

Central African Republic



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Brief History:

Situated about 500 mi (805 km) north of the equator, the Central African Republic (CAR) is a landlocked nation bordered by Cameroon, Chad, the Sudan, the Democratic Republic of the Congo, and the Republic of Congo. Bangui is CAR's capital and has a population of approximately 690,000 (2007 est.), which is about 16% of the entire population of 4,369,038 (2007 est.).

From the 16th to 19th century, the people of this region were ravaged by slave traders. The Banda, Baya, Ngbandi, and Azande make up the largest ethnic groups.

The French occupied the region in 1894. As the colony of Ubangi-Shari, what is now the Central African Republic was united with Chad in 1905. In 1910 it was joined with Gabon and the Middle Congo to become French Equatorial Africa. After World War II a rebellion in 1946 forced the French to grant self-government. In 1958 the territory voted to become an autonomous republic within the French Community, and on Aug. 13, 1960, President David Dacko proclaimed the republic's independence from France. Dacko moved the country politically into Beijing's orbit, but he was overthrown in a coup on Dec. 31, 1965, by Col. Jean-Bédél Bokassa, army chief of staff.

On Dec. 4, 1976, the Central African Republic became the Central African Empire. Marshal Jean-Bédél Bokassa, who had ruled the republic since he took power in 1965, was declared Emperor Bokassa I. Brutality and excess characterized his regime. He was overthrown in a coup on Sept. 20, 1979. Former president David Dacko returned to power and changed the country's name back to the Central African Republic. An army coup on Sept. 1, 1981, deposed President Dacko again.

In 1991, President André Kolingba, under pressure, announced a move toward parliamentary democracy. In elections held in Aug. 1993, Prime Minister Ange-Félix Patassé defeated Kolingba. Part of Patassé's popularity rested on his pledge to pay the back salaries of the military and civil servants.

A 1994 economic upturn was too small to effectively improve the catastrophic financial condition of the nation. Patassé was unable to pay the salaries due to government workers, and the military revolted in 1996. At Patassé's request, French troops suppressed the uprising. In 1998 the United Nations sent an all-African peacekeeping force to the country. In elections held in Sept. 1999, amid widespread charges of massive fraud, Patassé easily defeated Kolingba. Patassé survived a coup attempt in May 2001, but two years later, in March 2003, he was overthrown by Gen. François Bozizé. After two years of military rule, presidential elections were held, and Bozizé won in what international monitors called a free and fair election.

In May 2007, the International Criminal Court began investigating war crimes that were allegedly committed in 2002 and 2003 during civil unrest that followed the attempted coup against Patassé.

Prime Minister Elie Dote and his government resigned in January 2008, a day before Parliament was set to debate a censure motion against him. Faustin Archange Touadéra was named as his successor.

Economy:

The Central African Republic is one of the poorest countries in the world and among the ten poorest countries in Africa. Its 2008 est. GDP and GDP per capita were \$3.262 billion and \$700, respectively. Real GDP growth was approximately 4% in 2008 and inflation was 1%. CAR's labor force is 1.857 million (2006 est.) and unemployment is 8% (23% for Bangui).

Subsistence agriculture, together with forestry, remains the backbone of the economy of the CAR, with more than 70% of the population living in outlying areas. The agricultural sector generates more than half of its \$3.268 billion GDP (2008 est.). Timber has accounted for about 16% of export earnings and the diamond industry for 40%. Important constraints to economic development include the CAR's landlocked position, a poor transportation system, a largely unskilled work force, and a legacy of misdirected macroeconomic policies. Factional fighting between the government and its opponents remains a drag on economic revitalization. Distribution of income is extraordinarily unequal. Grants from France and the international community can only partially meet humanitarian needs.

OVERVIEW OF THE FINANCIAL SYSTEM:

The Central African Republic (CAR) is a member of the Central African Economic and Monetary Community (Communauté Economique et Monétaire de l'Afrique Centrale-CEMAC), which is composed of six member countries: Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon.

