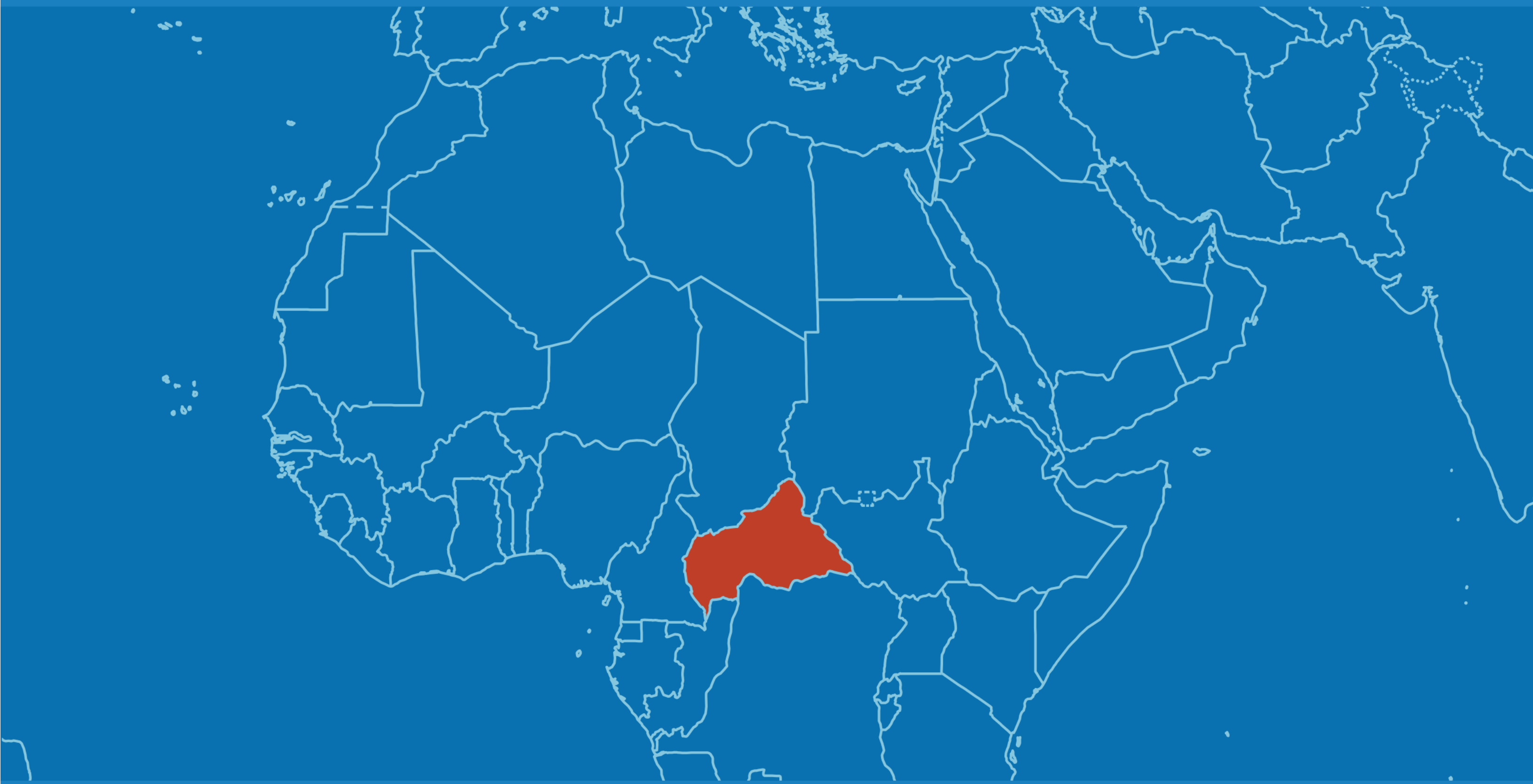

Central African Republic (CAR) Integrated State-Owned Enterprises Framework (iSOEF) Assessment

WORLD BANK GROUP

Report No: AUS0002673

Central African Republic (CAR)

State-Owned Enterprise (SOE) Corporate Governance and Fiscal Risks

December 2021

WORLD BANK GROUP
Governance

Abbreviations and Acronyms

CAC	Statutory Auditor *(commissaire aux comptes)*
CAR	Central African Republic
CBCA	Commercial Bank Centrafrique
CEMAC	Central African Economic and Monetary Community
CEO	chief executive officer
CGSP	*Contrôle Général du Secteur Parapublic*
CFAF	CFA *(Coopération Financière en Afrique centrale)* Franc (XAF)
DPO	Development Policy Operation
EBITDA	Earnings Before Interest Tax Depreciation and Amortization
ENERCA	Electricity Utility *(Energie Centrafricaine)*
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IGE	Inspectorate General of State *(Inspection Générale d'Etat)*
IPF	Investment Project Financing
ISA	International Standards on Auditing
iSOEF	Integrated SOE Framework
KPI	Key Performance Indicator
MFB	Ministry of Finance and Budget
MIS	Management Information System
OHADA	*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*
ONM	National Road Equipment Office *(Office National du Matériel)*
PASEEL	Water and Electricity Upgrading Project
SA/SAU	*Société anonyme* (corporation) / *Société anonyme unipersonnelle*
SAI	Supreme Audit Institution
SEGA	*Société d'Etat de Gestion des Abattoirs*
SOCASP	*Société Centrafricaine de Stockage de Produits Pétroliers*
SOCATEL	*Société Centrafricaine de Télécommunications*
SOCATRAF	*Société Centrafricaine de Transports Fluviaux*
SODECA	Water Utility *(Société de Distribution d'Eau en Centrafrique)*
SODIAC	*Société de Développement des Infrastructures Aéroportuaires de Centrafrique*
SOE	State-Owned Enterprise
SYSCOHADA	OHADA Accounting System
TAA	Turn-Around Allocation
UCM	Medicine Trading Unit (*Unité de Cession des Médicaments*)
WB	World Bank

1 USD = 579 CFA on November 30, 2021

Contents

Acknowledgments

This report was prepared by a team of the World Bank led by Henri Fortin, Lead Financial Management Specialist (EAWG2), and including Maimouna Diakite, Consultant (EAWG2), Diderot Sandjong Tomi, Economist (EAWM2), and Appoline Yete, Team Assistant (AWMCF). The team benefitted from the guidance of Abdoulaye Seck, Country Director (AWCC1), Manuel Vargas, Practice Manager (EAWG2), and Han Fraeters, Country Manager (AWMCF). Aguiratou Savadogo-Tinto, Senior Transport Specialist (IAWT3), Anas Benbarka, Senior Energy Specialist, (IAEE3), Innocent Nukuri, Senior Health Specialist (HAWH2), and Patrick Ndolo, Water and Sanitation Specialist (SAFW1), contributed valuable sector-specific information for the report. The team gratefully acknowledges the advice received from the peer reviewers Andrei Busuioc, Senior Financial Management Specialist (EECG1), Michel Mallberg, Senior Public Sector Specialist (ESAG1), and Rei Odawara, Senior Economist (EMFMD).

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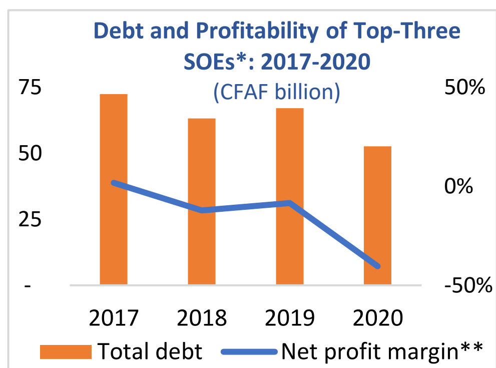
Executive Summary

i. **One of the poorest countries in the world with a legacy of conflict and violence, the Central African Republic (CAR) faces many challenges in its governance.** As one of the Central African Economic and Monetary Community's ("CEMAC") six member-States, CAR is committed to a common reform agenda to strengthen its public institutions and finances.

ii. **State-owned enterprises (SOEs) play a central role in CAR's economy, providing essential goods and services to the population and local businesses.** The largest SOE by far is the integrated electricity utility ENERCA, followed by the urban water utility SODECA. The SOE portfolio also includes the legacy telecommunications operator SOCATEL and a dozen or so smaller companies. The State also holds a large minority stake in the port operator in the capital city Bangui, SOCATRAF. This company is a key actor in the local economy and it is expected to play a critical role in the management of the strategic logistical corridor which the Ubangi river is a part of.

iii. **SOEs perform poorly both in terms of service-delivery and economically.** Access to electricity and water is limited to Bangui. The three largest SOEs posted aggregate losses of over CFA 1.2 billion on average since 2017. These losses stem from factors commonly observed elsewhere, including tariffs dictated by the government and productivity challenges.

iv. **SOEs are in a very precarious financial condition, with an aggregate debt of close to CFA Franc 52 billion at the end of 2020.** This large debt is the result of both recurring losses and severe difficulties to collect revenue from the State and private customers. ENERCA accounts for half of the portfolio's debt (which includes borrowings and taxes, social security, payroll and trade arrears), despite receiving debt forgiveness on several occasions notably in 2020 for CFAF 15 billion. SODECA and SOCATEL are virtually insolvent. The State's contingent liability stemming from SOEs is therefore potentially very significant.



*ENERCA, SODECA and SOCATEL. In CFA billion
** Adjusted for non-recurrent gains

v. **Several smaller SOEs are also facing financial woes especially the road maintenance entity ONM and the medical supply chain management company UCM.** Due to the paucity of information available, this report could not assess with any degree of depth the governance of these entities and the fiscal risks they represent. Further analysis will be therefore needed as they operate in critical sectors for CAR's economy and citizens.

vi. **Despite recent efforts to improve the legal framework underpinning SOE governance, SOEs operational autonomy it still limited.** A new SOE law was promulgated in January 2020, and it was later complemented by its implementing executive order of September 2020. Its requirements are aligned with the emerging international framework for SOE governance on a number of key aspects – e.g., to have a board of directors, to follow a merit-based process of chief executive appointment, to report to the owner on a range of aspects, and to submit audited annual financial statements. However, under the law, many decisions need to be reviewed or authorized by the government. The new legislation has yet to be tested, and implementing it will require a significant effort.

vii. **SOEs are subject to ex-ante controls that create room for political interference.** These controls (called *validation des programmes d'emploi*), which also entail significant administrative burden and delays, are clearly at odds with the modern approach to SOE governance which emphasizes broad operational autonomy coupled with strong accountability mechanisms. Responsibility for carrying out these controls was recently transferred on a temporary basis to the boards of directors' chairpersons, which is not consistent with the role assigned to them by OHADA Law.

viii. **SOE ownership management roles are scattered across several ministries and agencies, and the line ministries retain a significant role.** Under the new SOE law, the Ministry of Finance is now unambiguously empowered with the key role of monitoring the SOEs' economic performance and financial situation. The line ministries and a department in the Prime Minister's office also perform ownership functions. These arrangements entail significant overlap and inefficiencies.

ix. **SOEs lack strategic planning and performance frameworks.** Key performance indicators covering all the relevant dimensions of the SOEs activities are not tracked due in part to inadequate management information systems (MIS) and resource limitations. Several projects supported by development partners are expected to help address this gap.

x. **SOE boards have not yet been professionalized and they perform a largely formal function.** All board members are civil servants and some board chairs are high-ranking officials. The board's main contribution is to review the annual budget and the annual financial statements. Its powers are significantly curtailed by a provision of the SOE law which subjects all its decisions to the approval of the line ministry.

xi. **Requirements for reporting and audit are broadly adequate, but implementing them is a real challenge**. The quality of the SOEs' financial reporting is poor overall. Financial reports are produced according to the regional "OHADA" standard applied by the Francophone countries of Sub-Saharan Africa. Three specific issues stand out in that regard: (i) reporting is often untimely, the information being reported up to one year after the close of the financial year; (ii) the accompanying notes to the financial statements provide no narrative explanation (e.g., on why the value of a specific item changed significantly from one year to the other, or what a specific asset reported on the balance sheet); and (iii) two of largest SOEs recorded significant non-cash gains in their 2020 accounts, which helped improved the reported performance with no real underlying economic substance. SOEs are subject to statutory audits, but reasonable doubts exist as to their effectiveness given the poor quality of the SOEs' financial reports.

