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STAFF APPRAISAL REPORT

CENTRAL AFRICAN REPUBLIC

ENTERPRISE REHABILITATION AND DEVELOPMENT PROJECT (ERDP)

MAY 8, 1991

Africa Region
Occidental and Central Africa Department
Industry and Energy Operations Division

Currency Equivalents

Currency Unit	=	CFA Franc (CFAF)1/
US$ 1.0	=	CFA 253
CFAF 1 million	=	US$ 3,953
SDR 1.0	=	US$ 1.200
US$ 1.0	=	SDR 0.830

FISCAL YEAR

January 1 - December 31

GLOSSARY OF ABBREVIATIONS

ADB	-	African Development Bank
AIPB	-	Aide à l'Initiative Productrice de Base (CCCE's SME Promotion Program)
BCAD	-	Banque de Crédit Agricole et de Développement (Local financial institution)
BEAC	-	Banque des Etats de l'Afrique Centrale (Regional Central Bank)
BIAO	-	Banque Internationale pour l'Afrique Occidentale (Local financial institution)
BPMC	-	Banque Populaire Maroco-Centrafricaine (Local financial institution)
CAPMEA	-	Centre d'Assistance aux Petites et Moyennes Entreprises et à l'Artisanat (Promotion Agency for SMEs)
CAR	-	Central African Republic
CCIA	-	Chamber of Commerce, Industry and Artisanat
CCCE	-	Caisse Centrale de Coopération Economique
COBAC	-	Commission Bancaire d'Afrique Centrale (Regional Banking Supervision Commission)
DDIA	-	Direction du Développement Industriel et Artisanal (Directorate of Industrial and Artisanal Development)
DEG	-	German Finance Company for Investments in Developing Countries
IFAD	-	International Fund for Agriculture and Development
ILO	-	International Labor Organization
MEPSCI	-	Ministère de l'Economie, du Plan, des Statistiques et de la Coopération Internationale (Ministry of Economics, Planning, Statistics, and International Cooperation)
ME	-	Micro-enterprise
MFCIPME	-	Ministère des Finances, du Commerce, de l'Industrie et des Petites et Moyennes Entreprises (Ministry of Finance, Trade, Industry, and SMEs)

1/ The CFA Franc (CFAF) is linked to the French Franc (FF) at a fixed parity of FF1 to CFAF 50. The French Franc is currently floating.

NGO	-	Non-Governmental Organization
OCSD	-	Organisation Canadienne pour la Solidarité et le Développement (Canadian NGO)
ONIFOP	-	National Professional Training Center
OPPER	-	Opération Promotion Petits Entrepreneurs Routiers (Promotion program for SMEs in transportation)
PCC	-	Project Coordinating Committee
PFI	-	Participating Financial Institution
PU	-	Project Unit
SME	-	Small and Medium Scale Enterprise
UBAC	-	Union Bancaire en Afrique Centrale (Local financial institution)
UDEAC	-	Union Douanière des Etats de l'Afrique Centrale (Customs Union of Central African States)
UNDP	-	United Nations Development Programme
UNICEF	-	United Nations Children's Fund
VITA	-	Volunteers in Technical Assistance

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MAP IBRD No. 18095 R1

This report is based on the findings of an appraisal mission consisting of Messrs. R. Glaeser (Sr. Economist, Task Manager), A. Nespoulous-Neuville and D. Rhatigan (Consultants) who visited the Central African Republic in November/December 1990. Messrs. T.N. Dinh (AFTEF) and P. Ballard (AFTIE) were the peer reviewers for the operation. Secretarial support was provided by Ms. A. Kamau. Messr. I.T. Christie (AF1IE) and M.J. Gillette (AF1DR) are the managing Division Chief and Department Director, respectively.

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Credit and Project Summary

Borrower: Government of the Central African Republic (CAR)

Beneficiaries: Existing or new enterprises in the private sector and institutions including NGOs supporting private enterprise development.

Credit Amount: SDR 9.4 million (US$11.3 million equivalent)

Terms: Standard IDA terms, with 40 years' maturity.

Project Description: The principal objective of the project is to promote and finance private enterprises in the productive sectors in support of the ongoing structural adjustment process and financial sector reform program. The project would include the following components:

(a) an apex line of credit within the commercial banking system to finance fixed assets and working capital needs of eligible existing and new enterprises (US$7.7 million);

(b) a micro-enterprise (ME) development program managed by Volunteers in Technical Assistance (VITA), a US-based NGO, and consisting of a line of credit, institutional support, and technical and management advisory services (US$3.4 million);

(c) technical assistance for project management and strengthening of private sector promotion agencies (US$2.5 million);

(d) a training program for enterprise management and project evaluation (US$0.9 million); and

(e) a studies program to carry out sub-project feasibility, preparation and sector studies relevant to enterprise development (US$0.7 million).

On-lending Terms: The apex line of credit (with an IDA contribution of US$5.0 million equivalent) will be channelled through the Banque des Etats de l'Afrique Centrale (BEAC) to eligible participating financial institutions (PFIs) at a reference interest rate of 7% p.a., which is the average remuneration of term deposits. Subloans would have maturities of up to 12 years including grace periods of up to three years and would initially have an interest rate of 16% p.a.. The exchange risk would be borne by the Government. The lending terms and conditions including interest rates and financial margins for PFIs would be reviewed annually and adjusted as appropriate. The Government would make US$2.4 million equivalent available for institutional and operational support and technical and management advisory services to ME development program. US$0.5 million would be made available through VITA for onlending to micro-enterprises (MEs). The Government would pass on US$3.4 million equivalent as a grant to finance training and studies programs and technical assistance.

<u>Benefits</u>: The proposed operation represents IDA's first private sector development project in the country and is expected to provide sustainable socio-economic benefits. It will help revitalize the private sector and support trade liberalization and retrenchment of the Government from the productive sectors, which forms the core of the country's adjustment and growth. An improved policy environment, combined with greater access to term financing for business should ensure a supply response by the private sector, improve the operating efficiency of firms and in the process promote economic growth. The project would help exploit domestic entrepreneurial potential and help mitigate the adverse social effects of structural adjustment on poverty through the generation of employment and ir [illegible] in both the formal and informal sectors. The project [illegible] stimulate entrepreneurship at the grassroots level with special emphasis on women. Finally, the project would support the ongoing financial sector reform aimed at further liberalizing the regulatory environment and bringing monetary policies including interest rates more in line with market conditions. A more competitive and responsive financial system will help improve resource mobilization and allocation.

<u>Risks</u>. Potential risks of the first apex operation in the country include the possible reluctance of banks to extend term financing that may result in slower than anticipated disbursements. The Government may have difficulty in sustaining the institutional and regulatory changes necessary for effective project implementation. Increased cooperation between the Government and the business community may not materialize as anticipated on investment promotion. These risks have been minimized through project design, including adequate lending margins for PFIs and institution-building measures for project management and training.

Estimated Costs*

	-------- US$ million equivalent ---			
	Local	Foreign	Total	% of Total
Subproject financing (Investments)	2.4	5.3	7.7	51
ME promotion program	1.8	1.6	3.4	22
Technical assistance	0.7	1.8	2.5	16
Training	0.3	0.6	0.9	6
Studies	0.1	0.6	0.7	5
Total Costs	5.3	9.9	15.2	100

* net of taxes

Financing Plan

	Local	Foreign	Total	% of Total
IDA	1.4	9.9	11.3	74
Subborrowers	2.4	--	2.4	16
Participating financial institutions	0.9	--	0.9	6
Government	0.6	--	0.6	4
Total Financing	5.3	9.9	15.2	100

Estimated Disbursements FY (US$ million equivalent)

	1992	1993	1994	1995	1996	1997	1998	1999
Annual	1.2a/	0.8	2.2	2.2	2.3	1.6	0.7	0.3
Cumulative	1.2	2.0	4.2	6.4	8.7	10.3	11.0	11.3

a/ Includes SPPF and PPF refinancing totalling US$1,096,000.

Rate of Return: n.a.

I. THE SOCIO-ECONOMIC ENVIRONMENT

A. The Economic Setting

1. Socio-Economic Structure and Performance

1.01 The Central African Republic (CAR) is a landlocked country with an estimated population of some 2.7 million. With a per capita GNP of US$380 in 1988, it is one of the least developed countries. The primary sector is the mainstay of the economy. It accounted for 42 percent of GDP and 49 percent of commodity exports in 1989 and provided employment for some 80 percent of the population. Mining, manufacturing, construction and utilities (16 percent), and services (42 percent) account for the balance of GDP.

1.02 The economic mismanagement of the late 1970's which had caused considerable social and economic dislocation and international isolation, was followed in the early 1980's by efforts at restoring internal and external equilibria. Efforts focussed on reducing the budget and current account deficits. Results were mixed: modest overall real growth was reported during the 1986-89 period with significant growth only in 1989; the budget deficit and the current account of the balance of payments narrowed, but less than originally forecast; overall price stability, however, was achieved.

1.03 Growth performance was disappointing. SAL I and II projected an annual average growth of 3 percent; with population growing at 2.5 percent a year, this would have permitted a slight improvement in per capita income. In reality, growth averaged a meager 1.5 percent per annum in 1986-88, rising to 3.7 percent only in 1989. Public investment as a share of GDP fell to 7 percent in 1989 from 10 percent in 1986. Also, the sharp fall in export prices of coffee during the period depressed agricultural demand, which in turn lowered demand in the industrial and service sectors. Restructuring of the public enterprise sector led to the closure of three development banks and seven public enterprises, while some foreign enterprises either left the country or reduced their operations.

1.04 The overall budget deficit fell to 12 percent of GDP in 1989 from 14 percent in 1986. This improvement was largely due to the reduction in the investment budget from 13 percent of GDP in 1986 to 9 percent of GDP in 1989. The current account deficit of the balance of payments fell from 16.5 percent of GDP in 1986 to 14.4 percent in 1989. A lower level of investments led to a fall in imports to 30 percent of GDP in 1989 from 33 percent in 1986; exports remained at about 19 percent of GDP. The sharp drop in coffee and cotton exports was, however, more than offset by an increase in diamond exports.

1.05 At the outset of the SAL program in 1986, a number of major structural constraints plagued the economy including: weak investment planning, poor performance of revenue collection, an excessive wage bill, a costly para-public sector, an inefficient civil service, little private sector participation in economic activity, weak agricultural institutions, and an education system poorly adapted to the economic and social needs of the country. In addition, government finances were excessively dependent on foreign financing of investments, extraordinary budgetary support and continued need for debt rescheduling. A major objective of both SAL I and II was to set the basis for achieving positive real growth. The strategy was based on: (a) agriculture-led growth; (b) stimulating private sector initiative through creating an enabling environment; (c) retrenchment of the public sector from directly productive activities; (d) improving public investment planning; and (e) reducing the budget deficit. Taking into account the deep-seated structural constraints, the weak administration, and the difficult external environment, implementation of the adjustment measures has been broadly satisfactory.

