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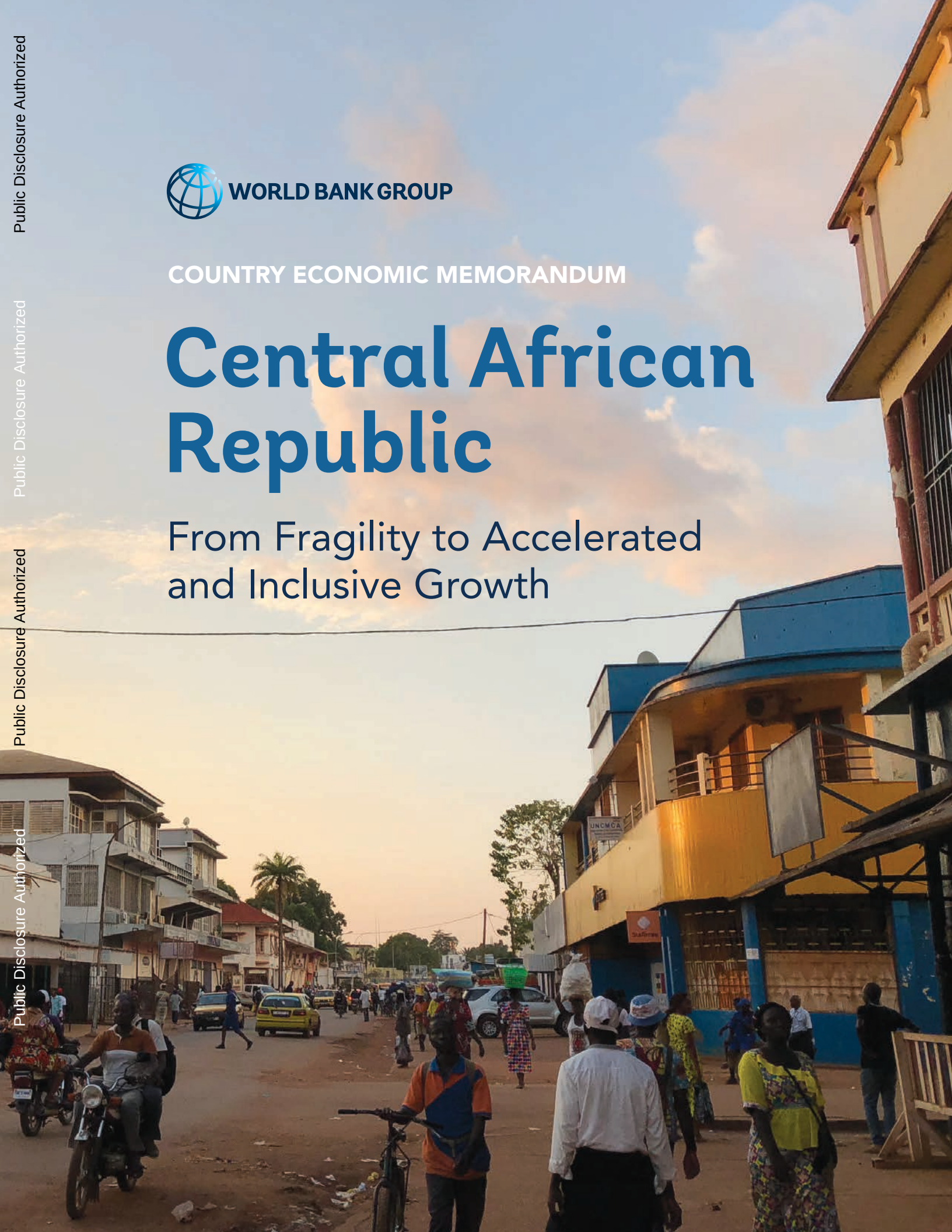
COUNTRY ECONOMIC MEMORANDUM

Central African Republic

From Fragility to Accelerated and Inclusive Growth



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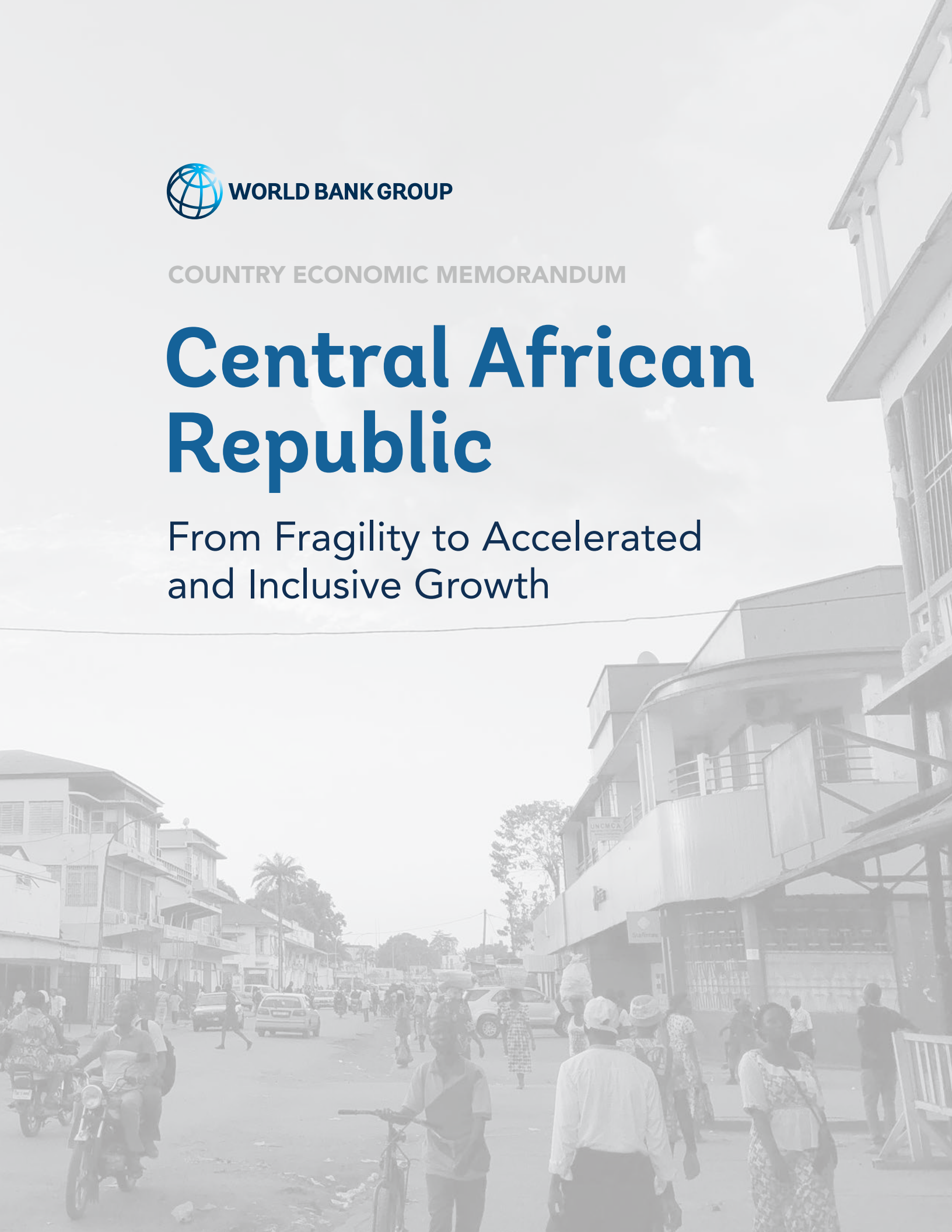

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Acronyms and Abbreviations

ACS	Agents and civil servants
AfCFTA	African Continental Free Trade Area
APPR	Political Agreement for Peace and Reconciliation, *Accord Politique pour la Paix et la Reconciliation en Republique Centrafricaine*
ARMP	Autorité de Régulation des Marchés Publics
ASM	Artisanal and small-scale mining
BTI	Bertelsmann Stiftung's Transformation Index
CAR	Central African Republic
CEM	Country Economic Memorandum
CET	Common external tariff
CMP	Public Procurement Code, *Code des Marchés Publics*
CPI	Corruption Perceptions Index
DDRR	Disarmament, demobilization, rehabilitation, and repatriation
ECCAS	Economic Community of Central African States
EITI	Extractive Industries Transparency Initiative
ENERCA	Central African Energy, *Energie Centrafricaine*
EU	European Union
FCV	Fragility, conflict, and violence
FSI	Fragile state index
GVC	Global value chain
HCI	Human Capital Index
HHI	Herfindahl-Hirschman Index
ICT	Information and communication technologies
IDPs	Internally displaced people
IPD	Inclusive and political dialogue
KP	Kimberly Process
KPCS	Kimberly Process Certification Scheme
LPI	Logistics performance index
LTGM	Long-Term Growth Model
LTGM-HC	LTGM-Human Capital
LTGM-PC	LTGM Public Capital
MENA	Middle East and North Africa
MERCOSUR	Southern Common Market, *Mercado Común del Sur*
MINUSCA	Mission in the Central African Republic
NTM	Non-tariff measure
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
RTA	Regional trade agreement
SCC	Special Criminal Court
SEPBC	*Societe d'Exploitation des Parcs a Bois du Cameroun*
SOCATEL	*Société Centrafricaine des Télécommunications*
SSA	Sub-Saharan Africa
TFP	Total factor productivity
WGI	World Governance Indicators
WHO	World Health Organization

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Executive Summary

The Central African Republic (CAR) is at a critical crossroads. Despite its significant natural resource wealth, CAR remains one of the poorest and most fragile countries in the world. Cycles of political instability and a heavy reliance onnatural resources have left the economy poorly diversified and with a small private sector. Almost a decade after the 2013 civil war, the country remains caught in a fragility trap, facing episodes of renewed insecurity and a substantial state-citizen divide. Supported by the 2015 peaceful transition of power, the authorities implemented several reform programs that helped to restore macroeconomic stability and steered the economy onto a relatively sustainable path to recovery over 2015–2019. However, the pace of growth has been below that of other countries in the region that have had civil wars. The country is also expected to face its worse economic performance in 2021 since the 2013 civil war, owing to a combination of the COVID-19 pandemic, the political crisis following the presidential and legislative elections in December 2020, weak governance, and an inability to address privilege-resistant policies and institutions. Moreover, bottlenecks and risks to long-term growth, including political instability, elite capture, poor services delivery, with significant regional gaps, and lack of inclusion and job creation, persist.

The new presidential term—following the pooled elections in end-2020—is presented with the challenge and opportunity to pursue a much-needed structural transformation agenda. Reforms are needed to transform the economy and facilitate sustainable, private-sector-led growth. The authorities need to steer the economy onto a path of accelerated and inclusive economic growth while reducing CAR's dependence on international aid and the export of a few commodities.

This Country Economic Memorandum (CEM) aims to support policymakers and stakeholders in their efforts to pave the way out of fragility through accelerated and inclusive economic growth. It attempts to answer the following 4 questions, each of which constitutes a chapter: (i) How has CAR arrived at this point? (ii) What should CAR do to accelerate growth? (iii) How can trade be a vehicle for growth and a way out of fragility? and (iv) Why does the current regulatory framework fail to boost growth and private sector development? By addressing these questions, the CEM aims to provide policy recommendations to accelerate inclusive growth and escape fragility.

How did CAR arrive at this point?

Reforms have not produced sustained growth for CAR over the past decades due to a succession of coups and power struggles between elites, weak governance that creates opportunities for elite capture, and mismanagement of natural resource wealth. One of the root causes of the country's fragility is the struggle between its political elites to pursue power and capture natural resources. Political elites have been exploiting socioeconomic inequalities and ethnoreligious differences to undermine social cohesion, capitalize on local grievances, and gain legitimacy. Its political landscape remained relatively unchanged after independence, and the succession of coups reinforced the atmosphere of violence and discrimination. The history of CAR is one of continuous exploitation and self-dealing by rulers rather than a focus on service delivery and economic development. This situation is exacerbated by the volatile security situation, which pushes policymakers at all levels to seek short-term (personal) gains rather than adopting a long-term reform agenda. Weak governance and judicial services, along with a lack of accountability and civil liberties, have exacerbated grievances and facilitated the capture of resources. The country's institutions have focused on safeguarding the interests of specific groups instead of promoting an inclusive development agenda. Delays in implementing much-needed structural reforms have contributed to the vicious cycle of fragility.

Political power in the country has been centralized in the hands of a few elites, which has generated ethnic tensions and feelings of social exclusion, especially in provinces. This has been exacerbated by weak and fragmented public service delivery. Weak governance and the absence of the state locally, coupled with an uneven national policy framework, have led to inadequate and ineffective public services. While there have been early steps toward reducing the concentration of political power in the capital city of Bangui, more steadfast progress is needed.

Chronic political instability has contributed to falling living standards, a deterioration of the social contract, and a lack of economic opportunities. Recurrent political instability has led to volatile GDP and income growth, hampering progress in reducing extreme poverty. The extreme poverty rate fell by 9.4 percentage points in CAR between 1983 and 2019, much lower than the average of 16percentage

points in Sub-Saharan Africa, respectively. Uneven growth performance has translated into a significant lack of economic opportunities, especially for youth, which has fueled social divisions and grievances. Moreover, income inequality deteriorated between the 1990s and mid-2010. While it has been gradually improving since 2017, income inequality remains elevated and has contributed to the deterioration of the social contract, deepening the divide between citizens and the state. CAR's economy relies heavily on subsistence agriculture and forestry activities, but both sectors are underdeveloped. It is also highly dependent on natural resource and commodity exports, with timber and extractives dominating the country's export structure. Timber, cotton, diamonds, and coffee accounted for 80 percent of exports in 2000–18, making CAR one of the least economically diversified countries in the world. This has limited CAR's ability to sustain growth, create jobs, and reduce vulnerabilities, as weak diversification makes the country's economy vulnerable to adverse shocks, undermining its ability to achieve long-term sustainable development and strengthen resilience.

Weak economic fundamentals have slowed growth

A growth diagnostic reveals several binding constraints on economic growth in CAR. First, poor local financial intermediation is the main source of credit constraint. There is a significant gap between deposit and lending rates, which appears to be due to information asymmetry that prevents commercial banks from adequately assessing risks. Second, low levels of physical and human capital have contributed to low social returns. The country's socioeconomic development potential has been limited by the poor condition of its road network, lack of a reliable electricity supply (which generates additional costs for firms), the low-skilled labor force, and weak human capital accumulation. Finally, market failures and micro risks such as corruption and limited property rights have led to low appropriability. Structural issues have affected the performance of traditional sectors over the past decades, and efforts to diversify into high-productivity sectors have been hampered by market failures. Successive governments have failed to increase appropriability because of rampant corruption, and limited property rights have adversely affected the willingness of firms and entrepreneurs to invest.

Productivity has halved since 1990, contributing to disappointing economic performance. A growth decomposition shows that capital and labor accumulation, rather than productivity improvements, was the main driver of economic growth over 1991–2019, which partly explains the country's subdued economic performance. The contribution of human capital to growth has been minimal, especially since 2015. Agriculture, which is the most important sector to reduce poverty in CAR, suffers from a lack of productivity growth, which has hampered agricultural output growth. Growth in the agriculture sector, albeit limited, has been mainly driven by input intensification (labor) and land expansion.

While no structural change, there has been a reallocation of labor toward services. In 2011–2019, the share of agriculture value-added in GDP fell while the share of services value-added increased. As a result, there has been a reallocation of labor from agriculture to services, while the contribution of the manufacturing sector to GDP has been modest and even declined in the past years. A decomposition of labor productivity growth suggests that institutional and technological improvements within sectors (within component) have been the main drivers of changes in productivity in recent years, contributing about 80 percent to labor productivity variation. This suggests that there is no strong evidence of a structural change characterized by the transition of labor from less productive sectors such as agriculture toward more productive sectors such as manufacturing, which raises critical questions about economic transformation and access to skilled labor in CAR.

The role of trade as a mechanism to reduce fragility and support growth has yet to be realized

CAR's current trade structure is characterized by low trade openness, regional trade and integration, and weak export diversification. The country's merchandise trade openness is low compared to that of peers, suggesting a considerable potential to accelerate economic growth through increased trade. There is a substantial imbalance in goods trade, with imports accounting for 81 percent of CAR's total trade in 2018. CAR's level of goods exports, as well as goods exports per capita, is lower than that of peers, and exports are dominated by a narrow range of natural resource products (mainly mining and forestry), reflecting very limited diversification in recent decades. CAR trades mainly with countries outside of Africa and very little with its neighbors. In 2018, less than 5 percent of the

country's exports went to African markets. Evidence from a range of countries suggests that increasing trade with neighboring countries reduces both the duration and intensity of conflicts. Key bottlenecks to competitiveness include low logistics performance and significant difficulties in trading across borders.

There is, therefore, a potential to leverage regional trade to make CAR more stable by reducing the likelihood of conflict and increasing GDP growth. An increase in trade, especially in the region, would provide new economic opportunities and create export-related jobs that could offer alternative sources of income for people otherwise drawn toward violence and armed groups. Facilitating local cross-border trade could also address food security concerns, especially for poor households in border areas, and increase incomes in farming communities, which in turn could have a long-term impact on productivity by, for example, reducing the level of stunting.

The regulatory framework is conducive to elite capture and hampers market-based competition

Market-based competition, regulatory framework governance, and institution indicators are weak and have been deteriorating over the past decades, affecting the country's ability to achieve its growth potential. CAR lags far behind comparators on market-based competition, quality of the regulatory framework, government effectiveness, rule of law, and political stability. Various factors such as high market concentration, several underperforming state-owned enterprises, an ineffective regulatory framework, and vested interests have hindered market-based competition in CAR. Widespread state participation in commercial activities also deters private sector investment. Anticompetitive regulations and the weak ability of the judicial system to solve commercial disputes hinder competition and trade. Moreover, limited trade liberalization has affected competition and private sector development.

The regulatory framework is conducive to elite capture and prevents market-based competition. Elite capture, which happens when powerful and well-connected groups influence policies and make them serve their own narrow interests, is widespread in CAR, preventing market-based and fair competition. The current regulatory framework distorts resource allocation and leads to weak innovation and productivity. Governance failures and power asymmetries lead to elite capture, clientelism, and exclusion, which can take the form of a discretionary allocation of permits, licenses, and contracts to connected firms and investors; explicit or informal regulatory barriers to entry; and a complex regulatory framework that may serve only a few people and firms.

An analysis of privilege-resistant policies in CAR reveals that:

- **The public procurement regime is exposed to privilege-seeking and corruption due to ineffective institutions; weak accountability, transparency, and confidentiality; and limited access to procurement information.** There is also no proper grievance redress mechanisms, and the fair opportunity process needs to be improved;

- **Customs has a crucial role in economic competitiveness through trade facilitation, revenue collection, and national security.** The current customs system is not transparent and provides significant opportunities for corruption and capture. While tariff data are accessible on the website of CAR's customs administration and Web Fontaine, the information is not up to date. Moreover, the lack of transparency surrounding import restrictions and special regimes may impede competition and foster rent-seeking and corruption;

- **There are several barriers to competition, including in the electricity, telecommunication, mining, and forestry sectors.** For example, SOCATEL, despite its deplorable financial condition, maintains a monopoly on fixed telephony and broadband internet services through government treaties. This has had a huge effect on the quality of broadband internet services, with CAR having the lowest number of people with internet access in CEMAC; and

- **Informality in the mining sector is significant and creates unfair competition between informal and formal mining firms.** Excessive capital requirements for buying houses that export diamonds discourage competition and encourage informality. Informality in the mining sector has increased the dependency on pre-financing structures, which has led to debt-bondage that traps miners in poverty. The proliferation of informality has also resulted in increased competition between formal and informal collectors, leaving formal registered buying houses and exporting firms at a disadvantage.

The way forward

- **The analysis in this report suggests that for CAR to escape fragility and to sustain equitable growth, reforms are needed in four broad and inter-linked areas:** (i) building a social contract and escaping chronic instability; (ii) revitalizing long-term growth; (iii) unlocking the potential of trade as a vehicle for growth and a way out of fragility; (iv) improving market-based competition and addressing opportunities for rent-seeking.

What are CAR's options to escape the fragility trap?

To escape the fragility trap, the authorities need to consider (Table 1):

- **Refocusing the political landscape on accelerating socioeconomic development and restoring the authority of the state,** which should include effective power sharing agreements and efforts to accelerate job creation, improve the business environment, and diversify the economy. There is also a need to pursue urgent structural reforms rather than continue to benefit from the status quo;

- **Strengthening the management and allocation of mineral wealth and public resources,** which should include reforming the legal and regulatory framework of the mining sector; strengthening institutional capacity; incentivizing formalization of the artisanal and small-scale mining (ASM) sector; and reducing the flow of conflict diamonds by supporting the implementation of the Kimberly Process Operational Framework; and

- **Building a social contract** by establishing confidence in state institutions and addressing grievances, which should include facilitating inclusive-enough coalitions and dialogues; addressing grievances, inequality, and corruption; and fostering a national collective understanding and inter-faith religious dialogue.

What will it take to boost long-term growth?

CAR needs to address the potential drivers of future growth. Under current conditions, the country's GDP growth rate is projected to slow over time and reach 3 percent by 2050, mainly due to slowing total factor productivity (TFP), human capital, and population growth. It would take until the late 2030s for CAR to regain its pre-2013 level of GDP per capita, although extreme poverty rates are expected to fall by almost 20 percentage points over 2020–50. Factors that are expected to have a positive impact on GDP growth include the expected increase in the working-age population and public and private investment.

CAR needs to implement bold and strong reforms to boost its growth potential, improve living standards, and

significantly reduce extreme poverty. Reforms need to: (i) increase TFP growth; (ii) attract private investment; and (ii) accelerate human capital accumulation.

- **Increase TFP growth.** Under the business-as-usual scenario, TFP growth is projected to decline from 2.0 percent in 2019 to 0.6 percent by 2050 reducing real GDP growth and slowing improvements in living standards. Bold and sustained reforms that target innovation and the quality of infrastructure, education, and public institutions are needed to increase TFP growth, which would require sustainable collaboration and cooperation between the government, the private sector and development partners.

- **Attract private investment.** CAR needs to address the shortage of private investment to boost its growth potential. The country's subdued economic performance is due to, among other factors, insecure property rights, credit constraints, and poor infrastructure (e.g., electricity, roads, internet, etc.). However, there are opportunities to tap into the potential of private investment to boost GDP growth. This would require implementing and sustaining bold reforms to attract private investment, including enabling market-based competition, making it easier to start a business and register property, and improving critical infrastructure such as power, ICT, and transportation.

- **Accelerate human capital accumulation.** A continuation of CAR's education and health interventions (business-as usual scenario) would decelerate human capital growth over the next 30 years and reduce the contribution of TFP to economic growth. Improving human capital would require a greater focus on increasing the average years of schooling, enhancing learning outcomes, improving child nutrition, and providing adequate protection through social welfare programs.

How can trade play a key role in the path away from fragility?

Trade could offer a way for CAR to escape the fragility trap. CAR is landlocked and has a relatively small economy, which means that the opportunities for the domestic market to drive sustained and inclusive growth are limited. Experience from other countries shows that trade can: (i) facilitate access to new technologies that promote productivity growth; (ii) increase competition, especially in sectors that provide critical inputs to other economic activities such as backbone services; and (iii) provide broader market opportunities that attract private sector investment. Given the importance of the agriculture sector and regional market opportunities, efforts to increase the export of food products, especially to neighboring countries, could help CAR diversify its economy and reduce its dependence on a small number of export products that have a limited impact on the poor population.

To leverage regional economic opportunities, the government needs to address cross-cutting constraints on investment and trade. Improving institutions and governance and investing in education and infrastructure are critical to provide a conducive business environment for private sector investment. An increase in investment and the adoption of policy reforms that increase connectivity to regional and global markets would allow firms in CAR to exploit opportunities for backward and forward linkages within regional and global value chains.

Investments in trade facilitation are likely to have big payoffs. The government could enhance cross-border and regional trade by simplifying investment and border management procedures and improve border infrastructure to reduce delays and the costs associated with crossing the border. The African Continental Free Trade Area offers a new multilateral mechanism to deepen trade integration in Africa. In addition, the government could explore bilateral discussions with neighboring countries to jointly facilitate trade. Measures that have proved useful in other regions include: (i) simplified trade regimes for small-scale traders; (ii) support for trade associations; (iii) regular cross-border dialogues on removing non-tariff measures; (iv) small-scale investments in lighting and security that would allow for longer opening hours at the border; (v) investments in sanitation facilities for officials and traders; (vi) enhanced market information for traders; and (vii) efforts to address logistics constraints.

How can CAR promote market-based competition and reduce opportunities for capture?

To promoting market-based competition and reduce opportunities for capture, the authorities should consider:

- **Strengthening the public procurement system.** The public procurement regime is not transparent, and officials face significant difficulties in enforcing existing laws. The government needs to improve transparency

in public procurement while enforcing existing laws. Transparency can be improved by ensuring that procurement information is made public, is up-to-date, and includes calls for tenders and requests for proposals. The authorities need to encourage transparency while ensuring confidentiality and equal access to information. Also, the government needs to clearly define the penalties in the case of corruption or fraud by public servants; and

- **Addressing rent-seeking and corruption in trade and customs procedures.** The lack of transparency surrounding import restrictions and special regimes may impede competition and foster rent-seeking and corruption. Customs authorities sometimes apply discretionary import restrictions and special regimes to protect favored groups or even individual businesses. Therefore, CAR needs to make import restrictions and special regimes less complex and more transparent, and it needs to strengthen the transparency of its customs duties and processes. Moreover, the authorities need to enhance the electronic processing of declarations to reduce the direct contact between customs agents and businesses, which would reduce opportunities for rent-seeking and corruption. The use of technology by customs authorities could also reduce costs for businesses (time and resources) and minimize inaccuracies and omissions in declarations. In addition to technology, the country needs access to a competent customs workforce to implement technological solutions and update data.

How can the authorities maximize the impact of reforms on the living standards of Central Africans?

To escape fragility trap and accelerate inclusive growth, CAR needs to introduce and implement reforms that significantly improve the well-being of the population by: (i) significantly improving the quality of governance at all levels; (ii) pursuing the implementation of critical but difficult structural reforms; (iii) strengthening transparency and ensuring strict accountability and enforcement of laws while fighting impunity and corruption; (iv) involving civil society organizations and the public at large in decision-making processes, as opposed to pursuing purely technocratic and opaque exercises that fuel the feeling of exclusion, exacerbate grievances, and deteriorate the already precarious social contract; (v) leveraging the support, expertise, and experience of the donor community in capacity building and implementing reforms while coordinating reforms and investment programs to strengthen their impact, local ownership, and complementary. CAR has been stuck in an extremely low political economy equilibrium for decades, which means that it will be difficult to redirect the growth trajectory to achieve sustained economic growth, poverty reduction, and job creation. Nevertheless, the country has plenty of potential, and opportunities that can be unlocked by refocusing the political landscape on accelerating socioeconomic development and building confidence in public institutions.

TABLE 1

Key Policy Recommendations to Move from Fragility to Accelerated and Inclusive Growth

Priority objectives	Immediate priorities (Next 3 to 12 months)	Short and medium-term priorities (Next 12 to 36 months)	Long-term priorities (More than 36 months)
Refocusing the political landscape on development and restoring the social contract	• Refocus the political landscape on accelerating socioeconomic development and restoring the authority of the state, which should include effective power sharing agreements and efforts to accelerate job creation. • Build a social contract by establishing confidence and addressing grievances by facilitating inclusive-enough coalitions and dialogues, fostering a national collective understanding and inter-faith religious dialogue, and accelerating the deployment of state institutions in provinces. • Adopt a new mining code and revise the regulatory framework of the mining sector. • Facilitate inclusive-enough dialogues and engage representatives of diverse groups such as religious leaders and representatives of civil society and opposing political factions.	• Address grievance by: (i) expanding public services and assistance to the most vulnerable, including IDPs, youth-at-risk, and food insecure households; (ii) supporting farmers and pastoralists to increase the productivity of subsistence farming and pastoralism; (iii) promoting income-generating activities; and (iv) improving access to finance and rural connectivity. • Strengthen the management and allocation of mineral wealth and public resources by reforming the legal and regulatory framework of the mining sector, strengthening institutional capacity, incentivizing formalization of the artisanal and small-scale mining (ASM) sector, and reducing the flow of conflict diamonds by supporting the implementation of the Kimberly Process Operational Framework. • Introduce accountability tools such as participatory public budgeting and public expenditure tracking surveys to reduce corruption, elite capture, and rent seeking while increasing accountability.	• Improving the business environment and creating inclusive economic opportunities and jobs to increase the opportunity cost of conflict. • Build state legitimacy by: (i) constructing and rehabilitating basic infrastructure (e.g., roads, water and sanitation, electricity, and telecommunication); (ii) providing social services (e.g., healthcare, education, and preventive services); and (iii) implementing income-generating activities.
Boosting long-term growth, accelerating human capital accumulation, and attracting private investment	• Strengthen the dialogue and cooperation with private sector working groups and organizations and establish a clear and sound multisectoral strategy for private sector development and investment promotion, including facilitating import/export, incubators, and key business transactions (starting a business, paying taxes, registering a property, transparent public procurement processes, promoting formalization, and fighting corruption, etc.). • Simplify the business registration process and publicize information on requirements, fees, and procedures for obtaining a business license. • Design a risk-based approach for tax inspections to reduce arbitrary inspections.	• Implement the National REDD+ Investment Framework prepared under the Central African Forest Initiative. • Support the implementation of the Forestry Code, which requires on-site processing of at least 70 percent of logs from first grade species to enable the industrial transformation of the wood sector. • Address early childhood development challenges through: (i) targeted free healthcare policy for children under the age of five and pregnant women and measures to address child malnutrition; (ii) a strengthened response and mitigation mechanism to respond to food security crises; and (iii) an adequate social protection system. • Implement the multisectoral strategy for private sector development and investment promotion. • Implement a risk-based approach for tax inspections to reduce arbitrary inspections.	• Promote innovation and improve the quality of road and digital infrastructure, governance, and public institutions. • Strengthen in technical and vocational education and training for skills development adapted to market changes. • Increase access to new, higher yielding seeds and improved fertilizers to boost agricultural productivity while promoting agribusiness activities in Bangui area. • Promote inclusive and equitable access to education by: (i) providing accelerated learning programs and non-formal skills training; and (ii) reducing school fees to address the needs of vulnerable households and marginalized populations such as displaced children and rural out-of-school children and youth;

TABLE 1

Key Policy Recommendations to Move from Fragility to Accelerated and Inclusive Growth (*Continued*)

Priority objectives	Immediate priorities (Next 3 to 12 months)	Short and medium-term priorities (Next 12 to 36 months)	Long-term priorities (More than 36 months)
Improving trade to accelerate growth and escaping fragility and promoting market-based competition to reduce opportunities for capture	• Improve the connectivity to regional and global markets by identifying alternative road corridors. • Reduce opportunities for fraud through the interconnexion of custom systems/databases and e-douanes. • Prioritize improvements in border processes for the trade of perishable agricultural products by, for example, introducing a fast lane for these products to reduce the cost of wastage that arise from delays at the border. • Revise Article 29 of Decree No. 09.058 to ensure the institutional independence of the CRD and establish the conditions for participants in public procurement to pursue grievances, complaints, or recourse actions and request an independent review of the procurement process. • Amend Article 104 of the CMP to clearly define fraud, corruption, and unethical behavior; and revise Article 102 of the CMP (or Article 17 of the organic law of the Court of Auditors) to clearly define the penalties in the case of corruption or fraud by public servants.	• Harmonize trade procedures and streamline NTMs in ECCAS to reduce delays and ease the free circulation of goods and services, boosting trade and competitiveness in the region. • Modernize border infrastructure, introduce electronic declarations and clearance processes, and move to risk-based compliance control policy, reconciliation of import-export data, and systematic investigation of all discrepancies. • Implement a simplified trade regime for small-scale traders, support trade associations, and create a dialogue platform to find local solutions to challenges traders face. • Improve the transparency of the public procurement system by regularly publicizing information from the integrated information system and up-to-date procurement information, including calls for tenders and requests for proposals, which is required by article 29 of the CMP but not enforced. • Improve market-based competition in key sectors to attract private investment	• Deepen regional trade integration under the AfCFTA to maximize CAR's trade potential through strengthened bilateral discussions with neighboring countries to jointly facilitate trade and remove non-tariff measures. • Reduce abusive levies imposed on rural producers, pastoralists, and traders along trade corridors (e.g., the Bangui-Douala corridor) through the simplification of border management procedures and trade regimes. • Make import restrictions and special regimes less complex and more transparent by providing: (i) publicly accessible and regularly updated customs duties, which reflect the latest pricing data; and (ii) publicly accessible criteria and conditions for import licenses and fines for violation for both civil servants and importers.

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CHAPTER 1

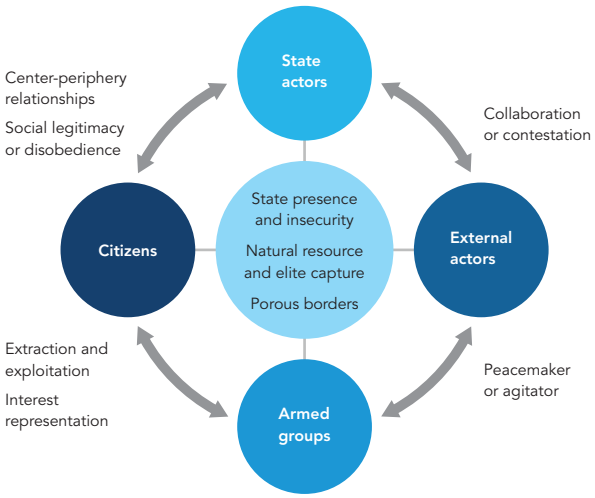
Fragility and Its Implications on the Social Contract and Living Standards

The Central African Republic (CAR) is at a critical crossroads. Despite its significant natural resource wealth, CAR remains one of the poorest and most fragile countries in the world. Cycles of political instability and a heavy reliance on natural resources have left the economy poorly diversified and with a small private sector. Almost a decade after the 2013 civil war, the country remains caught in a fragility trap, facing episodes of renewed insecurity and a substantial state-citizen divide. Supported by the 2015 peaceful transition of power, the authorities implemented several reform programs that helped to restore macroeconomic stability and steered the economy onto a relatively sustainable path to recovery over 2015–19. This chapter presents a core economic analysis of CAR—which is characterized by fragility, conflict, and violence (FCV)—and examines the mutually reinforcing relationship between fragility, inequality, and lack of inclusion. It also discusses lessons learned from previous episodes of political instability and ways to improve social cohesion. Finally, the chapter provides some insights into why reforms in the country have not produced sustained economic growth, and it presents some potential key pathways out of fragility and the related implications for structural reforms.

A Framework for Analyzing Fragility and Conflict in CAR

Helping CAR escape the fragility trap[1] requires an understanding of the dynamics of conflict and fragility. In turn, this requires a close examination of the underlying causes as well as the domestic and external players involved in various episodes of conflict. This section proposes a framework for analyzing fragility and conflict in CAR and assessing the relationship between the central government, citizens, armed groups, and external actors (**Figure 1**). The framework goes beyond the drivers of fragility. CAR has been affected by conflicts and fragility for a long time, and the level of conflict and fragility reached an unprecedented level in 2013. The root cause of the country's conflicts is the struggle between its political elites to pursue power and capture natural resources. The power struggle has led to the formation of many political and armed groups that too often act as "roving bandits,"[2] creating little incentive for anyone to produce and invest securely. Political elites have been exploiting socioeconomic inequalities and ethnoreligious differences to undermine social cohesion, capitalize on local grievances, and gain legitimacy. Elites and armed groups have established a relationship with the population based primarily on exploitation and extraction. This is exacerbated by porous borders and a dependency on external actors, which has turned CAR into an arena of geopolitical tensions and contestation.

FIGURE 1
A Framework for Analyzing Fragility and Conflict in CAR

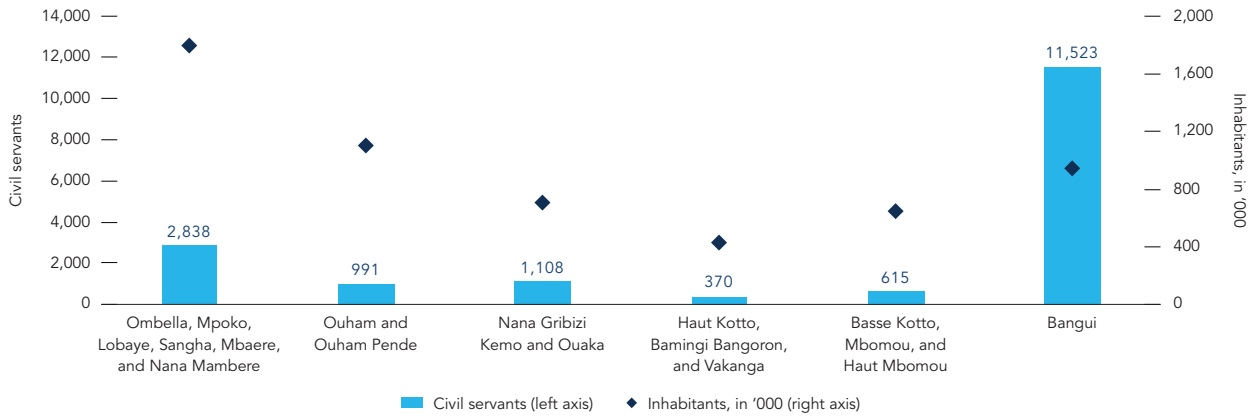


Source: World Bank staff elaboration.

[1] The fragility trap is characterized by a combination of a lack of capacity, lack of legitimacy, oppositional identities, inadequate security manifested in sporadic or prolonged outbreaks of violence, and an underdeveloped private sector. Source: Collier, P., Besley, T., & Khan, A. 2018.
[2] See Olson (1993) for an extensive discussion on "roving bandits", democracy, and development.

FIGURE 2

Repartition of Civil Servant and Inhabitants per Region



Source: World Bank staff using data from the Ministry of Finance and Budget.

The absence of the state and its security forces, particularly outside of Bangui, perpetuates a vicious cycle of fragility. The absence of the state in many local areas has been exacerbated by past conflicts, which have affected the ability of the government to provide adequate public services. More than three-fourths of agents and civil servants (ACS) are based in Bangui, where the resident population represented about 17 percent of the total population in 2018.[3] The most populated region in the country, Region 3, which includes the Ouham and Ouham-Pande prefectures, has only 991 ACS, less than 6 percent of the country's total ACS (**Figure 2**). About 69 percent of CAR's internal security staff (police and gendarmerie) and 52 percent of its judicial personnel are based in the capital city. When present, security staff have been ineffective in ensuring the safety of citizens, resulting in grievances that create a breeding ground for recruitment to different rebel groups. In the absence of functional state security forces, armed groups act as "roving bandits" and target communities, exploit natural resources, loot food aid, smuggle weapons, compromise property rights, and hamper important socioeconomic activities such as schooling and seasonal pastoral movements.

A dependency on natural resource wealth, coupled with weak governance and management of natural resources, is a prevailing source of fragility. CAR's significant natural resources and the country's dependency on them have worsened grievances, fueled elite contestation, created opportunities for corruption and informality, and provided financial opportunities for rebel groups. Weak governance and management of the natural resource sector have exacerbated these challenges. The presence of diamonds and oil in conflict zones has increased the duration of conflicts, and the abundance of resources that can be extracted with little access to technology, such as alluvial diamonds, has also fueled conflicts, capture, and predatory behavior. Evidence from countries in conflicts shows that armed groups tend to attack civilians residing in areas abundant in natural resources.

External actors and their vested interests influence CAR's fragile political system. The country's porous borders and dependency on foreign security, humanitarian, and development assistance make it prone to regional and international geopolitical tensions. Chad and Sudan (Darfur) are among the prominent regional powers contributing to instability in CAR, with rebel groups crossing porous borders. Political unrest and conflicts in these countries have a negative impact on CAR. Unsecured borders and inadequate security have allowed armed groups, along with weapons and illegally exploited natural resources (which are used to finance conflicts), to move freely between countries. Competition between external actors in CAR has also raised concerns regarding the effectiveness of the peacekeeping mission in the country. Recently, the presence of Russian advisors has increased, raising questions and concerns about their approach to restoring the rule of law and potential violations of human rights. Also, the growing importance of external actors' clashes with the interests and approach of CAR's traditional partners, especially France and the European Union (EU), as well as to some extent the assistance provided by multilateral partners. This creates a complex geopolitical environment that may not be conducive to stability, peace, and much-needed structural reforms for sustained growth and development.

[3] CAR's authority's payroll data.

Why Reforms Have Not Produced Sustained Growth for CAR

Political Landscape: Coups and Power Struggles between Elites

Development of CAR's political system

The slave trade and related political systems established an environment of mistrust and weak social cohesion. Conflicts and violence are deeply rooted in CAR[4] and date back to the seventeenth century as slave traders began to raid the region. Between the sixteenth and seventeenth centuries, slave traders, led by powerful sultanates from the area of present-day Chad (Waddai) and Sudan (Darfur), began to raid the northern and eastern areas of what is today CAR as part of an effort to expand the Saharan and Nile River slave routes. The Fulani, who were mainly nomads, were often used as labor in Muslim states located further north to ravage territories occupied by the Gbaya and Banda, animist populations of the south. As a result, existing social cohesion in the area was weakened, and local populations were forced to flee for their safety. Also, tensions and distrusts between animists populations and Muslims have been exacerbated, as captives of the Fulani and Muslim slave traders were enslaved and shipped along the Ubangi and Congo rivers to different parts of the globe. In the second half of the nineteenth century, the impact of the slave trade on the social cohesion and stability of CAR was devastating. Jallabah slave traffickers forced their captives to choose between conversion to Islam or being enslaved and deported. Many villages were looted and set on fire, pushing the population to flee and fight for safety.

The colonial era laid the foundation for an embryonic state and institutions but also reinforced the atmosphere of violence and discrimination. The Central African territory was invaded by Europeans in the late nineteenth century, primarily by the French, Germans, and Belgians. The French colonized the country of Ubangui-Chari in 1894. However, 300 thousand square kilometers of the Sangha and Lobaye basins were ceded to the Germans in 1911 under the Fez Treaty. The Ubangi-Chari political system was modeled after the governance structure of the Congo's Free State imposed by the Belgians. Concessions were granted to French private companies, mainly motivated to strip the region of its natural commodities, with little investment in infrastructure and institutions. In 1920, a policy of mandatory production of cotton was introduced, a network of roads was built, and an embryonic system of governance was established. This led to the development of urban centers, and Christianity was established by Protestant missions. The Colonial rulers used forced labor, and many Ubangians were sent to work on the Congo-Ocean Railway, resulting in thousands of lives lost and fueling frustration and the sentiment of discrimination among Ubangians. In 1928, the first rebellion broke out in the Western Ubangui-Chari and continued for several years, thereby laying the foundation for the independence movement.

CAR's political landscape remained relatively unchanged after independence and has been characterized by coups and power struggles between elites. The country gained independence on August 13, 1960, and David Dacko was elected as its first president.[5] Dacko's era was marked by an attempt to improve households' living conditions and promote economic development and social cohesion between different ethnic groups and the state. However, clientelism and exploitation surfaced, and President Dacko was overthrown in a coup by the Council of the Central African Revolution, headed by Jean-Bedel Bokassa, on December 31, 1965. In January 1966, Bokassa abolished the constitution and proclaimed himself president-for-life and commander-in-chief of the army. A few years later, Bokassa proclaimed himself emperor of the CAR empire and dissolved the Council of the Central African Revolution.

Since the reign of Bokassa, corruption and clientelism have been widespread in CAR. The Bokassa regime was ruthless and mismanaged the country's resources. The government during this time was mainly inexistent, and citizens were taken hostage by a minority of elites, driven by a desire to control natural resources. This created discontent within the population and laid the foundation for chronic and structural instability. On September 21, 1979, Emperor Bokassa was overthrown by former President Dacko. On February 24, 1981,

[4] Previously called Ubangui-Chari.

