CENTRAL AFRICAN REPUBLIC

2014

Kalidou Diallo / k.d.diallo@afdb.org

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- **A rebel uprising led to the overthrow in March 2013 of Central African Republic's president and conflict in which thousands have died.**
- **Despite an international military operation, there is a huge humanitarian crisis, state institutions have collapsed and the economy has come to a standstill.**
- **The transitional government has virtually no revenue sources and the country faces an uncertain future.**

Overview

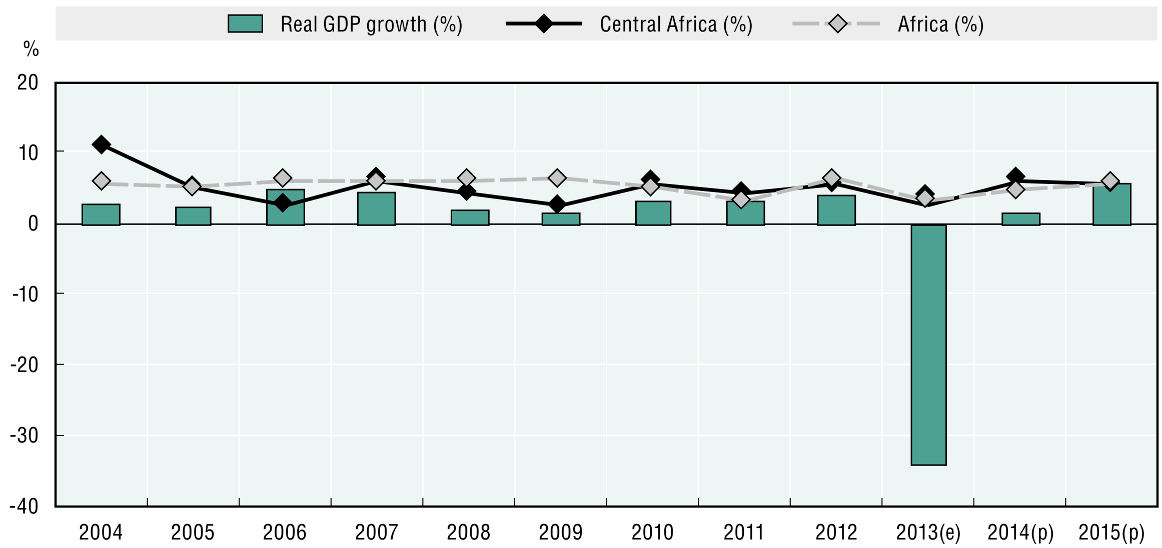
Armed groups overthrew President Francois Bozizé, who had been in power since 2003, on 24 March 2013, plunging Central African Republic into the most serious crisis in its history. The rebellion by the groups known as Seleka, meaning "alliance" in the Sango language, has been condemned by the international community and the conflict has caused a massive human tragedy. Under an accord brokered by the Economic Community of Central African States (ECCAS) a transitional executive has been in place since April 2013 aiming to bring the country through the crisis. Michel Djotodia, a leader of the rebellion who named himself president, at first declared a three-year transition period, but under the accord agreed to hold elections within 18 months. He named Nicolas Tiangaye, from the traditional opposition, as prime minister, but the two could not stabilise the country.

"Anti-Balaka" self-defence militias were set up to counter Seleka attacks and large-scale inter-communal violence erupted. From 1 August 2013 the African Union began deploying forces as part of the international support mission, MISCA (*Mission internationale de soutien à la Centrafrique*) that would eventually number 3 500 soldiers but to little effect. Operation Sangaris, a French military intervention comprised of 1 600 troops operating under a UN mandate, followed on 5 December 2013. Every state and public institution has been affected by the crisis and the State has effectively collapsed.