1.06 The main objective of the ongoing SAL III is to support the Government in its efforts to realize sustained real per-capita income growth while enhancing the participation of all segments of the population in the development process. The SAL III program will carry forward the reform measures initiated since 1986 and support a deepening of the adjustment effort in macroeconomic management, measures to promote expanded private sector activity, civil service efficiency improvement, public enterprise reform, and policy reforms in agriculture and transport. Special attention will be paid to strengthening institutional capacity to implement necessary reform measure, to building up the Government's human resource base, and to alleviating the social cost of adjustment. Key areas of the SAL III program include: (a) macroeconomic management, with particular attention given to maintain a prudent monetary policy, to reduce the structural fiscal deficit, and to strengthen further investment planning and programming while increasing the level of investment; (b) enterprise and financial sector reform, aimed at identifying and rectifying factors that hamper financial intermediation, and promoting an incentive environment propitious to expansion of private enterprise; (c) civil service reform, with the objective of improving longer term efficiency, strengthening personnel and career management, and improving pay and incentives policies, leading to reform of the civil service statutes and rationalization of the regulatory framework; (d) improved policies in agriculture, transport, education and health; and (e) the social dimensions of adjustment (SDA) will be addressed in various SAL III components and in a SDA operation. The SAL program has been prepared in collaboration with the IMF. In March 1990, the Government, together with the Bank and Fund, updated its medium-term macro-economic and financial strategy and negotiated a PFP covering 1990-92. At the same time, the IMF negotiated a third SAF with the Government.

1.07 As a result of the ongoing structural adjustment process, economic growth is projected to average about 3.7 percent p.a. during the first half of the 1990s. The private sector has reacted favorably to the improved business environment resulting from adjustment measures put in place since the mid-1980s. Therefore, a four to five percent growth rate is expected for the secondary sector. The ongoing reform of public enterprises will strengthen their performance while the positive response of the private sector, experienced in 1989 and 1990, is expected to continue. The informal sector is expected to be a major source of growth. The restoration of the financial sector on a sound footing should also underpin the growth of the private sector and a continued low inflation rate should help the overall competitiveness of the economy. Finally, investment is expected to increase from 9.3 percent of GDP in 1989 to 14 percent in 1995, with private investment rising significantly faster from 25 percent of total capital formation in 1989 to more than 40 percent by 1995. We are working with other donors to provide assistance in the framework of the Special Program of Assistance to Debt-Distressed Countries. Since CAR is a member of the Customs Union of Central African States (UDEAC), it is committed to implement the measures that will be required in the context of an UDEAC-wide reform program including rationalization of the tariff and indirect tax structures, improvements in the taxation of intra-UDEAC trade, and reform of financial and credit policies within BEAC. As a member of the UDEAC, CAR would also benefit from a Regional SAL currently under preparation.

2. Regulatory Environment

1.08 Prior to the start of the structural adjustment process in the mid-1980s, private sector activity was constrained by a pervasive web of bureaucratic regulations, price controls, fiscal and trade policies which hampered private investment. Considerable liberalization of the business environment has been taking place under the ongoing adjustment program. Under SAL I and II, Government simplified the institutional and regulatory framework and improved the business environment including liberalization of prices for all but 12 commodities, abolition of most import quotas, liberalization of internal trade, and promulgation of an investment code.

1.09 Under SAL III, Government is further improving the regulatory environment. Specifically, the Government is in the process of: (a) adopting an action plan to reform the financial sector and strengthen financial intermediation; (b) liberalizing remaining price controls to achieve full liberalization; (c) carrying out the reorganization of the Chamber of Commerce, Industry and Mining, and Artisans; (d) making the One-Stop Investment Office (Guichet Unique) operational; (e) reviewing annually actions taken to promote SMEs to assess the impact of existing legislation on the SME development program as well as the overall investment climate and to take corrective actions as appropriate in consultation with IDA; and (f) amending legislation that restricts real estate transactions by foreigners.

3. Industrial and SME Sector

1.10 The industrial sector in the CAR is small, accounting for an estimated 10 percent of GDP, of which manufacturing industry accounts for about half. Food and agricultural processing account for an estimated 50 percent, and textiles and clothing 25 percent of total output. The sector's small size is attributable to the low per capita income, the small and dispersed population, and consequent fragmented markets, of which metropolitan Bangui is by far the most active. The development of the SME sector, that is now a Governmental priority, has in the past been constrained by inappropriate policies, limited access to the banking system of indigenous entrepreneurs, and an overly-regulated business and investment climate.

1.11 Most processing activity consists of very small production and service craft operations such as furniture making, traditional forge work, sewing, and welding. Production includes processing of agricultural and forestry products, textiles, food and beverages and footwear. High international transport costs hamper an export-oriented strategy. Import substituting activities have had only limited success since the domestic market is small, raw material costs are high, and competition from both legal and illegal imports is strong, so that it is often more profitable and less risky to import directly rather than produce locally. Consequently, more entrepreneurial endeavor is concentrated in trading than in directly productive activities. Liberalizing the economic environment, and reducing tariffs and import restrictions, as has been taking place, will lead to a more efficient allocation of investment capital. Potentially promising activities under the project are likely to be found in the agricultural support sectors, in local market-oriented activities such as furniture making, domestic food processing, repair activities, and in the service sector such as transport.

1.12 Reliable data on the industrial sector are scarce. Results of a 1983 survey indicated that the modern manufacturing sector (defined as having sales of CFAF 30 million or more), including both private and para-statal operations, consisted of 40 enterprises with 5,500 employees. Nine parastatals employed 45 percent of this total, and most of the rest were foreign-owned. A 1989 economic census of the Bangui area private sector indicated a total of 29 formal sector manufacturing enterprises with 1,100 employees, whereas informal sector transformation and manufacturing accounted for some 1,200 enterprises with 2,300 employees; the total of 3,400 accounted for 9 percent of Bangui's non-agricultural employment. Commerce and services accounted for over 80 percent of remunerated employees.

1.13 Preliminary indications suggest that, after years of stagnation, the continuing economic liberalization coupled with the 3.7 percent growth in 1989, have contributed to a resurgence of informal sector activity. The response for investment and working capital, demonstrated by beneficiaries of a pilot micro-enterprise program, shows an informal sector dynamism which is capable of responding rapidly to an improving enabling environment and appropriate sources of financing. Total private sector investment as a percentage of GDP was estimated at 1.9 percent in 1988 and was projected to increase from 2.4 percent of GDP in 1989 to 3.6 percent in 1990, and to 5.2 percent in 1993, mainly as a result of an improved business environment. Recent industrial investments include a sugar refinery (joint venture with Danish partners), and the rehabilitation of a brewery, a cigarette factory, and an oil and soap mill. Future growth factors are likely to include the food and livestock sectors which benefitted from the liberalization of prices and trade, and the secondary sector as a result of the enterprise reform and promotion programs.

1.14 After independence, a number of public enterprises were created which accounted for a large part of industrial employment. Many parastatal enterprises were of dubious economic soundness from the start. Public enterprise sector reform has, therefore, been a major component of the structural adjustment program. Through liquidation and privatization, the number of public enterprises has been reduced from 58 in 1985 to 35 in 1990, and the divestiture process will continue under SAL III. Consistent with the objective of fostering private enterprise development, former parastatal enterprises which have been privatized, or which remain as mixed enterprises with majority private sector ownership, will be eligible for financing under the proposed project.

1.15 Local Entrepreneurship. The development of indigenous entrepreneurship in the country at the grassroots level has been hampered by several socioeconomic factors including a low level of settlement and cultivation activity, a preference for trade--traditionally dominated by foreigners--versus production as less risky and quicker activity to earn income, the inability of traditional money markets (tontines) to generate investment funds, and negative attitudes towards private initiatives, especially during the Bokassa regime. Local entrepreneurship, while still largely confined to relatively small and informal sector activities, is growing and partial evidence suggests that there is significant development potential, notably at the micro-enterprise level, in a more liberal and deregulated policy environment. The project aims at supporting further development of entrepreneurship.

1.16 Female Entrepreneurship. Economic activities by women are traditionally concentrated in food-crop production and small retail trade. Some indigenous female entrepreneurship also exists in agricultural marketing, local food processing and handicrafts. Initial experience with a pilot micro-enterprise program and sociological field studies suggest that, prima facie, there is female entrepreneurship potential in the country that could contribute to more broad-based socioeconomic development at the grassroots level. The Government, therefore, recently strengthened its institutional capacity for promoting women through the State Secretariat of Social Affairs (Directorate for Women's Affairs) and is proposing a new initiative in the field of women's education and family legislation. Particular efforts are being undertaken to promote female entrepreneurship in the framework of the micro-enterprise program under the proposed project.

4. Institutional Support

1.17 Institutional support for SME development, though improving from a point of virtual inactivity prior to the onset of the adjustment program, is not yet effective. Principal institutions active in the field are the SME promotion agency CAPMEA (Centre d'assistance aux petites et moyennes entreprises et à l'artisanat), and the Chamber of Commerce, Industry, and Artisanat (CCIA). Several small private sector groups and NGOs are also involved in private sector promotion, notably at the micro-enterprise level.

1.18 CAPMEA. The principal objective of CAPMEA is to provide training, technical assistance and business advice to SMEs, and to assist entrepreneurs to obtain credit from commercial banks. CAPMEA was reorganized to its current structure in 1987. The intention was to create an institution with operational and financial autonomy to avoid public sector interference and bureaucratization. CAPMEA is administered by a seven member board of directors, consisting of its Director General, representatives of the Ministry of Commerce and Industry, the Chamber of Commerce, the Professional Association of Bankers, and one member each representing medium, small, and artisan scale enterprises. During 1987-89, CAPMEA was assisted by a team of two ILO experts (management and mechanical engineering), funded by a UNDP grant of US$1.4 million, and three UN Volunteer technicians in woodworking, metal work and general mechanics, the dominant activities of Bangui's informal sector. During the first three years of operation (1987-1989), twenty of CAPMEA's clients were able to obtain medium-term financing totalling CFAF 190 million, mostly from Banque de Crédit Agricole et de Développement (BCAD). Bankability of CAPMEA-sponsored projects at the Banque Internationale pour l'Afrique Occidentale (BIAO) and the Union Bancaire en Afrique Centrale (UBAC) has been limited.

1.19 CAPMEA's operational difficulties included lack of funding, slower than anticipated professional development of local enterprise advisors, constrained staff mobility and inadequate field contact with clients, and poor staff motivation. A review of client dossiers indicated that project preparation and analytic skills, and the project review process before dossiers are submitted for financing, are weak. The UNDP/ILO has proposed a two year extension of its assistance in the form of one expatriate advisor. A condition of implementation is the availability of an adequate level of operating funds. This proposal is currently under review by the Government and UNDP/ILO. CAPMEA's annual funding requirement to maintain adequate staffing and logistical support was estimated at CFAF 60 million, while revenue for 1989 was CFAF 42 million (30 million appropriations and 12 million fees). Appropriations for 1990 were reduced to CFA 25 million, and fee income decreased since demand for CAPMEA's services declined with the discontinuation of BCAD's lending activities. Currently, CAPMEA can be characterized as an under-funded entity with a clearly defined mandate, but with insufficient means to provide effective services. However, with appropriate human and material support, it could play an important support role for project beneficiaries in an environment where no other entity exists for this purpose. CAPMEA's future role and financial autonomy over time will be addressed in the operation and organization study to be funded under the project. Moreover, at negotiations, assurances were obtained that the government will provide adequate funding for CAPMEA's operating budget to support its future activities.