[5] David Dacko was elected by the National Assembly under a one-party state, the *Mouvement pour l'Evolution Sociale de l'Afrique Noire* (MESAN). The party was established in 1950 by Barthelemy Boganda, the first representative of CAR in the French government during the colonial era. MESAN sought to affirm black humanity and advocated for the independence of Ubangi-Chari.

a new constitution was approved in a referendum, and Dacko was elected president. Dacko's second presidency carried over weaknesses from the previous regime and was characterized by tribalism, nepotism, and corruption. Public investments were unevenly distributed across the country, fueling community tensions, with many feeling like second-class citizens. On September 1, 1981, President Dacko was deposited by the *Comite Militaire pour le Redressement National*, headed by General Andre Kolingba, who limited the number of political parties in the country, suspended the constitution, and introduced a new constitution by a nationwide-wide referendum in 1986.

While the country held its first democratic elections in 1992, they did not put an end to coups and violent transitions of power. In the 1990s, the fall of the Berlin wall led to a new push for democracy in CAR, with pressure from external actors. The first free elections were held in October 1992, and Ange-Felix Patasse was elected president after the second round of voting in 1993, with 53 percent of the vote cast. Once elected, President Patasse started a purge of the *Yakoma*[6] people, which resulted in ethnic tensions and fueled social exclusion. Patasse's presidency was also characterized by corruption and the destruction of property, exacerbated by weak government effectiveness. Rebels launched an unsuccessful coup attempt in May 2001 by storming strategic buildings in the capital city of Bangui. General Francois Bozize, Patasse's chief of the army and suspected to be behind the coup, was forced to flee the country and seek asylum in Chad. In March 2003, Patasse was overthrown by a surprise attack headed by Francois Bozize, who suspended the constitution, dissolved the government, and organized new elections.

Delays in implementing much-needed structural reforms have contributed to the vicious cycle of fragility. Bozize was elected president in May 2005, despite a fragile political context and disputes over the control of power, including several rebel attacks against the army. An inclusive and political dialogue (IPD) was adopted between the government and some armed groups to reach a cease-fire and lay the foundation for peace and stability. However, most of the reforms agreed upon under the IPD were not implemented,[7] and the inclusive dialogue was never established, leading to a rise in the number of zones controlled by armed groups. Moreover, the implementation of the demobilization, disarmament, and reintegration program for combatants in the northeast failed, with significant adverse effects on security, poverty, and the humanitarian situation. Between 1999 and 2006 per capita income continued to contract sharply, the average number of years of schooling was less than 7 years, and life expectancy remained relatively unchanged. International support receded during this period, and the failure of Bozize's administration to implement structural reforms to address grievances resulted in the proliferation of armed groups and the first rebel coalition: the *Séléka*[8] coalition (**Figure 3**).

The power struggle intensified significantly in the early 2010s and culminated in the 2013 civil war. In November 2012, the Séléka coalition, headed by Michel Djotodia, assumed control of the country's central and northern regions. While a peace agreement involving power sharing between the government and armed groups was reached in early 2013, it was broken shortly after. Two months later, Séléka seized the capital city, Bangui, and overthrew Bozize. After taking power, Djotodia tried unsuccessfully to disband the Séléka. The rebels refused to disarm, becoming known as ex-Séléka and veered out of government control. The ex-Séléka armed group was motivated by a commitment to defend and protect the interests of Muslim pastoralists while exploiting pre-existing conflicts with other ethnic and religious groups, resulting in an escalating cycle of inter-community violence. Christians and other animist farming communities retaliated from acts of violence committed by the ex-Séléka and set up a self-defense militia known as anti-balaka. As a result, the crisis shifted from a political to religious crisis, leading to millions of internally displaced people (IDPs) and refugees. Djotodia stepped down in 2014 following a deal negotiated during a summit in Chad. An interim government led by Catherine Samba-Panza was created, and the reconciliation process launched with the Bangui Forum in 2015.

The proliferation of political militias, which represent the main threat to civilians and social cohesion, is a direct consequence of the power struggle between elites. Political militias are the main threat to civilians in CAR

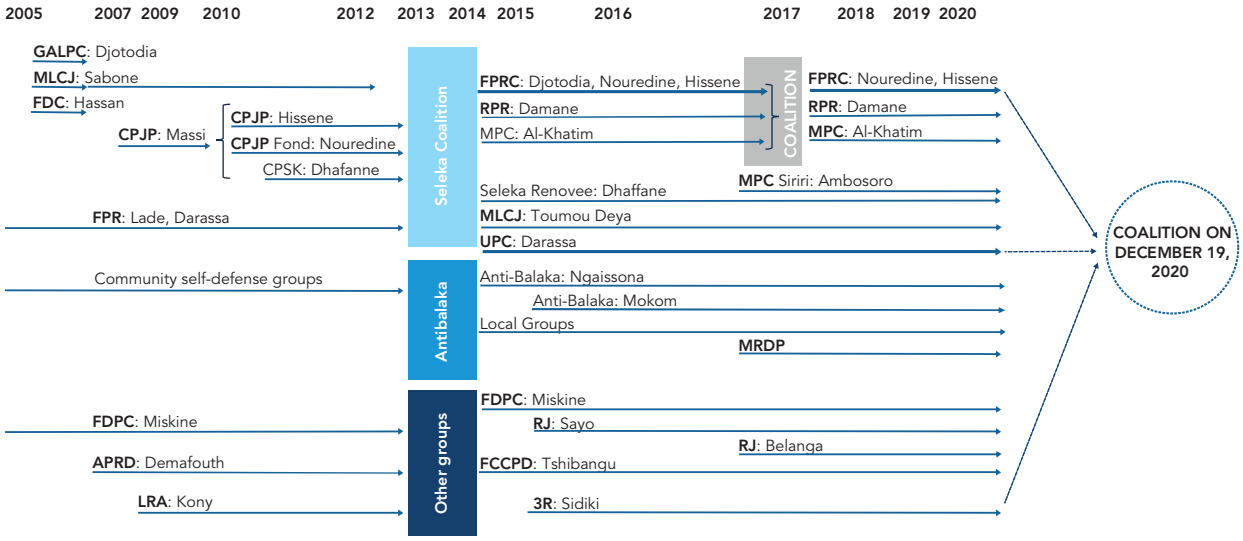
[6] Elements of the ethnic group of the former President Andre Kolingba.

[7] Some of these reforms included but were not limited to: (i) restoring peace and security; (ii) organizing early legislative elections after the dissolution of the national assembly; (iii) re-organizing defense and security forces; (iv) reorganizing the territorial administration; (v) reforming the judicial system; (vi) continuing the demobilization, disarmament, and reintegration process, with support from the international community; and (vii) initiating economic and social reforms.

[8] Séléka is a rebel coalition of dissident factions of two armed groups: the Convention of Patriots for Justice and Peace (CPJP) and the Patriotic Convention for Saving the Country (CPSK). The coalition's grievances were politically motivated, and its objectives included: (i) the implementation of recommendations from the IPD held in 2008 that set forth conditions for peaceful elections in 2010, carried out in 2011; (ii) financial compensation for the rebels; (iii) the release of political prisoners; and (iv) the reopening of investigations, including the disappearance of former CPJP leader Charles Massi.

FIGURE 3

Evolution and Chronology of Armed Groups, 2005–2020



Source: Adapted from Dukhan 2017.

BOX 1

Definition of Conflict Actors

The Armed Conflict Location & Event Data Project (ACLED) defines conflict actors as:

A. **State forces,** which are collective actors that are recognized to perform government functions over a given territory and include military and police;

B. **Rebel groups,** which are political organizations whose goal is to counter an established national governing regime by violent acts;

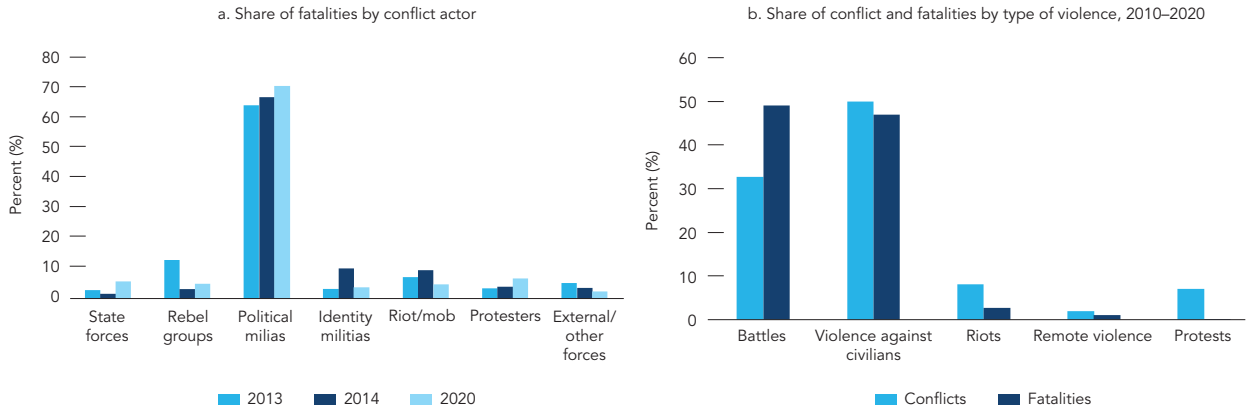
C. **Political militias,** which are a diverse set of violent actors that are often created for a specific purpose or during a specific time period (e.g., Janjaweed, which is largely active in Sudan) and for the furtherance of a political purpose by violence. These organizations are defined by their political goals of influencing and impacting governance, security, and policy. However, these groups are not seeking the removal of a national power. Instead, they are typically supported, armed by, or allied with a political elite and act toward a goal defined by these elites or larger political movements;

D. **Identity militias,** which are armed and violent groups organized around a collective, common feature, such as community, ethnicity, region, religion, or, in exceptional cases, livelihood. These include tribal, communal, ethnic, local, clan, religious, and caste militias;

E. **Rioters,** which are individuals or mobs who either engage in violence during demonstrations or in spontaneous acts of disorganized violence; and

F. **Protesters,** which are peaceful, unarmed demonstrators.

FIGURE 4
Conflict Events and Fatalities



Source: World Bank staff using data from ACLED (2021) and iDMC (2020).

(compared to state forces, rebel groups, identity militias, riots, and protesters), as they were responsible for more than 70 percent of all violence targeting civilians in 2020 (**Figure 4**). These political militias exacerbate the climate of mistrust, exploit the fracture with the state, and fuel ethno-religious fragmentation. The number of conflict events has increased 25-fold, from 21 in 2005 to 543 in 2020. Violence against civilians has a direct impact on the size of the working population and limits the ability of people to undertake income-generating activities, which is exacerbated when large segments of the population need to flee to escape the threat of violence, resulting in lower output. Agricultural employment appears to be disproportionately concentrated in areas with high levels of conflict, indicating the possible negative impact of conflicts on the potential of the agricultural industry and trade.

The Bangui Forum, held in May 2015, laid the foundation for achieving peace and stability in CAR, but power struggles persist, fueling violence and insecurity. The forum set the path to stability, reconciliation, and the return to constitutional order with the adoption of the Republican Pact for Peace, National Reconciliation, and Reconstruction, as well as with the signature of a disarmament, demobilization, rehabilitation, and repatriation (DDRR) agreement between the government and 9 out of 10 armed groups. In December 2015, a new constitution was adopted by a referendum that expanded the legislature's power, established a senate, and set a maximum of two terms for the presidency. The second democratic and peaceful elections took place in February 2016, and former Prime Minister Faustin Archange was elected with 62 percent of the vote cast. A new inclusive government was formed, reshuffled twice in 2017, and then again in March 2019 following the signature of the Political Agreement for Peace and Reconciliation (*Accord Politique pour la Paix et la Reconciliation en Republique Centrafricaine*, APPR) between the government and 14 armed groups. On December 19, 2020, three rebel groups—Return, Reclamation, Rehabilitation (3R); the Popular Front for the Renaissance of Central African Republic; and the Union for Peace in the Central African Republic—that controlled roughly two-thirds of the country formed a coalition named the CPC. The CPC's intent was to advance to Bangui because it accused the outgoing president, Touadera, of rigging the election process. However, on December 27, 2020, Touadera was re-elected for a second term, with 53.9 percent of the vote, amid an election dispute.[9]

Center-periphery relations

In CAR, political power has been centralized in the hands of a few elites, which has generated ethnic tensions and feelings of social exclusion, especially in provinces. Since independence, the central government has centralized power in the capital city of Bangui, with little transfer of responsibility or resources to local government authorities. Members of local governments have often been appointed by the central government, creating an opportunity for nepotism and unfair processes. Even in the capital city, there is a high level of disillusionment toward the government,

[9] The general elections in December 27, 2020, were not fully representative, as large parts of the country could not participate due to lack of security in several districts.

which is often perceived as composed of a self-serving elite. These perceptions are compounded in local areas by the weak presence of the state and essential public services, including healthcare, education, and sanitation.

Persistent regional imbalances between Bangui and the rest of the country have fueled tensions. The successive episodes of conflict have been rooted in inadequate governance of the public sector and dysfunctional institutions due to historical structural fragility. These challenges have exacerbated the political imbalances between Bangui and the country's provinces. Each crisis was the result of a missed opportunity to address the people's grievances. The provision of public services has often been constrained by the lack of legitimacy of state institutions, weak central and local government capacity, poor logistical infrastructure, and the status quo of power coalitions. Despite recent progress, most ACS are still not able to collect their salaries locally. Instead, they must travel, sometimes long distances, to one of the urban centers to collect their payments at their own expense, worsening existing frustrations. Public appointments in remote areas are often considered a punishment.

Center-periphery conflicts are exacerbated by weak service delivery in provinces

Post-conflict recovery and reconstruction have been slow in changing the country's center-periphery political relationship. Over the last decade, there has been a significant deterioration in most essential public services in CAR, ranging from health and education to electricity, water, and sanitation services. This has been due to recurrent conflicts that have destroyed or damaged part of the existing public infrastructure and services. Post-conflict recovery and reconstruction have been slow, with only a marginal effect on the center-periphery relationship and regional disparities. Weak governance and the absence of the state locally, coupled with an uneven national policy framework, have led to fragmented public service delivery.

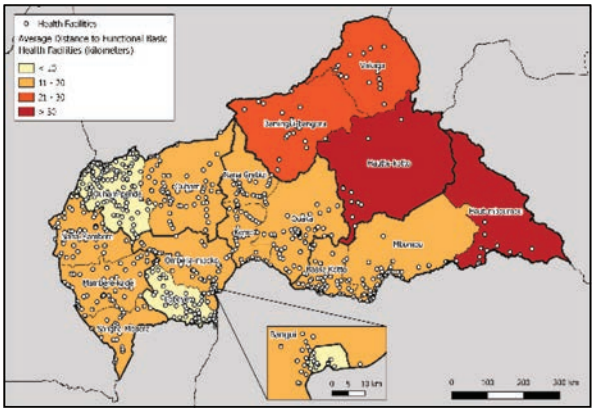
Access to adequate essential services such as education and healthcare remains limited in the provinces. According to the latest SARA/HERAMS 2019, there are only 7.3 health professionals per 10,000 inhabitants in CAR (0.8 general practitioners, 2.5 nursing professionals, 2.4 other nursing professionals, and 1.6 obstetric care professionals)—way below the World Health Organization (WHO) standard of 23 health workers per 10,000 inhabitants. However, the Bangui area has the largest number of health professionals, with a ratio of 30.8 health workers per 10,000 inhabitants—above the WHO standard. The Bangui area also has the highest share of obstetric care workers in the country—137.40 per 10,000 pregnant women—despite having a low fertility rate of 3.8 children per woman (**Figure 5**). Similarly, according to EMIS 2018–2019 and MICS6 2018–2019, community teachers represent 5 percent of all teachers in Bangui, while they represent 70 percent of teachers in provinces. Also, 94 percent of classrooms are deemed in good condition in Bangui, much higher than 70 percent of classrooms in provinces. Other key education statistics such as student-classroom and student-teacher ratios reveal significant regional disparities.

Bangui's share of budget allocations and development activities may undermine equitable service delivery. Apart from Bangui, other cities in the country tend to be small

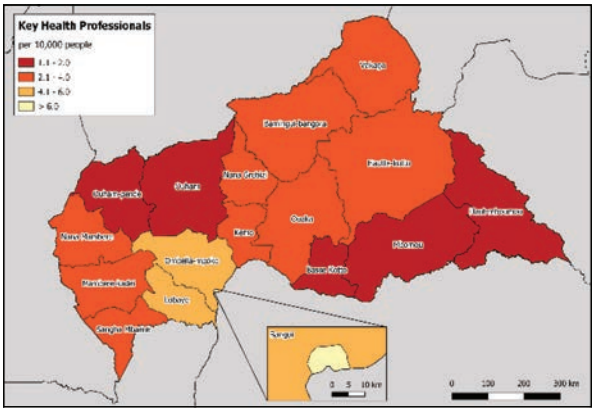
FIGURE 5

Health Professionals and Infrastructure are Unequally Distributed in CAR

a. Average distance to a functional public health facility, 2021



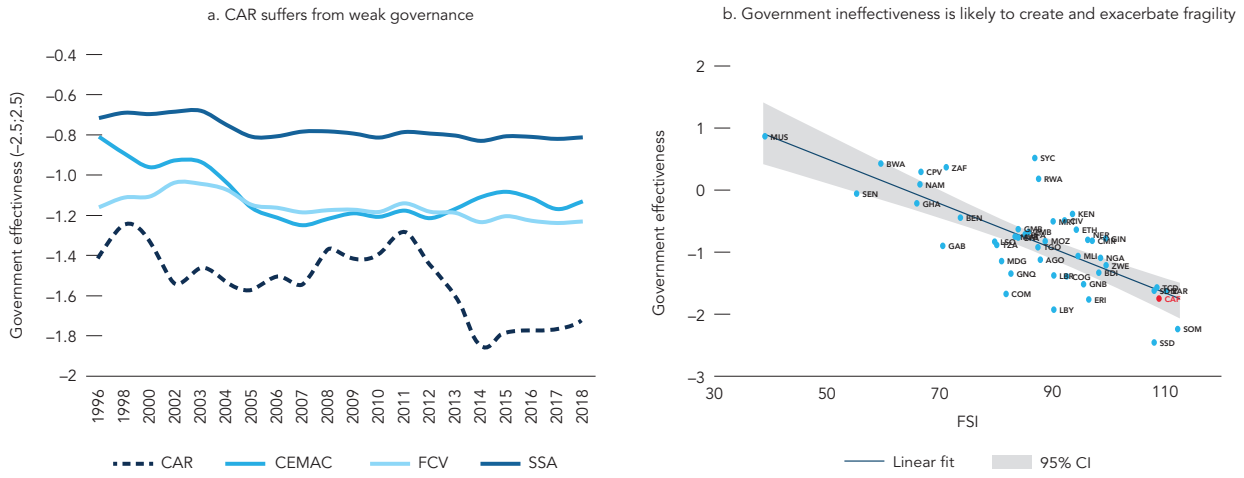
b. Key health professionals per 10,000 people



Source: World Bank 2021.

FIGURE 6

Government Effectiveness and Civil Liberty in CAR vs. Comparators



Source: Edjigu and Kouame (2021) using WGI, FSI, Freedom House data.

and have relatively inadequate public services. Except for Berberati, which has a population of around 100,000, all other urban towns host fewer than 50,000 people (most of them have fewer than 20,000 inhabitants). Business activities are concentrated almost entirely in or near Bangui. The failure to equitably share public services may fuel grievances and further widen spatial inequalities. To resolve grievances, the government's urban development approach needs to focus on the country's smaller cities and not only on its largest urban areas.

The authorities have taken early steps toward reducing the concentration of power in Bangui

While the government has taken steps to reduce the concentration of power in Bangui, strong political will is needed to achieve fundamental change. Following the 2016 elections, decentralization reforms have received renewed attention and have been included in the country's National Recovery and Peacebuilding Plan (RCPCA 2017–2023) as well as in APPR commitments. A new act on decentralization was adopted in 2020, and another act on administrative constituencies has been submitted to the National Assembly. The decentralization law established regions and municipalities as decentralized entities, vested with legal personality as well as administrative and financial autonomy, under the oversight of the central government. However, the shift from highly centralized political power to local participation requires strong political will for real change to occur, as the decentralization process has been on the government's agenda since independence in 1960. Pragmatic policies and strategies to implement decentralization reforms have never been adopted. Instead, decentralization has been mainly governed through a set of legislative texts and statutory instruments, which have become irrelevant since the implementation of the special delegation *(délégation spéciale)*—a temporary governance entity to lead local municipalities until members of the local government are elected.

Weak Governance and Elite Capture

Weak governance and judicial services have facilitated elite capture

Weak governance is among the key factors contributing to CAR's fragility. The country has a weak and fragile governance system, with a score of -1.8 on the World Bank's government effectiveness index in 2018, compared to an average of -0.8 in Sub-Saharan Africa (SSA) (**Figure 6**).[10] Low government effectiveness suggests poor public service delivery, which is often associated with political connections. In turn, this suggests that CAR suffers from poor policy formulation and implementation quality. Indeed, the country's successive governments have lacked the

[10] Government effectiveness measures the perceptions of the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies (WGI 2020).

credibility and commitments needed to effectively deliver public services to the population. As demonstrated by Massing and Jonas (2008), countries with ineffective and weak governments fail to provide core public services such as health, education, and water to the poor. The lack of these essential public services, in turn, fuels frustration, grievances, corruption, and violence that further undermine service delivery.

The weak judicial system has perpetuated the feeling of impunity. The country's judicial system is weak and has deteriorated because of past crises, which resulted in the destruction of legal records. Outside Bangui, there are only a few functioning courts, and only 8 out of CAR's 35 prisons operate effectively. There have been multiple prison breaks in recent years due to poor prison infrastructure and security. Also, perpetrators of recent conflicts often live in communities near their victims, worsening the perception of insecurity and impunity. A Special Criminal Court (SCC) was created by the transitional government led by Sambas-Panza in 2015. The SCC was expected to be made up of 27 judges, of which 14 from CAR and 13 internationally recruited. However, the SCC was never established, mainly due to a lack of: (i) financial resources (the cost of the SCC was estimated at US$40 million for five years, but only US$5 million was committed); and (ii) skilled domestic investigators. Furthermore, risks associated with misreporting on the SCC could raise public expectations on the outcome of each prosecution and lead to further public anger and frustration around the issue of impunity. There is also a growing sense of public distrust toward the state and national police, which are often seen as simply serving the political elite. As a result, it is rare that criminal activities are brought before the country's courts.

Elite capture in CAR is rooted in weak governance and institutions. For several years, CAR's political authority has been characterized as *concessionary politics*, whereby access to natural resources was controlled by a handful of elites appointed by the centralized state authority.[11] Operating permits for the use of natural resources are often granted without economic consideration. Instead, they are "traded" in exchange for rents, which are used to nourish patronage networks and maintain power. Elite recycling is common and designed to perpetuate control over resources and maintain privilege, resulting in a weak and inefficient public sector that fails to deliver adequate public goods and services. A lack of transparency and weak law enforcement—two issues undermining governance in CAR[12]— facilitate capture while reinforcing the sentiment of impunity.

The country's political landscape has been dominated by elites motivated by their personal priorities and who have little interest in fundamentally transforming institutions and improving governance. The successive episodes of violence and conflict in CAR since its independence can also be explained by factors related to the country's political landscape. Political actors have traditionally been unable to implement bold governance reforms that improve public service delivery. They were often motivated by their personal priorities to sustain elite political networks as well as the patronage system, which created an atmosphere of distrust and suspicion between the public and political leaders. This was made worse by the elite recycling system, which was primarily designed to ensure short-term stability and prevent rebellion. Moreover, political militias and rebel groups have deteriorated the already weak justice system and institutions, violated property rights, and imposed racketeering and capture mechanisms. As a result, there have been little improvement or transformation of the country's governance framework.

Lack of accountability and civil liberties has exacerbated CAR's fragility

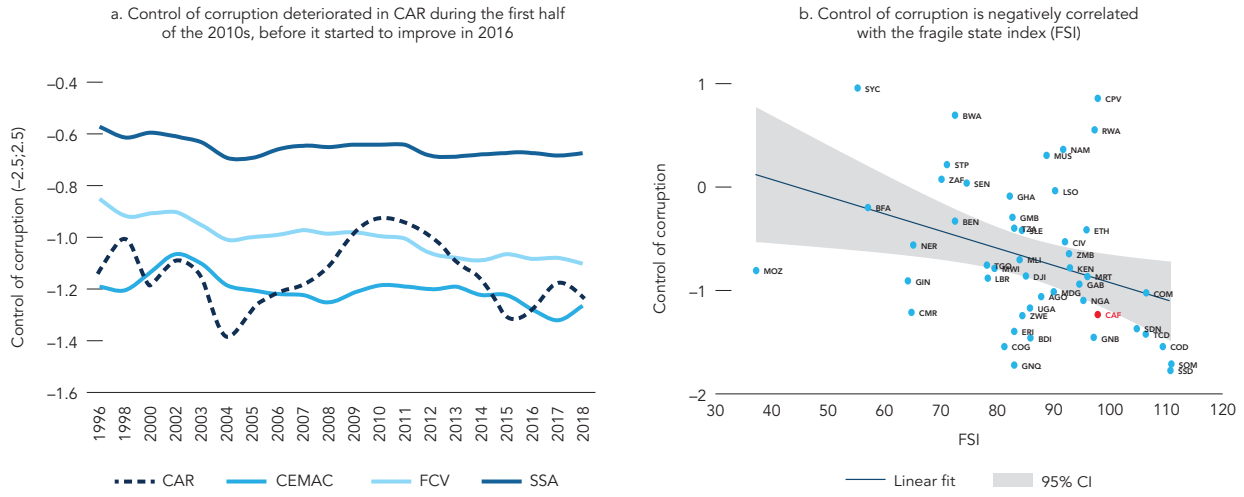
Corruption and accountability

CAR lags behind its comparators in accountability and control of corruption. The World Governance Indicators (WGI) project uses key dimensions such as control of corruption and voice and accountability to benchmark countries' traditions and institutions. CAR's performance on control of corruption and accountability indicators is below that of comparator countries. Compared to the average of SSA and CEMAC, corruption has historically been a bigger obstacle to businesses operating in CAR than in other CEMAC countries, particularly in 2013–15, as political instability and widespread violence significantly undermined the rule of law (**Figure 7**). While corruption has historically been a major barrier to business in the country, ongoing insecurity following the 2013 crisis has further exacerbated corruption.

Voice and accountability in CAR have been improving since 2013, but there is still a significant gap compared to the SSA average. The country's ranking in the voice and accountability index improved from 179th out of 190 countries in 2013 to 164th out of 190 countries in 2019. However, the country's voice and accountability index value of –1.2 is worse than the SSA average of –0.60,

[11] Exploration licenses and mining permits are now offered through the Ministry of Mines and Geology, and they have to be approved by Parliament (Article 60 of the Constitution).
[12] According to the IMF Governance Diagnostic: IMF Country Report No. 21/5.

FIGURE 7
Corruption in CAR vs. Comparators, 1996–2019



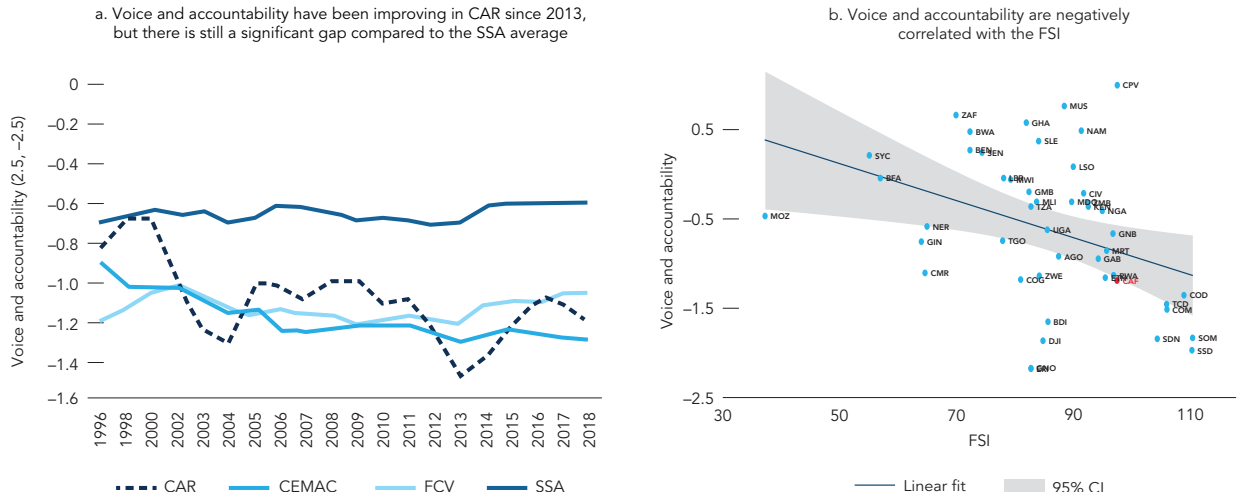
Source: Edjigu and Kouame (forthcoming) using WGI data.

demonstrating the low perception of citizens in CAR regarding their ability to participate in selecting their own government and enjoy freedom of expression, freedom of association, and a free media (**Figure 8**).

Restrictions on civil liberty

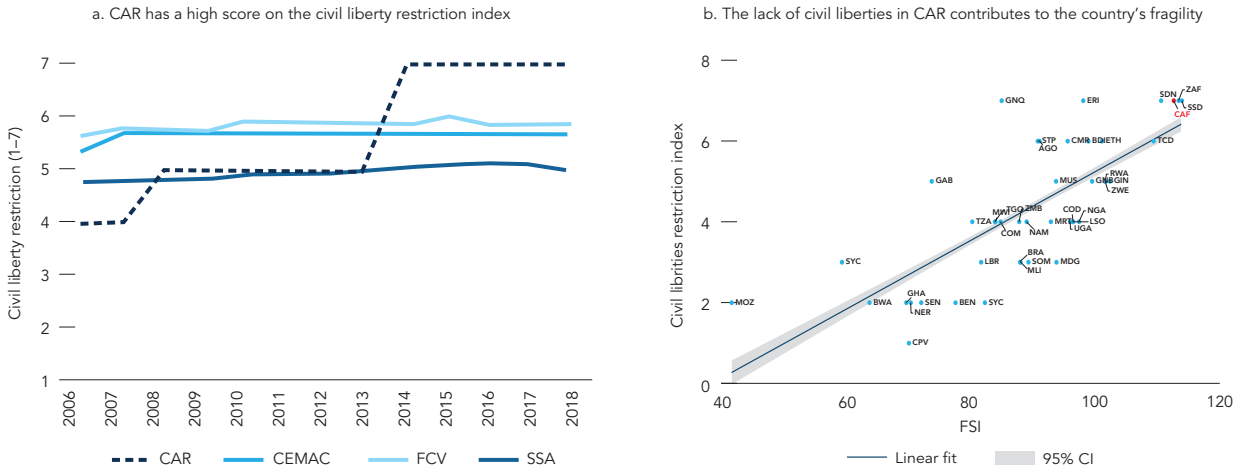
Access to civil liberties remains extremely low in CAR, contributing to the country's fragility and fueling grievances. Citizens in CAR have less access to civil liberties than their counterparts in peer countries, especially following the 2013 crisis. On the Freedom House's civil liberty restriction index, which ranks countries from 1 (strong liberties) to 7 (no liberties), CAR ranked 1st out of 190 countries in 2020. CAR's score of 7 is much worse than the SSA average of 4, which suggests that freedom of expression and belief, associational and organizational rights, the rule of law, and personal autonomy and individual rights are significantly restricted in the country (**Figure 9**). For instance, media outlets are increasingly aligned with national politicians and

FIGURE 8
Accountability in CAR vs. Comparators, 1996–2019



Source: Edjigu and Kouame (forthcoming) using WGI data.

FIGURE 9
Accountability in CAR vs. Comparators, 1996–2019



Source: Edjigu and Kouame (forthcoming) using Freedom House data.

foreign governments, with limited support for independent media, and courts are generally inefficient, with limited authority of the government to enforce judicial decisions.[13] As demonstrated in the literature,[14] restrictions on civil liberties increase the likelihood that a country is fragile and suffers from conflicts. Moreover, a study by Edjigu and Kouame (2021) finds that a country's fragility increases as it restricts civil liberties. Restrictions on civil liberty in CAR fuel grievances and social exclusion.

Mismanagement of Natural Resource Wealth

Fragility continues to undermine the industrial development of CAR's mining sector

The mining sector has played a critical role in past conflicts and perpetuating the country's fragility. CAR is a mineral-rich[15] country, which makes it susceptive to challenges associated with the so-called natural resource curse.[16,17] The mining sector suffers from low investor confidence due to insecurity, a lack of available geo-scientific data on the country, an unfavorable business environment for mining investment, the absence of a stable mining investment framework, and the suspension of past mining projects. For example, the Passandro gold project and the Areva Bakouma uranium project highlight the risks of investing in a country that lacks a strong and stable government. More recent outbreaks of armed military unrest across the country—even in traditionally 'stable' mining zones in the southwest—reveal the precarious political situation and the very real presence of armed discontent in CAR. Critical to assuring international investors of the mitigation of these risks is the government's capacity to cement its authority and control territory, especially in active mining areas, which are part of important international transparency initiatives, as well as in critical mining areas in the east, which continue to service the income of several large and strategic armed groups. In the absence of a cohesive governance strategy, the country's mining sector is mainly made up of artisanal and small-scale mining (ASM) activities. Albeit a critically important source of employment in some rural areas, the wider social and economic benefits of the ASM sector remain unrealized because of the illicit trade of artisanally mined diamonds and gold. Ongoing, coordinated, and targeted assistance from various technical partners to the government is expected to bear fruit with respect to institutional and regulatory mining reforms necessary to attract responsible, foreign investment in the sector over the long term.

[13] See the latest Freedom House assessment for an extensive discussion: https://freedomhouse.org/country/central-african-republic/freedom-world/2021.
[14] See, for instance, Bertocchi and Guerzoni (2012).
[15] Gold, iron ore, uranium, phosphates, nickel, cobalt, copper, columbite-tantalite (coltan), tin, and tungsten.
[16] Van der Ploeg, F. 2011. *Natural Resources: Curse or Blessing?* Journal of Economic literature, 49(2), 366-420.
[17] The natural resource curse refers to the correlation between access to natural resources and lower economic growth.

Elite capture, corruption, and general mismanagement have negatively affected CAR's mining sector since the 1960s.[18] Successive external shocks and internal crises have exacerbated governance challenges that have long stymied the development of the sector. Weak public institutions, deficient infrastructure, political instability, and the geographic isolation of many mining regions have facilitated the looting of diamond and gold mines and encouraged the illicit trade.[19] Nearly a decade on from the 2013 crisis, there is still widespread insecurity across the country, and the government struggles to control more than half of the territory. Recent research reveals that some of the strongest emerging rebel groups have moved beyond simply taxing gold and diamonds to organizing and controlling the trade to major international markets. This means that some armed groups are now embedded in mineral supply chains rather than benefiting through predatory practices (e.g., roadblocks and taxation). Experience from other areas around the world suggests that 'cleaning' these supply chains will require considerable political will and resources from the government to implement due diligence systems that meet the United States and EU regulations on responsible sourcing.

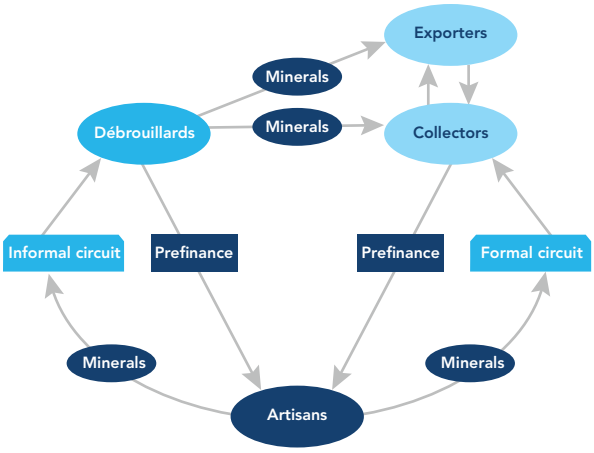
Informal artisanal diamond mining activities have left the mining sector and its workers increasingly vulnerable to external shocks over the last two and a half decades. CAR had yet to recover from the effects of the 2008 global recession when the 2012 political crisis hit. The deteriorating security situation forced the suspension of CAR from the Kimberly Process Certification Scheme (KPCS)[20] and the Extractive Industries Transparency Initiative (EITI).[21] It further caused many mining firms to close their operations, putting a halt to investments in exploration, legal diamond exports, and tax revenues from the mining sector. In eastern CAR, several mining areas came under the control of armed groups, and these areas remain under their control to this day, which further contributes to the country's instability. During the 2008 financial crisis and in the aftermath of the 2012 crisis, the reduction in the number of buying offices (and consequently the number of collectors, who depend on their pre-financing) had a considerable humanitarian impact on local mining communities, resulting in many miners losing their main source of livelihood.[22,23] Results from a survey conducted by the World Bank in 2018 indicates that women were disproportionately more affected by the liquidity crisis than men, noting that without financing to engage in more substantive activities, women were forced to take physically grueling low-paying jobs in sectors such as transportation.[24]

The mining sector's value chain is dominated by two central patron-client relationships, and capital requirements discourage competition. The first patron-client relationship is referred to as the collector's system. It is designed to mitigate artisans' financing problems in CAR, and it involves collectors bearing the risk of artisans by prefinancing their activities, including materials, food, medication, mining permits, and clothing, in exchange for an opportunity to buy their minerals below the international market price. The second relationship is between the bureaus of export companies and collectors. Here, export companies prefinance (with in-kind resources and cash) the collectors in exchange for an exclusive deal to buy their products. CAR's mining market tends to be monopolistic because of the requirements and installation costs imposed on export companies, which are important barriers to the entry. Unfair competition between informal and formal mining firms is a huge challenge for the government. There is also an informal market in which artisans sell products they hide from collectors. Informal traders (*debrouilards*) obtain products informally from artisans and sell them directly to exporters (*bureau d'achat*) or outside the country (**Figure 10**).

More recently, the impact of COVID-19 on international trade and domestic travel has made the situation in the country's precarious mining sector even worse. The government had to suspend legal diamond and gold exports for few months at the start of the COVID-19 pandemic in 2020. This, in turn, led to a significant liquidity crisis for diamond collectors, many of which have not been able to re-establish their businesses.[25] This situation was exacerbated by other issues such as the significant drop in the international market price for diamonds and a disagreement between buying houses and evaluators

[18] World Bank. Project Appraisal Document for the Natural Resources Governance Project. http://documents1.worldbank.org/curated/en/823091521079287934/pdf/CAR-PADnew-02212018.pdf
[19] Malepli and Chirico (2014) show that road quality and distance from Bangui affect both the likelihood that mines will be looted and the prevalence of cross-border smuggling.
[20] The Kimberley Process is a joint initiative by governments, firms, and civil society groups to stem the flow of so-called "conflict diamonds"—rough diamonds used to finance militant groups that are often mined under extremely brutal conditions. See www.kimberleyprocess.com.
[21] The EITI is the global standard to promote the open and accountable management of extractive resources. See: https://eiti.org
[22] Matthysen and Clarkson (2013).
[23] Delve Country Profile Report for CAR. https://delvedatabase.org/resources/delve-country-profile-central-african-republic.
[24] Kelly, J., and R. Perks. 2018. *A Gendered Assessment of the Impact of the Conflict on the Artisanal Diamond Mining in the Central African Republic: Case Study of Nola, Carnot and Berberati*. Background Note (unpublished). World Bank: Washington, DC.
[25] 2020 annual report from the Directorate General of Mines and Geology. There were 135 collectors in 2020.

FIGURE 10
Mineral Marketing Chain in CAR



Source: World Bank staff elaboration.

at BECDOR[26] on diamond parcel pricing. A global data collection effort led by the World Bank to ascertain the impact of the COVID-19 crisis on miners reveals that all diamond miner respondents in CAR reported a near-total collapse of the country's legal diamond supply chain in the second and third quarters of 2020. Although cross-border smuggling was already common well before the 2013 crisis,[27] with as much as 50 percent of CAR's diamond and gold production exiting the country undeclared,[28] it is thought to have grown significantly since. Some speculate that upwards of 90 percent of the diamond trade across land borders is illegal.

The mining sector's institutional and regulatory framework is being improved, which should address some of the drivers of fragility

Recent strong leadership in the mining sector has resulted in the adoption of a pro-reform agenda. The personal efforts of the minister of mines cannot be understated. The government is committed to implementing a range of reforms, with support from the World Bank and technical partners, to align its mining regime with international best practices. These reforms include: (i) the revision of the mining code with a technical committee, which is expected to submit a revised mining code to Parliament in July 2021, following public consultations (to be concluded in 2021); (ii) the completion of an Institutional Functional Review of the Ministry of Mines (completed in 2021); (iii) the finalization of a revised mining policy (to be concluded in 2021); (iv) the design of an integrated database management system for the Ministry of Mines (to be concluded in 2021); and (v) the legal recognition of the KPCS Secretariat through a Presidential decree (already completed). The Presidential decree giving legal recognition to the KPCS Secretariat in CAR has been pivotal in unlocking significant financing from a range of technology partners to further advance the country's legal diamond exports from compliant zones.

To improve the performance of the Ministry of of Mining and Geology, the authorities need to redefine its mandates and provide civil servants with the tools to effectively govern the sector. Deficiencies in information management—particularly the lack of an integrated database management system or an online geographic information system-linked mining cadaster—inhibit the government's ability to plan and execute effective mining-sector policies. Across all departments and services within the Ministry of Mining and Geology, there is a lack of human, material, and financial resources. Moreover, ministries and other public agencies involved in the mining sector do not communicate regularly. There is limited data collection and analysis, and different institutions operate separate and often conflicting databases for recording key information, such as the number of licensed mining firms or the scale of fiscal revenues. The regional Directorates of Mines, Geology, and Petroleum report to the Cabinet of the Minister and not to the Directorate General of Mining and Geology directly, and there is no centralized statistics office to manage and analyze all sector-related data. As a result, no single agency has access to real-time data to produce comprehensive or authoritative reports on basic sectoral statistics.

The government and other stakeholders continue to show a clear willingness to fully resume transparency initiatives in the country. Prior to its suspension, CAR played a leading

[26] *Bureau d'Evaluation et de Contrôle de Diamants et Or.*
[27] Many of the persecuted Muslim collectors, who had pre-financed artisanal miners, fled to Cameroon to avoid the escalating violence. Following CAR's suspension from the KPCS, several buying houses, unable to generate revenue, closed their operations in CAR and established offices in neighboring Cameroon near CAR's border. Artisanal miners were heavily dependent on collectors for pre-financing. Legal exports of diamonds from CAR were banned, forcing miners who depended on the trade for their livelihoods to sell their products through illicit channels in the informal economy. Several collectors who had fled to Cameroon maintained close business relationships with artisanal miners they had previously pre-financed in CAR.
[28] Hinton and Levin 2010; Matthysen and Clarkson 2013. The more favorable export tax for diamonds in neighboring Cameroon and higher premiums on gold in both Cameroon and Sudan also encourage smuggling. Both countries' central banks hold a monopoly on official gold purchases in the country. Cameroon offers miners an additional 5 percent above the market price, while Sudan offers more than 20 percent.

role in the implementation of the EITI in the sub-region. The EITI Secretariat is expected to conduct a more comprehensive in-country review to assess the viability of implementing the EITI in CAR in 2021. Following significant improvements in the implementation of the KPCS in CAR since the partial ban was lifted in 2015, the operational framework of the Kimberly Process (KP) was further revised in 2019, which involved moving from a pre-approval process to a notification process. This has had a positive impact by reducing the time to export diamonds and allowing for faster recycling of capital for buying houses. In 2019, the government further reduced the export tax rate for diamonds to 4 percent, further incentivizing buying houses to establish themselves in CAR. In September 2020, government formally recognized the KP Secretariat as the body that will implement the KP's operational framework in CAR. Despite the easing of the requirements under the KPCS, the formal supply chain for diamonds in CAR has not yet recovered, and over 90 percent of the estimated production of diamonds in the country is smuggled to neighboring Cameroon or to other countries via the Bangui airport.[29] The country's exports of diamonds are far below pre-ban levels, with only 50,410.6 carats exported in 2020.[30] Production remains low compared to past years because of insufficient financing, a lack of operational buying houses, and a high level of smuggling.