An escalation of the violence at the start of December 2013 worsened the humanitarian situation. The following month, the United Nations (UN) reported that the crisis had displaced more than 800 000 people, with more than 500 000 in the capital Bangui. More than half the population of 4.6 million people were in need of urgent assistance and 245 000 had fled to neighbouring countries. Public finances collapsed with the public management system and financial bodies in disarray. Public revenues fell by more than 50% and the authorities had to make use of systematic off-budget operations.

Despite the resignation of Djotodia and Tiangaye on 10 January 2014 and the installation of new transitional authorities who have international support, the economic outlook for 2014 is bleak. Insecurity persists and the heavy economic and financial damage will be difficult to repair in the short term. The challenge for 2014 and 2015 will be to restore security, facilitate access to humanitarian assistance and organise elections. The crisis has jeopardised all prospect of economic development, economic structural transformation or sustainable development. Even before the crisis, however, Central African Republic had not succeeded in transforming its economy or promoting activities to get into regional or global value chains.

Figure 1. **Real GDP growth**



Source : AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	4.1	-34.2	1.5	5.7
Real GDP per capita growth	2.1	-36.2	-0.5	3.7
CPI inflation	5.9	6.5	5.8	2.9
Budget balance % GDP	0.0	-5.7	-8.2	-5.3
Current account balance % GDP	-5.6	-9.4	-13.1	-9.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Rebels launched attacks in December 2012 that led to the political and security crisis that culminated on 24 March 2013 with the overthrow of President Bozizé. The crisis has caused a humanitarian catastrophe with massacres and assassinations, serious and repeated human rights violations and massive displacement of the population. Security forces disappeared and looting of private and public property became widespread. Key institutions have been unable to function.

No sector has been left untouched. A partial IMF study, released at the end of November 2013, estimated the GDP fall at 20% to 25% for 2013. Only the new information and communication technologies (ICT) sub-sector appeared to escape the slump. The destruction of basic infrastructure and production equipment, widespread insecurity and massive displacement all hit the economy. Agricultural production collapsed, a trend exacerbated by the suspension of agricultural development projects financed by the African Development Bank (AfDB), the World Bank and the European Union (EU) and other partners. The wood and mining sectors fell sharply in 2013, with uncertainty over contracts that were being revised and mining sites occupied. The country was suspended from the Kimberley Process diamond certification scheme and a moratorium on the mining and sale of diamonds was adopted. The construction, industry and electricity sectors were also badly affected due to looting and destruction.

It is difficult to assess sector contributions to GDP for 2013. Before the crisis, the primary sector dominated (about 50% of GDP), followed by services (30%) and the secondary sector (20%).

Every component of demand (consumption, investment and foreign demand) fell in 2013. The contraction in final consumption reflects a fall in household consumption linked to deteriorating private sector employment and to delays in the payment of public sector salaries and pensions. Public and private investment suffered from the fall in domestic public resources and from the suspension of foreign financing by key financial and technical partners.

Despite the accession of new transitional authorities in January 2014, the economic outlook for 2014 and 2015 is uncertain. At the time of writing, insecurity and violence were still widespread, accentuating the 'destruction of the social fabric and the unprecedented loss of trust', to use the words of Lieutenant General Babacar Gaye, the UN Special Representative in Central African Republic. Instability and the absence of economic data at the time of writing make it impossible to make precise growth forecasts for 2014 and 2015.

Table 2. **GDP by sector (percentage)**

	2008	2013
Agriculture, hunting, forestry, fishing	55.7	53.2
of which fishing	5.6	5.9
Mining	1.7	1.8
of which oil		
Manufacturing	6.7	6.3
Electricity, gas and water	0.7	0.6
Construction	4.3	4.5
Wholesale and retail trade, hotels and restaurants	12.9	14.1
of which hotels and restaurants		
Transport, storage and communication	5.6	6.1
Finance, real estate and business services	6.5	7.0
Public administration, education, health and social work, community, social and personal services	4.4	5.2
Other services	1.5	1.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The budget was not executed in line with the 2013 Finance Act adopted by the government overthrown in March 2013. A supplementary Finance Act was envisaged by the new authorities, although it was not adopted. With public revenues collapsing, the management of public finances was marked by the systematic use of off-budget measures. According to provisional IMF estimates, fiscal receipts in 2013 fell by more than 50% over 2012, to just 4.8% of GDP – against an average of about 9.1% for 2009-12. The collapse in economic activity was magnified by the total disarray of customs and tax authorities and by the narrow fiscal base, which, restricted to the formal sector, was affected by the crisis. The informal sector continued to avoid taxation.