1.20 Chamber of Commerce, Industry and Artisanat (CCIA). The CCIA has a representative on the Board of Directors of CAPMEA and participated in the formulation of private sector policies in the framework of the structural adjustment program. The Chamber of Commerce receives technical assistance in the form of an expatriate advisor provided by the French Chamber of Commerce. This advisor also cooperates with the CCCE-sponsored SME program (Aide à l'Initiative Productrice de Base, AIPB). Through the program, small entrepreneurs and cooperatives who are considered non-bankable are financed by AIPB. So far, six projects have been funded under the AIPB. Continued cooperation and coordination among private sector promotion agencies, including the Chamber of Commerce, is foreseen under the proposed project.

1.21 Promotion Program for SMEs in Transport (Opération Promotion Petits Entrepreneurs Routiers; OPPER). A group of some 12 private small and medium road maintenance contractors are organized into a cooperative managed with expatriate technical assistance under an IDA-financed transport project. Although originally organized for carrying out contract work for the Ministry of Transport, OPPER entrepreneurs are now diversifying and obtaining building and other small construction contracts in public and private sectors. Joint training activities for OPPER and other beneficiaries under the proposed project will be considered. OPPER's experience in entrepreneurship development, albeit under market-specific conditions, could be a useful input into future promotion activities.

1.22 National Association of Central African Entrepreneurs (Association Nationale des Entrepreneurs d'Afrique Centrale; ANEAC). ANEAC was organized at about the same time that CAPMEA began operations and is composed of about 100 small entrepreneurs. Its president is member of CAPMEA's Board of Directors. Individual ANEAC members sometimes seek the services of CAPMEA to qualify as bidders for government construction contracts. ANEAC has had organizational difficulties and is not yet considered to be an effective organization.

1.23 Non-Governmental Organizations. Although several non-governmental organizations of varying national origin and means of support operate in the CAR, NGOs in the past have not been active in SME development. Most NGOs have been involved in social sector activities located in rural areas. The recently initiated pilot micro-enterprise (ME) development program managed by VITA, a US-based-NGO, is the first direct involvement of NGOs in private sector development. VITA has extensive operational experience in the CAR and in the management of small business support programs in Africa and elsewhere. VITA's previous achievements include the implementation of a US-AID-funded Post Harvest Food System Project in Northwestern CAR, and multilingual staff from this operation will continue to work in the ME program. Annex 1 gives details on VITA.

B. The Financial Sector

1. Financial Policies

1.24 The Regional Central Bank (Banque des Etats de l'Afrique Centrale; BEAC) was established in 1972 as the Central Bank common to five countries: Cameroon, Central African Republic, Chad, Congo and Gabon; Equatorial Guinea joined in 1985. BEAC's operations are largely decentralized. Some powers, such as setting rediscount rates, common to all member countries, are retained by the Board, whereas most of the responsibilities in the management of monetary and credit policies are delegated to national authorities in each country, including a National Monetary Committee and the Ministry of Finance.

1.25 The record of BEAC in the areas of credit and monetary policies and banking supervision has been characterized by conflicting and sometimes contradictory objectives, inefficient instruments and weak administration of these instruments. An important shortcoming has been a lack of effective banking supervision. Besides, a system of preferential interest rates and sectoral allocation of credit has impaired the conduct of monetary policy and resulted in major distortions in resource allocation. BEAC recently initiated a major reform program to bring its financial policies more in line with market conditions (para. 1.29).

1.26 In accordance with its charter, BEAC regulated the volume of credit within limits compatible with balance of payment constraints and price stability through individual credit limits, global refinancing ceilings and ceilings on banks' outstanding credits. These limits have been largely ineffective, individual limits because of multiple derogations adopted, and other limits as a result of economic decline. BEAC had a policy of allocating credit preferentially to selected priority sectors through a lower rediscount rate, higher percentage of rediscount, lower spreads for banks and obligatory minimum of 10% of total credit to be allocated to SMEs. Lower spreads may have worked against the stated policy objectives, and the minimum 10% ratio has not been respected by any bank.

1.27 BEAC's Board periodically revised its interest rates, which comprised five categories: the normal rediscount rate (taux d'escompte normal or TEN), the preferential rediscount rate (taux d'escompte préférentiel or TEP), the rate of [illegible]'s advances to the Government, and two penalty rates respectively to [illegible]ks and Governments. The TEN varied slightly around 9% from 1982 to [illegible]. It was increased from 9.5% to 10.5% in July 1989. The TEN was negative in real terms in 1983, when inflation was 14%. Because annual changes in consumer price index decreased considerably in the following years, the TEN remained positive in real terms since 1984. Deposit and lending rates as well as financial margins are regulated by the National Monetary Committee and the Ministry of Finance, but effectively by the latter.

1.28 BEAC, the Conseil National du Credit, the Commission de Contrôle des Banques, and the Direction des Assurances et des Banques within the Ministry of Finance are all empowered to play a role in the supervision of banks. BEAC did not undertake banking supervision until 1980, when a supervision unit was established at its headquarters in Yaoundé which effectively started reviewing banks' financial statements in 1984. Inspections of banks were decided by the Ministry of Finance or, if proposed by BEAC, must be approved by the Minister. In the past, Bank supervision has been weak and no sanctions have been taken against banks which did not respect the regulatory financial ratios.

1.29 Aware of serious shortcomings in its financial policies as indicated above, BEAC, with the support of IDA, has prepared a far-reaching reform of credit and monetary policies for the monetary union as a whole. As a first significant step, BEAC's Board decided in October 1990 to initiate a series of reforms with a view to bringing its policies more in line with market conditions. Specifically, the Board decisions included: (a) an increase of the normal discount rate from 10% to 11% to be competitive with the French money market rate; (b) the abolition of the subsidized preferential discount rate previously set at 6.5%; (c) the introduction of a unified discount rate by raising by one percentage point every six months the rate of 5.5% for overdraft to the national treasury until the rate reaches the normal discount rate of currently 11%; (d) greater authority for BEAC's Governor to adjust the discount rate between BEAC Board meetings; (e) tightening of control of credit to the public sector; (f) the creation of a regional banking supervision commission (Commission bancaire d'Afrique centrale (COBAC)), which is to become the main authority for supervising all banks in the BEAC zone, subject to ratification of statues and regulations by national parliaments; and (g) the adoption of a general framework for the restructuring of the banking sector including consolidation of BEAC debts over 15 years including 3 years of grace at an interest rate of 3% p.a. as adopted in the case of

Cameroon. Further reforms under consideration include the replacement of the system of prior authorization of individual credits by BEAC by financial criteria and the introduction of a system of reserve requirements.

2. Commercial Banks

1.30 In addition to the Central Bank (BEAC), the formal financial sector includes two active commercial banks: the Union Bancaire en Afrique Centrale (UBAC) and the Banque Internationale pour l'Afrique Occidentale, Centrafrique (BIAO). A third, the Banque de Crédit Agricole et de Développement (BCAD), has ceased operations. A new bank, the Banque Populaire Maroco-Centrafricaine (BPMC), started operations in March 1991. UBAC is a mixed ownership bank with a Government participation of 85%, and management support from the other shareholder, Crédit Lyonnais. Shareholders of BIAO Centrafrique are BIAO (France), with 75% participation,, the Government (20%) and private local investors (5%). BIAO (France) is presently being liquidated and negotiations are in process for the sale of BIAO's share. Meridien Bank has expressed interest in taking over BIAO. BCAD is owned 50% by the Banque de Placement et de Participation (BPP Holding, Luxemburg), now bankrupt, the Government (33%), the French Caisse Nationale de Crédit Agricole (8.3%) and Pack Financial Consultants (8.3%). BCAD will be liquidated under the Government's financial sector program currently under preparation. BPMC's share capital consists of a CFAF 500 million subscription by the Moroccan Banque Centrale Populaire and a CFAF 300 million contribution (in kind) by the Government.

1.31 Though reliable estimates do not exist, a large share of the CAR's money supply is reportedly held in liquid form outside the banking system. Mobilization of local savings by banks so far has not been very effective, mainly due to: (a) a low level of confidence of the public in the banks, following liquidation of three development banks in the 1970s/early 1980s; (b) the existence of only two bank branches in the provinces; and (c) the reluctance of informal operators to be identified through their bank accounts. BPMC, known for its success with mobilization of rural savings in African countries, should help improve domestic resource mobilization and financial intermediation.

1.32 The distribution of credit through the banking system in recent years has been approximately as follows: UBAC 50%; BIAO 30%; and BCAD 20%. Total credit outstanding has stagnated in the vicinity of CFAF 30 billion since the early 1980s. On December 31, 1989, total credit outstanding in the banking system was CFAF 32.5 billion, of which CFAF 7.6 billion was medium- and long-term credit. The latter increased from CFAF 3.5 billion at the end of 1986 to CFAF 7.6 billion at the end of 1989 (Annex 2). In evaluating term lending, it should be kept in mind that some short-term loans that are rolled over may in fact be effectively medium-term credits. Interest rates charged by banks for medium-term credits average about 16% p.a.. Interest payment on demand deposit was suspended in 1984. The average remuneration of term deposits is about 7%.

1.33 The banking system has in the past displayed little interest in expanding SME lending under prevailing lending regulations including restricted financial spreads. The banks attribute the small volume of term loans SMEs to poor collection experience, high administrative costs, and a lack of bankable projects. Small entrepreneurs and CAPMEA staff attribute the scarcity of bankable projects to excessive collateral and guarantee conditions, which are beyond the capability of all but a small percentage of potential SME borrowers. A market-oriented approach clearly calls for revised lending rates including higher lending spreads as envisaged under the proposed operation.

1.34 Bank balance sheets show high defaults and insufficiency of provisions. If adequate provisions were made, the equity of the banks would become insufficient or even negative. BIAO's equity would be reduced from CFAF 1.1 billion as of August 31, 1989 to about CFAF 400 million, too small in relation to BIAO's portfolio of CFAF 9 billion. UBAC underwent a financial restructuring in 1987, with external capital injection of CFAF 2 billion. Further restructuring is needed, since UBAC's equity of CFAF 1.9 billion as of August 1989 would be wiped out by a provision of CFAF 4.4 billion primarily for a long-standing non-performing loan to one principal client (Moura) and would become negative by the amount of CFAF 2.5 billion. If adequate provisions were made, BCAD's equity at the end of 1989 would become negative in an amount of CFAF 2.7 billion.