The Cost of Political Instability: Lack of Economic Opportunities and a Deterioration of the Social Contract and Living Standards

Volatile Growth Trajectory

CAR has been caught in a cycle of recurrent violence. Political instability and violence have shaped CAR's economy over the past forty years. Successive coups led to severe economic and political crises that unraveled the country's social fabric, displaced over 25 percent of the population, and accelerated the collapse of state institutions. Between 1960 and 2019, CAR experienced two peaceful democratic transitions, five coups, and two coup attempts (**Figure 11**). Governance and institutions remain weak, and citizens lack access to basic services. CAR is characterized by a low population density of 7 people per square km, significantly lower than the average of 52 people per square km in SSA. The country suffers from high level of poverty, which has only fallen marginally since the 1980s relative to comparator countries, and the share of the population living in extreme poverty increased from 65.9 percent in 2008 to 71.4 percent in 2019.

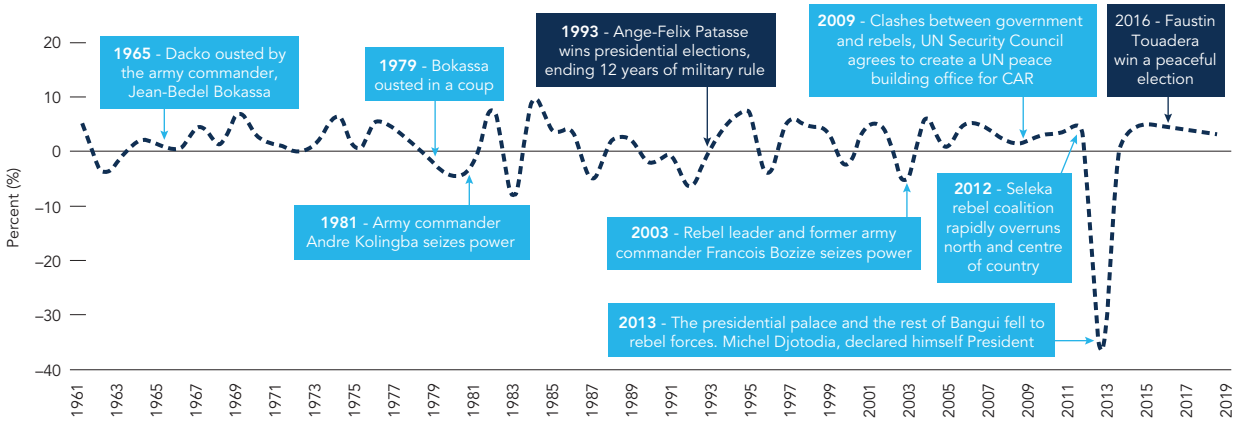
As a result, the country has not experienced sustained economic growth since independence.[31] Since 1960, CAR's GDP growth has averaged barely 1.3 percent, below that of comparators, and the country has never experienced an episode of sustained growth. During the period 1960–2018,[32] CAR experienced three episodes of growth acceleration and five periods of growth deceleration, with no growth spells. The first two episodes of growth acceleration were in the 1970s, with an average growth rate of 2.3 percent in 1970–74, before it fell to an average of 1.8 percent in 1975–1979. The most recent episode of growth acceleration happened right before the 2013 crisis, with an average growth rate of 3.1 percent in 2007–12. CAR's economy has been on a relatively sustainable path since 2015, with an average growth rate of 4.1 percent between 2015 and 2019—the highest five-year growth average since independence.

Decades of conflict and political instability and volatility have shaped CAR's economy and deteriorated living standards. CAR's GDP growth averaged 1.4 percent between 1960 and 2000, followed by a relatively high average growth rate of 3.4 percent over 2001–2010. In the last decade, which can be characterized as "lost decades,"

[29] https://www.researchgate.net/publication/333223352_Diamond_Mining_and_Conflict_in_the_Central_African_Republic.
[30] 2020 annual report from the Directorate General of Mines and Geology.
[31] Karakülah and Kouame 2021.
[32] Sustained growth periods happen under two conditions. First, it happens when structural breaks occur, which in turn happen when a country time series abruptly changes at a point in time. The changes can be identified as either "growth upbreaks" (if they result in a period of higher growth than before the structural break) or "growth down-breaks" (if they result period of lower growth than before the structural break). The second condition happens during periods that begin with a growth upbreak, followed by a period of at least 2 percent average per capita income growth, which is considered a growth spell.

FIGURE 11

Between 1960 and 2019, CAR Experienced Two Peaceful Democratic Transitions, Five Coups, and Two Coup Attempts That Led to a Volitive Real GDP Growth



Source: Authors' calculations using data from the World Development Indicators (WDI).

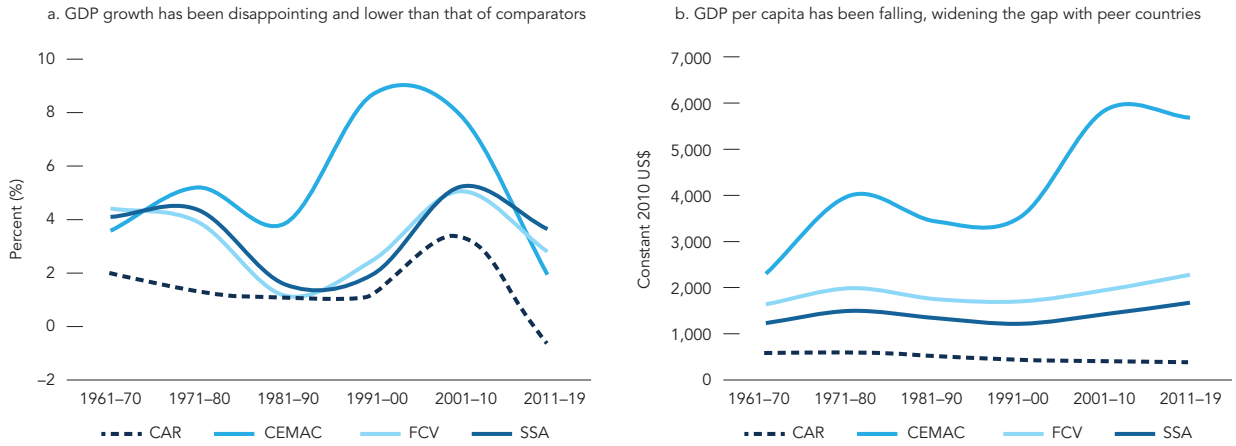
GDP contracted by an average of 0.7 percent per year, owing to the substantial drop in GDP by 36.7 percent during the 2013 civil war (**Figure 12a**). Unlike in peer countries, GDP per capita has been falling in CAR since independence. The country's average GDP per capita dropped from above US$600 in the 1960s and 1970s to below US$500 in the 1990s and 2000s, before deteriorating further to below US$400 during the last decade (**Figure 12b**). The combination of insecurity and the weak legitimacy of the state in areas controlled by armed groups has intensified social polarization and limited sustained productive activities across the country.

Weak Economic and Trade Diversification Limited Job Creation and Economic Growth

CAR relies heavily on subsistence agriculture and forestry activities, although both sectors are underdeveloped. Since 1991, the agriculture sector has accounted for 50.9 percent of GDP and 80 percent of total employment. However, the civil war in 2013 reshaped the sectoral composition of GDP. The share of agriculture in GDP dropped from 50.7 percent in 2012 to 32.4 percent in 2019, while

FIGURE 12

Political Instability Led to Disappointing GDP Growth and a Decline in GDP per Capita over the Past Decades



Source: authors' calculations using World Bank data

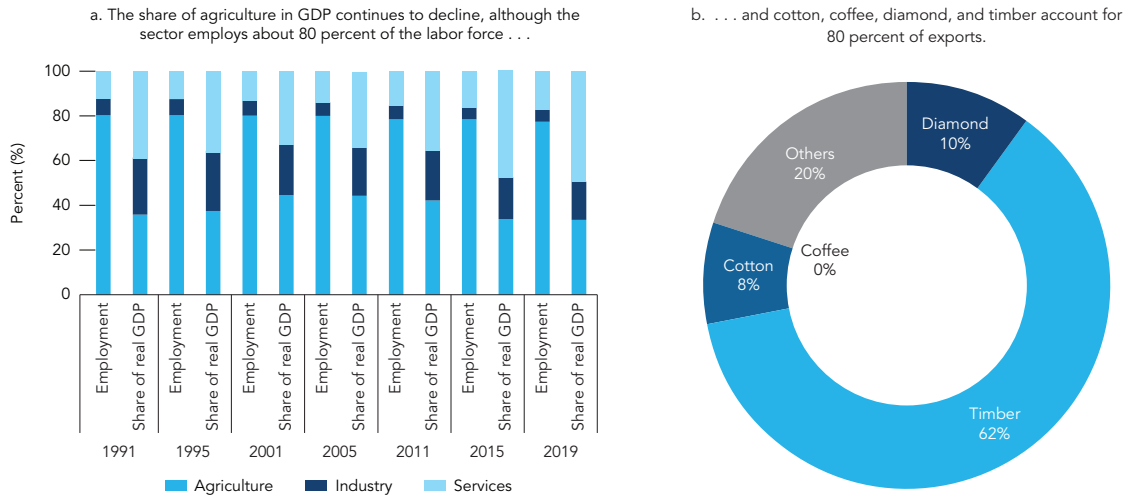
the share of services in GDP increased from 30.4 to 43.6 percent over the same period (**Figure 13a**). The presence of several humanitarian agencies, especially the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA) since 2013, explains the significant increase in the contribution of the services sector to GDP. Moreover, the main reason for the decline in the contribution of agriculture to GDP was the deteriorating security situation in and after 2013, especially in rural areas that were especially affected by violence from armed groups. CAR's agriculture sector has been particularly vulnerable to the various episodes of conflict, violence, and coups since independence in 1960. Despite the decline in the agriculture sector's share in GDP, its share in total employment has remained relatively unchanged.

Timber, cotton, diamond, and coffee accounted for 80 percent of exports in 2000–18. CAR is highly dependent on natural resources and commodity exports, with timber and extractives dominating the country's export structure (**Figure 13b**). Diamonds were the most significant contributor to the country's total exports until they were replaced by timber in the beginning of the 2000s. Timber exports are primarily based on the export of logs and, to a lesser extent, sawn wood, accounting for 62 percent of the country's total export earnings in 2000–18. Due to CAR's landlocked location and its relatively poor transportation infrastructure, the country's export material costs are relatively high. Transporting timber by road to Cameroon or by river to Pointe Noire in the Republic of Congo is costly. As such, there is an incentive to process materials in the country instead of exporting them. Private companies carry out commercial harvesting under management and operating permits. As of 2019, CAR's 14 management and operating agreements consisted of 11 active timber companies and 3 other companies not actively operating in the country.[33] These companies often act as local social service providers, and forestry taxes are important for local communities' budgets.

Conflicts have created substantial barriers to trade. Armed conflict increases the transaction costs of trade through the destruction of lives, property, infrastructure, land, and transportation networks, by restricting the movement of people and their ability to undertake trade-related activities, through more restrictive border control measures,[34] and through the taxation of trade by armed militias. This limits the ability of producers to access critical inputs such as seeds and fertilizers and restricts their access to markets to sell their produce, severely constraining the economies of border regions. According to Schouten and Kalessopo (2017), mechanisms of extorsion implemented by ex-Seleka (one of the numerous armed groups) in CAR generate around EUR 6 million per year (about 0.3 percent

FIGURE 13

CAR Relies Heavily on Subsistence Agriculture and Forestry Activities



Source: MFMod, ILO, and authors' calculations.

Source: Authors' calculations using the UN COMTRADE dataset 2000–18.

[33] Cadre national d'investissement REDD+ 2020–2025 de la RCA, Ministère de l'Environnement et du Développement Durable (2019).

[34] For example, Calì and Oliver (2013) find that by increasing the costs of production and mobility, Israel's checkpoints in the West Bank have a significant detrimental effect on trade with a 17-percent drop in the share of sales of West Bank firms outside their areas of business.

of GDP in 2019) by taxing economic activity in areas under their control.

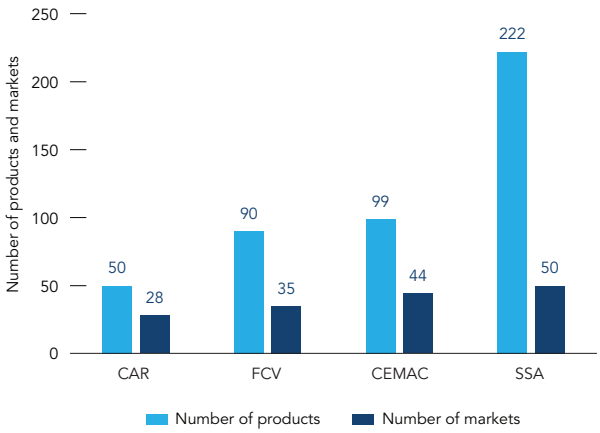
CAR's exports are among the least diversified globally, and the country has become less diversified during the last decade. The country's level of economic diversification, measured by the number of trade partners and products exported, is lower than the average of SSA, CEMAC, and countries suffering from FCV. CAR exports 50 products (6-digit Harmonized System level)—less than one-fourth of the average of SSA—to 28 countries—nearly half of the average of SSA and 10 markets fewer than the average of FCV countries (**Figure 14a**). The Herfindahl-Hirschman Index (HHI), which is a measure of the dispersion of trade value across trade partners, shows that CAR's level of trade diversification has declined over time. Between 2010 and 2017, its score on the HHI increased, an indication of the country's failure to diversify the range of products it produces and exports (**Figure 14b**). CAR's low level of export diversification is also an indicator of its dependency on trading partners. Its vulnerability to trade shocks is high, particularly as most of its export products are going to a limited number of markets.

Weak export diversification has led to volatile export revenues. CAR's exports have declined substantially since the 2000s, mainly due to the combination of political instability, the global economic crisis in 2008 (which led to a collapse of global diamond prices), and governance and transparency issues in the diamond industry. Between 2000 and 2018, CAR's total exports were reduced by half, from US$237.7 million in 2000 to US$121.0 million in 2018 (**Figure 15a**). Exports reached their lowest point at US$74 million in 2015, as renewed insecurity inhibited economic activities. The export of wood products increased progressively over the last two decades, but it failed to compensate for the revenue losses from the fall in diamond exports. The decline in diamond exports started several years before the 2013 crisis. While diamonds were the most significant contributor to CAR's total exports from 2000 to 2004, diamond exports declined by 70 percent (from US$169 million to US$47 million) during this period. The collapse in the export of diamonds was compensated by an increase in the export of timber, which has been the most significant contributor to CAR's total exports since 2005 (**Figure 15b**).

CAR's export structure remains dominated by mining and forestry. The country's position in the product space is relatively sparse, peripheral, and scattered, but there are emergent activities and possible future diversification paths (**Figure 16**).[35] In 2000, CAR's product space was quite empty at the center, mainly due to the dominant position of diamond exports, accounting for 72.5 percent of total exports in 2000. Diamonds have a peripheral location in the country's product space (purple circle in **Figure 16**),

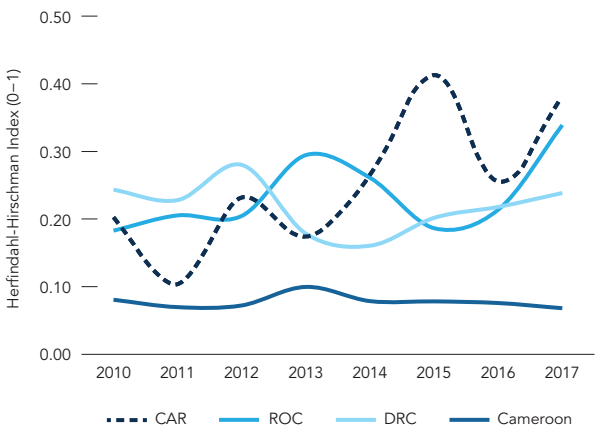
FIGURE 14
Export Diversification in CAR

a. The country's exports are among the least diversified in the world, with limited access to export markets and products



Source: Authors' calculations using data from MFMod and ILO.

b. CAR's exports have become more concentrated during the last decade relative to neighboring countries.

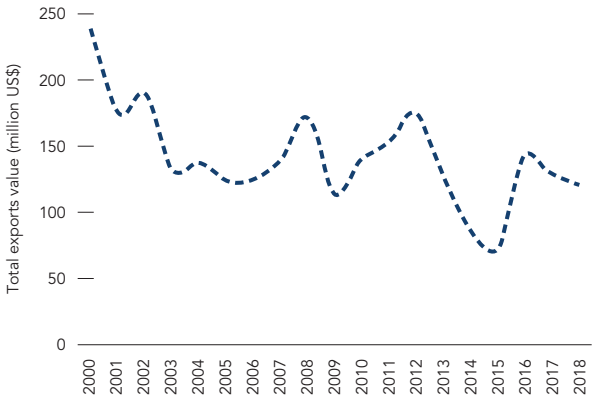


Source: Authors' calculations using the UN COMTRADE dataset.

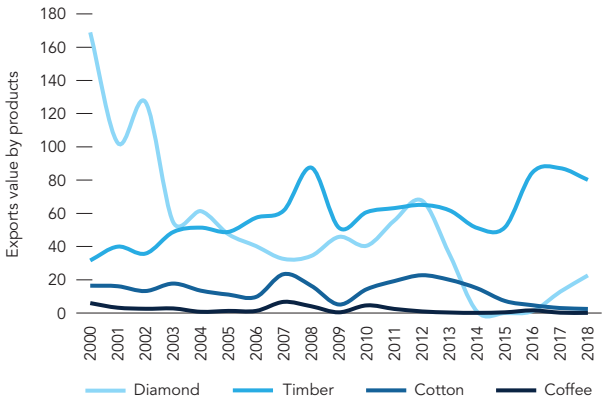
[35] The product space analysis helps to identify sectors and goods that have large linkages to other sectors and a significant impact on upgrading domestic capacity. The colored nodes represent CAR's export with a comparative advantage that can be qualified as "revealed" (greater than 1 in both years).

FIGURE 15
CAR's Exports, 2000–2018

a. There has been a substantial decline in export revenues due to the collapse of the diamond sector.



b. While the export of wood products has increased progressively, it has failed to compensate for the revenue losses from the fall in diamond exports.



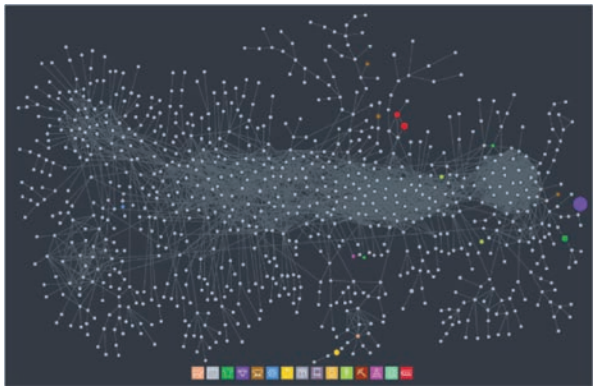
Source: Authors' calculations using data from UN COMTRADE, 2000–2018.

meaning that they do little to facilitate diversification into other products. The next highest export products, including wood, raw cotton, and coffee, are also located near the periphery (red, green, and yellow circles, respectively, in **Figure 16**). CAR's product space in 2018 provides some signals as to emergent activities and possible future paths of diversification. For example, the country's exports that year consisted of wax, furniture and parts, machines for working minerals, metallurgy, paints and varnish, and centrifuges, as well as various agricultural products such as tomatoes, carrots and turnips, legumes and avocados, pineapples and mangoes, and other fruits.

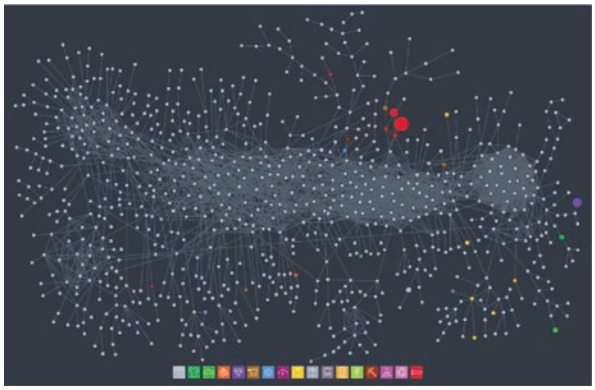
Weak economic diversification has limited CAR's ability to sustain growth, create jobs, and reduce vulnerabilities. The country's heavy dependence on subsistence agriculture and the export of a few commodities makes the economy vulnerable to adverse shocks and undermines its ability to achieve long-term sustainable development and strengthen resilience. Exports have declined substantially over the last two decades, mainly due to a combination of political instability, the 2008 global economic crisis, and governance and transparency issues in the diamond industry. Moreover, CAR's participation in global value chains (GVCs) is limited and has been declining over the years. Participation in

FIGURE 16
CAR's Product Space

2000



2018



Source: The Observatory of Economic Complexity (MIT).

GVCs enables developing countries such as CAR to take advantage of developed countries' advanced industries rather than having to build up their own industrial capacity.[36] GVC participation can generate quality jobs, increase productivity (through scale effects), and reduce poverty by boosting income and productive employment.[37]

Deterioration of the Social Contract and Living Standards

Impact on poverty and inclusiveness

Recurrent political instability has led to volatile GDP and income growth resulting in minor progress in reducing extreme poverty in CAR relative to peer countries. An estimated 71.4 percent of the population lived below the international poverty line (US$1.90 per day, 2011 PPP) in 2019, down from 80.8 percent in 1983. Compared to the average of CEMAC, SSA, and countries affected by FCV, the reduction of poverty in CAR has been marginal (**Figure 17**). Although the country's poverty rate has decreased, the number of people living in extreme poverty increased from 1.9 million in 1983 to 3.4 million in 2019. Moreover, economic growth has not been inclusive over the last decades, despite some progress over the past year. Economic growth in CAR shifted the indifference curve[38] upwards, but not on all points. This suggests that the benefits of growth were not shared equally among the population. Between 2003 and 2008, the share of income among households in the top 20 and 40 percent of the income distribution increased, while it fell among households in the bottom 20, 40, and 60 percent of the distribution (**Figure 18**). Moreover, CAR's performance on the inclusiveness index shows that the inclusiveness of economic growth deteriorated between 2010 and 2014. While it has been gradually improving since 2017, it remains below the 2008 level.

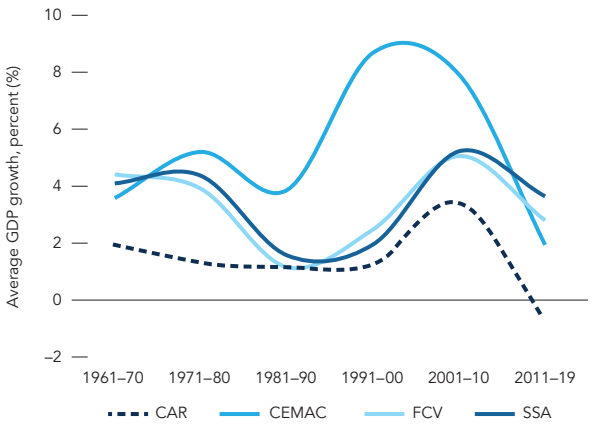
Unemployment and income inequality

Lack of economic opportunities and youth unemployment are also key drivers of fragility. CAR's youth unemployment rate (share of total labor force aged 15–24) was 11.5 percent in 2018, higher than that of many SSA countries (**Figure 19a**). Lack of economic opportunities fuels frustration and grievances among the affected population and is a key driver of conflict and state fragility (Bertocchi and Guerzoni 2014; Edjigu and Kouame 2021). By decreasing the demand for labor, unemployment reduces the opportunity cost of joining a rebellion (Collier and Hoeffler 1998). The costs associated with armed conflict include the labor opportunity costs and economic disruptions caused by warfare. Therefore, efforts aimed at stabilizing CAR need to include job creation and economic transformation initiatives.

FIGURE 17

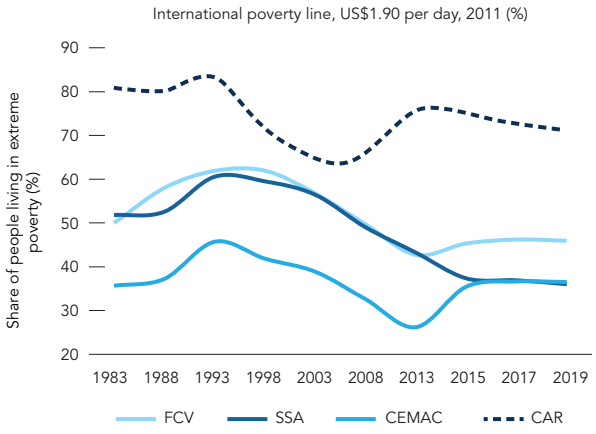
GDP Growth and Inclusiveness Index, 1961–2019

a. Economic growth in CAR been and lower than in comparator countries.



Source: Authors' calculations using data from PovcalNet 2019.

b. The share of people living in extreme poverty has increased in CAR.



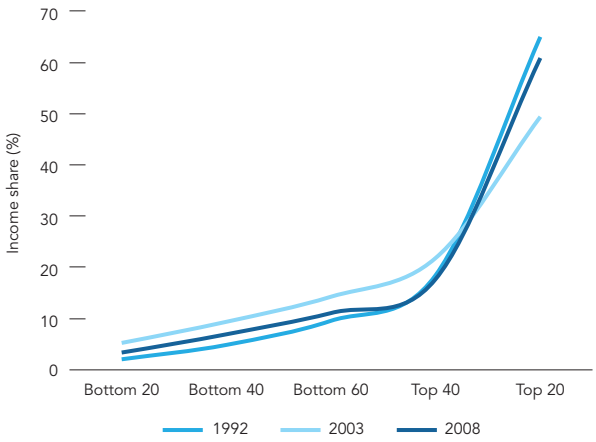
Source: WDI and authors' calculations.

[36] World Development Report 2020. https://www.worldbank.org/en/publication/wdr2020.
[37] See the World Development Report (2020) for an extensive discussion on GVC participation, quality jobs, and productivity.
[38] The indifference curve connects points on a graph representing different income share to highlight the inclusiveness of GDP growth. See Anand et al., (2013) for extensive discussion.

FIGURE 18

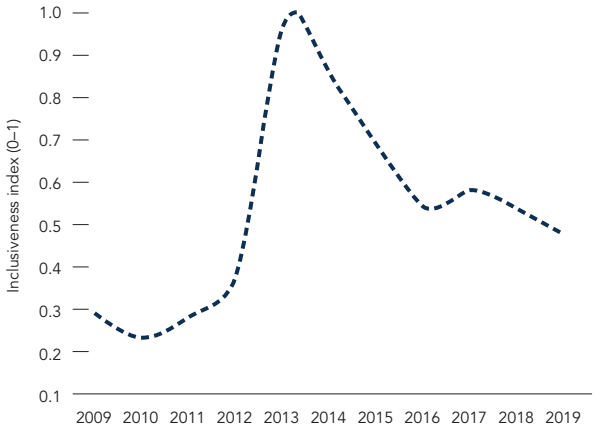
Economic Growth Has Not Been Inclusive Over the Last Decades, Despite Some Progress

a. CAR's indifference curve has shifted upwards, but not on all points.



Source: Authors' calculations using WDI, MPO, and POVCALNET data.
Note: The horizontal axis shows the population by income group (with the leftmost being the bottom 20 percent and rightmost the top 20 percent). The y-axis shows the mean income share of each corresponding income group during the latest surveys.

b. CAR's score on the Inclusiveness index has been falling since 2013, but it remains above pre-2013 levels.



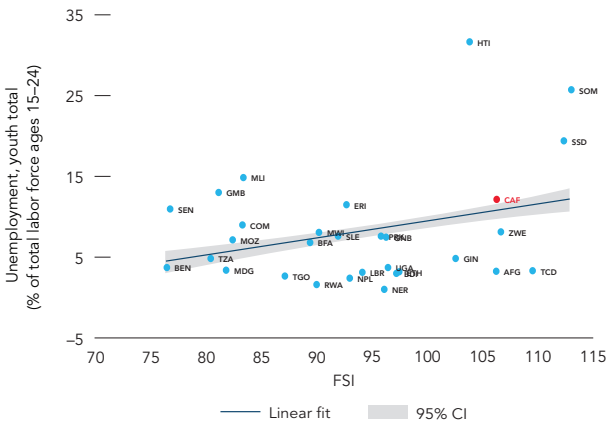
Source: Authors' calculations using WDI, PMO, and POVCALNET data.
Note: The inclusiveness index is an average of the three min-max normalizations of the three inclusive growth indicators: poverty, inequality, and the inverse employment-to-population ratio. Ramos et al. 2013.

Income inequality can contribute to the deterioration of the social contract. A commonly used indicator of inequality is the Gini index, which varies from 0 percent (perfect equality) to 100 percent (perfect inequality) (World Bank 2020). CAR's Gini index increased from 43.6 percent in 2003 to 56.2 percent in 2008 (latest available data) (**Figure 19b**). Income inequality translates into disparities in access to essential services and fewer opportunities to escape the fragility trap. Wilkinson and Pickett (2010) find that higher levels of inequality reduce social bonds and cohesion. They argue that income inequality, by aggravating disparities and weakening social cohesion, presents a threat to a country's social fabric. It also reduces the capacity to change extractive institutional practices against the poor. Collier et al. (2003) find that some of the root causes of violent conflict are related to the inequality of economic opportunities, particularly low and unequally distributed per capita income.

FIGURE 19

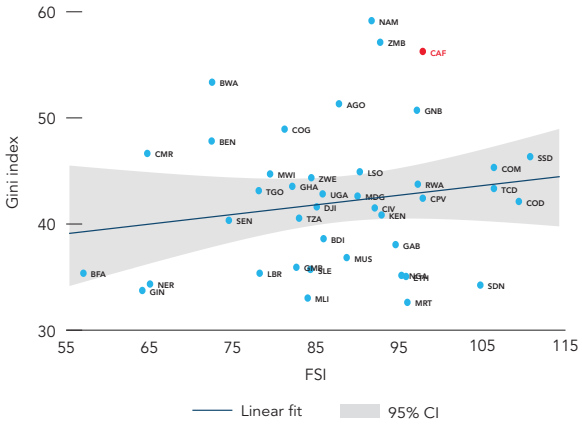
Youth Unemployment and Inequality Contribute to CAR's Fragility and Conflicts

a. Youth unemployment is positively associated with fragility.



Source: Edjigu and Kouame (forthcomi-ng) using World Bank data.

b. Inequality is also positively associated with fragility.



Source: WDI and authors' calculations.
Note: The Gini index reflects the latest available data for each country.

Escaping the Fragility Trap: Pathways Out of Fragility and Implications for Reform and Development

Refocusing the Political Landscape on Development and Restoring the Authority of the State

Restoring the authority of the state and power sharing

CAR's political landscape needs to focus on escaping fragility. Past attempts to address the political crisis and instability were unsuccessful mainly because of mistrust between the state, armed groups, and citizens; a focus on temporary containment strategies for conflicts and violence instead of addressing their root causes; and unfished reform agendas. To make sustainable progress toward escaping the fragility trap, CAR needs to revamp its political landscape and address the deep roots of past political crises. The political process also needs to include representatives of local communities, religious leaders, and armed groups, as this could help to restore the authority of the state, improve trust, and repair the social contract. The authorities need to protect civil liberties and property rights as well as ensure the impartial enforcement of contracts to establish the foundation of a stable democracy and achieve sustained improvements in living conditions. The 2020 presidential and legislative elections were a missed opportunity to strengthen the authority of the state with a second consecutive and smooth democratic transition. Still, the upcoming local elections in 2021 and 2022 could provide an opportunity to improve local governance and advance much-needed decentralization. Avoiding past failures and implementing the 2019 peace accord, especially the complete DDRR agreement, is critical to paving the way out of fragility. As demonstrated in previous crises, the lack of implementation of peace agreements and the failure of demobilization, disarmament, and reintegration processes have allowed armed groups to rally around their most hardline leaders.

Power sharing beyond the country's elites should be an integral part of an inclusive political landscape. The successful implementation of peace agreements and sustainable conflict resolution require a range of power-sharing measures.[39] On the political front, power sharing implies the involvement of key protagonists in a conflict in a political dialogue and organization. This implies the redistribution of power among all rival parties, including unity governments at the national or local level. In the context of CAR, political power sharing needs to be conducted with caution to avoid rewarding violence and focus on elite pacts. On the economic side, power-sharing arrangements consist of providing economic opportunities to all citizens and groups involved and affected by conflict, as well as sharing the country's economic resources equitably between groups in a way that is intended to address the political, social, geographic, and economic divisions of conflict. Finally, on the military side, power-sharing arrangements translate into the implementation of the APPR and the DDRR agreement with the participation of armed groups.

Job creation, business environment, and economic diversification

The authorities need to focus on creating inclusive economic opportunities and jobs to increase the opportunity cost of conflict. Unemployment, social exclusion, feeling of frustration, and grievances are among the main drivers of fragility and conflict. Several studies have demonstrated that employment increases the opportunity cost of joining armed groups.[40] In an environment such as CAR with a high level of unemployment, job creation, especially for the youth, is critical to escape fragility. Providing economic opportunities and jobs can disincentivize ex-combatants and potential insurgents from joining armed groups, and it can help build social cohesion in fragmented communities. Given the number of challenges facing CAR, policymakers should prioritize agricultural infrastructure development, targeting rural and marginalized communities, as the agriculture sector still employs more than 80 percent of the labor force. To facilitate the integration of ex-combatants into the labor market, the country will need invest in human capital development, especially vocational skills.

[39] Hartzell & Hoddie 2003, 2007.
[40] Collier and Hoeffler 1998.

Promoting private sector development is crucial to create jobs and improve living standards. Reforms and interventions in the private sector could focus on developing agricultural value chains (including mini-value chains) such as cash crops, livestock, artisanal mining, and forestry; increasing access to finance; and attracting foreign direct investment. Moreover, business environment reforms to improve market-based competition and competitiveness can foster stability, peace, and social cohesion through better jobs, tax generation, and the provision of public goods and services. To improve the business environment, CAR' authorities need to: (i) address key bottlenecks such as inadequate access to reliable electricity, limited access to markets, lack of property rights, and political risks, as well as cross-cutting governance issues; (ii) strengthen government capacity; and (iii) deploy the state across the territory.

Economic diversification could also be a pathway out of fragility.[41] CAR suffers from low economic diversification and is heavily dependent on natural resources, making its economy vulnerable to external shocks. Evidence shows that the structure of an economy affects the likelihood of conflict and fragility.[42] For example, less diversified countries that are dependent on natural resources are likely to face episodes of conflict. In CAR, armed groups finance their activities in part with revenue from natural resources. Access to natural resources reduces the opportunity cost of rebellion, which in turn exacerbates civil conflicts. A high level of dependency on natural resources can also widen income inequality and create a feeling of exclusion among certain segments of the population. Economic diversification could, therefore, be a pathway to address the fragility trap and escape the vicious cycle of violence by supporting structural transformation and job creation; generating more significant economic opportunities; and reducing inequality and grievances, frustration among the population, and conflicts.

Strengthening the Management and Allocation of Mineral Wealth and Public Resources

CAR's fragility has an adverse impact on the ability of the government and development partners to achieve the country's socioeconomic development targets. Realizing the potential socioeconomic benefits of mining in CAR would require continued efforts to reinforce institutional stability and promote strong sectoral oversight. First, reforming mining laws and regulations based on international best practices would provide the necessary framework for sustainable resource management. Second, strengthening institutional capacity would enable the government to oversee and manage the mining sector. Finally, supporting formalization in the artisanal mining sector would enhance socioeconomic development outcomes.

Reform the legal and regulatory framework of the mining sector

A revision of the country's mining policy would allow the government to define the country's long-term vision for the mining sector, rationalize ministerial objectives and activities, and coordinate efforts to regulate the sector across ministries. Targeted background studies, in addition to a comparative legal review of neighboring jurisdictions, would inform the government's proposal to revise the mining policy. Before the proposal is submitted to the legislature, there needs to be extensive stakeholder consultations on the proposed revisions, including the implementing modalities. The findings and recommendations of the institutional functional review of the Ministry of Mines and Geology[43] will provide important inputs on the priorities for sector development during the revision of the mining policy.

The authorities are in the process of reviewing the Mining Code. A national committee has been appointed to review the Mining Code, and it is supported by international legal consultants through the World Bank's Natural Resources Governance Project. The technical committee is scheduled to submit a revised Mining Code to Parliament at end-July 2021, following public consultations on the draft version. The new Mining Code is expected to be aligned with international best practices, the 2016 Constitution, and the government's commitments outlined in the Peace Agreement of February 2019. Lessons from other SSA countries suggest that a successful reform effort requires: (a) experienced international lawyers who can provide the government with a cross-country perspective on different legislative options; (b) a formal consultative process involving

[41] World Bank Group. November 2019. "Central African Republic Economic Update: Strengthening Domestic Revenue Mobilization to Sustain Growth in a Fragile State." World Bank, Washington, DC.
[42] Collier and Hoeffler 1998, 2000a.
[43] Funded by the World Bank's Natural Resource Governance Project.

the private sector and civil society; and (c) an open dialogue forum designed to actively solicit input from miners and affected communities.

The government should create a transparent licensing system based on a comprehensive mining cadaster. The cadaster should be a mining registry that encompasses all licenses issued in the country (artisanal mining, semi-mechanized, exploration, and mining concessions). International best practices also call for establishing a dedicated administrative unit tasked with managing all stages of the licensing process, from application and award to eventual expiration or cancellation. The cadaster will need be in line with the procedures outlined in the Mining Code and accompanying regulations for the application, evaluation, granting, and compliance monitoring of mineral rights and related permits.

Strengthen institutional capacity

The government has shown a strong interest in improving the governance of the mining sector through more effective information management. It also plans to create both a cadaster system and an integrated database management system as part of the World Bank's Natural Resources Governance Project. These efforts should improve the government's capacity to monitor and manage operators, analyze and communicate production and export statistics, and assess the effectiveness of outreach programs, such as the formalization of artisanal miners. Additionally, the institutional functional review of the Ministry of Mines and Geology will help the authorities identify key reform areas and gaps in institutional capacities that need to be strengthened.

The Ministry of Mines and Geology should consider using the findings of the institutional functional review to improve the capacity of monitoring agencies to oversee, monitor, and regulate the sector. Organizational relationships should be precisely defined, with clear mandates for each department. Staff skills should be matched against job descriptions to encourage meritocracy and professionalism, and staff performance should be thoroughly assessed. Deficiencies in human, material, and financial resources need to be assessed, and resource constraints need to be addressed accordingly. Tailored training programs could be designed to fill critical institutional knowledge and skills gaps.

A fully integrated database management system should be established with clear reporting requirements, and methodological standards should be issued to regional offices. Many of the challenges faced by the Ministry of Mines and Geology in managing and reporting on the mining sector could be resolved if government officials had access to real-time data. Improving data management systems would enable public agencies to monitor sectoral developments and share knowledge with other government agencies and the general public. Data management is crucial to sectoral transparency and the KPCS and EITI processes, as well as to improve ministerial oversight of the mining sector. A reliable and up-to-date database on diamond and gold production and their trade is essential to verify the shipments of diamond and gold, and it would foster greater transparency and oversight of the supply chains for diamonds and gold. The United States Agency for International Development's AMPR project supports the government in improving its compliance with the KP, ensuring the responsible sourcing of gold along the supply chain, and assessing the links between ASM and increased socioeconomic development.

The authorities need to improve the capacity of the Diamond and Gold Assessment and Control Office to properly value diamond and gold exports to ensure the government receives its fair share of tax revenues. The government wants to collect more tax revenue from the mining sector, and it realizes the importance of gold over diamonds in generating revenue. The EU-funded GODICA project is providing technical assistance and capacity building support to the Diamond and Gold Assessment and Control Office to help it to better value gold and diamond consignments for export.

Incentivize formalization and support the KPCS

A national action plan to strengthen the diamond chain of custody was recently adopted. A key objective of updating the government's regulatory and policy framework governing the mining sector is to have international trade restrictions entirely removed, including the partial ban on diamonds from CAR by the KP and the United Nations sanctions targeting supply chain actors. Since 2016, the government has, with the help of donors, made progress in creating "compliant zones" to end trade restrictions, which reduce tax revenue. The 2020 national action plan for strengthening the diamond supply chain includes measures to incentivizing formalization, strengthening the cooperative system,[44] and

[44] There has been a strong push by the government to enhance the cooperative system by reforming and restructuring the National Union of Cooperatives (UNCMCA), which underwent a leadership change in 2020.

improving the law enforcement framework to combat fraud and smuggling. The government has also partly privatized the former state-owned enterprise COMIGEM, which has been capitalized.

There are many socioeconomic benefits to formalizing ASM. These include but are not limited to: (i) increased tax revenues; (ii) stronger oversight; (iii) improved transparency and traceability of diamonds and gold along the supply chain; and (iv) better information about the challenges and needs of communities and operators in the ASM sector. Policymakers should work to progressively formalize the ASM sector through a combination of targeted measures and strict oversight. The government needs to assess the barriers to formalization and legal registrations. Increasing the number of registrations of ASM sites would strengthen the operational framework of the KPCS in CAR and enhance the traceability of minerals. Efforts to increase registrations should initially focus on: (a) areas with the highest concentration of ASM; and (b) areas most affected by fraud. Electronic tablets could be used to capture registration data, including details on the individual artisanal and small-scale miners; the location of the mining sites; and information from the miner's registration books. Digitally linking the artisans' registration books, the collectors' notebooks, and the buyers' bordereaux would be a first step in supporting the government's action plan for reforming the diamond supply chain.

Over the long term, the industrial mining sector has the potential to significantly contribute to employment, infrastructure development, and tax revenues. Natural resources have been linked to conflicts and weak governance over the past decades, highlighting the natural resource curse. However, this is not predetermined. Accompanying measures such as improved transparency and accountability as well as investment in jobs could reverse the curse into an opportunity. Security has proven to be a necessary pre-condition for attracting investment in many countries. Successful resource-endowed countries attract investments by ensuring their policy, legal, regulatory, and institutional frameworks are clear, consistent, and predictable. Moreover, they have clarified the roles and responsibilities of government agencies and investors alike, backed by a transparent, non-discretionary set of rules and decision-making processes. In 2020, the government organized the SEMICA conference to engage industry representatives and attract investment into the mining sector. In the short term, the authorities need to prepare the structural foundation for becoming an attractive jurisdiction for investment over the long term.

Building a Social Contract by Improving Trust and Addressing Grievances

Inclusive-enough coalitions and dialogues

CAR could benefit from a continues national dialogue and reconciliation process. Many African countries have had a national dialogue in varying political contexts and environments, ranging from Benin in 1991 to Tunisia in 2015. The national dialogues in Tunisia, South Africa, and Rwanda are among the most successful and helped these countries escape fragility and recurrent conflicts. CAR could learn from the experience of these countries and stop the current permanent stop-and-go approach to national policy dialogues. While the 2008 IPD between the government and some armed groups was a good initiative, it was seen as elite-driven and a way to grab power, and most of the commitments and reforms agreed upon were not implemented. To be successful, national dialogues need to be inclusive and engage representatives of diverse groups such as religious leaders and representatives of civil society, opposing political elites, and armed groups. Inclusive national dialogues could pave the way to establish trust, facilitate an honest exchange over differences, and acknowledge diverse political interests. They could also bring together different groups into a working coalition to put the country on a path toward reconciliation and social healing.

Inclusive-enough coalitions and dialogues are crucial to restore trust and confidence. Before CAR can achieve a comprehensive institutional transformation through political reforms and effective decentralization and service delivery, the government needs to restore and build the public trust and confidence in state institutions. This can be done through inclusive-enough coalitions. Inclusive-enough partnerships and national dialogues engage a broad segment of the society, including community, business, civil society, and opposition leaders (World Bank 2011). This is necessary to restore confidence, transform institutions, and create continued momentum for positive change. At the national level, inclusive-enough coalitions and dialogues between the government, citizens, and external actors (e.g., development partners and investors) can generate national support for major development goals. At the local level, the involvement of community leaders and local civil society organizations can help the government identify priorities and deliver much-needed public goods and services.