In terms of public spending, only current expenditure was executed in 2013 with an almost systematic recourse to off-budget procedures. According to available data, total public spending reached only 13.4% of GDP in 2013, compared with an average of 16.7% over 2009-12. Public spending reflected strong increases in expenses: spending on fuel and unexplained advances as well as resources mobilised at the expense of salaries, pensions and public investment. The incomplete data available only makes an estimate of the primary fiscal balance, in deficit by about 5.7% in 2013. The suspension of budgetary support by donors led Central African Republic to seek financial assistance from neighbouring countries, especially Republic of Congo. Despite this help, at the end of 2013, the country was 3 months in arrears of salaries and 15 months in arrears for pensions. Encouraging progress in public finance management made in recent years was undermined – or destroyed – during the crisis.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**12.4**	**17.2**	**13.2**	**16.3**	**7.6**	**8.6**	**10.6**
Tax revenue	7.1	9.3	8.3	9.8	4.8	5.0	6.1
Grants	4.1	5.5	2.5	4.8	2.5	2.7	3.2
Total expenditure and net lending (a)	**16.9**	**18.5**	**15.6**	**16.2**	**13.4**	**16.9**	**15.9**
Current expenditure	11.5	12.4	11.6	10.1	11.9	13.6	12.8
Excluding interest	10.6	11.4	11.0	9.4	11.3	12.9	12.2
Wages and salaries	5.5	4.4	4.4	4.6	6.4	6.6	6.2
Interest	0.9	1.0	0.7	0.7	0.6	0.7	0.6
Capital expenditure	5.4	6.0	3.9	6.1	1.5	3.3	3.1
Primary balance	**-3.6**	**-0.3**	**-1.7**	**0.7**	**-5.2**	**-7.6**	**-4.7**
Overall balance	**-4.5**	**-1.3**	**-2.4**	**0.0**	**-5.7**	**-8.2**	**-5.3**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The monitoring of price indicators was also affected by the malfunctioning public services. IMF estimates in November 2013 did not indicate a marked rise in prices, with an average annual inflation of around 12%, driven by rising food and fuel prices. Basic products were in short supply because of the security crisis and the occupation of key routes by armed elements.

Inflationary pressures would have been stronger if domestic demand had not fallen so strongly. Central African Republic's membership of the Economic and Monetary Community of Central Africa (CAEMC) also enabled it to contain price rises. CAEMC members share a monetary policy led by the Bank of Central African States (BEAC) which gives priority to containing inflation and maintaining fixed parity between the CFA franc BEAC (XAF) and the euro. The BEAC continues to use indirect instruments, such as refinancing and mandatory reserve requirements, to control money supply growth.

Economic co-operation, regional integration and trade

The trade deficit, estimated at 6.8% of GDP in 2013, deepened with the fall in diamond and wood exports, which account for the majority of export receipts. The country's suspension from the Kimberley Process resulted in the halt of diamond exports. Timber sales abroad also fell sharply because of the destruction of production facilities, deteriorating infrastructure and insecurity on the main road from Bangui to the port of Douala, in Cameroon, through which most external trade transits. Imports contracted because of weak domestic demand and the insecurity. As a result, foreign reserves collapsed to cover barely one month of imports. Foreign direct investment also ceased and budgetary support from key donors was suspended.

It was difficult to implement policies and agreements on integration and regional trade in 2013. Despite this, the new transitional authorities installed in January 2014 affirmed their desire to integrate Central African Republic into CAEMC and ECCAS. The high level of political involvement of these organisations in trying to end the crisis in Central African Republic has pushed the transitional authorities to respect their engagements towards regional integration. The regional group has maintained a strong commitment to keep CAEMC's headquarters in Bangui.