1.35 The profitability of banks is poor in spite of spreads averaging around 7% on total resources. Thanks to a recent reorganization, including a 20% reduction in staff, BIAO, which broke even in 1988, made a profit of around CFAF 160 million in 1989. UBAC, which also reduced its personnel by 25% in recent years, suffered losses in 1987 and 1988, but made a profit of CFAF 160 million in 1989. UBAC's administrative charges represented 12.4% of its loan portfolio in 1988. In spite of technical assistance from the French Caisse Nationale de Credit Agricole, BCAD could not achieve adequate operational and financial performance. Its estimated losses for the year 1989 amounted to CFAF 220 million. For UBAC and BIAO, medium- and long-term use of funds was adequately matched by corresponding maturities of resources. However, the rate of recovery of doubtful loans for both banks was low in 1989 (about 10%) and increased efforts are needed to improve their recovery performance.

3. Financial Sector Reform Program

1.36 Under the ongoing SAL III, the Government has undertaken to adopt an action plan for the reform of the financial sector the major elements of which are to restructure and reorganize the banking system, to bring monetary policies more in line with market conditions, and to further liberalize the regulatory environment. This comprehensive reform program, currently under preparation by the Government, would include the regional BEAC reforms described in para. 1.29 combined with a series of country-specific measures under national jurisdiction as outlined below.

1.37 Reorganization of Banks. All banks, to varying degrees, need to build up and strengthen operational capacity to enhance efficiency and improve financial performance. Recent reorganization in BIAO and UBAC were moves in the right direction. In UBAC, the French minority partner, Crédit Lyonnais, provides substantial management support with five key executives including the Deputy General Manager. Improved staff training remains necessary in the field of project appraisal and supervision for UBAC and

BIAO. Banks are expected to further compress their administrative expenses, and take advantage of increased spreads to improve services in the interior of the country, for instance through mobile banking or establishment of branches. Reorganization programs, including extended computerization, are being firmed up by the banks and the Government in consultation with a PPF-funded financial expert.

1.38 The BPMC is expected to endeavor to revitalize savings collection, as the Moroccan Banque Centrale Populaire has already done successfully in other African countries. A study on the reform of the postal checking system, which could also play a role in rural savings mobilization, is currently being considered with the assistance of the French Government.

1.39 Capital Restructuring. Government policy in the medium-term is to diversify ownership of the banks through an increase in private participation, both foreign and local, following reorganization and capital restructuring, so that subscription to share capital would become more attractive. One option for restructuring the capital of UBAC and BIAO would be the assumption of Moura's Government-guaranteed debt by the Government, combined with the consolidation of BEAC debts owed by banks which is currently under review at the level of the monetary union. Such an arrangement would increase UBAC's equity to about CFAF 700 million, or 7 percent of its loan portfolio, and BIAO's equity to about CFAF 1,400 million, or 15 percent of its loan portfolio. A prime objective is to upgrade the capital base of the banks to internationally acceptable levels in relation to the size and nature of banking operations and portfolio structure. Expected expansion of banking activities would require additional capital injections at a later date, to be provided primarily by private local and foreign investors. A possible German participation of $1 million equivalent in one of the banks through the Finance Company for Investments in Developing Countries (DEG) is also under consideration. Capital restructuring programs are being firmed up by the banks and the Government with the assistance of the PPF-funded financial expert. Financial implications of BCAD's liquidation are being assessed on the basis of ongoing audits.

C. Government and IDA Strategy

1.40 IDA's strategy is to support the government's development strategy to rehabilitate and restructure the economy by (a) promoting private sector initiative and investments; (b) supporting strategies aimed at improving incentives and providing a more enabling regulatory environment; (c) providing financial and technical assistance to rehabilitate and expand productive sector activities and vital infrastructure investments; (d) strengthen institutions to improve policy formulation and effective management; and (e) mitigate potentially adverse social effects of the structural adjustment process.

1.41 The proposed project represents IDA's first involvement in the private enterprise and financial sectors in CAR, and is a key component of IDA's development strategy in the country. It is an essential complement to policy reforms initiated under the three IDA-supported structural adjustment operations to stimulate a supply response in the productive sectors. Given the strong emphasis on private sector activities in the country's development strategy, the Government considers IDA's involvement important for the success of the ongoing adjustment and growth process. The provision of investment and working capital financing to private enterprises constitutes an important ingredient for sustained expansion of private sector activities. The Government's strategy supported by IDA also stresses promotion of entrepreneurship -- including female entrepreneurs -- with the assistance of NGOs.

1.42 As of March 31, 1991, 23 IDA Credits had been made to CAR, totalling US$360 million equivalent. Of this, about US$205 million equivalent was lent for investment in, and rehabilitation of, the transport, education, energy, and agricultural sectors, and US$155 million for structural adjustment, adjustment of the cotton sector, and for technical assistance in support of economic management. Total disbursements are around US$240 million equivalent. Total commitments during FY90-92 are expected to be in the order of US$191 million, as compared to US$104 million in FY87-89. A US$62.0 million Transport Sector Project, US$19.0 million Natural Resources Management Project, and a third Structural Adjustment Operation of US$45.0 million were approved during FY90.

II. THE PROJECT

A. Project Objectives

2.01 The broad objective of the proposed project is to promote and finance private enterprises to increase output, employment, and income in both the formal and informal sectors in support of the ongoing structural adjustment and growth process. Specifically, it would:

(a) support enterprise development and rehabilitation through provision of term finance and working capital for viable investments in existing or new enterprises;

(b) help implement the financial sector reform program;

(c) improve access to financing and provision of business advisory services and training;

(d) strengthen selected enterprise promotion institutions; and

(e) provide support to micro-entrepreneurs including female entrepreneurs.

2.02 Integration of Lessons Learned in Project Design. The proposed project is the culmination of preparatory work by the Government and IDA extending over a two-year period. IDA has played a key role in assisting Government to formulate strategies in the private and financial sectors. Taking into account lessons learned from apex and SME operations in other countries, project preparation focussed on financial sector reforms and on establishing an enabling regulatory environment in the framework of structural adjustment. In addition, the following arrangements were incorporated in project design: (a) market-oriented lending terms and conditions, including interest rates and adequate financial margins for participating financial institutions; (b) appropriate institutional arrangements, including technical assistance to ensure effective project management; (c) periodic reviews of implementation experience, and flexible adjustment arrangements; and (d) apex set up to stimulate competition among participating financial institutions.

B. Project Description

2.03 The project would include the following components:

(a) an apex line of credit within the commercial banking system to finance fixed assets and working capital needs of eligible enterprises (US$7.7 million);

(b) a micro-enterprise development program managed by VITA, and consisting of a credit fund, institutional support, and technical and management advisory services (US$3.4 million);

(c) technical assistance for project management and strengthening of private sector promotion agencies (US$2.5 million);

(d) a training program for enterprise organization and management and project evaluation (US$0.9 million); and

(e) a studies program to carry out sub-project feasibility, preparation and sector studies relevant to enterprise development (US$0.7 million).

C. Apex Line of Credit (US$7.7 million)

2.04 The Government would make the proceeds of the credit available to eligible financial institutions through an apex scheme, under a management arrangement with BEAC. A Project Unit (PU) in the Central Bank would be responsible for administering the credit line. The PU will be an entity with adequate staff and responsibilities necessary to administer the project component effectively. The PU would operate under procedures designed to provide an appropriate degree of autonomy to avoid undue delay in the processing of sub-projects financed by PFIs. Approval of PU's operational policies and procedures by the Central Bank and IDA is a special condition of disbursement for the apex component. The staff of the PU would initially consist of the unit chief, one banking expert, and local support staff. The project would provide assistance to the PU including: (a) an expert for a two year period, with the possibility for extension for another two years, if required, to help establish procedures and build institutional capabilities through on-the-job training; (b) the training of PU staff and PFIs in term financing, sub-project preparation and supervision; (c) procurement of computer hardware, vehicles, and office furnishings; and (d) 50% of incremental operating cost. The appointment of the expert and the signing of a Protocol of Cooperation between the Government and BEAC under terms and conditions satisfactory to IDA, and the establishment of the PU with staff whose qualifications and professional experience are satisfactory to IDA, are special conditions of disbursement of the apex component.

2.05 Participating Financial Institutions (PFIs). All commercial banks will be eligible to participate in the apex scheme, subject to their entering into a subsidiary loan agreement with the Central Bank, under terms and conditions satisfactory to IDA. At negotiations, assurances were obtained from the Government on institutional arrangements for onlending, the eligibility criteria for PFIs, beneficiary enterprises and sub-projects, terms and conditions, sub-loan processing and administration, and auditing and reporting requirements as described in the following paragraphs. The signing of a subsidiary loan agreement between BEAC and a PFI is a special condition of disbursement for each PFI. This agreement would, *inter alia*, specify that the PFIs should: (a) undertake satisfactory sub-project appraisals and submit required documents to the PU; (b) ensure that disbursed funds are used by the final borrowers for the purposes intended and under procurement procedures acceptable to IDA; (c) supervise sub-projects regularly; (d) provide the PU with reports on the status of sub-projects; and (e) submit to the PU audited financial statements. A draft subsidiary loan agreement, draft operational norms and procedures for PFIs, and draft terms of reference of the PU have already been discussed with interested parties and are available in the Project File (Annex 3).

2.06 The PFIs would bear the credit risk of sub-projects. UBAC and BPMC have expressed interest, in principle, in participating in the project. No response has so far been obtained from BIAO Centrafrique, since it has not yet been decided which institution will take over the shares of BIAO France. There is a strong likelihood, however, that the institution succeeding BIAO Centrafrique will agree to participate in order to retain a significant market share. BIAO Centrafrique has already taken over from BCAD the implementation of a small pilot rural credit scheme under an agricultural project funded by the International Fund for Agriculture and Development (IFAD). To become eligible, UBAC and BIAO Centrafrique's successor will have to present acceptable programs of reorganization and capital restructuring under the financial sector reform program to be adopted under SAL III.

2.07 Sub-project Eligibility and Selection Criteria. All private sector SMEs (defined as firms with maximum fixed assets (excluding land) of US$0.5 million equivalent, before financing, and with at least 51% private ownership) would be eligible for financing under the project. Real estate activities would not be eligible. The project would finance investments in new enterprises as well as existing enterprises in need of expansion or rehabilitation. Financing would be available for fixed assets, permanent working capital and free-standing working capital for viable enterprises in directly productive sectors. Since a major objective of the project is to finance fixed investment, the total amount of sub-loans financing free--standing working capital would be limited to a maximum of 25% of the credit component. Sub-loans granted under the line of credit could finance up to 85% of the costs of subprojects, leaving a minimum of 15% to be provided by sponsors.

2.08 The following conditions would apply: (a) for all sub-loans, an evaluation of technical viability, market analysis, and management capabilities, and an assessment of any significant environmental impacts, using, whenever appropriate, the Bank's industrial guidelines, would be required. The financial rate of return (FRR) should be at least 12%; (b) the projected debt servicing capacity should not be less than 1.3 over the life of the project, and the debt equity ratio should not be more than 4:1; and (c) for sub-loans above US$500,000 equivalent, economic analysis would be required, including a minimum economic rate of return (ERR) of 12%, and (d) sub-loans for any new or existing single enterprise should not exceed US$0.75 million equivalent.