CAR should focus on reforming institutions that ensure citizens are secure and have access to judicial services. The experience of most former fragile countries shows that prioritizing institutional reforms that address challenges related to security, justice, and jobs is crucial to escape the fragility trap. The authorities in CAR have yet to adopt significant reforms in these areas. The first institutional reforms should focus on ensuring state security to build a social contract between citizens and the government. The state needs to protect the population and centralize the country's fragmented security services, which sometimes operate without legitimacy and violate human rights. Efforts to reform the security and justice systems also need to be cognizant of gender issues and the inclusion of women in decisions related to security and justice. Increased participation of women in security and justice reforms could provide valuable insights into the challenges faced by women in CAR. It could also enhance women's access to judicial services, reduce incidents of sexual misconduct, and improve citizens' trust in the government's ability to ensure security and justice.

Addressing grievances, inequality, and corruption

Providing public goods and services, especially in the social sector, is crucial to restore the legitimacy of state authority. The provision of public service delivery could signal the presence of the state and improve social cohesion. In CAR, the authorities can build state legitimacy by: (i) constructing and rehabilitating basic infrastructure (e.g., roads, water and sanitation, electricity, and telecommunication); (ii) providing social services (e.g., healthcare, education, and preventive services); and (iii) implementing income-generating activities.

Moreover, addressing grievances, inequality, and corruption is essential to build a social contract. The vicious cycle of fragility, inequality, and poverty has resulted in public frustration and mistrust. Unless these grievances are addressed, armed groups will continue to exploit them. Potential urgent measures that the government should consider include: (i) expanding public services and assistance to the most vulnerable, including IDPs, youth-at-risk, and food insecure households; (ii) supporting farmers and pastoralists to increase the productivity of subsistence farming and pastoralism; (iii) promoting income-generating activities; and (iv) improving access to finance and rural connectivity. Addressing grievance would also require a carefully conceived agricultural land reform that will secure land titles to avoid fueling future conflicts. Such a reform, along with the provision of strategic infrastructure, could trigger the transformation of the agriculture sector and the development of commercial agriculture, including agribusiness.

The authorities need to address spatial disparities between Bangui and provinces that foster a perception of social exclusion. There are significant disparities between Bangui and the rest of the country. Most of the government's policy decisions are focused on Bangui, where the provision of goods and services is concentrated. Several provinces have been economically and politically neglected, leading to deep-seated grievances and a conducive environment for the emergence of armed groups and conflict. A sustainable political landscape will be hard to reach when the distribution of benefits is inconsistent with the country's power distribution. The economic and political outcomes of CAR's institutions are unsustainable over time, and it is, therefore, imperative to tackle spatial disparities both to help prevent conflict and to strengthen the social contract.

Moreover, rent-seeking, elite capture, and corruption remain pervasive in CAR and need to be addressed. For decades, elites and armed groups have exploited the country's natural resources. Primary export commodities, including gold and diamonds, remain mainly informal, facilitating corruption and capture. While there are anti-corruption regulations, there is still a high level of mismanagement, fraud, and lack of transparency surrounding the country's natural resources. CAR's courts and its justice system are inefficient and politicized, and existing laws are not enforced. Increasing the transparency of budget and expenditure information is an important step toward reducing corruption and rent seeking. Involving the local community and civil society organizations to combat corruption is also essential. For example, the government could introduce tools such as participatory public budgeting and public expenditure tracking surveys to alleviate corruption, elite capture, and rent seeking while increasing accountability.

National collective understanding and inter-faith religious dialogue

The authorities should consider fostering a national collective understanding among all ethnoreligious groups. During the successive conflicts in CAR, rebel groups and political elites have divided the society along ethnic and regional lines. For example, in the recent conflicts, the Anti-Balaka and Séléka groups used religion (Christianity and Islam) to rally their supporters and expand their influence. To build confidence among ethnoreligious groups, CAR needs to stop the divisive rhetoric and take steps to strengthen the national identity. Also, the country must establish positive

norms and create trust and a social contract between ethnic groups. Though the group dynamics are different, the authorities could consider the experience of South Africa's "rainbow nation" to unify groups and foster a sense of national identity.[45]

Establishing an interfaith platform will be essential to ensure an effective national dialogue, heal the religious divide, and foster stability in the country. In CAR, local priests, pastors, and imams can have a unique role in conflict stabilization because many live among armed groups. They also have significant local authority and trust compared to politicians and are usually seen as less confrontational, fairer, and more impartial than many other actors. They could facilitate local peace and security dialogues, broker freedom of movement agreements, and play an essential role inter-community mediation. For example, under the local interfaith platform in CAR's southwest, religious leaders act as primary mediators and facilitate dialogues between opposing armed groups in the area. This platform needs to be expanded to other regions.

Learning from Countries that Escaped the Fragility Trap: Rwanda

CAR could learn from Rwanda's home-grown institutions that emphasize strict accountability, broad ownership and goal setting, adaptation, and innovation. Two decades ago, Rwanda was one of the most fragile countries in the world. Up to 1 million people were killed in less than four months during the Rwandan Genocide in 1994. Following the civil conflict, the country's infrastructure, civil service, and social structures were devastated. The post-conflict government, with help from the international community, adopted a unique approach to reconstruct and rebuild part of the social fabric with policies and institutions that enabled the country to overcome past conflicts and fragility. Today, Rwanda is one of Africa's fastest-growing economies, outperforming many other countries, including fragile states, with solid and stable economic growth over an extended period.[46] After the initial period of stabilization, Rwanda developed a new institutional framework that emphasized strict accountability, broad ownership and goal-setting, adaptation, and innovation.[47] Rwanda's strong policy institutions, combined with home-grown solutions, have enabled it to escape the fragility trap and achieve sustainable economic growth.

Accountability and broad ownership

Rwanda's post-conflict policies and institutions emphasize national dialogues, accountability, and a zero-tolerance approach to corruption. Public officials in the country are vulnerable to dismissal at even a hint of transgression. Since 2006, government workers have been required to sign an annual performance contract under *Imihigo* ("promise" or "pledge"). The contract lists annual work objectives, and workers can be dismissed if they don't meet their objectives.[48] To promote ownership and belongingness, Rwanda has an event called *Umushyikirano* (National Dialogue) that brings the entire population together to discuss the country's development progress. The event, which is a home-grown solution to build public trust, creates an opportunity for the public to provide feedback to the government on ongoing or planned programs in terms of meeting the priorities of the people. The government is also encouraging local political ownership through its National Decentralization Policy. Local governments are empowered to deliver core public services such as health, education, water and sanitation, and agricultural services. Devolution fosters local ownership and participation, and it has facilitated Rwanda's escape from the fragility trap, as it combines ownership, accountability, and control. *Umuganda* (National Service) has also been a key tool to rebuild social cohesion. On the last Saturday morning of each month, Rwandan residents engage in community service such as building, repairing, and cleaning roads or houses for the poorest segments of the community.

Rwanda's strategic use of international aid was decisive in its success. Initially, foreign assistance represented a large share of the country's public budget. However, the government was primarily in charge of how assistance should be used, and it established coherent coordination and accountability structures. The government has even been willing to reject international assistance it deems unhelpful. The authorities have also emphasized "what works" rather than imitating traditional development models.

[45] Gibson, 2006
[46] Putzel 2009; Redifer et al. 2020.
[47] IMF 2020.
[48] IMF 2020.

BOX 2

CAR Can Learn Important Lessons from Rwanda's System for Appraising and Selecting Large Public Investment Projects

Rwanda is widely celebrated for its system of appraising and selecting large public investment projects. For projects above a certain threshold (about US$750,000) and public-private partnerships, they follow the following steps:

I. Prepare feasibility studies covering technical, financial, social, environmental, and economic aspects;

II. Assess feasibility studies monthly by an investment committee chaired by the Ministry of Economic Planning and Finance;

III. Evaluate each project according to specific criteria with a quantitative score, including social benefits, economic returns, and synergies with other ongoing projects;

IV. Make recommendations on financing, including whether and to what extent the private sector could be involved; and

V. Prioritize projects based on the evaluation scores for annual and medium-term budget planning.

A similar process is in place for local government projects, assessed by a district investment advisory committee. The Rwanda Development Board approves public-private partnerships and joint ventures in consultation with the Investment Committee.

Public Investment and financial and gender inclusion

Rwanda's public investment was carefully selected and directed to restructure the economy toward new activities with higher returns to productivity and growth. Rwanda has channeled significant public resources to improving human capital development, building growth-enhancing infrastructure, and developing higher-value economic activity in areas of comparative advantage.[49] The authorities have focused investment spending in three main areas: (i) improving labor skills via health and education; (ii) creating growth-enhancing public infrastructure (e.g., electricity, water, and roads); and (iii) introducing greenfield enterprises in sectors with strong potential, taking into account the country's landlocked geography, low labor productivity, and high input costs. The investment areas are carefully selected based on their robustness to facilitate business start-ups or new economic activities in higher value-added sectors, improve education outcomes, reduce input costs, and expand access to markets (**Box 2**).

CAR could follow Rwanda's strategy to improve access to finance, especially for women and youth. Rwanda's

[49] IMF 2020.

target of 90 percent financial inclusion by 2020 was almost achieved when it recorded 89 percent financial inclusion in 2016. To achieve this goal, Rwanda has implemented several strategies,[50] including: (i) expanding microfinance activities, particular through the *Umurenge* SACCO;[51] (ii) introducing mobile finance; (iii) licensing different foreign commercial banks and creating SACCOs for each sector; (iv) introducing innovations and a favorable regulatory environment for women (e.g., by removing laws that impede women's access to physical assets and inheritance rights); and (v) establishing government programs that target w omen and youth (e.g., the Women's Guarantee Fund and the Access to Finance Strategy for Women and Youth program).

If it followed the path of Rwanda, CAR could close its gender gap and create a more secure and stable country. Research on gender inclusion provides strong evidence that women's empowerment and gender equality are associated with a more secure and stable state.[52] Rwanda is an example of gender equality in SSA. In 2020, the country ranked in the top 10 for gender equity globally and was the most gender-equal country in SAA. The reasons for Rwanda's impressive progress in gender equality include its: (i) political will and leadership; (ii) enabling legal framework; (iii) proactive public policies; (iv) supporting institutions; and (v) home-grown solutions. The Rwandan Constitution has set a 30 percent quota for women in elected positions, resulting in many women holding decision-making positions. Currently, women hold more than 50 percent of seats in Parliament. The country has also introduced a law that promotes equal opportunities and equal pay for women as well as equal rights for land access, ownership, and utilization. In the early 2000s, Rwanda started a gender budgeting initiative, a tool to evaluate how fiscal policies may affect men and women differently, which has been an important strategy to reduce the gender gap.

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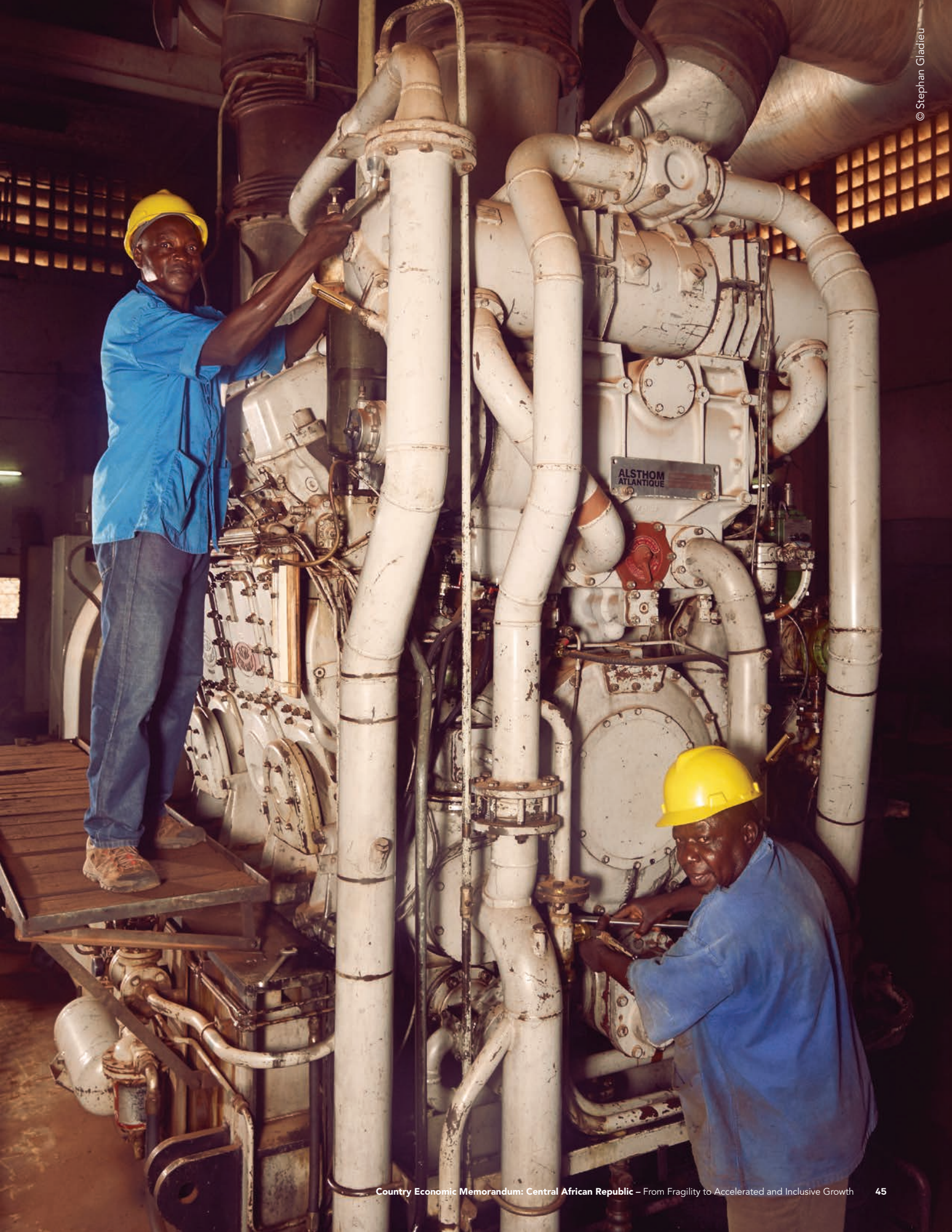
[50] See IMF 2017; Bigirimana, M., & Hongyi 2018.
[51] The Umurenge Savings and Credit Cooperatives (*Umurenge SACCOs*) is s a government initiative aimed at increasing the financial inclusion of Rwandan citizens.
[52] Hudson, V. M., Ballif-Spanvill, B., Caprioli, M., & Emmett, C. F. (2012). Sex and world peace. Columbia University Press.

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CHAPTER 2

Past and Future Drivers of Growth

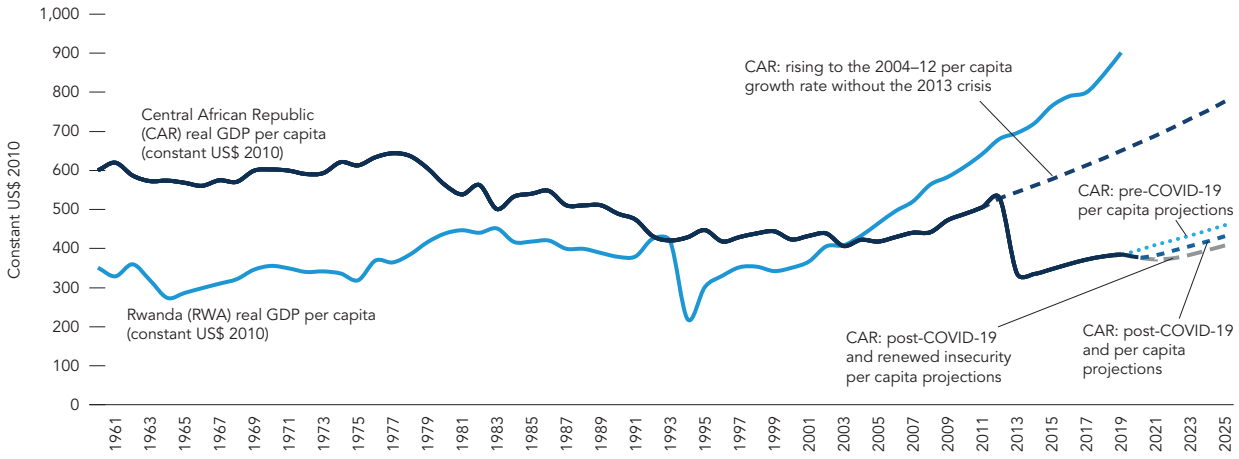
By 2025, GDP per capita is expected to be roughly similar to the level recorded in 2003—the year when Rwanda's GDP per capita outpaced that of CAR. This means that CAR would lose a total of 22 years in per capita income growth due to the combined impact of the 2003 and 2013 coups, the COVID-19 pandemic, and the 2020 presidential and legislative elections disputes. Renewed insecurity amid the post-2020 election disputes has also hurt the economy and pushed the country to a critical inflection point. It is now estimated that CAR could lose 4 years in per capita income growth, with estimates showing that GDP per capita is expected to remain at the same level in 2023 as in 2019, prior to the COVID-19 pandemic and post-election disputes (Figure 20).

Binding Constraints on Growth

This section identifies binding constraints on CAR's subdued economic growth using the Growth Diagnostic analytical framework. Binding constraints on economic growth differ across and within countries over time. The Growth Diagnostic method is based on the idea that there may be many reasons for slow or inexistent economic growth, and each reason generates a distinctive set of symptoms. The method was developed by Hausmann, Rodrik, and Valesco (2005) and differs from other analytical approaches by using an evidence-based approach to prioritize the binding constraints on economic growth. To identify the binding constraints on growth, the framework requires a sequential approach, starting at the top and working down the growth diagnostic tree.[53] In a typical developing country, such as CAR, with daunting developmental challenges, it is not unusual to assume that all challenges constrain economic growth. However, not all challenges constrain growth equally, and the government and development partners are unable to address all distortions due to limited resources. Therefore, the authorities need to know which development challenges have the largest impact on economic growth. The analysis reveals that the main structural binding constraints on economic growth in CAR are: (i) the poor quality of public infrastructure; (ii) the low level of human capital; (iii) market failures; (iv) poor financial intermediation; (v) government failure in securing property rights; and (vi) corruption (**Figure 21**).

FIGURE 20

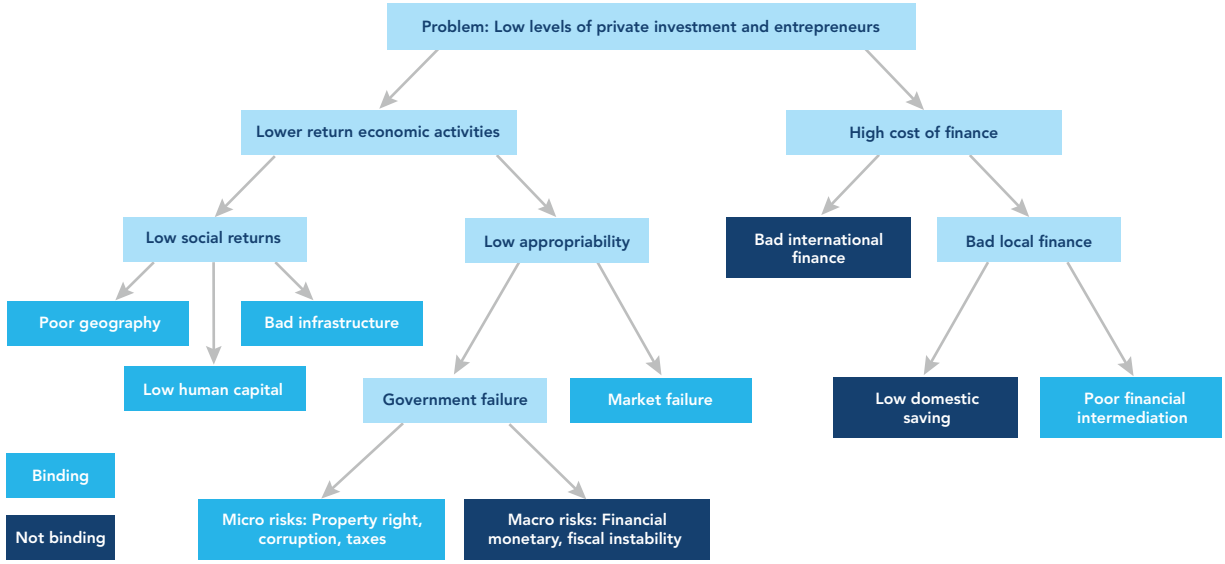
Historical and Potential Trajectories of per Capita GDP, Constant US$ 2010



Source: World Bank staff estimates and projections using data from the WDI.

[53] https://growthlab.cid.harvard.edu/publications/growth-diagnostics-0

FIGURE 21
Binding Constraints on Economic Growth in CAR



Source: World bank staff using the growth diagnostics methodology by Hausmann, Rodrik, and Velasco (2005).

Weak Financial Intermediation Increases the Cost of Access to Finance

Poor local financial intermediation is the main source of credit constraint in CAR. The country's domestic savings rate is relatively low compared to the average of CEMAC, FCV, and SSA countries (Figure 22). Between 2000 and 2017, the average domestic savings rate, as a share of GDP, was 12 percent in CAR, much lower than an average of 21 percent in SSA countries, which could explain its high lending interest rate of above 15 percent (IMF 2018). The growth diagnostic reveals that the main source of CAR's credit constraint seems to be poor financial intermediation due to the significant gap between the deposit interest rate (about 3 percent) and the lending rate (above 15 percent). Weak financial intermediation is, therefore, a binding constraint on private investment spending and economic growth in CAR.

Information asymmetry contributes to low financial intermediation. The banks' low level of financial intermediation is related to their high perceived risk. Banks have inadequate access to information to effectively assess risks, and they lack the necessary lending tools to cope with information asymmetry. This situation leaves profitable investment opportunities unidentified. The use of collateral is one way to overcome information asymmetry and has recently become a prominent feature of CAR's banking system (as in the banking systems of many other developing countries). However, the size of the collateral requested with respect to loans is substantial, representing a major constraint for entrepreneurs (Figure 22c). The value of collateral in CAR averages 233.4 percent of the loan amount, which is high compared to an average of 219.5 percent in SSA.

Low Physical and Human Capital Have Contributed to Low Social Returns

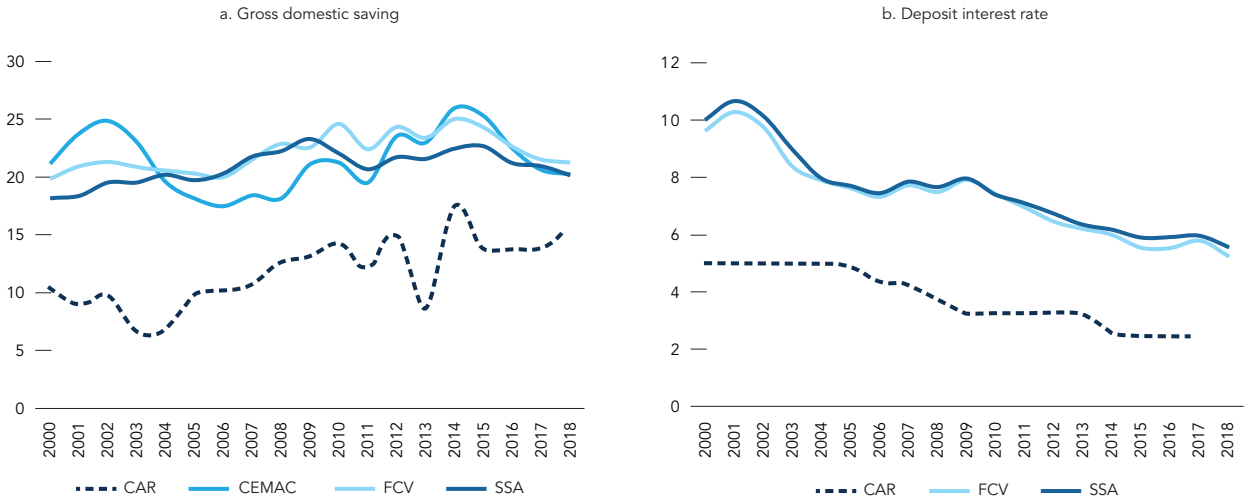
Poor infrastructure limits CAR's development potential

Poor infrastructure is a binding constraint on private-sector development and economic growth. CAR's road concentration is extremely low, and access to electricity, which is important to produce goods and services, is extremely limited, discouraging investments in non-mineral and non-agricultural sectors. Moreover, the country is ranked among the worst performing countries in the world in terms of international logistic performance.

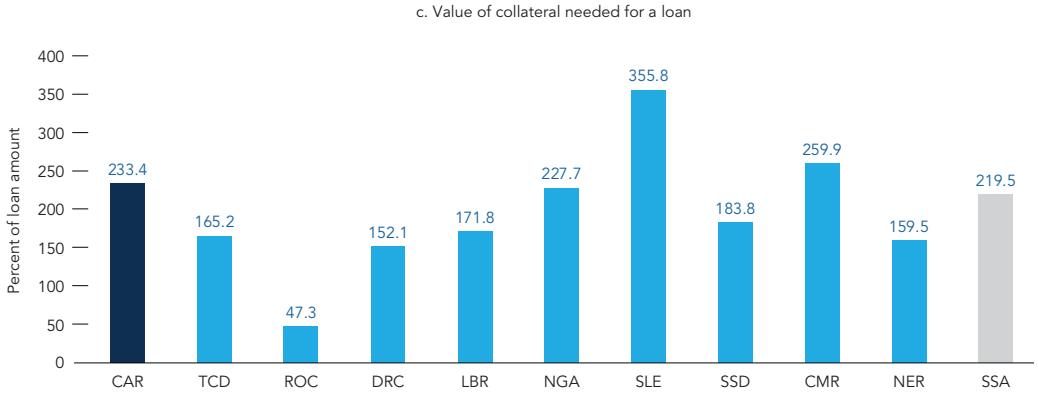
CAR's road network is underdeveloped and in very poor condition (Table 2). The roads connecting communes are

FIGURE 22

Gross National Savings and Deposit Interest Rates, 2000–2018



Source: Calculations based on data from Word Development Indicators (WDI).
Note: CAR = Central African Republic. CEMAC = Central African Economic and Monetary Community. FCV= Fragile, Conflict and Violence Group. SSA = Sub-Saharan Africa.



Source: Calculation using the latest data available from the World Bank Enterprise Surveys.
Note: CAR = Central African Republic. TCD = Chad. ROC = Republic of the Congo. DRC = Democratic Republic of the Congo. LBR = Liberia. NGA = Nigeria. SLE = Sierra Leone. SSD = South Sudan. CMR = Cameroon. NER = Niger. SSA = Sub-Saharan Africa.

often impassable through much of the year, and the cost of transportation is high, especially in remote areas. Half of he country's communes report that roads to Bangui are only accessible 4 to 6 months out of the year. The most expensive route to travel in CAR is from the Northeast to Bangui, while travelling from communes in the South close to Bangui is relatively cheaper. In addition to its poor domestic infrastructure, regional transit infrastructure is also underdeveloped. CAR relies heavily on regional trade corridors to conduct international trade, but its neighbors are not prioritizing the maintenance of their portions of the corridors. For example, the Douala-Bangui and Pointe Noire–Brazzaville–Bangui corridors are still not completely paved. Some sections of the Douala-Bangui corridor (about 250 km in Cameroon and 210 km in CAR) are being upgraded as part of CEMAC's transport transit program. Meanwhile, Cameroon's segment of the Pointe Noire–Brazzaville–Bangui corridor (308 km) is unpaved, as is 1,000 km on the Congolese side. This means that CAR does not have a single all-weather road corridor to its coastal port gateways (**Table 3**). Moreover, inefficient port processes, along with poor road conditions, in Douala, Cameroon contribute to delays and the high cost of transporting goods to CAR.

TABLE 2
Road Indicators

Indicator	Unit	CAR	FCV	LICs
Road network density [1]	km/1000 km² of land area	41	145	132
GIS rural accessibility	% of rural pop within 2 km from all-season road	58	30	23
Classified paved road network condition [2]	% in good or fair condition	62	80	86
Classified unpaved road network condition	% in good or fair condition	2	72	56
Classified paved road traffic	AADT	200	843	1,288
Classified unpaved road traffic	AADT	14	31	39
Primary network overengineering	% of primary network asphalted with 300 AADT or less	61	47	30

Source: CAR 3rd Economic Update and AICD Road Sector Database.
Note: Total network includes the primary, secondary, and tertiary networks. Classified roads are those that have been classified as public roads in road legislation. GIS = Geographic information system; AADT = Average annual daily traffic; CAR = Central African Republic.

An unreliable electricity supply has been a major constraint to private sector development in CAR. Access to electricity remains poor in CAR relative to comparators. An average of 14 percent of the population has access the electricity grid, which is less than half of the SSA average of 34 percent (World Bank Global Electrification, 2019). Firms must wait around 7 months to get connected to the main grid, and obtaining a power connection costs around 52 times the country's average yearly income per capita. Power outages are common in the country, and firms endure several hours of the day without access to electricity. Even when power is available, brownouts (i.e., intentional or unintentional drop in voltage) are prevalent, limiting the potential use of electricity. The proportion of firms experiencing power outages is higher in CAR than in many other African countries. Also, a firm's financial loss due to a power outage is equivalent to a quarter of its annual sales in CAR, which is the highest in the region.

The low-skilled labor force is a binding constraint on private investment and economic growth

The country's low-skilled labor force and weak human capital accumulation have contributed to low levels of private investment and economic growth. Human capital is a central driver of sustainable growth and poverty reduction (World Bank forthcoming).[54] Yet, CAR has substantial gaps in human capital and enormous needs. The country score of 29 percent on the Human Capital Index (HCI) in 2019 is the lowest in the world,

TABLE 3
Type and Condition of Road Corridors

	Length	Type (%)		Condition (%)			AADT (volume/year)		
Corridor	(km)	Paved	Unpaved	Good	Fair	Poor	<300	300–1,000	>1,000
Douala–Bangui	1,704	69	31	48	25	25	65	20	15
Cameroon	1,118	52	48	30	36	35	53	24	23
CAR [1]	587	100	0	100	0	0	86	14	0
Pointe Noire–Brazzaville–Bangui	2,419	40	54	21	21	49	27	11	0
Cameroon	311	0	100	56	39	0	70	24	0
CAR [1]	535	99	1	100	0	0	79	19	0
ROC	1,573	28	63	0	21	69	0	6	0

Source: AICD calculations.
Note: The summation of the good, fair, and poor conditions does not necessarily add up to 100 since the condition of some portions of the network may be unknown.

[54] 4th Economic Update for the Central African Republic.

below the average of 37 and 40 percent in FCV and SSA countries, respectively. This means that the prevailing health and education standards cost CAR 71 percent of its potential per capita income. CAR's primary and secondary education completions rates were only 59 and 14 percent, respectively, in 2019 (Education Management Information System 2018–19), lower than the SSA average of 69 and 44 percent, respectively, in 2018 (UNESCO Institute for Statistics). With a Human Development Index of 0.367 in 2018, CAR is ranked second to last in the world (188th out of 189 countries). The country's adult literacy rate was only 36.8 percent in 2018 and educational attainment is low, especially in rural areas. In rural areas, two out of five adults (18 years and older) have never gone to primary school, while only one out of every five adults have completed primary school and acquired some secondary schooling. The low level of human capital in CAR has limited its growth potential and could be one of the major contributing factors to its high poverty rate.

Market Failures and Micro Risks Such as Corruption and Limited Property Rights Have Led to Low Appropriability

Market failure has prevented innovation and the adoption of more productive practices

Structural issues have affected the performance of CAR's traditional sectors. Diamond exports had been declining since 2000 before they collapsed in 2020 due to the COVID-19 pandemic. Despite ongoing changes and reforms, the mining sector continues to be undermined by significant informality, artisanal mining, and a history of mismanagement. Similarly, the country has almost lost its entire cotton industry and coffee sector because of the accumulation of arrears; lack of market access for producers; lack of seeds, fertilizer, and pesticides; and inadequate quality assurance on both inputs and outputs. While the wood industry has been growing over the two past decades, it remains highly concentrated toward the export of raw and low value-added products.

Efforts to develop and export new products are hampered by market failures. Many sectors in CAR suffer from market failure, which is characterized by an inability to identify and move toward more productivity sectors. To accelerate economic growth, CAR needs to create an environment conducive to the development of new productive ideas. The speed at which these ideas appear, along with their economic significance, is critical to develop new industries and diversify the country's exports. The absence of new ideas is one of the reasons for the low expected return to current investment ideas in CAR, and why its investment levels and economic growth are low. A lack of new productive ideas could be due to a lack of finance, fear of taxation, or expropriation.

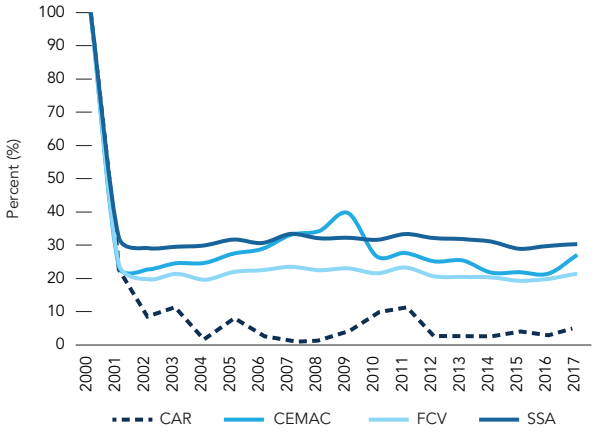
The low survival rate of exports is a key characteristic of market failure in CAR. Export survival in terms of entry into new export markets and products as well as the duration of export flows is a key determinant of export growth and diversification (Brenton et al. 2010). Yet, CAR's export survival rate is below 10 percent, far below the average of peer countries (**Figure 23**). This poor performance is explained by several factors such as CAR's export destinations (closer or more distant markets), recurrent conflicts and insecurity (as discussed in chapter 1), high trade costs, and a challenging business environment.

Conflict, corruption, and limited property rights have prevented efforts to increase appropriability

Micro risks, including political instability, corruption, and insecure property rights, hamper entrepreneurial activities in CAR. The country has experienced decades of violence and successive episodes of political instability, which has substantially limited private sector development. In

FIGURE 23
Export Survival Rates, 2000–2017

There is a low survival rate of exports in CAR.



Source: Authors' calculations based on data from UN COMTRADE, 2000–2017.

TABLE 4
Corruption, and Property Rights

	CAR	CEMAC	FCV	SSA
Corruption				
Corruption perception score, 0–100	23	23	24	32.2
Property Rights				
Index of Property rights (0–100)	19.6	50.3	53.1	52.6
Judicial Effectiveness (0–100)	29.60	42.17	45.33	45.11
Enforcement contracts cost, (% of claim)	82	47	42	42.3

Source: Transparence International, 2018.

addition, corruption and limited property rights have hampered the ability of entrepreneurs to secure returns on their investments. In 2020, CAR ranked 156th out of 180 countries on the Corruption Perceptions Index (CPI), with a score of 26—unchanged since 2012 (**Table 4**).[55] Although the performance of CAR is in line with countries in CEMAC, it remains below the average of FCV and SSA countries. CAR's poor ranking on the CPI reflects its failure to make serious inroads against corruption, which remains an important micro risk to private investment.

Weak property rights have disincentivized firms and entrepreneurs to invest. The Heritage Foundation, a think tank based in the United States, provides a property rights index that assesses the extent to which a country's legal framework allows individuals to acquire, hold, and utilize private property, secured by clear laws that the government enforces effectively. In 2019, CAR's property rights score was 19.6 (out of 100), well below the average of SSA (52.6) and CEMAC (50.3). The protection of property rights has deteriorated over time, as CAR's score on the property rights index declined from 50.0 points in 2002 to 19.2 points in 2019. The country judicial system is weak and fail to enforce existing laws, prevent seizing and damaging property without due process, and provide fair judgments for entrepreneurs. Also, access to lawyers is difficult and costly. This contributes to a predatory environment where entrepreneurs have little incentive to invest long term. **Difficulty in paying taxes is another key micro risk that negatively affects the business environment.** The poor performance of the CAR taxation system primarily reflects the time needed to comply with tax requirements and processes and the relatively complex tax system. Richardson and Sawyer (2001) mentioned tax complexity as contributing factor for noncompliance behavior among taxpayers. In fact, the more the tax complexity (especially in terms of time spent complying and paying tax), the less its compliance among taxpayers. Taxpayers tend to appreciate a tax system that requires little or no compliance time and much simplicity in a competitively challenging business environment where firms care more about profit-generating strategies. Gambo et al. (2014) examined the effect of tax complexity on tax compliance in 44 African countries, including the Central African Republic. The result indicates a significant negative impact of tax complexity on tax compliance in Africa: taxpayers spend an extra one day (19hours) beyond the regional average hours on tax compliance in a self-assessment environment.

Over the past years, macroeconomic instability has not been a major binding constraint on growth

CAR's financial, fiscal, and monetary risks have been contained over the past years, suggesting a relatively stable macroeconomic environment. Macroeconomic instability can be generated by financial, fiscal, or monetary imbalances. For example, the fiscal accounts may be in a structural deficit and debt may be increasing faster than the capacity to service it. In addition, monetary policy may be too loose, resulting in a loss of international reserves and an eventual large currency depreciation or devaluation. There may also be an exchange rate misalignment that limits the profitability of investors. All these types of imbalances have been limited in CAR over the past years and have not constituted a binding constraint on economic growth. CAR's key macroeconomic indicators have, on average, been below the CEMAC zone's convergence criteria. Moreover, the country's fiscal health scores, as measured by the Heritage Foundation, have been largely above that of comparator countries, while its monetary freedom scores have been in line with those of peer countries (**Table 5**). CAR does, however, perform worse than comparators on financial freedom, with a score of 30, lower than the SSA average of 49, although this has not affected the macroeconomic stability of the country.

While public debt has been sustainable, CAR remains at high risk of debt distress. The country's public debt declined from 63.0 percent of GDP in 2014 to 44.1 percent

[55] https://www.transparency.org/en/cpi/2020/index/caf.

TABLE 5
Selected Macroeconomic Stability Indicators

	CAR	CEMAC	FCV	SSA
Monetary Freedom score (0–100)	72.3	76.2	75.82	75.03
Fiscal Health score (0–100)	94.30	63.82	68.34	65.99
Financial freedom	30	47	49	49

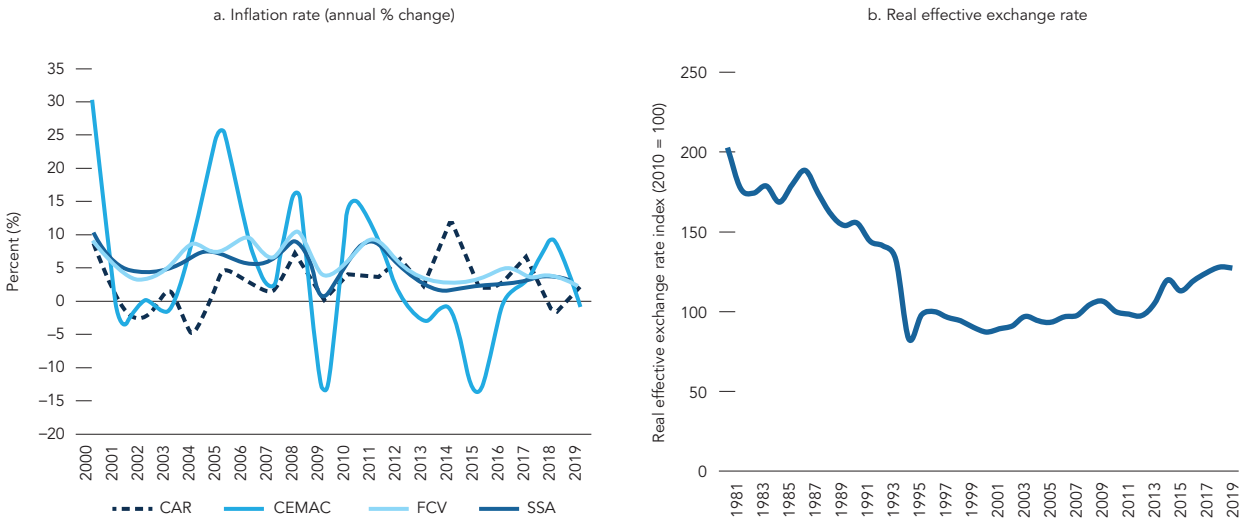
Source: Heritage Foundation 2019.
Note: Monetary freedom combines a measure of price stability with an assessment of price controls, fiscal health assesses the level of deficits and debt burden, and financial freedom is a measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector.

in 2020 due to economic growth, arrears clearance, and limited new borrowing. However, according to the latest DSA (December 2020), CAR remains at high risk of debt distress. The buildup of debt-related vulnerabilities is due to low domestic revenue collection, limited exports, and an uncertain macroeconomic environment with a fragile security situation. The level of public debt has been sustainable over the past years and is currently below that of comparable CEMAC, FCV, and SSA countries. The fiscal deficit has also been contained due to significant inflow of official development assistance (ODA) since 2015. Between 2015 and 2020, ODA averaged 7.8 percent of GDP, slightly above the average of 8 percent of GDP for domestic revenue over the same period.

Inflation and the real exchange rate have been relatively stable. CAR's inflation rate averaged around 2.3 percent between 2000 and 2020—below the CEMAC zone convergence criterion and relatively stable compared to that of FCV and SSA countries (Figure 24). Similarly, the real effective exchange rate has remained stable since the CFA franc was pegged to the euro in 1994. Despite increasing since 2012, reflecting an increase in the consumption of foreign goods, the real effective exchange rate remains consistent with fundamentals and desirable policies.[56]

In sum, low physical and human capital, market failures, weak financial intermediation, and limited property rights have been the main drivers of CAR's uneven growth performance. While political instability has played an important role in the volatility of economic growth, it is not the only reason for the country's subdued socioeconomic development. Each constraint represents a critical bottleneck to private sector development and growth. Other cross-cutting constraints include a challenging business climate; limited information and communication technologies (ICT) and digital connectivity; poor quality transport and energy infrastructure; and lack of skilled labor.

FIGURE 24
Inflation and the Real Exchange Rate, 2000–2019



Source: WDI 2019.

Source: Economist Intelligence Unit.

[56] IMF Country Report No. 18/380.