xii. **The Ministry of Finance and Budget (MFB) has published on its website the audited financial statements of ENERCA (2017-2019), SODECA (2017-2019) and SOCATEL (2019-2020).** This contributes significantly to increasing transparency in SOE operations. Building on this achievement, and consistent with the provisions of the 2020 SOE law, the government plans to publish in 2022 an aggregate report on the SOE portfolio's performance and financial situation at the end of 2021.

xiii. **The main contingent liability associated with SOEs is their large debt/quasi-debt of over CFAF 52 billion, equivalent to over 4% of GDP.** Almost half of this amount relates to ENERCA. Part of this liability will need to be settled through of clearance of cross-arrears between the State and the SOEs. Additional sources of fiscal risk may be associated with retrenchment or redundancy programs to increase productivity and performance (in addition to investment plans aimed at, as in the case of ENERCA, to accelerate connections an extend the electrical network), due to the initial cost of indemnification to the personnel concerned. In SODECA's case, such a program was launched in 2018, in parallel to targeted hirings of mid- to high-level managers.

xiv. **The report's recommendations build on ongoing SOE reforms both at the country level and within the CEMAC area, focusing on transparency and monitoring.** CEMAC Heads of State recently agreed to publish the audited financial statements of their large SOEs and an annual SOE (portfolio-wide) aggregate reports, and also to increase their Ministries of Finance's capacity to monitor SOEs and issue aggregate reports.

xv. **The cumbersome ex-ante control system currently in place should be progressively phased out.** Most countries have replaced such system with risk-based, ex-post controls carried out by the State's internal or external audit bodies.

xvi. **SOE ownership management arrangements will need be streamlined and centralized under the responsibility of the MFB.** The role of line ministries should be focused on setting sector policies and SOEs' long-term mandates. The CGSP should be abolished and its staff transferred to the MFB. These adjustments will require amending the 2020 SOE law.

xvii. **As an immediate priority, the MFB should take concrete steps to carry out its critical monitoring role under the new SOE law**. These includes: (a) communicating to SOEs the practical aspects of meeting their reporting obligations; (b) adopting a simple SOE monitoring dashboard; (c) building in-house capacity for monitoring; (d) leveraging the external audits by engaging directly with the auditors and following up systematically on issues raised in their reports; (e) planning early for the preparation of the 2022 annual aggregate report; and (f) assessing the reasons for the SOEs' current late reporting.

xviii. **Capacity-building programs should be developed for the SOEs' board members and financial staff to improve corporate governance and the quality of reporting and internal controls.** For boards, this would be an initial in a process of "professionalization", recognizing that being a board member requires specific skills and also given the increasing demands on SOEs in terms of corporate governance. To ensure adequate prioritization and sustained results, the government should prepare a comprehensive, multi-year action plan on building its capacity for better governance of the SOE portfolio.

xix. **The government should develop and implement a clearance program plan for the cross-arrears between the State, ENERCA, SOCATEL and SODECA.** Accumulated arrears sitting on the utilities' balance sheet needs to be settled to clarify their financial situation and the State's potential net liability vis-à-vis them. The MFB should take the lead in this process, with the support of the two utilities and their line ministry.

xx. **A specific effort is needed to upgrade ENERCA's and SODECA's MIS and management processes.** The utilities' inability to rely on modern information and communication technology could jeopardize ongoing and planned efforts to improve their service-delivery capacity. In addition, the SOEs' management team should pay particular attention to the internal control weaknesses flagged by the external auditors in their reports.

xxi. **The expected developmental outcome of these actions include better provision of essential public services to citizens, an improved environment for business activities, reduced fiscal risks associated to SOEs, and progress toward good governance.**

I. Introduction

A. Country Context and Objectives

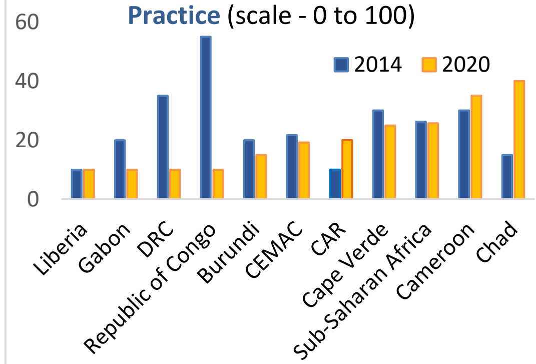
1. **SOEs have been the focus of increased attention in the recent period due to the growing "quasi-public debt" they entail.** According to a recent World Bank (WB) Group report,[1] SOE debt in low income developing countries amounted to over 7% of gross domestic product (GDP) on average, and up to 18% in some of these countries. In many cases, these SOE debts created a significant added risk to the country's overall debt sustainability, leading to calls for increased ability on the part of the government to monitor – and improve – the SOEs' financial situation.

2. **Improving the governance of SOEs is a policy priority for the CEMAC countries.** At the August 2021 summit on enhancing inclusive growth in CEMAC countries, the Heads of State of the six countries agreed to implement specific reforms aimed at increasing the transparency of their SOEs' operations and financial situation, as part of a broad package of structural reforms. These consisted in: (i) publishing audited financial statements of all systemically important SOEs; (ii) building capacity of the ministries of finance to monitor the performance of SOEs ; and (iii) Publishing annual aggregate (portfolio-wide) reports on SOE performance and financial situation.

3. **The Central African Republic (CAR), one of the poorest countries in Africa, has had to cope with recurrent episodes of conflict and violence.** A landlocked country, CAR is a member of the Central African Economic and Monetary Community (*Communauté Economique et Monétaire de l'Afrique Centrale* or CEMAC[2]). The civil war of 2013-15 impacted a large portion of the population and disrupted a fledging economy. Political and economic stabilization was achieved thanks to the support of the international community which helped restore basic services to the population, however public institutions remain fragile and poverty rates remain very high, at more than 70%.

4. **Financial transparency in the public sector including state-owned enterprises (SOEs) is a key concern.** Despite improvements since 2014 (especially in the area of procurement), CAR scored only 20 on a scale of 100 in terms of public management practices (Figure 1), below the Sub-Saharan African average, but slightly above CEMAC peers. Key factors behind CAR's low score include (i) the lack of transparency on the financial performance and situation of the SOEs and mining companies, (ii) the weak oversight of public funds by Parliament, and (iii) the lack of a public registry of companies barred from participating in public procurement. Improving SOE transparency and disclosure is vital to holding SOEs accountable for their performance.

Figure 1: Public Management in Practice (scale - 0 to 100)



Source: www.africaintegrityindicators.org/data

5. **Improving the governance of SOEs and transparency around the fiscal risks they pose has been**

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[1] Debt Transparency in Developing Economies (World Bank Group, November 2021 – see https://documents1.worldbank.org/curated/en/743881635526394087/pdf/Debt-Transparency-in-Developing-Economies.pdf).

[2] The other members states are Cameroon, Chad, Republic of Congo, Equatorial Guinea and Gabon.

the focus of recent reforms in CAR, and of the WB's budget and technical support to CAR. A new law to strengthen the institutional framework underpinning SOEs was enacted in January 2020 (Para. 38). Moreover, the Government of CAR has agreed, as part of its commitments to secure a Turn-Around Allocation (TAA) by the International Development Association, to have the financial statements of the three largest SOEs audited. Additionally, The Government has agreed to several actions aimed at increasing transparency of the SOE portfolio as part of recent and ongoing Development Policy Operations (DPO).

6. **The service-delivery of SOEs in CAR is generally poor, due both to a highly challenging operating environment and management problems.** Like many of their Sub-Saharan African peers, public utilities face chronic technical and commercial losses and collection problems. A recent WB report on African Power Utility Performance[3] ranks CAR's electricity SOE, *Energie Centrafricaine* (ENERCA), as the worst performer on the continent. A 2018 diagnostic (unpublished) by an international consultant hired as part of a WB-funded technical assistance noted that "quality of service is very poor". The root causes of the utilities' poor service stem from a lack of sufficient and adequate equipment, inefficient organizational structures and processes, and corporate governance weaknesses.

7. **The main objective of this report is to support the government of CAR in strengthening the governance of SOEs and enhance its capacity to monitor their performance, with a view to ultimately improving it.** The report also seeks to provide a preliminary assessment of the fiscal risks associated with the SOE portfolio. The assessment of the corporate governance of SOEs follows the methodology embedded in Module 4 of the WB's Integrated SOE Framework ("iSOEF" – see Annex), adapted to account for the country's unique circumstances. The diagnostic seeks to address actual implementation, beyond arrangements "on paper". Given the paucity of information and concerns regarding its reliability, the assessment of the contingent liabilities associated with SOEs does not include any scenario analysis or stress testing as envisaged in the iSOEF methodology (Module 2).

B. The SOE Landscape in the Central African Republic

8. **CAR has a relatively large portfolio of SOEs, covering key sectors such as electricity, water, telecommunications, transport, agriculture, forestry and other services (Table 1).** CAR's 14 SOEs include two of the country's largest business entities, ENERCA and the water utility *Société de Distribution d'Eau en Centrafrique* (SODECA). A third SOE, *Société Centrafricaine de Télécommunications* (SOCATEL), is also considered strategic on account of the importance of the sector in which it operates, although its activities are very limited as it only provides land-line telecommunication services. These three SOEs are analyzed in greater detail in Section II below. The other SOEs are significantly smaller although some are significant (see Para. 10-11); several of them are currently dormant. The State also holds a 40 percent stake in the company operating the port of Bangui and a river transport service (Para. 12).

[3] Utility Performance and Behavior in Africa Today (https://openknowledge.worldbank.org/handle/10986/36178).

Table 1: Overview of CAR's SOE Portfolio in 2021 (CFA billion)

Acronym	Sector	Legal Form [ii]	State %	No. of Employees	Total Assets (2020)
CBCA (see Para. 9)	*Banking*	*SA*	*85.85*	*148*	*75.6*
Cellule Coton	Agrobusiness	"Office"	100	151	unknown
CENTRAPALM	Agrobusiness	SE	100	unknown	unknown
ENERCA [i]	Electricity	SAU / SE	100	748	75.2
Hotel du Centre	Hospitality	SE	100	54	unknown
ICA	Printing	SE	100	unknown	unknown
ONM	Road maintenance	"Office"	100	237	6.9
ONPE	Financial services	"Office"	100	unknown	unknown
SEGA	Agrobusiness	SE	100	80	unknown
SOCASP	Oil storage	SEM	51	61	1.9
SOCATEL [i]	Telecommunications	SAU / SE	100	118	17.4
SOCATRAF	Transport	SEM	40	unknown	unknown
SODECA [i]	Water	SAU / SEM	97.4	286	14.2
SODIAC	Air transportation	SE	100	47	unknown
UCM	Medicine logistics	SE	100	21	unknown

Source: annual financial statements and government – [i] See Section II.B. [ii] See Para. 39

9. **According to information provided by the Ministry of Finance and Budget (MFB) and press articles, as a result of a transaction in September 2021, the previously state-owned Commercial Bank Centrafrique (CBCA) is now controlled by private interests.** The State sold over 34% of the shares it held in CBCA to BGFI Bank (Gabon) , which will operate under the name "BGFI Bank de Centrafrique" going forward. CBCA appears to have a more elaborate and stronger corporate governance than the other companies in the State's portfolio, due in part to the fact it is subject to stricter sector regulation, which requires internal controls, risk management, reporting and corporate governance.

10. **The National Road Equipment Office (*Office National du Matériel* or ONM) plays a central role in a critical sector for the country's development.** Formed as a parastatal in 2003, it is due to be transformed soon into an SOE ("*entreprise*", as opposed to "*établissement*"). With a staff of 237, ONM manages a fleet of road construction vehicles and other equipment. Its explicit mandate is to rent this equipment to local private contractors whose small capital base prevents them from acquiring such equipment. In practice however, ONM carries out the construction work itself. The local business sector has voiced its concern about this situation, arguing it amounts to unfair competition against private firms. ONM's revenues reached CFAF 2.2 billion in 2020, double the previous year's amount, and it reported a profit of CFAF 596 million. However, it currently faces a cash shortage as the Road Maintenance Fund (*Fonds d'Entretien Routier*), from which it is supposed to collect its bills, is currently depleted. So, ONM has been accumulating CFAF 2.5 billion of receivables from the State. In turn, it owes significant sums to its suppliers, estimated at CFAF 700 million.