The CEMAC is composed of the following four institutions:

1. Central African Economic Union (Union Economique de l'Afrique Centrale –UEAC-)
2. Central African Monetary Union (Union Monétaire de l'Afrique Centrale- UMAC-)
3. Community Parliament
4. CEMAC court of justice

The UMAC, headquartered in Yaoundé, is responsible for the monetary policy of its member countries. It also involved, with the UEAC, in the coordination of economic policy to ensure consistency between national budget policies and the common monetary policy. The UMAC is administered through:

- The Conference of Heads of States, created through the Agreement establishing the CEMAC, the supreme authority of the UMAC;
- The Council of Ministers;
- The central bank, Bank of Central African States (Banque des Etats de l'Afrique Centrale -BEAC-), the common independent central bank;
- The Banking Commission, (Commission Bancaire de l'Afrique Centrale (COBAC), harmonises and controls banking activities;
- The stock market, Bourse des valeurs mobilières.

Banking System:

The Central African Republic has an undeveloped financial system. As of 2006, there were just four commercial banks of which two are partly owned by the government and two are postal financial institutions. The government uses the banks to finance its expenditures. The accumulation of state arrears to the banks and a large amount of bad debts has weakened the ability of the banking system to make long-term loans (See table below for more details). According to World Bank data, the private credit to GDP ratio in 2005 was just 6.9 percent of GDP. In the US by comparison, it was 184.9 percent of GDP. The lack of a deep financial system in Central African Republic is also evident in its very low Deposits / GDP ratio of 4.7% (2008 est.) and in its very high currency outside banks / M2 ratio of 73.8% (2003 est.).

The two traditional commercial banks operating in the C.A.R. are the Banque Internationale pour la Centrafrique (BICA) and the Banque Populaire Maroc-Centrafricaine (BPMC). The BICA has the biggest share of deposits (40%) and is majority owned by Ecobank (72%) with the government owning the remaining 28%. BPMC was established in 1991 and belongs to the group of the Credit Populaire du Maroc, a major public sector institution in Morocco (62.5%), and the Central African state (37.5%).

The post office is responsible for the postal savings bank (the Caisse Nationale d'Epargne, CNE), whose liabilities are savings deposits recorded in passbooks, and a postal checking center (the Centre des Cheques Postaux, CCP), whose liabilities are current account deposits. The resources mobilized by these two units are channeled to the Treasury to finance general expenditures. The CNE, with liabilities to depositors amounting to CFAF 500 million, is currently inactive. The CCP has a little over 3,000 accounts, mainly held by individual depositors (but also by the Treasury and public enterprises). The deposits of the public with the CCP amount to CFAF 118 million at end 2003. The main function of the CCP is the payment of the salaries of about 3,000 civil servants through the post office network. The civil servants typically withdraw the totality of their salary and do not keep the funds on deposit in their account. Thus the CCP, although providing a useful payment service, is not important as a financial intermediary.

List of Commercial Banks

- Caisse Nationale d'Epargne (CNE)
- Bangui Cheques Postaux (CCP)
- Banque Internationale pour le Centrafrique (BICA)
- Banque Populaire Maroco-Centrafricaine (BPMC)