Growth Decomposition and Structural Change

Main Growth Drivers Post-2013

In 2013–19, the main growth drivers were forestry and services on the supply side and private consumption and investment on the demand side

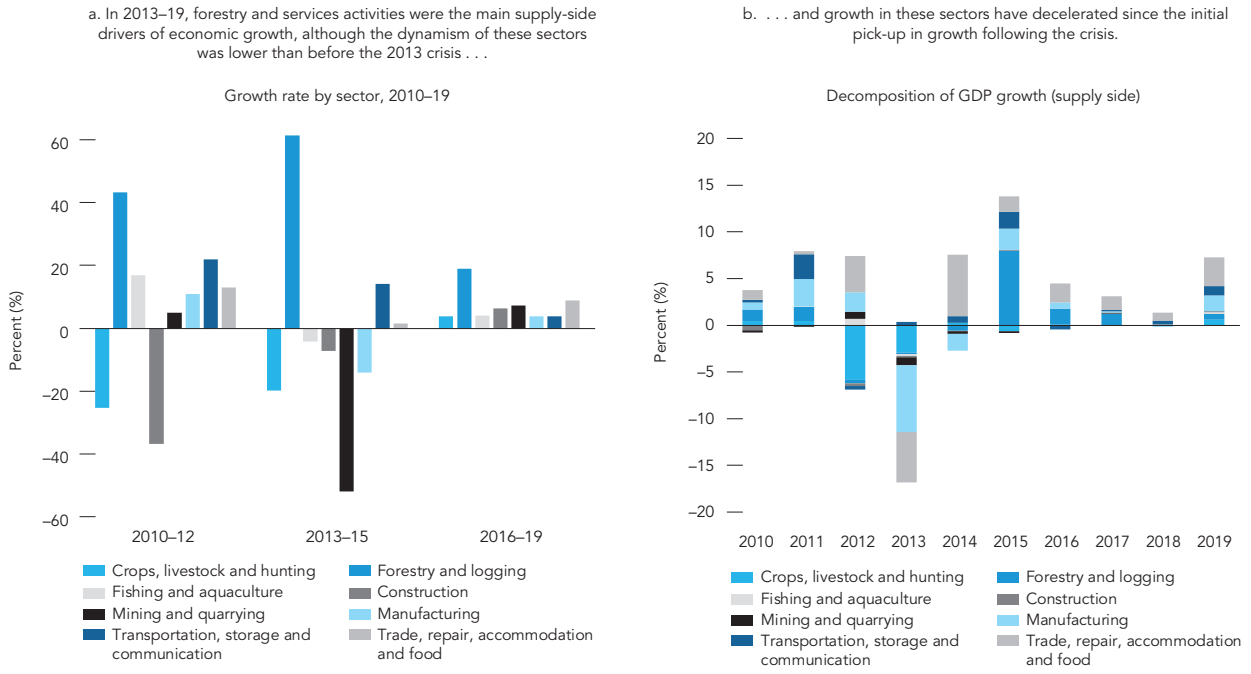
On the supply side, post-2013 economic growth has been driven by the forestry and services sectors (Figure 25). Forestry and services activities, especially trade, repair, accommodation, and food, sustained economic growth between 2013 and 2019, although the dynamism of these sectors was lower than before the 2013 crisis. In 2014–19, forestry and logging activities grew by an average of 44.5 percent, while the services sector expanded by an average of 11 percent during the same period. However, growth in these sectors has decelerated since the initial pick-up in growth following the crisis in 2013. A growth decomposition reveals that out of an average annual growth rate of 3.6 percent in 2014–19, the forestry and services sectors contributed a combined 3.9 percentage points to GDP.

On the demand side, growth in the post-civil war era was driven by private consumption and capital accumulation (Figure 26). In 2014–19, private consumption grew by average of 4.6 percent, contributing an average of 3 percentage points to GDP. Gross fixed capital formation, driven by public investment spending, rose from 6.3 percent of GDP in 2013 to 22.4 percent in 2019. Between 2016 and 2019, CAR experienced a higher increase in gross fixed capital formation (24 percent) than the average of CEMAC (20 percent) and FCV (19 percent) countries.

Total Factor Productivity Has Almost Halved Since 1990 and Has Had a Limited Contribution to Economic Growth

Productivity growth is crucial for economic growth and development. Productivity measures how efficient firms are in combining resources to produce goods and services. It

FIGURE 25
Decomposition of GDP Growth (Supply Side)

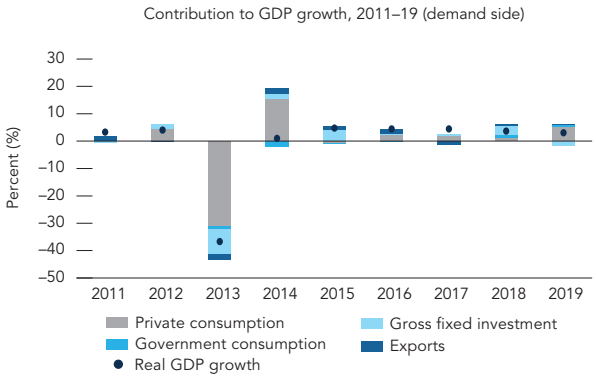


Source: Authors' calculations using data from the National Statistical Office.

FIGURE 26

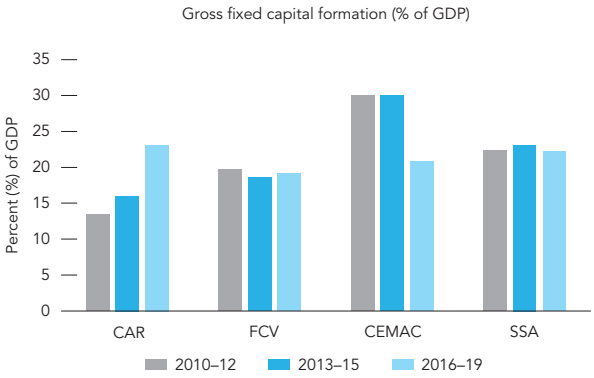
Private Consumption and Investment were the Main Demand-Side Drivers of Growth in 2013–19

a. In 2013–19, private consumption and investment were the main demand-side drivers of economic growth.



Source: Authors' calculations with MFMod data.

b. Since 2016, CAR has experienced a higher increase in gross fixed capital formation than comparators.



Source: Authors' calculations with WDI data.

is measured as output per input, implying that productivity will increase if inputs are optimally combined to produce a greater level of output. For example, an increase in labor productivity, measured as output per worker, allows firms to produce more goods and services with the same inputs, or produce the same level of goods and services with fewer resources. Moreover, productivity growth can enable firms to compete over resources (i.e., labor, capital, or raw materials) with firms in other sectors of the economy and maintain international competitiveness by reducing consumer prices. Finally, an improvement in productivity increases firms' profits and investment opportunities, which can lead to higher wages and better working conditions for workers. In the long run, an increase in firm productivity can lead to job creation, and increased productivity results in higher public tax revenues.

Yet, a growth decomposition shows that factor accumulation, rather than productivity, was the country's main growth driver in recent years. The Solow decomposition shows that capital and labor accumulation, rather than an improvement in productivity, was the main driver of economic growth between 1991 and 2019 (Figure 27a). The contribution of human capital to growth has been minimal, especially since 2015. Instead, labor contributed 97 percent to real GDP growth in 1991–2019, although the contribution of labor to growth has declined over time. While capital accumulation has contributed to real GDP growth, it reached its highest level to date in 2015.

Total factor productivity (TFP) has almost halved since 1990 and has had a limited contribution to economic growth. CAR is among the least productive countries in SSA, which contributes to its low GDP per capita. In 2017 (most recent available data), CAR's TFP value of 0.23 (relative to 1 of the US) was below the SSA regional average of 0.41 (Figure 27b). Between 1990 and 2017, CAR's TFP level fell from 0.44 to 0.23—a decrease of 48 percent. The country's TFP reached its lowest level (0.2) during the crisis in 2013.

Limited TFP growth explains the modest agricultural growth in CAR. An analysis of the agriculture sector, which is vital to reduce poverty in the country, reveals a lack of productivity growth. In 2019, agriculture accounted for 77 percent of employment and 32.4 percent of CAR's GDP. However, a huge share of agricultural households are under the poverty line. The growth-accounting methodology developed by the United States Department of Agriculture shows that the country's limited agricultural growth was mainly driven by input intensification (labor) and land expansion (Figure 27c). Agricultural productivity has been relatively stagnant, which kept CAR's agricultural output growth at modest levels (Figure 27d). Moreover, the country's performance on the agricultural TFP index has been highly volatile and falling since 2013.

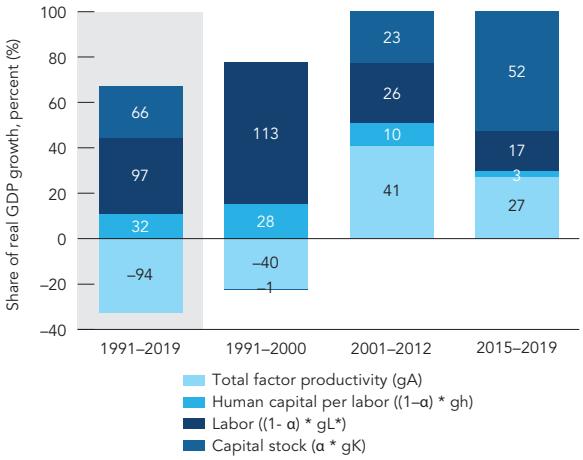
While No Structural Change, There Has Been a Reallocation of Labor Toward Services

The services sector is growing while the agriculture sector is declining. The share of agriculture value-added in GDP increased marginally from an average of 38 percent in

FIGURE 27

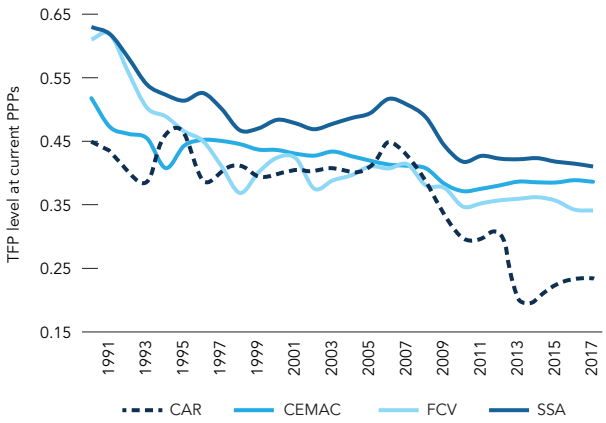
TFP in CAR is Low, has been Falling, and Is Not the Main Driver of Economic Growth

a. Capital and labor accumulation, rather than productivity, boosted growth in CAR between 1991 and 2019.



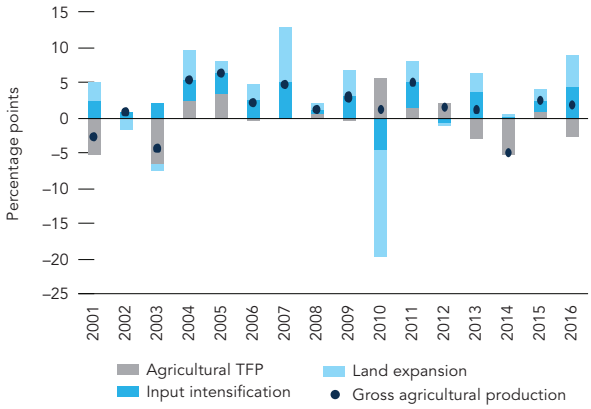
Source: Authors' calculations using data from Barro and Lee (2013), UNESCO Institute for Statistics, WDI, and the Human Development Index.

b. CAR has witnessed a rapid decline in TFP, widening the gap with comparators.



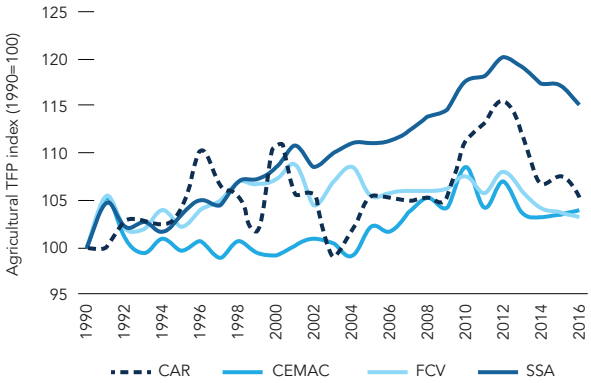
Source: World Bank staff calculations using Penn World 9.1 data. Note. TFP is relative to the US (=1).

c. CAR's limited agricultural growth has been mainly driven by input intensification and land expansion.



Source: Authors' calculations using United States Department of Agriculture ERS data.

d. CAR's performance on the agricultural TFP index has been highly volatile and falling since 2013.



1991–2000 to 42 percent in 2001–2010, before it dropped to an average of 35 percent in 2011–2019. The decline in the share of agriculture value-added was compensated by an increase in the value-added share of services. The share of services value-added in GDP increased from an average of 27 percent in 1991–2000 to 41 percent in 2011–2019. CAR's economy is not following the standard economic development process characterized by industrial growth following a decline in the agriculture sector.

Conversely, the manufacturing sector's contribution to GDP is modest and has been declining over the past years. The industry sector's contribution to GDP fell by a third between 1991 and 2011. The relatively slow growth of the manufacturing sector compared to services in several developing countries, including SSA, has become a concern discussed in the recent growth literature.[57] In CAR, like in many other developing countries, the combination of a rising services sector with a declining manufacturing sector

[57] See, for instance, Krishna et al (2018), Thomas (2009), and Dasgupta and Singh (2006).

highlights the challenges of industrialization (Rodrik 2016, 2017). Reversing this trend could require fostering the development of a few niche sectors for which the country has a comparative advantage such as agriculture, forestry, and mining.

As a result, there has been a reallocation of labor from agriculture to the services sector instead of the more productive manufacturing sector. The share of agricultural employment in total employment fell from 81 percent in 1991–2000 to 66 percent in 2001–2010. By contrast, the share of services employment in total employment doubled between 1991–2000 and 2001–2010.

Institutional and technological improvements within sectors have been the main drivers of productivity growth over the past years. Labor productivity increased by 12.18 percent in CAR over 1991–2019, with the within-sector component contributing more than 77 percent to total productivity growth—of which 26.9, 26.8, and 23,3 percent came from agriculture, industry, and services, respectively. As a result, labor productivity growth originates mainly from institutional and technological changes within sectors, which means that it is unlikely the result of a structural shift of labor from less productive sectors such as agriculture to more productive sectors such as manufacturing.

There has only been a marginal movement of workers to the industry sector over the past decade due to a lack of skilled labor. A decomposition of productivity growth shows that there have been industrial and technological improvements in the industry sector, but the sector has not attracted workers. Agriculture and industry featured the highest institutional and technological within-sector improvements in 1991–2019 (**Table 6**). This means that the industry sector is attracting few workers, with a meager contribution of the structural change component of 0.4 percent in 1991–2019, compared to 1.5 and 1 percent for the agriculture and services sectors, respectively. Between 2011 and 2019, productivity growth induced by the movement of workers to the industry sector was zero, demonstrating that an insignificant number of workers moved to the industry sector. This was likely due to workers lacking the technical skills needed in the sector, which calls for targeted policy interventions to transform the sector and facilitate labor movements between sectors. Similarly, labor movements toward the services sector also call for targeted policy interventions to accelerate the transformation of the sector.

The manufacturing sector is an important engine of economic growth.[58] According to the engine of growth hypothesis, the relationship between the level of GDP per capita and the size of the manufacturing sector is due to the certain inherent characteristics of the manufacturing sector (Pacheco-López and Thirlwall 2013). For example, productivity is relatively higher in manufacturing than in other sectors, enabling a more rapid improvement in living standards. Also, the manufacturing sector offers more opportunities for economies of scale[59] and higher technological progress compared to other sectors. Moreover, linkages and spillover effects are more robust in manufacturing than in agriculture and services.[60] Szirmai

TABLE 6
There is No Evidence of Structural Change in CAR

	Within component				Structural change				
	Agriculture	Industry	Service	Within	Agriculture	Industry	Service	Structural change	Productivity growth
1991–2000	0.28	6.63	0.24	7.15	0.03	0.12	0.05	0.2	7.35
2001–2010	8.64	3.43	4.07	16.14	3.82	0.97	1.66	6.46	22.6
2011–2019	–0.01	0.08	3.8	3.86	0.07	0	0.96	1.03	4.89
1991–2019	3.28	3.26	2.84	9.38	1.45	0.4	0.95	2.79	12.18

Source: World Bank staff calculations.

[58] This has long been recognized in the literature. See, for instance, Kaldor 1960.
[59] Kaldor 1967.
[60] Hirschman 1958.

(2012) provides three additional arguments to highlight the potential importance of manufacturing. First, there is a transfer of resources from manufacturing to services, which provides a structural change burden in the form of Baumol's disease.[61] Second, the transfer of resources from agriculture to manufacturing is associated with structural change since the manufacturing sector is assumed to be more dynamic. Finally, there is an empirical correlation between the degree of industrialization and per capita income in developing countries.

Way Forward: Potential Drivers of Future Growth

Future growth drivers are analyzed using the Long-Term Growth Model (LTGM)[62] and its extensions.[63] The LTGM tools are designed to be simple and transparent, with low data requirements, which means that they can be readily applied in low-income countries like CAR.[64] For CAR, two LTGM extensions are used. The first extension is the LTGM Public Capital (LTGM-PC) from Devadas and Pennings (2018),[65] which separates public and private capital stock and adjusts the public capital stock for the quality of infrastructure.[66] The LTGM-PC allows public and private investment to have separate-sized effects on growth. Public investment will have a larger impact on growth if there is a shortage of public capital relative to GDP, or if public capital is particularly important in the production function (e.g., for essential infrastructure).[67] The second extension is the LTGM-Human Capital (LTGM-HC), which translates the World Bank's HCI (a forward-looking index that captures the level of human capital a child born today is expected to accumulate by their 18th birthday) into a path for the future productivity of workers each year (a required input for growth models). This allows for an examination of the growth effects of changes in the HCI.

A Business-as-Usual Scenario Shows Slowing Growth

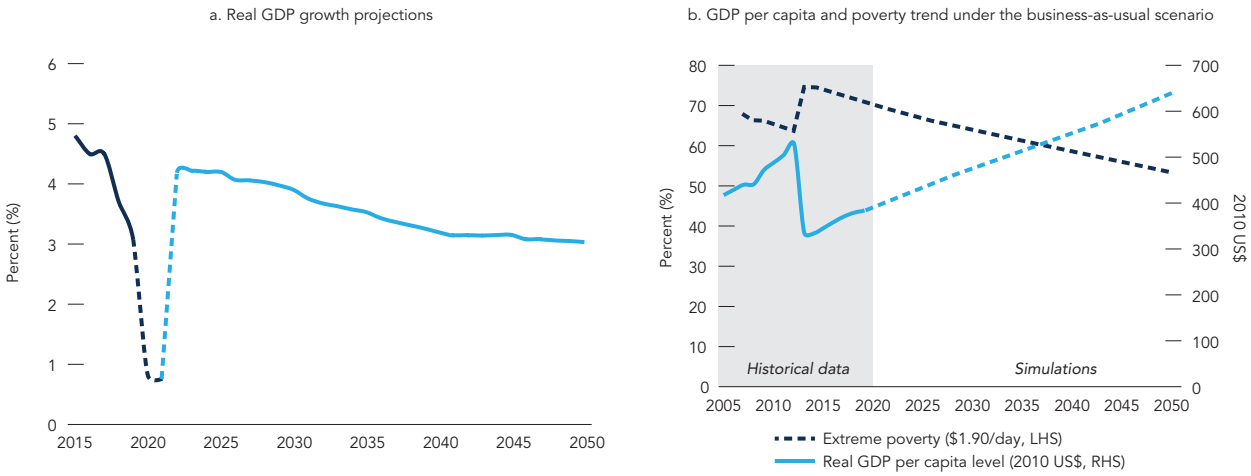
Under a business-as-usual growth path, CAR's potential GDP growth would gradually decelerate over time to 3 percent by 2050 (Figure 28a). The business-as-usual baseline in the LTGM measures the economy's potential growth rate, assuming that long-term growth trends continue.[68] GDP growth in 2020 and 2021 is expected to be much lower than potential growth due to the COVID-19 pandemic and post-election disputes (dashed lines in Figure 28a), but the business-as-usual scenario assumes that COVID-19 pandemic is a temporary shock and so will have a limited effect on potential long-run growth (which is the focus of the long-term growth simulations).

Extreme poverty rates are expected to fall by almost 20 percentage points over 2020–50 under the business-as-usual scenario (Figure 28b). According to the most recent household survey, CAR's extreme poverty rate was 67 percent, and the national poverty rate was 62 percent

[61] Baumols' disease refers to the rise of salaries in jobs that have shown little or no labor productivity growth.
[62] Long Term Growth Model by Loayza and Pennings: www.worldbank.org/LTGM.
[63] The LTGM and its extensions are a suite of an Excel-based tool to analyze future long-term growth scenarios, building on the celebrated Solow (1956)-Swan (1956) Growth Model.
[64] The tools make assumptions about growth fundamentals, such as future TFP growth, investment, demographics, and schooling, and produce future paths for GDP growth, GDP per capita growth, and poverty rates. They are designed to be used for long-run simulation exercises over the next 5–30 years and not for short-run forecasting. The LTGM suite only runs at an annual frequency and does not include a Keynesian demand side, and the models are too simple to capture the multitude of shocks to short-run growth.
[65] Devadas and Pennings (2018) "Assessing the Effect of Public Capital on Growth: An Extension of the World Bank Long-Term Growth Model", World Bank Policy Research Working Paper 8604.
[66] The LTGM-PC measures the quality of public capital using a new cardinal Infrastructure Efficiency Index.
[67] The growth effect of private investment also depends on whether there is a shortage of private capital relative to GDP.
[68] LTGM-PC assumptions: (i) the investment share of GDP is assumed to be 15 percent of GDP (6ppts public and 9ppts private) based on the 2015–2019 historical data and the 2020–22 June MPO forecast; (ii) Total Factor Productivity (TFP) growth is assumed to be at 2 percent in 2020 and fall to and remain at 0.5% by 2040 (close to the pre-war 30-year average using PWT 9.1 data) ; (iii) the labor share is 0.5 (similar to PWT9.1 data); and, (iv) capital-to-output ratio of 4. Human capital growth is based on the LTGM-HC with no change in policy, with an assumed return to an extra year of schooling of 12 percent.

FIGURE 28

Business-as-Usual Growth Projections and Implications for GDP per Capita and Poverty



Source: World Bank staff calculations and projections using World Bank MPO and LTGM-PC data.

Source: World Bank staff calculations and projections using WDI, MPO, and PovCalNet, and LTGM-PC data.

in 2008. Under the business-as-usual growth path, both poverty rates are projected fall by almost 20 percentage points between 2020 and 2050, assuming the country's income distribution remains unchanged (i.e., a constant Gini coefficient of 0.56). Real GDP per capita is projected to increase slowly from US$384 in 2019 to around US$650 by 2050—still far below lower-middle-income status.[69] Under this scenario, CAR will not reach its pre-war economic development level until the late 2030s because of the slow rate of GDP growth.

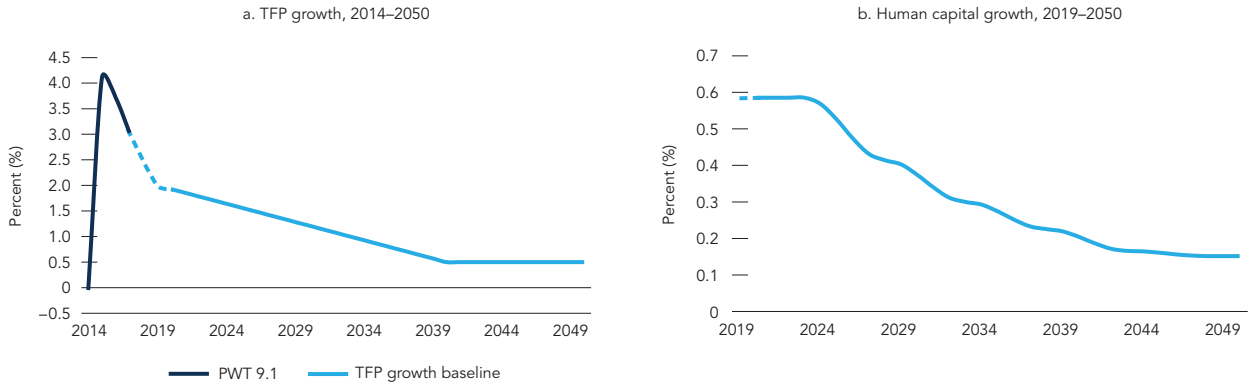
Slowing TFP and human capital growth explains most of the fall in the baseline growth rate. Historical trend TFP growth averaged a mere 0.5 percent between 1983 and 2012 (30-year pre-war historical average). The country's TFP growth declined by one-third in 2013. Rapid acceleration of TFP growth to 4.1 percent in 2015, before decelerating to 3 percent in 2017 and slowing since then has enabled a modest economic recovery (**Figure 29**). Assuming this trend continues, TFP growth is projected to slow gradually from 2 percent in 2019 to 0.5 percent in 2050 under the business-as-usual scenario (**Table 7**). TFP will returns to its 2012 level only by 2033–34. Other factors such as the low use of technology and innovation, market inefficiency, poor infrastructure, and ineffective institutions, as well as the quasi-inexistence of research and development, are likely to limit the rate of improvement in TFP. Similarly, human capital growth is projected to fall from 0.6 percent in 2020 to 0.15 percent by 2050. The projected decline of human capital growth is due to poor conditions of education and health of today Central African's children that are expected to persist in the baseline simulation. Falling TFP growth over 2020–2050 subtracts 2.3ppts from GDP growth over this period, with falling human capital growth subtracting 0.3ppts, and falling population growth subtracting 0.1ppts (all of which are offset by improvement in other growth drivers).

A demographic dividend and rising productivity of public and private investments assuage the growth slowdown in the baseline. The increase in the working-age population ratio from 54 to 65 percent in 2020–50 is projected to contribute to GDP growth by 0.50 percentage points. While both public and private investment rates are constant under the business-as-usual scenario, they can still contribute to GDP growth as their marginal products increase.

[69] The simulations of the level of GDPPC and poverty do not include the effects of the post-election disputes or COVID-19, which are assumed to be temporary (and so have little effect on GDPCC and poverty). Income groups are based on gross national income per capita (Atlas method) and not GDP per capita, although both usually grow at similar rates in the long run. Real per capita GDP growth is projected to fall to 1.6 percent in 2050.

FIGURE 29

TFP and Human Capital Growth Rates are Projected to Fall in the Business-as-Usual Scenario.



Source: World Bank staff projections

Source: World Bank staff projections

Reforms that Address the Drivers of Growth Would Change the Growth Trajectory

This section examines how reforms that address TFP, human capital, and investment growth would impact CAR's growth trajectory. It assesses several scenarios using historical and projected trends of productivity, human capital, and investments benchmarked against other SSA countries.

Total factor productivity

Maintaining high TFP growth could boost GDP growth by approximately +2.3 percentage points by 2050. In a scenario in which CAR's authorities implement a set of policies that maintain TFP growth at its 2019 rate (2 percent), GDP growth is projected to reach 5.4 percent by 2050 (Figure 30). In a context of low productivity, maintaining a TFP growth rate of 2 percent would require structural changes in the economy to move away from subsistence agriculture to more high-productivity activities. CAR would need to implement bold reforms to maintain TFP growth beyond the level reached immediately after the 2013

TABLE 7

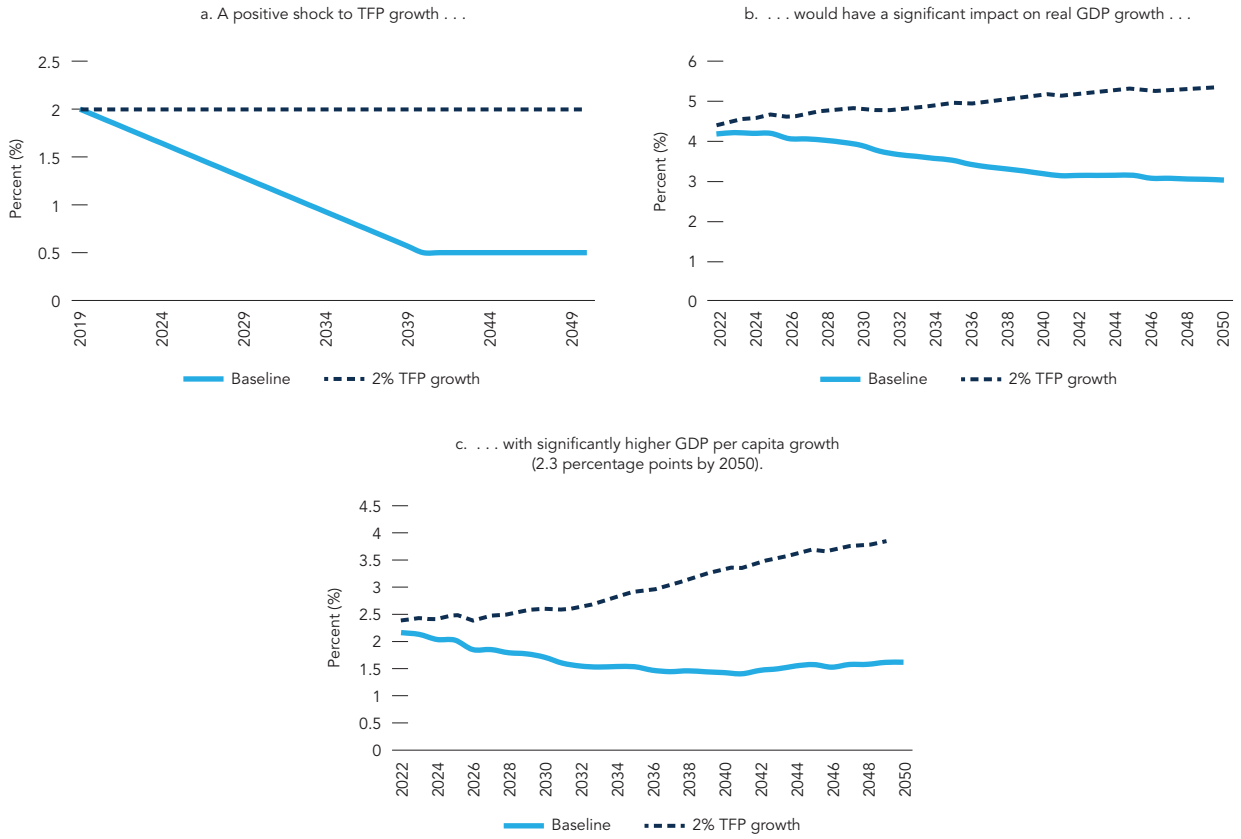
Drivers of CAR's Potential Economic Growth under the Business-as-Usual Scenario

	Change in growth driver		Change in baseline GDP growth due to growth driver	
	2020	2050	Normalized contribution (percentage points)	Normalized share of fall in growth (%)
TFP Growth (%)	1.9	0.5	–2.3	205
Human Capital Growth (%)	0.6	0.15	–0.3	28
Population Growth (%)	1.8	1.4	–0.1	9
Working Age to Population Ratio	0.54	0.65	+0.5	–45
Marginal Product of Public Capital	0.07	0.12	+0.4	–39
Marginal Product if Private Capital	0.23	0.29	+0.7	–59

Source: World Bank staff calculations

FIGURE 30

A Shock to TFP would have a Significant Impact on Real GDP Growth and GDP per Capita



Source: World Bank staff projections.

crisis, which was mainly due to the catch-up effect. Much of the TFP growth over the next decade is catch up to 2013. But the pace of TFP growth is still ambitious—at the 90th percentile of SSA countries over 20 years. Consequently, this scenario implies the need for CAR to implement bold reforms. Based on the literature, the main determinants of TFP include innovation, education, market efficiency, infrastructure, and institutions.[70] In CAR, potential reforms to achieve TFP growth of 2 percent include: (i) supporting local industrial transformation in the wood sector; (ii) promoting agribusiness activities in the Bangui area; and (iii) expanding the country's small manufacturing sector.

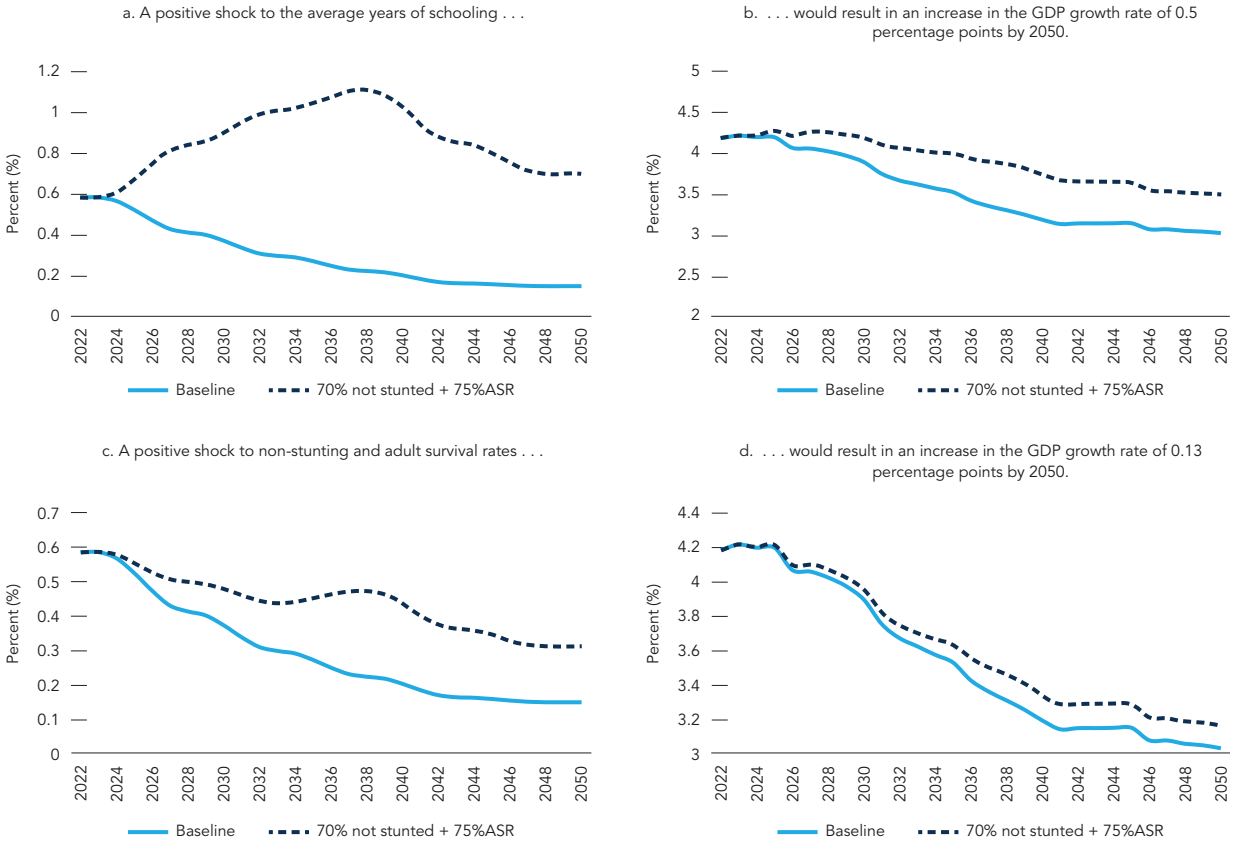
Human capital

Increasing the average years of schooling to the median level of SSA (from 4.6 to 8.2 years) could boost CAR's GDP growth by +0.5 percentage points by 2050. The country's educational outcomes are lower than the average of CEMAC, FCV, and SSA countries. A child born today in CAR will only receive 4.6 years of schooling, well below the SSA median of 8.15 years, implying a considerable gap to be filled. The average years of schooling in CAR is more than two years below the level of the 25th percentile of SSA. By improving the average years of schooling, CAR could accelerate human capital growth to 1.1 percent by 2039, before it falls to 0.7 percent (above the projected decline of human capital from 0.6 to 0.15 percent) by 2050 (Figure 31a). However, a policy change today would have minimal impact on GDP growth until the early 2030s (Figure 31b). Policy changes today would fully benefit younger children while partially benefitting older children, which means that policies aimed at increasing educational outcomes have delayed effects on human capital accumulation.

[70] Kim, Y. E., & Loayza, N. (2019). Productivity growth: Patterns and determinants across the world. World Bank Policy Research Working Paper, (8852).

FIGURE 31

A Shock to Human Capital Growth would have a Significant Impact on Real GDP Growth



Source: World Bank staff projections.

Improving not-stunted and adult survival rates to the median of SSA could boost CAR's GDP growth rate by 0.13 percentage points in 2050. An improvement in the country's not-stunted rate from 59 to 70 percent and the adult survival rate (to age 60) from 59 to 75 percent would reduce the expected fall in the human capital growth rate by about 0.15 percentage points by 2050. Under this scenario, the human capital growth rate would decline from 0.6 percent in 2020 to 0.3 percent by 2050 instead of 0.15 percent in the business-as-usual scenario (Figure 31c). Similar to education policies, the impact of health-related policy changes on GDP growth would be delayed, with younger children benefiting more than older children and adults (Figure 31d). However, the impact of health policies on economic growth would be modest, as human capital is less sensitive to health than education. Moreover, CAR's health outcome gaps[71] are not as large as its educational gaps, especially in terms of average years of schooling.

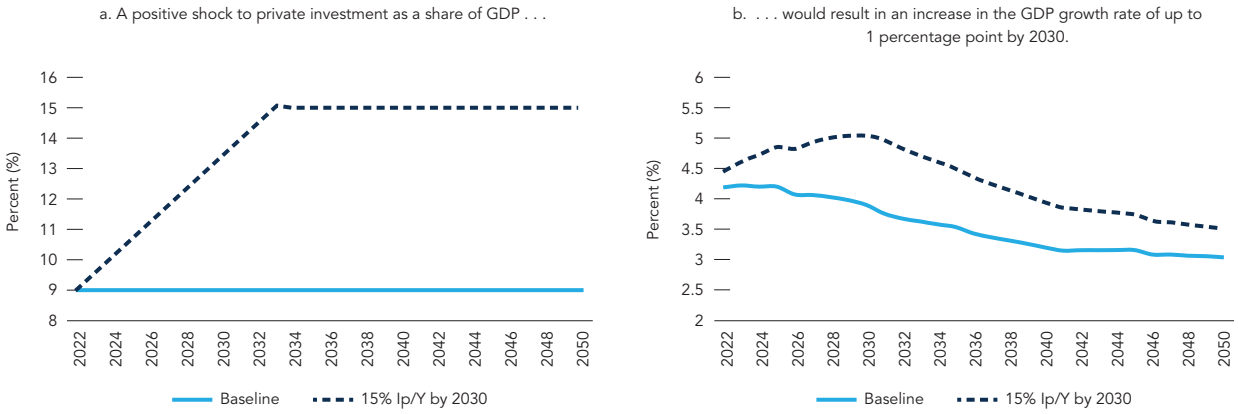
Investment

Increasing the private investment-to-GDP ratio to the median level of SSA would boost CAR's GDP growth rate by 0.5 percentage points by 2030 and 1 percentage point by 2050. Private investment in CAR is low at 9 percent of GDP, well below the SSA median of about 15 percent of GDP (20-year average). The adoption of policy changes that would enable a progressive rise in private investment to the SSA median ratio (an increase of about 7 percentage points in investment rates) over the next 10 years would boost GDP growth by 1 percentage point by 2030 and 0.5 percentage points by 2050 (Figure 32). Such policy changes would help to address the current shortage of private physical capital and have a significant impact on GDP growth. The benefit in terms of GDP growth falls after 2030 as the stock of private physical capital improves (with an increase in the private capital-to-output ratio) and the marginal product of capital declines.

[71] CAR's not-stunted rate of 59 percent is 3 percentage points below the 25th percentile of SSA, while its adult survival rate is 10 percentage points below the 25th percentile of SSA.

FIGURE 32

A Positive Shock to Private Investment would Boost GDP Growth

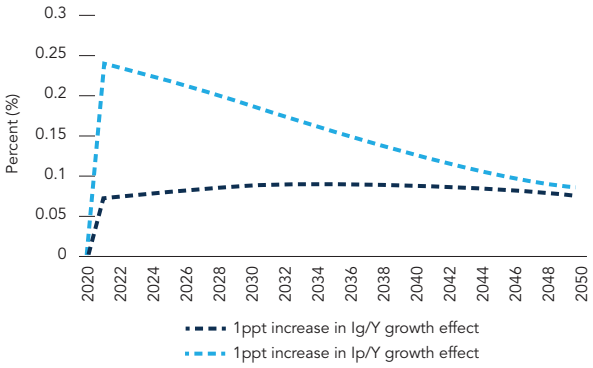


Source: World Bank staff projections.

The impact of private investment on GDP growth is twice as large as that of public investment. This difference is derived from a growth scenario analysis that compares the effect of a positive shock of a 1 percentage point of GDP increase in public investment (from 6 to 7 percent of GDP) with a positive shock of the same magnitude on private investment (from 9 to 10 percent of GDP). The shock on public investment would boost GDP growth by only +0.08 percentage points, while the shock on private investment would accelerate GDP growth by +0.16 percentage points (Figure 33). The difference is mainly explained by CAR's severe shortage of private capital, as is common in many low-income countries.[72] In CAR, the marginal product of private capital is 23 percent, much higher than a mere 7 percent for public capital. Under current conditions, private investment spending will have a significant impact on growth, although its effect is expected to converge by 2050.

FIGURE 33

The Effect of a 1 Percentage Point Private Investment Shock on Growth is Much Larger than a 1 Percentage Point Shock to Public Investment Due to a Higher Marginal Product of Capital



Source: World Bank staff projections.

A Combination of Reforms is the Strongest Pathway to Growth

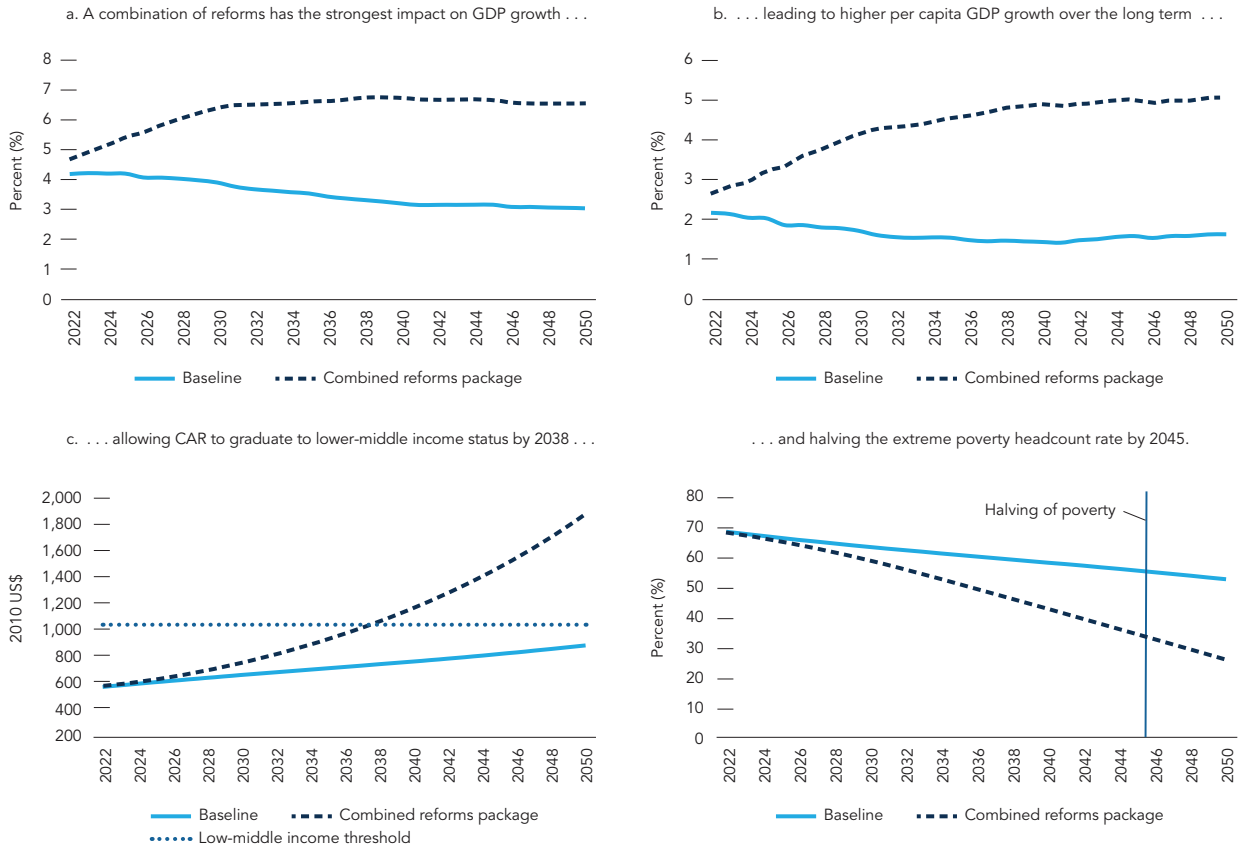
A package of reforms has the biggest potential impact on economic growth, given the modest impact of individual reforms. The combined strong reform scenario includes a combination of reforms that would affect TFP, human capital, and private investment growth and move CAR's growth fundamentals closer to the SSA median. In particular, the package of reforms would improve the country's security environment, make the business climate more predictable, increase investment, and improve education and health.