11. **The Medicine Trading Unit (*Unité de Cession des Médicaments* or UCM), which manages a central warehouse for medicines, has been facing recurring operational and financial problems for several years.** Established in 1994, UCM is, at least theoretically, under the technical purview (*tutelle* – see Para. 39) of the Ministry of Health. It lacks modern equipment and expertise and has seen its activity decrease significantly in recent years, accumulating significant losses – CFAF 893 and 783 million

respectively in 2019 and 2020 according to UCM's management – and arrears (see Para. 76). A 2016 report by an international consulting firm noted that UCM was no longer functional and virtually bankrupt, mainly due to "serious governance issues". It recommended creating "a new national procurement structure, subject to company law, to replace UCM".

12. ***Société Centrafricaine de Transports Fluviaux* (SOCATRAF) operates the port of Bangui via a concession and thus plays a central role in CAR's economy.** The State awarded in 1996 a concession for the container terminal and it was renewed in 2015 for five years. SOCATRAF's majority shareholder is Bolloré Ports with the State holding 40% of the capital.[4] Its activities which depend on the level of precipitations is hampered by its ageing equipment (barges, pushers and cranes). In the past, SOCATRAF used to transport a broad range of products including logs and bulk sugar, but it currently focuses exclusively on petroleum products. With the support of the WB and other development partners, the government plans to undertake major infrastructure investments[5] to be able to increase its reliance of the Ubangi river as part of the strategic regional corridor linking the country to the neighboring Republic of Congo and the Democratic Republic of Congo. In this context, it will be critical to ensure that SOCATRAF's corporate governance is strong, so it can contribute to the success of a critical long-term infrastructure project for CAR.

13. **Very limited information is available on the other SOEs.** Few of them submit financial statements to the government. The following information could be gathered from a brief discussion with SOE representatives and a desk review of web sources or a WB unpublished report:[6]

i. ***Cellule Coton**,* a non-corporatized entity ("Office", i.e., parastatal), buys raw cotton from farmers and operates a cotton mill in the town of Bossangoa. A 2017 study by the WB on the cotton value chain in CAR notes it has been facing many challenges and needs to be restructured.

ii. ***La Centrafricaine des Palmiers*** (CENTRAPALM) appears to have ceased its activities; the government has been looking for a private buyer to restart it.

iii. ***Société d'Etat de Gestion des Abattoirs*** (SEGA) operates the central abattoir in Bangui. It derives its revenues from a « slaughter tax » set by the State; the amount of the tax has not been updated for many years. SEGA's facilities were vandalized in 2013, leading to a sharp fall in revenues, but the activity has picked up again since 2017. 2021 revenues were estimated at CFAF 340 million.

iv. ***Société Centrafricaine de Stockage de Produits Pétroliers*** (SOCASP) stores oil products near Bangui. Another depot in the Southwestern town of Salo is not operational.

v. ***Société de Développement des Infrastructures Aéroportuaires de Centrafrique*** (SODIAC) operates the Bangui airport and a dozen airfields throughout the country. Established in 2012 as the successor to a ministerial department, it faces multiple challenges including obsolete and poorly airport equipment. Its revenues which ranged between CFAF 1.5 to 2 billion annually before the pandemic have fallen significantly since 2020.

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[4] Source: SOCATRAF. The government could not confirm that information (see Section II B).

[5] These investments would include major navigation improvement works, the acquisition or rehabilitation of vessels, ports and quays rehabilitation and feasibility studies and technical assistance to strengthen the governance of the Ubangi waterway.

[6] Regarding the other three SOEs – *Hotel du Centre*, National Printing Office (*Imprimerie Centrafricaine* or ICA), National Postal and Savings Office (*Office National des Postes et de l'Epargne* or ONPE) – the only information obtained is their number of employees and, for some of them, net income and total liabilities for 2018 or 2019.

II. Economic Performance and Financial Situation of CAR's SOEs

A. Aggregate Performance and Situation of the SOE Portfolio: 2017-2020[7]

14. **Between 2017 and 2019, the SOE portfolio has generated yearly aggregate losses (before State subsidies) of CFAF 1.2 billion on average, which increased to CFAF 3.4 billion in 2020 (Table 2 and Figure 3).** ENERCA managed to increase its revenues but the other two SOEs saw theirs decline. Labor costs represented 48% of revenues in 2019 and increased by 5% compared to 2018. Each of the three SOEs reported a loss before subsidies in 2019 and 2020. The economic performance of each SOE is analyzed in further detail in Section B below.

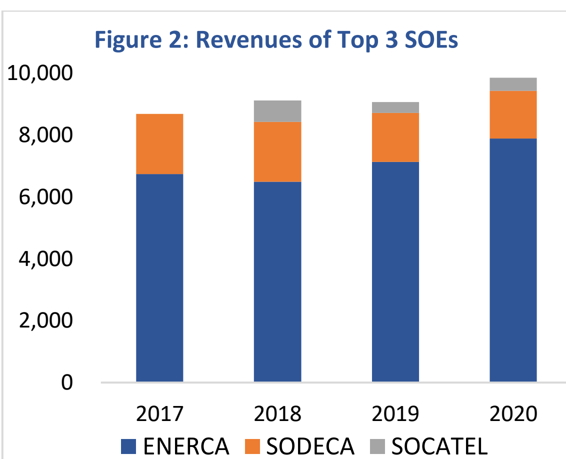
Table 2 – Top-3 SOEs Revenues, Net Income and Debt: 2017-2020 (CFAF billion)

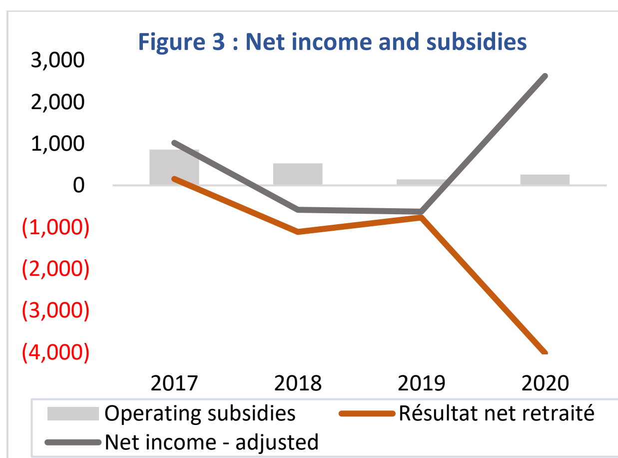
SOE	Revenues		Net Income				Debt at End-2020		
			As reported		Bef. subsidies and exceptional gains*		Financial	Tax & Social Sec. Liabilities	Total
	Average 2017-2019	2020	Average 2017-2019	2020	Average 2017-2019	2020			
ENERCA	6.8	7.7	0.7	1.3	0.1	(2.5)	19.0	14.6	33.6
SODECA	1.8	1.7	(0.2)	0.2	(0.4)	(0.3)	1.0	5.5	6.5
SOCATEL	0.5	0.3	(0.9)	1.2	(0.9)	(0.6)	0.5	11.8	12.3
Top-3 SOEs	**9.1**	**9.7**	**(0.4)**	**2.7**	**(1.2)**	**(3.4)**	**20.5**	**31.9**	**52.4**

Source: company financial statements and WB calculations. *See Para. 21, 29 and 35.

15. **The subsidies allocated to ENERCA and SODECA have been growing over the last two years, reaching CFA 2 billion in 2020 (Figure 3).** These subsidies help the utilities make up for the revenue shortfall associated with unchanged electricity and water tariffs for many years (i.e., they compensate the implicit public-service obligation of keeping the prices low). Most subsidies received are investment subsidies.

Figures 2 and 3 – SOE Economic Performance of Largest Three SOEs: 2017-2020 (CFAF million)





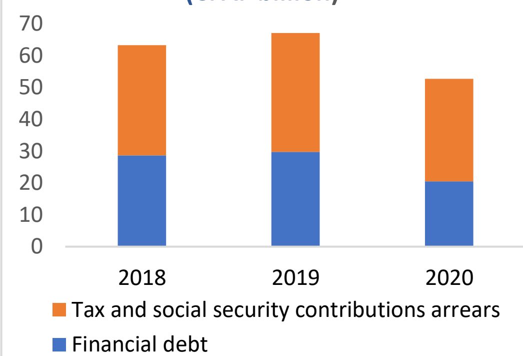
Source: company financial statements (2020 unaudited for ENERCA and SODECA).

[7] Given the recent divestment into CBCA and the apparent small size of the other entities or lack of information, the analysis in this section focuses exclusively on the largest three SOEs, ENERCA, SOCATEL and SODECA.

16. **On top of their poor economic performance, the three SOEs have been facing enormous revenue collection problems, both from public and private customers.** The revenue collection issue is typical for electricity and water utilities in Sub-Saharan Africa but is particularly acute in CAR. The total accumulated amount of unpaid bills owed to SOEs (reported as "accounts receivable" on their balance sheets) was approximately CFA 47 billion at the end 2020, equivalent to more than four years of revenues.

17. **Low profitability and severe collection problems have led the three SOEs to build up large debts, amounting to CFAF 56 billion at the end 2020, equivalent to close to 4% of GDP (Figure 4); such high leverage is not sustainable.** These SOE debts include both borrowings from financial institutions (CFA 21 billion) and taxes and social security contribution arrears (35 billion). These debt amounts dwarf the equity values for each of the three companies, which are virtually insolvent and will need to be recapitalized (SODECA being the worst case as it reports negative equity – i.e., more liabilities than assets). The next paragraphs present an analysis of the economic performance and financial situation of each of the three SOEs in greater detail. Issues relating to their corporate governance are discussed in Section III.

Figure 4 – SOE Debt: 2018-2020 (CFAF billion)



B. Focus on the Three Individual Strategic SOEs

B.1 ENERCA

18. **ENERCA is a fully integrated utility with *de facto* monopoly over the generation, transmission and distribution of electricity.** The company operates two hydro-power plants on the River Mbali (Boali 1 and 2), some 80 Km to the west of Bangui. These two facilities were established in 1955 and 1976 respectively and have a total capacity of 18.7 MW. In addition, thermal power plants in Bangui have an equivalent nominal capacity, which is reduced in effect to 5 MW due to the lack of maintenance. Electricity tariffs are set by the State et have remained unchanged since 1996, except for the establishment in 2006 of a fixed fee to be paid by customers. One notes in addition that the value added tax rate applicable to electricity went from 16 to 19% during that period , which in effect decreased the net selling price. Although the market was liberalized in 2005, private supply of electricity is still negligible.

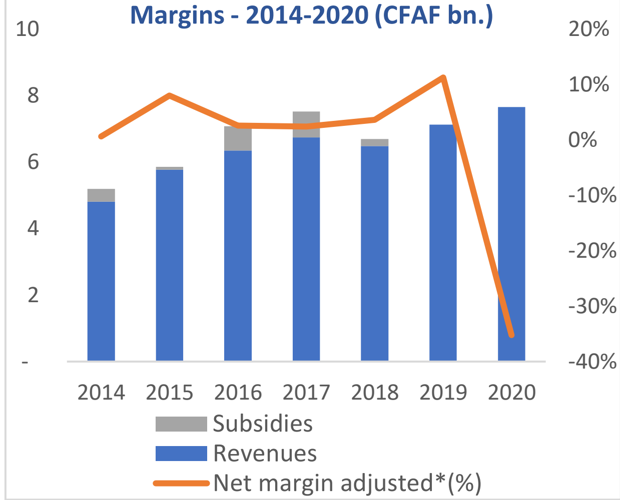
19. **ENERCA is unable to meet the demand of its market due to outdated and dilapidated infrastructure, particularly challenging market conditions and practices, and management issues.** Only 8% of the population has access to electricity. The unstable country environment and conflicts coupled with lack of funding for much-needed capital expenditure have led to a sharp deterioration in the state of the equipment used for generation, transmission and distribution. Additionally, unmetered consumption, illegal connections, vandalism, inadequate billing practices have caused technical and commercial losses to reach 50% of the electricity produced.

