing. Agriculture's share of GDP is roughly half of total GDP and grew at 2.2 percent over the period 1997-2005 (see Table 2). The services sector made up almost a third of CAR's economy at 31.1 percent of GDP over the 1997-2005 period. Table 2 shows, however, that while over the entire period, services contributed 0.9 percent to economic growth, over the most recent period 2001-2005 their contribution to overall economic growth was negative (-1.3 percent) because commercial and transport activities were disrupted during the period of political instability and civil unrest. The industrial sector, comprised of traditional diamond mining, breweries, and sawmills, accounted for 13.7 percent of GDP over the 1997-2005 period. This sector's contribution to growth during the conflict period 2001-2005 was also negative at -0.6 percent. This is consistent with research on conflict affected countries in which one would expect a shift from high transaction and asset intensive sectors (industrial and services sectors) to lower transaction and asset intensive sectors, i.e. agriculture<sup>3</sup>.

**Table 2. Sectoral Shares of GDP and Contributions to Growth**

	Shares of GDP (in %)			Contribution to Growth		
	1996/97	2004/05	Average 1996/97-2004/05	1997/98-2000/01	2000/01-2004/05	1997/98-2004/05
Agriculture	51.4	53.4	51.9	3.9	0.5	2.2
Crops	28.6	29.9	28.2	2.6	1.7	2.2
Livestock	12.5	13.3	13.0	3.0	1.0	2.0
Hunting, Fishing	4.6	5.2	4.9	14.8	2.4	8.6
Timber	5.7	5.0	6.7	11.9	-8.8	1.6
Industry	13.7	13.4	13.7	2.8	-0.6	1.1
Services, etc	28.4	29.2	31.1	3.1	-1.3	0.9
Total GDP				3.2	-1.9	1.6

Source: IMF

### *Trade and export performance over the past decade*

15. The CAR is part of the CEMAC (Communauté Economique et Monétaire de l'Afrique Centrale) regional trading arrangement and is implementing its trade policy and foreign exchange regime, including the implementation of a common external tariff with four bands of 5, 10, 20 and 30 percent. However, in addition to the tariff and export taxes on timber, processed wood, diamonds and gold (10.5, 4.05, 4.25 and 2.25 percent respectively), the CAR faces other barriers to trade. Most notably, these include distance

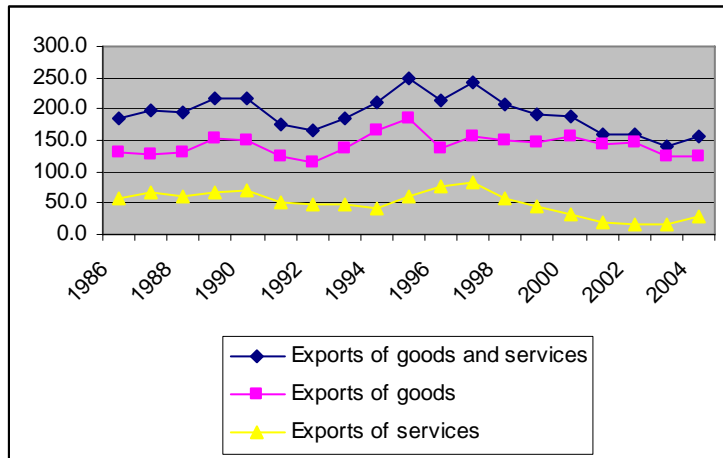
<sup>3</sup> See The World Bank (2005).

to the ports, its landlocked nature, poor transportation infrastructure to get exports to the market place, and a lack of national institutions to facilitate trade (e.g. support for standards compliance and certification). Additionally, the customs administration in CAR is weak and corruption is an alleged problem.

16. Assessing the CAR’s export performance is complicated by poor data quality. Comparing the IMF’s Direction of Trade database and the UNCOMTRADE database reveals large discrepancies in export values for CAR’s main exports. This following sections rely mostly on the IMF database.

17. The CAR’s export performance is dominated by merchandise exports which peaked in 1996 at US\$250million and have since declined significantly to below US\$150 in 2003 because of conflict and civil strife. Services contributed between 25 and 35 percent to exports until 1998 after which services exports declined both absolutely and as a percentage of exports.

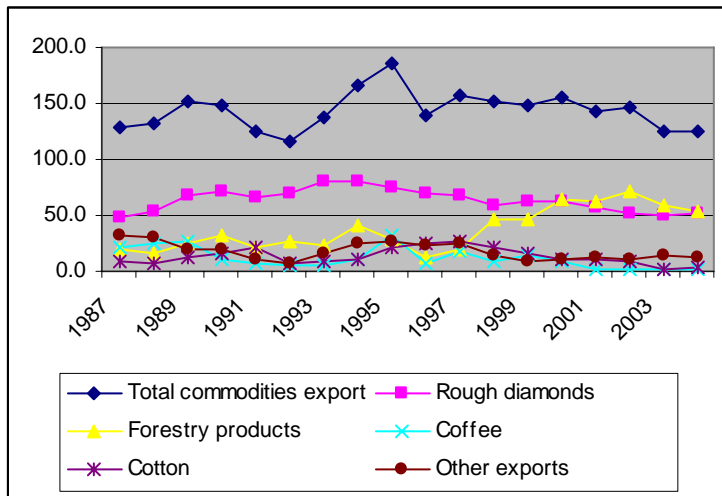
Figure 2: Exports: Merchandise and Services (US\$million)



Source: IMF Direction of Trade Database

18. Merchandise exports in the CAR are dominated by diamond exports during the 1990s, yet recently timber exports have surged and are now roughly equal to diamond exports. Coffee and cotton exports have declined to almost negligible levels.

