

DRAFT

VOLUME I

CENTRAL AFRICAN REPUBLIC

DIAGNOSTIC TRADE INTEGRATION STUDY

MARCH 2007

Currency Equivalents

(as of November 10, 2006)

Currency Unit: CFAF

UA1	=	US\$1.4898
UA1	=	CFAF762.46
US\$1	=	CFAF510.85

Budget Year

January 1 – December 31

Acronyms and Abbreviations

ACDA	<i>Agence Centrafricaine de Développement Agricole</i>
ACFPE	<i>Agence Centrale de Formation et de l'Emploi</i>
ADECAF	Development Agency for Family Coffee Production
ANEAC	Association of National Entrepreneurs and Artisans of Central Africa
ASYCUDA	Automated System for Customs Data
BEAC	<i>Banque des Etats de l'Afrique Centrale</i>
BECDOR	<i>Bureau d'Evaluation et de Contrôle de Diamants et d'Or</i>
BICA	<i>Banque Internationale de Centrafrique</i>
BIVAC	Bureau of Inspection Valuation Assessment and Control
BMPC	<i>Banque Populaire Maroco-Centrafricaine</i>
BSIC	<i>Banque Sahelo-Saharienne</i>
CAISTAB	<i>Caisse de Stabilisation et de Péréquation des prix des produits agricoles à l'exportation</i>
CAR	Central African Republic
CBCA	Commercial Bank Centrafrique
CCIMA	Chamber of Commerce, Industry, Mines and Crafts UNPC
CCJA	Common Court of Justice and Arbitration
CEEAC	Economic Community of Central African States
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
CEN-SAD	Community of Sahel-Saharan States
CFDT	<i>Compagnie Française pour le Développement des Fibres Textiles</i>
COMESA	Common Market of Eastern and Southern Africa
DGSEES	Directorate General of Statistics, Social and Economic Studies
DTIS	Diagnostic Trade Integration Study
EPA	Economic Partnership Agreement
ESPF	Economic and Social Policy Framework Paper
FEPUCA	<i>Fédération des Producteurs es Usiniers</i>
GDP	Gross Domestic Product
GICA	<i>Groupement Interprofessionnel en Centrafrique</i>
GIR	<i>Groupements d'Intérêt Ruraux</i>
ICAO	International Civil Aviation Organization
ICO	International Coffee Organization
ICRA	Institut Centrafricain de Recherche Agronomique
IFWG	Integrated Framework Working Group
ILO	International Labor Organization
IMF	International Monetary Fund

IRU	International Road Transport Organization
KPCS	Kimberley Process Certification Scheme
MCIPME	Ministry of Commerce, Industry, and Small and Medium Enterprises
MCIPME	Ministry of Commerce, Industry, and Small and Medium Enterprises
MDR	Ministry of Rural Development
MFN	Most Favored Nation
MME	Ministry of Mines and Energy
MTN	Multilateral Trade Negotiations
OAM-CAF	<i>Organisation Africain et Malgache du café</i>
OHADA	Organization for Harmonization of Business Law in Africa
ORCCPA	<i>Office de Réglementation du Contrôle du Conditionnement et de la Commercialisation des Produits Agricoles</i>
PAIA	<i>Projet d'Appui aux Institutions Agricoles</i>
PAPAAV	Program for Agricultural Promotion and Village Self-advancement
PRSP	Poverty Reduction Strategy Paper
SADC	Southern African Development Community
SCEP	<i>Service Charge des Entreprises Public</i>
SITC	Standard International Trade Classification
SME/SMI	Small and Medium Enterprises/ Small and Medium Industries
SMEs	Small and Medium Enterprises
SOBUGEA	<i>Société Burundaise de Gestion des Aéroports du Burundi</i> (Airport Authority)
SOCADA	<i>Société Centrafricaine de Développement Agricole</i>
SOCADETEX	<i>Société Centrafricaine de Développement des Textiles</i>
SOCOCA	<i>Société Cotonnière Centrafricaine</i>
SODECO	<i>Société de Déparcharge et de Conditionnement</i>
SOGESCA	<i>Société de Gestion Sucrière en République Centrafricaine</i>
STABEX	<i>Système de Stabilisation des Recettes d'Exportation</i>
SUCAF	<i>Sucrière en Afrique</i>
TIR	<i>Transports Internationaux Routiers</i>
TPR	Trade Policy Review
UN	United Nations
UN	United Nations Commodity Trade Statistics
COMTRADE	
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial and Development Organization
UNPC	Union Nationale du Patronal Centrafricain
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

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PREFACE

Following a request from the Government of the Central African Republic (CAR) in 2003, the Integrated Framework Working Group (IFWG)) agreed to conduct a Diagnostic Trade Integration Study (DTIS) of the CAR as a first step in the Integrated Framework (IF) process of assisting the CAR with further trade integration. The World Bank subsequently carried out this DTIS on behalf of the IFWG, which consists of six agencies (IMF, ITC, UNCTAD, UNDP, WTO and the World Bank), two donor representatives, and OECD-DAG observer and two LDC representatives. The World Bank also thanks the EU, the Lead Donor for the IF work in the CAR, for providing assistance for this study.

This study is intended to aid policy makers, researchers, civil society stakeholders, and CAR's development partners to identify policy, technical assistance, capacity building and investment requirements for making the Central African economy more competitive and enabling it to get greater benefits from world trade.

DTISs balance the benefits of new research to support findings with the equally important task of systematically uncovering policy and technical assistance, capacity building and investment requirements. Other goals are to stimulate debate and discussion on policy issues and to identify policy areas that may require more in-depth work. This report contains a blend of detailed recommendations where these have been made possible by focusing on a particular bottleneck to trade where existing reforms need to be built upon (e.g. reform of the transit regime) and broader suggestions designed to initiate further work required for policy development (e.g. a statistical assessment of the coffee sector). As a diagnostic study aimed at assisting the government of CAR to produce practical, time bound policy initiatives with identified needs for donor support, this work has built on other relevant and recent studies undertaken in the CAR, often through support of other development partners.

The groundwork for this study was laid through a preliminary mission conducted in March 2006 and a full field mission in June/July 2006 during which the team gathered data and conducted interviews.

The report was prepared by a team of international and national consultants, and by World Bank staff. Christiane Kraus was the Task Manager for the World Bank. This work was carried out under the guidance of the Steering Committee for the CAR DTIS appointed by the Government of CAR. Comments were received from [...] The Steering Committee also included representatives from private sector bodies such as [...]. Valuable discussions were held with donor representatives such as EU, IMF, UNDP and AFD. The report benefited from comments by peer reviewers [Fernando Hernandez

Casquet (PRMTR), Ndiame Diop (MNSD), Salomon Samen (WBIPR) and Vincent Biandé (consultant), EU staff, World Bank staff and management.

This report was discussed [...]. A separate Volume on the Background Papers of the CAR DTIS is being prepared (in French).

National Steering Committee

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Study Team Members

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EXECUTIVE SUMMARY

1. To date, CAR is one of the poorest countries in terms of economic and human development outcomes in the world. Trade integration is very weak; exports are concentrated on a few primary products and servicing a very limited number of markets. Export performance has declined since independence: CAR's world export share is now 0.002 percent, down from 0.14 percent in 1965. According to official statistics, CAR currently exports only two goods to a significant extent, namely forestry products and diamonds; other exports, notably cotton and coffee have declined to negligible levels.

2. The political situation in CAR has been unstable over the past decades because of repeated conflicts in the sub-region, and because of frequent political unrest in the CAR itself. This series of conflicts destroyed the economic and institutional bases of the country. However, since 2003 the CAR has remained relatively stable, and economic growth has picked up. In 2006, the World Bank resumed lending to CAR and a new assistance program has been approved. Still, the government faces very difficult and complex challenges of rebuilding the institutions, human capital, infrastructure and productive assets of the country with a minimum of financial resources.

3. Regional and global trade integration can play an important role in CAR's recovery in several ways. Through trade, exporters can reach dynamic markets for their goods at a time when the domestic economy is still relatively feeble. At the same time, imports provide access to consumption and investment goods that are not or no longer produced domestically. Furthermore, stronger trade ties can contribute to regional peace and stability which is of paramount importance to CAR's development process.

4. The CAR is currently drafting its PRSP, and a donor round table will take place later in 2007. The CAR is programmed to benefit from the HIPC initiative and renewed support by its development partners. As an input into the PRSP and the donor roundtable, this is hence a good time for CAR to take stock of constraints and opportunities for further trade integration, and to articulate priority areas for technical assistance, capacity building, investments and policy reform to be undertaken in partnership with CAR's development partners. The DTIS aims at supporting the Government of CAR in this objective. It is tailored for a country that is recovering from political and economic turmoil, to identify areas where trade can contribute to and enhance this recovery.

5. The report examines the private sector and investment climate in CAR, trade policy, regional integration and market access, trade and transport facilitation and five key export sectors (mining, forestry, cotton, coffee and tourism). The report finds that the

key constraints underlying CAR's poor export performance are all behind the borders – i.e. in the CAR itself, or at the border related to transit and trade facilitation. The main constraints within CAR are the precarious security situation, poor production and transport infrastructure, long distances to markets, limited production capacity, and complex and costly rules and regulations that burden the private sector. Transit to the nearest port and customs clearance is very costly, both in terms of time and money. Access to international markets is generally not a constraint for exports. Access to regional markets within the CEMAC customs union, however, is still limited by remaining tariff and non-tariff barriers.

6. Not all of the key constraints to CAR's trade integration can be addressed by the government – notably the landlocked nature of the country and to some extent the volatile political situation in the sub-region are essentially external to the CAR government and its development partners. Other challenges such as the poor infrastructure and the limited production capacity can only be addressed over the long term. The report's main recommendations focus on policy reforms that can be undertaken in the short and medium term, and on technical assistance and capacity building needs in these areas.

7. Before the main results and recommendations of the report are summarized, it should be noted that the scope for economic analyses in CAR is severely limited because of a sketchy and unreliable statistical base. To improve the statistical knowledge base and capacity is a priority for the CAR and a number of programs supported by development partners are in place or under preparation and would benefit from being better coordinated.

8. On the **macroeconomic** front, CAR's membership in the CEMAC customs and monetary union has ensured a stable macro-economic framework for the past decade, low inflation and a stable exchange rate. This is an asset for CAR in its effort to further integrate into the global economy through trade and investment. By itself, however, a stable macro-framework will not produce the desired results.

9. CAR has a very weak **investment and business climate**; it ranks 167 of 175 countries reviewed on the World Bank's *Doing Business* database. The main weaknesses in CAR's business and investment climate are the low level of legal and physical security, high cost of setting up a business, very difficult access to financial capital, a rigid labor market, and weak revenue generation which constrains the government in providing essential services, and to invest in infrastructure.

10. The precarious **security** situation in the country cripples its economic development and trade integration. Improving security is a priority for the government, but the actual capacity of the government to fully address this problem in the short run is limited. This is because the entire sub-region is affected. Moreover, in certain areas of the country security has not been provided by the state for a long time and the reestablishment of law and order cannot be achieved in the short term.

11. A significant problem in CAR is the dire situation of its **public finances** which affects the competitiveness of the country in various ways: CAR's infrastructure is in an extremely poor condition, making economic activities, especially in the manufacturing sector, and trade – internal and external – very difficult. The neglect of infrastructure investment was due to a lack of funds; at times the state could not even pay for service delivery. The deterioration in the social sectors erodes CAR's existing human capital and compromises the situation for future generations.

12. It is thus a priority for Government to improve revenue generation. To date, much of the economy is informal and Government thus taxes the few formal transactions and entities heavily. Trade flows in particular are heavily taxed – if tariffs, excise, VAT and other duties are added, the total tax levied on imports can reach 90 percent. This of course provides a strong incentive to avoid taxation. A similarly prohibitive cost exists for setting up a business: a business with equity of CFAF 1 million (approximately US\$2000) would have to pay over the first year of incorporation an amount roughly twice its equity to a notary and the state. This creates a strong incentive in particular for small businesses to remain informal.

13. One way to increase revenue would be for government to formalize the gold trade which currently is entirely informal. Furthermore, if the costs of setting up a business were reduced, the formal sector would increase and thus the tax base.

14. CAR's **private sector** is very weak, partly because of the unfavorable business climate, and partly because much of its productive assets have been destroyed over the past decade. In addition, as highlighted above, a lot of businesses remain in the informal sector owing to the high cost and complicated procedures for setting up a business. The weakness of CAR's private sector is a key constraint for trade expansion and economic development in general. It should thus be a priority for the government to improve the business environment, and to address the key constraints as perceived by the private sector.

15. Government has already taken an important step by establishing a permanent and regular consultation mechanism between the government and the private sector; it is important that the mechanism becomes operational as soon as possible. To that end, a Secretariat for the mechanism should be established in one of the business associations and a forum held to identify priorities, a preliminary action plan and a preliminary budget, so that funding can be attracted.

16. One of the key constraints for the private sector is the current lack of legal security. To address this, the CAR government can rely on a high-quality legal base in the form of the Organization for Harmonization of Business Law (OHADA) business laws which the country has adopted. However, the OHADA laws are not yet uniformly implemented and applied. Doing so would significantly improve legal security. Other important steps to increase legal security are speeding up court proceedings, and addressing corruption in the legal system.

17. CAR's investment charter is based on the CEMAC-wide charter, but diverges in important aspects, notably the provision of fiscal incentives. These changes and further ad hoc provisions included in annual budget laws have not improved the environment for investment in CAR, rather the opposite. Therefore, the CAR charter should be revised with a view to aligning it closer with the CEMAC-wide charter, which would increase investor security.

18. Regarding **trade policies**, the main issues are relatively high tariffs and additional taxation of imports which constrain trade. CAR applies the CEMAC CET which at 19 percent simple MFN tariff average is one of the highest in sub-Saharan Africa. CAR has additionally imposed several surcharges and taxes resulting in average effective taxation of imports of about 27 percent.

19. Reducing tariffs should thus be a priority for CAR to improve trade integration. A positive effect of such a tariff reduction would be a decline in import prices for consumers. While reductions in the CEMAC CET need to be negotiated with CEMAC member states, CAR can reduce additional taxes that are being levied on imports on its own. However, since CAR's revenue depends to a large extent on trade taxes, any reductions should be taken in the context of an overall tax reform.

20. While national and multilateral trade issues are and will remain important, a small, landlocked country like CAR has much to gain from closer cooperation with its neighbors and is a more substantial player in regional than in global affairs. Hence, focusing policy making and negotiation resources on **regional integration** in the CEMAC region in particular, appears most promising. The most important issues on the regional agenda are to fully implement the customs union enhance trade facilitation, and eliminate remaining trade barriers.

21. CAR has preferential **market access** to the EU under the Everything But Arms (EBA) initiative and the Cotonou Agreement. However, it is not yet a beneficiary under the AGOA. Gaining inclusion into the AGOA should be pursued by CAR's highest level policy makers. Furthermore, a number of large developing middle income countries (e.g. China, India, and Russian Federation) maintain relatively high tariff barriers for CAR's narrow export base. Thus, in the context of multilateral negotiations CAR has an interest to push for better access to middle income countries.

22. CAR is currently negotiating an EPA with the EU as part of the CEMAC group. EPA negotiations are ongoing, and a successful conclusion could give new impetus to the CEMAC regional integration process, and to export diversification in the region. A prime concern for CAR in the negotiations is possible revenue losses from trade taxes on EU imports and how to compensate for these.

23. Traders in CAR face very high **trade and transit costs** which limit the ability of CAR traders to access world markets, and the world market to reach CAR. It takes on average four weeks to bring a container from the nearest port in Douala at a cost of €5000 or €180 per ton. Distance is a factor, because of the distance to the nearest sea port, as is

the quality of the infrastructure on the main corridor. However the main source of the high trade and transit costs are complex procedures and rent seeking along the corridor.

24. The quality of transport and transit infrastructure on the main corridor is a major concern, since the road from Garoua-Boualaï to Bangui is not passable during the rainy season. CAR's development partners have signaled their willingness to support the country's transport needs, both in terms of investments and maintenance, which is a welcome development since CAR's economy is too small to generate the resources for sustainable transport infrastructure management. Support should be also extended to critical investments to match minimum standards in terms of air transport safety.

25. However, even more than the distance to be covered, or the poor state of the infrastructure, the primary sources for exorbitantly high transit cost in CAR are the complex procedures (many forms to be filled, many agencies to address) of the current transit system, and the many rent seekers, both official and illegal. This accounts for about 70 percent of the trade and transit costs, either directly or through increasing operational constraint for the providers. Moreover, it also reduces the reliability and the integrity of the supply chain. This is largely due to the combination of low capacities in customs and other agencies and an inadequate design of the transit regime (transport, customs).

26. On the positive side, and in contrast with other corridors (including Chad), freight services are delivered by organized companies offering good quality, and able to work with international logistics providers. Their cost of operation (1.1-1.3 €/km) compares well with Europe -but buyers have to bear the cost of empty returns since import destination and export source regions are far apart. Another favorable factor is that public sector decision makers are increasingly aware of the economic importance of trade facilitation. The CEMAC secretariat plays an important role in bringing parties together and has developed an approved program.

27. To reduce high trade and transit costs, the first priority is to restore the customs service in CAR and its capacity to efficiently clear goods either in Bangui or in Douala. The second priority is to revisit the transit system from a regional perspective (Douala corridor, or CEMAC), and implement an improved system with proper documentation, guarantee and information management. Revisiting the transit regime should also help phase out some unnecessary activities that do not serve to facilitate transit and are a source of inefficiencies and costs. Finally, the transit freight allocation systems (freight bureaus) should be phased out to allow for an efficient market of freight services.

28. It is expected that a less burdensome transit regime would reduce transit time to Bangui to typically one week (-75%), at two-thirds of the current cost. The main beneficiaries will be private sector enterprises, either traders or producers relying on imports. Innovative solutions for existing or new productions would eventually emerge, for instance taking advantage of the multimodal potential (CAMRAIL).

29. The most important **export sectors** in CAR are mining, forestry, cotton, coffee and tourism. These sub-sectors face economy wide and sector-specific constraints to export expansion. Tackling these constraints requires that government implements certain policy and institutional measures (including changing policies and institutions) as well as support by CAR's development partners for meeting technical assistance, capacity building and investment needs.

30. The **mining** sector is currently the most important export sector with an estimated 60,000 to 80,000 people employed as artisanal miners and along the production chain. CAR's mining sector is unique in its reliance on alluvial deposits which need to be carefully shepherded. This requires that mechanized mining of alluvial diamonds should be either banned, or limited to very small areas. If this recommendation were not followed, deposits could be depleted in a few years. Thus, it is a priority to revise the mining and investment laws to take account of the alluvial nature of CAR's diamond deposits. Revision of the mining law should also take into account the impact of artisanal mining on economic growth and poverty reduction, in particular in rural areas. Provisions should be made to provide technical assistance to artisanal mining and marketing to improve the conditions on the ground.

31. Currently, the CAR lacks an independent mining cadastre office which is important for attracting investors. Development partners can help CAR to set up such an office and to train staff to produce and maintain a digital cadastre.

32. There is apparently significant gold production in CAR, which is, however, almost exclusively traded and exported through illegal channels. The estimated value of the production is high, estimated at two thirds of declared diamond exports, and foregone government revenues thus very significant indeed. Relieving the tax burden on imports has been identified as a government priority elsewhere, and bringing the gold trade into the formal economy should thus be considered on a priority basis because revenues coming from gold trade could offset reduction on trade taxes. A first step should be to assess existing market channels to identify key entry points for government to formalize the gold trade.

33. CAR's **forestry** sector is competing with diamond mining for the top export sector, although it is still less important with respect to employment and social service provision. CAR has recently introduced measures to make harvesting of its resources more sustainable which is a welcome development, maximizing the growth and poverty reduction potential of the sector in the medium term. At the same time, value addition has increased, although from a very low basis.

34. Only a limited surface area of CAR is currently available for harvesting of forestry products. In order to identify potential additional areas for harvesting, a forestry inventory should be undertaken. A second priority for the forestry sector is to review the pricing of permits, which currently does not reflect the regional best practice.

35. **Cotton** has provided a livelihood a large part of the rural population – almost a million people or a third of the country’s population at the peak of production – although it has declined in the past decade. Nevertheless, government and development partners are committed to revive and rehabilitate the sector, although cotton production and export is unlikely to be competitive in the short and medium term because of the low productivity in the sector, the high transit cost and the likely world market price and exchange rate development.

36. The scale of the rehabilitation in the cotton sector still needs to be determined whereby full scale rehabilitation would be very expensive, considering the investment necessary to rebuilt feeder roads, replace collecting trucks, re-furbish/rebuild ginning factories, and to extend credit for farmers for production inputs. Alternatively, rehabilitation could be more gradual which would require fewer resources yet also have in the short term a less wide-spread impact on income poverty and service delivery.

37. It is important that the government, the private sector investor (Dagris group) and CAR’s development partners take a decision on the scale and location of rehabilitation as well as the institutional arrangement soon, since the planting season starts in May. One condition to reach an agreement would be for the government and Dagris group to agree on the underlying parameters to assess production cost. At the moment, there is still a discrepancy between the cost assessment undertaken by the government and Dagris Group.

38. In the meantime, it is a priority for the government to settle fully or at least in part arrears due to cotton farmers. These arrears that have been accumulated over a number of years have reached CFAF 1.85billion (US\$3.7million). Settlement of the arrears would be important to reestablish producers’ confidence in the future of cotton production in CAR.

39. **Coffee** growing in CAR which had provided a livelihood for more than 400,000 people during its heyday has declined significantly over the past decades, owing to a number of reasons, some external such as the landlocked nature of the country, and the declining world market price for Robusta coffee, but mostly for internal reasons namely inadequate support structures for the sector, and internal conflicts, in particular over the last decade.

40. If the coffee sector is to be revived in the CAR, significant resources need to be made available to pay for investment in new coffee plants, planting utensils, processing equipment, etc. Since the government’s own finances are constrained and likely to be so for the foreseeable future, the viability of the sector will depend on the willingness of CAR’s development partners to make available those resources.

41. If there is a decision to revive coffee production at a large scale in CAR, a priority would be for CAR to settle outstanding contributions to the ICO which will allow CAR to access the support offers from the ICO such as micro-credit facilities for small scale producers.

42. Furthermore, the institutional framework for coffee production and support to farmers has to be assessed, and capacity of support institutions would need to be strengthened to provide assistance to farmers and other actors along the production chain.

43. **Tourism** has been an important and rather stable services export. Almost all tourism activities in CAR are big game hunting, and international tourists have been and likely will be prepared to pay premia for the hunting opportunities in CAR. However, there is little growth in this market since hunting needs to be limited to ensure sustainability, and quotas have been binding for most of the species.

44. Other forms of tourism such as conference tourism and eco- and vision tourism are little developed, and in particular conference tourism may be a growth sector, provided that the international community and CAR's development partners who have left during the period of unrest will return, and local and regional conferences might again be held in and around Bangui. One such activity is already under way, and should be monitored to see if additional capacities are necessary.

45. Two specific problems have been identified where technical assistance and capacity building may be helpful to address constraints in the tourism sector, namely the local air transport sector which is performing poorly, and poaching along the northern border with Chad where cooperation between the two governments should be sought to effectively reduce poaching.

46. As the CAR moves towards a **trade strategy** for the country, the following should be among guiding principles and priorities:

- The capacity of the government to drive forward the reforms necessary to relieve constraints to further trade integration is limited which should be reflected in a realistic strategic action plan.
- Given the landlocked nature of the CAR, the focus of trade policy should be regional integration, namely working towards realizing the free flow of goods and services in the CEMAC region. Currently, there are still many Non-Tariff Barriers (NTBs), restrictions and ad-hoc measures that impede trade within CEMAC and CAR should put its weight behind the 2003 road-map to eliminate these barriers. Better access to the regional market should increase regional trade and help the CAR to diversify its exports.
- As regards forestry products and diamonds, CAR's main exports to overseas markets and main sources of middle-income employment, benefits from exports can be increased through revision of existing laws and regulations and by reducing corruption and smuggling. This should also serve to formalize gold exports which are estimated to be significant and which could thus contribute to revenue generation. The CAR should seek assistance from development partners for these activities.
- The cost of trade and transport facilitation is particularly high for CAR, even compared with other landlocked countries. While there are a number of improvements necessary, there is an immediate opportunity to use the ongoing

- reform of the Customs department to re-train customs officers to focus not only on revenue generation but also on trade facilitation in their duties.
- Cotton production and exports which provided a livelihood for as much as a third of the country have shrunk to insignificant levels. Revival of the sector is a priority for the government, but it will be necessary to closely follow world market developments to take advantage of possible opportunities – e.g. by introducing genetically modified cotton – to minimize expected losses.
 - Further trade integration can contribute not only to growth and poverty reduction, but also strengthen the private sector and civil society, thereby contributing to the stability of the country. Benefits from a trade strategy, and integration of such a strategy into the PRSP will thus go beyond mere economic effects.

1. CONTEXT AND BACKGROUND

1. The Diagnostic Trade Integration Study (DTIS) identifies the key constraints, both internal and external, to the expansion of CAR's trade, with a focus on how trade expansion can help alleviate poverty in the country.

2. The importance of trade for poverty reduction is recognized by the government of CAR in its interim strategy, and draft PRSP. The coverage of the DTIS overlaps with most of the areas where policy actions pertaining to trade are indicated (Table 1.1). The DTIS aims to provide concrete actionable measures in these areas which will provide the government of CAR with input for the finalization of its PRSP. Furthermore, the Government of CAR in March 2006 launched the development of a trade policy strategy for which this document will be an important input as well.

Table 1.1: Trade and Trade-Related Areas in CAR's draft PRSP and World Bank and AfDB's Interim Strategy Note

Objective	Constraint	Action	ISN
<i>Development of a stable macro-economic framework</i>	Not yet completed	Not yet completed	
Development of a coherent transport and telecoms infrastructure by 2015; effective transport facilitation (road, river, air) by 2008,	Landlocked nature of the country, Poor quality of transport infrastructure	Construct/rehabilitate 1000km of road, 3400km of rural road, 850km of asphalt road Operationalize river transport for 9 months per year on the Oubangui and Sangha rivers Develop domestic air transport, improve security standards at Bangui, built airport at Berberati	Regional TFP (WB and AfDB) to upgrade Douala-Bangui corridor
Development of a dynamic rural sector which contributes to growth and the reduction of poverty and hunger by 2015; reduction of poverty to 47% 2008	Insecurity in the agricultural provinces Poor productivity of the agricultural sector Poor organization of the sectors and lack of support structures	consolidation of peace and security in the rural regions organization of sectors re-launch of extension services improvements in infrastructure and marketization of agricultural products	support from AfDB for updating and upgrading sector strategies
Revenue from mining increased from 3% to 6% and poverty incidence in mining regions reduced from 83.6% to 70% by 2015	low capacity of artisanal miners Poor relationships between communities and the sector lack of diversification and modern production Lack of transparency, corruption and fraud Poor regulations for communities to benefit from mining revenues	consolidation of peace and security mobilization and organization of communities to participate in the administration increase governance and transparency; fight against fraud and corruption increase private sector participation and diversification in the mining production	audit of mining sector supported by WB LICUS Trust Fund support through RIBSUP (WB)
Sustainable development of the forest sector and improves the livelihoods of the population in the forest areas by 2015; increase of forest sector revenue from CFAF 10 billion to 15 billion by 2008	Poor regulatory framework Outdated equipment Poor regulations for communities to benefit from forestry revenues ineffective control of the sector	consolidation of peace and security improving the regulatory environment for enterprises that work labor intensive improvement of transparency, governance and control in the forest sector mobilization of communities through participation in the administration of the resource	
Development of a dynamic private sector that creates employment and contributes to poverty reduction by 2015, and to implement policies for private sector promotion under private sector participation by 2008.	Small domestic market Poor legal and regulatory environment Lack of financial system for the private sector Lack of support structures for the private sector Poor relations between government and private sector Poor human capital Poor infrastructure	Improvement of the legal and regulatory environment Strengthening of private sector organizations Establishment of public-private dialogue Development of support structures for the private sector Capacity building for private sector actors	Support through RIBSUP Planned IFC support for private-public dialogue, CCIMA, and One-Stop-Shop

Source: Draft PRSP (2005),

3. It should be noted at the outset that all factors that affect private investment are important for trade integration in general, and export supply responses and competitiveness in particular. These factors could include virtually all aspects of the development agenda, ranging from education and health, to financial sector development, infrastructure, governance, and a host of other factors pertaining to the business environment.

4. This report focuses on a narrower and more directly trade-related subset of this broad agenda mentioned above, in accordance with the generic terms of reference (TORs) for DTISs as determined by the Integrated Framework Working Group (IFWG).¹ For the purpose of this DTIS, these generic TORs have been further refined to reflect CAR's-specific conditions, based on consultations with the various stakeholders in CAR, including representatives from government ministries, the private sector and CAR's development partners.

5. The rest of this chapter provides the overall socio-economic context under which CAR is striving towards greater regional and international trade integration. It briefly reviews the economic development of CAR over the past decades, highlights problems for the analysis necessary for a DTIS caused by limited statistical capacity, and summarizes CAR's recent and current macroeconomic environment, economic and trade performance, inflation and real exchange rate and CAR's emerging poverty profile. This is followed by an assessment of the private sector in CAR, and the business and investment climate in the country (Chapter 2). Chapter 3 analyses CAR's trade policy, trade policy institutions, the state of regional integration, and market access issues for CAR's products world wide. Chapter 4 focuses on issues of trade and transport facilitation, including customs, which are key constraints to further trade expansion in the landlocked CAR. Chapter 5 looks at sector specific constraints in CAR's key export sectors of diamonds and forestry products, as well as cotton and coffee, two commodities that CAR used to export, but which have completely dried up over the past decade. The report also discusses tourism, CAR's main service export. The sub-sectors have been chosen either for their importance for poverty reduction, and/or CAR's competitiveness in them, either internationally or regionally. Chapter 6 concludes with a summary of key results and recommendations and proposes some elements for CAR's emerging trade strategy.

6. The DTIS also presents an action plan which contains policy reforms, institutional capacity building measures, and investment requirements identified in the report for removing bottlenecks and seizing opportunities to promote the integration of CAR into the global economy. The poverty reduction aspect of trade is addressed through the selection of the sub-sectors, and also discussed in each chapter to the extent possible, given the constraints on data and information available.

¹ The IFWG in Geneva consists of representatives from all the multilateral and donor agencies that are involved in the IF.