Under the combined strong reform scenario, GDP growth would more than double compared to the baseline by 2050. Under this scenario, GDP growth would reach 5.0 percent by the mid-2020s and 6.6 percent by 2050—3.6 percentage points above the business-as-usual scenario (Figure 34). While this growth rate may seem high, it remains below

[72] Devadas, S., & Pennings, S. (2018). Assessing the effect of public capital on growth: An extension of the World Bank Long-Term Growth Model. The World Bank.

FIGURE 34

A Bold Combination of Reforms is Needed to Maximize the Country's Growth Potential



Source: World Bank staff estimates.

Rwanda's average GDP growth of 7.5 percent over 1998–2017. The higher rate of growth under the combined strong reform scenario benefits from the increase in the growth contribution of TFP (2.3 percentage points of the growth increase with respect to the baseline), human capital (0.6 percentage points), and private investment (0.5 percentage points) by 2050.[73]

The combined reform scenario would significantly improve living standards, with CAR graduating to low-middle-income status by around 2038. The combined pro-growth reform package would increase GDP per capita growth to 5 percent by 2050, much higher than a mere 1.5 percent in the business-as-usual scenario. The reform package is projected to generate faster per capita growth than Rwanda (4.3 percent over 1998–2017), as Rwanda has had more rapid population growth. Real GDP per capita is projected to increase rapidly from US$384 in 2019 to more than $1,000 around 2038, which would help CAR graduate to low-middle-income country status and reach a per capita income of close to US$2,000 by 2050. This growth performance would help the country halve its extreme poverty rate from 71 percent in 2020 to 35 percent by 2045.[74]

[73] Non-normalized contributions based on the growth impacts of one-by-one reforms are discussed above.
[74] Assuming unchanged inequality.

What Will It Take to Boost Long-Term Growth?

CAR needs to implement bold and strong reforms to boost growth, improve livings standards, and significantly reduce extreme poverty. Reforms need to: (i) increase TFP growth; (ii) attract private investment; and (iii) accelerate human capital accumulation (Figure 35).

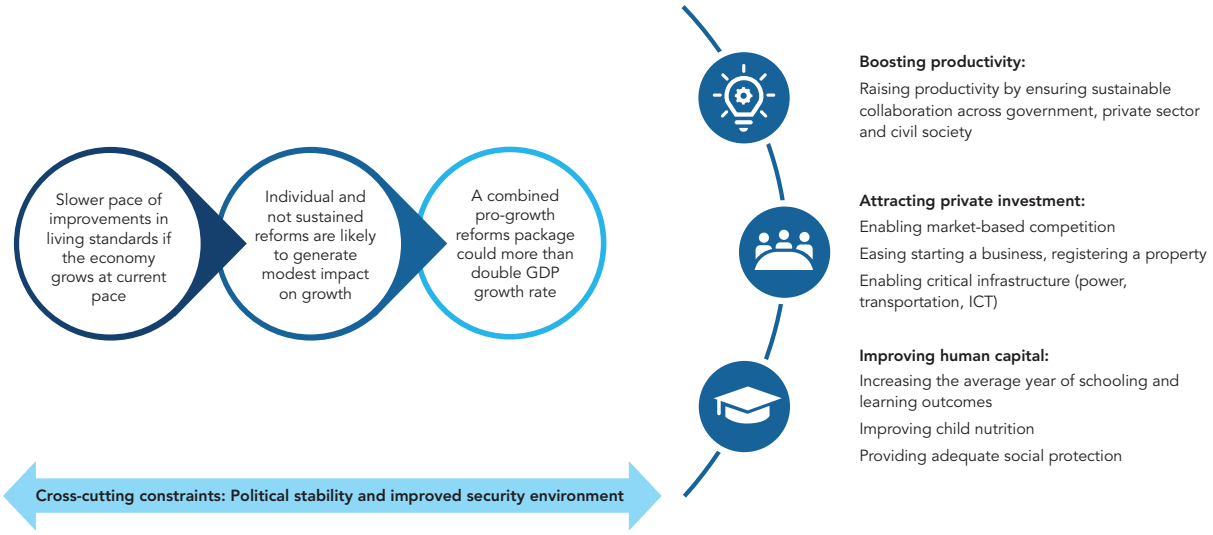
- **Increase TFP growth.** Under the business-as-usual scenario, TFP growth is projected to decline from 2.0 percent in 2019 to 0.5 percent by 2040 in the baseline reducing real GDP growth and worsening living standards. Bold and sustained reforms that target innovation and the quality of infrastructure, education, and public institutions are needed to increase TFP growth, which would require sustainable collaboration and cooperation between the government, the private sector and development partners.

- **Attract private investment.** CAR needs to address the shortage of private investment to boost its growth potential. The country's subdued economic performance is due to, among other factors, insecure property rights, credit constraints, and poor infrastructure (e.g., electricity, roads, internet, etc.). However, there are opportunities to tap into the potential of private investment to boost GDP growth. This would require implementing and sustaining bold reforms to attract private investment, including enabling market-based competition, making it easier to start a business and register property, and improving critical infrastructure such as power, ICT, and transportation.

- **Accelerate human capital accumulation.** A continuation of CAR's education and health interventions (business-as usual scenario) would decelerate human capital growth over the next 30 years and reduce the contribution of TFP to economic growth. Improving human capital would require a greater focus on increasing the average years of schooling, enhancing learning outcomes, improving child nutrition, and providing adequate protection through social welfare programs (CAR Fourth Economic Update).

FIGURE 35

CAR Needs Bold and Pro-Growth Reforms that Target TFP, Private Investment, and Human Capital Growth



Source: World Bank staff.

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CHAPTER 3

Challenges and Opportunities of Leveraging Trade as a Vehicle for Sustained Growth

CAR is relatively small economically, which means that domestic demand is unlikely to be able to drive high and sustained growth. CAR has one of the smallest economies in the world (around US$4.7 billion in PPP in 2020), ranked 168th out of 175 countries (excluding very small island economies and microstates). The country's GDP amounts to 0.00359 percent of global GDP, and it has a relatively small and dispersed population, with only 15 countries having a lower population density. Small economies have small markets, which limits productivity growth through, for example, scale and learning effects. In addition, the per capita costs of many public goods tend to be higher in small economies than in their larger counterparts. Nevertheless, size is not necessarily a constraint on growth in a globalized economy, as small countries can use trade to access large overseas markets to both increase export opportunities and reduce costs, as well as widen the range of final products available to consumers and intermediate inputs available to producers. Small countries, such as Luxembourg, are among the countries with the highest per capita income. Indeed, Alesina et al. (2004) conclude that, "The benefits of trade openness and economic integration are larger, the smaller the size of a country."

CAR faces strong challenges in leveraging the global market to drive sustained growth and poverty reduction. This chapter reviews the country's national, regional, and global trade environment. It discusses the challenges CAR faces in effectively leveraging trade as a driver of productivity growth, including fragility and conflict, both of which tend to suppress trade. In addition to its own small domestic market, the country's neighbors also have very small economies. The combined GDP of the six countries with which CAR shares a border amounts to just 0.33 percent of global GDP. Furthermore, CAR faces some of the highest trade costs of any country in the world, partly due to the distance to the largest markets in the United States, Europe, and Asia, but also due to poor trade policies, weak transport and logistics services, and burdensome border clearance procedures. Nevertheless, there are important opportunities to enhance and diversify trade. In addition to domestic policy reforms, there are mechanisms, including the African Continental Free Trade Agreement and preferential access to the largest overseas markets, that can be used to reduce trade costs.

Trade Can be a Powerful Force for Stability and Growth

Conflict and fragility have created substantial barriers to trade, but trade can be a powerful force for stability by promoting socioeconomic development and increasing the opportunity cost of conflict.[75] Trade provides new economic opportunities and creates export-related jobs that can offer alternative sources of income for those otherwise drawn toward violence and armed groups. However, trade can also have a negative impact on jobs in sectors that are subject to greater competition from imports, and without support the people affected may turn to violence to sustain their income. Trade can also spur conflict by increasing the value of economic resources, usually commodities such as minerals and precious stones and timber, and the incentives to fight over their control. Control of trade in high value goods has been a primary factor behind conflict and continuing fragility in several countries such as the Democratic Republic of the Congo and Myanmar. Finally, taxation of trade may be an important source of revenue for both the government and armed groups, and changes in the structure and value of trade may affect the ability to sustain conflict. In some countries, the army is also heavily involved in trade.

Evidence from a range of countries suggests that increasing trade with neighbors reduces both the duration and intensity of conflict. Cross-border trade is also associated with a lower risk of conflict when both countries are members of the same regional trade agreement. Reducing barriers to cross-border trade has been found to promote economic activity in border regions. Cross-border trade typically has strong backward and forward linkages to local producers and distribution markets, creating job opportunities in production, transport, and logistics in border areas. Moreover, facilitating local cross-border trade can be important to

[75] See Cali (2015).

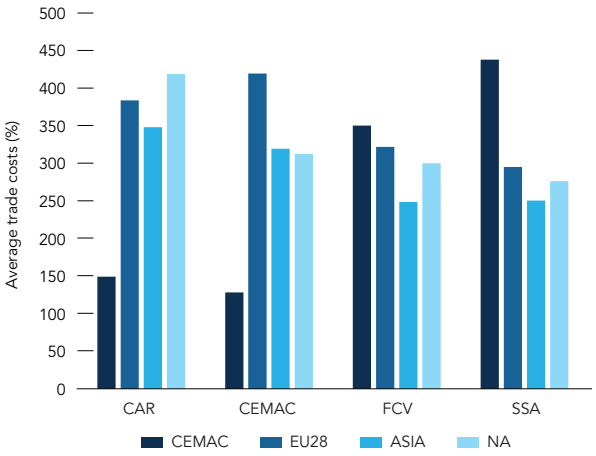
address food security issues faced by poor populations in border areas and increase incomes in farming communities. Key steps that the government can take, with support from international development organizations, include facilitating trade and improving export competitiveness in fragile regions, improving the governance of high value traded resources, implementing programs to protect the real income of poor households in fragile regions from adverse changes in trade flows, and increasing access to neighboring markets for goods and services produced in, or with strong potential linkages to, fragile regions.

Trade can play a key role in supporting the future drivers of growth. Trade can play a key role in supporting productivity growth. Increased access to global markets could provide local companies with a wider range of inputs and their embodied technologies that support increased productivity. In agriculture, for example, access to new, higher yielding seeds and improved fertilizers can drive agricultural productivity growth, while access to machinery can support an efficient food processing sector. Imports could also constitute an important source of competition and discipline for domestic firms. The literature has documented how increased competition through imports can drive productivity growth. Exporters tend to be more productive than firms that sell only to the domestic market, which means that better access to overseas markets that allows resources to move to exporting firms tends to raise productivity. Participation in GVCs can have a strong impact on productivity when foreign direct investment (FDI) and the use of imported inputs by exporting firms lead to knowledge and technology spillovers to other firms. It is also important to open trade in both goods and services. For example, greater competition in backbone services, such as telecommunications and transport, that lead to lower costs and a wider variety of products can contribute to productivity growth throughout the economy. Moreover, trade agreements that increase export opportunities can help attract private investment by increasing the size of the available market.

High Trade Costs and a Challenging Regional Environment

CAR faces some of the highest trade costs in accessing global markets.[76] World Bank (2021) estimates show that trade costs are high throughout the world, equivalent to an average 100 percent tariff (**Figure 36**). This means that the cost of trading goods internationally is twice as high as selling goods domestically. Tariffs are responsible for a fraction, one fourteenth, of these average trade costs. The main factors leading to high trade costs are high transport and logistics costs and costs associated with border clearance procedures. CAR faces extremely high costs in accessing markets in Europe, Asia, and North America, equivalent to an ad valorem tariff of around 400 percent. Its trade costs with CEMAC countries are relatively lower, but they still involve a three-fold increase relative to selling to the domestic market. Reducing trade costs should, therefore, be a policy priority to allow CAR to overcome the growth challenges related to the size of its economy.

FIGURE 36
Measures of Overall Trade Costs



Source: World Bank staff calculation using ESCAP-WB trade cost database
Note: EU28 = European Union: NA = North America.

[76] The measure of trade costs captures all costs involved in trading goods internationally relative to those involved in trading goods domestically. It reflects international transport costs, tariffs, and non-tariff barriers (e.g., costly import and export procedures) as well as other factors that raise trade costs such as the use of a different language or currency (UNESCAP-WB 2017).

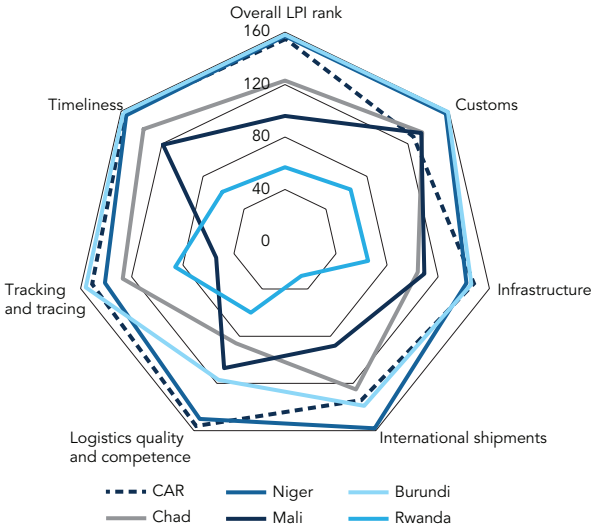
CAR ranks poorly on trade logistics compared to peers. In 2018, the country's overall ranking on the logistics performance index (LPI) was 154th out of 160 countries, lower than all comparators except Burundi and Niger (Figure 37). CAR's low infrastructure quality and logistics quality and competence adversely affects its firms' relationships in the region. Also, pervasive logistical bottlenecks in CAR tend to increase trade costs, thereby reducing the competitiveness of domestic firms.

Trading across borders is a key bottleneck to access global markets. Inadequate access to transport is one of the significant obstacles for CAR's cross-border trading. Transportation costs along the main corridor Bangui-Douala are some of the highest globally and limit trade options. The Ubangi river can accelerate regional integration, unlock opportunities for diversification, boost the country's competitiveness, and reduce the cost of imports. Transporting goods along the Ubangi river is about US$20 cheaper per ton than using the Bangui-Doula corridor. However, the Ubangi river is only navigable four months out of the year, mainly between Bangui and Brazzaville, because of the silting of the river associated with the impact of climate change and low water levels. CAR would need to improve the navigability of the river to leverage its potential fully.

A weak customs system and high tariffs contribute to high trade costs

CAR's customs system constrains efforts to improve and speed up border clearance processes. The country still relies on an old version of the Asycuda++ customs software, dating back to 1992. It needs to follow other countries and move to a new and more sophisticated e-customs system such as Asycuda World. The benefits of such modern systems include: (i) faster assessment of customs declarations; (ii) reductions in transaction time for payment and release of cargo; (iii) greater accountability for revenue collection; (iv) facilitates the application of risk management and selectivity principles, which in turn is crucial in reducing the number of inspections and reducing delays at the border; and (v) allows for closer interaction between customs and other agencies with border clearance responsibilities, such as those responsible for standards. The implementation of such a modern customs system would be an important first step toward reducing the time and cost of border clearance procedures and addressing corruption in customs and other border agencies.

FIGURE 37
Logistics Performance Index Ranking, 2018



Source: World Bank staff calculations using LPI 2018 and WDI datasets.
Note: CAR is compared to a selected number of FCV and landlocked countries in SSA.

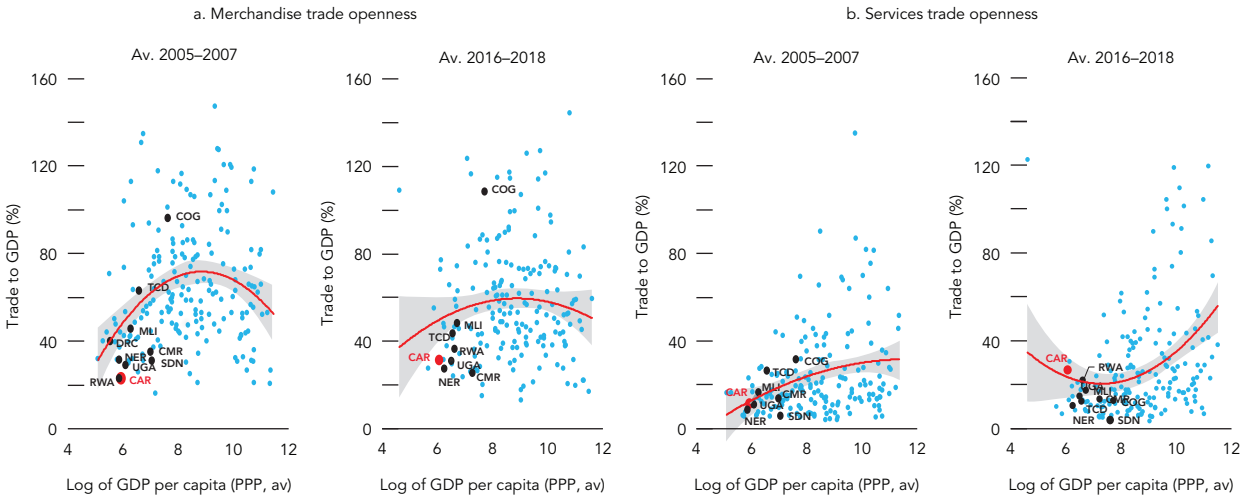
Although tariffs contribute little to trade costs globally, CAR's levies are among the highest in the world. The country applies CEMAC's CET to imports from outside CEMAC, while imports from CEMAC members are in principle duty-free, although the costs of proving compliance with origin rules may limit preferential trade. The CEMAC CET is relatively simple in that there are only four different tariff rates: (i) 5 percent on products deemed to be essential; (ii) 10 percent on raw materials and equipment; (iii) 20 percent on intermediate goods; and (iv) 30 percent on consumer goods. In 2017, the simple average tariff applied by CAR was 18 percent, which is among the highest tariffs in the world. By comparison, the global average tariff was 7.5 percent, the SSA average was 10.9 percent, the ECOWAS average was 12.1 percent, and the SADC average was 6.3 percent in the same year.

Relatively high tariffs raise the cost of consumption, limit the access of firms to inputs, and distort production incentives. The highest tariffs are levied on consumer goods in CAR, which has implications for poverty reduction. For example, the tariff on primary agricultural products for household consumption raises the price of imported food by more than 25 percent (similar price increase for imported processed food). The tariffs on inputs for industry are also high in CAR and considerably above those of Lao PDR (a small landlocked post-conflict country), constraining the ability of firms to compete in international markets (**Figure 40**). High tariffs on finished products incentivize firms to produce for the protected market instead for more competitive export markets. CAR is a member of the CEMAC customs union and therefore has limited ability to influence the setting of tariffs, which means that the country likely needs to advocate for a review of the CEMAC tariff structure if it is to successfully pursue a trade-driven growth strategy.

High trade costs result in low trade openness compared to peers

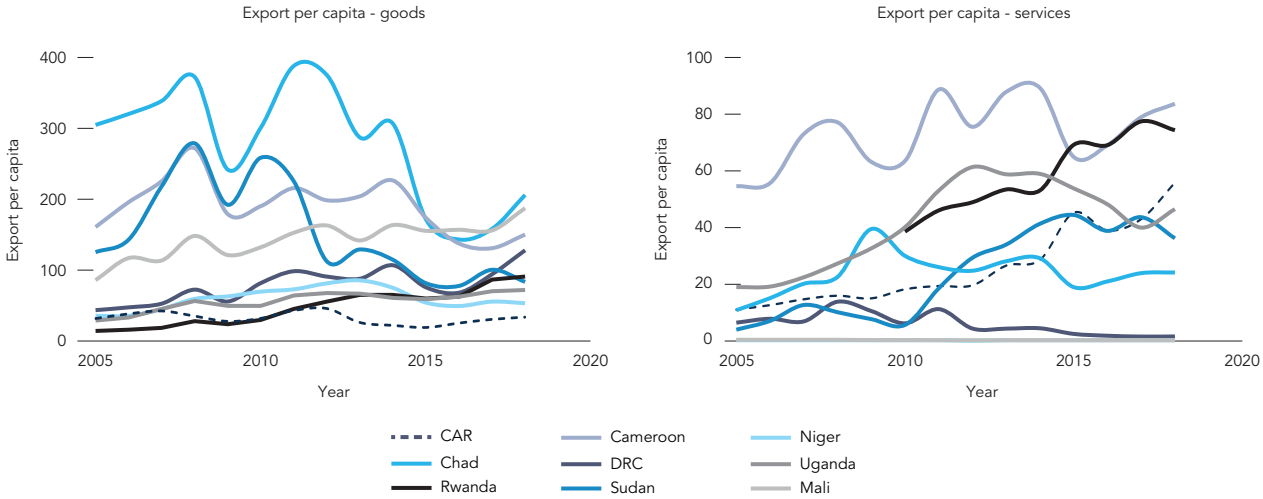
CAR's merchandise trade openness is low compared to that of its peers. The country's level of goods exports, as well as goods exports per capita, is lower than that of peers (**Figure 39**). By contrast, its service trade openness is high compared to that of peers and improved between 2016 and 2018 (**Figure 38**). Commercial services accounted for 20 percent CAR's total services in 2018—lower than an average of 78 percent in peer countries.[77] There is, however, no information on the type of services that are driving this trend, and the increase in services trade may reflect the presence of international agencies in the country.

FIGURE 38
CAR's Trade Openness



Source: Authors' calculations using UNCTAD data.
Note: Countries in red are CAR's peer countries. BDI=Burundi, CMR=Cameroon, CAF=Central African Republic, TCD=Chad, COG=the Republic of Congo, ETH=Ethiopia, KEN=Kenya, LAO=Lao People's Democratic Republic, MLI=Mali, RWA=Rwanda, UGA=Uganda.

FIGURE 39
Merchandise and Services Exports per Capita, 2005–2018

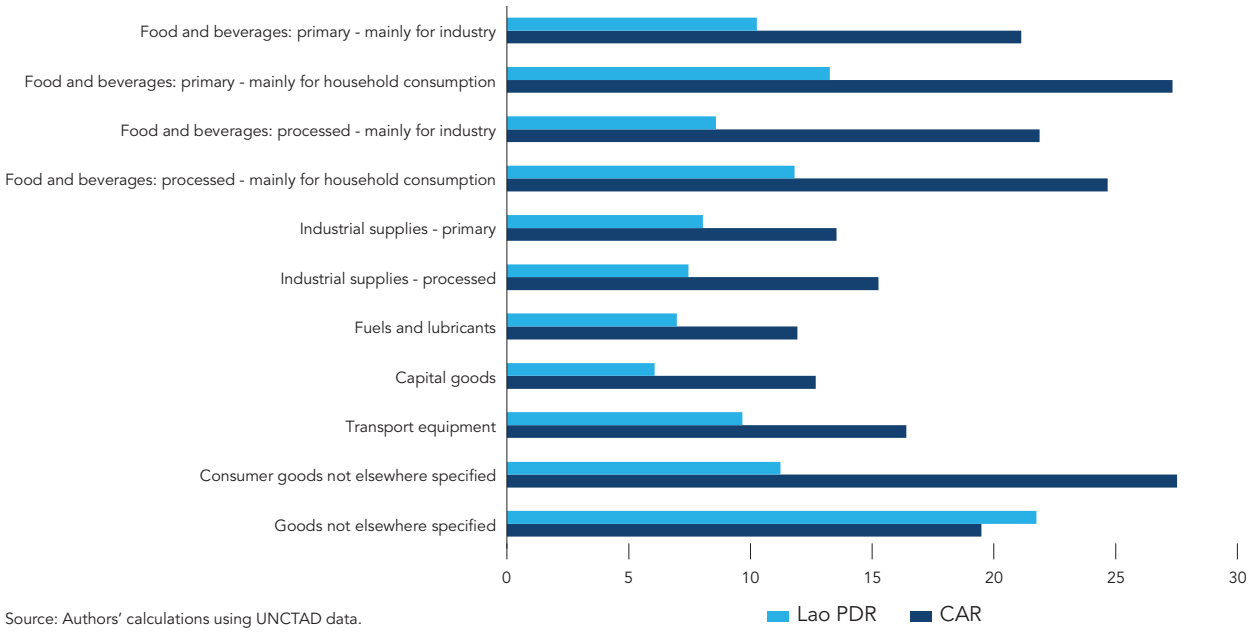


Source: Authors' calculations using UNCTAD data.

[77] Only commercial services data are available.

FIGURE 40

Comparison of CAR and Lao PDR Tariffs by Economic Category, 2017



Source: Authors' calculations using UNCTAD data.

CAR's exports are dominated by a narrow range of natural resource products (mainly mining and forestry), and the concentration of exports has increased in recent years. The country's top 5 export products account for around 60 percent of total exports, while the top 20 products represent about 86 percent of total exports. CAR's key export products include mineral products (gold and diamonds) and wood. Customs statistics also reveal that reexports of motor vehicles and machinery are also important, reflecting the conflict situation and the activities of international agencies present in the country. More detailed transaction-level data suggest that 10 firms account for more than 80 percent of the country's total exports. Low export diversification and the increasing level of export concentration make CAR vulnerable to sudden changes in the international price of key mineral products (World Bank 2020b).

CAR trades mainly with countries outside of Africa and very little with its neighbors. In 2020, over 50 percent of exports went to the European Union, followed by China (11 percent) and Pakistan (10 percent). CAR's motor vehicles and machinery exports are mostly exported by the United Nations Mission in the Central African Republic (MINUSCA) and the Embassy of France, and these re-exports artificially inflate the country's current exports. Hence, the role of trade in the economy is considerably less than what is suggested by official statistics. In addition, CAR's reliance on distant export markets makes it vulnerable to external economic shocks. For instance, CAR's exports to the European Union and the United States fell by 12 percent and 66 percent, respectively, between March and June 2020 due to the COVID-19 pandemic. Exports to more distant markets require sophisticated transport logistics and are vulnerable to factors that constrain access to the trade corridor to Douala, such as climate change-related extreme weather events.

A Challenging Regional Environment that Limits Trade

CAR's regional trade is limited by the fragility of its neighbors and poor cross-border transport linkages. CAR borders 6 countries that, in principle, offer substantial opportunities for cross-border trade. However, all its neighbors are also affected by FCV, resulting in instability that constrains trade and the ability of countries to address common challenges such as poor connective infrastructure. Nevertheless, experience from elsewhere (e.g., the border between the Democratic Republic of the Congo and Burundi as well as that between Rwanda and Uganda) suggests that a considerable amount of small-scale cross-border trade can take place in unstable environments, with important benefits in terms of food security and poverty reduction. But the Government of CAR does not control all the country's border crossings, especially those in the east of the country, which means that revenues collected at these crossings are funding the armed groups that control

them. This situation puts even more pressure on the Bangui-Douala corridor—which is estimated to account for about 80 percent of CAR's internationally traded goods—as a revenue generator for the government.

All members of CEMAC continue to impose border regulations that differ across countries, hampering cross-border and regional trade. Complex border procedures involving dual border approval increase trade costs and constrain free trade. The dual border approval process requires traders to receive approval at the border of both exporting and importing countries, which causes delays that raise trade costs and can sometimes be detrimental to perishable products. These border procedures may be especially harmful to micro firms by increasing their costs and making them less competitive. Also, there are still non-tariff measures (NTMs) in the ECCAS region, and some standards, including rules of origin and sanitary and phytosanitary standards, differ across ECCAS members (African Development Bank 2019).

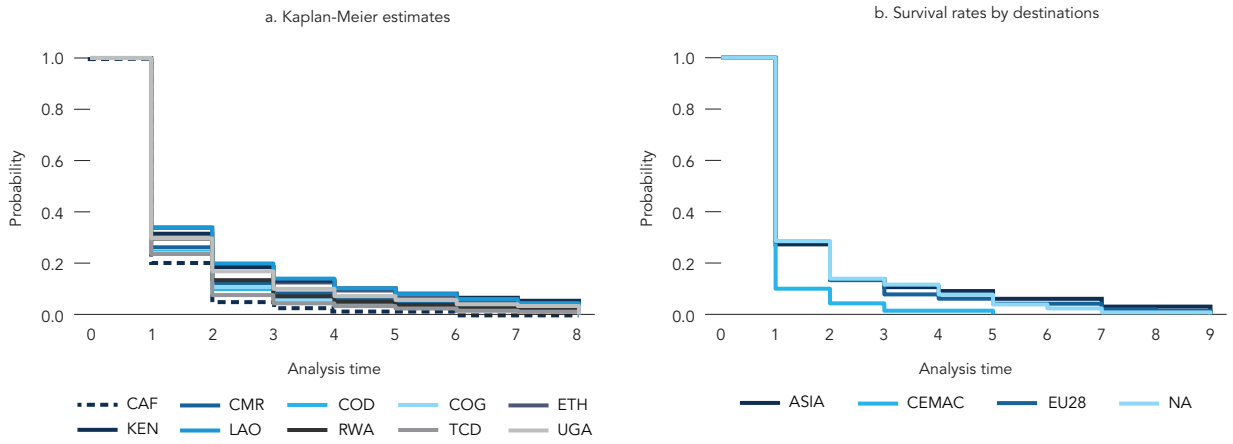
As a result of high trade costs and poor connectivity, trade plays a smaller role in the economy than it could, exports lack diversity, and few firms participate in GVCs. CARs recent trade performance demonstrates that there is considerable potential for CAR to increase the role of trade in the economy to levels seen in comparator countries. More inclusive trade can be driven by diversification into a wider range of goods and services, including through greater participation in GVCs. Trade diversification can be achieved through: (a) the export (or import) of new goods or services; (b) the export (or import) of existing products to new markets; and (c) quality upgrading of exported (or imported) products. The agriculture sector holds particular promise as a driver of export diversification, especially into regional markets.

Low Export Survival Rates, GVC Participation, and FDI

Export survival, measured in terms of entry into new export markets as well as the duration of export flows, is a key determinant of export growth and diversification. (Brenton et al., 2010). Firms in developing countries tend to be smaller and less productive than their counterparts in developed countries. As a result, the duration of exports tends to be shorter from developing than developed countries. Also, the distance of export markets can influence a firm's export survival rates. Understanding the challenges and structure of firms' export survival could inform policies aimed at promoting export diversification.

Yet, export survival rates are lower in CAR than in peer countries, reflecting the high cost of trade. The probability of export relationships surviving past the first year is just 20 percent in CAR, and the probability of them lasting for more than two years is less than 10 percent (**Figure 41**). These survival rates are lower than those of all peer

FIGURE 41
Export Survival Rates by Country and Destination



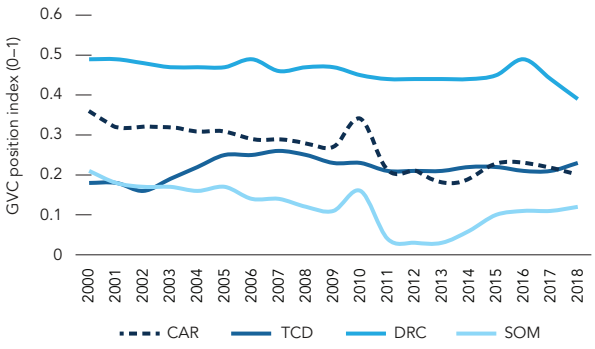
Source: Authors' calculations using data from WITS and Export Mirror Data.

comparator countries. As in other countries, large firms in CAR have higher survival rates than small and medium-sized enterprises. Exporters in CAR have a greater chance of surviving in Asian, European, and North American markets than in CEMAC. CAR's export survival rates in CEMAC are lower than in other markets around the world. Larger and more productive firms tend to export to high-income destinations, while their less productive and smaller counterparts tend to serve regional markets. Moreover, large firms tend to export raw and mineral products and are better positioned than their smaller counterparts to address regulatory and other barriers related to exports. However, the export of raw and mineral products tends to have a limited impact on employment and productivity growth. The smaller size of firms and the type of products exported (e.g., perishable agricultural products) could mean that insecurity and barriers to regional trade have a greater impact on the survival of exports to regional markets than elsewhere.

Similarly, CAR's participation in GVCs is limited and has been declining over the years (Figure 42). GVCs enable developing countries to take advantage of advanced economies' cutting-edge industries rather than having to build up their own industries (World Bank 2020b). Participation in GVCs can generate quality jobs, increase productivity, and reduce poverty by boosting incomes and productive employment. The share of CAR's exports involved in international production (i.e., sum of backward and forward participation, which is an indicator of the level of participation in GVCs) fell from 73 percent in 2000 to 58 percent in 2018 (World Bank 2020b). CAR's level of participation in GVCs seems high compared to oil exporters in CEMAC, but it is distorted by the short value chain of diamonds, which have long been among CAR's top export products.

FIGURE 42

Participation in GVCs, CAR vs. Comparators, 2000–18



Source: Authors' calculations using Eora data.

CAR participates in GVCs primarily through forward linkages, which means it is missing out on the productivity spillovers that accrue from backward linkages. CAR's backward linkages—importing foreign inputs to produce goods to export—are much less extensive than its forward linkages—exporting domestically produced inputs to countries involved in downstream production—reflecting the dominance of exports of unprocessed minerals and raw materials. While CAR's GVC participation has been generally higher than that of selected FCV peers, it has been declining since the 2000s. Integrating into GVCs with high value-added products through backward linkages can contribute to productivity growth and more diverse trade (World Bank 2020b).

Recurrent conflicts, high trade costs, and a challenging regional environment contribute to low FDI. As demonstrated in the economic literature, FDI is an engine for growth and an important channel for technology transfers from advanced to less developed countries. However, CAR appears to be attracting negligible interest from foreign investors relative to regional peers, with FDI inflows 23 times lower in CAR than in other FCV countries (**Figure 43**). Recurrent conflicts, combined with high trade costs, poor connectivity, and a challenging business and regional environment, has limited CAR's ability to attract FDI. Along with policy actions and reforms to escape the fragility trap and boost growth, the country needs to design and implement sound strategies to attract FDI. These strategies could focus on the tradeable sector to leverage foreign savings and demand, and they could target the diaspora to possibly bring back qualified workers and contribute to productivity growth and human capital accumulation.

FIGURE 43

In 2018, FDI Inflows were about 23 Times Lower in CAR than in Other FCV Countries.

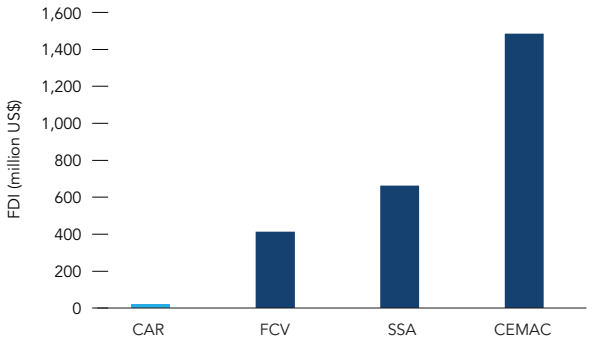
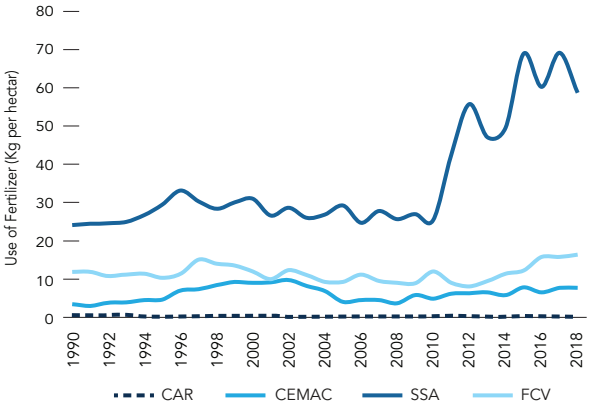


FIGURE 44

Fertilizer Use per Hectare is Very Low in CAR Compared to in Peer Countries



Source: World Bank staff calculations using WDI data.

Global, Regional, and Cross-Border Trade Opportunities

Reducing trade costs along the Bangui-Douala corridor

Reducing trade costs along the Bangui-Douala corridor is essential to better link CAR to global markets. A substantial reduction in trade costs would enable CAR to overcome the limitations of the small domestic market and exploit large and stable demand in overseas markets in North America, Europe, and Asia. Reducing trade costs along the Bangui-Douala corridor would enable firms to better access imported inputs, encourage investments in activities related to GVCs, and reduce the cost of consumption for the country's poorest households. Reducing border clearance costs through modernization of customs procedures at the border with Cameroon and in Bangui is an important first step toward lowering trade costs that are within the control of the government. Moreover, reviewing and streamlining bureaucratic control measures, such as procedures related to issuing import licenses and permits, would contribute to greater transparency and predictability of trade procedures. In addition, efforts to remove cost-raising obstacles along the corridor, such as roadblocks, by coordinating with the authorities in Cameroon could lower costs for truckers, reduce journey times, and lower vehicle operating costs.

Tapping into the potential of agricultural trade as a strategy for post-conflict reconstruction and growth

Experience from other FCV countries suggests that rebuilding the agriculture sector is an important strategy for post-conflict reconstruction. Many civilians have been displaced by conflict in CAR, and their agricultural livelihoods have been disrupted. But agriculture is well suited to absorb demobilized combatants, improve food security, and enhance livelihoods.[78] Evidence shows that in low-income countries, growth in the agriculture sector can have a more powerful impact on economic growth, employment, and poverty alleviation than growth in non-agricultural sectors.[79] The development and modernization of CAR's agriculture sector presents an opportunity to attract private sector investment and generate jobs in processing and services such as transportation and logistics.

Yet, one of the key constraints to agricultural productivity is the low use of fertilizer. CAR's agriculture sector remains mostly informal, and the level of agricultural production and productivity is low compared to regional comparators, let alone global best practices. There is therefore a huge

[78] Birner, Cohen, and Ilukor (2011), see also similar discussion in World Bank (2020) regarding the case of Iraq.
[79] Christiaensen et al. (2011) show that a 1 percent increase in agricultural per capita GDP reduces poverty five times more than a similar increase in non-agricultural per capita GDP.

TABLE 8
Crop Yield in kg per Hectare, 2018

	CAR	Cameroon	Chad	Congo	DRC	Sudan
Cassava	2791	14684	8109	10742	8138	
Maize	777	1709	1281	938	775	1500
Millet	1114	1388	619	888	670	705
Plantains	2865	13527		7410	4433	
Sesame	219	1296	531	437	442	276
Sorghum	1028	1646	867		669	676

Source: FAOSTAT.

potential to increase the agricultural output of basic crops. A key challenge is that fertilizer use per hectare is very low in CAR compared to peer countries (**Figure 44**). In 2018, CAR consumed 0.19 kg of agricultural fertilizer per hectare of arable land, lower than that of any of its peers (**Table 8**). For instance, Cameroon and Kenya used 69 and 84 times more fertilizer per hectare of arable land, respectively, than CAR in the same year. An intensification or increase in the use of fertilizer would boost CAR's agricultural productivity and production and increase the export potential of a range of agricultural and potentially processed food products.

An increase in the use of fertilizer could help CAR increase agricultural production and become an exporter of agricultural products. If CAR increased its use of fertilizer to the same level as Cameroon, the production of some crops, including cassava, maize, millet, plantains, sorghum, and sesame, would double or increase by five times. An increase in agricultural production could reduce the country's dependency on food imports and provide opportunities to accelerate economic growth, increase employment, and reduce poverty. It could also increase CAR's exports of agricultural products, especially to neighboring countries since most of them are net importers of agricultural or food products.

Access to new agricultural technologies through trade will become even more important to successfully adapt to climate change. For low-income countries, trade is key for firms to access knowledge and new technologies. However, trade barriers often constrain access to new technologies embodied in imported inputs, including barriers that limit farmers access to higher yielding seeds that are readily available outside of CAR. New technologies to adapt to climate change will typically require knowledge and guidance to ensure they are applied in accordance with local conditions. The spread of new technologies and ideas can be a challenge in developing countries such as the CAR, where farmers are often heterogeneous smallholders and highly dispersed. Access to extension services can be critical in facilitating the uptake of new seed varieties and will therefore be critical for agricultural firms to adapt to climate change. Previous research has highlighted the potential to increase access to extension services by agricultural specialists in Africa through greater cross-border mobility of extension service providers. This could be achieved through measures such as creating a regional database of agricultural specialists, removing barriers to movement (e.g., lengthy administrative procedures to obtain a work permit), and introducing transparent procedures to recognize the qualifications of agricultural specialists (e.g., mutual recognition agreements of professional qualifications).[80]

Deepening regional trade integration to maximize CAR's trade potential

Deeper regional trade integration could help CAR increase and diversify its exports and attract private sector investment. By increasing the size of the available market, effective regional integration could attract private investment in new activities. For CAR, increasing productivity in agriculture, together with deeper regional integration, could encourage investment in regional food value chains and potentially create new food processing jobs. Empirical evidence shows that regional integration fosters exports

[80] World Bank. 2012. "Africa can Help Feed Africa."

and export diversification (Sanguinetti et al. 2004). Moreover, trade between countries at a similar level of socioeconomic development is more diversified than trade between countries at different levels of development.[81]

Efforts to facilitate imports, improve distribution, and enhance extension services could increase fertilizer application rates. CAR imports most of its fertilizer, with Cameroon being its main supplier in 2018. Farmers in Africa, especially those in landlocked countries, face higher prices for fertilizer than farmers elsewhere in the world, and markets in many African countries are too small to exploit economies of scale related to fertilizer production and blending. The absence of regional fertilizer markets is partly due to individual countries often specifying their own fertilizer blend specifications and specialty products, which means that fertilizers cannot move freely from country to country. Regional markets with common fertilizer specifications could generate substantially lower prices. Deeper regional integration that reduces trade costs would increase the availability, reduce the price, and bring more variety of imported fertilizers for CAR's farmers. Hence, simplifying trade procedures for fertilizer could boost agricultural productivity.

Harmonizing trade procedures and streamlining NTMs in ECCAS would reduce delays and ease the free circulation of goods and services, boosting trade and competitiveness in the region. The streamlining of NTMs and the standardization and harmonization of trade procedures, including borders procedures, standards, and regulations, would deepen economic and trade integration and cooperation. Efforts to deepen the integration of ECCAS members would inevitably increase intraregional and cross-border trade, which would be especially beneficial to CAR.[82]

The African Continental Free Trade Area (AfCFTA) offers an opportunity for CAR to pursue deeper and more effective regional integration. CEMAC has proved to be of limited effectiveness in reducing barriers to trade and promoting regional integration. The AfCFTA provides an opportunity to pursue a new approach to integration in Africa that could drive exports, job creation, and poverty reduction in CAR. Projections by the World Bank suggest that the full implementation of the AfCFTA would significantly boost African trade, with exports between African countries increasing by over 81 percent, while exports to non-African countries would rise by 19 percent. This would increase household incomes and could lift an additional 30 million people, or 1.5 percent of the continent's population, out of extreme poverty by 2030. The largest gains in poverty reduction from the implementation of AfCFTA would occur in countries with high initial poverty rates, including CAR, where extreme poverty could fall by 5.1 million. To achieve these gains, the authorities would need to not only remove tariffs on intra-Africa trade but also significantly reduce NTBs and, more importantly, improve trade facilitation.

For CAR to successfully fulfill its commitments to deepen regional integration under the AfCFTA, the government needs to adopt policy reforms, supported by technical assistance and capacity building. CAR would benefit significantly from reducing not only its own trade costs but also those in neighboring countries that could be coordinated under the AfCFTA. Improvements in trade facilitation would require significant investments to modernize border infrastructure, introduce electronic clearance processes, and move to modern risk-based approaches for inspections. Prioritizing improvements in border processes for perishable agricultural products (e.g., by introducing a fast lane for such products) would be especially beneficial given the cost of wastage from delays at the border. Box 3 provides an econometric analysis of the potential gains for CAR, especially in agriculture, from pursuing deeper regional integration through CEMAC and/or the AfCFTA.

Improve connectivity to regional and global markets

Trade will be essential for CAR to achieve economies of scale, accelerate economic growth, and escape fragility. Challenges related to CAR being landlocked and a relatively small economy translate into limited opportunities for its domestic market to drive sustained and inclusive growth. Experience from other countries shows how trade can be key to access new technologies that promote productivity growth; increase competition, especially in sectors that provide critical inputs to other economic activities (e.g., backbone services); and provide broader market opportunities that attract private sector investment. Given the importance of the agriculture sector in CAR and the agricultural market opportunities in the region, trade in food products, especially with neighboring countries, offers a way to diversify the economy and reduce the country's dependence on a small number of export products that have a limited impact on the poor.