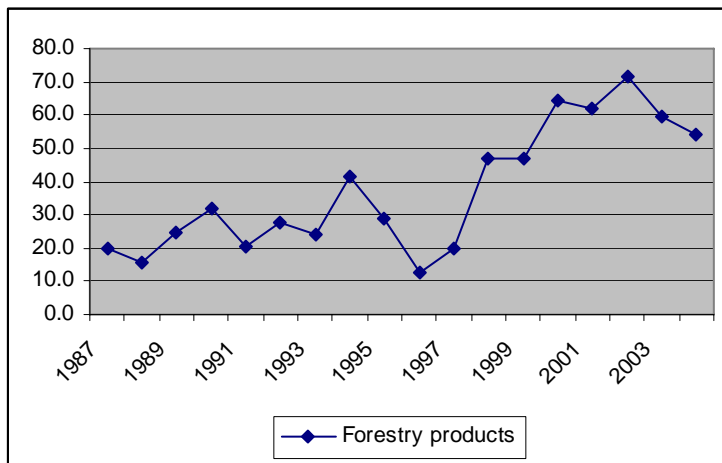
Figure 3: Merchandise Exports (US\$million)



Source: IMF Direction of Trade Database

19. Forestry exports have been volatile, but with a definite upward trend since the mid 1990s. The forestry sector in the CAR has suffered less than other productive sectors during the period of political unrest; to date the sector is reasonably well structured and growing.

Figure 4: Forestry Exports (US\$million)

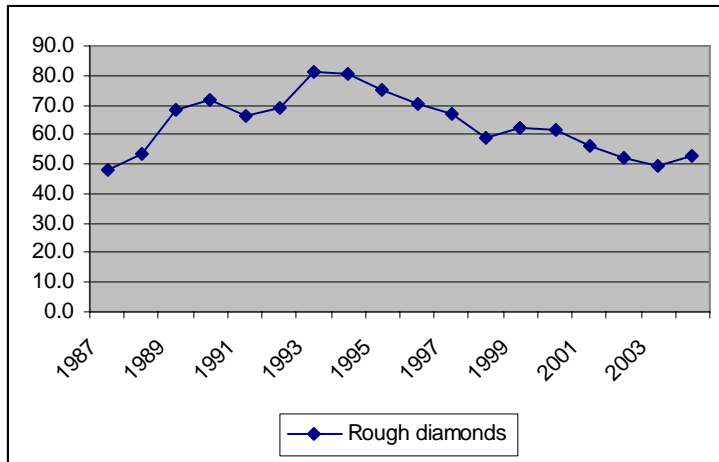


Source: IMF Direction of Trade Database

20. Diamond exports have not been as volatile as forestry exports, yet there is a marked downward trend in the value of diamond exports which in 2004 reached only 65 percent of the value in the peak year 1993. The mining sector in the CAR is characterized by artisanal production of diamonds; the mining methods have not undergone reform since independence. The main constraint for the sector is the lack of security around mines, as well as the lack of a coherent policy framework, corruption, smuggling and the poor transportation network in the CAR. Owing to the poor policy framework and

insecurity, mining companies have not been investing in the sector. Diamond exports are mainly destined to Belgium from where they are sold world wide.

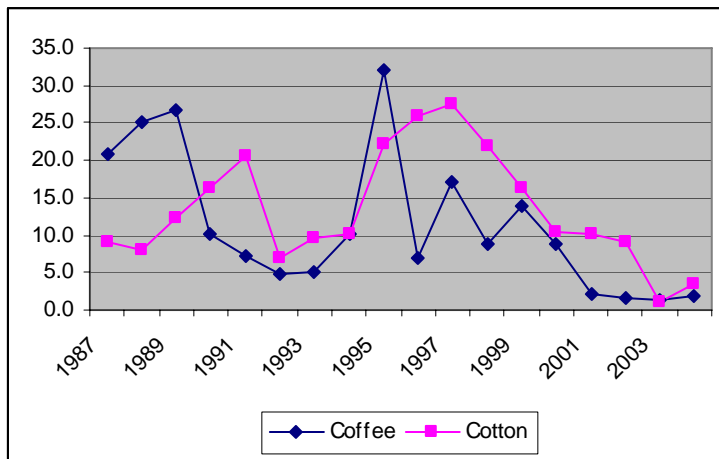
Figure 5: Rough Diamond Exports (US\$million)



Source: IMF Direction of Trade Database

21. Coffee and cotton exports have dwindled in the past few years. The reason for the decline in exports is twofold: First, a collapse of world prices for both goods in the second half of the 1990s. Second, a deterioration in the production infrastructure in the CAR marked by a disruption of internal production, processing and marketing systems.

Figure 6: Coffee and Cotton Exports (US\$million)

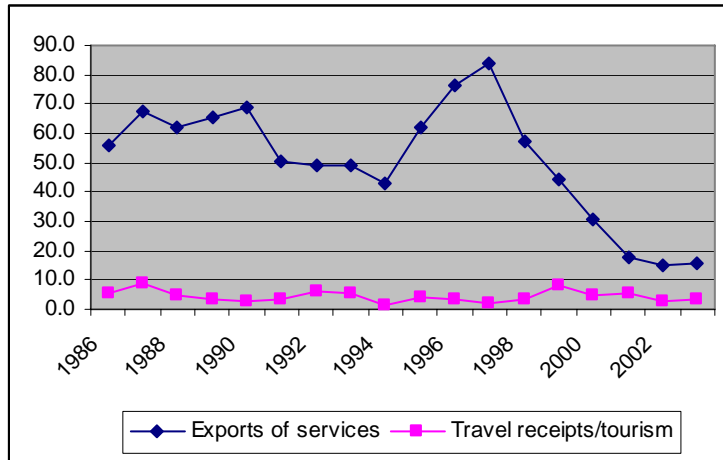


Source: IMF Direction of Trade Database

22. Owing to problems regarding the reliability of trade data in the CAR and neighboring countries, it is very difficult to assess the extent to which the CAR exports regionally. Available data suggest that only about 3 percent of CAR's exports go to the region, dominated by exports to Cameroon and Sudan. However, since Cameroon and to a lesser extent Sudan are transit countries for CAR's exports, it is possible that some of the exports from CAR are being further re-exported. A closer look at available data will be necessary, drawing on secondary/qualitative evidence.