20. **Furthermore, ENERCA's operation is hampered by issues relating to information and Communication technology (ICT) and human resources (HR) management.** Although it modernized its management information system (MIS) in 2018, its customer relationship management module is not

yet fully operational, and the lack of interconnection between the different ICT system's modules (e.g., between billing and accounting) prevents the implementation of a centralized reporting system. In the area of HR management, the lack of training is a significant concern as ENERCA's personnel needs to adapt to these new tools and modern management practices aimed at increasing productivity. Ongoing or planned investment projects funded by the WB[8] or the African Development Bank seek to help ENERCA overcome the many operational challenges it has been facing in recent years – including by building new solar plants first in Bangui and later in the provinces.

21. **Even though ENERCA's commercial revenues have steadily increased since 2014, its costs have increased slightly faster over the same period, leading to a net loss before subsidy and non-operating items (Figure 5)**. This is in part the natural consequence of the frozen tariffs for over 15 years, while costs increased with inflation. The main cost is payroll and social security charges, which represented 36% of revenues in 2020. By far the greatest cost increase since 2014 has been raw materials, purchases and other external expenditures (+28% on average v. 9% for revenues). Additionally, 2020 saw the purchases of raw material raise sharply due to works at the Boali II plants and the high voltage stations, which required using more the thermoelectric groups. The increase in payroll costs has been relatively moderate by comparison (+5%). Growing interest charges relating to its large financial debt (CFA 0.3 billion in 2020) further contributed to ENERCA's deteriorating profitability. Up until 2019, the State provided operating subsidies to the enterprise (Figure 5). In 2020, ENERCA reports a net profit of CFAF 1.3 billion due to several non-recurrent gains as follows:

Figure 5: Revenues, Subsidies and Net Margins - 2014-2020 (CFAF bn.)



*Excl. Subsidies and CFAF 4 billion non-recurring gain linked to a debt cancellation (cf. Para. **Error! Reference source not f**

(a) The cancellation of a tax liability for past years which benefiot from the statute of limitation, with an associated "other income" for a total of CFAF 2.5 billion in 2020 (2.5 billion in 2019).
(b) Cancellation of VAT debt recognized by error as the respective customers were exempt from VAT, for CFAF 4 billion.

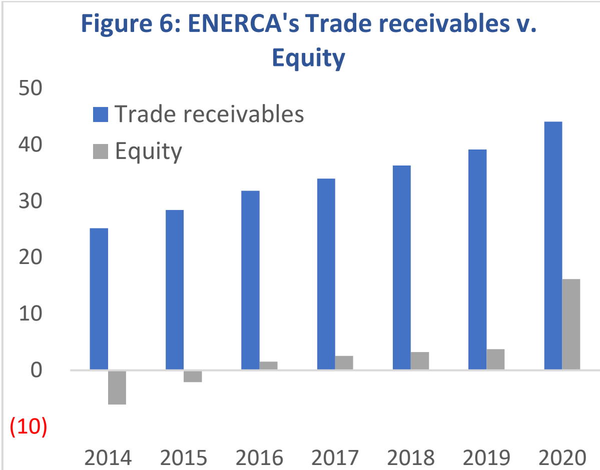
In both cases, ENERCA's management has indicated that these cancellations have been confirmed by the tax authorities. **Without these non-recurring items not related normal business operations, ENERCA would have posted a net loss of over CFAF 5 billion in 2020.**

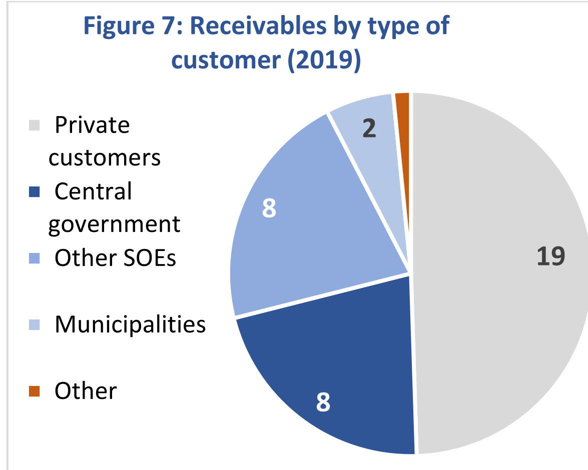
22. **Severe and persistent revenue collection problems have led to a staggering CFAF 39.1 billion of uncollected trade receivables on ENERCA's balance sheet (Figure 6).** This amount has grown on average by 10% since 2014, which means that the collection rate has been declining over that period. Within the total amount of accounts receivables reported, the split between the public and private sectors is almost even (CFAF 18.8 billion v. 19.1 billion – Figure 7). Among the SOEs who owe collectively CFAF 8.2 billion to ENERCA the largest by far was SODECA (Para. **Error! Reference source not found.**). B esides the unwillingness or inability of public institutions to settle their bills, these mounting receivables

[8] Including the Water and Electricity Upgrading Project ("PASEEL"), implemented since 2018.

reflect significant deficiencies in ENERCA's commercial practices and insufficient staffing of its commercial department. A significant share of the total uncollected amount is assumed to have a very low (or zero) probability to be collected and will therefore have to be written off ENERCA's books. For the rest, an arrangement will need to be put in place with the State to clear the cross-arrears with the public administrations and other SOEs (see Para. 23 on tax and social security arrears).

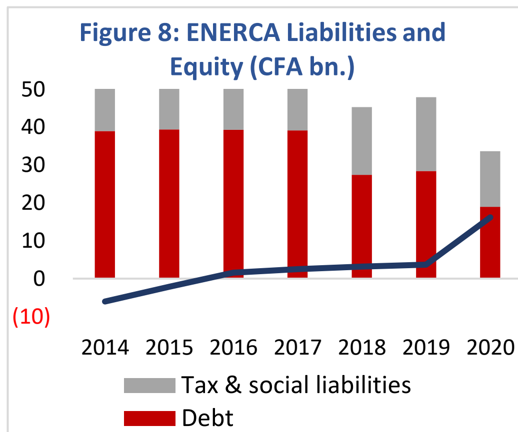
Figures 6-7: ENERCA's Trade receivables (CFA billion)





Source: company financial statements (2020 unaudited)

23. **ENERCA has a financial debt and tax and social security contribution arrears of over CFAF 40 billion (Figure 8).** Its financial debt was CFAF 19 billion at the end of 2020 including borrowings and accrued interest. According to the limited information in the notes to the financial statements, these correspond to "on-lent" funds from the WB and the African Development Fund to CAR. This debt was reduced in 2018 by CFAF 15.8 billion through cancellation and by a further CFAF 7 billion in 2020. In addition, a dire cash shortage has led ENERCA to accumulate large tax and social security contributions arrears, for a total amount of CFA 14.6 billion at the end of 2020, penalties and accrued interest included. One should note in this regard that whereas the State applies penalties and interest for non-payment of taxes and social security contributions, such penalties and accrued interest are not calculated on the State's trade liabilities toward ENERCA, which leads to reduce artificially the State's debt. Overall, the company has a debt-to-equity ratio higher than 2, which has been lowered but reflects a high leverage and a fragile financial viability.



24. **A draft performance agreement between ENERCA and the CAR Government dated August 2019 foresaw a number of actions aimed at restoring the utility's financial viability.** The performance agreement which was intended to cover the period 2019-2023 was developed as part of the PASEEL project. It pointed to a number of actions which the Government would have to take in order to enable ENERCA to achieve cost recovery and restore its liquidity situation to normal levels – e.g., tariff adjustments, reducing the public administration's electricity consumption, identifying new sources of long-term financing, compensation for public-service obligations, timely payment of electricity bills by the public administration and clearance of cross-arrears. A new strategy for 2022-26 was being developed in May 2021.

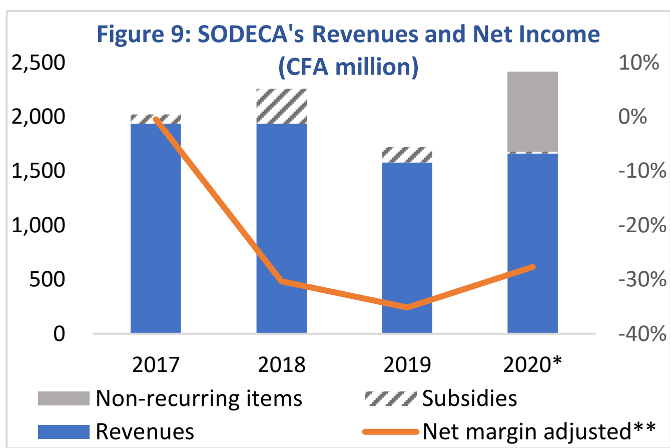
B.2 SODECA

25. **Established in 1991 as the successor of a utility formed in 1949, SODECA is the national urban water utility.** CAR benefits from a rich water endowment, thanks to high level of precipitations, and the presence of large rivers and tributaries in the Ubangi and Chari basins. SODECA produces, stores and distributes water for Bangui and other towns in CAR. It has branches and water treatment plants in seven regional capitals. Rural water is the responsibility of a separate entity, the *Agence Nationale de l'Eau et de l'Assainissement*. After a partial privatization in 1991, the company came back to State hands in 2003. The Pan-African commercial bank Ecobank holds a 2.6% stake in the company. In 1991, French international firm SAUR acquired a stake in SODECA. It fully withdrew from CAR in 2003. The SOE operates under a concession contracts (*affermage*) with the State.

26. **SODECA is unable to meet market demand, with only 30% of the population having access to clean water.** Sanitation is available to 22% of the population on average, with wide disparities between Bangui and the other regions (44% v. 7%). According to management, SODECA's daily production capacity in Bangui is 1,500 m^3 per hour, against a potential demand of 65,000.[9] The main factors behind such poor service-delivery performance are similar to the ones affecting ENERCA's. One is the age and state of disrepair of the infrastructure and equipment, which results in high levels of lost water (approximately 60%), and the lack of electricity for pumping water, which limits production. Another factor is that tariffs have not been updated to reflect the cost of inputs or salary increases. Yet another relates to a shortage of skilled personnel and outdated management practices. For instance, the number of staff who measure the water meters which given the utility's network and client base should be around 40, is only 12. Severe revenue collection problems are in fact at the root of these operational problems (see Para. 30).

27. **An ambitious institutional reform of the water sector was adopted in 2006, with a new Law on Water and no less than five new agencies, but this has yielded very limited results to date.** The sector's policy ministry (Ministry for the Development of Energy and Water Resources) is closely involved in the management of SODECA including through the chair of the board of directors, which is held by the Minister's Chief of Staff.

28. **SODECA incurred significant operating losses in 2019 and 2020 (Figure 9).** SODECA's revenues have decreased significantly in 2019 and were down 14% in 2020 compared to 2017. At the same time, its operating costs (chemical products, electricity; personnel and equipment depreciation) have grown significantly, including payroll cost which were up by 10% following the implementation in 2019 over a bargaining agreement for mid- top high-level employees which had been signed before 2015.



Source: SODECA fin. statements. *2020 unaudited. **See Para. 29.

29. **SODECA recorded a non-recuring gain of CFAF 735 million for the year 2020 which does not reflect the actual performance of that year.** Prior to closing its books of accounts for the year ended December 31, 2020, SODECA hired a local accountancy firm to perform and detailed review accounting

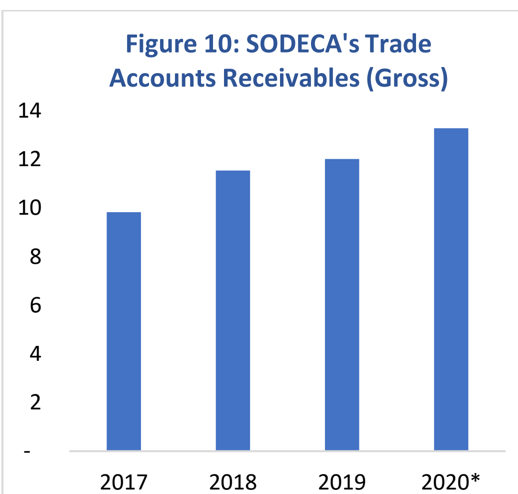
[9] A project under way financed by Saudi Arabia should help bring the capacity to 2,250 m^3 per hour.