2.09 Size of the Apex Line of Credit and Credit Demand. The size of the credit component has been based on a conservative estimate of credit demand. There are no reliable data available on capital formation by sub-sectors and on term financing of investments in the private sector in the country. Commercial banks in CAR do not have sub-project pipelines that would indicate the prospective credit requirements. It is, therefore, difficult to relate precisely the proposed amount of the credit component to potential demand. However, as indicated earlier, medium-term credit outstanding more than doubled from end-1986 to end-1989. Estimated new medium-term credit commitments, excluding housing, increased from about CFAF 1.5 billion during 1988 to about CFAF 2.5 billion during 1989. The proposed IDA contribution of US$5.0 million for the apex component represents about 10% of the estimated medium- and longer-term credit demand by the commercial banks over a four year period and about 4% of current total credit outstanding. While the proposed amount of the apex line of credit is justified by recent trends indicated above, actual demand for term financing is expected to be higher as a result of increased economic activities following the ongoing adjustment process. To provide maximum flexibility in implementing the apex scheme, no pre-established allocations among PFIs, by economic sectors, industries or economic agents, have been set.

2.10 On-lending Terms and Conditions. The apex line of credit would be channelled through BEAC to PFIs at a reference interest rate of 7% p.a., which is the average remuneration of term deposits, and with a flexible amortization schedule reflecting the aggregate maturity of subloans extended by PFIs. Sub-loans to beneficiaries would range from two to 12 years, inclusive of grace periods of up to three years and would initially have an interest rate of 16% p.a.. This rate is substantially positive in real terms in relation to current and foreseeable inflation rates. The exchange risk would be borne by the Government, which is an appropriate arrangement given the market-based on-lending terms and conditions including interest rates applicable to end-users. PFIs' financial margin would initially be 9%, reflecting the higher risks and administrative costs associated with SME lending. The lending terms would be reviewed annually by the Government and IDA in light of prevailing economic and financial conditions including inflation rates. On-lending rates will be kept in line with standard banking rates in the BEAC zone which are expected to remain market-based in accordance with BEAC's new policy orientations (para. 1.29).

2.11 Because this is the first IDA project of its kind in the CAR, the first three sub-loans from each PFI would be subject to prior IDA review and approval. Thereafter, assuming satisfactory appraisal standards and with the exception of sub-loans over US$250,000 equivalent, which would require prior IDA approval. IDA would review a sample of sub-projects on an ex-post basis during supervision missions.

D. Micro-enterprise (ME) Development Program (US$3.4 million)

2.12 A special ME development program is included in the project to provide a package of credit and support services to micro-enterprises. To gain first-hand operational experience, a pilot ME program was initiated in 1990 and primarily funded under an SPPF and PPF. The proposed program is designed to provide reasonably-priced, timely business credit to capable entrepreneurs who do not have access to such financing through banking channels, nor personal wealth. Satisfactory experience with the program, managed by VITA, confirms that an extension of the program is warranted. Details of the genesis of, and experience with, the pilot ME development program, as well as the background on the managing NGO, are given in Annex 1. The Government has opted for a single-source selection in continuing the ongoing ME program because: (a) the proposed tasks are a natural continuation of previous work carried out by the NGO; (b) the NGO has unique qualifications considering country and sector-specific experience requirements; (c) the NGO has gained particular experience through past work in the country; and (d) a valuable Government-NGO relationship exists. Moreover, the Government considers the scope and size of the extended ME program, and the estimated development outlays under the proposed project appropriate, given the existing and potential demand over the life of the project in the Bangui area and in two selected regions of the country, and the substantial socio-economic benefits expected from the grassroots scheme.

2.13 The geographical coverage of the pilot ME scheme was initially confined to Bangui. Under the project, the program would be extended to cover MEs in the Bossangoa area, where VITA has already been active, and in Bambari. Preliminary sociological and economic field studies suggest that good potential for micro-enterprise development and adequate infrastructure exist in these two major provincial towns and neighboring rural areas.

2.14 The ME component would provide investment credit and working capital, as well as support services to viable MEs in all productive sectors. At the beginning of March 1991, some 700 applications had been processed and 380 credits totalling CFAF 42 million extended of which 66% to women entrepreneurs. Supported activities included food processing and distribution, livestock, woodworking, transport, tailoring, and handicrafts. Loan collection so far has been excellent with 99% of amounts due recovered. The Government would conclude contractual arrangements satisfactory to IDA under which VITA will provide institutional support, and technical and managerial advisory services (US$2.4 million) and would make US$0.5 million available for on-lending to MEs on terms and conditions indicated below. The credit risk would be borne by the Government. VITA would return to the Government at the time of the termination of the program the amount of US$0.5 million plus interest earned minus losses from credit operations. It is estimated that during the life of the project, the program would provide credit to MEs amounting to some US$3.1 million equivalent that would generate total investment by micro-entrepreneurs of about US$4.0 million.

2.15 Lending terms and conditions for the ME component would be as follows: (a) financial charges would range from 2 percent to 4 percent per month depending on the duration of the loan. These financial charges include interest, risk premium, and fees for technical and management advisory assistance. The charges compare favorably with informal sector financing through money lenders where rates may rise to 25 percent per day and up to 100 percent per month; (b) guarantees would be provided by borrowers, including liens on physical assets, direct salary or retirement deductions, group solidarity guarantees, and/or a legally liable guarantor; (c) the size of loans would range from US$100 to US$2,000, although larger loans of up to about US$9,000 could be extended. The proposed range of sub-loans would be lower than the minimum amount of SME credits extended by local banks. Maturities would be up to two years; and (d) self-financing of 25 percent would be required, including possible contributions in kind.

2.16 Since the inception of the pilot ME program, particular emphasis has been given to exploit the potential of female micro-entrepreneurs. Most of the support so far has been concentrated on solidarity groups involved in agricultural marketing where women traditionally have been strongly represented. VITA will continue to focus on female entrepreneurs to help integrate them fully into mainstream economic development, including production activities. Technical and management advisory services will be provided to MEs during periodic monitoring visits to the clients' business sites as well as in supplemental sessions at the entrepreneurs' request. The training component of the proposed project would include a management training and visiting program in collaboration with CAPMEA. VITA will continue to implement the ME development program in collaboration with US Peace Corps and Canadian OCSD Volunteers under a management agreement between the Government and VITA under terms and conditions satisfactory to IDA.

2.17 The pilot ME component, while still in an early stage of operational experience, has considerable potential for entrepreneurship development and employment generation at the grassroots level. A substantial portion of the operating outlays constitute extension activities. The program is expected to achieve progressively higher self-generated revenues and cost recovery. Lending terms and conditions and the operations program of the scheme will be reviewed annually. Increased local participation in project management to achieve longer-term sustainability will be examined in a mid-term review. Future activities may include extension of the geographical coverage, the introduction of a savings component, and increased integration of the ME scheme into formal financial sector activities. Subject to satisfactory results of the mid-term progress review, a study to prepare a follow-up project could be initiated and funded under the studies component.

E. <u>Technical Assistance (US$2.5 million)</u>

2.18 The project will aim at strengthening project management and private sector promotion agencies. In particular, it will support (a) the establishment and operation of the Project Unit (PU) in BEAC, including a banking expert for an initial period of two years, to be extended, if required, and start up and incremental operating costs, equipment and vehicles (para. 2.04); (b) strengthening of the Directorate of Industrial and Artisanal Development (Direction au Développement Industriel et Artisanal; DDIA) in the Ministry of Finance, Trade, Industry and International Cooperation (Ministère des Finances, du Commerce, de l'Industrie et des Petites et Moyennes Entreprises; MFCIPME), including an enterprise development specialist for two years, to be extended, if required, and incremental operating costs, equipment and vehicles; and (c) support to CAPMEA, including an external NGO-supplied financial analyst and incremental operating costs, vehicles and equipment. Funds allocated for technical assistance would be passed on as a grant from the Government to the implementing agencies. Experts will be recruited subject to IDA approval. The appointment of the expert in MFCIPME and the designation of a counterpart with qualifications and professional experience satisfactory to IDA, is a condition of disbursement of the technical assistance, training and studies components. Details of the sub-components of technical assistance are given in <u>Annex 4</u>. Draft terms of reference for the banking and enterprise development experts have already been discussed with the Government and BEAC and are available in the Project File (Annex 3).

2.19 The design of the technical assistance component takes into account the experience with completed free-standing technical assistance projects (Project Completion Reports No. 9144 and 9151 dated December 14, 1990), the ongoing Economic Management Project, and findings and recommendations of the OED study entitled: "Free-Standing Technical Assistance for Institutional Development in Sub-Saharan Africa", (Report No. 8573, April 19, 1990). Based on the lessons learned from these experiences, the design of the technical assistance component emphasizes (a) strong Government commitment and demonstrated need for TA support aimed at institution building and sustainability; (b) close upstream cooperation with implementation agencies during project preparation; (c) result-oriented terms of reference and timely nomination of qualified key counterpart staff; (d) periodic evaluation and Mid-Term Review; and (e) adequate provision for supervision, including extended involvement of the Resident Mission to ensure greater transparency and effective management and cost control.

2.20 The scope and cost of the technical assistance component relative to the project as a whole responds to the following prime considerations: (a) the project is the first operation of its type in the CAR. It will be implemented in an environment of relatively weak institutional support with a largely unsophisticated borrowing clientele. The experience of CAPMEA and the pilot micro-enterprise program have shown that the SME sector in CAR still requires substantial direct assistance in acquiring simple business management tools, understanding basic bookkeeping and cash flow techniques, improving work methods and productivity as well as access to institutional credit; and (b) the project includes provision for future technical assistance needs, to be identified as the project develops, including the extension of contracts for some of the expatriate experts in the third and fourth years of operation.

2.21 The technical assistance complements other ongoing IDA and TA programs. In particular, the project would strengthen and extend institutional support to MFCIPME under the Economic Management Project in key areas of policy formulation and management such as a more responsive enabling environment, entrepreneurship development, organization of training programs, and implementation of studies relevant to private sector activities. Also, the project would complement UNDP/ILO support to CAPMEA by providing urgently needed assistance in financial analysis and management.

F. Training Program (US$0.9 million)

2.22 Training activities under the proposed project would focus on (a) development of project evaluation capacity within the PU, the banking sector, CAPMEA, CCIA, and MCIPME; and (b) training in elementary business and management for micro and SME project beneficiaries. Training programs would also cover environmental issues including occupational health and safety standards. The DDIA will coordinate the needs, identification, program development, and recruitment of trainers, and implementation arrangements. CAPMEA will be the principal executing organization, but other local entities active in training, such as the National Professional Training Center (ONIFOP), will also help implement the training programs. Specific training proposals would be submitted to DDIA for review and coordination, and approved for funding on an individual basis by the Government with the concurrence of IDA. The program will support the cost of short-term consultants for training program design and implementation to include trainers fees, logistical support and 50% of incremental operating costs of executing agencies. This approach will allow for a flexible response to training needs as they arise during project life. Token fees would be charged to private sector beneficiaries to make programs more responsible to needs, and to increase the motivation of participants. A higher fee scale will apply for trainees who are staff of PFIs.