22. Tourism: Between 1988 and 2004, tourism receipts remained relatively constant averaging US\$4.7million per annum. However, as other services exports – mainly government services which make up between 50 and 85 percent of total services exports – declined, tourism exports now contribute about 20 percent to services exports.

Figure 6: Services Exports and Tourism Receipts (US\$million)



Source: IMF Direction of Trade Database

23. Given the increased political stability, an increase in foreign investment in cotton, timber and mining is possible in 2006/07, albeit from a low base. In addition, greater stability is likely to see the return to Bangui of diamond buyers who had previously been deterred by the political situation; an upturn in diamond exports is thus possible. Cotton exports revenue may recover if ginneries are rebuilt as a result of increased investments. In addition, trade activity could benefit from the reopening of the border between the CAR and the DRC. Furthermore, the government is currently trying to improve its relationship with the international donor community which would require clearing arrears with the IFIs. If the government is successful in this attempt, re-engagement of the donor community is likely to support the government’s implementation of its PRSP, which is focused on rehabilitating the transport infrastructure, reducing cost for the productive sectors, and improving the regulatory framework and the governance environment for private sector activities.

24. Under these conditions, CAR’s entry into the IF process is timely and potentially very useful. The DTIS will provide the necessary diagnostic underpinning for focused reforms and donor support in form of trade related technical assistance and priority investment activities. The results of the DTIS will feed into the PRSP process and inform the relevant pillars. Furthermore, upon reengagement, donors will be able to provide the necessary assistance in support of the country’s PRSP and its trade and export related priorities. If, however, the re-engagement effort is unsuccessful or much delayed, the benefits of the IF exercise will, accordingly, be less than anticipated.

## **Coverage of the DTIS**

25. It is by now accepted that what is important for trade integration and in particular export expansion goes beyond policies and institutions that are directly related to trade (such as tariff and non-tariff policies, and trade policy making institutions), to a whole range of factors that have been called the “behind-the-border” agenda, or supply-side constraints. In a sense, all the factors that affect private investment would affect export supply responses as well as competitiveness. These factors could include virtually all aspects of the development agenda, ranging from education and health, to financial sector development, infrastructure, firm entry and exit regulations, governance, the legal framework, and taxation. In accordance with the terms of reference for the DTIS, and based on consultations with the various stakeholders in CAR (including representatives from government ministries, the private sector and donor organizations,) this DTIS will cover the following subset of the agenda.

26. With respect to *internal constraints* to trade, the DTIS will address both cross-cutting and sub-sectoral issues. The *cross-cutting* issues are: (i) domestic trade policy including CAR’s participation in regional trade agreements (RTAs); (iii) the institutional framework and capacity for trade policy and trade development; (iv) the key elements of the investment climate; (v) CAR’s capacity to meet international product standards for exports; and (vi) its transport and trade facilitation capacity including customs. This section of the report will also discuss CAR’s socio-economic background, poverty trends, trade performance and macroeconomic policies.

27. Addressing these cross-cutting issues may not be sufficient if there are *sub-sector specific constraints* to trade. Therefore, in addition, following consultation with the authorities, the DTIS will address a few sub-sectors for more in-depth analysis of the constraints to, and opportunities for, export expansion. The sub-sectors are selected based on two criteria: their potential for export expansion, and/or they are important for poverty reduction. These are: (i) agricultural export crops—coffee, cotton, tobacco; (ii) forestry, (iii) mining, and (iv) tourism.

28. With respect to *external constraints* to trade, the DTIS will review issues pertaining to access to both developed and developing country markets, including the implications of the ongoing WTO negotiations, and issues with respect to preferential trade agreements and the negotiations of the Economic Partnership Agreement (EPA) with the European Union (EU).

29. The DTIS will provide recommendations for addressing constraints identified in the above areas for enhancing the CAR’s trade integration. In addition, the report will discuss to the extent possible (data permitting) the impact on poverty of trade and trade policy changes coming from the recommendations in the report. The findings will be summarized in a prioritized and sequenced action plan that lays out the policy and institutional changes, the capacity building needs, and the investment requirements for removing bottlenecks and seizing opportunities to promote the integration of CAR into the global economy.

30. Finally, the DTIS will put the proposed strategy to further trade integration into perspective, given CAR's specific situation as a landlocked country in an instable sub-region, with poor infrastructure, poor human capital and a post-independence history fraught with civil strife and war. This section will also explain how the recommended set of priorities takes into consideration the specific situation in the CAR, and its limited public and private sector capacity. Finally, this section will contain a discussion how a strategy of further regional and international trade integration sits in the larger context of CAR's strategy to answer to its various development challenges.

### **Other studies and operations**

31. There is not a large body of diagnostic work on the CAR to date upon which the DTIS can draw (see section on references below). However, where available, the DTIS will take into account the existing knowledge base with respect to the topics that are being covered, and update/complete the analysis and recommendations. The DTIS will also take into account any existing support on trade and trade-related activities that CAR may be already receiving from donors and multilateral agencies, to avoid duplication of, and to ensure consistencies in, efforts.

32. Among the available diagnostics the DTIS will draw on are a 2005 World Bank report, a collection of policy notes on "Central Africa Republic Quest for Socio-Economic Stability" that covers the two main export sectors (mining, forestry) up to 2003, and a review of the private sector. Furthermore, the study will draw for its macro-economic section on IMF reports, as well as on an IMF Selected Issues paper that addresses transport cost and competitiveness<sup>4</sup>.