Monetary Analysis of Central African Republic

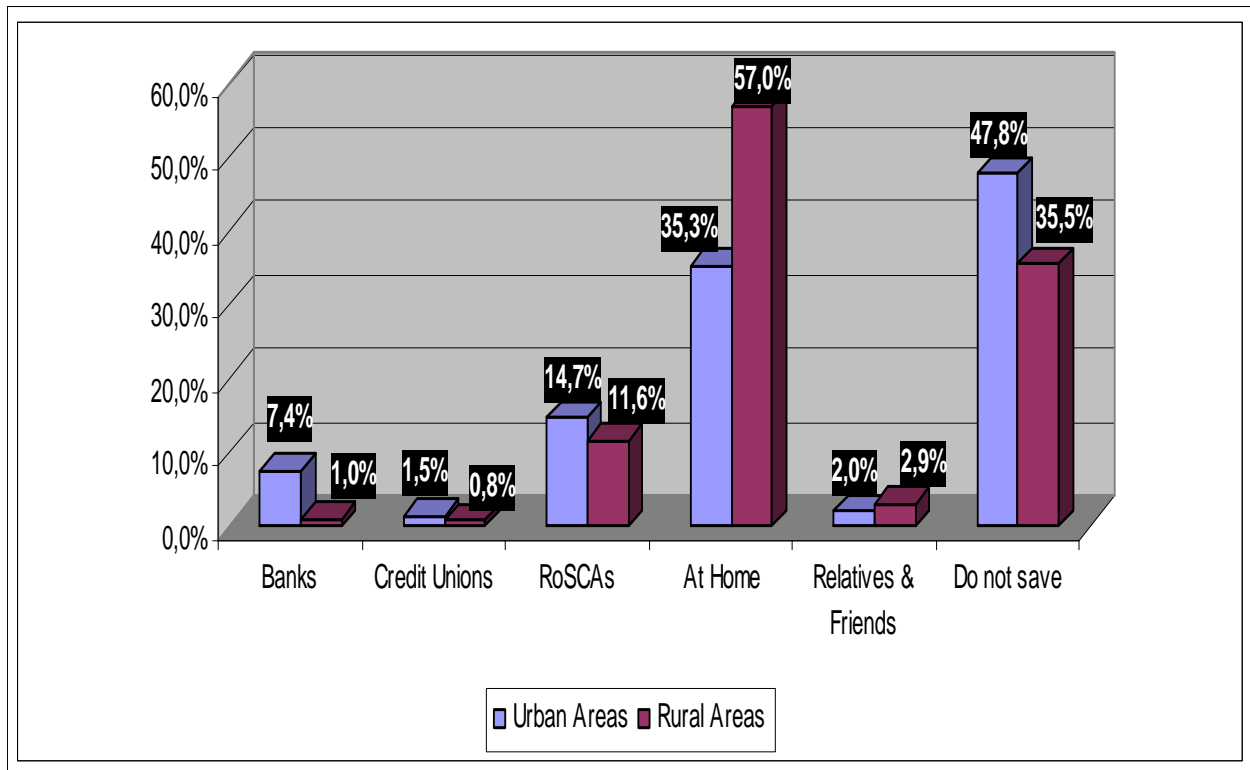
(CFAF billions, End of Period)	2007 Est.	2008 Proj.
Net foreign assets	31.6	22.5
Bank of Central African States (BEAC)	17.0	7.9
Operations account	35.8	26.5
Use of IMF credit	-22.0	-30.4
Other	3.2	11.8
Commercial banks	14.6	14.6
Net domestic assets	86.8	105.6
Domestic credit	143.6	161.7
<i>Credit to the public sector</i>	<i>84.5</i>	<i>97.5</i>
Credit to central government (net)	89.6	102.5
BEAC	77.8	84.9
Current account	16.1	14.7
Consolidated loans	41.1	41.1
IMF (net)	22.0	30.4
Deposits	-1.4	-1.3
Commercial banks	11.8	17.6
Credit to other public agencies (net)	-5.0	-5.0
<i>Credit to the economy</i>	<i>59.1</i>	<i>64.2</i>
Public enterprises	4.2	4.2
Private sector	54.9	60.0
Other items (net)	-56.8	-56.1
Money and quasi-money	118.4	128.1
Currency	58.9	60.6
Deposits	59.5	67.5
Demand deposits	38.3	39.4
Term and savings deposits	21.2	28.1

Sources: C.A.R. authorities; and IMF staff estimates

The microfinance sector in the C.A.R. comprises three types of organizations: savings and credit cooperatives; non governmental organizations (NGOs) engaged in microfinance in conjunction with other services; and donor projects with a credit component. The sector has been adversely affected by the political and military disturbances of the recent past. Of a total of 60 primary units known to exist in 1999, only 44 are still in existence.