1.1 DATA CONSTRAINTS

7. The availability, quality and coherence of trade statistics and other data needed for a thorough diagnostic of trade integration constraints and opportunities for CAR is a major limitation for this work. For imports and exports, the report can rely on cross-country databases which actually allow somewhat reliable inferences. However, for analyses of production capacity, private sector activities, domestic trade and transport flows, etc. data and statistical resources in CAR are inadequate. This is a general problem in CAR, affecting also social sector, natural resources, and census data.

8. The main body responsible for the collection of data is the DGSEES (Directorate General of Statistics, Social and Economic Studies). A severe lack of resources, financial, human, and with respect to the equipment constraints the ability of DGSEES to fulfill its mandate of effectively coordinating data collection, compilation and processing in the country.

9. With respect to trade data, DGSEES uses data from the customs department. However, there are various other sources for information on international trade flows, namely BEAC which also collects trade data for its balance of payments statistics, a number of ministries as well the inspection institutions BIVAC (forestry products) and BECDOR (diamonds and gold) that collect data for exports of various merchandise. DGSEES fails to consolidate information from these various sources which leads to the co-existence of inconsistent information on trade flows, in particular exports.

10. At the customs department, efforts are ongoing to implement the use of ASYCUDA+. However, the implementation has not been going smoothly and import and export data transfer to DGSEES has been delayed. A problem exists with recording regional trade flows because of a lack of communication infrastructure between the headquarters of customs in Bangui and the provincial offices. Customs offices in the provinces provide information on trade and customs revenue to Bangui by telephone; to date these data are not incorporated into official customs statistics, which leads to an underestimation of regional trade flows.

11. In the Ministry of Commerce, Industry, and Small and Medium Enterprises (MCIPME), lack of high quality trade data appears to constrain in-house analysis. MCIPME does not have direct access to import and export data from the customs department, and communication between the two entities is sporadic. To nevertheless obtain up-to-date trade information, MCIPME requires trading firms to submit a form with their import intentions, based on which the Ministry compiles its own set of statistics. However, the declared import intentions do not necessarily correspond to actual imports, as the customs department does not verify the consistency of the MCIPME-document with the shipment. Hence, the import intentions-data are of questionable value.

12. The trade analysis in this report has mostly relied on the IMF's Direction of Trade database which is based on submissions from BEAC, and on the UN COMTRADE

database which is based on individual countries' customs data submission. Owing to the poor quality and limited availability of CAR customs data, the report uses submission of CAR's trading partners, so called mirror data, for its analysis of CAR's trade performance.

13. Quantitative analysis of domestic production in various agricultural export or potential export sectors, internal trade flows, private sector performance, or the business environment, however, were not possible owing to the data limitations. Collection of agricultural production data, for example, effectively ceased in 1994, owing to a cut in external financing; the last survey of crop production dates back to 1985, the last survey on arable land, yield and production dates back to 1992. The situation is somewhat better for the export sectors: for forestry products, the Ministry of Water Resources and Forestry and BIVAC (forestry exports inspection company) regularly publish production and export data, as does BECDOR (diamond and gold control bureau) diamonds and precious metals. Additional data sources are the Ministry of Tourism and Handicrafts that collects data on tourist arrivals and revenue, and the Central African Road Transport and Chartering Agency which publishes reports on commercial transport in the CAR.

14. Observations on the weakness of statistics in CAR are not new, and a number of CAR's development partners have reviewed and analyzed the status of statistical capacity in CAR, and have been putting in place a number of technical assistance and capacity building measures, namely development of a National Statistics Development Strategy, various TA and capacity building measures, and supply of IT equipment. In addition, there is a CEMAC wide project to support harmonization of data collection among member countries which will be implemented in the respective national statistical bureaus, and support to link customs operations in all CEMAC countries. The multitude of efforts currently under way should over the medium term improve the data base for economic and social analysis. However, there is also a danger of duplication, and fragmentation of donor support since so far the government has not yet developed a strategy for statistical capacity building along which it could coordinate the support efforts of its development partners.

1.2 ECONOMIC BACKGROUND

Reforms and Growth Outcomes

15. CAR is a vast (662,000 km²) and sparsely populated country of 4.0 million; its landlocked nature and persistent lack of security since independence has jeopardized efforts at economic recovery and growth². In addition it has been adversely affected by trade shocks so that its economy has registered low growth rates over the past decade as well as a decline in real GDP per capita. Per capita income for 2005 was US\$ 350 making CAR one of the poorest countries in the world with 70 percent of the population lives below the poverty line.

² World Bank, "Central African Republic: Quest for Socio-Economic Stability", June 30, 2005, p. 1 (in process).

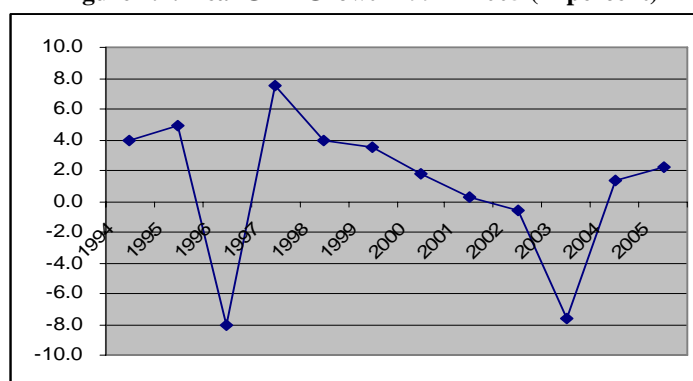
16. For most of the period since independence in 1960, CAR has experienced political instability and successive periods of armed conflict, poor governance, and – as a result – poor socio-economic outcomes. Conditions were particularly severe during the past decade with a vicious cycle of mutinies and coup attempts, a succession of regimes, and an increasingly bankrupt and ineffective government. A group led by General Bozizé seized power in 2003 and after an interim period held presidential and parliamentary elections in 2005 during which General Bozizé was confirmed as president. He formed a government in July 2005 with the objective to restore functioning of the state and security in the country, and to promote economic recovery.

17. The political instability is reflected in CAR's growth performance over the past two decades since the 1994 devaluation of the CFAF in figure 1.1. As expected, the devaluation stimulated export competitiveness which together with structural reforms resulted in growth rates of about 5 percent between 1994 and 1998, with the exception of the year 1996 during which cotton and coffee world market prices dropped sharply. After 1998, however, the economic and political situation as well as CAR's public finance record deteriorated. While the economy contracted for a few years at the beginning of the new millennium, the government slid into internal and external arrears. As a result, development assistance dried up, and public service delivery declined while the budget deficit still widened.

18. In recent years, the economy has reversed its decline, and the government elected in 2005 is stimulating economic recovery and poverty reduction through support and improved governance in the mining and forestry sectors, maintenance of a stable macro-framework, including clearing of internal and external arrears and CEMAC wide reforms of the tariff schedule and the Investment Code as well as introduction of a VAT.

19. The government has outlined its strategy for the coming 18 months in the Economic and Social Policy Framework Paper (ESPF) which aims at reinforcing security and consolidating of peace; improving governance and public sector institutional capacity; promoting macroeconomic stability and economic growth; and improving access to essential social services. To support these efforts, donors are re-engaging in CAR. The DTIS is part of this support by identifying an agenda of priority reform and investment actions to increase CAR's export performance, and further integration into the regional and global economy.

Figure 1.1: Real GDP Growth 1994 - 2005 (in percent)



Source: IMF

20. Table 1.2 shows economic indicators beyond economic growth. Owing to CAR's adherence to the prudent monetary policies set by the Banque des Etats de l'Afrique Centrale (BEAC), inflation has been contained, averaging just 1.1 percent from 1997-2001. However, to achieve macro-economic stability, the government needs to address the widening fiscal deficit and current account imbalance. To increase and sustain economic growth, investment, in particular private investment, needs to increase.

Table 1.2: Key Economic Indicators 1995/96 – 2004/05

	1995/96	2000/01	2001/02	2002/03	2003/04	2004/05
Real Sector						
GDP (m. US\$)	1070.1	968.3	1045.2	1197.5	1309.1	1375.2
Real GDP growth	-8.1	0.3	-0.6	-7.6	1.3	2.2
GNI per capita (PPP, International \$)	290	270	250	270	310	350
Gross Domestic Investment/GDP (%)	5.9	8.4	9.0	6.0	6.1	8.9
Public Investment/GDP (%)	1.9	3.5	4.8	2.1	2.0	4.0
Private Investment/GDP (%)	4.0	4.9	4.2	3.9	4.1	4.9
External Accounts (US\$m)						
Exports of Goods & Services	185.3	160.0	154.1	109.1	111.5	127.4
Imports of Goods & Services	225.2	203.5	204.0	165.6	172.5	188.0
Current Account Balance excl. grants (percent of GDP)	-39.9 -5.9	-43.5 -2.5	-49.9 -3.1	-56.5 -4.9	-61 -4.3	-60.6 -3.9
Gross official reserves (in months of imports)		13.6	10.9	12.4	12.0	10.9
Fiscal Accounts (% of GDP)						
Revenues	6.4	7.3	8.5	7.7	6.5	7.0
Expenditures	11.7	13.2	15.8	12.3	13.5	16.7
Overall balance, excluding grants	-5.3	-5.9	-7.3	-5.8	-6.5	-9.6
Overall balance, including grants	-1.1	-0.9	-1.2	-3.1	-2.2	-4.5
Prices, Exchange Rates (period average)						
Inflation (CPI, annual average)	1.6	3.8	2.3	4.4	-2.2	2.4
Exchange rate (CFA francs per dollar)	511.5	732.4	694.8	580.1	527.6	525.3
Export Price Index (2000=100)	85.9	94.8	88.4	87.9	82.1	83.6
Import Price Index (2000=100)	93.4	103.5	105.7	103.0	116.9	134.2
Terms of Trade (2000=100)	91.9	91.6	83.6	85.3	70.2	62.3

Source: IMF

Sectoral contributions to growth

21. CAR is predominantly an agrarian economy producing crops, livestock, forestry products, and hunting and finishing; the agricultural sector dominated the CAR economy over the past decade, accounting for more than 50 percent of economic activity. The services sector accounted for about a third of CAR's economy over the past decade, the industrial share hovers just above 13 percent. Table 1.3 below shows there is no structural change yet apparent in CAR towards a greater share of industry and services. Furthermore, the agricultural sector has also been the most dynamic one, accounting for the lion's share of growth over the entire period, and the two sub periods. Over the conflict period, the contribution to growth from industry and services was negative which reflects the disruption of commercial and transport services, and the slow-down of industrial activities during this period.

Table 1.3: Sectoral Shares of GDP and Contributions to Growth 1996/97 – 2004/05

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

Source: IMF

1.3 TRADE PERFORMANCE

22. Even among landlocked countries in sub-Saharan Africa, CAR exhibits a very low level of trade integration as measured by the share of exports and imports of goods and services in GDP (Table 1.4). Relative, CAR's imports differ more from other developing countries than its exports, hence a strategy to increase CAR's trade integration should focus as much on imports as on exports.

Table 1.4: Trade Integration 1990-2004

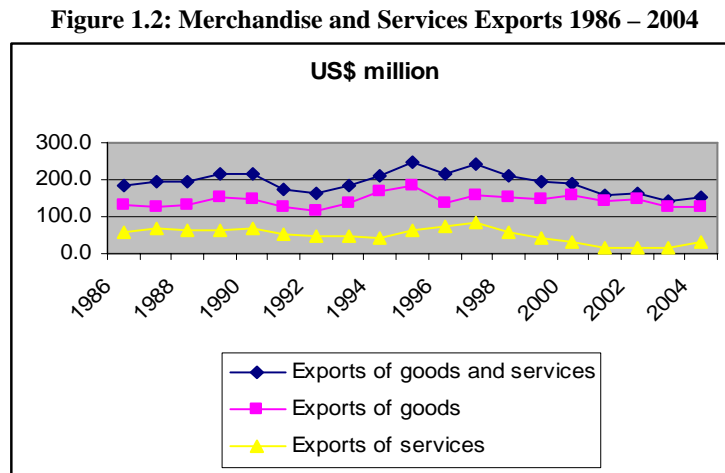
	Exports of Goods & Services /GDP	Imports of Goods & Services/GDP	Exports and Imports of Goods & Services /GDP
Developing Countries	25.5%	25.5%	51.0%
Landlocked SSA	18.9%	27.4%	46.3%
CAR (1990-2002)	15.5%	22.2%	37.7%

Sources: DTIS team calculations based on World Development Indicators, World Bank.

Notes: Developing countries = low +middle income countries (World Bank definition); all trade/GDP ratios in current US dollar terms. Landlocked SSA denote landlocked sub-Saharan African countries and include Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe.

Export Performance

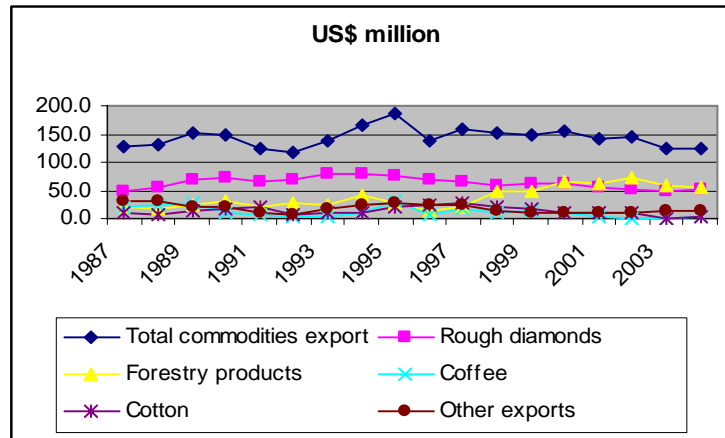
23. CAR's export performance over the past 20 year was dominated by merchandise exports which peaked in 1996 at US\$250 million and have since declined significantly to below US\$150 million in 2003 because of conflict and civil strife. After the end of the political unrest exports have picked up; this is reflected in the slight upturn in 2004 in services. Services contributed between 25 and 35 percent to exports until 1998 after which services exports declined both absolutely and as a percentage of exports, except for in the most recent year for which data is available.



Source: IMF Direction of Trade Database

24. CAR's total world export market share is tiny with 0.002 percent in 2005, and shrinking: in 1965, it was 0.14 percent; by 1985 it had dropped to 0.006 percent. Exports were dominated by diamond exports during the 1990s, yet recently forestry product exports have surged and are now roughly equal to diamond exports. Between 1987 and 2004, the average share of diamonds in CAR's export was 44 percent, the one for forestry products 26 percent. Coffee and cotton exports have declined from highs of 19 percent respectively in 1988 (coffee) and 1996 (cotton) to almost negligible levels (less than 1 percent); the last time their share was in the double digit percentage was in 1997 for coffee and 1999 for cotton.

Figure 1.3: Merchandise Exports 1987 – 2004



Source: IMF Direction of Trade Database .

Table 1.5: Composition of Exports 1994 – 2004 (US\$ million)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Diamonds	80.2	75.3	70.4	67.1	59.1	62.1	61.9	56.3	52.3	49.3	52.6
Forestry products	41.4	28.6	12.7	10.0	46.9	47.0	64.1	61.8	71.4	59.6	54.4
Sub-total	121.7	104.0	83.1	87.1	106.0	109.2	126.0	118.1	123.7	108.9	107.0
Coffee	10.2	32.2	7.0	17.2	8.8	13.8	8.9	2.2	1.5	1.3	1.9
Cotton	10.3	22.3	25.8	27.4	22.0	16.3	10.4	10.1	9.1	1.0	3.4
Tobacco	0.0	0.4	0.5	0.5	0.3	0.4	0.3	0.2	0.2	0.2	0.2
Others	24.4	27.0	22.0	24.8	13.8	8.6	10.6	11.6	11.2	14.5	12.7
Sub-total	44.9	81.8	55.3	69.9	44.9	39.0	30.2	24.1	22.0	17.0	18.2
Total merchandise	166.6	185.8	138.4	157.1	150.9	148.2	156.2	142.1	145.7	125.8	125.2
Total services	42.8	61.9	76.1	84.1	57.3	44.2	30.7	17.9	14.8	15.7	29.8
Of which tourism	1.4	4.2	3.1	2.1	3.7	8.4	4.5	5.3	3.3	3.4	6.8
Total	209.4	247.7	214.5	241.2	208.2	192.4	186.9	160.0	160.6	141.5	154.9

Source: IMF.

25. While CAR's exports are dominated by a small number of products, four indices that describe the magnitude of trade concentration indicate that relative to other landlocked economies and other countries in the region, CAR's exports are relatively diversified along the range of export products. Table 1.6 shows these indicators which are the number of products exported (whereby marginal exports are eliminated by counting only those export share is at least 0.5%), the export share of the top export, respectively of the top three exports, and the Hirschmann index³ for the CAR and a number of comparator countries. CAR's Hirschmann index in particular is the lowest of the sample.

³ The Hirschmann index is defined as $H_j = \sqrt{(\sum(x_i/X)^2)}$ where x_i is the value of exports of commodity i at the four-digit SITC level and X is the total value of country j 's exports; the index ranges between 0 and 1, with lower values indicating less concentration.

Table 1.6: Export Concentration in CAR and Comparator Countries, 2005

	CAR	Uganda	Chad	Senegal	Rwanda	Niger	Gabon	Cameroon	DRC	Burkina Faso	Burundi
Number of exported products	10	13	4	17	6	4	8	11	11	11	4
Share of top export product	44%	34%	89%	20%	59%	83%	70%	47%	46%	74%	91%
Share of top 3 exports products	83%	74%	97%	55%	85%	93%	90%	72%	74%	81%	95%
Hirschmann index	0.31	0.48	0.89	0.36	0.63	0.83	0.72	0.52	0.51	0.75	0.91
Memo item: <i>total exports (US\$ million)</i>	205	929	1972	1446	136	342	5418	5693	2284	330	143

Source: UN COMTRADE database (mirror data)

26. Table 1.7 below shows that the indices roughly show a uniform trend for concentration of CAR's exports over time between 1965 and 2005. Concentration declined between 1965 and 1975 and then increased again until 1995. Since 1995, concentration declined again according to three of the four indices.

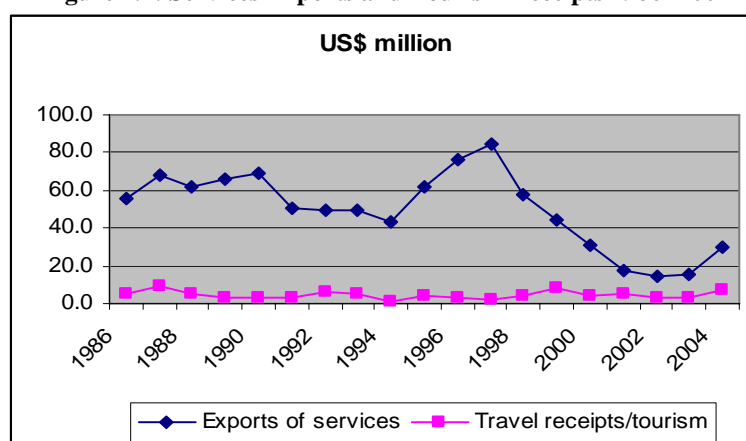
Table 1.7: Export Concentration in CAR 1965 - 2005

	1965	1975	1985	1995	2005
Number of exported products	10	12	12	8	10
Share of top export product	41%	24%	33%	54%	44%
Share of top 3 exports products	80%	66%	76%	83%	83%
Hirschmann index	0.50	0.42	0.48	0.59	0.31

Source: UN COMTRADE database (mirror data)

27. Between 1988 and 2004, tourism receipts remained relatively constant averaging US\$4.7 million per annum. However, as other services exports – mainly government services which contribute between 50 and 85 percent to total services exports – declined, tourism exports now contribute about 20 percent to services exports. Like other exports tourism receipts declined during the period of civil strife, and picked up in 2004 to their highest level yet.

Figure 1.4: Services Exports and Tourism Receipts 1986- 2004



Source: IMF

28. The European Union as a country grouping is CAR's largest export partner, where almost two thirds of its exports were destined in 2005. Within the EU, Belgium, France, Spain and Italy were the top destinations (Table 1.8). Countries in Asia were the second most important regional grouping destination after the EU, absorbing about a fifth of CAR's exports in 2005. Within Asia, China, Indonesia and Turkey were CAR's most important markets. Africa and North America absorbed each about 5 percent of CAR's export, and the Middle East 3 percent; other regions were negligible.

Table 1.8: Export Destinations 2005

By regional grouping (share of total exports, %)	Top ten export destinations and products			
	Share of total exports (%)		Top export items	
European Union*	70.9	Belgium	35.8	Diamonds, cotton, wood (sawn)
Asia	21.0	France	13.8	Wood (in the rough), coal, rubber manufactures
North America	4.8	Spain	9.1	Wood (in the rough), wood (sawn), crude minerals
Africa	1.0	Italy	8.2	Wood (in the rough), coffee, musical instruments
Other Europe	0.7	China	7.3	Wood (in the rough), cotton, wood (sawn)
South America	0.6	Indonesia	6.5	Cotton, acids, wood (in the rough)
Middle East	0.5	United States	4.6	Tobacco, wood (in the rough), wood (sawn)
Rest of the World	0.5	Turkey	4.5	Wood (in the rough), cotton, electric manufactures
		Portugal	2.6	Wood (in the rough), wood (sawn), cotton
		Japan	1.7	Wood (in the rough), wood (sawn), mach. Manufactures

Source: UN COMTRADE database (mirror data)

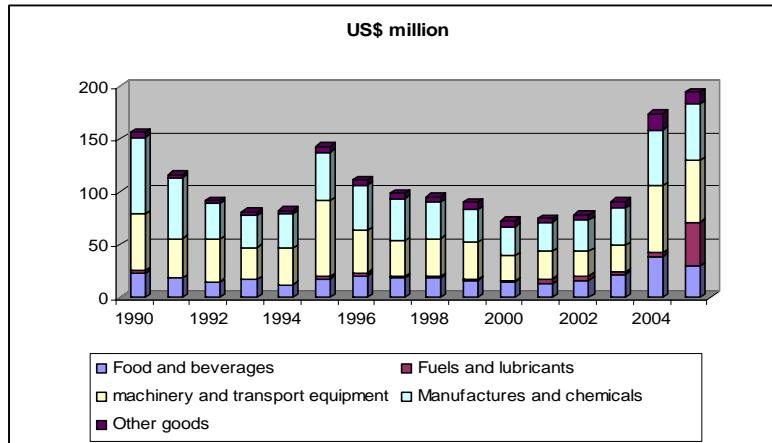
* EU15 (Germany, France, UK, Italy, Spain, Netherlands, Belgium, Austria, Greece, Portugal, Ireland, Denmark, Sweden, Finland, Luxembourg)

Import Performance

29. Merchandise imports have been trending downwards over the period between 1990 and 2005, except for the most recent years and a spike in 1995. The structure of

imports is dominated by machinery and transport equipment and manufactures, together accounting for more than two thirds of imports for most of the period. During the conflicts early in the new millennium, food imports surged somewhat as can be expected; most recently the high cost of petroleum has led to a surge in this category.

Figure 1.5: Imports by Broad Economic Groups 1990-2005



Source: World Bank staff derivations based on UN COMTRADE data.

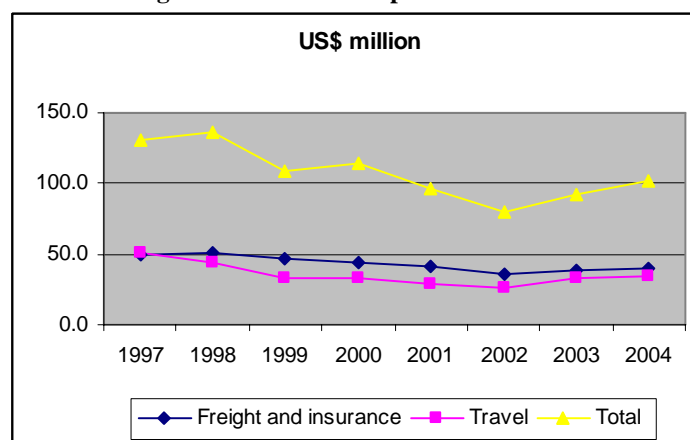
Table 1.9: Imports by Broad Economic Groups 1990 - 2005

	Annual average shares (in percent)			
	1990-1994	1995-1999	2000-2003	2004-2005
Food and beverages	16.2	17.5	20.4	18.8
Fuels and lubricants	0.6	1.5	4.0	11.5
Machinery and transport equipment	37.8	39.5	31.2	33.4
Manufactures and chemicals	41.8	36.2	37.7	29.0
Other goods	3.6	5.3	6.6	7.3

Source: World Bank staff estimates based on UN COMTRADE data.

30. CAR services imports have been declining until recently; after services imports bottomed in 2002, they have been trending upward, though not yet to the level prevalent in the early 1990s. Services imports are dominated by freight and insurance imports and travel which both accounted for more than a third in 2004.

Figure 1.6: Services Imports 1997 – 2004



Source: IMF

31. Europe is by far CAR's most important source of imports, though the dominance is not quite as large as for exports. Africa, North America and Asia each supply about a tenth of CAR's imports whereby some of the exports in Africa – notably those from Cameroon – may be re-exports. The main import items are as expected: mostly machinery, vehicles, other manufactures, medicinal and pharmaceutical goods, cereals.

Table 1.10: Sources of Imports 2005

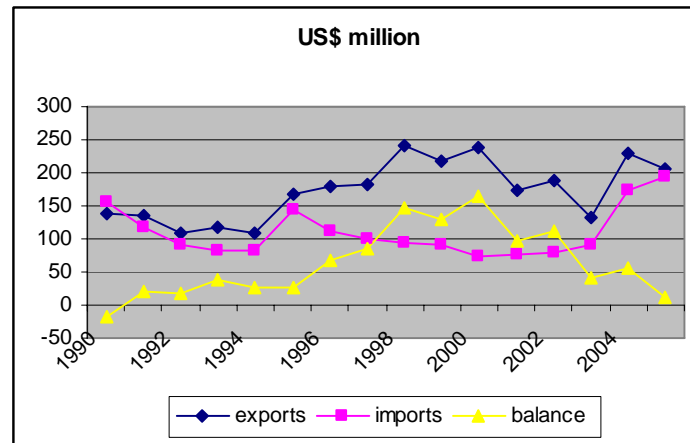
By regional grouping (share of total imports)	Share of total imports	Top ten import sources and products	
		Source	Top import items
Europe*	57.7	France	Machinery, flour, medicinal and pharmaceutical products
Africa	12.8	Netherlands	Petroleum products, medicinal and pharmaceutical products, dairy products
North America	12.3	United States	Machinery, electrical machinery, iron & steel
Asia	11.7	Cameroon	Machinery, misc. manufactures, petroleum products [re-imports]
Other Europe	2.3	Belgium	Sugar, textile fabric, road motor vehicles
South America	2.2	China	Electrical machinery, fabric, rubber manufactures
Middle East	0.9	Germany	Machinery, textiles, road motor vehicles
Rest of the world	0.1	Brazil	Machinery, paper products, wood (simply worked)
		Taiwan	Machinery, electrical machinery, road motor vehicles
		Italy	Electrical machines, misc. manufactures, vegetables

Source: UN COMTRADE, mirror data.

* EU15 (Germany, France, UK, Italy, Spain, Netherlands, Belgium, Austria, Greece, Portugal, Ireland, Denmark, Sweden, Finland, Luxembourg)

32. Figure 1.7 shows that for most of the period since 1990 CAR had a positive trade balance (for merchandise trade), with the exception of the conflict period in the early 2000s. Thus, CAR did not build up a trade deficit, partly because there were little aid inflows to finance such a deficit.

**Figure 1.7: Merchandise Exports, Imports, and Trade Balance
1990 – 2005**



Source: UN COMTRADE, mirror data.

Regional Trade

33. From Tables 1.10 and 1.11 we see that CAR's exports to and imports from other African countries have been negligible. More precisely, during the period from 2001 to 2005, CAR's value of trade (imports plus exports) with other countries in sub-Saharan African amounted to about 14 percent of CAR's total trade. While low values for regional trade are typical for many African economies because their main export sectors are often similar and because inadequate transport and trade facilitation infrastructure within Africa reduces the gains from trade, this share is remarkably small for a landlocked sub-Saharan African country. Landlocked countries face particularly high transaction cost related to transit and border clearance when they try to reach maritime ports for inter-continental shipment, so that trade with neighboring countries is relatively more important. Yet, CAR's intra-continental trade share falls far short of the average of landlocked countries in Sub-Saharan Africa, and is lower than the average of all countries on the continent. Two-thirds of CAR's African trade is with the country's CEMAC partners⁴, notably Cameroon and Chad (Table 1.11). CAR thereby imports much more from CEMAC countries than it exports to them. Of the non-CEMAC members of CEEAC⁵, only DR Congo is of significant importance as a trading partner, and, contrary to its trade relationship within CEMAC, CAR runs a merchandise trade surplus with this neighbor. No trade was reported during 2003-05 with the CEEAC-members Angola, Burundi, Rwanda, and Sao Tomé and Príncipe.

34. On a sectoral basis, CAR ran trade deficits with its CEMAC partners in almost all product groups in 2005. The largest net-imports occurred for food and beverages,

⁴ CAR is a member of the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) which also includes Cameroon, Chad, Republic of Congo, Equatorial Guinea and Gabon.

⁵ CAR is also a member of Communauté Economique des Etats d'Afrique Centrale (ECCAS) which includes all CEMAC members plus Sao Tomé and Príncipe, Democratic Republic of Congo, Burundi, Rwanda and Angola.

tobacco, and non-metallic minerals (such as cement). The only products where regional exports from CAR exceeded regional imports were forestry products.

35. However, official figures on regional trade should be interpreted with care as they may underestimate regional trade flows for two reasons: Firstly, the data are based on information from the main computerized border stations, and provincial customs posts that presumably process a proportionally larger share of trade with regional neighbors are not covered in official statistics; the next section discusses such informal trade. Secondly, even the official customs submission may not always accurately reflect some of the regional trade flows⁶.