33. Furthermore, the DTIS work on trade and transport facilitation will draw on and feed into the past and future diagnostic work on the regional trade and transport facilitation project (see, for example, CEMAC (2005)) Intra-regional trade among the six countries of the CEMAC continues to be very limited (close to 5% of the total trade in the region), due to the current transit system which hinders regional integration due to the poor condition of roads and the lack of complementarity between the economies of the region. In order to stimulate regional trade integration, the US\$100 million regional trade facilitation project for Central Africa covering Cameroon, CAR and Chad, aims at enhancing regional trade and integration by specifically providing the landlocked countries of CAR and Chad with better access to the Port of Douala through: (i) assistance in strengthening the CEMAC Customs Union implementation; (ii) improving transport infrastructure and good transportation along the main transit corridors to the hinterland.

34. The DTIS will also draw on some selected work by the donor community, such as a cotton sector study and a forestry sector study financed by the Agence Française de Développement (AFD), and a study on public finances undertaken by the EU which covers – among other things – customs. There are also a number of publications that

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<sup>4</sup> IMF (2005), Central African Republic – Selected Issues and Statistical Appendix

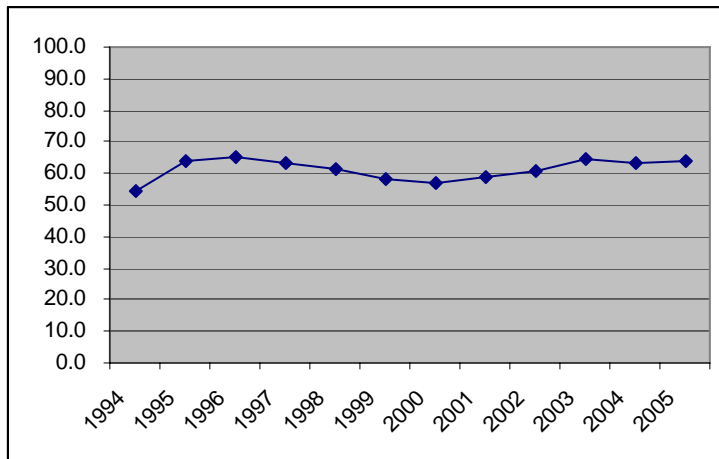
cover all CEMAC countries such as a short summary of constraints and opportunities for investments in the CEMAC region, a EU financed study on the productive sectors and export potential in the CEMAC region, and a study on harmonization of the legal framework for private sector activities in the CEMAC region. Finally, there is an EU financed needs assessment for trade related technical assistance covering all Central and West African countries (for a complete list of available material see the section on references below).<sup>5</sup>

The rest of this paper presents the topics that will be covered in the DTIS.

## **Chapter 1: Context, Background and Trade Performance**

35. The first chapter of the DTIS will review the macro and socio-economic background, poverty trends and trade performance in the CAR. The focus of the chapter will be key macroeconomic factors important for exports, i.e. low levels of inflation, and a stable and competitive real exchange rate. As seen above, the CAR has achieved low levels of inflation which is important for encouraging private investment, which in turn is the source of export growth. Figure 7 shows that, however, CAR’s REER (Real Effective Exchange Rate) has not been stable but fluctuating over the past decade; such exchange rate volatility creates a risky business environment in which there are uncertainties about future profits and payments.

Figure 7: Real Effective Exchange Rate



Source: IMF

36. The first chapter will also discuss in more detail the CAR’s trade performance over the past decade (exports and imports, destinations/sources, and sector specific developments). An important aspect of the work will be an assessment of data quality available for trade diagnostics, including a set of recommendations to improve the data collection and administration to enable more precise analyses in the future.

<sup>5</sup> The DTIS may also be able to use data from a recently concluded household survey covering rural and urban areas, financed by UNDP.

## **Chapter 2: Trade Policy Regime, Regional Trade Agreements, Market Access**

37. The second chapter of the DTIS will discuss CAR's trade policy, institutions, regional trade agreements, and access to markets.

38. As a landlocked country, the CAR faces two major disadvantages concerning integration into international markets. As discussed before, it does not have an immediate gateway to low-cost ocean transport; its imports and exports have to transit through neighboring countries. Nor does the CAR share a common border with an industrialized country that produces the goods and services that CAR imports and that could absorb a large share of the country's exports. As a result and like other countries in similar situations, CAR shows a very low degree of trade intensity, as measured by total trade per capita.

39. To a large part, these constraints are external to the government, but there is some scope for policy intervention to ameliorate the situation and reap larger benefits from increased trade. Efforts to reduce trade transactions costs through streamlining of border procedures and improved transit arrangements are one means which will be discussed in the section on transport and trade facilitation. Another avenue consists of trying to more fully exploit existing opportunities in regional and global markets as well as opening new export markets by negotiating trade barrier reductions on a preferential or multilateral basis. These trade barrier-related aspects of regional and global market access are analyzed in the trade policy chapter.

40. In particular, the discussion will review trade policy developments in CAR in order to identify pertinent issues and challenges for the country that warrant the attention of policy makers and development partners. The analysis falls into four parts. First, the domestic trade regime will be described, with particular emphasis on the incentives it provides to producers for the domestic and international markets. Second, the trade policy institutions and the process of policy formulation will be analyzed. Third, CAR's regional integration efforts and prospective developments within CEMAC and as a result of the EPA negotiations will be discussed and their impacts on CAR evaluated. And finally, CAR's global market opportunities will be examined, including an assessment of the degree of preference utilization in industrialized country markets and an evaluation of the prospective implications of the WTO Doha Round negotiations. Throughout the analysis, cross-country comparisons (possibly to other landlocked countries in Africa) will be used to benchmark CAR's situation, and quantitative indicators will be employed to provide information to policy makers on the relative magnitude of different effects.