Table 4. **Current account (percentage of GDP)**

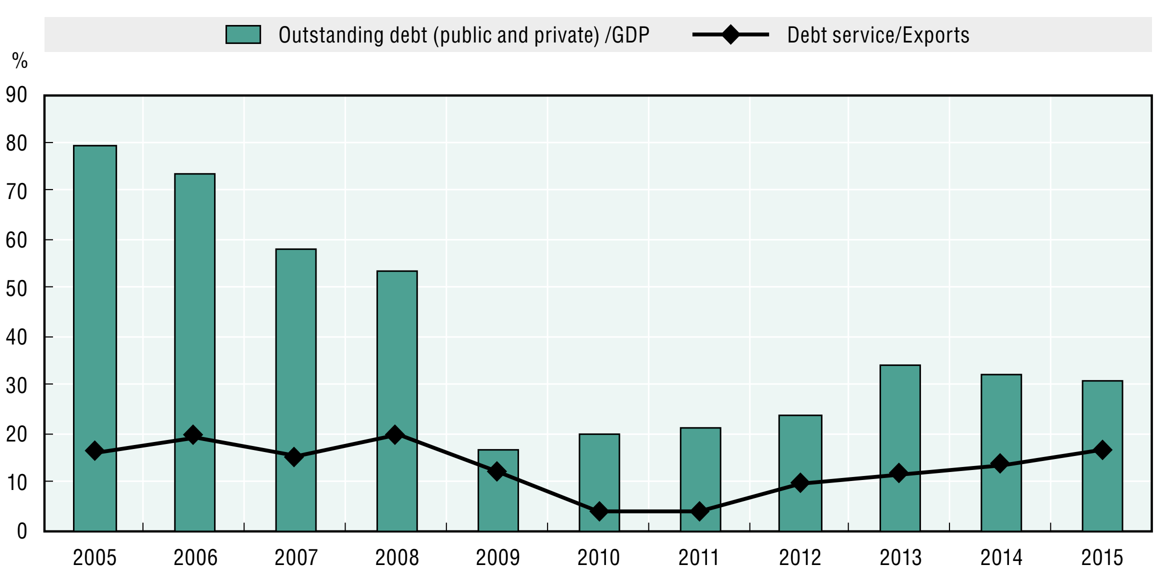
	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	-3.5	-8.3	-5.1	-4.8	-6.8	-9.5	-7.5
Exports of goods (f.o.b.)	9.5	7.1	8.6	8.5	6.2	6.0	8.4
Imports of goods (f.o.b.)	13.0	15.4	13.8	13.3	13.0	15.5	15.9
Services	-4.5	-5.7	-5.1	-5.0	-7.4	-7.2	-5.3
Factor income	-0.8	-0.2	-0.2	0.0	-0.1	0.0	0.1
Current transfers	2.3	4.0	2.9	4.3	4.8	3.7	3.6
Current account balance	**-6.5**	**-10.2**	**-7.5**	**-5.6**	**-9.4**	**-13.1**	**-9.1**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Central African Republic has improved its public debt situation in recent years through the Heavily Indebted Poor Countries (HIPC) initiative. The public debt/GDP ratio of about 40% was deemed by the IMF to present a low risk of debt vulnerability. The crisis has had a negative impact on public debt however. New payment arrears have accumulated with the state's primary suppliers, the local banking system and some multilateral creditors. To deal with public salary arrears, new loans have been contracted, albeit concessional, particularly with the Republic of Congo (XAF 25 billion) and other countries in the region (XAF 9.7 billion). It is difficult to assess the impact of these developments on the stock of public debt in 2013 and on its sustainability.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Even before the crisis, private sector development in Central African Republic faced structural problems and a business environment lacking incentives. Despite previous efforts to target taxation and the creation of businesses, Central African Republic was almost always ranked last in the World Bank *Doing Business* report.