Table 1.11 Geographical Structure of CAR's Regional Merchandise Trade 2003 - 2005
(percent of total trade)

	Imports			Exports			Total trade		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Cameroon	13.8	13.0	13.6	0.0	0.0	0.0	6.3	6.9	7.8
Chad	3.2	3.0	3.1	0.3	0.3	0.4	1.6	1.7	2.0
Congo, Republic	1.0	0.1	0.2	0.2	0.1	0.1	0.5	0.1	0.2
Equatorial Guinea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gabon	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<i>CEMAC</i>	18.0	16.2	17.0	0.4	0.5	0.6	8.5	8.8	10.0
Angola	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Burundi	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Congo, Dem. Rep.	2.3	2.1	2.2	3.0	3.7	4.6	2.6	2.9	3.3
Rwanda	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sao Tomé and Príncipe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>CEEAC</i>	20.3	18.3	19.2	3.4	4.2	5.2	11.1	11.7	13.3
Other Sub-saharan Africa	4.0	3.0	2.9	1.0	0.3	0.4	2.4	1.7	1.8
Total Sub-saharan Africa	24.3	21.3	22.1	4.4	4.4	5.6	13.6	13.4	15.1

Note: Only those imports and exports are considered for which the partner country is identified.

Source: IMF Direction of Trade database.

Informal Trade

36. As mentioned in the statistics section at the beginning of the chapter, trade flows that do not enter or exit the country through Bangui are not reliably recorded. These transactions are naturally more important with the countries with which CAR shares borders, i.e. Cameroon, Chad, Sudan, and DR Congo. Some strong traditional trade routes exist with these countries, and the natural conditions permit transactions outside official channels. While by its nature no exact valuation of unofficial cross-border flows is available, the general consensus is that informal activities account for a significant share of total trade within the region

37. Over the past years, informality might have declined as the harmonization of trade policies and regulations between CAR and its neighbors and the phasing out of intra-

⁶ The low quality of customs data in many African countries is precisely the reason why we rely on mirror data, rather than CAR's own submission to the UN database; see section on statistics above.

regional trade barriers within CEMAC has lowered formal trade transactions costs and reduced the incentives to use unofficial channels. Also, the adoption and implementation of a common external tariff has eliminated the gains that could earlier be obtained from world market imports into low protection countries and subsequent informal transshipment into high protection countries. Still, most of CAR's regional trade flows are expected to be informal.

38. The persistence of informal trade flows may have negative consequences. At the trade policy level, the importance of regional trade integration may be underestimated if only a fraction of regional trade flows is recorded. This may result in shift of negotiation capacity and resources towards improving access to overseas markets, rather than concentrating on potentially more important activities to stimulate regional trade and export expansion. Secondly, if precious goods such as diamonds, gold, exotic woods and other public assets are being smuggled out rather than formally exported, the state will lose customs revenue, and possibly also assets such as protected animal species for which official trade is banned. Finally, the most serious problems that may arise from informal trade is trafficking of weapons and other criminal goods that endanger the population.

1.4 POVERTY PROFILE AND HUMAN DEVELOPMENT INDICATORS

39. Owing to political instability, underinvestment in and under delivery of public services, and poor economic performance over the past two decades, poverty in CAR is overwhelming and human development extremely low.

40. Household survey data in CAR indicate that more than two thirds of the population lives below the income poverty line, with about one-third in extreme poverty. Seventy percent of the poor and 60 percent of the extremely poor live in rural areas; urban poverty is mainly concentrated in the capital Bangui where 70 percent of the urban poor are located.

Table 1.12: Poverty Incidence in Rural and Urban districts 2003

Rural Districts		Urban Districts	
Mambéré Kadei	78.7	Bria	58.0
Ouham	84.0	Bambari	59.3
Haute Kotto	84.1	Berberati	65.1
Mbomou	86.0	Bangui	70.6
Haut Mbomou	86.1	Bangassou	71.7
Nana Grebizi	87.0	Bouar	72.4
		Bossangoa	76.0

Source: ECVU survey 2003, cited in draft PRSP (2005).

41. CAR's UNDP Human Development Index confirms the dire situation for the population in CAR. The 2005 UNDP Human Development Report ranks CAR near the bottom as 171st out of 177 countries which is a decline compared with 1990 when CAR was ranked 154th (out of 174 countries).

Table 1.13: Human Development Indicators CAR 1970 - 2004

Indicator	1970-75	1990	2004
Human development index	0.345	0.384	0.353
Total population	2.1	3.0	4.0
Urban population (% of total)	32.0		37.9
Life expectancy at birth	43.5		39.4
Population with sustainable access to improved sanitation (%)		23.0	27.0
Population with sustainable access to an improved water source (%)		52.0	75.0
Infant mortality rate (per 1,000 live births)	145		115
Under-five mortality rate (per 1,000 live births)	238		193
Total fertility rate (births per woman)	5.7		5.0
Adult literacy rate (% ages 15 and older)		33.2	48.6
Youth literacy rate (% ages 15-24)		52.1	58.5
Telephone mainlines (per 1,000 people)		2.0	3.0
Imports of goods and services (% of GDP)		28.0	16.0
Exports of goods and services (% of GDP)		15.0	11.0

Source: Human Development Report 2006, UNDP.

42. Behind this low rating are the following realities for the people in CAR: Only 27 percent of the population has access to improved sanitation facilities; national gross primary enrollment dropped from 117 percent in 1988 to 67 percent in 2003⁷; repetition and drop out rates are high at 30 percent and 16 percent respectively⁸ while the number of teachers, pedagogical materials and equipment are all insufficient⁹; life expectancy has declined from 43.5 years in 1975 to 39.4 years in 2004 owing to the poor condition of health facilities and the lack of service which favors infectious and parasitic diseases, sexually transmitted diseases, malnutrition and HIV/AIDS (incidence estimated at 10.7 percent); mortality rates for children under the age of 5 has increased from 180 per 1,000 in 1988 to 193 per 1,000 in 2004; and maternal mortality rates have increased from 683 per 10,000 in 1988 to 1,355 per 10,000 in 2003.

43. Employment for those living below the poverty line is primarily sought in the agricultural sector, followed by the service sector. In the area outside of Bangui, over half (51.4 percent) of those classified as poor seek their livelihood in agriculture¹⁰. This is followed by the service sector at 17.2 percent. Other sectors which could be revenue enhancing employment areas for the poor, such as mining and forestry, appear not to be the case. The mining sector employs only 2.7 percent of those living below the poverty line in rural areas; the forestry sector employs less than 2 percent of the poor in rural areas. The figures are equally discouraging in urban areas and around Bangui; 1 percent of the poor work in mining and 2.4 percent work in the forestry industry.

⁷ Well below the average for CEMAC countries (82 percent) and Sub-Saharan Africa (95 percent), see IDA Program Document for a Reengagement and Institution-Building Support Program for CAR, 2006. IDA/37864-CF, November 3, 2006, paragraph 67.

⁸ See IDA Program Document a Reengagement and Institution-Building Support Program for CAR, 2006. IDA/37864-CF, November 3, 2006, paragraph 67.

⁹ This is particularly true outside Bangui since teachers are often unwilling to serve in rural and/or conflict affected areas.

¹⁰ : ECVU survey 2003, cited in draft PRSP (2005).

44. Glaring regional disparities exist in the provision of public services with those residing outside Bangui receiving disproportionately less than their share of public resources. Roughly 94 percent and 80 percent of non-wage expenditures for the education and health sectors, respectively, were spent in Bangui¹¹.

1.5 SUMMARY AND RECOMMENDATIONS

45. CAR is one of the poorest countries in terms of economic and human development outcomes. Trade integration is very weak, export concentrated on a few primary products and serving a very limited number of markets. Export performance has declined since independence; CAR's export share has declined by an order of magnitude over the past 40 years. According to official statistics, CAR exports to date only two goods, namely forestry products and diamonds; other export sectors, notably cotton and coffee have declined to a negligible level.

46. Currently, the scope for economic and other analyses which would allow for specific recommendations to feed into CAR's overall economic and development strategy is severely limited because of a very sketchy and unreliable statistical base. There are, however, a number of ongoing programs financed by CAR's development partners to improve statistical capacity and quality.

47. To maximize the benefit from various donor programs supporting statistical capacity, it is necessary for CAR to develop a strategy and implementation plan, identifying priorities for statistical capacity building and sequencing of technical and other assistance.

48. To improve the knowledge base on regional trade a system should be put in place of periodic transmission of data from the customs offices in the provinces (until ASYCUDA is rolled out on the basis of a hard copy) so that regional trade data can be incorporated into official trade statistics collected by the customs department in Bangui.

49. The requirement for firms to submit a form with their import intentions should be phased out, since it is of questionable value to the MCIPME, yet puts an additional burden on trading firms. To undertake trade policy impact and other studies, MCIPME should have direct access to data from the customs department, as well as the BEAC's balance of payments data.

¹¹World Bank, "Central African Republic: Quest for Socio-Economic Stability", June 30, 2005, p. 39 (in process).

2. PRIVATE SECTOR DEVELOPMENT AND INVESTMENT CLIMATE

50. The private sector plays a pivotal role for trade, in particular exports, in CAR, since the overwhelming majority of exporters are private firms. Thus, to enhance trade's potential contribution to overall economic growth and poverty reduction in CAR its government needs to provide an environment conducive for private sector activities, in particularly exporting. This chapter reviews the private sector in CAR, its legal and regulatory framework and other key business and investment climate issues, including macro-economic ones. The aim of the chapter is to identify constraints faced by the private sector, in particular with respect to trade activities, and to bring forward a set of priority recommendations for the government to help improve the capacity and potential of CAR's private sector in general, and for export activities in particular.

2.1 OVERVIEW OF THE PRIVATE SECTOR

Background and recent performance

51. According to several reports, the formal private sector in the Central African Republic has shrunken considerably since the 1990s, owing to the socio-economic instability highlighted earlier in this report. The sharpest downturn was reported after the October 2003 and March 2004 events. Unfortunately, the poor quality of statistical data available does not allow reliable estimates of the actual size and composition of the private sector, or a comparison in time. The figures reported below have only indicative value since most of them are outdated or unclear.

52. The most recent official tax census carried out in 2000/2001 reported 477 enterprises, obviously all in the formal sector. This covers firms of all sizes. Single ownership entities (including service providers like pharmacies, lawyers and accountants) represented about 40% of this figure, leaving about 285 registered companies. The same census reports about 3300 "intermediate economic units" (normally required to pay at a minimum business tax or municipal tax) mainly composed of units in the commerce, restaurant/bar, and other services categories, and only a small percentage in the productive and crafts sectors such as carpentry, metal working etc. By definition, the tax census does not cover the informal sector. So far, it has been impossible to obtain even a very approximate estimate of the weight of the informal sector in the Central African economy, the most recent study on this sector reportedly dating back to 1982. Firm surveys usually mention the rise of the informal sector as an important factor in the demise of the formal sector¹².

53. Data received from the Statistical Directorate show value added and employment for 136 firms in the formal sector in 2005; the breakdown is given in Table 2.1 below¹³.

¹² Obviously, the causality can go both ways.

¹³ No information was received from DGSEES on the percentage of formal business establishments covered by this survey.

Table 2.1: Key Data of the Formal Sector 2005

	Number of firms	Value added		Employment	
		(CFAF million)	Value added (%)	(# of persons)	Employment (%)
Manufacturing Industry	23	2,862	26	2,684	40
Construction Industry	11	2,808	25	2,693	40
Commerce	62	5,082	46	914	14
Transport /transit & telecom	16	98	1	154	2
Finance /real Estate	8	210	2	107	2
Other	16	103	1	199	3
Total	136	11,163	100	6,751	100

Source: DGSEES

54. According to the figures in Table 2.1, the commerce sector has the highest share of value-added in the private sector economy (46% - this definition would normally include taxes and profit) but its employment share stands at only 14%, whereas the manufacturing industry and the construction sector combined account for 78% of the employment of the formal sector, but only for 51% of the value added.

55. The small share of the transport/transit and telecom sectors (both in terms of value added and employment) is surprising and raises doubts whether the firms covered in the DGSEES survey were fully representative of the real weight of this sector in the economy. It is also not clear if the firms surveyed include the mining and forestry sectors. Since so little is known of the nature of the DGSEES firm survey, the data should be used with great caution since it is likely to provide a biased picture of the Central African economy.

56. Provisional results of a recent (July-September 2006) census of the private sector carried out by the CAR Chamber of Commerce identified about 2500 enterprises eligible for membership and hence voting rights for the upcoming election of the Chamber's new Board. It gives some insight in the geographic breakdown of firms: 84% were located in Bangui and 16% in the provinces. The legal status of these enterprises and the sectoral breakdown were not made available.

Private sector organizations

57. As most countries, CAR has a Chamber of Commerce (Chamber of Commerce, Industry, Mines and Crafts - CCIMA). The main functions of the CCIMA are to represent the interests of its members¹⁴, and to provide business information, promotion services and training. However, the CCIMA is not able to fulfill its functions properly, because state funding is insufficient, and the CCIMA has not been able to find alternative financing sources, either domestically, or from development partners. One of the main problems for CCIMA is that it does not yet have an elected Board of Directors and Chairperson which reduces its credibility with the businesses – which are hence not inclined to finance the CCIMA¹⁵ – and also seems to preclude financial support by

¹⁴ All registered businesses are automatically members of the CCIMA.

¹⁵ Businesses pay contribution to other professional/trade associations where membership is voluntary.

development partners who would prefer dealing with a genuine private sector organization with an elected Board and Chairperson.

58. All chambers of commerce in francophone Africa used to be quasi-public institutions (*chambre consulaire*) and Board and Chairman were appointed by governments. However, in the 1990s, Chambers of Commerce in most other francophone countries¹⁶ transformed themselves to elected bodies, following the model of French Chambers, and sometimes supported by a French Chamber. The CCIMA has somewhat lagged behind Chambers in other countries, but it is now in the process of carrying out the transformation. Once the process is completed and the CCIMA will have an elected Board and Chairperson, it will most likely be in a position to attract at least transitional outside funding.

59. While the CCIMA is thus currently unable to provide advocacy and other services to CAR's private sector, there are two active professional associations in CAR: the UNPC (Union Nationale du Patronat Centrafricain) and the GICA (Groupement Interprofessionnel en Centrafrique). UNPC is organized into 7 trade associations (banking, insurance, construction, commerce, forestry sector, services and industries). It represents the interests of the employers vis-à-vis the government in tripartite discussions (state, unions, employers), and before international organizations such as the ILO (International Labor Organization). GICA includes only larger companies, with an annual turnover of a minimum of CFAF one billion (about US\$2 million), represents the interests of those larger businesses to the government, and provides assistance to its members when needed; there is some overlap in membership between UNPC and GICA. A small business association (ANEAC - Association of National Entrepreneurs and Artisans of Central Africa), and – somehow surprisingly - an association for the informal sector (Association of the Bouganguéré) also exist. There is no exporters organization or association, mainly because at present there is no community of interest among the few existing exporters. The situation may change as exports will hopefully diversify and more exporters emerge.

Public-private consultation process

60. The private sector is one of the main stakeholders in decisions undertaken by the CAR government. In order for the private sector to reach its potential in contributing to economic growth and employment creation in the country, it is essential that the government consults with private sector representations on policy decisions that will affect the private sector. Such consultation mechanisms should be permanent and regular to provide the private sector with the opportunity to weigh in on the decision-making process for economic and social policies.

61. In the past, public-private consultation was only performed in an ad hoc manner in the CAR, separately with various representatives of the private sector. An Executive Order of June 2006 created a Permanent Framework for Consultation, chaired by the Prime Minister and bringing together the representatives of several ministries, of the

¹⁶ E.g. Senegal, Ivory Coast, Cameroon, Burkina Faso, Mali, Benin, Togo, Republic of Congo.

CCIMA and other business associations. The objectives of this consultation framework are: to ensure the participation of the private sector in designing economic policies and to provide recommendations to the Government on the essential reforms necessary for the development of the private sector. As far as exporters are concerned, they are not mentioned in the Executive Order as a specific interest group, probably also because there is no formal exporters association. It is important to ensure that exporters' interests and views will be represented in the new consultation forum.

2.2 BUSINESS ENVIRONMENT - LEGAL AND REGULATORY FRAMEWORK

62. The World Bank Group publishes annually an evaluation of the business environment under the title *Doing Business*. The latest database for 2006 (Doing Business publication 2007) covers 175 countries, including the Central African Republic. At the overall level, the CAR is in 167th position, and 40th out of 46 sub-Saharan African countries¹⁷. It should be noted that the Doing Business database does not take into account the macroeconomic and political environment which also are important determinants of investment decisions. Even if certain specific indicators and their measurement in the *Doing Business* database have been occasionally challenged in the past by individual countries¹⁸, the overall message is clear: the business climate in the Central African Republic is very unfavorable and it is therefore a priority for the country to review the rules and regulations that govern business with a view to simplifying them, and to provide a more favorable environment for the private sector to boost production and exports, and to attract further domestic and foreign investment. This section of the report reviews key aspects of the legal and regulatory framework in CAR, points out weaknesses and proposes a number of remedies.

Business law and legal system

63. Legal security is a key element of a good business environment whereby quality of the law and its application in a functioning legal system are equally important. Business people in the CAR identify the lack of judicial security as one of the key constraints to further investment and expansion in the CAR.

64. In 1993, CAR adopted, along with other countries with a French legal tradition, the Treaty of the Organization for Harmonization of Business Law in Africa (OHADA)¹⁹; and subsequently - over the 1998–2002 period - a series of specific laws (general

¹⁷ The overall indicator is composed of ratings in 10 sub categories (starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business); ratings for CAR in all subcategories can be found in the background paper. All data can be found on the Doing Business website: www.doingbusiness.org. Within Sub-Saharan Africa, CAR ranks before Sierra Leone, Sao Tomé and Principe, Eritrea, Republic of Congo, Chad, Guinea Bissau, and Democratic Republic of Congo.

¹⁸ It turned out that most of these challenges result from misunderstandings of the methodology and the assumptions; in some cases however, the challenge was deemed valid and the data were subsequently corrected. See www.doingbusiness.org.

¹⁹ Today, the OHADA is used in 16 African countries, the 14 countries in the CFAF zone, plus Guinea and Comoros.

business law, company law, insolvency and liquidation, accounting rules etc.) With the OHADA laws, CAR has adopted what is considered a set of good, modern business laws that are generally well adapted to the socioeconomic context in African countries.

65. However, implementation of the different OHADA laws has been very slow in CAR, and application of the laws remains only partial for a number of reasons, including lack of training in the new laws, and resistance by vested interests to a consistent application of OHADA laws in certain areas. While almost all magistrates, court clerks and attorneys have undergone some training in the new laws, the coverage and depth has not been sufficient. Furthermore, corporate lawyers are yet to be trained. In certain areas (notably general business law, accounting law, procedures for debt recovery and enforcement, insolvency law), CAR has not yet brought its national law in compliance with the OHADA provisions.

66. Another problem in and for CAR's judicial system is corruption, mentioned consistently in surveys and meetings with members of the business community as a major issue. Corruption in the administration and the judiciary has increased over the past years, in part owing to large arrears in paying civil servants.

67. Therefore, reform of the judicial system is a priority for improving the investment climate. In parallel, an important step would be to establish a mechanism for arbitration and mediation within CAR, since business people have expressed a preference for arbitration as an instrument for conflict resolution in commercial matters over court proceedings, which tend to be much lengthier²⁰.

Taxation of companies

68. According to the World Bank's *Doing Business* database, the tax burden for the formal economy in CAR is among the highest in the world, much higher than the average of sub-Saharan African countries²¹.

69. Owing to budgetary pressures that were mentioned above, the government in CAR has little room to reduce tax rates, unless a tax reform is undertaken that provides at the same time incentives that will increase the size of the formal sector, i.e. lead to the formalization of businesses that hitherto operate in the informal sector, in addition to the creation of new businesses. In the context of such a reform, the Government should consider incentive measures to alleviate the tax burden for those businesses, possibly as a quid-pro-quo for small businesses adhering to a certified tax preparation center (*Centre de Gestion Agréé*) or another form of voluntary oversight of their accounting practices. It

²⁰ The OHADA Common Court of Justice and Arbitration (CCJA located in Abidjan provides arbitration, but due to the distance, procedures are perceived as costly by medium-sized businesses. A local arbitration and mediation mechanism would fill a void, especially for commercial disputes within the same country.

²¹ The main taxes to which companies in CAR are subject are: corporate tax, release tax, property tax, income tax, social welfare contributions and payment for an annual business license.

should be stressed that certification of (even simplified) financial documents is a requirement for obtaining bank credit.

Investment Charter

70. Following the example of other countries in CEMAC, CAR has modernized its investment code by adopting the CEMAC Investment Charter which governs all investment except in the wholesale and resale sector, and in forestry, mining and tourist industries.

71. Investors that fulfill the conditions of the Charter – submission of a business plan indicating investment and employment levels over 3 to 5 years, compliance with accounting rules, and compliance with the corporate law – can benefit from guarantees and fiscal incentives provided in the Charter. The main guarantees are protection against expropriation and nationalization for all investors, the ability to transfer funds internationally for payment of goods and services related to the business, and for foreign investors to fully repatriate profits. Fiscal investment incentives provided by the Investment Charter include tax exemptions up to 8 years, depending on the size of investment and location of the plant, and the possibility of customs duty exemptions for imported investment goods.

72. A careful assessment of CAR's Investment Charter shows that certain aspects – notably non-discrimination between domestic and foreign investors, guarantees against expropriation and for repatriation of profits –are in keeping with the region-wide CEMAC Investment Charter and reflect best practice. However, other aspects, in particular some fiscal incentives, diverge from the “umbrella” CEMAC Investment Charter, and the modifications introduced by CAR do not follow best practice.

73. It is likely that these provisions are in fact counterproductive by creating a number of undesirable effects. Tax and customs duty exemptions lead to revenue losses, and the structure of these exemptions in the CAR Investment Charter favors large businesses over smaller ones, which may not be in the interest of maximizing employment creation. Finally, many of the incentives are discretionary to a certain extent, which leads to uncertainty that is very undesirable for investors.

74. The fact that the Investment Charter favors larger investments and firms over smaller ones is to a certain extent borne out by the fact that the number of small and medium sized firms (SMEs) that have benefited from the Charter is very low since the administrative cost of registering under the Charter is higher than the expected benefits.

75. Foreign direct investment in CAR is very low and volatile, despite the fact that there are no restrictions to foreign investment in the Investment Charter. The average amount over the 10-year 1994-2003 period (excluding the negative flow for 2004) is US\$4.9 million per year, representing about 0.4 percent of GDP, with a peak in 1996 of approximately 1 percent of GDP. As a comparison, in the median SSA country

(excluding South Africa), FDI represented 1.2 percent and 2.7 percent of GDP in 1995 and 2004 respectively.

Table 2.2: FDI Inflows 1994 – 2004 (US\$ million)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
FDI inflows	3.6	6.2	10.9	1.5	7.6	3.8	0.9	5.2	5.6	3.3	-12.7

Source: UNCTAD FDI database

Cost of establishing a business

76. The main reason for the low level of formalization of the CAR economy is the high cost of setting up a business²². For a Limited Liability Company (S.A.R.L.) with capital of CFAF 1 million (about US\$2000) and expected turnover of CFAF 30 million, the cost of incorporation would be approximately as follows:

Table 2.3: Cost of Setting up a Business in CAR 2006 (CFAF)

Notary (10 % capital)	100,000
Various registrations	200,000
Min. Lump Sum Tax (MLST)	500,000
Business license (<i>patente</i>)	150,000 - 200,000
Total	950,000-1,000,000

77. Furthermore, if the company does not make a profit during the first year (a common occurrence outside the wholesale/retail sector) – it still has to pay the remaining two thirds of the MLST (i.e. CFAF 1 million), plus various other taxes and levies. At the end of the first year of operations, the business would thus have paid to a notary and the state an amount of roughly twice its equity. While this is only an example based on specific assumptions, it should be obvious that at the current cost, a small Central African business has no incentive to formalize.

78. In addition, setting up a business in CAR is complex, involving clearances from four ministries, and takes very long (two months which is about twice as long as the average in Africa). To reduce this time, the government has recently (June 2006) decided to set up a One-Stop Window at the CCIMA.

79. Such One-Stop Windows have been set up by a number of countries to speed up the business registration process, and a number of lessons can be drawn from their experiences. The most important is that the establishment of the One-Stop centre should start out with a careful and detailed prior review of existing processes and steps necessary to set up a business, with a view to reducing complexity.. Furthermore, a functional analysis needs to be carried out to determine which steps can be carried out simultaneously and which need to be sequenced, to make the process more efficient.

²² The World Bank's Doing Business database mentioned above lists cost of starting a business as percentage of per capita GNI. In this category, CAR ranks 35th out of 46 sub-Saharan African countries, ahead of Republic of Congo, Djibouti, Burundi, Chad, Togo, Guinea-Bissau, Gambia, Niger, Democratic Republic of Congo, Angola and Sierra Leone.

Unless such simplification and increased efficiency is achieved, the One-Stop window can only have limited success (in several cases, absence of prior analysis and simplification has led to a “One-more-stop” system). Finally, operating costs for a One-Stop Window can be high, and if charged to the business operator, will provide a further disincentive to formalize a small business. For the proposed One-Stop Window in CAR, the estimated unit cost per business registry would be CFAF 100,000 which – if charged to the business operator – would further increase the already prohibitive cost of setting up a business.

80. The preceding sections have shown that there is need for the government to address a range of issues and to drive forward reforms to improve the business and investment climate in CAR. The ministry to take forward this agenda would be the Ministry of Commerce, Industry, and Small and Medium Enterprises (MCIPME), and MCIPME should also play an important role in the new mechanism for public and private sector consultation and coordination. However, in its current form MCIPME does not have the capacity to carry forward this agenda, in addition to other responsibilities – a more in-depth analysis of MCIPME follows in the next chapter.

2.3 KEY BUSINESS CLIMATE ISSUES

81. The following section evaluates key aspects of CAR’s international competitiveness, namely the cost of production factors, the security situation in the country, the state of infrastructure, and macroeconomic aspects.

Factor costs

82. Apart from capital and labor, transport is another key production factor whose cost affects the international competitiveness in CAR. Transportation cost is addressed in the fourth chapter of this report, as part of an analysis of trade facilitation in CAR.

Capital

83. Access to credit is a constraint for businesses in most developing countries, in particular in Africa. However, the situation in CAR is worse than in most other places, with only three (foreign owned) banks active in the country²³ and the market almost evenly divided between those three banks. The banking sector in CAR as a whole has not been profitable over the past years, mostly owing to bad debt. In 2005, much of the bad debt was written off, and balance sheets restructured, with the result that none of the banks registered a pre-tax profit, a unique situation in the CEMAC region. The situation of the banking sector reflects the situation of the real sector – about a decade of political instability, poor economic performance and mounting poverty has resulted in shrinkage of the formal sector and an expansion of the informal sector outside the formal banking system.

²³ Commercial Bank Centrafrique (CBCA), *Banque Internationale de Centrafrique* (BICA), and *Banque Populaire Maroco-Centrafricaine* (BMPC) ; a fourth bank should be added shortly, as the opening of a branch of the *Banque Sahelo-Saharienne* (BSIC) is imminent.

84. Conditions for access to finance are essentially the same as in most other banks in the CEMAC area (submission of earnings and profit estimates, and a guarantee, e.g. real estate); there is no specific SME business line. In March 2006, the *Banque des Etats de Afrique Centrale (BEAC)*, the central bank for the CEMAC monetary union) reduced the maximum lending rate from 18 percent to 15 percent. However, in the context of the problems in the CAR banking sector, this reduction is unlikely to reduce the credit constraints, in particular for SMEs. It could even further limit access to credit, as banks will be more reluctant to extend credit to high-risk customers without having the latitude of reflecting the level of risk in the interest rate charged.

85. There is no specific export or trade financing and financing is sector specific. In the diamond sector, pre-financing of collectors is provided by foreign buyers. In the forestry sector, companies (often subsidiaries of foreign companies) seem to have their own financing sources or resort to residual financing from their regular banks.

Labor

86. The labor market in CAR is characterized by a very low level of human capital, and wages that are relatively high in comparison with other African countries, or internationally²⁴. Although there is a high rate of unemployment which implies that businesses can choose the most qualified applicant, the need to train staff is one of the key constraints for businesses identified in a 2002 survey²⁵, with 70 percent of businesses indicating the need to train staff in various fields.

87. The labor market is regulated by a rigid Labor Code which dates back to 1973 and has not been modernized since then. The Labor Code contains a number of provisions protecting employees, yet since there is high unemployment in CAR, the code only protects a small minority of employees in the formal sector (probably less than 2% of the total working force), and does not apply to the vast majority of workers in urban and rural areas. Furthermore, the Labor Code requires the involvement and approval of the ACFPE (National Labor Office) at almost every step of the recruitment, employment and termination process. We note that this is another instance where excessive and antiquated regulations for the formal sector provide an incentive for businesses to remain informal.

88. A draft OHADA Labor Code is currently being reviewed by member countries. This will provide an excellent opportunity for CAR to replace its outdated labor legislation, and improve the labor market conditions for existing and prospective investors.

²⁴ The inter-professional minimum wage (SMIG) is CFAF 35,000 in the CAR, which is higher than Cameroon and Chad with CFAF 23,514 C and CFAF 25,480 respectively; in Bangladesh the minimum salary is US\$10 (about CFAF 5,200), and in India US\$24 (about CFAF 12,200).

²⁵ Etude de mise en place d'une banque de données sur le secteur privé (2002)

Security and Infrastructure

89. Lack of physical security hampers the revival and restructuring of traditional agricultural activities in the interior of the country (e.g. coffee and cotton); it affects the transport of products, the farmers' income and ultimately the markets which these populations constitute for the domestic industry and trade of the country. The government is very conscious of the priority to be given to restoring state authority, and security of production and transportation, upon which the revival of the economy will depend to a large extent.

90. Infrastructure equipment in CAR is old and dilapidated which negatively affects the business and investment climate. Electricity supply in particular is unreliable, and the system is in danger of collapsing. The main constraint for business and exports, however, is transportation infrastructure, which will be discussed in the fourth chapter of this report.