### ***Tariff and non-tariff policies***

41. As no systematic review of trade policy by the WTO or other institutions exists to date for CAR, the DTIS will provide a detailed description of border policies (without aiming to replace a full Trade Policy Review by the WTO). It will review the import regime, covering current tariff policies, other import duties and charges, domestic taxes, as well as exemptions, and assess to what extent the protection of domestic producers

generates an anti-export bias. The importance of trade taxes will be discussed, including revenue shortfalls from informal trade and mis-representation of the origin of goods.

42. In addition to tariffs, non-tariff policies can also distort production incentives. The DTIS will review the current status of such policies in CAR, including possible import restrictions and licensing, government procurement measures, and other measures. The DTIS will provide recommendations to address distortions that may arise from such policies. The focus of the analysis is on merchandise trade, but to the extent that information is available, trade in services will also be covered.

### ***Trade policy institutions***

43. Having adequate capacity for trade policy-making is important for promoting trade integration in a way that is beneficial for CAR. In this context, the DTIS will: (i) take stock of the current status of trade policy making in CAR; (ii) evaluate coherence of trade policy-making within the Government; (iii) review adequacy of consultations with the private sector and civil society organizations in trade policy-making; (iv) assess capacity for trade policy-making and trade negotiations, the latter for both regional as well as the multilateral arrangements; and (v) based on (i)-(iv) provide recommendations for strengthening trade policy making in CAR.

44. Moreover, one of the main objectives of the IF is to ensure better integration of trade into national development strategies. This requires the presence of institutional mechanisms that provides for such integration. In this regard, the DTIS will review the existing mechanisms for integrating trade issues into CAR's development agenda, and provide recommendations for the strengthening or institutionalizing of pertinent processes where necessary.

### ***Regional Trade Agreements and EPA negotiations***

45. CAR is committed to the process of regional integration and is pursuing closer ties with neighboring nations. The country is notably a member of CEMAC and implements the Community's common external tariff. The DTIS will assess the importance of regional trade for CAR, including with respect to informal trade (as far as information availability permits). It will also discuss prospective steps of deeper regional integration and evaluate the resulting impacts on trade flow, tariff revenues, and different sectors within the economy.

46. Together with its partner countries in CEMAC, CAR is negotiating an Economic Partnership Agreement (EPA) with the European Union that is scheduled to change the existing trade preferences from non-reciprocal to reciprocal in order to ensure full compliance with provisions under the WTO agreement. The EPA negotiations are supposed to be concluded by the end of 2007. The outcome of the negotiations is likely to have major impacts on the Central African countries. The DTIS will identify the main issues for CAR in these negotiations with respect to goods trade, services trade, and the

Singapore issues (in particular investment policy), and provide recommendations on how CAR can try to maximize the benefits it could derive from an EPA.

### ***Access to external markets and multilateral trade reforms***

47. In addition to domestic policies (both trade and non-trade), a country's trade performance can also be affected by the international trading environment. The DTIS will address the question of whether foreign countries' trade policies help or hinder CAR's integration into the world economy. In particular, while the most favored nation tariffs CAR faces in OECD markets are low on average, some industrialized countries impose significant tariff peaks and have escalating tariff structures. On the other hand, developed countries offer a variety of non-reciprocal preferences. CAR benefits from market access preferences under the Generalized System of Preferences, the EU's Cotonou Agreement with African, Caribbean and Pacific Countries, and the USA's African Growth and Opportunity Act (AGOA). In other African countries, the record of making use of such preferences has been very uneven, sometimes due to administrative barriers imposed by importing countries, and sometimes due to supply-side constraints in exporting countries. The DTIS will evaluate the effect of border barriers in OECD markets on CAR's exports and the extent to which exporters take advantage of preferences. The DTIS will recommend ways that the government and exporters can increase their access to foreign markets.

48. Trade preferences are vulnerable to preference erosion. A number of studies have investigated the prospective impact of further trade liberalization in the ongoing Doha Round of trade negotiations. The findings of these studies, as far as they relate to CAR, will be summarized in order to provide a medium-term outlook on potential future trade policy developments and their impacts on CAR. In particular, the DTIS will provide estimates of the potential impact on preference margins for various tariff reduction scenarios for manufactures and agriculture. Potential losses (as a share of total exports or as a share of exports in the sector) will be derived to estimate the cost of preference erosion in each sector and for the country as a whole. If the costs of preference erosion are found to be significant, the DTIS will suggest appropriate mitigation measures.

### **Chapter 3: Behind the Border Agenda**

49. This chapter contains three parts that address the various aspects of the behind-the-border constraints. The first part concerns trade and transport facilitation which is generally acknowledged to be the main constraint for land-locked, and infrastructure-poor CAR. The second part will discuss private sector issues, with particular focus on exporters; the section will review private sector performance, the legal and regulatory framework and the cost to business from utilities (power, water, telecommunications). The last section will focus on product standards which are increasingly important constraints for primary exports, in particular food stuff.

### ***Trade and Transport facilitation***

50. Moving goods from the point of production to their final destination expeditiously and cost effectively is an important factor for a country's export competitiveness. Country-level evidence has also indicated that logistics is the most important component of cost for exporters in some developing countries. This issue is particularly pertinent for the CAR, a landlocked country about 1500 km away from the sea.

51. To date, trade can follow two transit corridors as gateways to the Atlantic Ocean<sup>6</sup>. The most widely used is the multimodal railroad route from Douala in Cameroon. Containers take the train from the port in Douala until a terminal in Belabo in eastern Cameroon (500 km). The road goes to Bangui through Garoua-Boulai and Bouar. 600 km of the route is in CAR itself. An all-road corridor can also be used from Garoua-Boulai to Douala and has taken an increasing share of traffic. The cost and delays of transit are very high, even for African standards. It takes about 5 weeks on average between unloading in Douala, and the cost per ton is about €250<sup>7</sup>.