The unrest has exacerbated obstacles to private sector development which now include insecurity, the collapse of the state, looting, a more than 50% fall in turnover in formal sector businesses and an abrupt halt to investment. On top of this, nearly all foreign nationals, who dominated the informal sector and small businesses, fled to neighbouring countries because of the sectarian violence.

Financial sector

The financial sector is shallow, comprised of a limited number of institutions and remains concentrated in Bangui. Banks have suffered substantial material losses. Since the beginning of the crisis, the principal establishments have limited their activities across the country. The banking system suffered from the departure of key clients, increased unrecoverable debt and from the accumulating state arrears, resulting in a fall in liquidity of the banking sector.

Public sector management, institutions and reform

Efforts of the last years, undertaken by successive governments and supported by development partners, enabled encouraging improvements in public sector management. Thus, Central African Republic attained the completion point of the HIPC initiative in June 2009, brought its economic and financial programme with the IMF to a close and became a compliant country to the Extractive Industries Transparency Initiative (EITI) in 2011. Prior to the crisis, discussions with principal development partners on co-operation to consolidate reforms in the public sector and resource management had been underway. Central African Republic had also concluded a new programme with the IMF in June 2012 to support public sector reforms and natural resource management. Its implementation coincided with the rebel attacks and little has been done.

The crisis was accompanied by the suspension of public sector and natural resource management reforms, due to institutional upheaval and the suspension of co-operation programmes with donors. The suspension of Central African Republic from the EITI was extended in 2013 despite efforts to move towards reintegration. It remains difficult to assess to what extent the achievements made in the extractive industries domain have been lost.

Natural resource management and environment

Located in the basin of the River Congo, with forests covering about 34 million hectares, Central African Republic has major forestry potential and the country's forests contribute to efforts to contain carbon and reduce harmful greenhouse gases. Overall, Central African Republic has a humid, tropical climate with a rainy and dry season. Rainfall usually varies between 300 and 2 500 mm a year. Available information at the time of writing indicates a trend towards increasing drought in the north of the country (due to desertification), that emphasises the vulnerability of inhabitants in the north.

Confronted with these challenges, in 2008 the government outlined a national action plan to adapt to climate change. This plan aims to identify priority actions and is an important lever for the efficient mobilisation of resources to finance projects. The mobilisation of resources for five projects has begun. Central African Republic is also a member of the coalition that launched the Reducing Emissions from Deforestation and Forest Degradation – REDD – programme.

Political context

The Seleka attacks that erupted in December 2012 plunged the country into uncertainty. Bangui fell on 24 March 2013, forcing Bozizé, who had been president for 10 years, into exile. A new self-proclaimed executive, led by Djotodia, was installed by the rebels. The violent coup was condemned by the international community and sanctions ordered against members of the rebellion.

To support a peaceful political transition, on 3 April 2013 ECCAS heads of state brokered a transition road map which was accepted by the self-proclaimed government and supported by the international community. The road map led to the naming of Tiangaye, an opposition figure, as prime minister and head of the national unity government. A national transition council (CNT) was established to legislate and a transitional constitutional charter adopted. An 18-month transition began in April, under the aegis of ECCAS, with all key figures in the transition administration, including the president, prime minister, and members of the government and the CNT, being barred from standing in the presidential elections.

Despite the establishing of the institutions and the international recognition of the prime minister, the transition process hit many difficulties. The government was unable to restore order. There were splits within Seleka and differences between the president and prime minister. Concerned by the worsening security and humanitarian crises, the international community mobilised in a bid to stabilise Central African Republic.

Thus the African Union took the decision in July 2013 to intervene with a force of 3 500 soldiers, called MISCA, which has been gradually deployed. The UN Security Council has adopted several resolutions authorising MISCA and French troops on the ground (400 soldiers to secure the airport in advance of the arrival of Operation Sangaris contingents) to use all means necessary to secure the country and protect the civilian population.