Macroeconomic issues

Inflation and real exchange rate

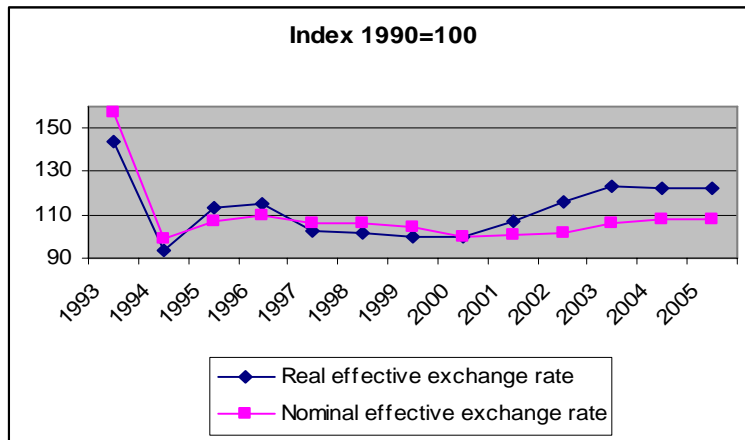
91. International experience has shown that low levels of inflation and a stable and competitive real exchange rate are important for export growth. A low level of inflation is important for encouraging private investment, including in export sectors. A volatile exchange rate creates a risky environment in which there are uncertainties about future profits.

92. In the case of CAR, both inflation and exchange rate volatility have been contained since 1994 because of CAR's adherence to the monetary policies set by the BEAC in the case of inflation, and its adherence to the currency union, the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC); the CEMAC currency, the CFA franc has been pegged to the French franc and then to the € at CFAF 6.56: 1€ since the 1994 devaluation.

93. Figure 2.1 shows the effects of the 1994 devaluation. The real and the nominal effective exchange rates depreciated sharply in 1994, followed by a decade of relative stability. From 2000 onwards the REER appreciated slightly when inflation rose from negative 1.4 percent in 1999 to a 4.4 percent in 2003.

94. Compared with other aspects of CAR's investment and business climate, inflation and the real exchange rate do not appear to be a big problem. However, low inflation and a relatively stable real exchange rate will not be enough to stimulate investment and exports.

Figure 2.1: Real Nominal Effective Exchange Rate 1993 – 2005



Public finance issues

95. A significant macro-economic problem in CAR is the dire situation of its public finances which affects the competitiveness of the country in various ways: As we have just discussed above, CAR's infrastructure is in an extremely poor condition, making economic activities, especially in the manufacturing sector, and trade – internal and external – very difficult. The neglect of infrastructure investment was due to a lack of funds; at times the state could not even pay for service delivery. The deterioration in the social sectors that was discussed earlier erodes CAR's existing human capital and compromises the situation for future generations.

96. Beyond undermining CAR's economic competitiveness, the chronic underinvestment and under delivery of public services to the population, in particular outside the capital, threatens the viability and functioning of the state.

97. The country's size and relatively small population and low GDP are a challenge for adequate infrastructure investment and public service delivery even if times are peaceful, and there is ample financing support by development partners. Both those conditions have not been in place in CAR for most of the past decade.

98. However, over the past decade conflicts and weak economic management have resulted in budgetary and external current account deficits which became unsustainable, forcing the country to focus exclusively on trying to meet salary payments, at the expense of investing in longer term development and poverty reducing activities and meeting interest payments for CAR's international debts. CAR's failure to meet its international obligations and the subsequent stop of development flows caused the country to slide deeper into financial disaster. Over most of the last four years, the government fell significantly behind in paying public salaries. However, in the context of the recent re-engagement of CAR's development partners, international and domestic arrears have been cleared.

Table 2.4: Fiscal Accounts 1990 – 2005

	Percent of GDP									
	1990	1993	1995	1997	2000	2001	2002	2003	2004	2005
Revenues	10.4	7.2	8.8	7.5	7.8	7.3	8.5	6.5	7.0	7.0
Expenditures	22.2	21.3	20.6	14.5	15.5	13.2	15.8	12.3	13.5	16.7
Overall balance, excluding grants	11.8	14.1	11.8	7.0	7.7	5.9	7.3	5.8	6.5	9.6
Overall balance, including grants	6.8	6.3	4.8	1.6	1.8	0.9	1.2	3.1	2.2	4.5
Public Investment/GDP (%)	6.9	6.6	7.8	4.1	4.7	3.5	4.8	2.1	2.0	4.0

Source: IMF

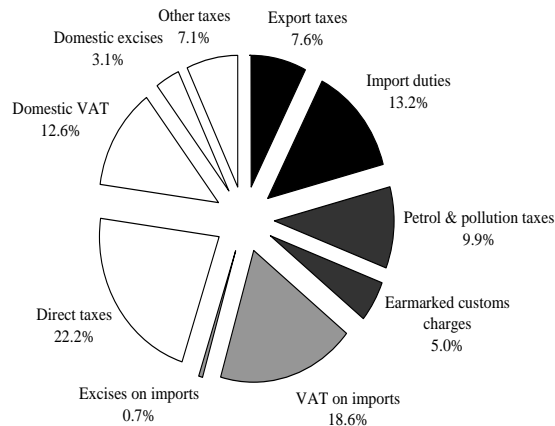
99. Table 2.4 shows the evolution of CAR's fiscal accounts over the past two decades. We observe the decline in revenue which was caused by the volatile internal and external security situation that reduced the state's effectiveness in revenue collection, and narrowed the tax base by eroding the taxpaying formal business sector.

100. On the expenditure side, there have been marked fluctuations from a high of 22 percent of GDP in 1991 to a low of 12.3 percent of GDP in 2003. Public expenditures declined in periods of unrest because of security problems, but the problems continued even after the conflict for lack of public funds.

101. An additional problem for CAR's export competitiveness arises from the problem that it continues to rely heavily on trade taxes to finance the budget. In 2006, 55 percent of all tax revenues were expected to relate to cross-border transactions. Trade specific taxes such as export taxes, import duties, petrol taxes and customs charges thereby account for two-thirds of trade tax revenue, while the remaining third is derived from general taxes collected at the border, such as VAT and excises (Figure 2.2).

102. CAR's heavy reliance on trade taxes for public finance purposes poses two problems. On the one hand, it reduces the scope for tariff reduction and trade policy liberalization which would foster CAR's integration into the global economy, and could provide an impetus for growth and structural change. On the other hand it focuses the attention of customs administration and officials on revenue generation, rather than on their services in trade facilitation.

Figure 2.2 : Budgeted Composition of Government Revenue 2006



2.4 SUMMARY AND RECOMMENDATIONS

103. The establishment of a permanent and regular consultation mechanism between the government and the private sector is a very welcome development; it is important that the mechanism will become operational as soon as possible.

104. The main weaknesses in CAR's business and investment climate are the low level of legal and physical security, high cost of setting up and operating a business, very difficult access to financial capital, a rigid labor market, and weak revenue generation which constrains the government to provide essential services, and to invest in infrastructure.

105. Owing to its membership in the CEMAC customs and monetary union, inflation has been contained over the past decades, and the real effective exchange rate has been relatively stable. Thus, the monetary macro-economic framework in the CAR is relatively conducive to trade integration and investment attraction.

106. CCIMA should quickly complete its restructuring, including election of the Board of Directors and of the Executive Committee, in order to be eligible for receiving external support and financing that will allow it to develop its activities and fulfill its missions. The priorities should be: providing information to existing businesses and potential investors, the implementation and effective operation of a One-Stop Service for starting a business. Moreover, in many countries, the Chamber of Commerce and Industry sponsors a mechanism for mediation/conciliation or even provides an arbitration center.

107. As regards the new consultation mechanism, it is important that it be served by a competent secretariat that can carry out the work program. As long as the CCIMA is not

yet functional, one of the two active business associations could house the secretariat. In order to launch the process and underscore the importance that the government attaches to the CPC, a forum should be established to identify the priorities and a preliminary action plan for the CPC as well as a preliminary budget to attract funding. Experience in other countries has shown that consultation frameworks have little chance of success if they are entirely financed from outside; therefore the private sector must be firmly committed, including financially.

108. Increasing legal security should be top priority for the government, since this is one of the weakest points in the current business and investment climate. The focus should be to speed up court proceedings, to firmly establish the Common Court of Justice and Arbitration (CCJA in Abijan) as final court of appeals for business law cases, and to address corruption in the judicial system.

109. To speed up court proceedings, courts in the country need to be better equipped. Since the budget of CAR will not allow addressing this problem in all courts, priority should be given to upgrading the commercial court in Bangui to allow for minimum levels of functioning by computerizing the office of the clerk of the court and the Commercial Registry (RCCM). Furthermore, existing training modules for OHADA laws should be reviewed and stepped up to ensure that the training achieves the objective of enabling legal personnel to apply the OHADA laws effectively.

110. While the OHADA laws should be implemented and applied in their entirety, the key priority is to apply the rule that in business proceedings, the case goes from the local court of appeals directly to OHADA's Common Court of Justice and Arbitration (CCJA in Abidjan), rather than to the Supreme Court of CAR.

111. To address corruption in the judiciary, it may be necessary to review the pay scale of magistrates. But this measure alone will not be sufficient to root out corruption. A suitable complement will be for the government to work with the private sector, and if necessary seek the support of international specialists in anti-corruption measures to develop a set of reforms and other recommendations to fight corruption in the legal system. However, unless there is commitment at the highest political level to implement the recommendations, a mere debate on corruption will not improve the situation.

112. Another priority should be for CAR to increase the formalization of businesses which would increase the country's tax base. To that end, the government should review the investment charter, in particular provisions for fiscal incentives that do not reflect best international practice and discriminate against SMEs, and reduce the cost for setting up a business.

113. To reduce start-up cost for business, government should revise the Budget Law(s) and not require businesses to pay MLST and licenses for the first (or first two) tax year(s), a provision not applicable to wholesale/retail businesses. In order to protect revenues, this should be accompanied by an assessment of the estimated revenue losses, and actions to secure revenue elsewhere, for example by taking resolute action against the

practice of under-invoicing for imports. Establishing a certified tax preparation center (or centers) to which small businesses would adhere in exchange for tax reduction could also contribute to formalizing businesses at present operating in the informal sector, and improve their chances of gaining access to credit.

114. To simplify the process of establishing a business, CAR should review the required procedures, and retain only those required under the OHADA Commercial Law, and CAR's social security and tax legislation, eliminating all other requirements.

115. There are plans to set up an investment promotion agency in CAR. However, this should not be a priority for the government at this stage, before significant improvements in CAR's business and investment climate have taken place, and are reflected in cross-country ratings such as the World Bank's Doing Business database.

116. To enhance ownership by government, private sector, including informal SMEs, and unions in the draft OHADA Labor Code, the draft should be thoroughly reviewed and comments submitted to OHADA. This should prepare the ground for a successful implementation of the OHADA Labor Code once it is finalized. This should render the CAR labor market more flexible and create incentives for businesses to formalize their status, and labor relations with workers.

117. Government should look for opportunities to reduce its dependency on trade taxes to finance its budget, and at the same time include trade facilitation in the missions of the customs department, rather than focusing exclusively on revenue generation.

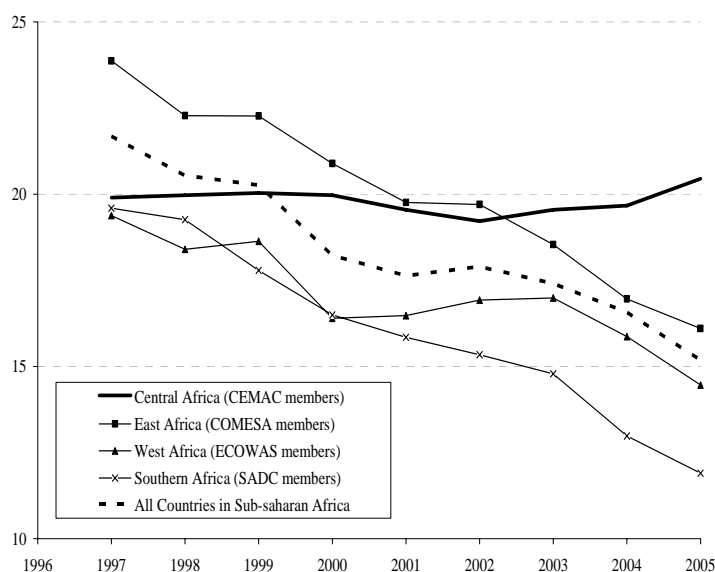
3. TRADE POLICY AND INSTITUTIONS, REGIONAL TRADE ARRANGEMENTS, AND MARKET ACCESS

118. Given the overall objective of this study to identify constraints and opportunities for CAR to increase its integration into international and regional trade flows, this chapter is of key importance. It reviews the policy framework for trade activities in CAR, the institutions concerned with formulating and implementing these policies, and three key areas for CAR's trade policy namely regional integration, the Economic Partnership Agreement negotiations between the EU and the CEMAC group, and access to international and regional markets for exports from CAR. The last section of the chapter concludes and puts forward priority recommendations.

3.1 TRADE POLICY FRAMEWORK IN CAR

119. Over the past decade most countries in sub-Saharan Africa have made significant progress in trade liberalization. Between 1996 and 2005, the average tariff fell from 22 percent to 15 percent. However, this trend did not include Central Africa. Figure 3.1 shows that the average tariff in CEMAC member states remained flat for most of the past decade and even increased slightly in recent years. Central Africa thereby turned from a relatively low protection region by African standards to a high protection region.

**Figure 3.1: Tariff Averages in Sub-Saharan Africa
1997 – 2005 (in percent)**



Note: Averages based on simple mean of applied tariffs (i.e. most favored nation (MFN) duties plus customs surcharges). Regional averages are calculated based on membership in the respective regional trade agreements as of July 2006. The membership in the Common Market of Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) overlaps.

Source: World Bank staff based on the International Monetary Fund's TRI database.

120. CAR has been a member of the World Trade Organization (WTO) since May 1995 and its trade policy is guided by adherence to WTO rights and obligations; it applies the common external tariff of CEMAC which has five bands, ranging from zero to 30 percent. A WTO Trade Policy Review is currently under preparation and is scheduled for discussion by the Trade Policy Review Body in Geneva on June 11th & 13th, 2007.

121. Medical equipment and supplies and educational materials can enter the country free of import duty, while tariffs of 5, 10, 20, and 30 percent, respectively, are charged on essential goods, raw materials and capital goods, intermediate goods, and consumer goods. Of the 6172 tariff lines, 6095 (or 99 percent) are non-zero, with 2471 (40 percent) being subject to the highest duty rate of 30 percent.

122. In addition to the MFN-tariffs, CAR applies a 10 percent anti-pollution tax on imports of used cars, and a variable levy on petroleum imports. The amount of the latter is linked to the difference between the regulated domestic petroleum price and the import price. As the domestic petroleum price has not been changed since 2000, the increase in world petroleum prices since then has meant that the petroleum levy has been declining over time. Indeed, at petroleum prices of more than USD 70, the petrol tax has become negative, i.e. turned into an import subsidy.

123. Imports from other members of CEMAC enter CAR in principle under preferential conditions. In particular, CAR practices regional free trade, so that imports from CEMAC countries can enter the Central African market without paying duty. However, since May 2004 CAR has applied a “derogation” to the Community’s free trade arrangement that allows it to treat imports of selected products from CEMAC partners as originating outside the Community and levy a Community Preference Duty, which is equal to the CET. The products concerned include prepared foods, wine, whisky, and cosmetics. The derogation was originally designed to temporarily protect CAR against import surges over a period of six months, but has subsequently been renewed several times.

Table 3.1: Characteristics of the CAR Import Regime 2005

Product classification (SITC-3)	Structure of MFN tariffs			Avg. MFN (%)		Import value	
	Number of tariff lines	Min. tariff (%)	Max. tariff (%)	Simple tariff avg	Import w'ted avg.	Million CFAF	Per cent
Food & live animals	731	0	30	24.7	26.3	12 504	19.6
Beverages & tobacco	46	10	30	27.4	17.1	2 254	3.5
Crude materials, except food & fuel	740	0	30	20.9	25.4	2 240	3.5
Mineral fuel & lubricants	58	10	20	10.2	10.0	13 642	21.4
Animal & veg oils, fats & wax	48	10	30	24.8	30.0	1 064	1.7
Chemicals & related products	909	0	30	11.0	7.0	6 736	10.6
Manufactured goods	1 720	0	30	20.2	19.1	9 353	14.7
Machinery & transport equipment	1 058	0	30	14.4	16.4	12 364	19.4
Miscellaneous manufactured articles	850	0	30	24.8	19.4	3 539	5.6
Other commodities	12	0	30	15.0	-	0	0.0
Total	6 172	0	30	19.1	17.1	63 697	100.0

Note: All reported information is derived from data at the tariff line (HS 10-digit) level. Information on import value based on transactions processed through ASYCUDA, so that trade through non-computerized border stations, which is estimated at about 10 per cent of the total, is not covered.

Source: World Bank staff based on information from National Authorities.

124. Imports are also subject to several earmarked duties²⁶ as well as several non-trade specific taxes that are collected at the border²⁷.

125. In sum, the total tax burden on imports can be very heavy and almost double the price of imported goods. In the extreme, a 30 percent tariff plus 25 percent excise tax multiplied by a VAT of 19 percent to which earmarked duties of 2.2 percent and a Presumptive Income Tax of up to 3 percent are added, brings the total tax levied on imports to 90 percent. Such high levels of taxation provide a strong incentive for importers to search for possibilities of tax avoidance, including through undervaluation of merchandise and other illicit means.

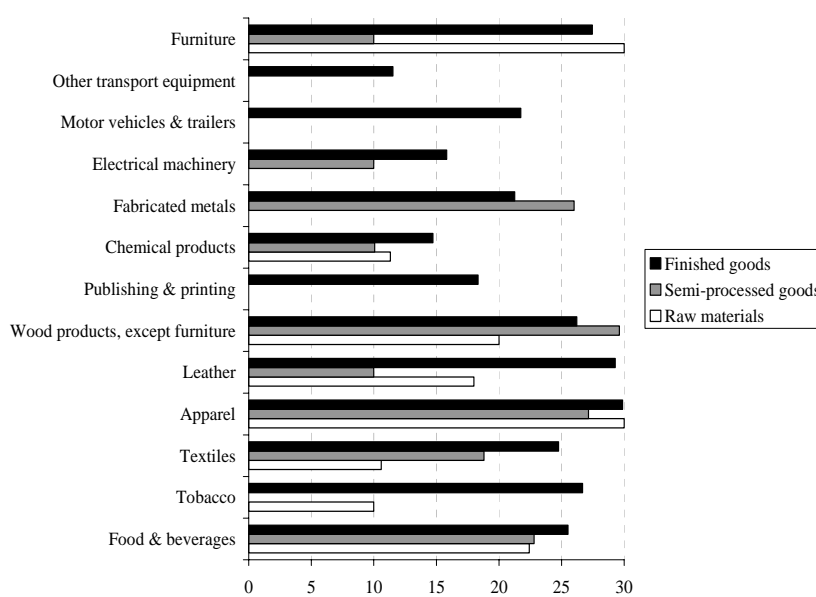
126. Comparing government revenues from import duties with the value of imports makes it possible to determine the *ex-post* average tariff rate, which takes into account the reduced duties on imports under preferential agreements, duty exemptions, and “leakage” due to weak customs control. The ratio of import duty revenues to the value of imports in 2005 yields an *ex-post* average tariff rate of 8.9 per cent. Hence, the effectively paid tariff is only half as high as the trade-weighted average of listed rates. The corresponding average total *ex-post* burden of trade taxes on imports, including value-added, excise taxes, petrol taxes and customs surcharges, amounted to 26.9 percent, considerably lower than the rate that would be prevalent in the absence of all preferences, exemptions, and “leakage”.

127. Import duties raise revenue to finance the functioning of the public sector, but the Government views import taxes also as a means of protecting domestic industry from foreign competition. CAR’s tariff regime is generally escalatory, so that tariffs on finished goods are higher than tariffs on semi-processed products, which in turn are higher than tariffs on raw materials (Figure 3.2). While tariff escalation is a feature of trade policy in many countries, there are negative consequences of escalation for the competitiveness of domestic industries.

²⁶ In particular, CAR charges the CEMAC Community Levy of 1 percent and the CEEAC Community Levy of 0.4 percent on imports from countries outside CEMAC and CEEAC; imports are also subject to a 0.5 percent information technology surcharge, a 0.25 percent road use charge, and a 0.05 percent surcharge to finance the operations of OHADA.

²⁷ Importers have to pay a Presumptive Income Tax of 1 percent for enterprises and 3 percent for individuals; excise taxes of 25 percent apply to selected products, notably alcoholic beverages and tobacco, in 121 tariff lines. Imports are also subject to value-added tax (VAT), which was increased from 18 per cent to 19 per cent in January 2006 and applies to the customs value plus tariffs and excise duties. There are exemptions from VAT for essential products, which CAR implements in accordance with a corresponding CEMAC list of products in 224 tariff lines

Figure 3.2: Import Duties by Processing Stage 2005 (in percent)



Note: Average of MFN duties at the tariff line (HS 10-digit) level.

Source: World Bank staff based on information from National Authorities.

128. In particular, CAR's tobacco industry, which is a major industrial activity and accounts for almost 30 percent of the country's total manufacturing value-added, turns out to be the sector with the highest degree of tariff escalation. This tariff protection gives rise to very high rates of effective protection which hurts tobacco consumers by pushing up domestic prices, but also undermines the longer-term viability of tobacco manufacturing as a potential export sector.

129. Another sector that deserves the Government's attention is sugar. Since November 2003, CAR has been operating an import quota regime for sugar. The quantitative restrictions have been put into place by invoking WTO safeguard provisions and are scheduled to remain in force until 2008. The policy is intended to facilitate the restructuring and modernization of the domestic sugar cane processing facility (Société de Gestion Sucrière en République Centrafricaine, SOGESCA) under its new, private owner (Sucrière en Afrique, SUCAF-RCA). The Government currently prohibits the establishment of a second sugar producer in the country, buys the annual output of the domestic cane processor of about 8000 tons at regulated prices, and grants import licenses for about 15000 tons of sugar to meet domestic demand. Under a memorandum of understanding, 90 percent of the import licenses are allocated to SUCAF, so that this firm holds a near monopoly in the sugar market. It is reported that the company makes a bigger profit from resale of imported sugar than from its core cane processing activity. Domestic retail prices of about CFAF 750 per kilogram were nearly four times unit import prices (about CFAF 190 per kilogram) in 2005, which, even after application of import duties and value-added taxes, leaves a generous marketing margin. At the same time, the hoped-for technological upgrading and modernization of the domestic cane

processing facility has been slow and domestic sugar production has not approached the envisaged level of 15000 tons per year.

130. CAR applies export taxes to diamonds (4 percent), gold (1 percent), and forestry products (10.5 percent on wood in the rough, 4.05 percent on sawn wood). There used to be similar taxes on exports of coffee (8.15 percent) and cotton (6.08 percent), but these have been suspended since 1999 in order to alleviate the fiscal burden on the already struggling coffee and cotton producers. In addition to the export taxes, diamonds and gold exports are subject to a mining promotion charge of 1 percent and 0.75 percent respectively, and diamond and forestry product exporters have to pay an information technology surcharge of 0.5 percent. Moreover, diamond exporters are liable to a 0.5 percent charge for Kimberley process certification. Diamond, gold, and forestry product exporters also have to pay the Presumptive Income Tax at rates of 3 percent, 1 percent, and 2 percent respectively.

3.2 TRADE POLICY INSTITUTIONS

131. Enhancing global integration requires institutions that can effectively participate in trade policy-making at the national, regional, and multilateral levels. In this context, adequate analytical capacity is essential to be able to properly evaluate the impact of alternative trade proposals on different sectors within the economy, as well as on different segments within society. Likewise, political and negotiation capacity is needed to determine a common position in national and international trade forums and pursue trade integration in a way that is beneficial for the country.

Functional aspects of trade policy making

132. Trade policy in CAR encompasses three functional areas: domestic regulations governing imports and exports, regional integration, and international (or extra-regional) trade policy. CAR's domestic trade policy agenda is to a significant extent determined by the country's membership in the CEMAC customs union, so that tariffs, in particular, can no longer be modified without consensus among the CEMAC members. The key border policy tasks concern the implementation of measures agreed under the customs union and the monitoring of the impact of these measures. Based on such impact assessments, the Government might propose to its CEMAC partners changes to the common trade regime that seem likely to benefit CAR. Taxes and charges on trade that are not harmonized among CEMAC members (e.g. export taxes, presumptive income taxes) are set by the Government under the guiding influence of the Ministry of Finance.

133. With respect to regional integration, the tasks involved concern analysis of the government's policy on RTAs, and keeping the functioning of the country's regional agreements under regular review. In practice, much of the work within the regional integration arena is driven by the need to prepare for specific negotiations, including through the drafting of position papers. Given the diversity of subject areas that are covered in regional integration, the responsibility for the preparation of the negotiations often involves a range of ministries with pertinent expertise.

134. CAR is in the fortunate position that the Secretariat of the country's most important regional agreement (CEMAC, see section on regional integration below), is located in Bangui. This proximity makes it easy for experts to participate in technical meetings, and to obtain and share information with Secretariat staff.²⁸

135. Concerning international (extra-regional) trade policy, the primary task for the Government is to manage the country's relationship with the WTO. Currently, this involves participation in the Doha Round of multilateral negotiations, both individually and as a member of multi-country groupings within the WTO, such as the LDC Group or the African Union Group. CAR does currently not have permanent representation at the WTO in Geneva; for important meetings participation is done through visiting missions. If no visiting mission is in residence, the Government voices its position through the permanent representative of Cameroon.

136. Another aspect of international trade policy concerns issues related to improving market access and preferences in the EU, CAR's most important export market. The CAR-embassy in Brussels represents the country's interest *vis-à-vis* the EU, but generally lacks specialized staff and resources to engage their counterparts effectively on trade policy issues. The country's position in the negotiations of an Economic Partnership Agreement with the EU is determined by the government in Bangui, under the joint leadership of the Ministry of Commerce, Industry, and Small and Medium Enterprises, the Ministry of Finance and Budget, and the Ministry of Economy, Planning and International Cooperation.

Trade policy formulation

137. In CAR, the Ministry of Commerce, Industry, and Small and Medium Enterprises (MCIPME) is the main governmental institution for trade policy formulation; other ministries are consulted on issues that lie within their responsibility²⁹.

138. There is currently no agreed trade strategy in CAR that defines the objectives of trade policy making and specifies the role of different institutions. The Poverty Reduction Strategy Paper that is currently being finalized is scheduled to cover trade policy aspects in the context of improvements to the business environment, as well as with respect to selected sectors of production (agriculture, forestry, mining, transport, telecommunication, tourism). In March 2006, a Committee was established to draft a trade policy document for the country for which this study provides input.

²⁸ The relationship with the other two regional groupings of which CAR is a member, CEEAC and CEN-SAD, is more difficult to maintain, as CAR does not have offices with specialized staff at the respective headquarters locations. The exchange of information with these institutions relies on telecommunication.

²⁹ Key ministries that cooperate with the MCIPME are the Ministry of Finance and Budget, Ministry of Foreign Affairs, Regional Integration, and Francophonie, Ministry of Mines, Energy and Water Resources, the Ministry of Economy, Planning and International Cooperation, the Ministry of Equipment, the Ministry of Transport and Civil Aviation, the Ministry of Tourism Development and Handicraft, and the Ministry of Rural Development.

139. Up to 2003, different ministries used to prepare their position papers for trade-related negotiations in an isolated and uncoordinated manner and presented these ministry-specific positions individually to political decision makers. This operational mode was found to be ineffective, and in February 2003, a National Committee for Trade Negotiations (CNNC) was established. This Committee brings together representatives from ministries, the private sector, civil society, and the academic community to discuss negotiation-related issues and establish common positions. The Committee, which has several sub-committees dedicated to particular trade agreements or topics, is equally responsible for coordinating and ensuring the domestic implementation of trade agreement provisions. Meetings of the Committee and its sub-committees are called for and organized by MCIPME on an *ad hoc* basis, and MCIPME generally also takes the lead in preparing discussion drafts of the meeting documents and chairs the sessions.

140. The CNNC currently also serves as the main instrument of stakeholder consultation, as long as other institutional bodies, such as the Permanent Framework for Consultation, the WTO Implementation Committee, and the Standards Committee, are not operational yet. These bodies are at different stages of being established, but their launch and operation is impeded by the scarcity of administrative and financial resources. It is unclear, whether it is planned for the new Committees – once operational – to meet regularly or merely convene to help resolve particular problems. Overall, the nascent and not yet fully functioning institutionalized consultation mechanisms have led to complaints by private sector representatives about a lack of information regarding trade policy developments and resulted in limited input from the private sector on trade policy issues.

Resources

141. The severe resource constraints under which the government of CAR is working are affecting the work of the MCIPME adversely. The Ministry commands only second-tier status within the Government, and has correspondingly limited staff and financial resources at its disposal. In 2006, the budget allocation for the Ministry amounts to CFAF 325.5 million (about US\$600,000) which corresponds to 0.38 percent of the Government's total budget. The overwhelming part of the MCIPME's budget (80 percent) is absorbed by recurrent expenditures (mainly staff salaries) which leaves few resources to fund activities and projects. The budgeted investments amount to CFAF 5 million, a level of funding that does not make it possible to maintain and upgrade the Ministry's facilities. If the Ministry were in a position to recruit additional staff, the new resources would likely be of most use in monitoring and developing regional trade, in order to help reduce the systemic disadvantage of the country being landlocked.

142. Office and telecommunication resources are also scarce and often in poor shape. The Ministry houses a WTO Reference Center, which has received 12 computers from donors. However, most of these workstations are not operational, due to lack of complementary office furniture.

143. In June 2006, MCIPME had 93 staff, 17 of which worked on international trade issues. Since 2004, the Ministry has increasingly recruited graduates from five-year

university programs instead of the three to four-year graduates hired earlier, so that the average level of formal education of professional staff has been increasing. The Ministry has prepared a staff training and development plan that it hopes to further elaborate and implement with assistance from the WTO Secretariat and other donors.

144. Concerning availability of trade information and documents to officials in the Ministry, one computer in the WTO Reference Center has an internet connection, so that basic access to WTO documents and other trade-related websites is available to staff. But the large scope of issues to be treated by a small number of staff means that the analytical capacity for in-house assessments and studies is very limited. As a result, the Ministry relies heavily on outside consulting firms, often financed by donor support, to undertake trade-related impact studies.

145. Despite a tight budget and limited resources for analytical preparation, MCIPME has been able to send staff to selected trade policy events overseas. Ministry representatives participated, for example, in negotiations during the WTO Ministerial Conference in Hong Kong (December 2005) and the EPA meeting in Malabo (June 2006). For many of these meetings, travel funding had been secured from donors.