52. An alternate fluvial route through Congo also serves CAR. It follows the Pointe Noire to Brazzaville railway and then the Congo river: Bangui is reachable by barges from Brazzaville/Kinshasa. The cargo is loaded on barges, which reach Bangui, in 1200 km on the Congo and Ubangui rivers. This route is potentially cheaper (-30%) than the Cameroonian corridor and adequate for non time-sensitive imports (oil, cement). However it is longer and much less reliable than the route from Douala.

53. Lack of infrastructure and the maintenance of existing networks are serious concerns in CAR, much more so than in other landlocked countries in Africa. In fact, Bangui is the only capital city in Africa not yet linked by a surfaced road or a railroad to the rest of the World. The CAR is a large country with a road network consisting of 4,200 km of national and regional roads of which only about 10 percent is paved.

54. Over the past decades, private-public partnerships have led to improvement in port and rail operations in Cameroon. The container terminal is modern and has been privatized. Operated by a concessionaire, the rail service may well be the best operation in Sub-Saharan Africa, save South Africa; it operates state of the art dry terminals and can support a seamless transit system towards landlocked country and Northern Cameroon. These operations are slowed by the inherited backlog in track rehabilitation, yet there are several donor projects supporting such rehabilitation (including the World Bank regional trade and transport facilitation project in Central Africa).

55. However, there is ample evidence that the lack of transport infrastructure is not the primary source of trade cost. The recent (2004) facilitation audit for Chad pointed to many "soft" bottlenecks on the Douala corridor. Most of them are directly relevant also for CAR. The CAR DTIS will analyze in more detail these bottlenecks and propose

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<sup>6</sup> Despite its name, the CAR is much further from the Indian Ocean than the Atlantic Ocean and eastbound roads are even less practicable. Bangui is 1900 km away by dirt roads from Juba in Southern Sudan, itself 1600 km away from Mombasa by the Northern corridor. Not an option at least in the foreseeable future.

<sup>7</sup> Reaching Kigali from Mombasa or Dar-es-Salaam (about the same distance) cost \$165 (about €135) per ton.

remedial actions to be supported within the forthcoming World Bank facilitation project. The primary causes of cost and inefficiencies include (i) overregulation through complex transit agreements, (ii) inefficient port processes for transit goods in Douala, (iii) poor and fragmented trucking services, (iv) low volume of freight, (v) widespread rent-seeking resulting in many checkpoints, and (vi) security problems. Another important source of trade and transit cost is the weak customs administration in the CAR,

56. So far, there has been little effort to address these problems. Innovation introduced in recent years, like a road manifest, has been very much controlled by the Cameroonian customs and the BGFT (Bureau de Gestion des Frets et du Transport), which are part of the problem. Unlike UEMOA or SADC in other regions, CEMAC has not until now played a significant role in facilitating transit trade.

57. The DTIS will undertake a comprehensive review of the situation in CAR in terms of cost and effectiveness of transport services and administrative procedures related to international trade. The diagnostic will provide an overview of the transport logistics pattern in CAR, including quantitative information (volumes and values) of the various modes of transport (road, rail, river and air), and a mapping of the routes within CAR from the production centers to the international gateway for the main export goods and services. The DTIS will focus its analysis along three areas: transit issues, customs and national transportation.

58. Specifically, the DTIS will

- review procedural and documentary requirements for moving goods through borders or in transit operations from gateways in coastal countries, including the magnitude of delays of trade operations at various stages of the supply chain for imports, exports, and transit goods (this part of the work will be drawn from the work covered under Customs);
- assess the availability and quality of transport logistics services (clearing, forwarding, and insurance), the market structure of these services and integration with other activities (for instance haulers and forwarders).
- assess the institutional environment (transit or corridor organizations).
- identify the constraints on shippers especially the criteria for choices of corridors and compare corridors
- derive estimates of transport costs for the various modes of transport associated with the movements of products (imports and exports and transit goods), distinguishing between international and national costs;
- compare transport costs with those in neighboring countries and countries in the region and international
- estimate the relative importance of transportation, fuel and logistics costs (see below) in raising the cost of production and trading (e.g. price of imported goods).
- identify the policy, institutional, market structure, and other factors that raise transport costs for CAR.

The work on customs will cover:

- Import/export/transit procedures for compatibility with international standards (including GATT Articles V, VIII and X and the World Customs Organization's Revised Kyoto Convention)
- Customs valuation for compatibility with WTO Valuation Agreement
- Current and future Information Technology support requirements.
- Pre Shipment Inspection (BIVAC): operations and integration in customs systems and procedures
- Degree of cooperation between Customs and other border related regulatory agencies
- Quality of cooperation within CEMAC
- Explore opportunities available for electronic transmission of import/export/transit data between CEMAC members to facilitate transit.

59. Based on this information, the DTIS will formulate measures to address bottlenecks and distortions identified in the analysis described above. Special attention will be paid to identifying any trade and transport facilitation needs that may not be adequately addressed under existing or forthcoming IDA or other donor support, including current corridor project or transportation policies. The proposed measures could include policy, regulatory and institutional reforms; private sector development in the provision of transport services; introduction of modern information and communication technologies related to transport and trade; key investments to improve trade potential; and technical assistance measures including training needs.

***Private Sector Development, Legal and Regulatory Environment, Cost of Doing Business***

60. The private sector in the CAR faces many challenges, The main constraints, based on a December 2005 survey, are: lack of security, bureaucracy, the legal framework, lack of human and financial resources, and corruption. Another set of important constraints – transport and trade facilitation – will be elaborated in cooperation with the relevant team. As a result of these problems, investments, even in the minerals and forestry sector, have been limited and the private sector has performed poorly.