The single most important organization active in the sector is the Credit Mutuel de Centrafrique (CMCA), a federation of 18 primary caisses, which account for 41 percent of the primary units of the sector, between 95 to 98 percent of the savings and credit transactions, and 80 percent of the members. In addition to savings and credit products, the CMCA offers some basic payment services for the payment of wages for the workers of 17 private enterprises.

Analysis of Banking Demand: Where do CAR People Deposit Savings?



Sources: ECVU/ECVR 2003, UNDP

Insurance Companies and Other Financial Institutions :

There are two insurance companies, and protection of property rights is weak. The constitution has been suspended, allowing the president to rule by decree. Judges are appointed by the president, and the judiciary is subject to executive interference. The courts barely function

because of inefficient administration, a shortage of trained personnel, growing salary arrears, and a lack of material resources.

Central Bank and Its Role in the Economy:

The BEAC was established in 1972, successor to the Banque Centrale de l'Afrique Equatoriale et du Cameroon (established in 1955). It formulates and implements the monetary policy of its member countries, and also preserves the stability of the common currency the CFA Franc (Franc de la Coopération Financière en Afrique Centrale), which is pegged to the Euro. The French treasury guarantees the convertibility, though not the exchange rate, of the CFA Franc. BEAC uses both reserve requirements and the discount window to implement its policy.

Stock Market:

There is no stock market in CAR, but there are two parallel yet independent stock markets being developed in the CEMAC, despite potential legal and financial incompatibilities. Given the relatively high fixed costs associated with the operation of a stock market and the narrow base of potential issuers and investors, the two markets should be merged.

Fixed Income Markets:

The common currency and a comprehensive and well-structured regional institutional setup have not yet led to financial integration in the region and there is currently no formal fixed income market.

Foreign Investment:

The Central African Republic encourages foreign investment to spur economic growth and boost employment. No legal distinctions are made between domestic and foreign investors and profits can be repatriated without limitations or restrictions. Disputes that arise between an investor and the government are resolved through an arbitration process. Private investors are prohibited from investing in the water, postal, fixed telecommunications and certain transportation sectors.

A February 2007 African Development Bank (ADB) Appraisal Report for the Central African Republic's Economic Reform Program for 2007-2008 noted, "The current business climate of the Central African Republic is not conducive to private sector development as a result of the inadequate regulatory framework" and the lack of transparency. The report also cited problems relating to the high costs associated with landlocked nature of the country, administrative red tape" and business registration as impediments to investing in the country. Inadequate infrastructure and a lack of skilled labor also hinder foreign investment.

Data from the United Nations Conference on Trade and Development indicate that foreign direct investment inflows (FDI) in 2006 were just \$24 mln, which was slightly below the \$29 mln inflows in the previous year. This represented 32 percent of gross fixed capital formation. The total stock of FDI (book value) at the end of 2006 was \$211 mln, which was equivalent to 14.2 percent of GDP. By comparison, in South Africa, the stock of FDI was 30.2 percent of GDP and for the Central African region, it was 36.3 percent.

Foreign Exchange:

The Central African Republic uses the Central Africa CFA franc. There is also a West African CFA franc but it is not legal tender in the Central African CFA zone. The currency is issued by BEAC, which is located in Yaounde, Cameroon. It is the Central Bank for the six countries; Cameroon, the Central African Republic, Chad, the Republic of the Congo, Equatorial Guinea and Gabon that use the Central Africa CFA franc. All of these countries were former French colonies with the exception of Equatorial Guinea, which was a Spanish colony. The currency is fixed against the Euro at CFA655.957 per Euro.

The countries that use the Central African CFA franc are members of the West Economic and Monetary Community of Central Africa (CEMAC). It was established to promote economic integration among the member states by promoting trade and a common market. The members share a common financial, regulatory, and legal structure, and maintain a common external tariff on imports from non-CEMAC countries. There is free movement of capital within the CEMAC. Unlike in the West zone CFA countries, there is not a joint stock exchange.

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