3.3 REGIONAL INTEGRATION

146. Like other countries in Central Africa, CAR is committed to the process of regional integration and is pursuing closer ties with neighboring nations. CAR is currently engaged in two regional trade agreements, namely the Community of Central African Countries (CEMAC) and, the Economic Community of Central African States (CEEAC)³⁰. Moreover, CAR is a member of the Community of Sahel-Saharan States (CEN-SAD) and is party to several bilateral agreements, which are mainly focused on forms of regional integration other than trade.

147. Of these initiatives, the CEMAC is the most important for CAR and the most dynamic having recently gained additional impetus from the Economic Partnership Agreement (EPA) negotiations with the European Union (see 3.4 below)³¹.

148. The CEMAC was established in 1994 which coincided with a large-scale devaluation of the Franc CFA and the adoption of a common external tariff that all members apply to third country imports. Intra-CEMAC trade was initially subject to a generalized preferential tariff of one-fifth of the CET-rate, but these duties were phased out in 1998. Also, all quantitative restrictions on external and intra-regional trade were converted into tariffs of up to 30 per cent during a transition period, and then eliminated

³⁰ All members of CEMAC (Cameroon, CAR, Chad, Republic of Congo, Equatorial Guinea and Gabon) are also members of CEEAC. Moreover, some countries that belong to CEEAC are also members of the Common Market of Eastern and Southern Africa (Angola, Burundi, DR Congo, Rwanda) or the Southern African Development Community (Angola and DR Congo).

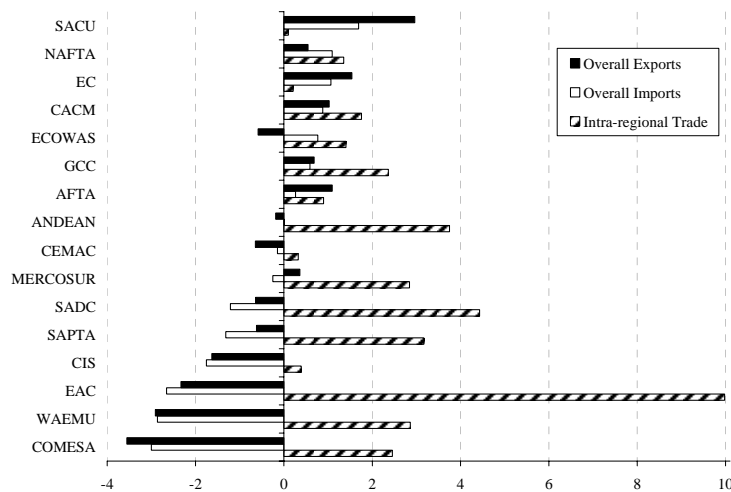
³¹ The remainder of the regional integration sections focuses on regional integration within the CEMAC region. A complete treatment of regional integration for CAR including CEEAC can be found in the Chapter Trade Policy and Regionalism in the Central African Republic in volume 2 of this study.

in 2000. In addition to harmonizing tariffs, CEMAC has also established common guidelines on customs valuation, excise taxes, and value-added taxes.

149. CEMAC is a multi-faceted arrangement that tries to advance integration in several domains. Yet, with respect to the aim of fostering more intensive trade flows, regional integration in Central Africa has had only very modest success so far; in relative terms intra-CEMAC imports and exports have declined over the past decade and account now for less than 2 per cent of total imports and exports. According to the official statistics, regional trade is thus only of marginal importance for most CEMAC countries, with the exceptions of landlocked CAR and Chad for whom regional trade accounts for about 10 percent of imports.

150. The declining relative importance of intra-regional trade in itself does not imply that CEMAC has failed in its aims, as the reduction in trade between members over time might have been even more pronounced without the arrangement. An economic analysis using data over the period from 1948 to 2000³² found that the trade impacts of CEMAC have been positive, yet more modest than those of most other RTAs (Figure 7). The study also found that extra-regional imports and exports are below what would be expected using a gravity model, suggesting that the relatively high CEMAC CET might have given rise to harmful trade diversion rather than beneficial trade creation.

Figure 3.3: Estimated Deviation of Trade Flows from Expected Levels in Different RTAs



Source: World Bank (2005)

151. One issue that could jeopardize the success of regional integration in Central Africa is the overlapping membership of countries in different RTAs. While open regionalism can bring additional benefits to participating countries, it is likely that the cost of negotiating, implementing, administering and financing multiple agreements exceeds the benefits. It should be noted that these costs do not only accrue to the public sector, but also to the private sector where traders have to operate within different trade

³² World Bank (2005).

regimes, each with its own tariff rates, regulations and procedures. For example, non-coordination amongst regional arrangements concerning transit bonds has been cited by private sector representatives as a significant impediment.

152. One issue that deserves particular attention in the context of overlapping agreements is the potentially significant trade transactions costs that can result from the need to comply with multiple rules of origin (ROO) regulations. Preferential trading agreements use ROOs to ensure that third countries do not unduly benefit from the preferential treatment that members of a RTA grant each other. They specify the amount of processing that a product must undergo in partner countries in order to qualify for market access under the preferential agreement. These rules can add considerable complexity to the trading process and augment the costs of international trade, in particular if the ROOs vary across different agreements. Furthermore, multiple origin schemes also place a burden on the administrative capacity of the customs services³³.

153. Potentially conflicting integration schemes as a result of simultaneous participation in several regional trade agreements are another major drawback. Such contradictory requirements indeed have the potential to create serious dilemmas for trade policy makers in CAR and its CEMAC and CEEAC partners. In particular, with CEMAC already a customs union, CEEAC, COMESA, and SADC are also hoping to form free trade areas and subsequently customs unions in the medium-term future. Since one country can not realistically apply two different common external tariffs, let alone implement the customs and fiscal integration (e.g. revenue-sharing) that are basic components of fully functioning customs unions, CAR and its RTA partners are sooner or later bound to face the choice about which agreement they want to go with.

3.4 MARKET ACCESS

154. Even taking into account that official statistics do not fully reflect informal trade with neighboring countries, the vast majority of CAR's imports and exports are undertaken with trade partners outside the region. The conditions under which Central African traders can overcome their disadvantage of being landlocked and access international markets is thus important. With respect to international markets, the dominant features of market access for CAR are the preferential access granted by industrial country markets to CAR and its ability to utilize such preferences, as well as its role in and impact of the WTO negotiations and the EPA negotiations with the EU discussed in section 3.5. With respect to regional markets, the dominant factor is CAR's membership in CEMAC and CEEAS, complicated by the overlap between these.

³³ A recent world-wide survey of customs agencies in member countries of the World Customs Organization sought information on the role of customs in issuing and checking certificates of origin and requested the views of customs officials on their experiences of administering ROOs. Almost half of all respondents stated that overlapping agreements with differing ROO created problems, and of the respondents from Africa, more than two-thirds agreed with the statement that overlapping ROO were problematic (see Brenton and Imagawa, 2004).

Access to international markets

155. As we have seen, CAR's exports are concentrated on a very small number of products, and a narrow range of markets. Diversification of the export base and the target markets will be necessary in order to enhance export performance. As an LDC, CAR benefits from preferential access to industrial country markets, where, at any rate, tariffs for CAR's key exports are very low. However, in many of the large and dynamic middle income countries, CAR's main exports face significant tariff barriers. For example, India levies a 100 per cent tariff on coffee, Russia charges import duties of 15 per cent on wood, and China has 27 per cent tariffs on cotton (see Table 3.2).

Table 3.2: Tariff barriers on CAR's Main Exports in Selected Developing Countries 2005

(percent)

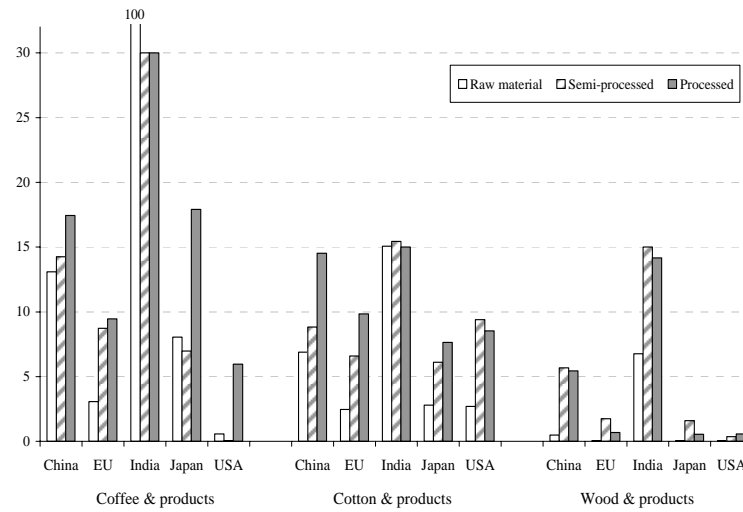
	Coffee (0901)	Wood, rough (4403)	Wood, sawn (4407)	Cotton (5201)	Diamonds (7102)	Gold (7108)
Argentina	10.0	2.0	6.0	6.0	6.4	3.0
Brazil	10.0	2.0	6.0	8.7	6.4	3.0
China	13.2	0.0	0.0	27.0	2.8	0.0
India	100.0	5.0	15.0	10.0	15.0	15.0
Mexico	51.2	10.0	14.0	6.7	4.0	2.5
Philippines	39.0	0.0	6.5	1.0	3.0	3.0
Russian Federation	5.0	15.0	15.0	0.0	16.0	20.0
South Africa	6.7	0.0	0.0	7.5	0.0	0.0
Thailand	40.0	1.0	3.0	0.0	0.0	0.0
Turkey	13.0	0.0	0.9	0.0	0.0	0.0

Note: Tariffs are calculated as simple mean of MFN rates. Data for 2005 or latest year available.

Source: UNCTAD Trains database.

156. An impediment to diversification towards semi-processed and processed exports faced by CAR is the tariff structure in partner countries. Many countries have escalatory tariff regimes, with low duties on raw materials, but higher ones on semi-processed and processed products (Figure 3.1). This encourages imports of unprocessed goods, often from low-income countries, which are then transformed in the importing country under high protection. For the raw material exporter this tariff escalation means that value-addition before exports is discouraged, as processed products face high tariff barriers in foreign markets.

Figure 3.4 : Tariff Escalation for Selected Products 2005
(MFN tariffs in percent)



Note: Data for 2005 or latest year available. The categorization of products as unprocessed, semi-processed and processed goods follows the MTN (Multilateral Trade Negotiations) classification of the World Trade Organization.

Source: UNCTAD Trains database.

157. It should be noted that preferential access for developing countries to high-income country markets will tend to neutralize the effects of escalatory MFN-tariff regimes in these countries. However, in many cases, rules of origin provisions on processed goods are more complicated or more difficult to meet than the rules on raw materials or unfinished products. For example, it has been estimated that the costs of compliance for food products are more than twice as high as those for agricultural commodities (OECD, 2005). Such “rules of origin escalation” will tend to have qualitatively the same adverse effects on developing countries’ efforts to shift into higher value-added production as tariff escalation. This is one of the reasons why rules of origin are a key trade policy issue for CAR; see section on EPA negotiations.

158. As mentioned earlier, CAR’s exporters benefit from preferential access to industrialized country markets. There are various schemes of which the most important ones are summarized in Box 3.1 below.

159. The actual value of the preference schemes to individual developing countries depends on the margin of the preference, i.e. the level of tariffs faced by exporters that do not enjoy the preference, and on the costs involved in showing compliance with the rules of origin requirements

Box 3.1 : Major Preferential Market Access Programs

The *Generalised System of Preferences* is based on the 1979 Enabling Clause that created a permanent waiver to the most-favoured-nation provision in the General Agreement on Tariffs and Trade. Under GSP, selected products originating in developing countries are granted non-reciprocal preferences in the form of reduced or zero tariff rates. Least developed countries receive preferential treatment for a wider coverage of products and deeper tariff cuts. GSP schemes represent unilateral preferences that differ in their design and duration across preference granting countries. The following entities currently operate GSP schemes: Australia, Belarus, Bulgaria, Canada, the European Community, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States of America.

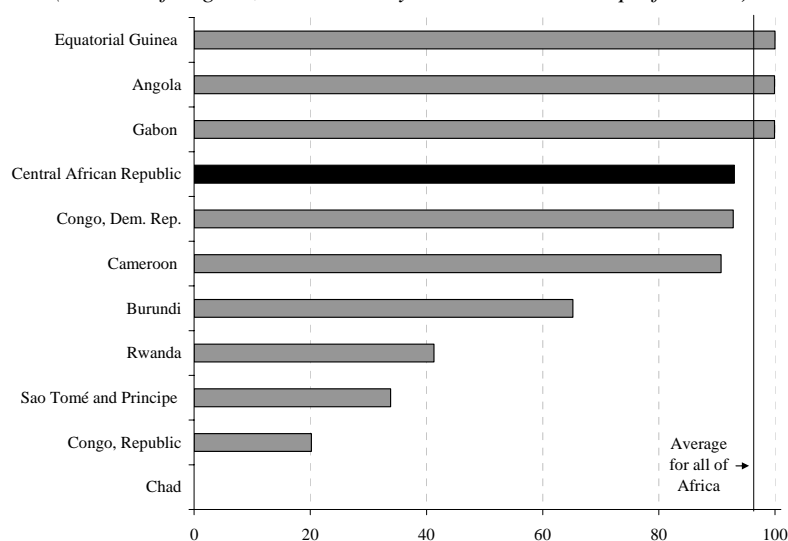
The *Cotonou Agreement* of 2000 between the EU and 77 African, Caribbean and Pacific countries provides preferential access to the EU market in addition to and beyond GSP. The Agreement grew out of the Lomé Convention that governed the relations between the EU and its former colonies in the ACP region from 1975 until 2000. It grants comprehensive market access preferences and allows partners to count the value-added in imports from other ACP countries as local input when determining the origin of a product (“full cumulation”). However, the EU has exempted bananas, beef, and sugar from the preferential access arrangements. The Agreement has been concluded for twenty years, with a clause allowing for revision every five years. In 2008, the present market access preferences are supposed to be replaced by arrangements to be agreed upon in Economic Partnership negotiations.

The EU’s *Everything But Arms* initiative of 2001 grants duty-free access to imports of all products from least developed countries, except to arms and munitions. Only imports of bananas, rice and sugar were not fully liberalised immediately. Duties on those products will be gradually reduced until duty free access will be granted for bananas in January 2006, for sugar in July 2009 and for rice in September 2009. In the meantime, there are duty free tariff quotas for rice and sugar. The EBA provisions have been incorporated into the EU’s GSP scheme. The rules of origin of the latter allow in four regions in the Caribbean, East Asia, Latin America, and South Asia that intermediate inputs from regional partners are counted as local value-added, if the degree of prior transformation of the inputs would have conferred origin in the regional partner country (“diagonal cumulation”). Outside these regions, only imported inputs from the EU can be counted towards local value-added (“bilateral cumulation”). The regulation on EBA foresees that the special arrangements for LDCs are to be maintained for an unlimited period of time.

The *African Growth and Opportunity Act* of 2000 extends the GSP scheme of the United States to additional products, notably garments, from African countries that satisfy certain economic, social and political criteria. A special program for countries with a gross national product per capita of less than US\$1500 relaxes the otherwise strict rules of origin for apparel and allows qualifying countries to count yarn and fabric from anywhere in the world as local content in apparel assembled in their countries. AGOA is a time-bound program that requires periodic renewal by the US Congress. The special textile benefits expire in September 2007, while the overall program is scheduled to run until 2015.

160. In cross-country comparison, CAR’s preference utilization in its main export market, the EU, was very high and exceeded the rate achieved by most other countries in Central Africa (Figure 3.3.). Hence, CAR’s exporters seem to be able to meet the requirements for preferential treatment on a consistent basis.

Figure 3.5: Preference Utilization Rates in the EU Agriculture and Food Market 2002
(Percent of eligible, non-zero duty trade that received preferences)



Source: OECD (2005).

161. It should be noted that the vast majority of CAR's exports to the EU are products that face zero duty MFN tariffs, so that there is no preference margin. The same is the case for the United States. CAR currently does not benefit from AGOA, but hopes to qualify for the program in 2007.

Multilateral trade negotiations

162. CAR has been a member of the WTO since 1995 and is participating in the current Doha Development Round of multilateral trade negotiations. So far, progress in the Doha Round has been slow, yet a successful conclusion of the round is likely to benefit CAR in the following ways: increased Aid for Trade could potentially provide technical assistance and capacity to overcome supply side constraints for exports from developing countries. Furthermore, tariff concessions by developed and developing countries in CAR's export goods will increase better access to existing and potential markets. Finally, if the Doha Round can achieve better access to industrial country agricultural markets for developing countries, some poor African countries stand to gain significantly.

163. However, this may not be true for all countries and in particular net food importing countries³⁴, CAR and its CEMAC partners included, may need to be proactive to avoid welfare losses from the round. Sub-regional simulations³⁵ suggest that CEMAC countries might overall be negatively affected if they do not engage in liberalization of

³⁴ The group of Net Food Importing Developing Countries (NFIDC) includes Barbados, Botswana, Cuba, Côte d'Ivoire, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Saint Lucia, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia and Venezuela plus all LDCs.

³⁵ See Bamou and Tchanou (2006).

their own trade regime. It is unlikely that a liberalization of the CEMAC CET or liberalization of services sectors would be forced on CAR and its CEMAC partners by the Doha round, but such liberalization may be very desirable to ensure that CAR and its CEMAC partners will benefit from multilateral trade liberalization.

Access to regional markets

164. As a member of CEMAC customs union, CAR has preferential access to the regional markets, and according to the original treaty, there should be free trade between the member states by now. However, there are still a number of NTBs, restrictions, and ad hoc measures that impede the free flow of goods and services in CEMAC which de facto restricts CAR's access to the regional markets.

3.5 ECONOMIC PARTNERSHIP AGREEMENT NEGOTIATIONS

165. The Cotonou Agreement signed in 2000 by the EU and 77 African, Caribbean, and Pacific (ACP) States calls for the establishment of economic partnerships between the EU and regional groupings of ACP members based on reciprocal market access preferences. In order to facilitate the negotiation process and to enhance the development impact of the agreements through increased intra-regional trade, the EU intends the EPAs to be signed with free trade areas or customs unions rather than individual countries. In October 2003, the negotiations were officially launched between the European Union and the Central African country group, which consists of the members of CEMAC plus Sao Tomé and Príncipe and (since January 2006) the Democratic Republic of Congo.

166. The conclusion of the intended EPA with the EU is likely to have major impacts on the regional configuration in Central Africa and the countries in the region. The prospective EPA agreement will not improve the preference margins that countries like CAR currently enjoy in the EU market³⁶. However, the EBA rules of origin are more restrictive than those under the Cotonou Agreement, notably by not allowing regional cumulation³⁷ and a lower tolerance threshold for third country content. The Government of CAR therefore, has all the interest in maintaining the existing benefits and might aim in the EPA negotiations to obtain rules of origin provisions that are at least as favorable as those currently enjoyed under Cotonou. And if it were possible to negotiate more favorable specifications that confer origin based, for example, on a simple change of tariff heading or a low value-added rule, additional market access opportunities for CAR's exporters might open up.

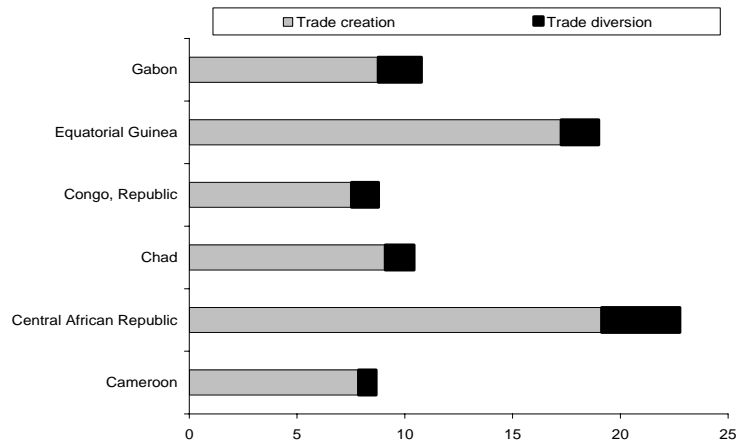
167. On the imports side, reciprocity means that over a twelve year transition period from 2008 to 2020, CAR would have to open its market to supplies from EU members. This market opening will have the typical effects of preferential trade liberalization, bringing benefits from trade creation, increased competition and lower consumer prices at

³⁶ As a least developed country, CAR is eligible for duty and quota free access to the EU market under the EBA initiative, which is of unlimited duration.

³⁷ Cumulation provisions allow a good produced in one country to be treated as if it were produced in another country.

the expense of costs related to trade diversion and loss of tariff revenue. Partial equilibrium analysis of a prospective EPA in Central Africa³⁸ finds that imports from the EU would increase by 8-23 percent and that trade creation would exceed trade diversion for all CEMAC members, and that these trade effects would be most pronounced for CAR (see Figure 3.2).

Figure 3.6 : Estimated Increase in Imports from the EU as a Result of an EPA Agreement
(percent of total imports in 2005)



Source: UNECA (2005).

168. Concerning the impact on government revenues, CAR's fiscal revenues on imports from EU members accounted for 36 percent of total revenues collected on imports whose origin was specified in 2005. Yet, the available information on fiscal revenues raised at the border includes receipts from customs surcharges and indirect taxes, such as excises and VAT, in addition to import duties. Only the latter (about a third of 2005 revenue across all revenues) would be lost as a result of an EPA³⁹.

169. The coverage of the EPA negotiations is *a priori* not limited to the goods sector, but might also embrace services. This part of the negotiations could provide opportunities for the Government of CAR to request EU support for transport and trade facilitation measures that would help reduce CAR's disadvantages as a landlocked country. Furthermore, the Government of CAR might also use the EPA negotiations to lock in and advance reforms of its domestic services sector. Policies that govern international trade in services are typically domestic regulations, some of which serve important policy objectives (for example prudential regulations in the banking sector), so that it is crucial to design and implement regulations properly. Technical assistance could be sought for identifying reform needs in particular services sectors that would bring the regulatory framework into line with international best practice.

³⁸ See UNECA (2005).

³⁹ The current share of duties on EU imports represents the lower boundary of the prospective border tax losses following the full implementation of a prospective EPA. Actual duty losses will be higher, as the preferential market access granted to the EU will tend to lead to a replacement of imports from other countries by duty-free EU supplies. Revenue losses will be attenuated to the extent that certain "sensitive" products were to be exempted from the liberalization process

3.6 SUMMARY AND RECOMMENDATIONS

170. CAR's tariff structure, i.e. the CEMAC CET is one of the highest in the sub-Saharan African region; there has been no trade liberalization since the establishment of CEMAC in 1999

171. For a number of reasons CAR should take the lead within CEMAC to liberalize and simplify its trade regime, namely by reducing the top rate, and the number of tariff bands. Such trade liberalization would stimulate integration of CEMAC countries into the global economy, and counteract terms of trade losses that may result from multilateral trade liberalization currently negotiated in the Doha Round. Of particular interest for CAR would be to also reduce the tariff escalation in particular for tobacco products at various stages of processing to reduce high rates of effective protection that drives up consumer protection and reduces incentives for domestic producers to export. While reform of the CET in CEMAC may be slow, CAR could eliminate some or all of the surcharges that it introduced on top of the CET which would have much the same effect as a reduction of CET rates.

172. A second positive effect of a tariff reduction would be a decline in import prices for consumers. To reinforce this effect, and to reduce the administrative burden for customs officers and incentives for customs avoidance, the CAR should consolidate and reduce additional taxes that are being levied on imports. We note in the first chapter that trade revenue is a large share of public revenues in CAR and that public finances in CAR remain precarious. Thus; actions that reduce trade taxes should be taken only in the context of an overall public finance and administration reform.

173. Another reform priority for the Government should be to review the effectiveness of its sugar policy with a view to abolishing the quantitative import restrictions and liberalize imports which would benefit consumers, and in particular the poor whose relative budget share for food is largest, and for whom sugar is a very important source of calories.

174. Trade policy formulation and implementation in the CAR is constrained by an inadequate budget for the MCIPME. However, since it is unlikely that the government will be in a position to significantly increase the budget in the medium term, it is important that the Ministry develops a strategy to identify its core agenda, and identify additional sources of funding. Among the priorities should be to make the CNNC more effective, and to operationalize the other consultative bodies. Technical assistance for strategy formulation and committee work should be sought through the Integrated Framework process. Such technical assistance might take the form of studying experiences and practices in other developing countries and distilling suitable institutional and operational arrangements for CAR based on the findings.

175. CAR currently does not have an agency explicitly devoted to export promotion, but given the mixed performance record of such specialized agencies in other countries, establishing one would not seem to be a priority.

176. Instead, available resources should be used to foster regional integration efforts and to improve CAR's investment climate. While national and multilateral trade issues are and will remain important, a small, landlocked country like CAR has much to earn from closer cooperation with its neighbors and is a more substantial player in regional than in global affairs. Hence, focusing policy making and negotiation resources on regional integration in the CEMAC region in particular, appears most promising. The most important issue on the regional agenda is to improve the functioning of the customs union which would improve trade facilitation, and to eliminate remaining trade barriers.

177. CAR has access to industrial country markets through various preference schemes, notably the Everything But Arms (EBA) initiative and the Cotonou Agreement with the EU. However, CAR is not yet a beneficiary country under the US AGOA initiative. Furthermore, a number of large developing middle income countries maintain relatively high tariff barriers for CARs narrow export base. Thus, in the context of multilateral negotiations CAR's priority would be to achieve better access to middle income countries while it should pursue accession to the AGOA through bilateral negotiations with the US.

178. Furthermore, in the context of the ongoing EPA negotiations between CEMAC and the EU the most important issues for CAR are to find funding to offset possible revenue losses, and that EU rules of origin will be liberal enough to encourage a more diversified set of exports to the EU.

4. TRANSPORT AND TRADE FACILITATION

179. Transport and trade facilitation costs are an important element of the competitiveness of a country. Logistics costs and delays directly affect the performance of the supply chain and the ability of firms to trade predictably and affordably. The feasibility of trading inputs or managing the level of inventories also determines the feasibility for an economy to move out of traditional commodities and diversify in added value processing. The performance of the trade and transport logistics chain of less advanced countries is a main determinant of their access to world markets.

180. An important factor determining the performance of trade logistics is ease of access to a sea port. Landlocked countries are generally at a disadvantage with respect to transport and trade logistics, not so much because of the distance to a seaport, but because often transit through another country causes delays and additional costs.

181. In Central Africa, the transit chain performs particularly poorly because of low infrastructure availability and quality, and because of time consuming transit procedures. As a result, CAR and Chad have the longest transit times (see table 4.1 below) and the highest access costs, even in comparison with other landlocked countries in sub-Saharan Africa or in Central Asia⁴⁰

Table 4.1: Transit Times for Landlocked Countries in Sub-Saharan Africa 2005

Corridor	Distance	Transit time
Douala-Bangui	1450 km	27 days ⁴¹ (+4 with Guichet Unique)
Douala-N' djamena	1900 km	38 days
Mombassa-Kigali	1700 km	27 days
Abidjan-Bamako	1150 km	10 days
Cotonou-Niamey	980 km	11 days
Dar-Es Salaam-Bujumbura	1800 km	21 days
Dar-Es Salaam-Lubumbashi	2200 km	25 days

Source: SDV Logistique Internationale

182. The majority of cost and delays is caused by poor economies of scale, complex and multiple procedures, poor service quality and – in particular – legal and illegal rent-seeking activities.

183. These problems are well known, though not always well diagnosed. There is commitment by the government and CAR's development partners to address them. However, so far efforts to improve the transport and trade logistics performance have had little success. The reason is that until now, there has been no collective will among the countries along the Douala corridor to take effective measures to eradicate harmful practices and to remove obsolete administrative systems or procedures. In the absence of a complete overhaul, well intentioned partial measures – such as the introduction of a

⁴⁰ The cost of a 40' container to Bangui from the Douala port is about CFAF 5 million – almost three times the cost in West Africa – over shorter distances – and twice the cost in East Africa over similar distances.

⁴¹ That adds 4 days before the implementation of the Central African single window in Douala.

single window (Guichet Unique) for CAR’s external trade at the Doula port – have often added to the complexity of the transit system.

184. This chapter analyzes in turn problems of (physical) access to and from CAR, composition of trade and transport logistics cost, and various aspects of CAR’s transit regime.

4.1 ACCESS ISSUES: INFRASTRUCTURE AND SERVICES

185. CAR is accessible either through Cameroon from Douala, the main access, or by river from Lower Congo (for six month of the year)

- From the port of Douala, the transit route is by road or multimodal rail-road, via Yaoundé to Bertoua in East Cameroon (or the nearby rail terminal at Belabo). From Bertoua, the corridor has two branches:
 - The northern branch leads to Bangui by a partially paved road via Garoua-Boulai (border) and Bouar; 60 percent of the Douala Bangui itinerary is in Cameroon.
 - The southern branch leads to Berberati in southwest CAR, the center for forestry production; Berberati is about 500 km from Bangui by unpaved road.
- Via the Oubangui and the Congo, Bangui is connected to Brazzaville and Kinshasa by river barge for about six months per year. River transport has been disrupted in the last decade by the conflicts in the sub-region. Recently, waterborne transit trade has been revived by a concession given to SOCATRAF (Bolloré group) and grants from AFD and the EU. River transport also involves a road link to the port of Point Noire (Congo) or to the port of Matadi (DRC). Transit conditions between Pointe Noire and Brazzaville are poor, but the recent opening of a road between the port of Matadi and Kinshasa allows a reliable traffic on the DRC side.

Table 4.2: Transportation Distances

Douala Corridor (importation)	
Douala Bangui	1437 km
<i>From Douala border (Garoua-Boulai)</i>	<i>841 km</i>
Exportation Corridor for forestry products from Berberati	
Road	884 km
Multimodal : road to Belabo	383km
Train Belabo-Douala	500 km
Waterway route.	
Congo-Oubangui River (Brazzaville or Kinshasa)	1200 km
Bangui Pointe Noire (+548 km)	1748 km
Bangui Matadi (+362)	1562 km

Source: Michelin Maps 741 & 746.

186. Export sources and import destinations are largely unrelated, and trucks thus return empty, either after transporting imports or exports which drives up transport cost.

The overall transit volumes are very small by any standard, about 200,000 tons per year in each direction which amounts to a few trucks per day. Most of the imports are consumption goods destined for Bangui; heavy import merchandise (oil, cement) is transported by river. The main bulk of exports are forestry products and (formerly) cotton that are grown closer to Douala. Forestry products are either transported directly by truck to Douala, or on forestry hauling railway wagons at Belabo.