61. Agriculture is the backbone of the CAR economy, yet production is dominated by subsistence farming while production of cash crops coffee and cotton has plummeted as seen from the significant drop in exports. Outside agriculture, the private sector is concentrated in mining, the small manufacturing sector, the construction sub-sector and the services sector (banking, transportation), and commercial activities. Manufacturing and construction firms have suffered losses during the periods of unrest. The result is the decline of the secondary sector from 20 percent in 1995 to just over half that share in 2003.

62. Business legislation is implemented under the framework of the supranational Organization for Harmonization of Business Law (OHADA) and suffers from poor enforcement of the regulation because of the weak capacity of public regulatory agencies

and judiciary system. The private sector has only recently started to organize itself and engage in dialogue with the government and donor community to advance its concerns and interests.

63. The DTIS will provide/update (i) the profile of the formal private sector in the CAR, with specific focus on exporters, including a sectoral and regional breakdown, (ii) recent performance of the private sector (output/employment/exports); (iii) legal and regulatory framework for the private sector, and (iv) a review of FDI inflows over the past decades. Furthermore, this section will assess the impact of the civil strife and war on private sector capacity, utilization and the workforce, and the prospects for rehabilitation.

64. The DTIS will then review and discuss the main constraints for the private sector. This section will discuss the cost of doing business imposed by utilities (power, water, telecommunications) and briefly review the state of these utilities, their incorporation, prospects for privatization and assess – if possible – cost and priorities for rehabilitation.

65. The private sector part of the DTIS will, on the basis of the outlined diagnostic, put forward a set of recommendations on a limited number of (i) high impact measures to break the current vicious circle, (ii) fundamental reforms which require few financial resources (judicial reform and addressing governance issues), (iii) measures that would likely lead to job creation, and (iv) measures to ensure monitoring and sustainability of reform, i.e. private-public sector consultative mechanisms.

### ***Product Standards***

66. There has been a proliferation of, and rising stringency in, products standards in international trade in recent years. It has become essential for countries to have the capacity to meet such product standards if they want to be players in today's increasingly competitive international markets. However, it appears as if capacity to meet such standards (in terms of available infrastructure and expertise in the CAR) is very low indeed.

67. The DTIS will assess how standards and related capacities for food safety, agricultural health, and quality management are affecting CAR's trade, and identify priority technical assistance or other capacity-building needs in these areas. More specifically, the work will:

- assess how CAR's exports/imports of agricultural and food products have been impacted by food safety, agricultural health, and quality standards;
- identify and characterize the major sanitary and phyto-sanitary (SPS) (and quality) issues faced by CAR producers and exporters and efforts made to address these;
- examine the priorities for establishing an SPS and quality management architecture and identify near- and longer-term priority capacity needs;

- assess the possibility for CAR to engage in regional efforts to enhance capacity and overcome constraints and the success of such initiatives, especially in light of the EU's support to regional integration in the context of the ongoing EPA negotiations.

68. The analysis will start by identifying which of CAR's agricultural and food exports face challenges related to food safety, agricultural health, and quality management. This, together with the notion of a 'hierarchy' of SPS/quality management functions—ranging from basic awareness and the application of 'good' agricultural and manufacturing practices to more sophisticated technical and negotiation functions—will provide a framework for the remainder of the study.

69. Several approaches to the work and dimensions of the standards field will be pursued. This will likely include the following:

- Identifying existing SPS capacity.
- Attention will be focused on commodity sub-sectors which have strong export potential and are facing important SPS-related challenges/opportunities, specifically live-stock, possibly others.
- Examining the potential for regional efforts to build SPS capacity, harmonize standards and otherwise overcome the trade impacts of standards.
- Attempting to assess the magnitude (in qualitative terms) and direction of any impacts of food safety and plant and animal health standards on CAR's trade in agricultural and food products. This should provide some indication of the broad economic benefits to CAR of developments in its food safety and agricultural health management capacity which can be measured against the cost of establishing the necessary capacity.

This part of the work will be done in close coordination with the work that is being done by the centre (Steve Jaffee) under a BNPP trust-fund.

### **Sub-sector studies**

70. In addition to the cross-cutting factors discussed above, there could also be sector-specific constraints to exports. Certain sub-sectors have been selected for in-depth studies with the objective of identifying such. The sub-sector have been selected on the basis of their current or potential importance in contributing to CAR's over all export and economic growth, as well as their impact on poverty alleviation through employment generation (either directly or indirectly) by way of forward and backward linkages.

71. As outlined above, exports from the CAR have been low and declining, and concentrated on only a few sectors, partly as a consequence of the high transport cost from and to the landlocked country. The Government has thus asked the DTIS to focus on the main exports sectors of forestry and mining and the cash crops of coffee and cotton. All of these sectors have seen declining exports and receipts over the past years.

72. Outside of these traditional international export sectors, the DTIS will also analyze constraints and opportunities for expanding regional trade, namely livestock exports.

73. Another area of export potential that the CAR has yet to exploit is services, more precisely tourism. Tourism has not played a major part in economic growth and poverty reduction so far, but there is thought to be considerable potential, provided the security situation can be stabilized. Information on the tourism sector is outdated<sup>8</sup>, but the main attractions of the country are known, namely its virgin forest and pygmy population, rare animal species and big game hunting, and some interesting natural sites (caves and waterfalls).