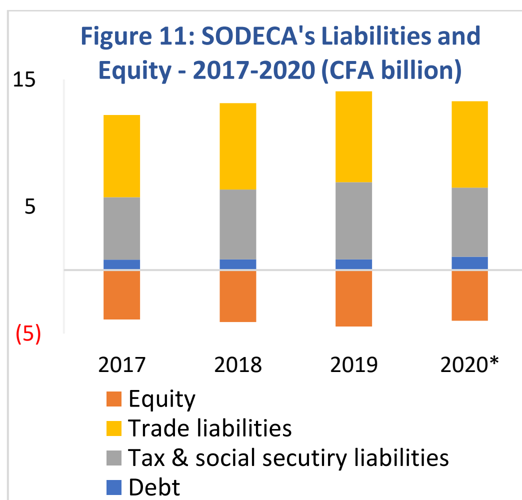
records relating to previous years. These correspond to amounts to be collected (receivable) from customers or paid to vendors and other third parties. Following the review, the company "wrote off" its books of accounts (i) receivables for approximately CFAF 5.2 billion (including advances to vendors) and (ii) payables for approximately CFAF 5.9 billion. Thanks to these accounting entries which resulted in a net gain, SODECA's preliminary financial statements for 2020 show a net profit of CFA 150 million. As this net gain relates to prior financial years, the reported profit clearly does not reflect the company's real economic performance. In addition, a question arises regarding whether the company was justified in writing liabilities off its books. To do so normally would have required a thorough process vetted by senior management and the board. The statutory auditors have not yet reviewed this matter and would be expected to scrutinize it closely.

30. **SODECA also faces extreme difficulties in collecting its bills (Figure 10).** The gross amount of trade accounts receivables (i.e., bills yet to be paid by customers) has grown steadily since 2017, from CFA 9.8 billion to 13.3 billion at the end of 2020. This includes both private and public customers (no break-down available). Although no detailed analysis has been done so far, it seems likely that a large proportion of those receivables will not be collected, due to the insufficient number of collecting agents and the State's unwillingness or inability to settle its water bills. The company has in fact recognized a provision (write-down of the reported asset value) for CFAF 4.9 billion, leaving a residual exposure of CFAF 8.4 billion.

31. **With liabilities of over CFA 13 billion and a negative equity at the end 2020, SODECA is virtually insolvent (Figure 11).** As with ENERCA, lackluster economic performance coupled with the inability to collect most of its revenues have led SODECA to accumulate arrears, not only in tax and social contributions, but also vis-à-vis its main supplier ENERCA, for CFA 6 billion. SODECA has also borrowings from public institutions (Mining Fund, National Social Security Fund and ENERCA).

Figures 10-11 – SODECA's Receivables, Liabilities and Equity: 2017-2020 (CFA billion)





Source: SODECA's financial statements (2020 unaudited)

32. **SODECAs management team submitted a 2021 budget predicting an increase in revenues of 28% and a break-even situation, after receipt of a subsidy of CFAF 0.5 billion.** 2021 revenues were forecast at CFAF 2,020 million and net income (after subsidy) at 35 million. As SODECA does not provide intra-period reporting, no information is available as to the degree of achievement of these goals. With

a view to meeting these ambitious objectives, the management presented an action plan focusing on (i) ramping up commercial activities (e.g., switching to monthly billing instead of every two months, deploying account managers, creating outlets in commercial centers, the continuation of a detailed customer census campaign); (ii) human resources management, with the hiring of senior staff; (iii) increasing maintenance and the rehabilitation of the pumping stations and distribution network. In order to improve the company's financial position, a process was initiated in early 2022 to clear cross-arrears with the State (as with the ENERCA and SOCATEL).

B.3 SOCATEL

33. **Established in 1989, *Société Centrafricaine de Télécommunications* (SOCATEL) operates a wired network in a market dominated by cell phone operators.** Under a 30-year license granted in 2013 covering land lines, internet and international gateway, it currently provides land line services only in Bangui. Three private operators (MOOV, Orange and Telecel) provide mobile phone services and Telsoft operates the international gateway through a license. A fifth one, Azur, has ceased operations in 2019. SOCATEL had 118 employees at the end of 2020. Until 2005, *France Câbles et Radio* (now Orange) had a 40% stake in the company.

34. **To date, SOCATEL has been unable to initiate the operation of the international gateway[10] for which it holds a license.** The reason for that seems to be a lack of technical, human and financial resources. SOCATEL is currently caught in the typical vicious circle whereby its ability to generate revenues is hindered in particular by obsolete technical infrastructure and insufficiently trained human resources, and the lack of revenues prevents it from making necessary investments to be a meaningful actor on its market.

35. **SOCATEL's revenues are decreasing and significantly below its costs, leading to recurring losses (Figure 12).** Revenues for 2020 (unaudited) were reported to be at CFAF 418 million, down by 40% compared to 2018. Operating costs excluding non-cash items (depreciation of property, plant and equipment) reached CFAF 845 million of which 74% were personnel costs, leading to negative Earnings Before Interest Tax Depreciation and Amortization (EBITDA[11]), and a net loss of over CFA 1 billion in 2019. For 2020, the company reported a net profit of CFAF 1.2 billion due to a subsidy of CFAF 244 million and two non-cash, non-recurring gains of respectively CFAF 400 million and 1,429 million.[12]

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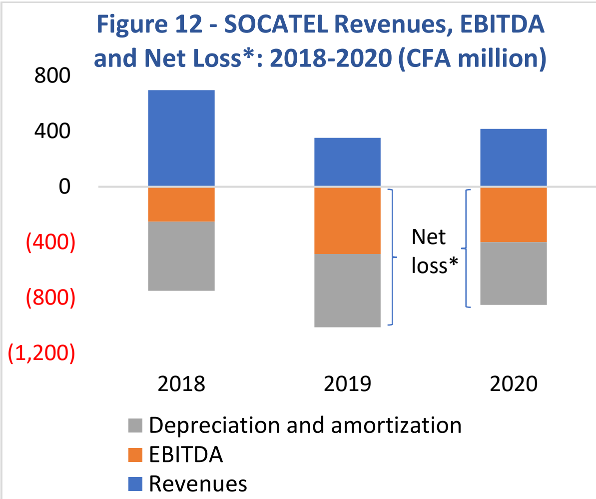
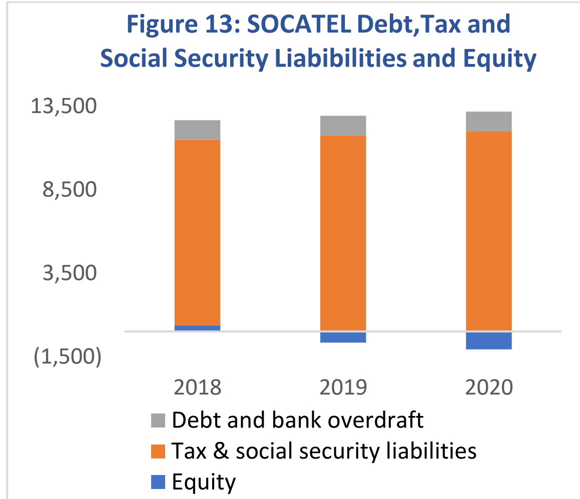
[10] An international gateway supports electronic communications with other countries through either an international cable system or a satellite.

[11] A negative EBITDA is a sign of deep economic and financial woes for a company as it does not take into account the cost of financing investments (principal and interest).

[12] These accounting gains in 20209 relate to the way the operating license granted tin 2013 was accounted for. Specifically, a theoretical value was assigned to the license and that amount was recognized both as an asset and on SOCATEL's balance sheet (see Para. 37) and as a subsidy received from the State as an element of equity, the subsidy amount being amortized yearly and credited as income correspondingly. In 2020, a "catch-up" in amortization of the subsidy was recorded for two years (2018 and 2019). These accounting schemes, while allowed by SYSCOHADA accounting system, do not reflect the substance of the company's economic performance and financial situation.

Figures 12-13 – SOCATEL's Revenues, Earnings and Debt, Liabilities and Equity: 2018-20 (CFA million)





Source: SOCATEL's audited financial statements. *Excluding State subsidy and non-recurring items in 2020.

36. **Like the other two large SOEs, SOCATEL has an extremely thin capital base and, given the size of its business, a very high "quasi-debt" of CFAF 12 billion (Figure 13) in the form of tax, social security contribution and salary arrears.** SOCATEL reported a negative equity (i.e., net asset value) of CFAF 1.2 billion at the end of 2020, which means it is virtually insolvent, as evidenced by the fact is has accumulated over CFAF 12 billion in tax, social security and payroll arrears. In fact, its situation is so dire that it is only able to pay part of the employees' salaries, which has led to a strike at the end of 2021. A firm hired to carry out the contractual audit of SOCATEL's 2019 financial statements (see Para. 67) concluded that the SOE is unable to generate sufficient resources to meet its financial obligations and it has too much debt.

37. **SOCATEL's reported net asset value appears in fact significantly overstated, as it includes an amount of CFAF 9.1 billion for its "global license" which real value is highly uncertain considering the very low level of company revenues at present.** The management of SOCATEL is unable to justify this amount which is hardly credible given the SOE's major challenges and recurring losses,. Under International Financial Reporting Standards (IFRS), maintaining the carrying amount of an intangible asset must be justified by revenues and profits which allow at least to absorb the annual amortization of said asset. It is therefore probable that the value assigned to the license would be zero or close to that.

III. Corporate Governance of SOEs in CAR

38. **This section focuses on the quality of the institutional framework for SOE corporate governance as summarized in Box 1 below, based on the WB's iSOEF (see Annex).** Quality was assessed from both *de jure* (legal requirements) and *de facto* (actual practice) standpoints. Actual practice was assessed through a questionnaire adapted from iSOEF Module 4 (July 2019) and interviews with the management teams of the three top SOEs.

Box 1 – WB Framework for SOE Governance Assessment: An Overview[13]

Legal and Regulatory Framework. A sound legal and regulatory framework is the foundation for effective corporate governance. It ensures there is no gap in the legal requirements, obligations are clearly established and do not contradict each other; it also relies on local corporate governance codes and good practice and facilitates effective compliance and enforcement.

State Ownership Arrangements. The State has a distinct responsibility to act as an active and responsible shareholder. Its key ownership functions are described in Figure 14. These functions must be assigned to an entity with appropriate powers and resources, and the State must be accountable for the discharge of its ownership role.

Performance Management. The State needs to monitor the SOEs' performance and hold accountable their management teams and boards for results, based on clearly defined mandates, relevant strategies and return objectives. To that end, it needs to ensure the SOEs have adopted modern strategic planning and performance management practices leveraging information and communication technology, with relevant key performance indicators (KPI). Performance agreements between the SOE and the State can also drive business improvements provided it is well designed and institutional arrangements are in place for its effective implementation.

Boards of Directors. Boards are the "keystone" in an enterprise's governance, providing critical advice to management and exercising oversight over sensitive areas such as strategic planning, risk management, executive remuneration, conflicts of interest, external reporting, and auditing. Effective boards have clearly defined roles, a merit-based and diverse membership, a limited number of specialized committees (e.g., on audit), an adequate remuneration framework, and a process in place for evaluating their effectiveness at regular intervals.

Financial Accountability, Controls and Transparency. Relevant, timely and accurate financial reporting is vital to holding SOEs accountable for their performance, and so are a strong control environment, and competent independent audits. In addition, the publication of aggregate (i.e., portfolio-level) information enables Parliament and stakeholders to be informed about the performance and situation of the SOEs; it also helps ensure the Government is fulfilling the State ownership role effectively.

Procurement in SOEs. A key issue regarding procurement in SOEs is the extent to which they are subject to the same rules as government bodies, whether the requirements on procurement applicable to SOEs are appropriately flexible to reflect their commercial nature. Irrespective of the system in place, it should ensure that SOEs observe sound, universally accepted principles of procurement – e.g., transparency, efficiency and economy.