Transport service provision

187. Three international groups⁴² are present in Bangui to provide complete import-export logistical services. Transit trade is organized by freight forwarders, who in turn contract the services of local road operators.

188. Traditionally, freight transport in Western and Central Africa had been heavily regulated by governments allocating freight between a large number of small trucking businesses on a first in queue basis at fixed (and usually inflated) prices. However, during the period of civil unrest that ended in 2003, the organization of the industry in CAR changed, and transport logistics is now provided by a number of large companies, based either in Cameroon or CAR. A Cameroon-CAR transit agreement specifies that 60 percent of the freight should be handled by transporters from CAR; the General Office of Overland Freight (BGFT) in Cameroon and Central African Republic Transit Office (BARC) in CAR oversee the implementation of this agreement.

189. About 250 trucks link Douala and CAR, 80 percent of them are registered in Cameroon. The main companies are often linked to import distribution companies or forestry operations, and their size is generally modest (a few dozen vehicles) compared to companies in Europe or in Southern Africa. Yet, these companies are professional and provide reliable service. Their equipment is in good condition and properly maintained.

190. Operational performance of these companies is good, whether measured in terms of cost or usage of the truck. Cost is comparable to Europe for a similar distance, yet skewed towards variable cost owing to the poor state of the infrastructure which increases fuel consumption and maintenance.

Table 4.3: Comparative Cost for Freight Services CAR and France 2005

	CAR	France
Variable cost per km	.7-.8 €	.40 €
Daily fixed cost	100 €	250 €
Total cost per km	1.1 – 1.2 €	1 to 1.2 €

Source: CNTR and World Bank estimates

191. It should be noted that suggestions to return to the traditional organization of freight service provision should be pushed back, since it would likely have significant negative consequences in terms of cost, quality and reliability of transportation services

⁴² Bolloré Group (SDV, SAGA and courier service SAGA Express) is represented by SDV; Maersk logistics and Geodis group are represented by TTCI; DHL provides express mail services.

in CAR. In Chad where the traditional system is still in place, total cost per km is about 2.5 € i.e. more than twice the cost in CAR.

Road infrastructure

192. While the quality of transport services is thus adequate in CAR, the transport infrastructure is very poor indeed. Bangui is the only capital in the world not linked to the sea by an all-weather paved road. Hundreds of kilometers of the route between Yaoundé and Bangui are not yet paved and wet conditions can thus add two days to a transit time of about 2-3 days. Donors are providing the resources to finance a continuous paved route that will bring CAR over the important qualitative threshold of an all-weather connection. The southern route used by exports is also not paved, but donors provided assistance for fords and bridges to ensure critical continuity at river crossings.

193. Unfortunately, given the low density of the population and the small size of the economy, securing the most basic linkages to the international gateways (Douala, Congo) is already overstressing the capacity of the economy. To put this into perspective: financing the Bangui Garoua Boulaï connection alone amounts to the same fraction of CAR's GDP as the entire French road network for the French GDP. Furthermore, with current traffic volumes, the cost of maintenance on the main corridor is more than the cost of transport service.

194. Thus, there is currently no sustainable financing solution if the government has to rely on resources that can be made available through domestic revenue generation. The road fund in CAR is relatively well managed, yet its resources are structurally an order of magnitude lower than current or future investment and maintenance requirements. Therefore, long term donor support to maintain the infrastructure is unavoidable even for what is apparently a small network.

Air transport infrastructure

195. There is significant air cargo transport into CAR, serving international peace keeping missions in CAR and the region. Furthermore, while the trade cargo volume is negligible (2000tons in 2005, which corresponds to the cargo volume of a civilian passenger aircraft), air transport plays a vital role in the export of diamonds, CAR's second most important export commodity.

196. Security standards at the Bangui airport are far below the International Civil Aviation Organization (ICAO) standards. Priority needs to meet the standards are

- securing the airport perimeter in Bangui;
- renovating the Berberati airport (tarmac damaged) to provide an unloading zone;
- purchasing navigational systems that can provide air traffic control for planes flying over the eastern part of CAR;
- modernizing and extending the existing terminal at Bangui airport.

197. Donors stand ready to address these priority needs, some of which can be folded into regional activities. There are already proposals for AFD to finance an airport fence and some urgent improvements at the terminal. The World Bank is preparing a regional project for airport security for Central Africa similar to the one approved in 2006 for Western Africa.

4.2 TRANSIT PROCEDURES AND COSTS

198. The export cycle, including transit through Cameroon, is very short (a few days) in comparison to the import cycle (several weeks). Formally, the import chains include the following steps:

- a pre-shipment program by BIVAC, which begins with the submission of an import declaration form at the BIVAC office in Bangui. BIVAC, also a key player in the verification of forestry exports, organizes the inspection in the port of origin through its network for more than CFAF 1 million shipments. This service works well, yet there is doubt whether it is well used by Customs in the clearance process;
- the transit process, from Douala, essentially organized by Cameroons agencies (customs and freight) in connection with their CAR counterpart. Transit is the longest and most intricate component of the supply chain;
- customs clearance ultimately takes place in Bangui; however, in 2005 a procedure of pre-clearance was introduced in a Guichet Unique Centrafricain in Douala⁴³, by which all operators have to apply to the Guichet and some of them have to pre-clear the goods in Douala.

199. The rationale for the pre-clearance in Douala was to increase revenue and limit fiscal leakages at the point of clearance in Bangui, targeting a sub-group of operators (ethnic traders). In fall 2006, the government decided to dissolve the customs agency in Bangui, essentially upon the same suspicion. The reconstruction of the service is underway.

200. The relationship between the organization of clearance and that of transit, as well as the fiscal risk incurred by Cameroon and CAR will be addressed later.

Regulatory framework for transit operations

201. In the case of the CAR, transit is regulated by a combination of provisions concerning transport and customs, the two references being:

⁴³ Not to be confused with Cameroon's Guichet Unique.

1. The bilateral transit agreement with Cameroon: “Convention Concerning Road Transport” signed by the CAR on December 22, 1999⁴⁴. The agreement specifies.

- banning of cabotage;
- division of freight among transporters of the countries according to a ratio of 60 (CAR) 40 (Cameroon);
- the principle that checkpoints must be single border posts, representing all government departments concerned with inspection;
- the institutions responsible for the implementation of the agreement and the follow-up systems (BARD, General Surface Freight Office (BGFT));
- the legal transport itineraries for the transit traffic from Douala or from railway terminals.

2. The CEMAC customs code, one of the Articles of which provides for a transit procedure along the general principles found in Europe: guarantee, and simplified customs declaration.

Shortcomings of the transit chain

202. The transit system – represented in figure 4.1 on the next page – is fraught with problems. First of all there is a proliferation and duplication of processes and documentation, yet none of the documents are suitable and/or compliant with the CEMAC Customs Code. Processing time is excessive, especially at the moment of transit initiation (Cameroon authorities), and at the Guichet Unique (CAR authorities). Given the limited capacity, the procedures should be reduced to the minimum which would include:

- a transit declaration (simplified version of D15);
- a packing list for bulk goods, to be checked at the border and arrival;
- proof of guarantee;
- vehicle and driver documentation.

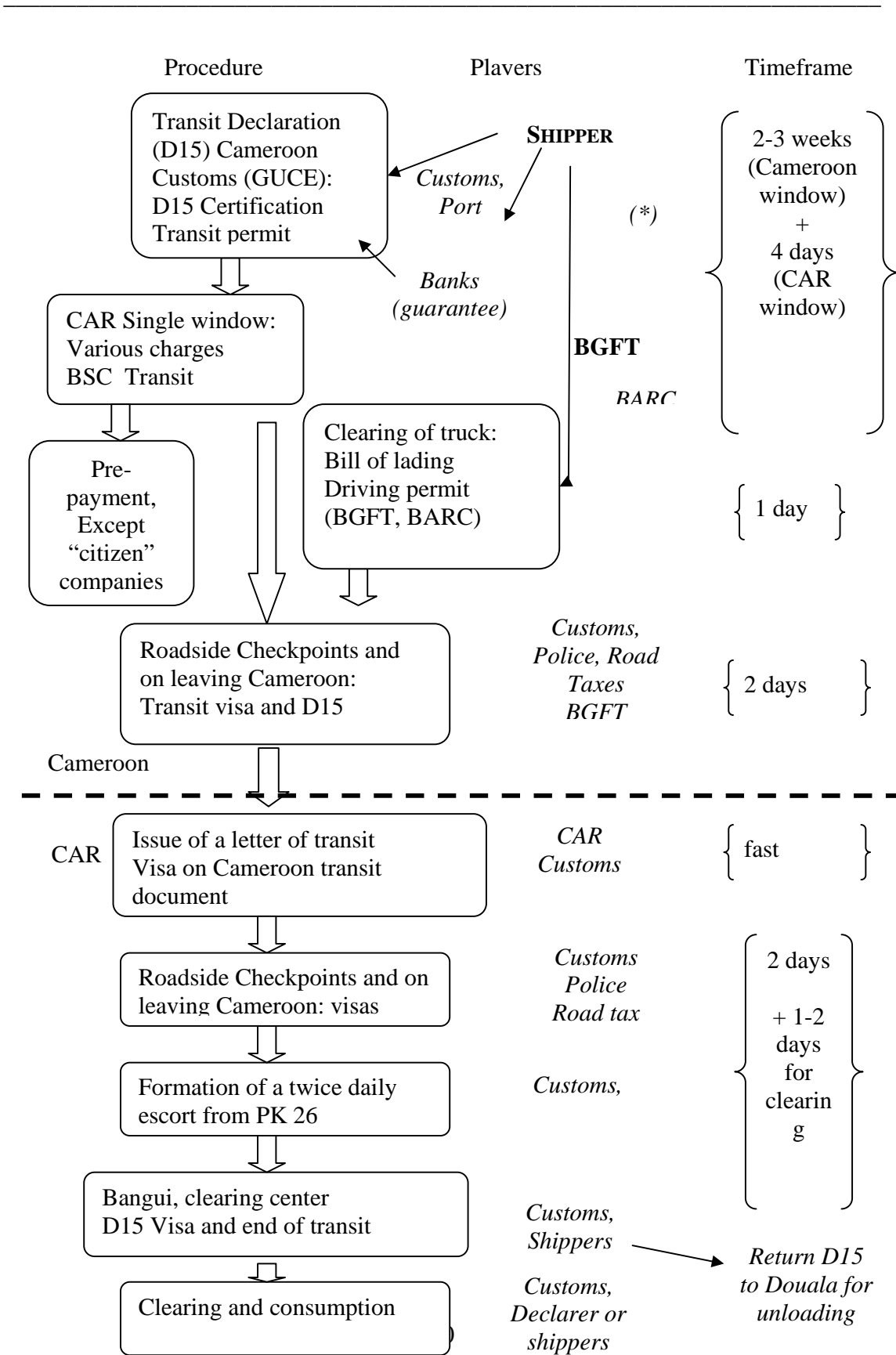
203. The main problems are a chain of controls involving seven services with poorly defined responsibilities. Modern transit systems are based on the principle to facilitate trade, and to have transit secured by private sector guarantees. The current Cameroon-CAR transit arrangements, however, facilitate corruption, rather than trade, and overstretch the limited capacity of CAR Customs which has to man multiple clearing posts in Bangui, and a string of posts near and at the border, all without an efficient communications system. The number of checkpoints has also proliferated: originally, the two governments had agreed to have three checkpoints in each country. However, because of rent seeking the number is now much higher. In addition the system has been

⁴⁴ This follows freight agreements signed earlier (1975 for Chad and 1989 for the CAR).

complicated by the creation of the Guichet Unique which functions independently from CAR Customs managed by UNITEC, a private provider.

204. The Guichet Unique which is now part of transit initiation had been created to reduce fraud along the transit chain, and thus to increase customs revenue for CAR. Indeed, the mission found that customs have not been able to regulate in Bangui the activity of customs broking and that the risk of fraud at final clearance was high, a problem not so acute for transit which is controlled by a few reputable operators. However, it seems that the Guichet Unique is not working satisfactorily, at least from a facilitation perspective, as evidenced by numerous complaints by operators. Furthermore, advised by UNITEC the government tried to expand the competence of the Guichet Unique from pre-clearance to transit. Costly procedures were introduced that, instead of facilitating trade or securing transit caused delays while financially benefiting UNITEC. An example is the bordereau de suivi de cargaison. Furthermore, UNITEC has proposed a computerized system for transit information which – rather than facilitating transit – would most likely add another layer of control without any benefits.

Figure 4.1: Transit Chain



205. Finally, security is a problem for transit, just like for all other economic activities in CAR. In the North-Western part of CAR and in adjacent Cameroon, groups of bandits (“coupeurs de route”) are well organized and – equipped with satellite telephones – identify and rob their targets, mainly vehicles carrying valuable goods or money. Both Cameroon and CAR have tried to push back on these criminal gangs, supported by the French army. However, because of limited coordination between the governments, bandits manage to escape most of the time.

Transit cost

206. While unit transportation costs are close to those prevailing in Europe, consignees support in CAR transit costs four times higher than transport cost, driving the total cost to almost 5 €/per km between Douala and Bangui. High transit costs are caused by two factors: since trucks have to return to Douala empty, the shipper has to pay twice the unit transport cost, i.e. about 2.4€/ per km. Furthermore, overheads caused by the inefficient transit chain are 100 percent of the transport cost each way.

207. The breakdown of transport and transit cost is shown below, based on a typical load of 28 tons or two TEU coming from Douala with a value of goods worth 30 million CFAF⁴⁵.

⁴⁵ The cost breakdown excludes cost incurred in Cameroon, i.e. port entry fee, an handling fee by the Guichet Unique in Cameroon which would be the only transit cost at the border for goods cleared for the Cameroonian market.

Table 4.4: Breakdown of Transit Costs 2006

	Unit Value (CFAF)	Quantity	Basis	Total CFAF	Justified by quality of service
CAR Single Window				377800	
BSC (UNITEC)	65500	2	TEU	131000	no
CPS	600	28	Tons	16800	no
Vehicle Charge	50000	1		50000	no
Container Charge	15000	2	TEU	30000	no
IT Charge	0.50%	30000000	Value	150000	Very excessive
Forwarding Services				300000	
Agent's Fee	300000	0.5 ⁴⁶		150000	yes
Cameroon Transit Guarantee	0.50%	30000000	Value	150000	yes
Freight Procedures.				144400	
Consignment Note	10000	1		10000	excessive
BGFT	2%	2240000	transport	44800	no
BARC	4%	2240000	transport	89600	no
Transport				2240000	
Trucker	80000	28	Tons	2240000	yes
Harassment and other illegal payments				700000	
"harassment" en route	200000	1		200000	no
Other (centralized) corruption	500000	1		500000	no
Transit Total				3762200	
P.M. CAR Duties and Taxes	42%	1		12480000	
Cost of transit without transport (CFAF and % of transport)				1522200	68%
Illegal Costs				700000	31%
Avoidable Legal Cost				512200	23%
Justified Services				310000	14%

Source: World Bank calculations

208. The conventional wisdom in Africa is that illegal "harassment" ("tracasseries") en route at the roadblocks by police or customs offices is the main source of unwanted logistics overheads. However Table 4.5 above shows that this is not correct for the case of transit between Douala and Bangui. The share of cost from legal procedures at the freight bureaus and the Guichet Unique is much higher than the share attributable to "harassment". As mentioned above, the majority of procedures does not correspond to a modern transit system, and add about 50 percent to the cost of transport itself, i.e. five times more than "harassment". It can be assumed that these complex and often outdated procedures give rise to "official" corruption at a higher level than the unofficial "harassments". Conversations with business operators confirm these suspicions.

4.3 IMPROVING THE TRANSIT REGIME

209. Contrary to widespread belief, transit of goods does not require control of cargo and vehicles en route. Modern systems rely on private operators through appropriate guarantees, and on cargo entry/exit accounting by Customs from the transit country. This

⁴⁶ The calculation in marginal cost means that the clearing service is not included in the shipping bill.

accounting is based on summary declarations (of transit) and does not have to be in real time.

210. A modern transit system works on three major principles:

- Customs ensures cargo security by sealing vehicles (closed trailers, containers);
- consignee or his agent (shipper) deposits a guarantee corresponding to the value (taxes and duties) which would be due in the country of transit;
- Customs properly manages the information on cargo in transit and specifically reconciles information on the entries and exits from the customs territory to identify violations and – in the absence of such violations – to quickly release guarantees deposited by users.

211. As described earlier, the current system of transit to CAR departs significantly from these principles. The main observations are:

- As the border is far from any business centre in CAR, customs clearing should not be done at the border. Hence the transit procedure should be extended into CAR. This would require an additional guarantee which does not yet exist.
- Customs in CAR has limited human resources. Thus, duplication should be limited and capacities should be focused where there are most crucial, namely at the clearing stage.
- Transit initiation is a Cameroonian responsibility which should not be repeated by in the CAR Guichet Unique in Douala.
- The transit regime should be independent from implementation of a pre-clearance in Douala.

212. Given the situation of CAR, international experiences suggest that the implementation of a carnet system would be most appropriate. However, this requires clarification of the pre-clearance and clearance of goods in transit.

Pre-clearance and clearance of goods in transit

213. In Douala, goods destined for CAR can be pre-cleared by CAR Customs if the consignee or an agent so decide. The advantage of pre-clearance is that pre-cleared goods face less interference in the customs process in Bangui. Goods then transit through Cameroon, whereby transit is operated by Cameroon Customs who also issue a guarantee to the freight forwarders. Final clearance takes place in Bangui, operated by CAR Customs.

214. A change in responsibilities would be preferable with pre-clearance for CAR (or also Chad) operated by Cameroon Customs which would limit duplication and insure continuity between pre-clearance and transit.⁴⁷

Implementation of a carnet system

215. Transit cost could be significantly lowered CEMAC would move toward a carnet system such as the Transit International Routier (TIR) system, an international customs transit system that was originally set up in Europe in 1949 and now has 64 members. Under a TIR system, goods would move from Cameroon Customs to CAR Customs (or Chad) under cover of a CEMAC wide accepted Customs transit system, the TIR carnet (replacing the current D15 form), which would also provide a financial guarantee for the payment of the suspended duties and taxes.

216. The advantage of a carnet system, based on the TIR, is that it introduces features that help customs cooperate cross-border, simplify the monitoring of transit, facilitate transit and better secure better fiscal revenues:

- a system of a single carnet for the trip with a guarantee to which the Customs in the transit countries can appeal;
- a standard for participating vehicles and enterprises, and regulation of entry by an internationally certified national body;
- private sector involvement through the national guarantor whose role is to register participating companies and to distribute the booklets and relevant guarantees. The network of guarantors facilitates a simple multi-country system of a mutually recognized system of guarantees.

217. The value of such an improvement has been recognized for a long time. Since 1991, CEMAC has been promoting the Inter-State Transit of Central African States (TIPAC), a regional carnet system. The CEMAC concept closely resembles the arrangement adopted by West Africa through the TRIE (Interstate Road Transit) Convention in 1982 which departs from the TIR in some critical aspects,⁴⁸ and is not very effective. However, the TIPAC convention is sufficiently open to be compatible with a TIR or TIR like system.

⁴⁷ While it is possible in a Customs Union to have final clearance at the first port of entry, such a system is unlikely to work for CEMAC, given the current lack of transparency for border transactions in CEMAC, and the high share of duties in the national budgets of CEMAC countries. Final clearance at the port of entry would require a system of transparent lodging, and subsequent proper allocation and transfer of customs revenue by the Customs authorities administering clearance to landlocked destination countries. This is the case in SACU (Southern African Customs Union) where South Africa collects all tariff revenue at the ports of entry, and transfers appropriate shares to the landlocked SACU members (Botswana, Lesotho, Swaziland). An even more integrated system has been set up in the European Union where customs revenue for all member countries is pooled to contribute to the administrative budget for the EU. But EU is a single customs territory.

⁴⁸ E.g. control of access to the system and management of the guarantee.

218. Thus, at the CEMAC level, the feasibility and acceptability of a effective carnet system requires further study, in particular to

- identify with the International Road Transport Organization (IRU) which manages the TIR guarantee system how the TIR concept can be adapted to the needs and capacities of the CEMAC;
- identify lessons learned from the TRIE, and how mistakes can be avoided; and
- define alternative procedure for operators who would not qualify under the carnet system.

219. It should be noted that some of the TIPAC feasibility and implementation studies commission in the past by CEMAC and donors were flawed because these studies were drafted by consultants who had been instrumental in the controversial TRIE and not familiar with the best-practice TIR system. Hence, it is urgent to launch a new analysis drawing on global expertise, including from IRU and TIR.

Strengthening customs and the capacity to manage transit information

220. The main priority for CAR Customs is to improve its capacity to manage information on goods in transit. This will be significantly facilitated by the implementation and roll-out of ASYCUDA++ which is to be installed in CAR. ASYCUDA++ includes a transit module which, if managed well, will solve the problem of transit tracking for CAR. ASYCUDA++ will enable Customs at the exit checkpoint to retrieve information on the vehicle transit document and to check its seal. Furthermore, ASYCUDA++ will allow Customs officials to track whether a vehicle has left the territory, to discharge the guarantee, and it will facilitate arrival management. Most importantly, a transit module like ASYCUDA will not require linking the transit information systems along the transit corridor, but will work independently of them.

4.4 SUMMARY AND RECOMMENDATIONS

221. Traders in CAR face very high transit cost because of the distance to the nearest sea port, the fact that traders have to pay containers for the return trip since import destination and export source regions are far removed, and because of complex and expensive transit procedures where most of the services do not justify the fees, and which give rise to official and illegal corruption. This limits the ability of CAR traders to access world markets, and the world market to reach CAR consumers and producers.

222. On the positive side, the transport service industry in CAR is efficiently organized and despite low demand, the service provides relatively good quality at prices that are comparable with European service providers.

223. The quality of infrastructure is poor, and needs to be reinforced. However, the investments and maintenance required exceeds the means of the CAR government – the country's economy is too small to generate the resources for sustainable transport

infrastructure management. However, CAR's development partners have signaled their renewed willingness to support the country's needs both in terms of investment and maintenance of its transport infrastructure, as well as support CAR to upgrade air security which is a major constraint for air transport in and out of CAR.

- The main conclusion from the preceding sections is that neither the geographical challenges nor the poor infrastructure are the main sources for exorbitantly high transit cost in CAR low transit volume (10 trucks per day, with not much increase expected in the medium term) does not justify major investments, e.g. at border checkpoints, and is an argument for a concentration of operations (Douala and Bangui, yet not the border);
- focus should be to strengthen the capacity of customs, especially at the clearing level (integrity, computerization, and use of BIVAC information), and to avoid duplication, geographic dispersal, and the dispersal of jurisdictions;
- superfluous procedures that do not serve trade facilitation should be scrapped;

224. A CEMAC regional transit system should be consistent with international best practice, and draw on private. Rather, it is the inadequacy of the current transit system with prolific procedures and multitude of rent seekers, both official and illegal.

225. To address this problem the first priority is to restore the customs service in CAR and its capacity to efficiently clear goods either in Bangui or with a pre-clearance in Douala. The second priority is to revisit the transit system from a CEMAC regional perspective, and to implement an improved system with proper documentation, guarantee and information management. Revisiting the transit regime should also help phase out some unnecessary activities that do not serve to facilitate transit and are but a source of inefficiencies and costs. This applies to the obsolete freight management by the freight bureaus, or the corridor monitoring system that CAR wants to put in place with a private provider UNITEC, which may not be technically feasible yet likely to create additional financial burden on shippers.

226. It could be expected that a less burdensome transit regime would reduce transit time to Bangui to one week, at 2/3 of the current cost. A driver of such change would be the private sector. For the most part transit is ensured by top international operators offering adequate guarantees. They can support medium-sized professional transport companies in Cameroon or in the CAR. On exportation, the railway operator CAMRAIL offers a multimodal solution with the Belabo platform which enables a reliable export chain and at a moderate cost which provides an opportunity to add value to agricultural products from the western part of the CAR. Countries such as Mali and Burkina, have been able to set up chain to export in refrigerated containers fresh product through Abidjan, with virtually the same distances and services.

227. Another favorable factor is that public sector decision makers are increasingly aware of the economic importance of trade facilitation. The CEMAC secretariat plays a

very important role in bringing parties together and has developed an approved program. The FAL committee in Douala is playing a very important role in the improvement of entry for goods to Cameroon and landlocked countries. Finally, a new management team intends to introduce ambitious reforms in the Cameroonian customs.

228. An action plan to improve trade facilitation in CAR should be guided by the following principles:

- sector expertise; this would affect both the Bangui and the N'djamena corridors.

229. The first immediate priority is to undertake a study to implement a regional transit system based on a carnet system such as the TIR. The study should take into account reform efforts of Cameroonian customs, as well as the situation elsewhere in CEMAC. The study should be undertaken by a team of at least two experts, preferably a customs officer of a TIR country, and an expert in carnet management and guarantees.

230. The second priority for the immediate future is to evaluate and if necessary redress the role of the Guichet Unique and the service provider UNITEC. For practical purposes, it is recommended that the evaluation team overlaps with the team for the CEMAC wide transit study. While the transit study and Guichet Unique evaluation are not yet completed, investment in projects relating to transit surveillance and modifications in the UNITEC contract and border post projects with clearing functions should be postponed until the results of the studies will be available.

231. Finally, the government should promote the inclusion of CAR in the preparation of a regional air security project currently under preparation by the World Bank.

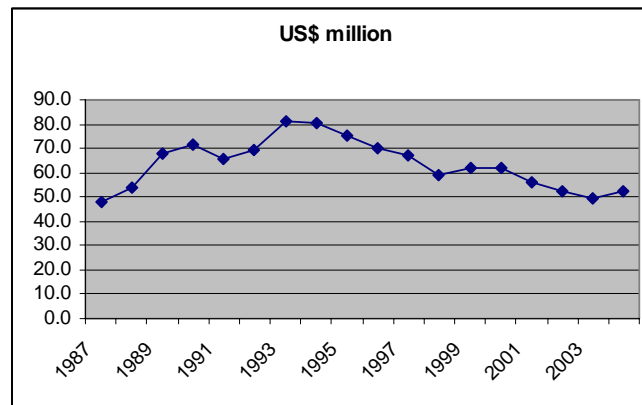
232. In the short to medium term, priorities are to strengthen the clearance capacity and function in Bangui and pre-clearance in Douala and to liberalize the freight market by phasing out the freight bureaus and review the transit agreements which specify percentages of freight services provided by CAR and Cameroon.

5. SELECTED SUB-SECTOR ISSUES

5.1 EXPORT PERFORMANCE OF SELECTED SUB-SECTORS

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

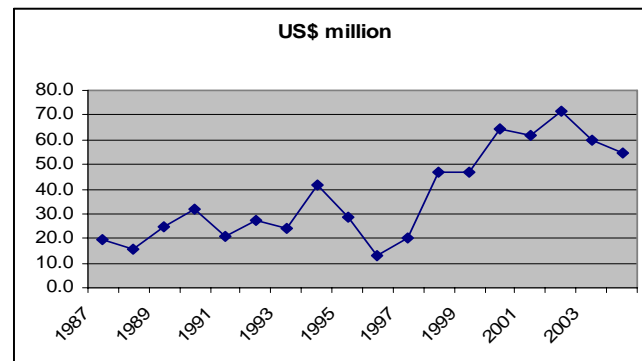
Figure 5.1: Rough Diamond Exports 1987 - 2004



Source: IMF Direction of Trade Database

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

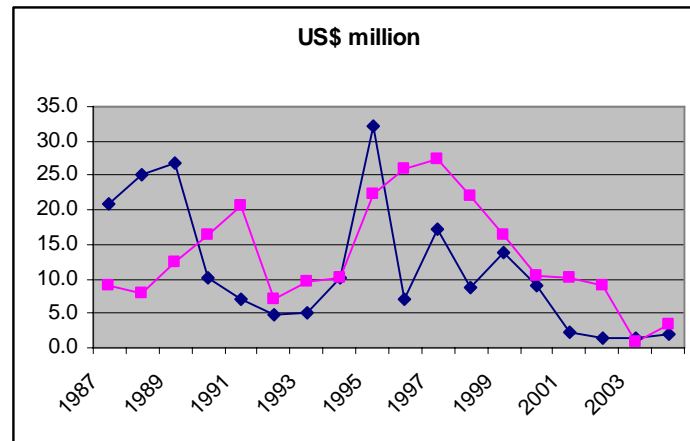
Figure 5.2: Forestry Exports 1987 - 2004



Source: IMF Direction of Trade Database

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

Figure 5.3: Coffee and Cotton Exports 1987 - 2004



Source: IMF Direction of Trade Database

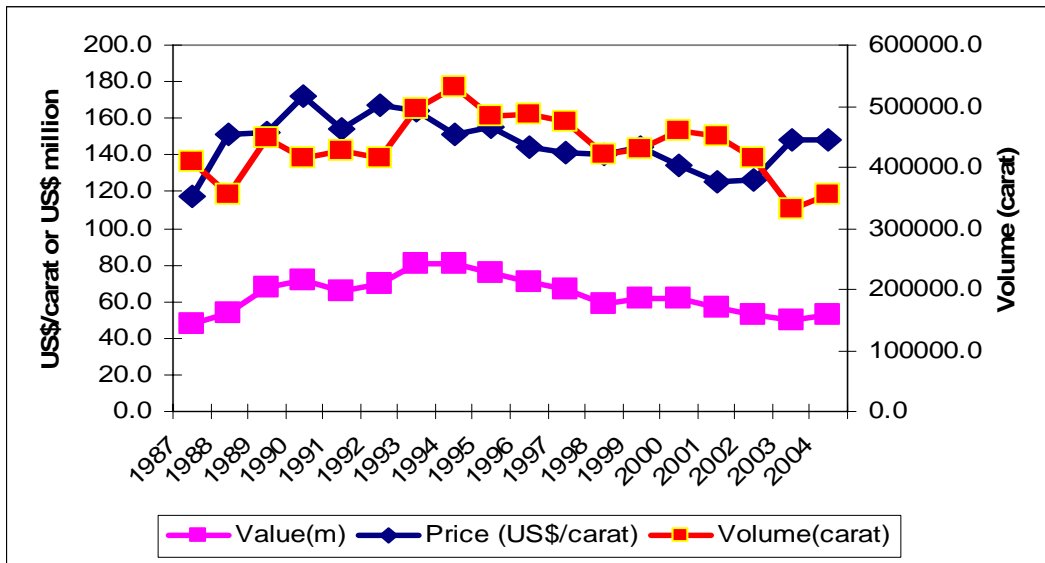
5.2 MINING SECTOR

236. Alluvial diamonds have been the primary mineral exports of CAR. They have been exploited in two main areas, one in the south-west of the country (around Carnot and Berberati) and the central south-east around Bangassou. DeBeers has taken reconnaissance licenses to explore a vast area in the center and east. Both of the basins currently exploited for alluvial diamonds are believed to be tertiary deposits, derived from primary deposits located in the DRC. Furthermore, geological evidence suggests potential for economically viable gold and petroleum deposits that have remained unexploited due to the combination of political risk and transportation/infrastructure difficulties. Currently, only artisanal gold mining, mostly river panning, is practiced in CAR.