[81] Regolo 2013.
[82] Romalis (2007) shows that a country becomes more exposed to trade when its trading partners reduce their tariffs and liberalize their trade regimes.

BOX 3

Regional Integration and Trade: A Gravity Analysis

The adoption of regional trade agreements (RTAs) has increased substantially over the past decades. According to the World Trade Organization, there were 339 RTAs in force as of February 2021.[83] Evidence shows that RTAs boost trade among members and contribute to economic growth.[84] For instance, there is strong evidence that the Association of Southeast Asian Nations (ASEAN), the European Union, and MERCOSUR have boosted trade between their members. A gravity model is often used to estimate the change in trade flows due to the adoption of RTAs.[85]

A gravity model is used to assess the potential impact of the RTAs of ECCAS and AfCFTA on trade flows, including agricultural trade flows. In addition to the ECCAS membership, the gravity model includes other variables such as market size (measured by GDP), distance, and General Agreement on Tariffs and Trade (GATT) membership. The ECCAS variable is a dummy variable that takes a value of 1 if a country is a member of ECCAS and 0 if it is not. The empirical estimation is performed over the 2000–2019 period using the Poisson maximum likelihood (PPML) estimator to estimate the potential effects of ECCAS' and the AfCFTA' free trade agreements. The PPML estimator provides some advantages over the ordinary least squares (OLS) estimator, including the fact that it controls for heteroscedasticity and remains consistent with and without the inclusion of zero-trade observations (Silva and Tenreyro 2006).

Increased regional integration is likely to stimulate CAR's trade with its neighbors, especially its exports of agricultural products. The results of the gravity model show that the implementation of the RTAs under ECCAS and the AfCFTA would significantly increase intraregional trade flows. More importantly, ECCAS' RTA would have a greater impact on agricultural trade between its members than on total intraregional trade. CAR needs to leverage regional integration and cross-border trading to stimulate and diversify its exports, especially agricultural products, which could accelerate economic growth and alleviate poverty. For example, Laos, a landlocked country like CAR, has stimulated its economy by trading with its neighbors and encouraging regional investment flows. As a result, Laos is now classified as a lower-middle-income country, and its economic growth is driven mainly by trade with neighboring countries such as Thailand, China, and Vietnam.

Deeper regional integration could benefit CAR not only economically but also politically by increasing the opportunity cost of war. Armed rebellions tend to use neighboring countries to plan attacks, recruit, and procure supplies for groups within the country. An increase in bilateral trade among ECCAS members, along with closer ties between the people of different countries, would increase the opportunity cost of civil war.[86] Therefore, efforts to deepen regional integration and increase trade within ECCAS could help to reduce or prevent conflicts both within and between countries and promote political stability.

[83] https://www.wto.org/english/tratop_e/region_e/region_e.htm.
[84] Carrere (2006) shows that RTAs increase trade among members significantly, while Liu (2016) and Vamvakidis (1998) find that RTAs make important contributions to economic growth.
[85] For example, see Baier and Bergstrand (2007) and Carrere (2006).
[86] Martin et al. (2008) find that trade openness may act as a deterrence to the most severe civil wars. Similarly, Martin et al. (2012) show that countries with a higher frequency of past wars are more likely to sign RTAs because of their ability to promote peaceful relations by increasing the opportunity cost of conflict.

To reduce trade costs and improve connectivity to regional and global markets, the government needs to pursue national reforms and coordinate policies with neighboring countries. Investments in trade facilitation are likely to have big payoffs. While complex efforts to pursue cross-cutting measures are important, improving institutions and governance and investing in education and infrastructure are critical to provide a conducive business environment for private sector investment. Investments and policy reforms that increase connectivity to regional and global markets would allow firms in CAR to exploit opportunities for backward and forward linkages within regional and global value chains. Moreover, the government could enhance trade by simplifying measures for border management and investing in better border infrastructure that reduces delays and the costs of crossing the border. The AfCFTA offers a new mechanism by which to pursue reforms aimed at deepening trade integration in Africa. In addition, the government could explore bilateral discussions with neighboring countries to jointly facilitate trade. Measures that have proved useful in other regions include: (i) implementing a simplified trade regime for small-scale traders; (ii) supporting trader associations; (iii) creating a regular cross-border dialogue on removing non-tariff measures; (iv) small-scale investments in lighting and security that would allow for longer border opening hours; (v) investments in sanitation facilities for officials and traders; (vi) enhancing market information for traders; and (vii) addressing logistics constraints.

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CHAPTER 4

Build Up Market-Based Competition, Institutions, and the Regulatory Framework

Limited Market-Based Competition Hinders Private Sector Development

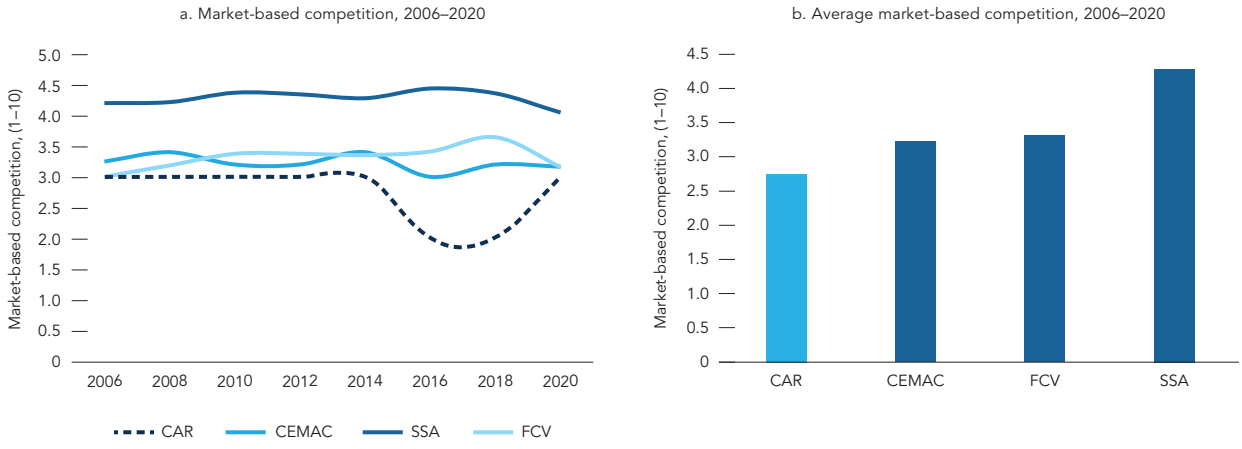
In CAR, market-based competition, regulatory framework governance, and institution indicators are weak and have been deteriorating over the past decades, affecting the country's ability to achieve its growth potential. CAR lags far behind comparators on market-based competition, quality of the regulatory framework, government effectiveness, rule of law, and political stability. Various factors such as high market concentration, several underperforming state-owned enterprises (SOEs), an ineffective regulatory framework, and vested interests tend to hinder market-based competition in CAR. Widespread state participation in commercial activities also deters private sector investment. While government involvement in the economy is underpinned by a desire to achieve social objectives, including creating jobs and reducing commodity price volatility, there are negative externalities that affect economic efficiency, productivity growth, and fiscal sustainability. The country's limited competitive environment is likely to lead to resource misallocation and limited productivity growth.

Anticompetitive regulations and the weak ability of the judicial system to solve commercial disputes hinder competition. While regulatory policies are standard in areas such as telecommunications, banking, insurance, accounting, legal, electricity, and gas, they can become a barrier to competition when they restrict investment for new entry. A weak judicial system can prevent new firms from entering the market, increasing the monopolistic positions of existing dominant firms.

CAR lags behind its neighbors in terms of market-based competition. The country ranks lowest behind Gabon on market-based competition fundamentals in the Central African Economic and Monetary Community (CEMAC). Between 2006 and 2020, CAR's score on the Bertelsmann Stiftung's Transformation Index (BTI)[87] has been lower than that of Rwanda and the average of CEMAC (**Figure 45a**). The BTI remained at 3 between 2006 and 2014, before it dropped by 1 point between 2014 and 2016. Between 2016 and 2018, CAR's level of competition remained relatively unchanged, with a BTI of around 2, before it improved by 2 to 3 points between 2018 and 2020. The improvement on the BTI was partly due to an increase in new private firms, in particular real estate and restaurant businesses, because of the continued influx of international organizations (Bertelsmann Stiftung 2020). All CEMAC member countries, excluding Gabon, and Rwanda perform better than CAR on local competitive intensity (**Figure 45b**).

FIGURE 45

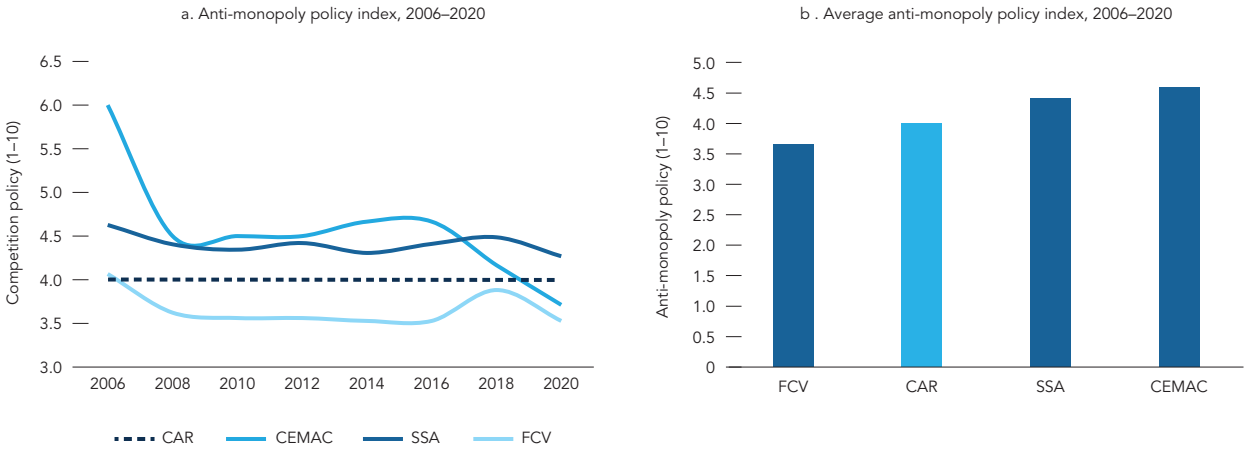
Despite Recent Improvements, CAR Lags Behind Comparators in Terms of Market-Based Competition



Source: Bertelsmann Stiftung Foundation.
Note: Measured on a scale of 1 to 10, where 10 denotes the best conditions for market-based competition and the existence of comprehensive competition laws that are strictly enforced.

[87] The Bertelsmann Stiftung Transformation Index references country-level competition data complementary to the World Economic Forum's competition indicators. For this section, two subcomponents of the BTI are used: market-based competition and anti-monopoly policy. The scale of each index varies from 1 (worst) to 10 (best). BTI scores are mainly based on opinion surveys among country experts and are available every two years over 2006–2020.

FIGURE 46
Anticompetitive Policies Remain Widespread in CAR

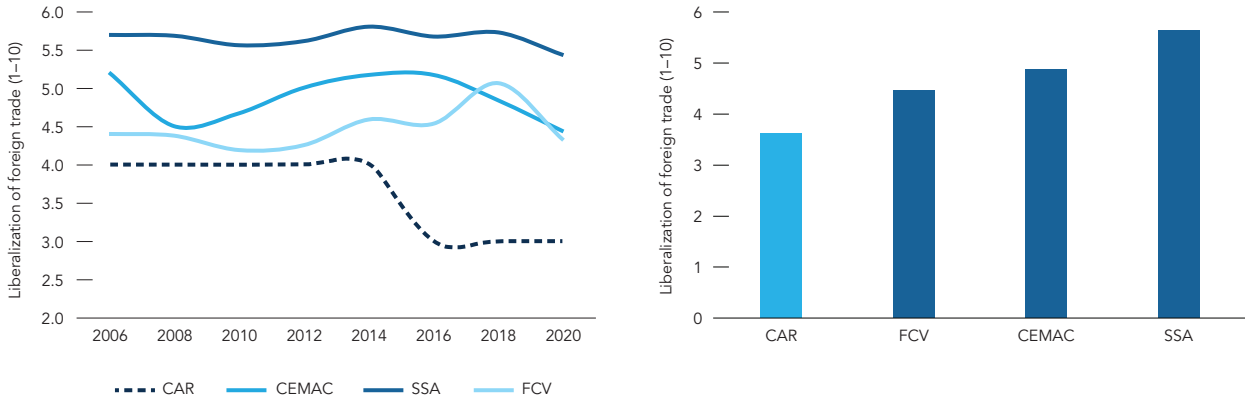


Source: Bertelsmann Stiftung Foundation.
Note: Measured on a scale of 1 to 10, where 10 denotes the best conditions for market-based competition and the existence of comprehensive competition laws that are strictly enforced.

CAR has not adopted or enforced legal or political measures to limit anticompetitive behavior. Between 2006 and 2020, CAR scored 4 on rules that prevent the development of economic monopolies and cartels in the Bertelsmann Stiftung Anti-Monopoly Policy index, below the average of CEMAC (4.59) and Rwanda (6.125) (**Figure 46**). CAR underperformed Cameroon, Chad, Guinea, and Rwanda, although it did perform better than the Republic of Congo and Gabon. Even though CAR is a member of CEMAC and has ratified the union's competition regime, there are no formal institutions or national enforcement authority in the country. As a result, competition laws in CAR are challenging to enforce, giving rise to monopolies and duopolies, especially in the telecommunications and banking sectors.

Limited trade liberalization has affected competition and private sector development. Between 2006 and 2014, CAR scored an average of 4 on the Bertelsmann Stiftung's Liberalization of Foreign Trade index, well below the average of CEMAC (4.87) and Rwanda (6.5) (**Figure 47**). In 2014, CAR's trade with other countries started to deteriorate even further, as its score on the index fell by 1 point between 2014 and 2016. This underperformance is due to the country being landlocked and the poor conditions of road infrastructure, among other factors.

FIGURE 47
Limited Liberalization of Foreign Trade Affects Competition



Source: Bertelsmann Stiftung Foundation.
Note: Measured on a scale of 1 to 10, where 10 denotes the best conditions for market-based competition and the existence of comprehensive competition laws that are strictly enforced, respectively.

The Regulatory Framework is Conducive to Elite Capture and Hampers Market-Based Competition

Elite capture happens when powerful and well-connected groups influence policies and make them serve their narrow interests.[88] This distorts resource allocation and leads to weak innovation and productivity, as less productive and underperforming firms in the economy may advocate for policies and institutions to protect their economic power and domestic market; obtain preferential treatment; and undermine fair competition. In private sector development, governance failures and power asymmetries lead to elite capture, clientelism, and exclusion, which can take the form of: (i) discretionary allocation of permits, licenses, and contracts to connected firms and investors; (ii) explicit or informal regulatory barriers to entry; (iii) a complex regulatory framework and discretionary enforcement of existing regulations that protect current privileges; (iv) a weak competition framework and weak enforcement capacity that limit the government's ability to identify anticompetitive behavior and dismantle monopolistic positions.

CAR's regulatory framework is conducive to the protection of privileges and elite capture. There has been little effort in the recent past to adopt anti-monopoly policies. Also, when competition laws do exist, they are often not enforced, as there are no formal institutions or a national authority to enforce competition laws. Moreover, property rights and acquisition regulations are neither implemented consistently nor safeguarded adequately by existing laws. This section examines privilege protection and elite capture through three pillars: (i) public procurement, (ii) the business regulatory environment, and (iii) trade and customs. A similar methodology was used to study privilege-resistant policies in the Middle East and North Africa in 2015.

Public Procurement

Public procurement is important for economic development, especially in developing countries. Government expenditure is an essential determinant of economic growth and development. The importance of government expenditure in economic development has also been testified by Ram (1986) through his growth accounting model. Public procurement is an essential component of government spending and has, theoretically, a positive effect on economic growth. Moerenhout and Roy (2012) found that public procurement is an untapped potential for sustainable economic development. This positive link occurs when public procurement is productively managed, resulting from good governance through a proper regulatory framework, good institutions, fair competition, transparency, and accountability. The objective of this section is to study governance and competition in public procurement. It analyzes and evaluates the following areas of public procurement policies and practices: (i) institutional and regulatory framework governing public procurement; (ii) fair opportunity and equality of treatment; (iii) transparency, confidentiality, and access to information; (iv) existence and fairness of grievance mechanisms; and (v) transparency, integrity, and accountability of the procurement system. The pillars used to assess the fairness and privilege resistance of public procurement systems are partly based on the Organisation for Economic Co-operation and Development's (OECD) MAPS methodology (OECD 2010), which is an auto-assessment tool for countries that aim to improve their procurement systems.

Improving the public procurement process is key to realize CAR's growth potential. The country's weak current public procurement system and practices, which are characterized by a lack of accountability, transparency, competition, and fairness, have contributed to a slowdown in the pace of the economic recovery over the past few years. For instance, there is no digital platform dedicated to public procurement. One-third of sector ministries and agencies do not prepare a procurement plan, few projects are tendered through a competitive process, and critical statistics on procurement contracts are not published. As a result, key development projects related to construction, equipment acquisition, and infrastructure are delayed, suffer from cost overruns, and/or are poorly executed. The country's procurement challenges make it difficult to achieve value for money and leverage public procurement to accelerate economic growth.

CAR's public procurement regime is exposed to privilege-seeking and corruption. A comparison of CAR to countries in the Middle East and North Africa (MENA)[89] reveals that

[88] The World Development Report 2017: Governance and the Law (World Bank 2017) provides a robust framework for understanding governance failures such as discretion, capture, collusion, and privileged treatment.
[89] CAR is compared to countries in MENA and Lebanon in particular because of data availability reasons and the fact that Lebanon is the only FCV country for which data are available.

CAR's public procurement regime is vulnerable to privilege-seeking. On the Public Procurement Privilege Resistance index, CAR scores lower than the MENA average, although it performs better than Lebanon (**Figure 48a**). The country's low score can be attributed to a lack of transparency, the unequal treatment of firms, and opacity in the public procurement system. This can prevent the entry of new firms on the market, as transparency and a fair legal framework are some of entrepreneurs' key investment criteria.

While transparency, confidentiality, and access to information are well defined in existing procurement regulation, related institutions and accountability are weak. A decomposition of the Public Procurement Privilege Resistance Index reveals that there is little chance for participants in CAR's public procurement process to pursue grievance, complaints, and recourse actions fairly (**Figure 48b**). Accountability, procurement institutions, and the regulatory framework are weak, meaning that the public procurement system gives rise to corruption and elite capture. CAR's score on the Fair Competition Index is slightly higher than 0.5, meaning that there is still room to improve the fair opportunity process. Fair competition in the public procurement system is vital to select the most competent firms and optimize public services. Transparency, confidentiality, and access to information are defined by the regulatory framework, but their enforcement is weak, resulting in corruption and rent-seeking.

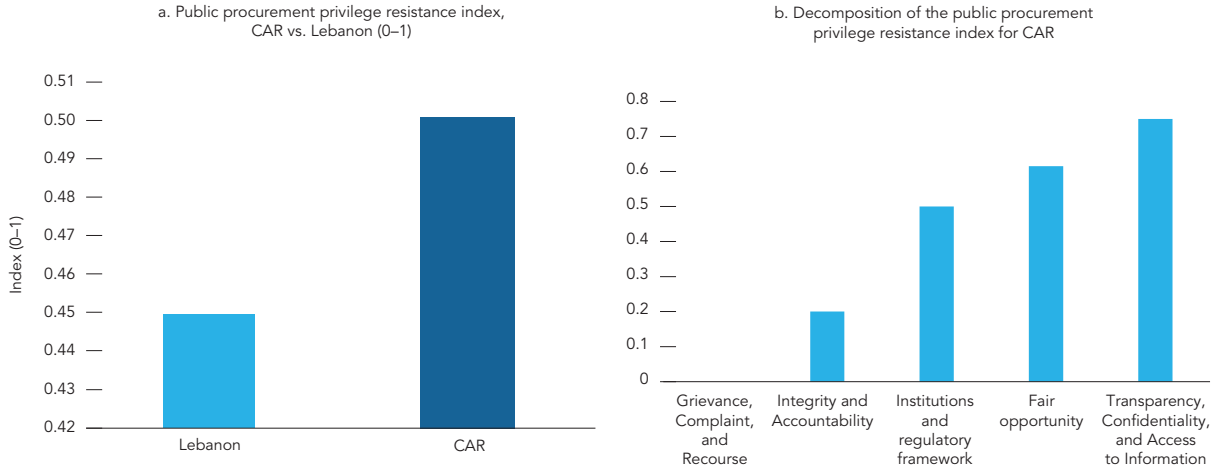
Institutions and regulatory framework

According to international best practices in procurement, a reasonable and fair institutional and regulatory framework is crucial for an efficient public procurement system. Government agencies use public procurement to purchase goods and services from private firms, and the government plays an intermediary role between taxpayers and the firms that have been awarded a procurement contract. The government must, therefore, enforce the terms of the contract to ensure it serves the interest of the public, which requires a well-designed regulatory and institutional framework that defines the procurement conditions for suppliers, the supplier's selection requirements, and how procurement bids are evaluated. Picho (2017) found that the institutional legal environment, measured in terms of procurement legislation and regulations, significantly affected public procurement performance in the West Nile sub-region of Uganda. An inadequate regulatory framework gives rise to corruption and embezzlement, increases poverty, and slows socioeconomic development.

CAR has a regulatory body that oversees public procurement, but the authority does not have its own budget and relies on public financing. Under Article 110 of Law No. 08.017 on the Code of Public Procurement, *Autorité de Régulation des Marchés Publics* (ARMP) is the regulatory body that oversees public procurement in CAR. In MENA, Jordan, Lebanon, Kuwait, and Algeria do not have a regulatory authority that oversees public procurement, although Algeria has a robust application of its procurement law. With Article 2 of Law No. 08.017, the ARMP should have its own budget, but this is still not the case. Budget lines are allocated from the central government (they are annexed to the public budget) to ARMP each year for its operation. However, ARMP's budget allocations are not sufficient for it to properly oversee and ensure the efficiency of the public procurement

FIGURE 48

CAR's Public Procurement Framework is Conducive to Privilege Protection



Source: Data collected from local authorities by the authors.

system. For example, it cannot guarantee the independence between the government and the procurement system, which increases the likelihood of corruption and privilege-seeking. In the MENA region, only Egypt and Oman have regulatory authorities with their own budgets.

Furthermore, the direct supply system does not exist in CAR, even though it is clearly defined in the public procurement law. Decree No. 0118 in Article 3 confers direct supply operations to the procurement services, defined as the basic structure responsible for implementing the procedures for awarding public procurement contracts. In practice, the supply system is understood as a central purchasing agency, which does not exist. If it existed, it should be linked to the procurement functions.

According to CAR's regulatory framework, the regulator's participation in the planning of public contracts is prohibited, which is not always the case in practice. The ban on the regulator's participation in the planning of public contracts is based on Article 28 of the public procurement code (*Code des Marchés Publics*, CMP), and Articles 2 to 4 of Decree No.0118 on the organization and operation of procurement services (*Service de Passation des Marchés Publics,* SPM) specify the roles in public procurement. According to the principle of separation of functions, contract planning is the responsibility of the contracting authority, in collaboration with the Ministry of Finance and Budget. After approval by the Minister of Finance and Budget, the Procurement Plan (*Plan de Passation des Marchés*) must be communicated to the General Directorate of Public Procurement for distribution to the departments responsible for budget commitment and financial control. In practice, the neutrality in procurement planning is in question. While the regulator's participation in evaluating bids is prohibited under Articles 12, 13, 14, and 16 of the CMP, this is not the case in practice, compromising the neutrality of the procurement process.

Fair opportunity

Providing an equal chance to all potential suppliers of public procurement is crucial, as it increases competition, leading to an efficient allocation of resources. It also fosters private sector development by promoting fair competition, which in turn reduces corruption. Evidence shows that corruption is high in the public procurement process in developing countries. For example, practices that intend to assure the choice of a specific supplier (e.g., by bypassing the entire procurement process) are prevalent across developing countries. To ensure fair competition, the contracting entities should treat potential vendors equally. Also, the evaluation process should be precise and understandable, with realistic requirements for all candidates. The criteria should not favor one supplier, or the specific services of a client, in the selection process.

CAR's regulatory framework claims that procurement information as well as contractors' qualifications must be understandable and accessible to all potential contractors. Procurement opportunities must be publicly announced in a national gazette or widely distributed newspaper, and it is suggested that the advertisement is published on a central web portal, with different degrees of accessibility to the relevant information. The criteria and relevant information should be advertised and published. Article 20 of the CMP establishes that the participation of an entrepreneur, supplier, or group of suppliers or contractors should be based on their qualifications. Articles 20 and 32 of the CMP provide a list of qualification criteria that suppliers must meet to be eligible to submit a bid, and this list should be communicated to suppliers, either through the tender notice or tender documents. However, this is not always the case in practice, and sometimes the requirements favor selected candidates.

There is no need to register as a supplier in a national supplier registry to participate in calls for tenders. Legal firms that fulfill the requirements, such as the possession of tax clearance, registration at the *Caisse Nationale de Securite Sociale*, and registration at the *Agence Centrafricaine pour la Formation Professionnelle et l'Emploi*, are eligible to submit bids. The conventional classification of firms based on their size is used. Article 64 of the CMP includes a margin of preference rules that favor domestic companies: 15 percent for national companies and 10 percent for companies headquartered in other CEMAC countries. The legal framework does not establish rules that favor SOEs. Article 2 of the CMP prohibits any discrimination, as favoring state-owned firms would undermine the principles of free access to public procurement and the equal treatment of candidates provided for in Article 2.

The regulatory framework and its implementing regulations provide procedures and methodologies for assessing technical capacity. According to Article 61 of the CMP, the procurement committee should in a strictly confidential manner and within the offers' validity period first evaluate the offer's technical proposal and then its financial proposal by following the criteria specified in the bidding documents, which contain the assessment procedures and methodologies. According to the procurement procedure manual, the committee should score the technical analysis on a range from 0 to 70 and the financial analysis on a range from 0 to 30, before it performs the final weighting.

Transparency, confidentiality, and access to information

Transparency is vital in the public procurement process to reduce information asymmetries between procurement officials and potential bidders. Trepte (2005) argues that in the absence of transparency, the stakeholders' actions could be hidden from each other. Transparency allows all stakeholders to access information related to procurement activities, which reduces the likelihood of corruption in the public procurement process. Pieroni and d'Agostino (2009) have linked the absence of transparency to an increase in corruption in Africa and transition economies. African countries need to improve transparency in public procurements to reduce corruption.

Regulations define the security and confidentiality of bids. In CAR, the opening of tenders follows a defined and regulated procedure enclosed in the registers of the procedures. Tenders need to be opened within 24 hours of the closing date for tender submission, and the security and confidentiality of bids is ensured before the bids are opened. The disclosure of specific sensitive information during reporting or clarification is prohibited.

The regulatory framework requires that tender documents are made public in newspapers and on websites, but this is not followed in practice. Article 29 of the CMP requires an integrated information system that provides up-to-date procurement information, including calls for tenders and requests for proposals. However, this document is not regularly updated and published as required by law. Concerning contract awards, following the provisions of Article 66, paragraph 3 of the CMP, the contract awards report, which is validated by the General Directorate of Public Procurement, must be published in a widely distributed newspaper and on a website. However, the ARMP does not make the report public and it does not have a website.

Grievance, complaint, and recourse mechanisms

Grievance, complaint, and recourse mechanisms are designed to give participants in the public procurement process the chance to raise serious issues, complaints, and difficulties without prejudice. This right is needed to instill trust in the public procurement system and ensure participants have access to mechanisms to raise concerns without the fear of any negative repercussions. Grievance, complaint, and recourse mechanisms encourage transparency and fair competition, and they facilitate an organizational climate based on openness and trust.

While the legal public procurement framework has been clearly defined in terms of complaints and claims, the institution in charge (CRD) is not independent because its decisions require the approval of the minister of finance. Following the provisions of Article 18 of Decree No. 05.058 of February 27, 2009, on the organization and functioning of the ARMP, the CRD is competent to rule on complaints from candidates, tenderers, beneficiaries, holders considering themselves unjustly evicted or injured in procurement, execution, and settlement procedures. Under article 28 of the same decree, the CRD is required to render its decision within 15 days of its referral date, although this time limit does not apply to the contracting authority or the supply agency—a regulatory gap that requires attention. Moreover, the CRD is not fully independent, as the approval of the CRD's decisions by the minister of finance and budget (Article 29) appears to undermine its independence.

Integrity and accountability

The regulatory framework for procurement provides instructions for how to address fraud, corruption, conflicts of interest, and unethical behavior in tender documents. Accountability is crucial in any public procurement system. In the absence of a transparent and accountable system that ensures participants and stakeholders operate responsively, corruption and resource misuse will likely follow. Furthermore, accountability can help detect inefficiencies and increase the efficiency and effectiveness of procurements to improve service delivery. Article 103 of the CMP requires bidders to make a written commitment to report to the contracting authority any payment, advantage, or privilege granted to any person acting as an intermediary or agent in remuneration for any service provided to them. This provision helps prevent cases of fraud, corruption, and unethical behavior. Unfortunately, due to the scarcity of denunciations and complaints, this provision appears to be insufficient to ensure actors' integrity and accountability in the procurement chain, as acts of fraud and corruption continue to be observed in the public procurement process. While Article 104 of the CMP does not define fraud and corruption, it lists a variety of acts constituting fraud, corruption, and unethical behavior.

However, the regulatory framework is incomplete and does not implement sanctions in the case of complaints. In terms of penalties, Article 102 of the Public Procurement

Code does not provide penalties applicable to the complaints referred to in the Court of Accounts for offending public officials. Therefore, the authorities need to amend Article 102 of the CMP or Article 17 of the Court of Auditors' organic law to provide for the applicable sanctions and empower the CRD to oversee their application. Still, there are penalties for private firms. Article 105 of the CMP provides penal, civil, and disciplinary sanctions such as the exclusion, termination, and/or substitution of firms found guilty of fraud or corruption in public procurement. However, there is no secure, accessible, and confidential system for publicly reporting fraud, unethical behavior, and corruption.

Business Regulatory Environment

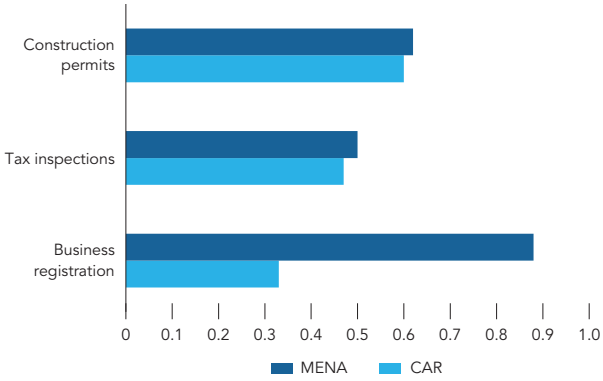
The business regulatory environment is crucial for private sector development. The private sector is a significant contributor to job creation and economic growth, and a healthy business climate is essential for private firms, especially small and medium-sized enterprises, to flourish, innovate, and be the main drivers of economic growth. However, CAR's large bureaucracy, dependent judiciary, poor infrastructure, and inadequate education system do not contribute to a good business climate, discouraging private sector development.

CAR lags behind other countries in MENA in terms of improving the business regulatory environment. The Business Regulation Environment Privilege Resistant index is made up of three parts: construction permits, tax inspections, and business registration. CAR's score on business registration is almost one-third of the average of MENA, and the tax inspection and construction permit indexes of MENA are slightly higher than that of CAR (**Figure 49**). This section evaluates CAR's business regulatory environment and its resistance to privilege by examining the three areas of the Business Regulation Environment Privilege Resistant index: (i) business registration, (ii) permits and licenses; and (iii) tax inspections.

Business registration

The formal registration of firms is crucial for private sector development and formal job creation. Registered firms are protected by law, and they can access credit from financial institutions or through other investment channels. However, CAR's complex registration system does not

FIGURE 49
Business Regulation Environment Privilege Resistant Index



Source: Data collected from local authorities by the authors.

foster the registration of firms. For example, the lengthy and costly business registration process, along with lack of information for registering a business, negatively affects entrepreneurs' incentives to create and register a business, which has an important impact on overall private sector development.

Information related to registering a business is not available on a public portal, but it is available in the registration office. In CAR, the requirements, fees, and procedures for obtaining a business registration are not specified on a web portal, although they are available at the business registration office, where the Trade and Personal Property Credit Register is located. The lack of transparency in the registration process may give rise to rent-seeking and corruption. This is especially true if, like in CAR, there are informal or hidden fees or steps to get a business registered. For example, in addition to the formal requirements, the country's chamber of commerce requires a consular certificate upon registration, which is an unnecessary cost since it is not legally required.

Permits and licenses: building permits

Building permits and licenses help entrepreneurs achieve good building practices. Construction regulation is one of the factors that affect the investment decisions of entrepreneurs. The World Bank Group (2013) reports that providing permits may foster property rights and contribute to capital formation. However, Moullier and Thomas (2009) argue that complex and costly procedures encourage builders to proceed without construction permits, and regulatory complexity may lead to rent-seeking and

corruption. The World Bank (2010) states that the share of firms expecting to give gifts in exchange for construction approvals is correlated with the complexity and cost of dealing with construction permits.

The requirements and procedures to obtain a building permit are not transparent, opening the door to rent seeking and corruption. The conditions, fees, and procedures for obtaining building permits are not publicly available on a website or in an official journal. Instead, they are only accessible internally within the permit office. The lack of public access to information regarding permits may disincentivize the entry of foreign firms in the construction sector and promote rent-seeking and corruption. There are also hidden requirements, fees, and procedures for obtaining building permits, in addition to official requirements. For example, to "speed up" the process, applicants must pay additional informal fees. The increase in fees through informal payments discourages formalization by increasing the costs for construction firms.

The requirements of building permits are complex, and the administration responsible for permits lack the necessary capacity. To obtain a building permit in CAR, the builders need to present documents such the land title, construction plan, and an estimate of the property's market value. Building permits must also be renewed periodically if the construction is not completed within a defined period. Moreover, the administration in charge of allocating land permits lack the necessary competencies and needs to be restructured. For example, there is no competent agency in the country to inform applicants of the permit process or delays in issuing permits within a specified period.

Tax inspections

Tax inspection is crucial for improving transparency and revenue collection. Tax collection helps the government raise public revenue, which is used to invest in physical and human capital. It is important to ensure transparency in the tax collection process, and governments use tax inspections to investigate tax fraud and make sure people and business pay their fair share of taxes.

By law and in practice, the authorities in CAR do not follow any risk-based approach to planning tax inspections. Risk-Based Audit Selection is an efficient audit approach used to classify the most likely non-compliant taxpayers. By targeting likely non-compliant taxpayers, the authorities increase the probability of yielding large amounts of audit adjustments and penalties. The likelihood is defined based on the compliance history and the knowledge acquired during the firms' previous audit campaigns. This technique is preferred by many developed countries' tax administrations, and various international organizations have suggested that it be adopted in developing countries. In CAR, the taxation information on the website of the Ministry of Finance and Budget is obsolete, and updated information is only available in a paper-based version in their office. The tax compliance requirements can be obtained from the tax authorities, which also communicate the reporting schedules.

Despite having the finance department director review significant tax-execution decisions, there are still unfair adjustments and low confidence in the tax administration. While the head of the finance department reviews important tax-execution decisions, it does not prevent baseless turnarounds or bad faith by the tax administration. Taxpayers need to wait for the confirmation of the tax adjustment and settle a reservation according to the amount of the adjustment to have their arguments studied by the legislation committee. When an adjustment is abnormally high, the amount due will be high, without the possibility of reimbursement. In the case of payment default, tax inspectors have the power to suspend or stop business activities.

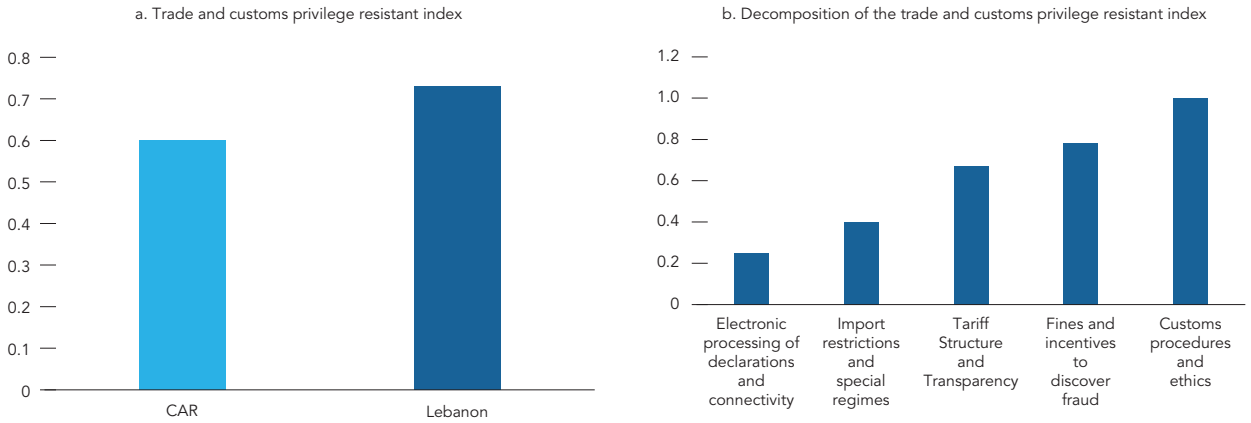
Trade and Customs

Customs play a crucial role in economic competitiveness through trade facilitation, revenue collection, and national security. The authorities can improve trade facilitation by making customs procedures more efficient to reduce transaction costs for exporters and importers. Milner, Morrissey, and Zgoyu (2008) argue that the efficiency of customs procedures is likely to increase trade volumes, which may have an even larger economic impact than the direct gains from trade policy reforms. The latter will positively affect the efficiency of government revenue collection, which in turn can lead to welfare improvements and economic growth. Many developing countries rely more heavily on revenue from customs duties than income taxes. Finally, a country's customs administration can strengthen national security by preventing prohibited products from entering the country and providing important counter-terrorism functions. Therefore, customs play a crucial role in economic competitiveness by ensuring the safety of the population and enforcing regulations—vital to attract both domestic and foreign investment.

CAR is among the countries that do not have a sound customs system. Compared to MENA countries, CAR ranks second to last on the Trade and Customs Privilege

FIGURE 50

There are Several Privilege-Resistant Policies in Trade and Customs



Source: World Bank staff calculations using data collected from the local authorities by the authors.

Resistant index, outperforming only Kuwait (**Figure 50a**). A decomposition of the index shows that the country's customs system suffers from a lack of technology and transparency, resulting in corruption and inefficient customs procedures (**Figure 50b**). This section evaluates trade and customs policies in CAR and their resistance to privilege. It covers the country's: (i) tariff structure and transparency; (ii) import restrictions and special regimes; (iii) electronic processing of declarations and connectivity; (iv) fines and incentives to discover fraud; (v) customs procedures and ethics; and (vi) grievance mechanisms.

Tariff structure and transparency

The absence of transparency surrounding a country's tariff structure favors discretionary decision-making, arbitrariness, and privileges. It can also lead to rent-seeking and corruption. The official tariff structure needs to clearly define the duties and taxes on all imports and provide the corresponding tax rates. The tariff structure needs to be realistic and reflect the current market, as an unreasonable increase in tariffs could lead to fraud to avoid paying high tariffs. When it comes to tariff structure transparency, CAR is among the countries that need to improve their tariff system. With a score of 0.5, CAR ranks second to last on the Tariff Structure and Transparency index in in comparator countries (**Figure 51**).

Import restrictions and special regimes

The lack of transparency surrounding import restrictions and special regimes may impede competition and foster rent-seeking and corruption. Customs authorities sometimes apply discretionary import restrictions and special regimes to protect favored groups or even individual businesses. Favored firms receive an unfair competitive advantage, which may lead other firms to exist the market because they cannot compete. In CAR, import restrictions and special regimes are complex and not transparent. Compared to other countries in MENA, CAR only ranks higher than Lebanon and Kuwait on the Restrictions and Special Regimes index (**Figure 52**). There is no website where companies in the country can access all the criteria for import licenses, although the WTO's Trade Policy Review (available online) includes all relevant information on import restrictions and special regimes. There are no hidden "de facto" informal requirements in CAR. The most used customs procedures in the country are: (i) release for consumption (IM4), (ii) final exports (EX1), (iii) transit (EX8, IM8), (iv) temporary admission (IM5), (v) temporary export (EX2), (vi) re-export (EX3), and (vii) warehousing (IM7). While there are no data on the rate of physical inspection[90] of imports in CAR, best practices recommend that the customs administration physically examine around 60 percent of imports.

[90] A physical inspection does not include an examination of empty containers.

FIGURE 51
Tariff Structure and Transparency Index

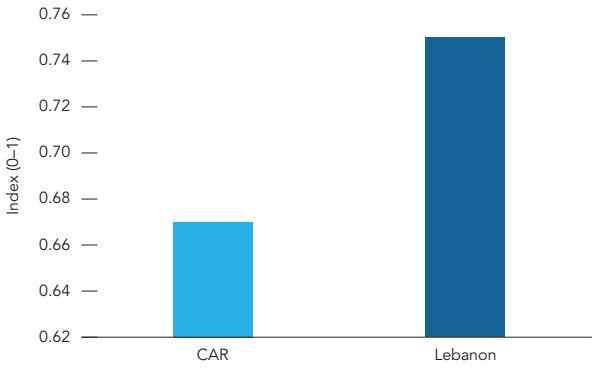
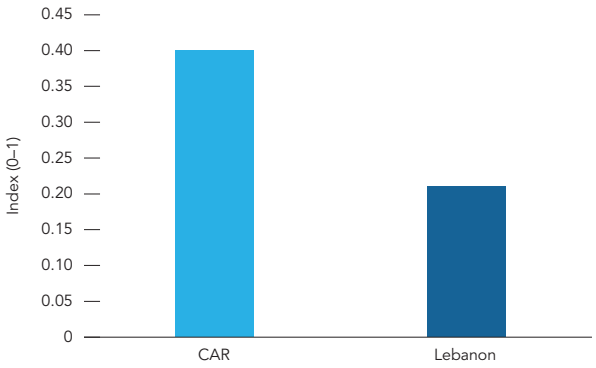


FIGURE 52
Import Restrictions and Special Regimes Index

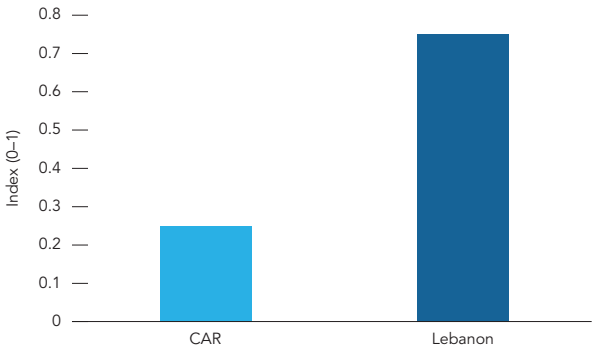


Source: World Bank staff calculations using data collected from the local authorities by the author

Electronic processing of declarations and connectivity

The electronic processing of declarations reduces the direct contact between customs agents and businesses, reducing the likelihood of corruption and manipulation. The use of technology by customs authorities can also reduce costs for businesses (time and resources) and minimize inaccuracies and omissions in declarations. In addition to technology, Customs also needs access to a competent workforce to implement technological solutions and update data. In terms of the electronic processing of customs declarations, CAR ranks last among countries in MENA (**Figure 53**). In CAR, customs declarations are processed electronically with the ASYCUDA ++ software, but it needs to be updated. The procedures and formalities around customs declarations are not publicly accessible on a web portal, and the main customs offices along the country's borders are not electronically connected to the customs administration. While one major border office was electronically connected to the headquarters in Bangui, it was vandalized following recent security events.

FIGURE 53
Electronic Processing of Declarations and Connectivity



Source: World Bank staff calculations using data collected from the local authorities by the authors.