Insecurity increased in December 2013, despite the deployment of French forces in Operation Sangaris, to such an extent that the transitional president and prime minister resigned on 10 January 2014 following an extraordinary ECCAS summit. The CNT immediately elected the mayor of Bangui, Catherine Samba-Panza, transitional president on 20 January. A new prime minister, André Nzapayéké, was named on 25 January. Three days later a new government was put in place to pursue the road map set out in April 2013.

Amid new hopes for the transition process, the international community has agreed to recognise the legitimacy of the new authorities and to support them.

Social context and human development

Building human resources

Social and human development conditions in Central African Republic were fragile before the crisis. In recent years, the country has ranked 180th out of 187 countries on the UN Development Programme (UNDP) Human Development Index (HDI). According to the World Food Programme, at least 30% of households suffered from food insecurity in 2011.

A UN assessment of Millennium Development Goals (MDG) progress released at the end of 2010 said Central African Republic would have trouble meeting the objectives, despite encouraging progress. Lastly, gender inequality indices published by the UNDP ranked Central African Republic 138th out of 146 countries in 2011.

The crisis has transformed these precarious conditions into a humanitarian catastrophe. A UN report in January 2014 stated that sectarian violence in the previous month alone had resulted in almost 2 000 deaths and displaced 1 million people, half of whom were in Bangui. It said more than 245 000 had people fled to neighbouring countries.

The national health system collapsed due to the violence and population displacement. In December 2013, potable water was rare in most refugee camps for the displaced due to the poor condition of pumping stations. Almost all schools across the country have been closed since the outbreak of the crisis.

Thematic analysis: Global value chains and industrialisation in Africa

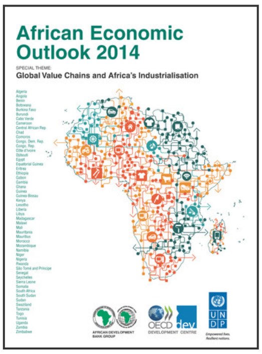
Despite its abundant natural resources and huge agricultural and mining potential, Central African Republic has never experienced growth that could transform the economy. The country has not been part of significant regional nor global value chains. Although there is an estimated 15 million hectares of land suitable for highly varied crops, most is only farmed for subsistence food. Export cash crops account for only 800 000 hectares.

Wood production bears no relation to the potential of the forestry sector, despite attempted reforms. Exports remain limited to unprocessed lumber and over the past few years wood production has slumped from 555 143 cubic metres (m^3) in 2008 to less than 300 000 m^3 more recently. Global demand having fallen following the international financial crisis, forestry companies had reduced operations before the political crisis.

While diamonds, gold, uranium, iron, oil and other extractive industries could bring the country into global value chains, mining remains artisanal and limited to diamonds and gold. Foreign direct investment targeting mineral extraction, which should have been completed in recent years, has been delayed. The Canadian group, Axmin, obtained a permit to exploit gold and the French company Areva a permit to produce uranium. These companies had not reached the production stage when the Seleka crisis erupted. Three other international companies in diamond and gold extraction had already ceased operations following political crises in Central African Republic.

The country has faced perennial challenges in harnessing its natural resources and participating in global value chains during decades of political instability and armed conflict, as well as poor economic and political management. Central African Republic is sprawling, landlocked, and served by inadequate transport, energy and telecommunications infrastructure. However, particularly since 2006, considerable efforts have been made by successive governments supported by the international community to put the country on a path towards growth. Political and institutional normalisation programmes have been given international support and donors have funded transportation infrastructure projects, particularly regional corridors and multinational programmes in the energy and telecommunications sectors.

Institutional and sector reforms to develop the private sector and encourage foreign investment have also been undertaken. Reforms of the mining and forestry codes and taxation, as well as support for private sector development, enabled Central African Republic to become an EITI conforming country in 2011. These, like other initiatives, were halted by the crisis which has exacerbated the country's difficulties. Many challenges must be overcome before Central African Republic can harness its natural resources and participate in global value chains.



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