237. Employment in the small-scale diamond sector is estimated between 60,000 and 80,000 persons. Almost all the production is exported and the export of diamonds has been relatively stable for 45 years between 400,000 and 500,000 carats per year (see Figure 5.4 below). In 2005, exports were estimated at 62 million dollars compared to 52.6 million dollars in 2004, which shows that exports of diamond is emerging from a period of slump which lasted until 2003, following conflicts and an embargo on exports imposed by the Kimberly process⁴⁹.

⁴⁹ The Kimberley Process Certification Scheme (KPCS) is a process designed to certify the origin of diamonds from sources which are free of conflict. The process was established in 2003 to prevent rebel groups and their rivals from financing their war aims from diamond sales. The certification scheme aims at preventing these “conflict diamonds” from entering the mainstream rough diamond market. It was set up to try to assure consumers that by purchasing diamonds they were not financing war and human rights abuses.

Figure 5.4 : Diamond Volume, Price and Export Value 1987 – 2004



Regulatory Environment

238. Mining administration is the primary responsibility of the Ministry of Mines and Energy (MME); tax collection is undertaken by the Ministry of Finance and Customs; the Brigade Minière is responsible for security. Four provincial offices of the mining directorate operate in mining areas. The Ministry has minimal operating resources obsolete gemology tools and no functioning vehicles, so it is unable to supervise mining operations

239. The operations of the Ministry are manual and in the absence of a digital cadastre, the cadastral records are difficult to manage. The Director of Mines has reproduced the major claims on a GIS system on a personal laptop, but the Ministry lacks both the hardware and software needed to have an official digitized and mapped registry.

240. Requests for mining claims must be presented to the Minister directly. He institutes an inquiry into the moral character of the claimant, coordinates with Interpol, and based upon information received takes a decision; this process can be lengthy.

241. A new mining law (Code Minier 2004) was one of the outcomes of the Estates General of Mining, held in July 2003. The law applies to all extraction except petroleum and uranium, which are governed by the 1993 Petroleum and Uranium Code. The objective of the 2004 law is to overcome constraints to development of the sector, namely rigid legislation that left too much discretionary power in government, a heavy tax burden, incomplete geological information, and the absence of first-rank international mining companies.

242. The Code Minier appears to have drawn partially on international models, but the final product reflects only a gradual improvement over previous legislation. It provides

for three types of mining, each with an organizational structure and set of licenses and permits: (1) alluvial mining of diamonds and gold, (2) alluvial mining by cooperatives, and (3) formal industrial mining. Currently, applications for permits are submitted to the Minister and recorded manually in a register. A digital cadastre, wherein claims will be registered in the order in which they were received, is foreseen.

243. The mining law also covers the mining value chain. Only licensed agents are authorized to be in possession of mining products. At the bottom of the marketing chain are artisanal miners, then brokers, licensed collectors, and buying houses. Foreigners may become collectors if they have resided for five consecutive years in CAR, invested at least CFAF 50 million (about US\$100,000) in real estate in CAR, and can show adequate financial resources for operating capital. Foreigners operating buying houses have similar requirements; managers and agents of buying houses must be approved by Ministerial decree.

244. Foreign exchange provisions in the mining law guarantee companies the right to repatriate investment and profits, but only when they dissolve their business. While operating in CAR, mining companies and buying houses must repatriate the export value of their shipments in foreign exchange within thirty days.

Shortcomings of the legal and fiscal environment

245. The 2004 Code Minier was meant to reduce administrative latitude in the granting and maintenance of concessions, but it took only small steps in that direction. Legal and institutional reform continues to be needed to assure investors that processes are transparent and reliable.

246. The most obvious legal and institutional reforms are those needed to create a transparent, accessible and reliable system of claims administration. The Code Minier should be reformed to ensure that claims are granted on a first come first served basis, and are pegged on the ground. The current manual registry of claims is a poor substitute for a formal mining cadastre. With modern GIS technology, it has become relatively simple to create and maintain a digitized cadastre available to the public on a web site.

247. Standard agreements should be developed for each major commodity. The Code Minier specifies terms that should form the basis of each contract, yet interviewees for this report mentioned digressions from the legal provisions⁵⁰. If administrative latitude persists, companies will have an incentive to engage in corrupt practices in the hope to negotiate a better deal.

248. The most important provisions missing from current agreements are those designed to prevent rapid depletion of the alluvial resource through mechanized mining.

⁵⁰ The specific example given was that apparently Government still gives five-year tax holidays to mining companies, rather than limiting tax exemptions to the construction period as it is specified in the 2004 Code Minier. A five-year tax holiday is a contraproductive incentive that has been shown to result in sale or reorganization of mines at five-year intervals to avoid taxation.

By their nature the deposits are close to the surface and easy to churn with mechanized sorting equipment which can generate quick profits for large mining companies while CAR risks destroying the livelihoods of tens of thousands of rural poor—and gaining little or nothing for the national economy if deposits are exhausted before taxes are due.⁵¹

249. Lack of mining administrators in mining areas makes it difficult to enforce the standards laid out in the Code Minier. There is little capacity to inspect or audit mining activities. As a result, smuggling is believed to be widespread in the artisanal marketing chain. Such smuggling is extremely difficult to control, as a few large stones are very easy to conceal and hard to detect.

250. Security is the greatest single concern of the mining industry and deterrent to growth. In particular since alluvial mining is difficult to secure, even for major mining companies.

Corruption, governance and transparency

251. Corruption linked to gold or diamond mining and exporting is both a local and a global problem. At the global level, the Kimberley process is part of the global response. Furthermore, professional associations in the gem and jewelry industry are also in the process of establishing standards of fair trade and transparency for their suppliers, because consumers become more concerned about stones and gold being mined in sanitary conditions, with fair labor practices and under environmental standards.

252. The CAR government has indicated its intent to suppress diamond smuggling. Donor assistance can help equip CAR with processes, procedures and safeguards designed to monitor and root out corrupt practices of all types, including smuggling⁵². An important starting point is valuation where undervaluation is rampant. The BECDOR is ill equipped, with only one scale functional and microscopes, loops, lights and computers all scarce and old.

253. The ministry already keeps relatively good records of the majority of diamond trade. If these are computerized at the time of transaction and linked to purchase records in destination countries, smuggling will be easier to detect and suppress. CAR sits on the board of the Kimberley Process administration, which gives it good insight on its workings.

254. Gold smuggling is another matter which is not yet being addressed by the government, but which ought to become a priority, given the magnitude of losses to smuggling which are estimated to be about 2t per year, which would amount to more than

⁵¹ Thailand, for example, saw its alluvial gem mines destroyed in a few years after it had allowed mechanized mining of alluvial deposits.

⁵² An important source is the Extractive Industries Transparency Initiative which has published a source book, available on line in multiple languages (including French) at eitransparency.org, laying out 16 steps that countries and their mining partners can follow to improve transparency in the diamond trade.

US\$40 million at current prices of about US\$20,000 per kg (about 2/3 of the total declared value of diamond exports!). Currently, production appears to be entirely passing through “parallel” markets. Brought into legal channels and taxed, even at the low current rate, it would be a significant contributor to government revenues and official export earnings.

Specific constraints for exports

255. Constraints to potential growth in diamond exports are both external and domestic. Supply surged rapidly in the 1980s when artisanal production was liberalized in many Africa countries, while Russia, Botswana, Australia and then Canada developed major mines. The outlook is for slow growth in demand in the main retail market in the US over the next decade and stability in Europe and Japan. Over the next decade, on the other hand, a substantial middle class is predicted to develop in China which could translate into significant demand for diamond products.

256. A number of domestic constraints are not specific to the mining sector, nor can they be addressed easily or in the short term. The main constraints identified by actors in the sector are the security situation, high transportation cost and scarcity of credit along the production chain.

257. The regulatory framework of the commercial chain has just been the subject of new measures whose aim was to reduce fraud, in the form of quotas imposed on purchasing companies, and investment and liquidity obligations on foreign collectors. The measure has resulted in the concentration of activities on a small number of actors which may actually reduce productivity, given the large networks that need to be financed. More staff in the provinces, and systematic control of documentation would probably better means to address fraud.

258. For gold the main constraint to increased legal exports appears to be the popularity of illegal export chains. Gold is often used by merchants to buy consumer goods for which they will not have to account to the tax authorities. It can also be a convenient means of moving money out of the country and into sheltered bank accounts abroad. With gold at near record prices, this trade is worth bringing out from the shadows.

259. The constraint to oil and gas exploration may be the simplest to address, as it seems to lack mainly the technical knowledge and policy framework needed to establish viable concession auctions. There is expanded interest in exploration, with Asian market growth driving anticipated sustained high prices. The transportation constraint is partially overcome by the proximity of the Chad-Cameroon pipeline to one major field.

5.3 FORESTRY PRODUCTS

260. Harvesting of forestry resources – mainly for export as wood in the rough and sawn – takes place in the southwest of the country; forestry resources in the southeast are

so far being preserved, owing to the distance from the Cameroonian ports of Douala and Kribi which renders forest exploitation in the southeast unprofitable.

261. As described above, forestry exports have increased over the past decade and are now CAR's most important export sector. This is reflected in the country's draft PRSP which recognizes the forestry sector as the second pillar of the sustainable growth strategy for poverty reduction, next to mining. The strategy aims at increasing forestry production and exportation to reduce poverty in rural forest areas, boost growth, government revenue and foreign exchange inflows.

262. The forestry sector plays an important role in the CAR economy, providing full time work for about 5000 workers and temporary work for many more. Its direct contribution to government revenue was on average CFAF 8.25 billion/year over the past five years. In addition, forest companies provide as education and health services, and support administrative structures. Most recently, forestry harvest and exports have dropped slightly, owing to the exit of some of the operators, but also to new regulation by the government that enforces sustainable management by operators.

263. CAR aims at providing incentives to the sector to export more processed forestry products. However, for the most part these incentives are legal provisions ("every authorised operator shall process at least 60 percent of felled wood from the third year of its establishment.") rather than improvements in the business environment. However, an audit of the sector carried out in 2004 revealed significant developments in the sector since 1990, the year of the last audit. While the objective of a rate of processing of 60 percent has not yet been achieved, it has reached 45 percent which implies a step in the right direction, mainly owing to investment in processing equipment. With a usage rate of 60 percent, the equipment is, however, not yet at its capacity limit.

264. Table 5.4 below shows that while the harvesting of logs has been declining over the past years, production and export of processed forestry products has increased.

Table 5.1: Forestry Harvesting and Exports 2000 - 2005

	2000	2001	2002	2003	2004	2005
Production (m³)						
- logs	702 994	671 239	663 714	512 711	513 848	454 402
- sawn wood	102 353	109 327	97 314	52 353	69 281	71 386
- plywood	1 500	1 776	2 016	1 531	1 563	1 434
Local Sales						
- logs	17 613	16 304	15 107	11 200	14 721	8 089
- sawn wood	1 147	1 123	1 024	933	1 196	506
Export (m³)						
- logs	249 393	278 152	330 811	208 429	170 830	145 912
- sawn wood outside CEMAC	56 851	57 551	47 798	27 710	35 527	44 261
- sawn wood within CEMAC	8 775	15 296	16 717	15 873	12 639	8 678
Total sawn wood exports	65 626	72 847	64 515	43 584	48 166	52 939
- plywood	256	836	857	809	399	857

Main constraints

265. The main constraint of further expansion of forestry production, processing and exports is the high transportation cost which provides a disincentive to processing (which includes drying of the wood) since dried wood needs to be transported in a container which considerably adds to the cost. The problem of the distance to the nearest port in Douala or Kribi is magnified by the poor quality of the transport infrastructure, numerous checkpoints, security issues during transit, and the recent rise in petroleum prices.

266. The second most important constraint is a lack of exploitable resource and a lack of skilled personnel to work on the logging and processing sites.

267. Finally, there are a number of factors that can – at least at the margin – be affected by the government: security issues in the CAR have – apart from adding to transport cost – also deterred investment into the forestry sector over the past decade; requirements in terms of provisions of social services required for obtaining a permit have deterred some investors; finally, the financial sector in the country does not facilitate investment in the forestry sector.

268. It should, however, be noted that legal requirements introduced to ensure sustainable and management of the natural resource and responsible social behavior will – while reducing the short term growth potential – ensure the maximization of the long term growth and poverty reduction potential of forestry production and exports in CAR.

5.4 AGRICULTURAL EXPORT CROPS (COTTON AND COFFEE)

Cotton

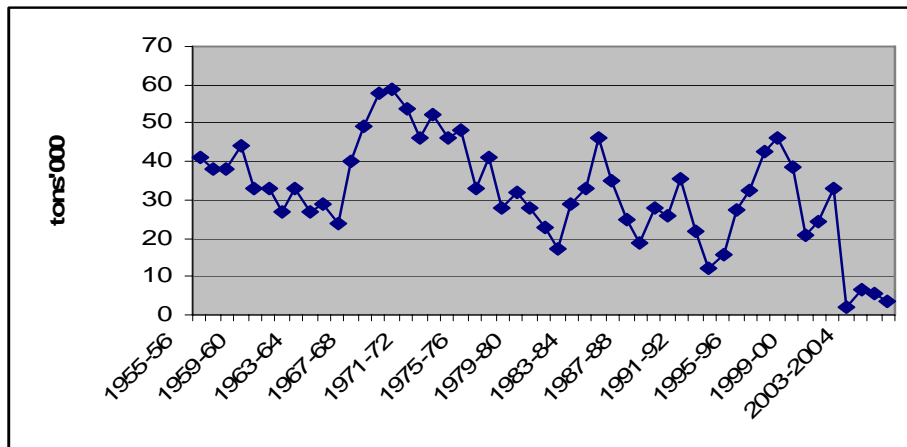
Cotton production in CAR

269. There is a long tradition of cotton production and export in CAR starting in 1925 and peaking in 1969/70 at almost 60,000 tons of cotton seed. However, since then a series of unfortunate developments in the sector led to its decline, and had many producers migrate to southern Chad or Northern Cameroon to continue cotton farming activities there while awaiting better days to return to CAR.

270. Historically, the decline of cotton farming started with agricultural reforms initiated under the Bokassa regime which led to dissolution of production structures and nationalization of the Central African Cotton Producers Union (UCCA⁵³) with negative effects on cotton productivity and production which declined to just above 17,000t in the 1981/82 season.

⁵³ Union Cotonnière Centrafricaine.

Figure 5.5: Development of Seed Cotton Production (1955-2005)



Source: AFD (2004) and ICAC (2006).

271. Cotton production was re-launched in 1983 with the establishment of the Central African Agricultural Development Company (SOCADA⁵⁴). 75 percent of SOCADA belonged to the state, 25 percent belong to the French Company for the Development of Textile Fibers (CFDT⁵⁵). SOCADA pursued an integrated approach through which key functions were provided such as input supply and financing, extension services, research, and road maintenance. Cotton production could be revived quickly and by 1984/85 production reached more than 45,000t. However, this was followed by a period of low world market prices for cotton which, together with mismanagement of SOCADA led to a suspension of production subsidies, and the cotton harvest thus declined again, to a level of 19,000t in 1987/88.

272. After a prolonged period of low world market prices, the cotton sector in CAR was reformed in 1990. The main reforms were a price liberalization (replacing a system of fixed prices), reduction of the labor force, and focus on cotton farming in economically viable areas. Furthermore, the integrated approach was replaced by a system where the different activities were pursued by three different entities:

- Central African Cotton Company (SOCOCA⁵⁶) (66 percent state owned, 34 percent CFDT) was responsible for the management of fertilizers, maintenance of feeder roads, collection of seed cotton, ginning and marketing
- Central African Agency for Agricultural Development (ACDA⁵⁷) for seed distribution and extension services

⁵⁴ Société Centrafricaine de Développement Agricole.

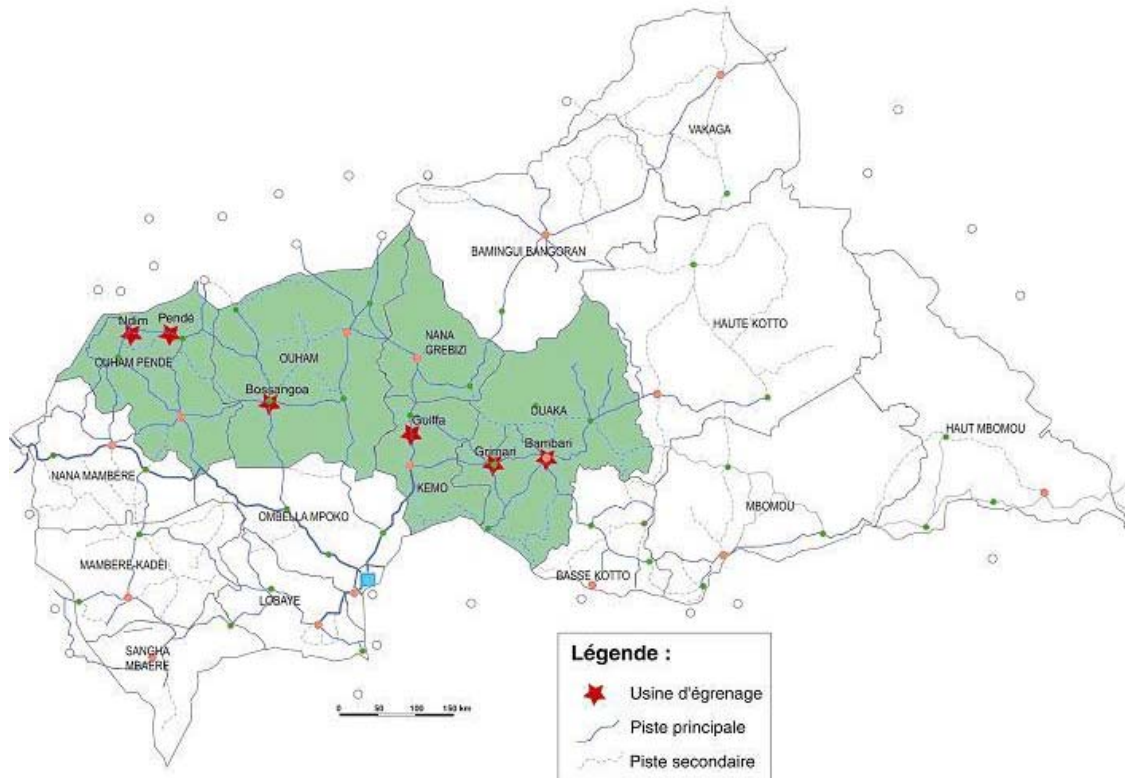
⁵⁵ Compagnie Française pour le Développement des Fibres Textiles.

⁵⁶ Société Cotonnière Centrafricaine.

⁵⁷ Agence Centrafricaine de Développement Agricole.

- Central African Institute for Agronomical Research (ICRA⁵⁸) – for research activities and services.

Figure 5.6 : : Cotton Growing Area in the CAR



273. This system worked relatively well in the period 1992 to 1997 during which time world market prices had recovered. In 1997/98 cotton production reached about 47,000t and cotton farming provided a livelihood for 114,000 farmers in the north-west region of the country. However, following another decline in cotton prices in 1998/99, the system became financially unviable again which eventually led to the replacement of CFDT by Louis Dreyfus Group, an international cotton trader.

274. However, Louis Dreyfus Group did not continue the practice of pre-financing the investments (fertilizers, seeds, etc) for cotton farmers. As a result, farmers quickly slid into arrears which delayed the planting seasons, which in turn led to a complete collapse of the cotton industry in CAR; by 2001/02 SOCOCA was liquidated. The events during 2002 and 2003 further harmed the cotton production facilities because of looting in ginning factories by bandits.

275. After the events at the end of 2003 Central African Company for Textile Development (SOCADETEX⁵⁹), a newly established company took over the assets of

⁵⁸ Institut Centrafricain de Recherche Agronomique.

⁵⁹ Société Centrafricaine de Développement des Textiles.

SOCOCA. However, the new set up did not prove viable in the years 2003/04 and 2004/05.

276. Since then, the government of CAR has attempted to revive the industry with the support of development partners and the Dagrís Group⁶⁰. However, these attempts have so far been ad hoc and – lacking adequate pre-financing resources for farmers – have not achieved a revival of the industry. Since 2002, only a fraction of the potential has been produced and exported as can be seen in Table 5.2.

Table 5.2: Summary of Seed Cotton Production, Ginned 200/03 – 2005/06

Season (tons CG)	2002/03	2003/04	2004/05	2005/06 (projection)	2005/06 (achieved)
Bossangoa	-	5,148	3,216	3,300	2,946
Bambari	2,220	1,648	2,216	2,000	725
Total CG	2,220	6,796	5,432	5,300	3,671

Source: Diagnostic Study of remaining ginneries' assets, C2G consultancy, June 2006; information obtained by the mission in CAR

277. Unfortunately, the situation does not seem to be reversed in the ongoing season. Farmers are cautious after a number of seasons of arrears while the government was not in position to announce a fixed buying price at the beginning of the season. The estimated production for the 2006/07 season is about 4,000t of seed cotton.

278. At the moment, the cotton sector in CAR, formerly its second most important export sector is in a situation of survival. Many producers migrated to southern Chad or to Northern Cameroon waiting whether the situation will change in CAR. Thus, if a new and viable structure for cotton producing is not created for the next planting season, cotton production may soon completely disappear from the CAR and with it the potential livelihood for a large part of the population.

Constraints for Cotton Production and Exports

279. There are two key constraints for cotton production, export and competitiveness in CAR, namely high transport and transit cost along the production chain, and low productivity of cotton farming in CAR caused by a number of factors.

280. High transport and transit cost arise because of the landlocked nature of the country, and the poor condition of CAR's infrastructure. The distance to the port and the high costs imposed by transit (see Chapter 4) add to the cost of inputs such as fertilizers and insecticides, for capital equipment and spare parts. More importantly, because of high transit cost, it costs much more in CAR to bring the cotton to the nearest seaport compared with other countries, even land locked ones. In Benin, it costs about CFAF 15 per kg to transport cotton the port, in Burkina Faso, the cost is about 4 times as high at CFAF 60 per kg. In CAR, is used to be about CFAF 100 per kg, but now – because of dilapidated infrastructure – the price has risen to CFAF 120 per kg, i.e. twice as much as in landlocked Burkina Faso, and 8 times as much as in Benin. Finally, pre-ginning

⁶⁰ DAGRIS is the new name of the former CFDT.

collection cost is high in CAR because production is undertaken over a large area. In most other cotton countries, production is concentrated in a radius of about 50km around ginning factories, yet this is not the case in CAR. In addition, most of the trucks used to collect cotton have disappeared during the period of unrest in 2002, and it is therefore a priority to re-invest in collection trucks.

281. International competitiveness of CAR's cotton industry is constrained by the low productivity of the sector: over the last twenty years, the average seed cotton yield per hectare in CAR was 550kg/ha with peaks in 1990/91 (762kg/ha) and 1996/97 (729kg/ha); most recent figures are well below the historic average with 400kg/ha in the northwest region, and 120kg/ha in the Centre and East. These figures are very low compared to neighboring Cameroon which has similar soil quality and rainfall conditions where current yields are at 1,200kg/ha. The reason for the low productive in CAR are financial constraints for farmers which lead to low intensity of fertilizer and insecticide use, and inability to follow the optimal growing cycle. CAR farmers tend to miss the ideal planting periods because of the long time it takes to plow the fields manually. Even before the events of 2002, only 25 percent of cotton fields were plowed by oxen and 75 percent by manpower⁶¹. This ratio has decreased even more after the period of unrest when a number of animals disappeared. It takes about 30 days to plow a hectare manually versus 4 days with an oxen-drawn plow. Each day by which sowing is delayed, leads to a loss of about 10 kg/ha.

282. Other factors constraining productivity are inadequate organization of the cotton farming community in CAR, lack of extension services, and poor research facilities and structures. Experience in internationally competitive cotton growing countries in West and Central Africa has shown that organization of the sector, extension services and in-country research capacity play an important role. In CAR, the organization of the cotton farmers has remained at an embryonic stage, owing partly to a setback after the events in 2002. In the 1970s, Rural Interest Groups (GIR⁶²) were established to organize the sale of cotton and distributed the proceeds from the sales. Since the 1980s, their activities extended to the organization of primary cotton collection; fee income from these services was used to invest and maintain basic infrastructure (cotton storage facilities, schools, health facilities, etc). However, following the events in 2002, the GIRs have collapsed and have since not been revived. Extension services, since 1990 provided by ACDA and supported by a World Bank Support Program for Agricultural Institutions (PAIA⁶³) collapsed after 1997/98 when PAIA was discontinued after CAR slid into arrears with the World Bank. To date, only very few extension agents are paid by SOCADETEX to support cotton farmers, and their impact is very limited because of lack of inputs and processing equipment they can offer their clients. After 1990, research activities were to be pursued by ICRA though it only ever engaged in such activities with the support of PAIA between and 1997/98. Any program to revive the cotton industry in CAR should include resources to finance ICRA to provide agricultural research services for cotton growing regions

⁶¹ See survey in Mbetid (1999).

⁶² Groupements d'Intérêt Ruraux.

⁶³ Projet d'Appui aux Institutions Agricoles.

Relevance of the Cotton Industry for CAR

283. The population of the CAR is estimated at 3.5 million of which 600,000 live in Bangui, with about 2.9 million people in rural areas, mainly farmers. Projections from the last census in 1997 show that the farming population in the five cotton-growing provinces is estimated as follows:

- Center (provinces of Ouaka, Nana Grebizi and Kemo): 346,000 inhabitants
- North-West (provinces of Ouham and Ouham-Pendé): 630,000 inhabitants

284. Therefore, almost a million people – more than a third of the country's rural population – drew a main part of their income from cotton in these regions. During the 1997/98 season – considered as being the last season when production was relatively unencumbered by political problems – SOCOCA recorded 114,269 farmers directly involved in cotton farming. On the basis that there are six to seven dependants in the cotton farmer's household, one can estimate that nearly 800,000 people drew their livelihood from cotton in 1997/98. Furthermore, there are a number of related activities – ginning factories, transportation services, etc – that provide employment.

285. Furthermore, prior to the problems in 1997 which caused CAR to slip into arrears and the events of 2002, the GIR used to provide a number of business and social services from fee income related to the cotton business. During the last year of full operation, in 1997/98 the GIR invested CFAF 220 million in such services.

286. Finally, cotton farming also encouraged food production by crop rotation and the maintenance of feeder roads for transport of raw and ginned cotton also facilitates the transport of food and other crops to local and international markets.

Plans for Rehabilitation of Cotton Production

287. Rehabilitation of the cotton industry is one of the main priorities of the government and one of the pillars of the CSLP currently under preparation. In 2003, the Ministry of Rural Development (MDR⁶⁴) drafted a program to re-launch the cotton production which was updated in 2005. The five year program aims to bring cotton production to 65,000t of cotton seed, i.e. an all-time production record. Financing needs for the plan are estimated at CFAF 44 billion (about US\$87 million) which would pay for revamping all aspects of the industry: improvement in productivity at the farmer's level, rehabilitation of two of the existing ginning factories (one in each of the two regions of production) and construction of two new factories, the development of uses for cotton by-products, and improvement of the infrastructure and organization of the industry (rehabilitation of 3,600 km of roads, restructuring the farming community, water supply for villages and provision of micro-credits to farmers), as well as support for the production and marketing of food products.

⁶⁴ Ministère du Développement Rural.

288. The government intends to resume its cooperation with CFDT, or rather its successor company, the Dagrís Group. While detailed agreements remain to be hammered out, the general idea is for SOCADETEX to cease activities, and to create a new company in which Dagrís Group would have a controlling interest, and the state a minority interest.

289. The Dagrís group has developed its own 5 year plan which would attempt a gradual rehabilitation of the cotton sector in CAR, focusing at first on reviving production in the most productive regions in proximity to the ginning factories, and to invest in research activities to limit the cost of developing suitable cotton seeds. The Dagrís group plan projects to reach cotton production of 30,000tons over 5 years, and would return to an integrated approach with research, input financing, production, management of the industrial base and marketing would be closely linked.

290. Both the MDR and the Dagrís group have provided estimates regarding production cost development over the 5 year horizon. The cost estimates in the two plans are provided in Table 5.8 below. There are significant differences in these estimates, ranging from 10 percent to 25 in the first and last year of the plan respectively. The main differences in the estimates stem from differences in assumptions regarding fixed operating expenses, as well as from differences in cost of financial and insurance services, and transportation cost, some of which are assumed to change over time, for example through increased competition in the freight sector, as more operators compete in an increasingly secure environment.

Table 5. 8: Summary of Production Costs Comparison between the Dagrís Proposal and the MDR Calculations

Production	Year 1 10,000 t	Year 2 15,000	Year 3 20,000	Year 4 25,000	Year 5 30,000
DAGRIS FOB cost price	884	941	897	895	888
MDR FOB cost price	806	770	752	732	713
Differences between MDR and Dagrís estimates in %	10	22	19	22	25

Source: DAGRIS and MDR, 2006

291. Given estimates of cost in CAR and the prevailing world market prices over the next 5 years, both MDR and the Dagrís group estimate that cotton production in CAR will remain in a structural deficit, although the deficit figures estimated by MDR and the Dagrís group for the 5 year planning horizon differ significantly, as show in Table 5.9 below. Over the 5 year period, the deficit estimated by the MDR comes to €6million which is only about a third of the deficit estimated by the Dagrís group at €15.7 million.