A. Legal and Regulatory Framework for SOE governance

39. **The legal and regulatory framework for the governance of SOEs in CAR was recently strengthened, especially by assigning the MFB a more prominent role.** The framework is defined in a Law adopted in January 2020 and its accompanying Presidential Decree, which establishes three types of entities: (i) "public enterprises", i.e., SOEs which have the State as sole shareholder, also referred to a *société d'Etat* (SE); (ii) public bodies (*établissements publics),* which carry out mostly if not exclusively

[13] Based on iSOEF and WB 2014 (https://openknowledge.worldbank.org/handle/10986/20390?show=full).

policy (i.e., non-commercial) functions; and (iii) mixed-ownership companies (*société d'économie mixte* or SEM), which could be either SOEs or companies in which the State holds a minority stake.[14] The law is comprehensive in scope, covering key topics such as ownership and State supervision ("*tutelle*" – see B below); the role and appointment of directors and the chief executive officer (see D below); financial reporting at SOE and aggregate level (see E below); external controls/audits (also discussed in E below); conflicts and interest; sanctions; ex-ante approval of debt taking; and the role and composition of the highest governance body within the SOE, the general assembly (*assemblée générale*). The new law vests significant power in the MFB in terms of monitoring and oversight, as discussed in B. below.

40. **Key provisions of the law about the internal governance of SOEs are equivalent in substance to those of the company law.** These includes the requirement to apply corporate financial reporting standards or having the annual financial statements audited by a registered auditor rather than the supreme audit institution (SAI). As a member of the Organization for the Harmonization of Business Law in Africa (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires* or OHADA), CAR has transposed into its law the Uniform Act on Corporations and Joint Ventures which has become its company law. Subjecting SOEs to company law is generally considered the best approach for several reasons: (i) it contributes to a level-playing field with the private companies the SOE might compete with, (ii) given its many stakeholders, company law's development is subject to a high degree of scrutiny and often draws from internationally accepted norms of business, and (iii) economic agents in the country – including company directors, lawyers, bankers, auditors – are familiar with the provisions of company laws and therefore SOEs that are subject to these potentially have easier access to professional services to facilitate their business activities.

41. **The process to revise the SOEs' bylaws with the January 2020 law is advanced but has yet to be completed.** The revision of the by-laws to make them compliant with the Law 20-004 and its accompanying Decree 20-224 has suffered repeated delays. A "pre-validation" workshop is tentatively planned for December 2021. Updating the bylaws is a necessary step to implement the provisions of the SOE law and decree relating to the internal governance of the SOEs.

42. **Almost all SOEs have been corporatized, with only two remaining as public bodies ("*établissements publics*" – see B. below).** The largest SOEs are established as a s*ociété d'Etat*, i.e., joint stock companies (*société anonyme* or SA) – see Table 1 above. Two SOEs – *Cellule Coton* (Para. 10); and the postal and savings financial institution (*Office Nationale des Postes et de l'Epargne* or ONPE) – have the form of an "Office" (i.e., a non-commercial, parastatal body).

43. **SOEs are subject to a specific executive order which limits their operational autonomy and interferes with the efficient running of their business.** Under a Presidential Instruction of January 2014, SOEs cannot draw from their bank accounts without the government's prior approval. Each month, they must submit a detailed proposal for disbursements (called "*programme d'emploi*") for all operational costs or investments to the Prime Minister's Office for review. This process (which was transferred to the MFB in September 2021) represents a significant administrative burden and source of additional

[14] *Loi nº20-004 portant organisation du cadre institutionnel juridique et financier applicable aux entreprises et établissements public* promulgated on January 13, 2020 and *Décret nº20-224 fixant les modalités de la Loi* nº*20-004 (….)* issued October 2, 2020.

delays for the SOEs. It is clearly at odds with the basic notion of operational autonomy which underpins the modern approach to SOE governance.

44. **Interference in the SOEs' operations reflects the complex political economy of SOEs, which are often seen as a source of rents for individuals in position of power.** SOE manage large amounts of commercial revenues and investments and are therefore prone to attracting efforts to misappropriate some of these sums. This is a significant risk and potentially a real obstacle to any effort to improve the governance and performance of SOEs. An active independent, and professional board and executive team, operating in a transparent environment with strong internal controls, can help mitigate the risk of capture and fraudulent transactions. Close monitoring by the Ministry of Finance can also contribute to reducing this risk.

45. **Overall, one of the main shortcomings of the current legal framework is that it subjects most of not all key decisions of the SOEs and much of their day-to-day business to ex-ante government approval.** Another issue is the overlapping role of various ministries and entities as discussed in the next section.

B. The State's Ownership Function

46. **The SOE ownership role in CAR is scattered across several government institutions including the MFB, the lines ministries and the Office of the Comptroller General of SOEs and Parastatal (*Contrôle Général du Secteur Parapublic* or CGSP).** The SOE ownership role comprises five main broad functions (Figure 14). Under Law 20-004, these different functions are assigned to either the line ministry, the MFB, the CGSP, or a combination of them (Table 3). The division of responsibilities among these three actors can lead to significant duplication and calls for close coordination. Given that the law is still relatively recent, its effectiveness has yet to be tested, including in terms of how the ownership functions are carried out. This issue is significant from two standpoints: for the State, strong and effective coordination is necessary both for effectiveness and an efficient use of scarce human resources deployed to carry out these functions. From the SOEs' standpoint, a lack of coordination leads to duplicative requests and processes, adding undue burden to their daily operations.

Figure 14 – Ownership Functions According to International Practice

*in some countries, divestment is assigned to a separate agency.

47. **Some ownership functions are exercised directly through the SOE's *assemblée générale*.** In each SOE, the *assemblée générale* includes the line minister, the Finance minister, the minister of Economy, the minister of Commerce, and the CGSP – or their representatives. Its main responsibilities are to approve the year-end financial statements and proposed dividends; authorize key transactions (e.g., disposal of fixed assets, acquisition of shares, and guarantees above a certain amount); set the sitting fees for board members; and appoint the statutory auditors (*commissaires aux comptes* or CAC).[15]

48. **The MFB has yet to exercise its key ownership function under the law, which is to monitor the SOEs' economic performance and financial situation, and the fiscal risks stemming from them.** Until the passing of Law 20-004, the MFB's role was mainly formal, through its presence on the *assemblée générale* and on the SOE's board. A decision was taken recently within the MFB to assign the responsibility for monitoring the SOEs' economic performance and financial situation to a unit of the Treasury Directorate. Monitoring SOEs, while not necessarily complex, requires in particular (i) engaging with the SOEs to obtain copies of financial statements and other key documents (e.g., management reports), and explanations on the information provided or gaps therein; (ii) setting up and maintaining a database or dashboard to compile and assist in reviewing and analyzing the data contained in the financial statements and other documents; and (iii) drafting the reports required by the law and memoranda on specific SOEs, especially presenting the most acute fiscal risks. To be able to carry out that role effectively, the new unit will need to be adequately staffed, equipped with basic information and communication technology (ICT), and supported through capacity-building activities.

Table 3 – Distribution of Ownership Roles Among Government Agencies

Function	Agency in charge[16]	Comments
Appointing and Removing	Line Ministry, MFB and CGSP	"SOEs directors are nominated by their entity and appointed by (…) the Council of Ministers upon proposal by the responsible Minister". The board chair is elected by the Board (subject to validation by Government – see Art. 27).
Setting Strategic Directions	Line ministry	Define the SOE's missions and general objectives; participate in the development of its medium and long-term development plan; and check whether it is included in the sector development plan
	CGSP	Participate (..) in the preparation of SOE mid/long-term development plan and verify it is in line with the sector development plan
Oversight / Monitoring	Line ministry	Review annual budget, monitor technical indicators and implementation of performance agreements
	MFB	Review annual budget, monitor financial situation, review annual financial accounts, assess fiscal risks, recommend a financial audit if deemed necessary
	CGSP	Monitor compliance, budget execution, follow up on SOE performance indicators, manage a central risk dashboard ("*centrale des risques*")
Aggregate Reporting	MFB	Attach to the budget bill a list of SOEs and a report presenting all financial flows (Art. 57)
	CGSP	Report on the state of assets; report annually on the "control of the management" of the SOE and parastatal sector; and report on the performance of SOEs and parastatals annexed to the "Settlement" bill; draft annual report on disposals and acquisitions during the year
	Line ministry	Propose acquisitions or disposals or capital increases

[15] Law 20-004, Art. 67-71 and Decree 20-224, Art. 45.

[16] Per Law 20-004, Art. 12 (line ministries), 13 (MFB) and 14 (CGSP), plus articles mentioned in Comments.

Managing the Public Portfolio	MFB	Approve acquisitions/disposals, new SOE creation, and capital increases
	Other	Authorize key transactions through SOE's general assembly (Para. 47)

49. **The CGSP's capacity to discharge its role under the law is limited.** The CGSP is headed by the *Ministre-Contrôleur Général du Secteur Parapublic* with the rank of cabinet member who is assisted by a *chargé de mission* (senior advisor). Four experienced civil servants ("experts"), each assisted by a research assistant, deals with a specific technical area – e.g., accounting, economic, human resources and legal). The CGSP has not produced any public report in the recent period. The main focus of its activities since 2020 has been monitoring the revision of the SOE and parastatals' bylaws.

50. **The traditional "*tutelle technique*" approach under which line ministries play a major role in the management of SOE is sharply at odds with the emerging international SOE governance framework.** This model, which is still prevalent in Francophone countries, pre-existed the creation of independent sector regulators. A number of countries have abandoned it and refocused the line ministries' role on sector policies and strategy development. In the emerging model of SOE governance, a clear separation is set between policymaking (by line ministry), regulation (by an independent agency) and ownership management (by the finance ministry or a specialized agency).

C. Performance Management and Monitoring

51. **Performance management and monitoring is a key function to ensure an SOE has clear and relevant strategic goals and to track whether it is meeting them.** This requires each SOE to (i) formulate a business strategy, reflecting any mandate assign to it by the State, and updating it at regular intervals, and (ii) develop a set of key performance indicators (KPIs) on economic, service-delivery, technical, human resources, social, environmental and governance aspects.

52. **The three top SOEs do not currently, or up until recently did not, have a formal strategy.** Both ENERCA and SODECA are in the process of developing a strategy with the support of the WB-funded PASEEL project, with the Ministry of Energy and Water Resources playing a leading role in that respect. Regarding SODECA, its adopted in early 2022 a strategic plan including eight priority actions.[17] SOCATEL for its part SOE developed in May 2018 a "plan for the rapid restart of the company's activities". The plan envisaged a series of investments in 2018-2020, the payment to employees of CFAF 0.5 billion of salaries in arrears, the disposal or rental of non-strategic assets, and a partnership with private investors to operate SOCATEL's license.

53. **None of the SOEs appear to be tracking KPIs.** This is due partly to the fact no strategy has been adopted and to limitations in the SOEs' existing MIS. For instance, ENERCA relies for its daily management mainly on the commercial software financial and accounting SAGE but the version it uses focuses on financial and human resources management and does not include the commercial of management accounting modules.[18]

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[17] Reduction of non-revenue water, increase in the number of subscribers, increase in consumer satisfaction, cost reduction, centralization of data archiving, supporting customers in gaining access to bank accounts, strengthening staff capacity, and relaunch of secondary centers.

[18] ENERCA's management indicated that an effort for a technological catch-up regarding the MIS is in progress and in particular in order to allow the definition and the monitoring of performance indicators.

54. **Law 20-004 envisages performance contracts ("*contrat-plan*") for SOEs,[19] but none has been prepared in the recent period.** A performance contract between ENERCA and the State for 2019-2023 was prepared in 2019 but never signed. It included 16 KPIs and a number of commitments from the State or the SOE related to key factors hampering the utility's performance (e.g., tariffs, collection, labor productivity, production capacity).

D. SOE Boards of Directors and Management

55. **SOE boards of directors have, in theory, broadly the same wide-ranging powers as those provided in the OHADA Uniform Act on SAs.** Law 20-004, Art. 25, the boards have "all the necessary powers to act on the enterprise's behalf and to carry out or authorize all operations relating to the company's activities within the limits of its corporate purpose (*objet social*)". In addition, the law explicitly assigns to the board the roles of: appointing the chief executive officer (CEO – Art. 49), reviewing and approving the annual financial statements (Art. 85), and submitting to the MFB a report on any new borrowings on the opening of bank accounts (Art. 76). The SOE's bylaws set out the way these powers are implemented.