2.23 It is anticipated that a training program in project evaluation for medium term credits will be organized in Bangui during the first year of project implementation for analysts of implementing agencies, NGOs, and participating financial institutions. Provision has also been made for a similar program during later years of the project if the need arises. Training programs for project beneficiaries will be more frequent and flexibility in response to perceived needs will be essential. Mindful of the poor return to formal classroom training for owners and staff of small enterprises, training methods include more effective systems combining training and visiting. Training program content will be further elaborated during project implementation through discussions among DDIA, VITA, CAPMEA, and other promotion agencies. Monitoring and evaluation will be carried out throughout project life to assess short- and longer-term impact on sub-projects. Emphasis will be maintained on beneficiary feedback to ensure the relevance of training programs.

G. Studies Program (US$0.7 million)

2.24 Support will be provided to identify and carry out studies relevant to enterprise development and business environment, and to facilitate project implementation. Topics tentatively identified include: (a) CAPMEA organization to evolve into a private and financially autonomous operation; (b) improvements in the legal system particularly in the area of enforcement of loan repayments; (c) feasibility of a credit guarantee fund; (d) environmental assessment reports; and (e) preparation study for a possible follow-up ME project. The definition and justification of the studies to be financed under the project will be prepared by DDIA in close collaboration with the implementing agencies concerned. Included in the studies component will be funds to support the external audits of the project implementing units and the Special Account. Each funding request will be reviewed by DDIA and approved by the Government, with the concurrence of IDA. Assurances have been obtained on a timetable for the execution of the studies, the review of results with IDA, and the implementation of recommendations agreed upon with IDA.

H. Project Cost and Financing

2.25 Total project cost is estimated at US$15.2 million. Of this total, an estimated US$7.7 million will be channelled through the apex operation; US$3.4 million through the pilot micro-enterprise program; US$2.5 million will be for technical assistance, US$0.9 million for training, and US$0.7 million for studies. The proposed IDA credit of US$11.3 million would cover 74% of total project cost, and all direct foreign exchange expenditure, the total of which is estimated at US$9.9 million. The remainder of total project cost, US$3.9 million or 26% would be financed by sub-borrowers, participating financing institutions and the Government. Costs for local staff salaries, office space and 50 percent of incremental operating costs of the technical assistance and training components will be borne by the Government. A summary of the project cost and its anticipated financing is given in the following table:

SUMMARY COST ESTIMATES AND FINANCING PLAN

Estimated Costs*	Local	Foreign	Total	% of Total
	US$ million equivalent			
Subproject financing (Investments)	2.4	5.3	7.7	51
ME promotion program	1.8	1.6	3.4	22
Technical assistance	0.7	1.8	2.5	16
Training	0.3	0.6	0.9	6
Studies	0.1	0.6	0.7	5
Total Costs	5.3	9.9	15.2	100

* net of taxes

Financing Plan	Local	Foreign	Total	% of Total
IDA	1.4	9.9	11.3	74
Subborrowers	2.4	--	2.4	16
Participating financial institutions	0.9	--	0.9	6
Government	0.6	--	0.6	4
Total Financing	5.3	9.9	15.2	100

I. Project Implementation

2.26 As indicated earlier, the Central Bank (BEAC), through the Project Unit (PU), would administer on behalf of the Government the apex credit component to be implemented by eligible PFIs. VITA would continue to implement the ME development program under a management agreement with Government. The DDIA in MFCIPME would be the coordinating and managing agency for the technical assistance, training, and studies components. A Project Coordinating Committee (PCC) within the Ministry of Economics, Planning, Statistics and International Cooperation (Ministère de l'Economie, du Plan, des Statistiques et de la Coopération Internationale; MEPSCI) would ensure overall project coordination. The Committee will be headed by the Minister of MEPSCI, and will include representatives of all implementing and promotion agencies participating in the project. An official, to be nominated by the Minister as chairperson of the PCC, will serve as Executive Secretary. Establishment of the PCC is a condition of credit effectiveness.

2.27 Environmental Assessment. Appraisal of subprojects by participating financial institutions would include an assessment of any significant environmental impacts using, whenever appropriate, the Bank's Industrial Guidelines (para 2.08). The studies component of the proposed project could provide funding for environmental assessment reports as needed. Training programs would also cover environmental issues, including occupation health and safety (para. 2.22).

J. Procurement

2.28 Procurement for sub-projects financed under the investment component of the Credit would generally be made on the basis of current procurement procedures of the participating financial institutions which require quotations from three different suppliers. These procedures have been reviewed and found acceptable to IDA. Procedures of future, not yet existing financial institutions, who wish to participate would be reviewed prior to their signing a participation agreement. Contracts for goods estimated to cost the equivalent of US$0.75 million or more would be required to be awarded through International Competitive Bidding, in accordance with IDA Procurement Guidelines. Procurement of ME sub-loans and operating expenditures of the ME development program would be made in accordance with standard commercial practices in the CAR, which are acceptable to IDA. Procurement of equipment, vehicles, and furniture would be made on the basis of at least 3 quotations from reputable suppliers eligible under IDA guidelines. If possible, quotations from eligible suppliers from at least two countries that are eligible under IDA guidelines would be sought. Whenever possible, purchase of equipment, vehicles and furniture would be grouped in lots equal or over US$30,000 equivalent and procured through local competitive bidding. Selection of consultants would be made in accordance with Bank Group Guidelines. Two long-term and possibly some short-term consultants are expected to be recruited on the basis of shortlisting. The qualifications, experience, and terms and conditions of employment of all specialists would be satisfactory to IDA. The table below summarizes procurement methods:

PROCUREMENT METHOD

Procurement element	Procurement Method			Total
	ICB	LCB	Other	
	---------(US$million)---------			
Apex subloans			7.7 (5.0)a/	7.7 (5.0)a/
Micro-enterprise (ME) subloans			0.8 (0.4)a/	0.8 (0.4)a/
Management services for the ME program			1.7 (1.7)b/	1.7 (1.7)b/
Consultant services, technical assistance, and training			2.3 (2.0)c/	2.3 (2.0)c/
Incremental operating costs			1.0 (0.5)	1.0 (0.5)
Equipment and vehicles		0.4 (0.4)	0.2 (0.2)d/	0.6 (0.6)d/
SPPF/PPF refinancing			1.1 (1.1)	1.1 (1.1)
Total		0.4 (0.4)	14.8 (10.9)	15.2 (11.3)

Figures in parentheses are the respective amounts financed by IDA.

a/ Standard commercial practice; contracts for goods exceeding US$0.75 million equivalent would require ICB. The appraisal mission did not identify any subproject qualifying for ICB.

b/ NGO VITA.

c/ In accordance with IDA guidelines.

d/ Three quotations.

K. Disbursement

2.29 The proceeds of the proposed credit would be disbursed as follows: (a) 100 percent of expenditures of apex sub-loans subject to a maximum of 85 percent of total sub-project cost; (b) 100 percent of expenditures of ME sub-loans up to 75 percent of total sub-project cost and 100 percent of operating cost of the ME component; (c) 100 percent of expenditures for vehicles and equipment; (d) 100 percent of the costs of consultant services, training, and studies; and (e) 100% of eligible operating expenditures of PU, DDIA, CAPMEA, and other training agencies (office running costs and supplies, spare parts, fuel, maintenance and travel), accounting for 50 percent of incremental operating costs.

2.30 All disbursements would be fully documented except payments against contracts of less than US$50,000 equivalent, which would be made against statement of expenditures (SOEs); this documentation would be made available to IDA supervision missions and independent auditors. To expedite disbursement of funds, a Special Account would be set up at BEAC into which IDA would make an initial deposit of US$0.5 million from the proposed credit immediately after credit effectiveness. Applications for replenishment of the special account would be submitted on a quarterly basis. The Special Account would be audited annually by independent auditors and the audit reports would be submitted to IDA within three months of the end of the fiscal year.

2.31 The project disbursement schedule is based on the relevant disbursement profile for similar projects in Africa. Funds under the credit component would be available for commitment until June 30, 1997 and the closing date would be set at December 31, 1998. The estimated disbursement schedule is shown in Annex 5 and summarized below.

Estimated Disbursements	FY (US$ million equivalent)							
	1992	1993	1994	1995	1996	1997	1998	1999
Annual	1.2a/	0.8	2.2	2.2	2.3	1.6	0.7	0.3
Cumulative	1.2	2.0	4.2	6.4	8.7	10.3	11.0	11.3

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a/ Includes SPPF and PPF refinancing totalling US$1,096,000.

L. Reports and Audits

2.32 The DDIA, PU and VITA will have their project accounts, as well as the Special Account and SOEs audited annually by independent auditors acceptable to IDA and will furnish to IDA certified copies of their audited accounts together with the corresponding management letter within three months of the end of the fiscal year. The PFIs will submit their audited financial statements to the PU (para 2.05). The DDIA, PU, and VITA will submit to IDA quarterly and annual progress reports including financial and budgetary accounts on the project components concerned. The PU and the DDIA together will prepare a Project Completion Report within six months after the closing date of the project.

2.33 IDA Supervision. During appraisal, discussions were held with potential implementing agencies to familiarize them with IDA's supervision of the project. Nonetheless, the first private sector development/apex operation in the country will still require close IDA supervision, particularly during the first three years. At negotiations, agreement was reached with Government that a Mid-Term Review be carried out in consultation with IDA in early 1994 to assess progress and the status of project implementation and, if necessary, to make appropriate adjustments to ensure that the original objectives are achieved. It is estimated that about 15 staff weeks per year of IDA supervision would be required during implementation of the project. Expected skill requirements would include expertise in banking and other financial sector operations, private sector development, institutional capacity building and training. The Resident Mission is expected to assume an increasing role in supervision activities.

III. PROJECT BENEFITS AND RISKS

3.01 Benefits. The proposed operation represents IDA's first private sector development project in the country and is expected to provide sustainable socio-economic benefits. It will help revitalize the private sector and support trade liberalization and retrenchment of the Government from the productive sectors, which forms the core of the country's adjustment and growth. An improved policy environment, combined with greater access to term financing for business should ensure a supply response by the private sector, improve the operating efficiency of firms and in the process promote economic growth. The project would help exploit domestic entrepreneurial potential and help mitigate the adverse social effects of structural adjustment on poverty through the generation of employment and income in both the formal and informal sectors. The project will stimulate entrepreneurship at the grassroots level with special emphasis on women. Finally, the project would support the ongoing financial sector reform aimed at further liberalizing the regulatory environment and bringing monetary policies including interest rates more in line with market conditions. A more competitive and responsive financial system will help improve resource mobilization and allocation.

3.02 Risks. Potential risks of the first apex operation in the country include the possible reluctance of banks to extend term financing that may result in slower than anticipated disbursements. The Government may have difficulty in sustaining the institutional and regulatory changes necessary for effective project implementation. Increased cooperation between the Government and the business community may not materialize as anticipated on investment promotion. These risks have been minimized through project design, including adequate lending margins for PFIs and institution-building measures for project management and training.