Table 5.3: Comparison of Estimated Deficit Projections by Dagrís and MDR

	Year 1	Year2	Year3	Year4	Year5
Estimated production of seed cotton	10000	15000	20000	25000	30000
Estimated ginning ration	0.41	0.415	0.42	0.425	0.425
Estimated production of cotton lint	4100	6225	8400	10625	12750
Dagrís FOB cost price	884	939	893	889	880
MDR FOB cost price	806	770	752	732	713
Selling price estimated in cents/lb.	56	58	60	60	60
\$/€exchange rate estimate	1.2	1.2	1.2	1.2	1.2
FOB selling price in CFAF/kg	610	634	658	658	658
Dagrís deficit in CFAF/kg	274	305	235	231	222
Total deficit per year (CFAF billion)	1.1	1.9	2.0	2.5	2.8
Dagrís deficit per year in €million	1.7	2.9	3.0	3.7	4.3
Dagrís cumulative deficit in €million	1.7	4.6	7.6	11.4	15.7
MDR deficit in CFAF /kg	196	136	94	74	55
Total deficit per year (CFAF billion)	0.8	0.9	0.80	0.8	0.7
MDR deficit in €million	1.2	1.3	1.2	1.2	1.1
MDR cumulative deficit in €million	1.2	2.5	3.7	4.9	6.0
Difference in deficit per year (in %)	72	45	40	32	25
Difference in cumulative deficit (in %)	72	55	49	43	38

Source: DAGRIS Business Plan and MDR Calculations.

292. These figures show that financial support will be needed to subsidize cotton production in CAR, and that such support will – at least in the medium term – need to be recurrent. Therefore, the key question is to which extent CAR’s development partners will be willing to provide regular budget support to absorb the deficits of cotton production. It should also be noted that the scenarios presented in table 5.9 above present projections for the deficit that would arise from reviving only part of the industry; we recall that the original MDR plan aims at production of more than twice the volume of cotton, much of it in more marginal areas, which would obviously cause a much larger deficit that would need to be financed by CAR’s development partners.

293. A second problem for the government, the Dagrís group and the development partners to resolve is the settlement of the liabilities accumulated by SOCADETEX which is currently in default of its payments. A recently completed assessment of the financial and legal situation of SOCADETEX⁶⁵ proposes two alternatives scenarios:

- A first scenario proposes setting up a mixed company with a new capital structure in which the state contributes assets (previously released by SOCADETEX following its liquidation) and in which the Dagrís group would command the majority of the shares in the new company. This scenario would require auditing and subsequently settling SOCADETEX’ liabilities as well as final liquidation of SOCOCA and SOCADA, which is still outstanding.

⁶⁵ Etude de la situation financière et juridique de la SOCADETEX, Juin 2006, par le cabinet C2G Conseil.

- A second scenario proposes purchasing SOCADETEX shares from its private shareholders, consolidating the assets necessary for commercial operation of the cotton industry whereby the state would provide a contribution in kind of the assets recovered from the SOCOCA and SOCADA liquidations, and the discharge of SOCADETEX liabilities by the state. In this scenario, however, it is not certain that the Dagrís group would be prepared to acquire a controlling interest in the new company.

Coffee

Coffee production in CAR

294. Robusta coffee has been grown in CAR since the colonial era, concentrated in two regions where up to 65,000ha have been under cultivation at the peak of coffee production in CAR. Today, coffee trees cover an estimated 40,000ha, although a large part is not farmed.

295. The coffee growing regions are:

- Lobaye, Mambere-Kadei and Sangha-Mbaere provinces in the south-west of CAR; and
- Ouaka, Basse-Koto, Mbomou and Haut-Mbomou provinces in the south-east of CAR

296. During the colonial era, most of the coffee was produced on relatively large farms of 50ha to 500ha. Some of the large farms still exist, but today they account for only about 10 percent of overall production. After independence, production was mostly undertaken on smaller “family” farms of 1ha to 10ha; today 90 percent of production comes from such small scale farms.

297. As can be seen in Figure 5.10 below, coffee production in CAR has been volatile over the past 50 years, with a drop after independence, then an upward trend until the late 1980s and a downward trend ever since.

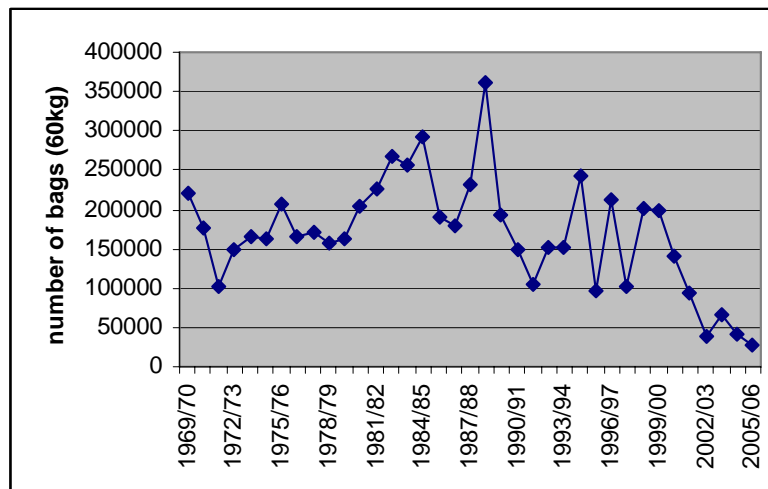
298. To counteract the post-colonial decline in coffee production, the government had started a support program in the mid-1970s. In 1977, the Development Agency for Family Coffee Production (ADECAF⁶⁶) was set up to support small scale coffee growers through small farmers associations, and four large cooperatives with hulling and calibration equipment. At the same time, the government introduced a price stabilization mechanism with the creation of a Fund for Stabilization and Equalization of Prices for Agricultural Export Products (CAISTAB⁶⁷).

⁶⁶ Agence de Développement de la Caféculture Familiale, funded through the fifth European Development Fund (EDF).

⁶⁷ Caisse de Stabilisation et de Péréquation des prix des produits agricoles à l’exportation.

299. Through these measures and additional support through a Support Program for Agricultural Promotion and Village Self-advancement (PAPAAV⁶⁸) coffee production increased and peaked in 1988/89.

Figure 5.7: Coffee Production Trend from 1970-2006



Source: ORCCPA

300. In the early 1990s, the government decided to liberalize the coffee sector by discontinuing price stabilization through CAISTAB. In 1994, this liberalization was completed and the state’s activities have since focused on the regulatory and policy framework and providing information and quality control through the Regulatory Board for Monitoring Processing and Marketing of Agricultural Products (ORCCPA⁶⁹).

301. Specifically, the responsibilities of ORCCPA are to

- issue licenses to coffee collectors and exporters; before obtaining a license, collectors and exporters have to be cleared by a commission;
- ensure quality control by random inspecting of coffee for export; and
- monitor world coffee prices and issue a “minimum price” which serves as benchmark for negotiations between producers and exporters.

302. Liberalization of the coffee sector led to a decline in coffee production which ORCCPA activities could not reverse. Still, in 1995⁷⁰, coffee farming provided a livelihood to about 400,000 farmers, traders, middlemen, workers at the 50 coffee milling plants, etc.

⁶⁸ Programme d’Appui aux Institutions Agricoles et l’Autopromotion Villageoise.

⁶⁹ Office de Réglementation du Contrôle du Conditionnement et de la Commercialisation des Produits Agricoles.

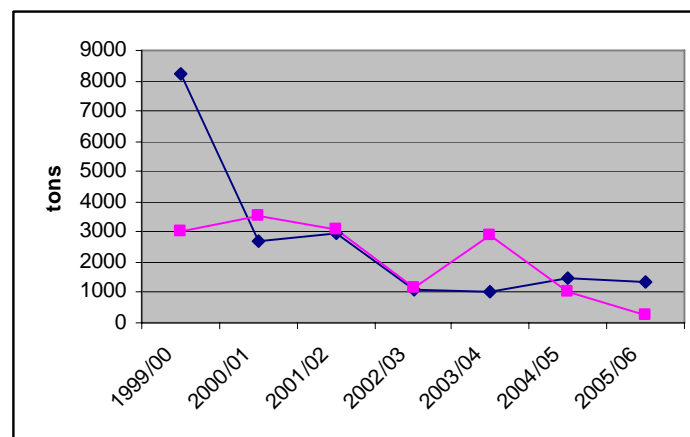
⁷⁰ This is the last year for which relatively reliable statistical information is available; beyond 1995, information should be taken as qualitative, rather than quantitative.

303. In 1995, the 60,000 – 65,000 coffee growers were organized in 465 rural interest groups (GIR⁷¹), 115 in the south-west and 350 in the south-east. In addition to these grass-roots organizations, there existed the four coffee producer cooperatives established by ADECAF, and an organization linking coffee producers and millers (FEPUCA⁷²). These structures had been financed by donors through ADECAF to provide services to coffee farmers (extension, credit, input supply). However, these structures did not become self-standing and financially sustainable, and thus collapsed after ADECAF was dissolved when the donor projects were discontinued in the late 1990s. For a short period, ACDA financed by the World Bank’s PAIA tried to support coffee farmers (as it already did for cotton farmers) but had to stop support after the World Bank discontinued PAIA in 1997/98. Thereafter, coffee farmers were left without horizontal or vertical structures, which depressed productivity.

304. Political unrest in CAR and the sub-region since 2000 spurred a sharp decline in coffee production to all time lows at about 2,550 tons in 2004/05 and an estimated 1,600 tons in 2005/06; less than 13,000 people now live off coffee farming and production. The decline in coffee production was followed by a drop in the number of approved exporters. In the 2005/06 season, there were only 3 active buyers and 11 others who were licensed but did not pursue coffee exports in a significant manner. ORCCPA could not provide support because it is financed through a CFAF 25 fee for every kg coffee exported. Thus, as coffee exports dwindled so did ORCCPA’s resources.

305. CAR coffee has traditionally been marketed in Europe, but increasingly it is now exported regionally, notably to Sudan. Figure 5.12 below shows that since 1999/2000, regional exports have become more important than exports to Europe, and that for the latest harvest in 2005/06, only 20 percent of exports went to Europe, about 70 percent to Sudan, and 10 percent to Chad.

**Figure 5.8: Coffee Exports to Europe and Neighboring Countries
1999 – 2006**



Source: ORCCPA

⁷¹ Groupements d’Intérêts Ruraux.

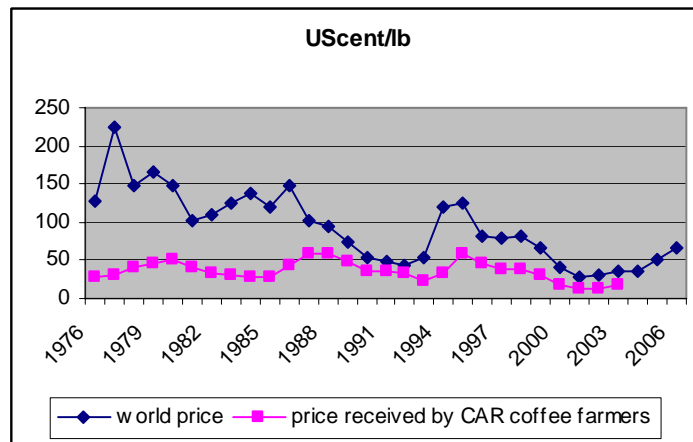
⁷² Fédération des Producteurs es Usiniers.

Constraints of coffee production and exports in CAR

306. The main constraints for coffee production and export in CAR are high transport and transit cost to the market in Europe (discussed in Chapter 4 and in detail for the cotton sector), low world market prices which have significantly reduced, if not wiped out the margin of coffee production, and insecurity which hampers regional coffee exports to Chad and Sudan.

307. Figure 5.12 below shows that world market prices for Robusta coffee have declined significantly since the late 1970s, with only brief periods of price recovery in the late 1980s, mid 1990s, and a slight upward trend over the past 5 years. Since the late 1990s, prices have hovered around and even dipped below production cost in CAR and as a result, farmers did not earn enough (or expected to earn) to invest in coffee quality (treatment of trees, maintenance at the plantations, etc.). This led to a vicious cycle in which a decline in productivity and quality for CAR coffee further reduced the price paid for CAR coffee at international markets.

Figure 5.9: Average Robusta Coffee Prices 1976 – 2006



Source: International Coffee Organization Database

308. During the 2000/01 and the 2001/02 season with particular low world market prices, assistance was paid to some coffee growers from the STABEX fund⁷³. However, this system was discontinued, and since 2003 many coffee growers stopped coffee farming and switched to subsistence agriculture instead.

309. Apart from Europe, major destinations for Central African coffee are now neighboring countries Chad and in particular (western) Sudan; Bambari, the center of coffee production in south-eastern CAR is only about 750km from the major Sudan-CAR trading point Am Dafok in northern CAR. However, it was reported that traders are currently subject to frequent robberies (about 30 to 40 unofficial “check points” between Bambari and Am Dafok), and trade along this traditional route has all but ceased⁷⁴.

Prospects

310. Based on the available statistics, it is very hard to assess the prospects of coffee production in CAR which depends on the age of coffee trees, number of plantations still under cultivation and their condition, and the extent and impact of the coffee wilt disease. For these parameters, only very limited information exists to date.

311. It is likely that a rehabilitation of the sector would require very substantial investment, both for new trees, and to upgrade the farms. Furthermore, in order to bring back former coffee farmers, the environment for coffee production needs to be improved. The small scale producer associations and cooperatives that had been set up by ADECAF and that have since collapsed and disappeared would need to be replaced, and supported to fulfill their functions, i.e. extension services, collection, hulling, etc. Furthermore, it will be necessary to facilitate farmers’ access to new plants, either through ICRA or

⁷³ STABEX (Système de Stabilisation des Recettes d’Exportation) is a EU compensatory fund to stabilize export earnings in ACP (Africa, Caribbean, and Pacific) countries.

⁷⁴ One operator specializing with coffee exports to Sudan states that in the most recent 2005/06 season, only 200tons were shipped which amounts to less than one sixth of trade a few years ago.

through imports, and to give farmers access to loans to purchase new trees, tools and inputs.

312. If coffee production in CAR is to be re-launched, an important aspect will be to re-organize the sector since the structures that had been set up in the 1970 and 1980s have disappeared. Probably the most efficient way would be to implement such structures through ACDA which is providing support to cotton farmers. Also, ACDA will be best placed to support coffee farmers on broader rural development issues, such as crop diversification (e.g. cocoa, palm oil, cola nut, etc). In this context, it is also important to specify what distribution structure for inputs (mainly fertilizers and insecticides) is envisaged, and what the respective roles of the private and public sectors should be. To develop better Robusta coffee plants, the ICRA would need to re-engage in coffee research; for the commercial development of better varieties, ICRA should cooperate with the private sector to develop commercial nurseries, and marketing and distribution channels in the coffee growing regions.

313. Coffee destined for the European market needs to meet the quality standard which will require additional investment to ensure proper drying facilities. Also, since CAR coffee has not been on the European market for a while, meeting high quality standards is particularly important, as are other marketing efforts to put the CAR brand back on to traders' radar screens, and for traders to consider CAR coffee, it is necessary that it will be consistently available both in terms of quality and quantity. Coffee destined for the regional market will have lower quality requirements, so that producers would most likely specialize regionally, with the south western region producing for the European market, and the south-eastern region for the regional market. As mentioned above, ORCCPA fixes a minimum coffee price as a guideline for producers and buyers based on world market price developments and transport cost. However, this minimum price is oriented on exports to Europe through the Bangui-Douala corridor and does not reflect that coffee is increasingly exported regionally. This will have to change in order to properly reflect the weight of Sudan and Chad as the main trading destinations.

5.5 TOURISM

314. The most developed tourism activity in the CAR is big game hunting. The other tourism activities such as eco-tourism, conference tourism are at an embryonic stage, although there have recently been encouraging developments, particularly with the reopening of certain eco-tourism establishments within the national parks of Saint Floris and of Ngotto, and the start of renovation of a hotel with a conference center at the Boali waterfalls. The tourism industry, in particular big game hunting, plays a major role in the survival of the poorest populations in the north of the country. Tourism revenue, which mainly comes from hunting, has remained relatively stable over the years, except in 2000 – 2004, when hunting tourists did not come to the CAR due to conflict-related events. For 2004 – 2005, tourism revenue from hunting is estimated at CFAF90 million.

315. The CAR possesses considerable tourism riches – varied vegetation, virgin forest and semi-arid savannah, and still significant fauna. The CAR also has a rich and unique culture. However, the only tourist activity which is well-developed is big game hunting, a

sector in which the CAR offers an attractive product to clients. This sub-sector, however, hardly offers any potential for growth given that hunting quotas are already 90% - 95% filled. Other tourist activities have not been developed due to multiple constraints.

316. The most important constraints are the negative image of the country related to the events from 1996 – 2003, the lack of security which prevails still in certain parts of the country, the low frequency and high cost of air connections (both internally and externally), and very undeveloped and often poorly-managed tourism infrastructure (hotels, restaurants, tourist services). The constraints particularly affect eco-tourism, and sight-seeing which face competition from other African countries that offer less-expensive and more comfortable tourism services, and ensure better security. These problems are illustrated by the fact that 95 percent of tourists at the most popular eco-tourism site in RCA (Bayanga) pass through Cameroon. Only 5 percent arrive through Bangui, and thus spend more time and money in CAR.

317. Most of the constraints can only be overcome in the medium and long term. The most important contribution of the government will be to ensure peace, put in place the necessary reforms for the CAR to benefit from an enabling environment for national and international investment in the tourism sector. There are encouraging developments on that front since government is trying to divest tourism operations. Currently, four privatizations are taking place, among them the renovation of the Balik hotel with a conference center.

318. The national air transportation sector is limited to two companies (MinAir and CentrafAir) that have a plane each; CentrafAir's is rented. These companies apply high airfares as compared to other countries known for eco-tourism and sightseeing. The high fares are difficult to justify; indeed the flights are hardly on time and the service offered are of poor quality.

319. Another major constraint is poaching, which has reached worrisome proportions mainly in the north of the country, at the Chadian and Sudanese borders. It poses a problem not only to the development of eco and vision tourism (notably in the St. Floris park), but also for the survival of big game hunting tourism.

5.6 SUMMARY AND RECOMMENDATIONS

Mining

320. CAR's mining sector is unique in its reliance on alluvial deposits which need to be carefully shepherded. This requires that mechanized mining of alluvial diamonds should be either banned, or limited to very small areas. If mechanized mining in limited small areas is allowed, such activities should not be eligible for incentives under the mining investment code. If this recommendation was not followed, deposits could be depleted in a few years.

321. Thus, it is a priority to revise the mining and investment laws to take account of the alluvial nature of CAR's diamond deposits. Revision of the mining law should also

take into account the impact of artisanal mining on economic growth and poverty reduction, in particular in rural areas. Provisions should be made to provide technical assistance to artisanal mining and marketing to improve the conditions at the base.

322. Thus, a major technical assistance activity will be needed to undertake a thorough audit of the mining sector to assess the detailed agenda for revision of the laws and regulations for the mining sector. The audit would need to be complemented by a proposal on how precisely the Code Minier would need to be amended and changed.

323. Secondly, government should revise the existing requirements for buying houses and collectors. These requirements have been introduced to address governance issues in the mining sector, yet they have led to concentration in the sector with no apparent successes in the fight against corruption. Again, this would likely require technical assistance in two steps, namely a detailed assessment of the problems that have been arisen since the requirements have been introduced, and a proposal on how they should be changed to avoid such problems in the future. Most likely, the recommendation will be for government to review the requirements to:

- eliminate quotas,
- allow insurance to cover bonds, and
- orient investment requirement toward provision of social and infrastructure services in rural areas (rather than real estate, as currently the case)

324. Thirdly, the government should seek support from its development partners to create an independent mining cadastre office which would help to eliminate opportunities for arbitrary attribution of mining claims, and significantly increase investor confidence. The cadastre office should produce a digital cadastre and maintain it continually on a web-site. This activity will consist of some investment in the hard and software necessary for the office, and training and capacity building to set up the digital cadastre.

325. There is apparently significant gold production in CAR, which is, however, almost exclusively traded and exported through illegal channels. The estimated value of the production is high, estimated at 2/3 of declared diamond exports, and foregone government revenues thus very significant indeed. Relieving the tax burden on imports has been identified as a government priority elsewhere, and bringing the gold trade into the formal economy should thus be considered on a priority basis. A first step should be to assess existing market channels to identify key entry points for government to formalize the gold trade. Donors can support this by providing funds for such a study which would need to budget not only for experts to undertake the work, but also for security guards and armed vehicles.

326. An obvious priority for the sector to expand is improved security. However, this is not specific to the mining sector, but rather a crosscutting problem for all CAR's trade, and indeed economic activity. However, there are some sector specific security concerns that the government should address. In particular, it should retrain mining police and other authorities to ensure security and protection for *legal* actors in the mining trade, and

to focus their attention on undocumented smuggling and corruption, including in the security forces. Secondly, to avoid that mining revenues are for arms, military personnel and security forces should be banned from holding mining concessions, or being principal officers in a company or association that holds concessions.

Forestry

327. The forestry sector is competing with diamond mining for the top export sector, although it is still less important with respect to employment, and social service provision. CAR has recently introduced measures to make harvesting of its harvesting resources more sustainable which is a welcome development, maximizing the growth and poverty reduction potential of the sector in the medium term. At the same time, value addition has increased, although from a very low basis.

328. Only a limited surface area of CAR is currently available for harvesting of forestry products. In order to identify potential additional areas for harvesting, a forestry inventory should be undertaken on a priority basis. Donors can support this through providing funds to set up the inventory and to provide capacity building for government officials to contribute to the inventory and to administer it.

329. Another priority recommendation for the forestry sector is to review the pricing of permits, which currently does not reflect the regional best practice. In particular Cameroon has a forestry policy in place whose permit pricing (through auctions of forest management permits based on the annual area tax) has had beneficial effects for sustainable forestry management, fiscal distribution between the local and central government, and the level of tax revenue. A reform of the CAR regime towards the Cameroonian should be explored. This will require technical assistance through bringing in regional experts that can provide assistance and capacity building for CAR government officials.

330. All sector reviews identified security issues in the CAR as one of the main constraint for further development. Another constraint that was mentioned in several sector studies is the human resource constraint, caused by a prolonged period of poor educational service delivery. To address this constraint requires a long term and concerted efforts between the CAR government and the development partners to invest in rebuilding and maintaining social service provision in CAR.

Cotton

331. Given the productivity of the cotton sector in CAR, the high transit cost and the expectations regarding world market price development, is unlikely that cotton production and export from CAR will be competitive in the short and medium term, even if significant investment will be undertaken. However, as we have seen, cotton is livelihood for a large part of the population, and there are significant linkages with other activities, including provision of social services. The government and development partners are committed to revive and rehabilitate, although the scale of the rehabilitation

is still undecided with the government's MDR plan advocating the revival of the full scale cotton industry which would be expensive, considering the investment necessary to rebuilt feeder roads, replace collecting trucks, re-furbish/rebuild ginning factories, and to extend credit for farmers for production inputs. Alternatively, rehabilitation could follow the Dagrís plan and be more gradual which would require fewer resources yet also have in the short term a less wide-spread impact on income poverty and service delivery.

332. The decision which of these two options shall be pursued shall depend largely on the willingness of CAR's development partners to provide funding from what is likely to remain a structural deficit in the cotton sector for some time. Currently, there are significant differences in the estimates of production cost and resulting deficits over the 5 year planning horizon. An important recommendation is thus for the teams of MDR and the Dagrís group to cooperate in order to develop a common methodology for the assessment of cost and resulting losses over the planning horizon.

333. It will be important for the government, the Dagrís group and CAR's development partners to take a decision soon, since the planting season will start in May. One condition to reach an agreement would be for the government's MDR and Dagrís group to agree on the underlying parameters to assess production cost. At the moment, there is still a discrepancy between the cost assessment undertaken by MDR and Dagrís.

334. Finally, the various stakeholders should also quickly decide upon an institutional arrangement that will be satisfactory to both the Dagrís group which will take majority control over the existing assets, as well as the state which aspires to keep a stake in this key sector for CAR's economic revival.

335. In the meantime, it is a priority for the government is to settle fully or at least in part arrears with cotton farmers. These arrears that have been accumulated over a number of years have reached CFAF 1.85billion (US\$3.7 million)⁷⁵. Settlement of the arrears would be important to reestablish producers' confidence in the future of cotton production in CAR.

Coffee

336. Coffee farming in CAR has declined significantly over the past decades, owing to a number of reasons, some external such as the landlocked nature of the country, and the declining world market price for Robusta coffee, but mostly for internal reasons namely inadequate support structures for the sector, and internal conflicts, in particular over the last decade.

337. If the coffee sector is to be revived in the CAR, significant resources need to be made available to pay for investment as mentioned above. Since the government's own finances are constrained and likely to be so for the foreseeable future, the viability of the

⁷⁵ The majority of the arrears has been accumulated by SOCOCA (CFA1.8billion) and CFCA550million by SOCADETEx.

sector will depend on the willingness of CAR's development partners to make available those resources.

338. CAR should settle outstanding contributions to the International Coffee Organization (ICO) which will allow CAR to access the support offers from the ICO such as micro-credit facilities for small scale producers.

339. The mission has identified a number of priorities for technical assistance that will be necessary for a revival of production and exports in CAR:

- As mentioned above, the statistical base for coffee production and the state of the farms is very poor indeed, with latest reliable information dating back to 1995. Thus a first priority is to undertake an audit for the sector to assess the existing capacity and needs.
- A study that (i) identifies how ACDA should organize support structures for coffee farmers, and (ii) proposes sustainable financing of ACDA, followed by technical assistance to implement the study recommendation at ACDA.
- Technical assistance for ICRA to drive forward research on Robusta coffee varieties, including linking ICRA with other research institutes to develop state-of-the-art plant varieties that are resistant to coffee wilt disease.
- A study that (i) identifies how ORCCPA should revise the setting of the guidance price, taking into consideration the destination markets for coffee, and other changes in the industry, (ii) proposes how ORCCPA could diversify its activities, for example through setting up a market information system for coffee and other food crops, and (iii) proposes sustainable financing of ORCCPA, followed by technical assistance to implement the study recommendations at ORCCPA.
- A study identifying which part of the production chain would be best served by the private sector (e.g. development of commercial plant nurseries on the basis of improved varieties developed by ICRA, and commercial distribution of inputs through importers and producer association), followed by TA and possibly a small investment project (e.g. matching grants) to support the private sector in entering the coffee sector.
- Support CAR to work with the African and Malagasy Coffee Organization (OAM-CAF⁷⁶) which represents francophone Robusta coffee producers to identify whether there may be possibilities for niche marketing of CAR coffee.

Tourism

⁷⁶ Organisation Africain et Malgache du café.

340. Tourism has been an important and rather stable services export. Almost all tourism activities in CAR are big game hunting, and international tourists have been and likely will be prepared to pay premia for the hunting opportunities in CAR. However, there is little growth in this market since hunting needs to be limited to ensure sustainability, and quotas have been binding for most of the species.

341. Other forms of tourism such as conference tourism and eco- and vision tourism are little developed, and in particular conference tourism may be a growth sector, provided that the international community and CAR's development partners who have left during the period of unrest will return, and local and regional conferences might again be held in Bangui. One such activity is already under way, and should be monitored to see if additional capacities are necessary.

342. Two specific problems have been identified where technical assistance and capacity building may be helpful to address constraints in the tourism sector.

- The local air charter sector which is used by big game hunters seems to have low capacity (just two planes which are unreliable). A study might help to identify whether there might be regulatory measures that the government can take to improve the services of the sector.
- Secondly, successful measures are undertaken in the southwest of CAR to address poaching through a tripartite activity between CAR, Cameroon and the Democratic Republic of Congo. Technical assistance should be provided to identify whether, with the assistance of the regional organization OFSA, similar activities could be taken in the north of CAR in cooperation with Chad to address poaching in that region. If it turns out that this might be a desirable plan, financial resources might be needed to finance joint Chadian and CAR anti-poaching actions.

6. TOWARDS A TRADE STRATEGY FOR CAR

343. As the CAR moves towards translating this and other diagnostics into a trade strategy a number of aspects should be noted. This last chapter provides some guiding principles that should be followed in the process of developing a trade strategy. These principles arise from experiences in other countries, and with the Integrated Framework process.

344. Secondly, this chapter highlights some of the priorities that arise from the diagnostic above and which should be the focus and priority for the emerging strategy, its action plan and implementation.

345. One of the key principles for the strategy should be that it is embedded in and consistent with CAR's overall development strategy, as formulated in the PRSP. Trade can be an important driver of economic growth and poverty reduction, and as such should be at the core of the overall development agenda in order to focus policy making and donor support on this key agenda. Better trade integration can contribute not only to growth and poverty reduction, but also strengthen the private sector and civil society, thereby contributing to the stability of the country. Benefits from a trade strategy, and integration of such a strategy into the PRSP will thus go beyond mere economic effects.

346. The key driver of trade and exports is the private sector. Therefore, it is important to involve the private sector as key stakeholders in the development of the trade strategy, its implementation, monitoring, and updating.

347. The capacity of the government in CAR in driving forward reforms and coordinating technical assistance, capacity building and other programs from its development partners is limited. The constraints on the part of the government should be taken into consideration in the development of the trade strategy and priority actions to ensure that the reforms and programs are well sequenced and the timeline chosen realistically. This will create realistic expectations by all stakeholders and will contribute to the sustainability of financial and policy support of the agenda.

348. The following are key priorities that have been identified in the report for policy focus, reforms and donor support for the trade-related support agenda for the CAR government and its development partners:

- Given the landlocked nature of the CAR, the focus of trade policy making should be regional integration, namely working towards realizing the free flow of goods and services in the CEMAC region. Currently, there are still many NTBs, restrictions and ad-hoc measures that impede trade within CEMAC and CAR should put its weight behind the 2003 road-map to eliminate these barriers. Better access to the regional market should increase regional trade and help the CAR to diversify its exports.

- As regards forestry products and diamonds, CAR's main exports to overseas markets and main sources of middle-income employment, benefits from exports can be increased through revision of existing laws and regulations and by reducing corruption and smuggling. This should also serve to formalize gold exports which are estimated to be significant and which could thus contribute to revenue generation. The CAR should seek assistance from development partners for these activities.
- The cost of trade and transport facilitation is particularly high for CAR, even compared with other landlocked countries. While there are a number of improvements necessary, there is an immediate opportunity to use the ongoing reform of the Customs department to re-train customs officers to focus not only on revenue generation but also on trade facilitation in their duties.
- Cotton production and exports which provided a livelihood for as much as a third of the country has declined almost completely. Revival of the sector is a priority for the government, but it will be necessary to closely follow world market developments to take advantage of possible opportunities – e.g. by using genetically modified cotton – to minimize expected losses/

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