74. For all these sub-sectors, the DTIS will:

- review trends and current status in terms of production, exports, and employment levels;
- identify the structure of the industry (key companies at the producer, intermediary, processor and/or exporter levels);
- identify major constraints to expansion in terms of production and exports;
- assess the prospects of expansion in light of external market conditions and demand (international and regional), and CAR's competitive position both regionally and globally;
- analyze the potential for and constraints to value-addition where applicable and feasible;
- assess initiatives proposed by/to the Government for expansion in these sub-sectors where applicable (e.g. in the PRSP currently under preparation) ;
- provide quantitative estimates, where possible, of future production and export levels;
- review poverty alleviation dimension of increasing production and exports either through direct employment generation or indirectly through backward and forward linkages;
- assess the adequacy of existing skills in the sub-sector;
- draw on international experiences in the development of the sub-sectors;
- review existing diagnostics, evaluate the current status of the sub-sector against recommendations from the previous studies, and focus new analysis on any gaps that may exist; and
- propose a prioritized action plan to address constraints to production, exports, and value-addition (where applicable) that include policy, legislative or institutional changes, capacity building measures, and investments. The DTIS will note which of these recommendations have already been proposed (with implementation pending). As before, the action plan will be mindful of the CAR's implementation capacity, and the level of resources (from public sources, domestic and

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<sup>8</sup> WTO & UNDP (1999), Plan Directeur Pour Le Developpement du Tourisme pour la Republique Centrafricaine, Madrid/Spain.

international investment flows, and donor money) that can be reasonably expected over the medium term in support of the various sub-sectors.

### **Trade and Poverty**

75. Changes in trade policy—domestic and international—and removal of other constraints to trade can affect poverty in different ways, i.e. through price effects, through effects on government finances, and through changes in market access. Reduction of trade-related constraints such as through measures to improve customs and other aspects of trade and transport facilitation can boost exports, raising incomes and reducing poverty as a result. The DTIS will discuss – data permitting – these various ways in which changes in trade policy and other constraints to trade can affect income and poverty levels. The discussion of these various aspects of trade and trade policy changes on poverty will be integrated into the respective sections/chapters of the report.

### **Adapting the strategy for trade integration to the LICUS situation**

76. The last chapter of the DTIS will pull together the main results and recommendations, and put them in the specific context of a country that is landlocked, with poor transport infrastructure – two aspects that the government cannot change, respectively only alleviate slightly, and over the long run – and suffering from the consequences of prolonged civil unrest and war domestically, and in/between neighboring countries. The main consequences are interrelated issues such as capacity constraints in the public and private sector, a weak civil society, widespread corruption, rent seeking and governance problems, and a precarious and volatile security situation.

77. This specific country context requires proposed reforms to consist of small steps and to focus on capacity building for a broad range of actors. Furthermore, the proposed strategy and action plan for CAR to further its integration into the international economy should consider the range of benefits that can accrue from trade integration and export development, namely: export development would trigger economic growth and poverty alleviation, improve public finances and foreign exchange cover; increasing the trading sector (exporters and importers) and enabling the private sector would build capacity and possibly stabilize civil society. Specific attention should be given to the prospects of regional trade integration which could work towards increasing regional security and where constraints caused by distance weight somewhat less.

### **Process and Time-line**

78. The processing schedule of the DTIS is as follows:

Preliminary Mission:	March 11 – 17, 2006
Concept Paper Distribution:	May 26, 2006
Virtual Concept Paper Review by:	June 2, 2006
Main Mission:	June 5 – June 16, 2006
First Drafts of Chapters:	July/August 2006

Draft of Summary Report:  
Delivery to Government:

October 2006  
December 2006

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Trade and Transport Facilitation	Jean Francois Arvis (PRMTR), Gael Raballand (YP),
Customs	Marcel Steenlandt (consultant)
Behind the border agenda	Elke Kreuzwieser (consultant),
SPS	Christopher Ravry (consultant)
Sub-sector studies	
Coffee, Tobacco	Christopher Ravry (consultant, tbd)
Cotton,	Christopher Ravry (consultant, tbd)
Forestry	Clotilde Ngomba (AFTS3), consultant (tbd)
Mining	Lucie Phillips (consultant)
Tourism	Christiane Kraus (AFTP2), Iain Christie (consultant, tbd)
Regional livestock exports	Christopher Ravry (consultant)
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## **Draft Outline of DTIS Summary Report**

### **Volume I**

Executive Summary

Action Plan

Chapter 1 Context, Background and Trade Performance

Chapter 2 Trade Policy Regime, Regional Trade Agreements and Market Access

Chapter 3 Behind the Border Agenda

A. Trade and Transport Facilitation

B. Private Sector Development, Regal and Regulatory Environment, Cost of Doing Business

C. Product Standards

Chapter 4 Selected Sector Issues (summary vol II)

Chapter 5 Towards a Strategy for CAR's Trade Integration

### **Volume II**

Chapter 1 Agricultural Crops (coffee, cotton)

Chapter 2 Forestry

Chapter 3 Mining

Chapter 4 Tourism

Chapter 5 Regional livestock exports

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- b. Note sur la filière cotonnière en Centrafrique
- c. Situation du secteur forestier à mi-2005
- d. Alimentation en électricité de l'agglomération de Bangui
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- Vol.1 : Synthese
- Vol. 2a : Rapport de l'Etude
- Vol. 2b : Contrôle des Finances Publiques
- Vol. 3a: Impots
- Vol. 3b : Douanes
- Vol. 4a : Tresor et Comptabilite
- Vol. 4b : Informatique
- Vol. 5 : Plan d'Action

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## **DTIS Budget**

- 1. UNDP Trust Funds (up to US\$270,000) covering the following:**
  - A. Studies (consultant fees and travel):
    - i. PSD issues
    - ii. Customs
    - iii. Coffee, cotton, regional life-stock exports
    - iv. Mining
    - v. Forestry
    - vi. Desk research
    - vii. Strategy study
    - viii. External peer reviewer
    - ix. Local team
    - x. Dissemination workshop
  
- 2. AFTP3 Budget (US\$55,000-US\$60,000 in FY06) covering staff travel expenses for following components of DTIS:**
  - i. Identification mission
  - ii. Team lead & tourism
  - iii. Trade policy, institutions, regional trade integration
  - iv. Trade and transport facilitation
  - v. Forestry
  - vi. Data issues
  - vii. Dissemination (FY07)
  
- 3. DECPG and PRMTR cross-support for:**
  - i. Product Standards