56. **To become effective, all decisions of the board must be approved by the responsible line ministry, and decisions with financial implications must be approved by the MFB.** This further illustrates the extent of the government's influence over the SOE's operations. It clearly goes against the international practice of truly empowering boards with key decisions, and is inconsistent with the OHADA framework.

57. **The SOE boards of directors are chaired by, and composed almost exclusively of, State representatives (Table 4), which defeats a key goal of having a board in the first place, which is to insulate the SOE from political interference.** Under the law, SOEs have a board of directors with three to five members who are civil servants designated by their ministry and appointed through a Council of Ministers decree (Art. 20). They are appointed for three-year terms, and can be reappointed once. The board elects its own chair among one of its members. All SOE directors are currently male.

Table 4 – Composition of the Boards of the Three Largest SOEs

	ENERCA	SODECA	SOCATEL
Board chair	Advisor to the Presidency, former Finance Minister	Chief of Staff of Energy and Water Minister	Treasury Dept. Director (MBF)
Other board members	Representatives of ministries of (i) Commerce, (ii) Defense, (iii) Economy & Planning and (iv) Energy & Water	Representatives of ministries of (i) Commerce, (ii) Energy & Water, and (iii) Health, plus Ecobank representative	Representatives of (i) Commerce, (ii) Economy & Planning and (iii) Post & Telecom (currently vacant)
Gender	M: 5, F: 0	M: 4, F: 0	M: 4, F: 0

58. **SOE boards in CAR have none of the features of a modern board – such as independent directors, an audit committee, a board secretary and its own budget – and it seems very unlikely these could work in the current context, due in part to resource constraints.** As in most CEMAC countries, CAR's SOE boards have mostly a formal role, focusing mainly on the approval of the annual budget and

[19] Art. 12 states that the lines ministries' role includes "providing guidance to SOEs and public bodies through a *contrat-plan* and monitoring its execution at the technical level.

financial statements (with limited effectiveness as discussed in Para. 59-63), and contributing little to strategy or the approval of internal policies in sensitive areas (e.g., risk management). According to Law 20-004 (Art. 19), the government could appoint a representative of a business association or trade union, but in practice this has been done rarely (e.g., ONM). The likelihood that an SOE in CAR could attract a highly-recognized board member is low given the extent of the government's powers, and the limited financial resources to offer a competitive compensation to an independent director. Board specialized committee – especially the audit committee – can add much value when the board is vested with sufficient powers.

E. Financial Accountability, Controls and Transparency of SOEs

59. **SOEs must submit their board-approved annual budget to their line ministry, MFB and CGSP.** Given their strong public administration culture, SOEs place a significant emphasis on the preparation of their annual budget, which their board reviews typically during the end-of-year session in December. The comparison between the budget and the income statement (presenting the actual economic performance) over recent years shows that budgets consistently overestimate revenues, as they assume improvements in the operational environment of the SOE that do not materialize.

60. **CAR's requirements for annual financial reporting by SOEs and financial statements audits are consistent with the common international practice.** According to 2020 Law and Decree, SOEs must prepare their annual financial statements in accordance with the OHADA Accounting System (*Système Comptable OHADA* or SYSCOHADA[20]), no later than 90 days after year-end. It should be noted that, notwithstanding recent efforts to align the regional standards further with the International Financial Reporting Standards (IFRS), financial statements prepared un the SYSCOHADA-based provide much less information for financial analysis than a an equivalent set under IFRS. The annual financial statements must be audited by the statutory external auditor (*commissaire aux comptes* or CAC) within 30 days; then they must be reviewed and approved by the board of directors within 30 days; then these must be submitted to the general assembly for final approval; and lastly, the MFB is responsible for reviewing the approved audited financial statements of each SOE.[21]

61. **In practice, the quality of SOE financial reporting is poor.** The key issue is that the notes to the financial statements[22] – which are essential to have a sense of the SOE's main assets, liabilities, revenues and expenditures, and the basis upon which they were estimated including main assumptions – consist exclusively in a series of tables, with no explanation whatsoever. This is not consistent with the SYSCOHADA requirements. It diminishes considerably the ability of the financial statements' user to gain a good understanding of and monitor the SOE's economic performance and financial situation, and to use them for informed decisions. For instance, in SOCATEL's case, the notes to the 2020 (audited) financial statements contain no explanation on the subsidies and the non-cash, non-recurring gains recorded (see Para. 35). Similarly, no information is provided on the CFAF 9 billion intangible asset (i.e.,

[20] OHADA *Acte Uniforme Relatif au Droit Comptable et à l'Information Financière*.

[21] Law 20-004, Art. 70, 75 and 87 and Decree 20-224, Art. 35-39, 45 and 53.

[22] The annual financial statements under the SYSCOHADA are (i) the balance sheet, presenting the assets, liabilities and equity of the enterprise; (ii) the income statement showing its revenues, expenditures and resulting net income; and (iii) the statement of cash flows presenting the net cash receipts from operations, investment activities and financing activities. These are broadly consistent with IFRS. The accompanying notes to the financial statements (also referred to as "disclosures") are considered an integral part thereof.

by far the company's main asset), which purports to represent the value of the 30-year license (Para. 37). Areas for which information is lacking in the notes include the "ageing" of accounts receivable and the maturity and terms of financial debt; such information is particularly critical to assess the solvency of the company and therefore the contingent liability it may pose.

62. **SOEs do not prepare intermediate (e.g., half-year) financial statements, which limits the monitoring ability of the board and ownership entities.** While not legally required, reporting at intermediate dates (even in a simplified form – e.g., only an income statement[23]) is a well-established, international practice as it enables key decision-makers to monitor the economic performance and financial situation of the enterprise. Here again, limitations in the SOE's MIS is likely to be a key reason why such practice is not followed in CAR. ENERCA prepares an activity report for the first six months of the year which contains very limited information on economic performance (e.g., total revenues, total payroll and total expenditures), without any comparative analysis and explanation for variances vis-à-vis the previous year of the budget.

63. **Financial reports are not produced in a timely fashion.** Audited financial statements are released to the relevant government body (MFB, CGSP, etc.) with five to six months delays compared to the statutory deadlines, and almost a full year after the reporting date (see Table 5).

Table 5 – Submission of Annual Financial Statements and Basic Information on Audits

	ENERCA	SODECA	SOCATEL
Latest accounts finalized (financial year)	2019	2018	2020
Date of completion of 2020 SOE accounts[24]	Expected by end of December 2021	Expected in first quarter of 2022	November 15, 2021
Type of opinion in statutory auditor's (CAC) report[25]	(2019) Qualified opinion	**Not available**	(2020) Qualified opinion
CAC (name of firm)	Afric Auditec	ARC – Lawson	GEC (André Lawson)
Number of years since first appointed	Three years	Over 20 years	Over 10 years
Issues raised in the statutory auditor's report	Unreconciled difference between bank records and accounts	Not available	Internal control weaknesses

64. **The statutory auditor (CAC) of SODECA has still not released its report on the 2019 financial statements.** According to SODECA, the reason for that situation is that it has not yet settled the auditor's fees for that year. The CAC has yet to start any audit work on the 2020 accounts. Given the unusual accounting entries recorded in 2020 mentioned above (Para. 29), which will likely require the CAC's close scrutiny, this means that SODECA's 2020 financial statements will likely not be finalized before the end of the first quarter of 2022, i.e., with almost a one-year delay.

65. **The statutory audit reports of ENERCA (2019) and SOCATEL (2020) contain qualified opinions (Table 5), which represents a "red flag" about the financial reports' reliability and the quality and**

[23] A review by the statutory auditor of these optional statements is not required.
[24] As of the date of this report, neither ENERCA nor SODECA had submitted their official 2020 financial statements.
[25] A qualified option means the auditor objects to an accounting treatment with potential material effect on the financial statements. A disclaimer of opinion means the auditor is unable to conclude due to a lack of information.

effectiveness of internal controls. A qualified audit opinion is not uncommon for SOEs in developing countries. But well-managed companies would do all they can so that their annual financial statements receive a "clean" opinion in the audit report, including by carefully planning the preparation of the financial statements and ensuring the auditor is able to raise any concern well ahead of time so they can appropriately address it. The qualified audit opinions, coupled with the significant delays in the submission of the financial statements, are a clear indication that the SOEs need to improve their processes for "closing their books" annually, which in turn would require investment in capacity, be it in terms of staffing, training or ICT.

66. **The fact the statutory auditors have not raised the issue of notes to the financial statements in their report is of concern.** The case of SOCATEL which provided no explanation is the notes to its financial statements on the large non-recurring gains it recorded in 2020 seems particularly egregious. The statutory auditor should clearly have raised this issue in its report as this deprives the financial statements' user of critical information to be able to understand them.

67. **Contractual audits of the 2019 financial statements of ENERCA, SODECA and SOCATEL confirm the concerns not only about the quality of the financial reporting but also about the statutory audits.** These contractual audits were carried out in the context of the International Development Association - WB's Sustainable Development Finance Policy. For both ENERCA and SODECA, the firm hired to carry out the audits gave an "adverse opinion" on the 2019 financial statements, due to pervasive weaknesses in the internal controls and accounting procedures, problems involving the ICT billing systems, and a lack appropriate evidence to support key certain accounting records. For SOCATEL, the contractual auditor gave a qualified opinion.

68. **In addition to the statutory audits, SOEs can be audited by the State's supreme audit institution or inspected by one of the State control bodies.** These control bodies include: the State Inspectorate General of State (*Inspection Générale d'Etat* or IGE), which reports only to the Head of State); the Inspectorate General of Finances (*Inspection Générale des Finances*); and the Ministerial Inspectorates. Decree 20-224 envisages that these entities could carry out compliance, performance or financial audits, as well as evaluation and advisory missions. In 2019, the IGE carried out an inspection at SODECA, which looked at the issue of past-due receivables and arrears (its conclusions were not shared with the SOE). The IGE also carried out an inspection at UCM in 2017 which mentioned several internal control weaknesses and allegations of fraud.

69. **SOEs do not publicly disclose their annual financial statements or management report, and there is currently no functioning company registry which would give the public access to key information.** Law 20-004 contains no provision on public disclosure of financial information. Of the three large SOEs, only ENERCA has a public website, and it contains limited relevant information for public accountability. Like most private businesses and public administrations, SOEs rely on social media to inform the public about their activities, mainly in the commercial area.

70. **The MFB publishes the audited financial statements of the top three SOEs on its website, which significantly enhances the level of transparency around the SOE portfolio.**[26] The 2017, 2018 and

[26] https://www.finances.gouv.cf/documentations.

2019 financial statements are currently published, along with the reports from the contractual auditors on the financial statements and the "management letter" (report on internal controls).

71. **No annual aggregate report on SOEs is published, but the Prime Minister issued an Executive Order in November mandating the publication of such report starting in 2022.[27].** Many countries around the world publish SOE aggregate reports, to inform Parliament and the public at large about those critically important entities. In Cameroon, an annex to the budget bill provides detailed information on the economic performance and financial situation of the 40-odd SOEs. The finance ministry of Côte d'Ivoire publishes a report which is even more comprehensive and elaborate.

IV. Fiscal Risks Associated with SOEs: Preliminary Assessment

Table 6 - Typology of Fiscal Risks (Direct or Contingent Liabilities for the State)

	DIRECT	CONTINGENT
Explicit Obligations	• Subsidies to SOEs related to public service obligations/social policies or in the form of tax exemptions. • On-lent loans.	• Guaranteed debt of SOEs and PPP projects.
Implicit Obligations	• Tax and social security arrears • Government assistance to SOEs associated to the impact of the COVID-19 pandemic.	• Bail-out of key SOEs under financial distress (assumption by the State of non-guaranteed liabilities). • Equity injection, loans or grants to absorb accumulated or future losses or enable SOEs to meet financial obligations.

Source: WB staff consolidation.