IV. AGREEMENTS AND RECOMMENDATION

4.01 During negotiations, the following agreements were reached with the Government:

(a) Apex credit line:

(i) lending terms and conditions to PFIs (para. 2.10);

(ii) terms and conditions for on-lending the apex credit to sub-borrowers including the economic and financial analysis of sub-projects (paras. 2.07/2.08);

(iii) annual review of the lending terms including interest rate structure (para. 2.10);

(b) ME program:

(iv) arrangement for the micro-enterprise development program including management agreement between the Government and VITA under terms and conditions satisfactory to IDA (para. 2.16);

(v) annual review of lending terms and operations programs of ME component ((para. 2.17);

(c) General:

(vi) technical assistance arrangements and training and studies programs (paras. 2.18-2.24);

(vii) procurement arrangements (para. 2.28);

(viii) auditing and reporting arrangements (para. 2.32);

(ix) Mid-Term Review of project progress (para. 2.33);

(x) annual assessment of the impact of Government policies including legislation on the SME development program and the overall investment climate and initiating of corrective measures as appropriate in consultation with IDA (para. 1.09); and

(xi) coverage of shortfall in CAPMEA's operating budget through adequate Government budgetary appropriations (para. 1.19).

4.02 Condition of Effectiveness

Establishment of a Project Coordinating Committee (para. 2.26);

4.03 Conditions of Disbursement

(a) the signing of the Subsidiary Loan Agreement between BEAC and the PFI is a special condition of disbursement to each PFI (para. 2.05);

(b) approval of PU's statement of operational policies and procedures by BEAC and IDA, and the recruitment of the banking expert, subject to IDA approval, and the establishment of the PU with staff whose qualifications and professional experience are satisfactory to IDA, is a special condition of disbursement of the apex component (para. 2.04);

(c) the signing of the Protocol of Cooperation between the Government and BEAC with terms and conditions satisfactory to IDA is a special condition of disbursement of the apex component (para. 2.04); and

(d) the recruitment of an enterprise development specialist for DDIA, subject to IDA approval, and the designation of a counterpart with qualifications and professional experience satisfactory to IDA, is a special condition of disbursement of the technical assistance, training, and studies components (para. 2.18).

4.04 With the above conditions and assurances, the proposed project would be suitable for an IDA Credit of US$11.3 million equivalent to the Central African Republic.

CENTRAL AFRICAN REPUBLIC
ENTERPRISE REHABILITATION AND DEVELOPMENT PROJECT

MICRO-ENTERPRISE (ME) DEVELOPMENT PROGRAM

Introduction

1. During identification and preparation of the ERDP, the Government considered the establishment of a micro-enterprise (ME) development program to respond to high priority needs of the economy through the generation of employment, income and entrepreneurship development in the lower income groups at grassroots level. Although several of nongovernmental organizations of varying national origin and means of support operate in the CAR, NGOs in the past have not been active in SME development. Most NGOs have been involved in social sector activities in rural areas. Therefore, the Government, in collaboration with IDA, conducted a detailed review of NGOs operating in the country, based, in part, on the findings of a Bank NGO reconnaissance mission conducted in 1987 and 1988 (K. Martin "NGO Mission to Central African Republic," July 1988). Also, preliminary contacts with NGOs active in other francophone African countries had been established for consideration as possible implementing agencies. In addition, sociological field studies were carried out during project preparation work of the ERDP to identify ME targets groups and an NGO willing and capable of providing effective support for the ME grouping(s) in terms of: (a) loan processing (simple subproject evaluation, investment follow-up); (b) financial management (disbursements, repayments); and (c) business advisory services to ensure effective ME subproject implementation. These studies, funded out of the Danish Consultant Trust Fund, confirmed that prima facie Volunteers in Technical Assistance (VITA), a US-based-NGO, would be a suitable NGO to carry out the development program (M. Naur, Development Consulting Denmark, "The Design of a Pilot Micro Enterprise for the Central African Republic," July 1989; report is available in Project File; Annex 3).

2. The pilot micro-enterprise development program managed by VITA is the first direct involvement of NGOs in private sector development. VITA's previous achievements include the implementation of a US-AID-funded Post Harvest Food System Project in Northwestern CAR.

VITA

3. VITA is a private, non-profit, voluntary organization established in 1959. It is incorporated in the Commonwealth of Virginia and registered as 501(c)(3) with the US Internal Revenue Service as a Private Voluntary Organization (PVO). It has extensive experience in Africa and in CAR in particular. It is its first private sector development assignment in CAR, although it has carried out such work

elsewhere. It derives its income from government, foundation, and corporate contracts and grants; fees for services; and individual contributions. A list of the members of its Board of Directors, audited financial statements of December 31, 1988 and 1989, and the Independent Auditors' Report dated April 27, 1990 are available in the Project File (Annex 3).

4. Funding for the establishment and initial operation of the pilot program was obtained through an SPPF of US$216,000 in July 1989 (exchange of letters dated June 6, 1989 and July 6, 1989). VITA submitted a detailed project proposal with a draft contract to the Government in October 1989. The Government reviewed the proposal and the Minister of Finance confirmed in his letter dated November 24, 1989 the selection of VITA as the appropriate NGO/executing agency. In December 1989, the Government and VITA signed a contract -- with the concurrence by IDA -- to develop and carry out the pilot ME development scheme. VITA's project proposal and the Government-VITA contract are available in the Project File (Annex 3).

5. VITA, with the assistance of a US Consultant Trust Fund-financed expert with specialized expertise in ME schemes in Africa, elaborated a comprehensive promotion program that was approved by the Government (C. Mock, "Pilot Micro Enterprise Development Project: Final Project Design and Initial Operational Decisions" May 1990; report is available in Project File (Annex 3). Successful experience with the initial experimental phase of the ME program prompted the government to request an extension of VITA's activities through a PPF that was approved by exchange of letters dated July 16, 1990 and July 26, 1990. On that basis, and with concurrence from IDA, the Government and VITA signed a contract extension on September 12, 1990 amounting to US$232,000 for operating expenditures, US$30,000 for additional funding of the (revolving ME) line of credit, and US$48,000 for necessary project equipment (contract extension is available in Project File (Annex 3)). Another PPF was approved by exchanges of letters dated March 25, 1991 and March 28, 1991 earmarking US$340,000.

<u>The Component</u>

6. To continue to provide an effective and integrated package of credit and support services to micro-enterprises, a special ME development program is included in the project. Satisfactory experience with the program confirms that an extension is warranted. The proposed program is designed to provide reasonably priced, timely business credit to capable entrepreneurs who do not have access to such financing through banking channels, nor personal wealth. The geographical coverage of the pilot ME scheme was initially confined to Bangui. The proposed extension of the scheme would also cover MEs in the Bossangoa area, where VITA has already been active, and in Bambari. Preliminary sociological and economic field studies suggest that good potential for

micro-enterprise development and adequate infrastructure exist in these two major provincial towns and neighboring rural areas. VITA will continue to implement the ME program in collaboration with US Peace Corps and Canadian OCSD Volunteers as appropriate under a management agreement between the Government and VITA with terms and conditions satisfactory to IDA.

7. The ME component would provide investment credit and working capital, as well as technical and management support services to viable MEs in all productive sectors. At the beginning of March 1991, some 700 applications had been processed and 380 credits totalling CFAF 42 million were extended, of which 66% went to women entrepreneurs. Supported activities included food processing and distribution, livestock, woodworking, transport, tailoring, and handicrafts. Loan collection so far has been excellent, with 99% of amounts due recovered. The Government would conclude contractual arrangements satisfactory to IDA under which VITA would continue to provide institutional support, and technical and managerial advisory services and would make US$0.5 million available for on-lending to MEs on market-based terms and conditions. The credit risk would be borne by the Government. VITA would return to the Government at the time of the termination of the program the amount of US$0.5 million plus interest earned minus losses from credit operations. It is estimated that during the life of the project, the program would provide credit to MEs amounting to some US$3.1 million equivalent that would generate total investment by micro-entrepreneurs of about US$4.0 million.

8. The proposed extended ME program in three areas of the country would require the following estimated development outlays over an implementation period of about 5 years:

	----- US$ million equivalent ---		
	Total Program	SPPF/PPF Funding	Balance
- Lending (revolving line of credit) b/	0.5 b/	0.1	0.4
- Equipment, vehicles	0.3	0.2	0.1
- Staff cost, travel,	1.2	0.3	0.9
- Other operational expenditures, incl. communications, maintenance	0.9	0.2	0.7
Total a/	2.9 a/	0.8 c/	2.1 a/

a/ Incl. physical and price contingencies.
b/ Estimated aggregate credit volume of US$3.1 million expected to generate a total investment by MEs of approximately US$4.0 million equivalent.

9. The pilot ME component, while still in an early stage of implementation, has considerable potential for entrepreneurship development and employment generation at the grassroots level. A substantial portion of the operating outlays constitute extension activities. With relatively low operating costs, the program is expected to achieve progressively higher self-generated revenues, and hence higher cost recovery. Lending terms and conditions and the operations program of the scheme will be reviewed annually to maintain an effective assistance program. Increased local participation in project management to achieve longer-term sustainability will be examined in the Mid-Term Review. Future activities may include extension of the geographical coverage, the introduction of a savings component, and increased integration of the ME scheme into formal financial sector activities. Subject to satisfactory results of the Mid-Term Review, a preparation study for a follow-up operation could be funded under the studies component.

10. Based on the genesis and development of, as well as satisfactory experience with, the pilot program, the Government has opted for a single-source selection in continuing the ongoing ME program which is appropriate because: (a) the proposed tasks are a natural continuation of previous work carried out by the NGO; (b) the NGO has unique qualifications considering country and sector-specific requirements; (c) the NGO has gained particular experience through past work in the country; and (d) a valuable Government-NGO relationship exists.