Fines and incentives to discover fraud

Customs officials are incentivized to discover fraud. In CAR, there are financial incentives for customs officials to identify and report fraud, as 20 percent of the penalty amount is shared between all the executives and agents responsible for the adjustment. The government uses this strategy to improve revenue collection and reduce corruption, but only a small share of people and businesses pay their fines. According to the country's litigation department, the number of fines recorded amounted to CFAF 422 million in 2020, which resulted in customs revenue worth CFAF 59 million. An estimated 0.72 percent of fines are collected in CAR, which is very low. The authorities need to understand why this ratio is so low and implement measures to increase it.

Customs procedures and ethics

Various degrees of sanctions have been imposed on unscrupulous customs officials for acts of corruption and misconduct in CAR. The Customs' code of ethics lays out the rules for customs officials to ensure professional behavior and prevent conflict of interest. The code is accessible to the public and is immediately applicable in all CEMAC member states as soon as it comes into force. Penalties are diverse and varied, with degrees of severity depending on the seriousness of the offense committed. According to the Customs Services Inspectorate's Activity Report for 2020, 4 executives and customs officers are under sanction.

Other Key Bottlenecks Preventing Competition and Private Sector Development

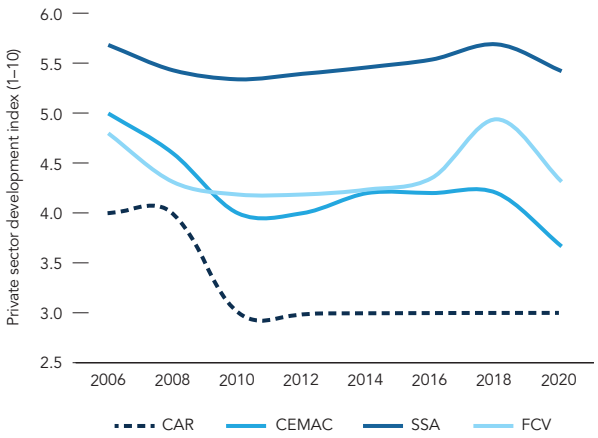
There have only been minor improvements in private sector development in CAR over the past decades. CAR's business environment suffers from an inadequate regulatory framework, weak governance and institutions, and recurrent insecurity.The country's score on the Private Sector Development index averaged around 30 between 2016 and 2020, reflecting minor signs of progress (**Figure 54**). The index measures the extent to which private firms are permitted and whether state companies are undergoing a privatization process consistent with market principles. CAR's relatively low score is an indication that private firms face economic, political, or social barriers to improvement and that state firms or monopolies dominate strategic business sectors.

Property rights and property acquisition regulations

Property rights and property acquisition regulations are neither implemented consistently nor safeguarded adequately by law. Private property in urban areas is defined formally in law but enforcement is lacking because of the country's weak application of the rule of law. On the Private Property index, which measures the degree to which government authorities ensure well-defined private property rights and regulate property acquisition, CAR's average score in 2006–2020 was the second lowest in CEMAC, outperforming only Gabon (**Figure 55a**). This is an indication that private property is likely to be expropriated in CAR and shows the judiciary's subordination, corruption within the judicial system, and the inability to enforce contracts. While CEMAC's average score on the index improved over time (although it fell between 2018 and 2020), CAR's score has remained constant, showing no performance (**Figure 55b**). The low respect for property

FIGURE 54

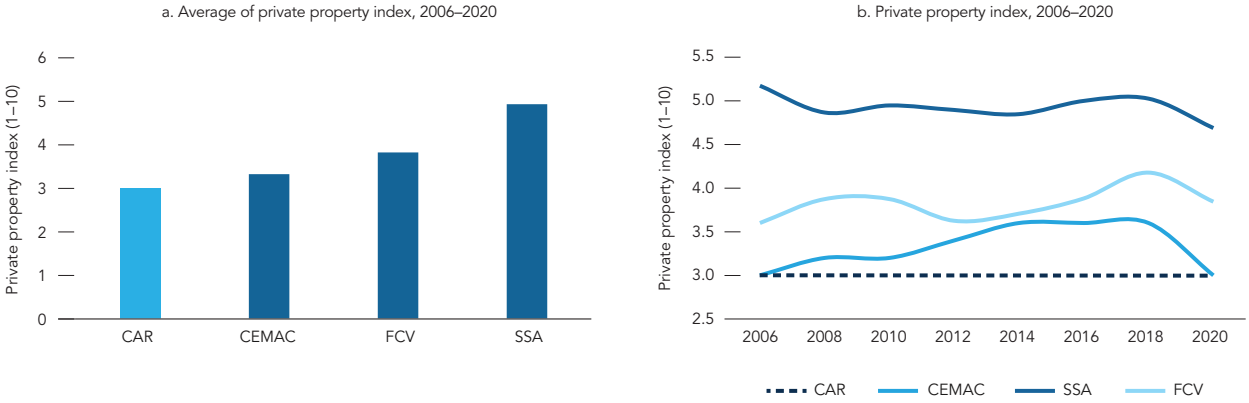
CAR's Private Sector Development Index is Among the Lowest in the World



Source: Bertelsmann Stiftung Foundation.
Note: Measured on a scale of 1 to 10, where 10 denotes the best conditions for private sector development.

FIGURE 55

CAR's Private Property Index Has Remained Stable Over the Past Decade



Source: Bertelsmann Stiftung Foundation.
Note: Measured on a scale of 1 to 10, where 10 denotes the best conditions for private property acquisition.

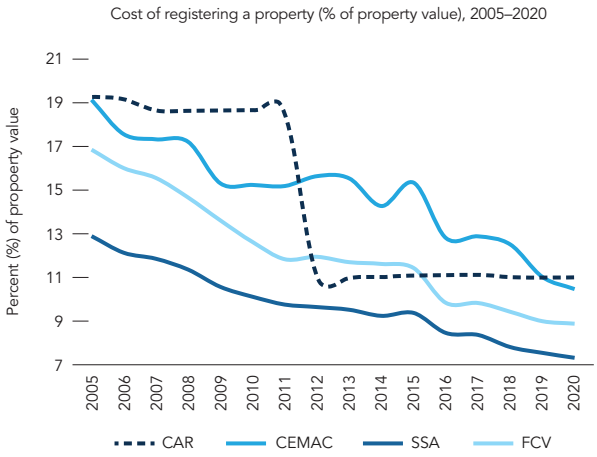
rights in the country can also be attributed to its recurring episodes of violence and instability. Furthermore, almost all land in rural areas belong to the government, although citizens exploit them. Registering property in CAR can take up to 75 days for foreign investors, and contract enforcement in Bangui's commercial court can take up to 660 days (BTI 2020).

Registering a property is more challenging in CAR. In CAR, property rights can be obtained through purchase, concession, and rental. Ownership rights are conditioned on the application for legal title and property registration. According to Landlinks (2021), registering property in CAR requires five procedures, averaging 75 days. Only an estimated 0.1% of properties in CAR are titled and registered because of the complex property registering system. People can apply to the government for property permits in CAR, but they are often tricky and expensive to obtain (World Bank 2008).

Moreover, property registration is costly in CAR. The property registration cost is defined as the total of official charges associated with completing the procedures to transfer a property, including fees, transfer taxes, stamp duties, and any other payment to the property registry, notaries, public agencies, or lawyers. The cost of registering a private property in CAR averaged almost 31.46 percent of the value of the property between 2005 and 2020, above the average of 16.61 percent in CEMAC (**Figure 56**). However, while property registration costs have steadily decreased in CEMAC since 2015, costs have remained constant in CAR. The cost of registering a property was higher in CAR (26.9 percent of property value) than in Rwanda (12 percent) and the average of CEMAC (12.93 percent) in 2020.

FIGURE 56

Registering a Property is a Challenge and Costly for Entrepreneurs in CAR



Source: Bertelsmann Stiftung Foundation.

Access to credit and electricity

It is a challenge for businesses to access credit and electricity in CAR. Taxes, electricity, and credit are the top three bottlenecks to the business environment in CAR (World Bank, 2020). Access to electricity, which is essential for producing goods and services, is minimal, discouraging economic investments in CAR. Moreover, CAR is among the worst-performing countries in the world in terms of international logistic performance. Only 14 percent of the population had access to electricity in 2016—mainly in the capital Bangui. Access to credit is another obstacle to private sector development in CAR. Access to credit is vital for firms to expand their operations, meet their daily costs, hire and pay new workers, and acquire inventory. Credit to the economy remains at a deficient level of 13 percent of GDP. Microfinance firms account for only 1 percent of total credit facilities, serving 0.5 percent of the population. Mobile banking has recently been introduced, with the potential to help overcome some of the country's geographic and infrastructure challenges. However, poor information and communication technologies infrastructure and low network coverage hinder mobile banking penetration.

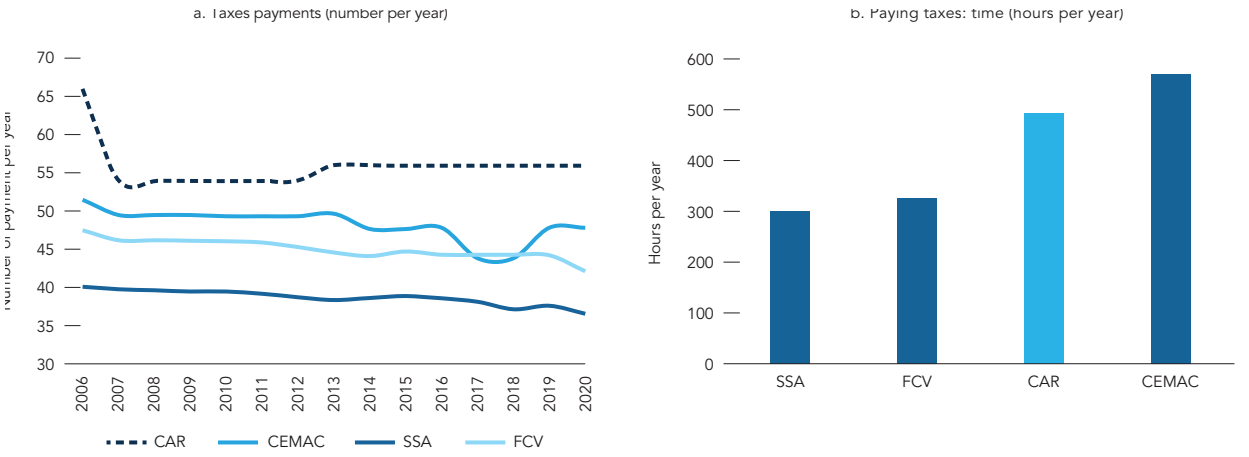
Challenges related to paying taxes

The country's tax system remains complex. The different types of taxes paid by firms include the corporate income tax, sales tax, VAT, and employee labor taxes (e.g., payroll taxes and social payments). A private firm in CAR pays an average of 56 taxes, more than in Rwanda and the average of CEMAC (**Figure 57**). While the number of taxes paid by firms fell dramatically in Rwanda between 2017 and 2018, it increased in CEMAC and remained constant in CAR over the same period. Nevertheless, the time required to pay taxes in CAR is an average of 493 hours, lower than the CEMAC average of 569.38 hours, the Republic of Congo's 604 hours, Cameroon's 650 hours, and Chad's 745.6 hours.

A ubiquitous informal sector

The prevalence of the country's informal sector deters investment and the entry of new formal firms. Informality

FIGURE 57
CAR's Tax System Remains Complex

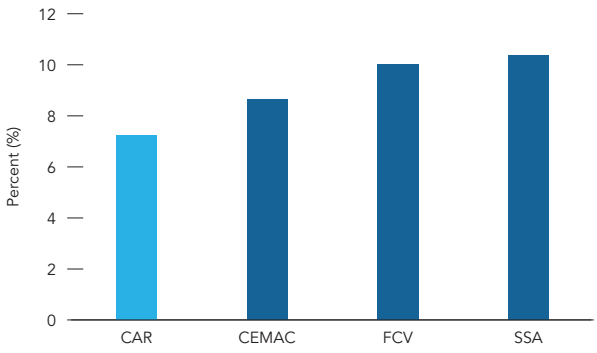


Source: World Bank Enterprise Survey data 2020.

is a widespread phenomenon in developing countries. Businesses are considered informal if they do not: (i) officially register their activities; (ii) pay taxes; (iii) hold a formal account; and/or (iv) respect employment and operating licenses (Djidonou & Foster-McGregor 2020). Informal firms take advantage of their lower production costs to compete with registered formal firms that are forced to follow regulations and therefore often have higher production costs. The competition between formal and informal firms prevents the entry of new firms. The share of firms that point to the informal sector as their biggest obstacle to business is 7.2 percent of surveyed firms in CAR—higher than in Guinea (2.8 percent) and the Republic of Congo (3.6 percent), but lower than the average of CEMAC (8.61 percent) as well as in Rwanda (8.85 percent) and Cameroon (24.1 percent) (**Figure 58**).

The competition posed by informal firms is a major constraint to the development of the formal sector and the entry of new formal firms. Informal firms take advantage of their lower cost structure, which is the result of their tax evasion and access to cheaper labor, to compete with registered formal firms. In CAR, 66.7 percent of registered firms compete against unregistered informal firms, lower than the average of 76 percent in CEMAC and much lower than more than 90 percent in Chad (**Figure 59a**). Competition between formal and informal firms impedes private sector growth and the entry of new firms. Indeed, 45 percent of firms in CAR point to competition with informal firms as a major business constraint (**Figure 59b**). To stimulate private sector development, it is, therefore, important to strengthen institutions to improve the business climate and encourage formalization.

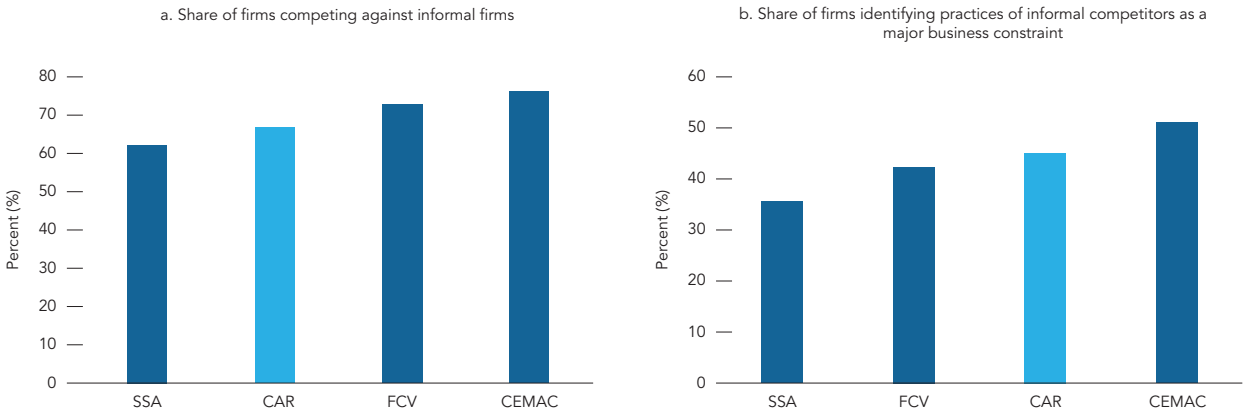
FIGURE 58
Share of Firms That Point to Informality as Their Biggest Obstacle to Business



Source: World Bank Enterprise Survey data.

FIGURE 59

Competition with Unregistered or Informal Firms is Widespread in CAR



Source: World Bank Enterprise Survey data.

Promoting Market-Based Competition and Reducing Opportunities for Capture

Strengthening the Public Procurement System

Improve transparency in public procurement while enforcing existing laws. CAR's public procurement system is not transparent, and the authorities face significant difficulties in enforcing existing laws. Strengthening the public procurement would require providing sufficient resources to ARMP to ensure its independence. The agency should be endowed with its own budget instead of being financed entirely through the state budget. There are also significant gaps to close in terms of existing laws, including: (i) Decree No. 0118 in Article 3, which confers direct supply operations to the procurement services, defined as the basic structure responsible for implementing the procedures for awarding public procurement contracts; and (ii) Article 2 of the CMP, which prohibits any discrimination and ensure free access to public procurements and the equal treatment of candidates. Transparency can also be improved by regularly publicizing information from the integrated information system, which provides, at a minimum, up-to-date procurement information, including calls for tenders and requests for proposals. While this is required by article 29 of the CMP, it is not currently implemented. This needs to be addressed to encourage transparency while ensuring confidentiality and access to information. Finally, an amendment to Article 104 of the CMP is recommended to increase transparency related to punishment, as it does not define fraud or corruption, although it lists various acts that constitute fraud, corruption, and unethical behavior.

Define in the regulatory framework the right for participants to request an independent review as part of the procurement process. Based on the provisions of Article 18 of Decree No. 05.058 of February 27, 2009, on the organization and functioning of ARMP, only the CRD is competent to rule on complaints from candidates, tenderers, beneficiaries, and holders who considering themselves unfairly evicted or injured during procurement, execution, and settlement procedures. Also, a time limit needs to be set for decision-making by the contracting authority or the supply agency. Article 28 of the above-mentioned Decree requires the CRD to render its decision within 15 days of the date of its referral, but this time limit does not apply to the contracting authority or the supply agency. Therefore, this regulatory gap should be addressed.

Ensure that the administrative review body is institutionally independent and autonomous in resolving complaints. The independence of the CRD is undermined by the need for the Minister of Finance and Budget to approve its decisions (Article 29 of Decree No. 09.058). The authorities need to guarantee the autonomy of the CRD and create a system that allows complaints to be collected and managed transparently. While Article 103 of the CMP intends to prevent

cases of fraud, corruption, and unethical behavior, the provision appears inadequate to ensure the integrity and accountability of the public procurement process, evidenced by reports of fraud and corruption but a scarcity of denunciations and complaints.

Clearly define the penalties in the case of corruption or fraud by public servants. Article 101 of the CMP provides the application of sanctions (criminal, civil and disciplinary charges) for government employees convicted of fraud or corruption in public procurement, but it does not provide the Code with penalties. In practice, this provision is not applicable since of Article 102 of the CMP is incomplete and does not provide for applicable financial penalties. This can be addressed by revising Article 102 to provide for the applicable sanctions and empower the CRD or Article 17 of the organic law of the Court of Auditors.

Addressing Rent-Seeking and Corruption in Trade and Customs

Make import restrictions and special regimes less complex and more transparent. The lack of transparency surrounding import restrictions and special regimes may impede competition and foster rent-seeking and corruption. Customs authorities sometimes apply discretionary import restrictions and special regimes to protect favored groups or even individual businesses. CAR needs to strengthen the transparency of its customs duties, processes, and system. Information about customs duties needs to be regularly updated to reflect the latest pricing data and made accessible to the public. Similarly, the criteria and conditions for import licenses as well as fines for violation for both civil servants and importers should be publicly accessible.

Enhance the electronic processing of declarations to reduce the direct contact between customs agents and businesses in order to reduce opportunities for rent-seeking and corruption. The use of technology by customs authorities can also reduce costs for businesses (time and resources) and minimize inaccuracies and omissions in declarations. In addition to technology, Customs also needs access to a competent workforce to implement technological solutions and update data. This needs to be done in parallel with the interconnection of all customs processing systems, communication channels, and databases. This will facilitate regular reconciliation of trade and customs data while reducing fraud and corruption.

Improving Business Regulation

Risk-based approaches are recommended to minimize the risk of arbitrary decision-making in tax inspections. The survey conducted for this study indicates that the tax administration does not follow risk-based approaches for inspections, although, risk-based audit selections have been demonstrated to be an efficient audit approach to classify the most likely non-compliant taxpayers.

Simplify business registration processes to reduce opportunities for capture and informality. The business registration is lengthy and costly. Furthermore, information for registering a business needs to be publicly available. The requirements, fees, and procedures for obtaining a business registration are not specified on a web portal but at the business registration office. The business registration process needs to be transparent to avoid rent-seeking and corruption. The surveyed business authorities reported informal or hidden fees or steps to get a business registered. Among others, there are irrelevant costs that are not representative of a service.

Addressing Competition Issues, Informality, and Capacity Constraints

Improve market-based competition in major sectors to attract private investment. The power and telecommunications sectors are important for the proper functioning of other sectors of the economy. Improving competition in both sectors could enable the development of other sectors such as agribusiness, mining, and forestry. Also, enhancing competition in mining and forestry could accelerate industrialization, increase productivity along value chains, and create income gains for smallholder farmers.

Sustain key reforms in the mining sector to reduce unfair competition and informality. Informality is a significant challenge for CAR. In most cases, artisans in the mining supply chain may prefer to sell their products to the informal rather than formal sector because of more favorable conditions. Corruption in the informal sector and opportunities for capture are widespread, which explains the large size of the informal sector in both mining and forestry.

Strengthen the capacity of actors is key sectors. The forestry and mining sectors need skilled labor as well as training in logistics, administrative management, accounting,

and marketing to improve productivity and overall efficiency. More market-based competition in these input sectors could generate large welfare gains for the overall economy by reducing costs in other sectors and unleashing their potential, optimizing the use of existing infrastructure, and stimulating new investments. If barriers to competition and structural issues are addressed, these sectors have the potential to accelerate industrialization and increase productivity along value chains, as well as to generate income gains for smallholder farmers.

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Annexes

Annex 1: Tables Gravity Model Analysis

TABLE A1
Gravity Model Estimation for ECCAS and AfCFTA

	(1)	(2)	(3)	(4)
	ECCAS		AfCFTA	
Variables	Total trade	Agriculture	Total trade	Agriculture
Regional trade agreements	0.185* (0.104)	0.288** (0.123)	0.095** (0.046)	−0.061 (0.112)
Log(GDP of the exporting country)	0.142*** (0.012)	0.146*** (0.017)	0.129*** (0.003)	0.116*** (0.015)
Log(GDP of the importing country)	0.184*** (0.012)	0.063*** (0.015)	0.165*** (0.007)	0.059*** (0.017)
Log(GDP per capita of the exporting country)	0.065*** (0.012)	−0.161*** (0.018)	0.050*** (0.006)	−0.148*** (0.019)
Log(GDP per capita of the importing country)	−0.015 (0.016)	−0.032* (0.018)	−0.018 (0.013)	−0.039* (0.020)
Log (Population-weighted distance)	−0.211*** (0.037)	0.001 (0.039)	−0.224*** (0.020)	−0.061 (0.047)
Member of GATT – Exporting country	0.067* (0.038)	−0.180** (0.077)	0.098*** (0.012)	−0.157** (0.072)
Member of GATT – Importing country	0.051 (0.058)	−0.018 (0.067)	0.040 (0.038)	−0.020 (0.076)
Constant	−2.238*** (0.391)	−1.608*** (0.492)	−1.480*** (0.207)	−0.542 (0.509)
Observations	11,839	5,523	80,733	6,551

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

TABLE A2
Gravity Model: Variables Definition and Source

Variable	Definition	Source
Total trade	Bilateral trade between the exporting and the importing countries	UN COMTRADE
Agricultural trade	Bilateral trade of agricultural products between the exporting and the importing countries	UN COMTRADE
Regional trade agreements	Regional trade agreements is a dummy variable that take value one if exporting and importing countries are both members of ECCAS or AFcTA, and zero otherwise	Authors' construction
GDP of the exporting country	Gross domestic product of the exporting country	CEPII
GDP of the importing country	Gross domestic product of the importing country	CEPII
GDP per capita of the exporting country	Gross domestic product per capita of the exporting country	CEPII
GDP per capita of the importing country	Gross domestic product per capita of the importing country	CEPII
Population-weighted distance	Population-weighted distance between most populated cities, in km	CEPII
Member of GATT – Exporting country	Dummy variable that takes value one if the exporting country is a member of GATT, and zero otherwise	CEPII
Member of GATT – Importing country	Dummy variable that takes value one if the importing country is a member of GATT, and zero otherwise	CEPII

Annex 2: Business Regulation Practices Questionnaire

The CEM team investigated the governance of business regulation practices, in order to characterize gaps and entry points for the design of privilege-resistant policies. This task is inspired in the analytical framework of business the report on Privilege-Resistant Policies in the Middle East and North Africa (2018).[91] Weaknesses in the business regulatory regime create scope for the discretionary enforcement of regulations. The intention of this work is not to provide a comprehensive assessment of all possible areas of business regulation but, at least, cover three areas that are important from a firm's point of view and exemplify characteristics of the business regulation regime. The areas are (a) business registration, (b) obtaining construction permit (proxy for the permitting and licensing regime), and (c) tax inspections. These areas relate to different parts of the life cycle of a business. Business registration is essentially an entry requirement although, in many countries, registration needs to be renewed at regular intervals during a firm's operations. Obtaining a construction permit is relevant to both the entry and operations stages. Unless a firm is operating from a rented premise, one of the first things it needs to do is construct a factory or office premise. Moreover, additional construction work is often required during the lifetime of a business, especially for those expanding their operations. A tax inspection is a regulatory interface that is largely and frequently encountered during operations.

Business Regulation Questionnaire

	Privilege-resistant trade and customs questionnaire	Yes	No	Comments, details, sources
Business registration				
1	By regulation, are the "requirements", "fees" and "procedures" for obtaining business registration specified on a web portal or at the regulator's office?			
2	Is registration a one-off process or does it need to be renewed periodically?			
3	Are there informal or hidden requirements, fees or steps for obtaining business registration, in addition to the official ones?			
Permits and licenses: construction permits				
4	By regulation, are the "requirements", "fees" and "procedures" for obtaining construction permits publicly available on a website or national gazette?			
5	Are there hidden requirements, fees and procedures for obtaining construction permits, in addition to the official ones?			
6	By regulation and in practice, does obtaining construction permits first require a number of other preapprovals?			
7	By regulation, do construction permits need to be renewed periodically?			
8	By regulation, are the relevant agencies required to inform applicants about decisions or delays in providing construction permits within a specified timeframe? Do they inform in practice and are they required to justify their decisions?			
9	Are there appeal mechanisms? Are they used and effective?			
Tax inspections				
10	By regulation and in practice, do the authorities follow risk-based approaches to planning tax inspections? Are routine tax inspection visits announced and their purpose clearly stated?			
11	Are the tax compliance requirements published and accessible on a web portal or at the |relevant authority?			
12	By regulation, are the tax enforcement decisions vetted by a commission or supervisor, at least for major decisions (as opposed to the inspector alone)?			
13	Do tax inspectors / inspectorates have powers to suspend / stop operations of businesses?			
14	Are firms given a grace period during which they may remedy deficiencies?			
15	By regulation and in practice, are there grievance reporting and redress mechanisms?			

Finally, based on the gaps identified, where are the entry points for privilege-resistant policies to be put in place on the issue of business regulation practices?

Annex 3: Competition Policy and Conflict of Interest Restrictions

The CEM team examined the competition policy, vested interest, and conflict of interest restrictions in order to characterize gaps and entry points for the design of privilege-resistant policies. This task is inspired by the report's analytical framework on Privilege-Resistant Policies in the Middle East and North Africa (2018)[92].

Competition Policy

Market competition is a key driver for achieving greater innovation, productivity, and economic growth. Greater competition is enabled through a comprehensive competition policy framework that includes a set of policies and laws ensuring competition in the marketplace is not restricted in such a way as to reduce economic welfare[93]. In practical terms, competition policy involves two pillars: (a) the promotion of measures to enable contestability, firm entry, and rivalry; and (b) the enforcement of antitrust laws (typically rules against abuse of dominance and anticompetitive agreements, and merger control) and state aid control. The former involves the improvement of regulations and administrative procedures by government bodies, while the latter focuses on business behavior of all entities that perform commercial functions. Pillar 1, which consists of pro-competition regulations and government interventions, comprises (a) regulation of network sectors to simulate competitive market outcomes; (b) infusing competition principles in different public policies (for example, public procurement, trade, investment, and industrial policies); and (c) conducting competition assessments in regulatory impact assessments of procedures, regulations, or policies to understand their impact on competition and to identify more procompetitive alternatives. When a competition law has been enacted and a functional competition authority is in place, competition enforcement (pillar 2) complements economic market regulation (pillar 1). Competition authorities monitor and punish anticompetitive behavior by firms and prevent mergers that could harm competition. The survey should focus on the competition law aspects that ensure a system of checks and balances and that reduce the risks of undue private and public influence over the competition policy and decision-making process. The assessment aim to describe as far as possible the three main aspects described below, which should be enacted so competition authorities can avoid undue public or private influence in the implementation of competition laws aspects. It should also highlight any developments in these areas.

Competition Policy and Conflict of Interest Restrictions Questionnaire

	Privilege-resistant competition policy questionnaire	Yes	No	Comments
	Effective enforcement of competition law			
1	Is there a competition act/law in place? If the answer is yes, when was it enacted (mm/dd/yyyy)? *Provide the complete name and number of the act/law*			
2	Is there a functional competition authority in place? By functional, we mean an authority with executive regulations in place (to activate the law), staff, and a budget. If the answer is yes: Please provide the full name of the competition authority.			
3	If available, please provide the website for the competition authority. *Provide the website address of the relevant authority*			
4	If a specific act or law for the creation of the agency is needed, when was such act or law issued (mm/yyyy)?			

(*continued on next page*)

[92] Mahmood, Syed Akhtar, and Meriem Ait Ali Slimane. 2018. *Privilege-Resistant Policies in the Middle East and North Africa: Measurement and Operational Implications.* MENA Development Report. Washington, DC: World Bank.
[93] Motta, Massimo. 2004. *Competition Policy*. Cambridge, U.K.: Cambridge University Press.

Competition policy and conflict of interest restrictions Questionnaire (*Continued*)

	Privilege-resistant competition policy questionnaire	Yes	No	Comments
5	Where relevant, what is the parent ministry that hosts the competition authority?			
6	When did the competition authority start to take on casework (mm/yyyy)?			
7	Does the competition legal framework include provisions that address horizontal and vertical agreements, abuse of dominance, merger control, anticompetitive regulation or competition advocacy, or actions of public officials that facilitate anti-competitive behavior?			
8	Are there economic sectors or enterprises exempted from the application of the competition framework (for example, State-Owned Enterprises (SOEs), state bodies or agencies, professional associations)?			
9	Is there a specific framework and procedure that public bodies should follow to grant state aid (subsidies, tax breaks, government land, concessional loans) to private enterprises and SOEs in such a way to minimize competition distortions?			
10	Does the competition authority have the mandate to issue opinions on government policies and draft legislation and regulations as part of its role in advocacy? Are the opinions binding or is there a mechanism to monitor their implementation?			
11	Does the competition authority have the necessary power and tools to uncover illegal practices (for example, case prioritization, adequate fines, leniency program, inspection powers)?			
12	Do sector-specific regulators have a competition law mandate, including the investigation of anticompetitive practices or the analysis of mergers? Can the staff of the regulator participate in the investigations and market inquiries carried out by the competition authority? (i.e., telecommunications, energy, transport, banking regulators, or public procurement agency, or consumer protection agency)			
	Maintaining trust and independence in competition law and policy implementation			
13	Is the competition authority entrusted with enforcing competition an independent body or a ministerial department?			
14	Is the competition authority accountable before the legislative or executive powers?			
15	Can an anticompetitive merger or acquisition be allowed on grounds other than the competition (for example, public interest)?			
16	Is there an objective procedure to select and dismiss the board members of the competition agency?			
17	To ensure continuity in operations and strategy implementation, are board members jointly nominated or at intervals?			
18	May the competition authority's board members hold other offices or appointments in the government or the industry?			
19	Are there different teams from the competition authority/(ies) involved in opening the investigation, prosecuting, and reaching a decision?			
20	What is the financing mechanism of the competition authority?			
21	Are market operators represented on the board of the competition authority?			

(*continued on next page*)

Competition policy and conflict of interest restrictions Questionnaire (*Continued*)

	Privilege-resistant competition policy questionnaire	Yes	No	Comments
	Procedural fairness and transparency			
22	Can the competition authority's decisions be vetoed by the line ministry(ies) or any other executive branch body?			
23	Are there protections for ensuring that companies' confidential or privileged business information during investigations, merger reviews, and market studies is not disclosed to third parties?			
24	Are the competition authority's decisions subject to effective review by an independent appellate body?			
25	Does the competition authority publish guidelines/communications/updates explaining how the following are assessed (Horizontal agreement, Vertical restraints, Abuse of dominance, Merger control, Fine setting, Investigative procedures, Treatment of confidential information)			

Conflict of Interest Restrictions

Conflict of interest refers to when an individual could exploit an official capacity for personal benefit but has not done so yet. The presence of a conflict of interest is not an indicator of improper conduct, but rather a warning, or risk, of its possibility. Some of the most significant risks or conflicts of interest appear in situations associated to stockholdings or private firm ownership, officials holding government contracts, gifts and hospitality, patronage or nepotism, private firm engagements (for example, board member, advisor, company officer), outside employment with international organizations, voting on policy decisions and postemployment engagements. The operating principle of a conflict of interest system is to assist public officials in avoiding situations in which a conflict of interest could arise. Restrictions on conduct, incompatibilities, or engagements aim to prevent situations that frequently give rise to conflicts of interest. Restrictions place the burden of compliance on the public official, who must be aware of the laws, identify the situation, and act accordingly. Clear definitions of prohibited conduct reduce the pressure of uncertainty on public officials and employees by establishing a distinct line between acceptable and unacceptable activities. Policy makers and others must also provide a clear definition of conflict of interest and specify a broad prescription to avoid and resolve any perceived conflicts of interest that arise during performance of job tasks. In lieu of an enforceable code of conduct, this broad restriction on conflicts of interest encourages public officials to consider the effect that private interests may have on the public's perception of their ethics as representatives of the state. It also provides a means of reprimanding officials who violate the spirit of the law, rather than specific provisions or restrictions on behavior.

Conflict of Interest Restrictions Questionnaires

	Privilege-resistant trade and customs questionnaire	Yes	No	Comments
	Conflict of Interest Regulation			
1	Are there laws regulating restrictions on conflict of interest? Is there a constitutional requirement to avoid specified conflict(s) of interest?			
2	In there a code of conduct / ethics regarding conflict of interest?			
3	Are head(s) of state, Ministers/cabinet members, members of Parliament, civil servants, spouses and children obligated to avoid specified conflict(s) of interest?			
4	By regulation are there restrictions for public officials (specify which) spouses and children regarding income and assets (accepting gifts, private firm ownership or stock holdings, ownership of state-owned enterprises)?			
5	By regulation are there restrictions for public officials (specify which) spouses and children regarding business activities (holding government contracts; role as board member, advisor, or company officer of private firm; NGO or labor union membership; outside employment or post-employment?			
	Enforcement and sanctions			
6	Are there penal sanctions, fines, or administrative sanctions stipulated for violations of conflict of interest regulations that restrict behavior for head(s) of state, Ministers/cabinet members, members of Parliament and civil servants?			
7	Is there a specific enforcement body and a process for addressing potential violations of conflict of interest restrictions?			

Finally, based on the gaps identified, where are the entry points for privilege-resistant policies to be put in place on the issues of Competition Policy and Conflict of Interest Restrictions?

Annex 4: Privilege-Resistant Procurement Questionnaire

Privilege-Resistant Procurement Questionnaire

Privilege-resistant procurement questionnaire		Yes	No	Comments, details
Institutional and regulatory frameworks				
1.1	Is there a regulatory body or an authority that oversees public procurement?			
1.2	If there is a regulatory body or an authority in charge of public procurement; does it have its own budget?			
1.3.1	Pursuant to the regulatory framework, is the regulatory body's involvement in direct procurement operations prohibited?			
1.3.2	Pursuant to the regulatory framework, is the regulatory body's involvement in procurement planning prohibited?			
1.3.3	Pursuant to the regulatory framework, is the regulatory body's involvement in bids evaluation prohibited?			
1.3.4	In practice, is the regulatory body's involvement in direct procurement operations prohibited?			
1.3.5	In practice, is the regulatory body's involvement in procurement planning prohibited?			
1.3.6	In practice, is the regulatory body's involvement in bids evaluation prohibited?			
2.1	Is there a regular procurement planning exercise instituted by law or regulation that starts with the preparation of multiyear plans for the government agencies, from which annual operating plans are derived?			
2.2	Are procurement plans prepared in support of the budget planning and formulation process?			
Fair opportunity				
3.1	Does the regulatory framework require that procurement opportunities other than sole source or price quotations be publicly advertised in a national gazette or widely distributed newspaper?			
3.2	Does the regulatory framework require that procurement opportunities other than sole source or price quotations be publicly advertised in a central web portal?			
4	Does the legal framework establish that participation of any contractor, supplier or group of suppliers, or contractors is based on qualification?			
5.1	Does the regulatory framework establish rules that favor national companies?			
5.2	What is the margin of preference for national suppliers?			
6.1	Is it mandatory to enroll as a supplier on a national suppliers' registry to participate in biddings?			
6.2	Is the registration time frame specified in the legal framework?			
7	Is there a classification system for the firms/contractors?			

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Privilege-Resistant Procurement Questionnaire (*Continued*)

Privilege-resistant procurement questionnaire		Yes	No	Comments, details
8.1	Does the regulatory framework provide a list of qualification criteria that suppliers must meet in order to be admitted to submit a bid?			
8.2	Does the regulatory framework provide that qualification criteria should be communicated to suppliers, either through the tender notice or tender documents?			
9	Does the legal framework establish rules that favor state-owned enterprises?			
10.1	Does the regulatory framework and its implementing regulations provide procedures and methodologies for assessment of technical capacity?			
10.2	Does the regulatory framework and its implementing regulations provide procedures and methodologies for combining price and technical capacity under different circumstances?			
Transparency, confidentiality, and access to information				
11	Does the legal framework mandate the following? Check all that apply.			
11.1.1	By regulation, opening of tenders follows a defined and regulated procedure.			
11.1.2	Public opening of tenders occurs in the 24 hours following the closing date for bid submission.			
11.2.1	By regulation, records of proceedings for bid openings are retained.			
11.2.2	By regulation, records of proceedings for bid openings are available for review.			
11.3	By regulation, security and confidentiality of bids are maintained prior to bid opening.			
11.4	By regulation, disclosure of specific sensitive information during debriefing or clarifications is prohibited.			
12.1	Is there an integrated information system that provides, at a minimum, up-to-date procurement information, including tender invitations, requests for proposals?			
12.2	Is there an integrated information system that provides, at a minimum, up-to-date procurement information, including contract award information?			
13	Is this information system accessible to the public at no or minimum cost? (Please specify the cost.)			
14	Are the following decisions publicly posted on a government website or a national gazette? Check all that apply.			
14.1	Modifications of tender documents			
14.2	Cancellation of a call for tenders			
14.3	Award notices			
Grievance, complaint, recourse				
15.1	Does the regulatory framework provide for the right of participants to ask for an independent review in a procurement process?			
15.2	Does the regulatory framework establish time frames for issuance of decisions by the procuring agency?			
15.3	Does the regulatory framework establish time frames for issuance of decisions by the administrative review body?			
15.4	Is the administrative review body institutionally independent and autonomous with regard to resolving complaints?			

Privilege-Resistant Procurement Questionnaire (*Continued*)

Privilege-resistant procurement questionnaire		Yes	No	Comments, details
Integrity and accountability				
16.1	Does the regulatory framework for procurement include provisions addressing the following?			
16.2	The regulatory framework for procurement gives instructions on how to incorporate fraud, corruption, conflict of interest, and unethical behavior in tendering documents.			
17	Does the regulatory framework cover the following? Check all that apply.			
17.1	Covers fraud and corruption.			
17.2	Provides a definition of what is considered fraud and corruption.			
17.3	Spells out the individual responsibilities and consequences for government employees found guilty of fraud or corruption in procurement.			
17.4	Spells out the individual responsibilities and consequences for private firms or individuals found guilty of fraud or corruption in procurement.			
18	Is there a secure, accessible, and confidential system for the public reporting of cases of fraud, unethical behavior, and corruption?			
19	Does the regulatory framework provide for the following? Check all that apply.			
19.1	Exclusions for criminal or corrupt activities.			
19.2	Administrative debarment under the law subject to due process.			
19.3	Prohibition of commercial relations or blacklisting.			
20	Does the government have in place an anticorruption program to the following? Check all that apply.			
20.1	Prevent corruption in public procurement.			
20.2	Detect corruption in public procurement.			

Annex 5: Trade and Customs Questionnaire

The CEM team analyzed the governance of the trade and customs system in order to characterize gaps and entry points for the design of privilege-resistant policies. This task is inspired by the report's analytical framework on Privilege-Resistant Policies in the Middle East and North Africa (2018).[94] Importing and exporting are important operations in the life cycle of a firm, and unfair treatment in the process of importing inputs or exporting goods can be very costly, sometimes threatening the very survival of the business. Thus, the private sector's enabling environment should guarantee trade and customs policies that are simple and legible, leaving little room for undue discretion that leads to arbitrariness and privileges.

Privilege-Resistant Trade and Customs Questionnaire

	Privilege-resistant trade and customs questionnaire	Yes	No	How many, comments, details, sources
Tariffs structure and transparency				
1	Are tariff data publicly available on a web portal accessible to all?			
2	Is the information current, reflecting latest tariff data?			
3	How many tariff bands are there?			
4	What are the 5 highest tariff peak rates? And for which types of goods?			
5	Who sets trade policy (tariffs, licenses, etc.)? – Presidential Decree, Ministry of Finance, Trade etc., And how often can changes be made?			
6	Which agencies are legally entitled to be present at the border crossing?			
7	Which is the lead agency for border management?			
Import restrictions and special regimes				
8	Are there nonautomatic import licenses, outside usual prohibited/regulated goods (for example, weapons)?			
9	Are the criteria for the awarding of import licenses stated in a web portal (accessible to all)?			
10	Are there "de facto" hidden, informal requirements, in addition to the official ones?			
11	What is the number of customs regimes?			
12	How many types of import licenses and permits exist?			
13	What is the percentage of physical inspections (%)?			
14	Does the count of physical inspections include the empty containers in the denominator?			
15	Do ex-post controls exist?			
16	Where import licenses issued? Is it just in the capital? Are there any fees?			

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[94] Mahmood, Syed Akhtar, and Meriem Ait Ali Slimane. 2018. *Privilege-Resistant Policies in the Middle East and North Africa: Measurement and Operational Implications.* MENA Development Report. Washington, DC: World Bank.

Privilege-Resistant Trade and Customs Questionnaire

	Privilege-resistant trade and customs questionnaire	Yes	No	How many, comments, details, sources
	Electronic processing of declarations and connectivity			
17	Are customs declarations electronically processed for imports—at least at the main ports?			
18	If yes, are paper declarations required in addition to the electronic process?			
19	Are trade clearing procedures and formalities publicly available on a web portal?			
20	Are the main customs offices on the borders electronically connected to the headquarters? (that is, centralized bookkeeping, communication channels, networked database)			
	Fines			
21	What is the ratio of the total value of "infringement / value of duties" for a year?			
22	Is there a publicly available web portal with the scale of infringement fines?			
23	Are there financial incentives for customs officials to discover fraud?			
24	If yes, what are the incentives for customs agents to discover fraud? No incentive; a flat incentive; a percentage of the fine; is it capped?			
25	Is the incentive to discover fraud capped?			
26	What is the value of the ratio "average salary/average value of the duties" of custom agents?			
	Customs procedures and ethics			
27	Is there a procedures manual for customs agents?			
28	In the customs authority, are there internal audits regarding compliance with internal procedures?			
29	In the customs authority, are there internal audits regarding internal fraud and corruption?			
30	Is there a code of conduct or rules on conflict of interest in customs? (Please specify which one exists in comments section.)			
31	Is the customs code publicly available?			
32	Do regulations to implement the customs code exist?			
33	How many customs agents are sanctioned for corruption every year (on average over the past 5 years)?			
34	Were there custom agents sanctioned in the past year? How many?			
35	Are there any export bans, licenses or taxes?			
36	Are there special regimes for small-scale traders?			
	Laws and appeals (grievance mechanisms)			
37	By regulation, is there a possibility to appeal decisions?			
38	By regulation, is there an official time frame for appeal?			
39	By regulation, is there a possibility of recourse to independent jurisdiction in the final instance?			
40	How many appeal cases are there per year (please average over the past 5 years)?			
41	Can we get a list of gazetted (official) border crossings — and any information on the facilities at those borders — power, water etc. — opening hours.			

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