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CAR - Medium and Long-Term Credit Outstanding by Sector
(in million CFAF)

December 1986-December 1989

Sector	Dec. 86	Dec. 87	Dec. 88	Dec. 89
Agriculture	45	73	109	144
Food Processing	278	231	787	690
Textiles	-	-	-	315
Wood	341	737	483	92
Mechanical & Electrical	-	7	4	23
Chemicals & Paint	-	-	-	-
Paper	10	5		-
Other Industries	-	-	-	17
Construction and Public work enterprises	20	73	70	45
Sub-Total Industry	649	1053	1344	1182
Trade:domestic	386	777	1000	1328
Trade:export	286	352	380	1394
Sub-Total Trade	672	1129	1380	2722
Water/Electricity	-	75	25	-
Transport	177	91	131	120
Hotels/Restaurants	144	160	156	181
Other Services	49	181	139	124
Sub-Total Services	370	507	451	425
Other private	1319	2004	2080	2227
Not classified	410	93	420	853
Total	3465	4859	5784	7553

CENTRAL AFRICAN REPUBLIC
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Selected Documents Available in the Project File

ADB/ADF	Appraisal Report, Agricultural Line of Credit to BCAD, August 1987
ADE, S.A.	"Diagnostic Financier de la Société MOURA et GOUVEIA", July/August 1990
CCCE	Les prêts de la CCCE aux Initiatives Productrices de Base, April 1988
CCIA	"Annuaire des Entreprises Industrielles et Commerciales de la République Centrafricaine", 1989 Edition
Center for	Development Technology, Inc., "Etude sur les mesures d'incitation aux investissements", May 1987
CIFPB	"Etude du Réseau Financier en République Centrafricain", Nov. 1989 - Dec. 1990
IFAD	Bouça Rural Development Project, Appraisal Report, Annex 6: Crédit Agricole, August 1989
MEPSCI/MAC	"Etude sur le secteur informel", March 1990
MEPSCI	"Annuaire de Statistiques Régionales 1988, June 1990
Mock, C.	"Pilot Microenterprise Development Project: Final Project Design and Initial Operations Decisions", VITA, May 1990
Naur, M.	"Pilot Microenterprise Scheme in the CAR for an Enterprise Rehabilitation and Development Project", July 1989
VITA	Project documents on ME development program (a) List of Board Members (b) Audited financial statements 1988 and 1989 (c) Independent Auditors' Report, April 1990 (d) Project proposal, October 1989 (e) Government-VITA contract, December 1989 (f) Government-VITA contract extension, September 1990

WORKING DOCUMENTS

(a) Draft subsidiary loan agreement
(b) Draft operational norms and procedures for PFIs
(c) Draft terms of reference of the PU
(d) Draft terms of reference of banking expert in PU
(e) Draft terms of reference of enterprise development expert in DDIA

CENTRAL AFRICAN REPUBLIC
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Technical Assistance Component

The technical assistance component comprises the following subcomponents:

1. Support to the Project Unit (PU) in the Central Bank (BEAC). Technical assistance to PU necessary for the implementation of the apex line of credit is presented in paras. 2.04 of the SAR.

2. Assistance to DDIA. Support to the MFCIPME will include the following components: (a) an expatriate expert who will assist the DDIA in developing the training programs for project participants and beneficiaries, and for coordinating the studies component. The expert's responsibilities will also include continued work in support of an improved enabling environment for private sector activities and initiatives. DDIA will work in close coordination with existing staff in the MFCIPME. including the expert funded under the Economic Management Project. Outline terms of reference for the DDIA expert are available in the Project File (Annex 3); and (b) incremental operating cost.

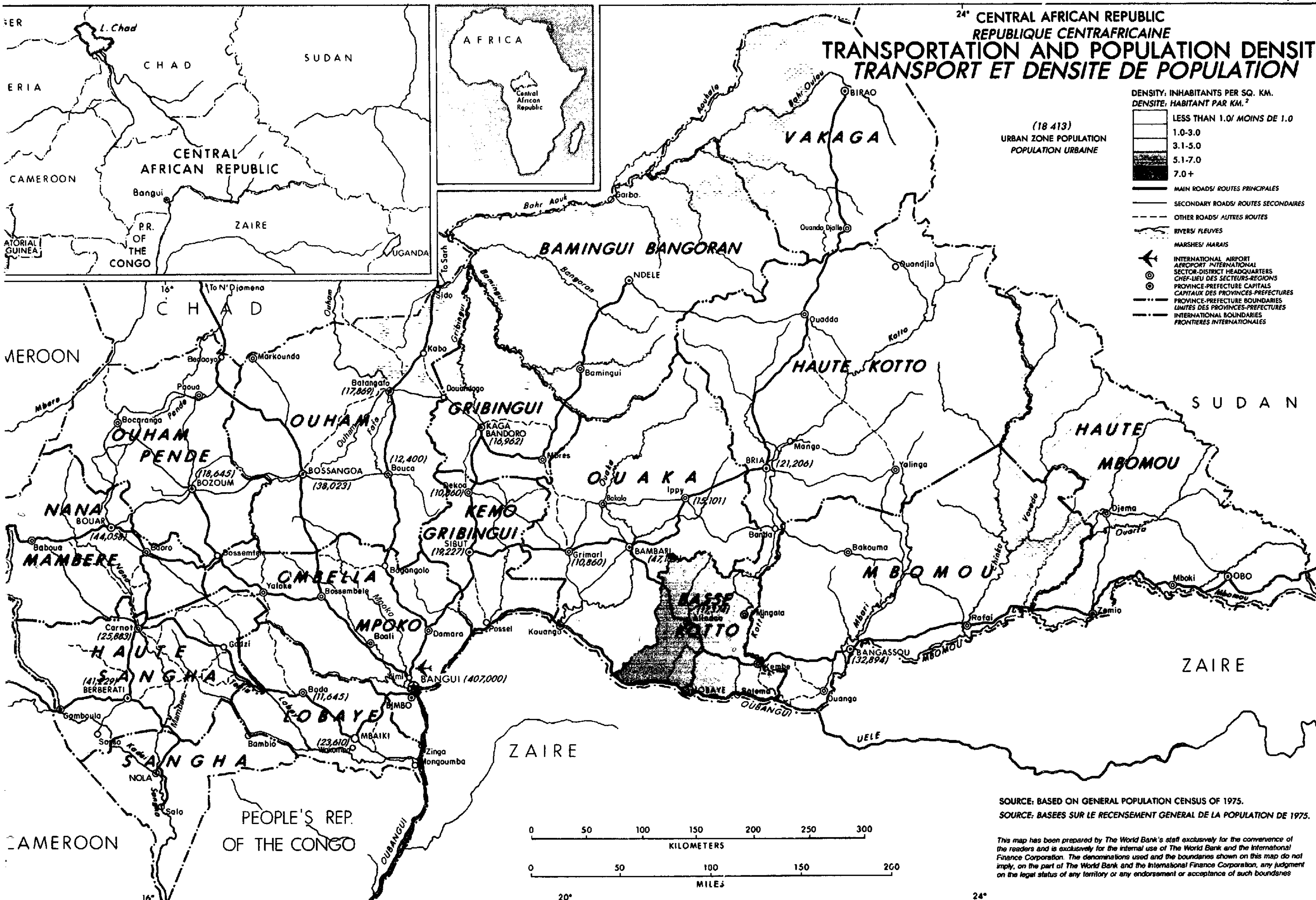
3. Support to CAPMEA. The proposed program envisions both short-term assistance to upgrade existing analytical and advisory capacity and a longer-term program which would include study of institutional and operational restructuring to be carried out under the studies subcomponent. The support program would be closely coordinated with assistance by UNDP/ILO. Assistance to CAPMEA will include the following components: (a) Financial analyst: A need exists in CAPMEA for a financial analyst experienced in SME project preparation who is also capable of training staff. To reduce costs and to begin a more non-governmental orientation, it is contemplated to recruit an appropriate professional through non-governmental organizations/volunteer agencies active in the CAR (e.g. OCCSD, a Canadian-based NGO). The initial contract period will be for two years with the possibility for extension for another 2 years. The financial analyst would be a line operational position reporting directly to the Director-General of CAPMEA; (b) operational support to relieve CAPMEA's mobility constraints: CAPMEA counselors have little means of independent transport which greatly diminishes the incidence of client contact. Therefore, vehicles, in addition to office equipment, are included; and (c) contributions of 50% to CAPMEA's incremental operating costs related to project implementation including training programs.

CENTRAL AFRICAN REPUBLIC
ENTERPRISE REHABILITATION AND DEVELOPMENT PROJECT

Estimated Disbursement Schedule
(US$ Million)

IDA Semesters		By Semester	Cumulative	Cumulative %
1992	I	1.1a/	1.1	9.7
	II	0.1	1.2	10.6
1993	I	0.4	1.6	14.1
	II	0.4	2.0	17.7
1994	I	1.1	3.1	27.4
	II	1.1	4.2	36.9
1995	I	1.1	5.3	46.9
	II	1.1	6.4	56.6
1996	I	1.1	7.5	66.4
	II	1.2	8.7	77.0
1997	I	0.8	9.5	84.1
	II	0.8	10.3	91.1
1998	I	0.4	10.7	94.7
	II	0.3	11.0	97.4
1999	I	0.3	11.3	100.0

a/ Includes SPPF and PPF refinancing totalling US$1,096,000.


CENTRAL AFRICAN REPUBLIC
REPUBLIQUE CENTRAFRICAINE
TRANSPORTATION AND POPULATION DENSITY
TRANSPORT ET DENSITE DE POPULATION
DENSITY: INHABITANTS PER SQ. KM.
DENSITE: HABITANT PAR KM.²
LESS THAN 1.0/ MOINS DE 1.0
1.0-3.0
3.1-5.0
5.1-7.0
7.0+
(18 413)
URBAN ZONE POPULATION
POPULATION URBAINE
MAIN ROADS/ ROUTES PRINCIPALES
SECONDARY ROADS/ ROUTES SECONDAIRES
OTHER ROADS/ AUTRES ROUTES
RIVERS/ FLEUVES
MARSHES/ MARAIS
INTERNATIONAL AIRPORT
AEROPORT INTERNATIONAL
SECTOR-DISTRICT HEADQUARTERS
CHEF-LIEU DES SECTEURS-REGIONS
PROVINCE-PREFECTURE CAPITALS
CAPITAUX DES PROVINCES-PREFECTURES
PROVINCE-PREFECTURE BOUNDARIES
LIMITES DES PROVINCES-PREFECTURES
INTERNATIONAL BOUNDARIES
FRONTIERES INTERNATIONALES
AFRICA
Central African Republic
L. Chad
CHAD
SUDAN
CENTRAL AFRICAN REPUBLIC
CAMEROON
Bangui
P.R. OF THE CONGO
ZAIRE
UGANDA
VAKAGA
BAMINGUI BANGORAN
HAUTE KOTTO
HAUTE MBOMOU
MBOMOU
OUAKA
GRIBINGUI
KEMO GRIBINGUI
OUHAM
OUHAM PENDE
NANA MAMBERE
OMBELLA MPOKO
BASSE KOTTO
HAUTE SANGHA
LOBAYE
SANGHA
BIRAO
NDELE
BRIA (21,206)
BANGUI (407,000)
BOSSANGOA (38,023)
BOUAR (44,058)
BERBERATI (41,229)
Carnot (25,883)
BAMBARI (47,1..)
BANGASSOU (32,894)
KAGA BANDORO (16,962)
SIBUT (19,227)
BOZOUM (18,645)
Batangafo (17,869)
Bouca (12,400)
Dekoa (10,860)
Grimari (10,860)
Ippy (15,101)
Bada (11,645)
MBAIKI (23,610)
NOLA
MOBAYE
OBO
UELE
OUBANGUI
SOURCE: BASED ON GENERAL POPULATION CENSUS OF 1975.
SOURCE: BASEES SUR LE RECENSEMENT GENERAL DE LA POPULATION DE 1975.
0 50 100 150 200 250 300
KILOMETERS
0 50 100 150 200
MILES
This map has been prepared by The World Bank's staff exclusively for the convenience of the readers and is exclusively for the internal use of The World Bank and the International Finance Corporation. The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank and the International Finance Corporation, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries

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