72. **Fiscal risks stemming for SOEs have multiple sources and they include implicit and explicit contingent liabilities.** Fiscal risks are factors that may cause fiscal outcomes to deviate from expectations or forecasts. An explicit liability is directly linked to a contractual obligation – e.g., a guarantee given to a creditor; in that case, the liability is contingent upon the creditor calling the guarantee, if the SOE defaults on its financial obligations. An implicit liability arises when the State finds itself morally or politically obliged to respond to public expectations and transfers large sums to an SOE or to third parties, without any legal or contractual obligation to do so. This is the case for instance when a government bails out an SOE or a bank. Table 6 provides an overview of the internationally accepted typology of fiscal risks associated with SOEs.

73. **As noted above, in the recent past SOEs have been a source of significant fiscal costs, in the form of subsidies and debt transfers.** The three top SOEs together absorbed CFAF 1.6 and 2 billion in subsidies or transfers respectively in 2019 and 2020, with ENERCA accounting for most of these amounts. Additionally, the State also transferred CFAF 312 million and 798 million respectively in 2018 and 2019 to *Cellule Coton*, CFAF 500 million to ONM both for 2020 and 2021, and CFAF 360 and 400 million to UCM respectively for 2021 and 2022. The State also agreed in 2021 to assume UCM's debt to Ecobank for CFAF 525 million.

[27] Executive Order (*Arrêté*) no. 27/PM2021 "setting guidelines for the preparation of the annual report on the economic performance and financial situation of [SOEs and parastatals] and associated fiscal risks".

74. **No central monitoring of subsidies and other transfers to the SOEs appears to be in place.** The MFB keeps tracks of subsidies to the parastatals (*établissements publics*), but not of the SOEs. No formal mechanism for reviewing the proposals or request for transfers appears to exist either. To manage the fiscal cost of SOEs effectively, the government should establish a strict and transparent protocol for granting subsidies or making transfers to SOEs. Each such subsidy should be justified in terms of a service to the public and other specific social mandate. Likewise, a cost-benefit analysis should be performed for each capital contributions and subsidies to cover the cost of large investment.

75. **The main source of fiscal risk associated with SOEs in CAR is in their large debt or "quasi-debt" of CFAF 55 billion (Table 7).** The aggregate financial debt of the three largest SOEs was reported to be CFAF 21 billion at the end of 2020 and the tax, social contribution and salary arrears CFAF 33 billion (see Para. 17). A significant portion of this liability could be settled through a netting, or cross-arrears clearance, between the SOEs and the State who has accumulated large amounts of unpaid electricity, water and telecommunications bills.

Table 7 – Debt and Quasi-Debt of SOEs (2020)

	Financial Debt	Other Debt/Arrears	Total – Gross Debt	Receivables on the State	Net Amount
ENERCA	19.0	14.6	33.6	12.0	36.5
SODECA	1.0	5.5	6.5	Not available	Not available
SOCATEL	0.5	12.0	12.5	Not available	Not available
SEGA		1.5	1.5	Not available	Not available
UCM	0.7	1.5	2.2	Not available	Not available
Total	**21.2**	**35.1**	**56.3**		

76. **Additional contingent liabilities may arise from the other (smaller) SOEs.** Even though they are significant smaller, some of these other SOEs have incurred significant losses in the recent years. One such case is *Cellule Coton*, which reported losses, before transfers from the Treasury, of CFAF (422) million and (821) million respectively in 2018 and 2019. It is also reported to have accumulated significant arrears toward cotton farmers, for up to CFAF 3 billion. Another source of concern is UCM which has almost no revenues (CFAF 99 million in 2020), keeps posting large losses (Para. 11); its non-financial liabilities amount to CFAF 1.5 billion according to an internal note prepared for the Parliament.[28] SEGA's tax and social security contributions arrears and trade liabilities are close to CFAF 1.5 billion.

77. **The SOEs' large investment needs could represent an additional fiscal risk.** ENERCA and SODECA in particular require massive capital expenditure to restore and expand their operational capacity (for production, transmission or distribution, and for general management). For ENERCA, a recent study by an international consultant estimates the investment needs for 2021-2040 to FCFA 1,164 billion. Regarding SODECA, the amounts involved are not known with precision but a strategic plan (*plan directeur*) prepared in 2015 estimated that a new treatment station to serve the population of Bangui would cost CFAF 100 billion. The enterprise will most likely require the assistance of a development partner to revise these estimates. To the extent the project and other assistance is or

[28] UCM's main debtors include five medicine importers/suppliers for a total amount of CFA 1.2 billion and the national social security institution for CFA 255 million.

would be financed through a grant, there would no cost to CAR's budget. Other SOEs who are facing difficulties may require an infusion of fresh capital.

78. **Another source of contingent liability lies in the possible retrenchment programs some SOEs might need to implement.** Retrenchment is one of the actions typically envisaged as part of an SOE restructuring program, depending on the prospects of the SOE and profile of its personnel. To date, the need for such action has not been established for any of the SOEs, although in SODECA's case management considers that the total number of employees is well above industry standards. As noted above, labor costs account for almost half of the three large SOEs' costs, so any cost-saving actions would likely involve reducing these.

V. Recommendations

79. **Despite some recent progress, weaknesses across the SOE governance framework are a major reason behind their weak economic and service-delivery performance.** Recent accomplishments such as the new legal framework and the publication by MFB of audited SOE financial statements represent a valuable starting point.

80. **Given the complexity of SOE reform and the country's capacity constraints, it does not seem advisable to embark on a highly ambitious reform agenda.** Instead, the suggested approach is to focus first on (i) increasing transparency, leveraging existing mechanisms such as the audits, (ii) strengthening the monitoring by the MFB, and (iii) a few targeted measures to build capacity for better corporate governance. This approach is fully consistent with the reform agenda adopted by the six CEMAC Heads of State at a recent regional summit (Para. 2). These cross-cutting measures will complement the specific efforts to re-set ENERCA and SODECA on a financially sustainable pathway and to meet the needs of the local population and businesses. The report's recommendations are summarized in Table 8.

81. **The cumbersome ex-ante control system (*programme d'emploi*) should be progressively phased out.** A program should be developed to replace gradually the existing previous authorizations with risk-based, ex-post controls carried out by the State's internal audit body or the SAI.

82. **The current SOE ownership management arrangements will also need be streamlined and aligned with the emerging international model, under which this function is centralized under the responsibility of a dedicated institution of department.** A growing international consensus acknowledges the drawbacks and risks of arrangements involving multiple institutions. The role of line ministries should be focused on setting sector policies and contributing to the definition of the SOEs' long-term mandates. This sector policy-making function should be clearly separated from the ownership function. The MFB should assume all the key ownership functions, coordinating with the line ministries on SOE strategies and performance monitoring as appropriate. The CGSP should be abolished and its staff transferred to the MFB. These adjustments will require amending the 2020 SOE law.

83. **Given the strategic importance of SOCATRAF for CAR, the government should clarify its goals in owning 40% of the company and define a strategy for influencing its corporate governance**. Managing any minority stake to ensure value for money is a key responsibility of the SOE ownership entity. The department of MFB will need to liaise closely with the individual(s) appointed to represent the State of SOCATRAF's board in that respect.

84. **The MFB will need to take several practical steps to implement the provisions of the new law and carry out its critical monitoring role.** In most Francophone countries, the finance ministry is the leading institution for monitoring the SOEs' economic performance and financial situation. In CAR, Law 20-004 vests the MFB with appropriate powers in that respect. To be able to carry out its new role effectively, the MFB should consider taking the following actions:

a) ***Communicate to SOEs the practical aspects of meeting their reporting obligations.*** The MFB should issue clear detailed instructions to the SOE management teams indicating to which department reports and other documents should be submitted and requiring all documents to be submitted electronically.

b) ***Adopt a simple SOE monitoring dashboard*.** Monitoring requires obtaining key documents and information, compiling and storing it in an ICT-supported tool, performing a range of analyses (some of which require direct interactions with the SOE management teams or the auditors), and drafting notes and reports. Given the size of the SOE portfolio and resource constraints, an Excel-based tool would seem the most realistic approach for CAR. MFB staff would collate key data derived the SOEs' financial statements and input the data into a dashboard consisting of linked spreadsheets.

c) ***Build in-house capacity for monitoring.*** MFB staff is trained and has experience in public financial management and public administration, but not in the area of corporate reporting and auditing or financial analysis. The individuals tasked with carrying out the SOE monitoring will therefore need to receive some training. Desirably, the MFB should also hire individuals with specific experience in this area (e.g., SOE employees or auditors).

d) ***Leverage the external audit by engaging with the CACs.*** External auditors are key interlocutors for the SOE ownership entity. Regular meetings between the ownership entity and them is thus a well-established international practice, allowing the owner to enquire about risks and areas of concerns in the relation to the financial statements. The MFB should also convey to the CACs its concerns about (i) the absence of proper notes to the financial statements and why they have not raised this in their audit reports, (ii) accounting treatments that artificially increase the SOE's earnings and equity, and (iii) the real value of certain assets on the SOEs' balance sheet – e.g., SOCATEL's license and ENERCA's accounts receivables.

e) ***Plan early for the preparation of the annual aggregate report.*** The MFB should prepare a detailed schedule for the preparation of the annual aggregate report for the year 2021 and take a proactive approach vis-à-vis the SOEs to ensure they meet their reporting deadlines.

f) ***MFB should also carry out a detailed assessment of the reasons behind the SOEs delayed submission of their reports and how to reduce these.*** Reducing these delays of up to six months will enable MFB to carry out its monitoring role more effectively and to produce the annual aggregate reports within the allowed time frame. This will be also be beneficial to the SOEs themselves as the root causes for late reporting often include poorly designed accounting processes, internal control weaknesses and capacity limitations.

85. **A training program for board members should be developed to build their capacity for fulfilling they key role in the corporate governance of SOEs.** Such program would be an initial step toward the professionalization of SOE boards, recognizing that being a board member requires specific skills and also given the increasing demands on SOEs in terms of corporate governance. Given the

resource constraints SOEs face and the challenges associated with the country context, brining independent director on board does not seem like a realistic goal in the foreseeable future.

86. **A capacity-building program will also be needed to help the SOEs improve the quality and timeliness of their budgeting and reporting processes, and their internal controls.** Such program would involve not only the accounting staff and chief financial officers but also the CEO and board members who should be sensitized on the need to importance of timely, relevant, complete and reliable financial reporting which they are ultimately responsible for.

87. **The government should put in place a process for reviewing and approving subsidies and transfers to SOEs.** Such process is essential to manage these fiscal costs effectively and maximize the-value-for money associated with these costs. The MFB and Ministry of Economy and Planning should play a central role in it, working with the line ministries.

88. **The government should develop and implement a clearance program plan for the cross-arrears between the State, ENERCA and SODECA.** Actions are already envisaged to prevent the creation of new arrears at ENERCA, with the implementation of meters and a pre-payment system by public administrations. Beyond that, the accumulated arrears sitting on the SOEs' balance sheet needs to be settled to clarify their financial situation and the State's potential net liability vis-à-vis them. Developing an arrears clearance plan can be challenging in practice given the need to document the unpaid transactions on each side, so preparation should take place as early as possible, based on the 2020 financial statements which are expected to be finalized soon. The MFB should lead this initiative, coordinating closely with the two utilities and with the support of the Ministry of Energy and Water. On that occasion, moreover, it would be appropriate to redefine the mechanism by which penalties and accrued interest apply, so that the system in place does not unduly disadvantage the enterprises as is currently the case (see Para. 23).

89. **To improve its corporate governance and achieve sustained performance improvements, ENERCA should upgrade its MIS and strengthen its internal controls.** ENERCA's management should (i) devise an action plan to address all internal weaknesses raised by the auditors in their reports, and (ii) develop a comprehensive set of performance indicators plus a dozen or so KPIs which the board of directors will use to monitor progress in implementing the strategy. To ensure these new tools and improved processes are used effectively, the training needs of its staff in these critical areas should also be assessed and a training program developed accordingly.

90. **To enable SODECA's to generate enough commercial revenues to absorb its operating costs and support a much-needed capacity expansion, its tariff structure will need to be revised, taking into account its social mandate.** A subsidy scheme will also likely need to be devised to cover its public service obligation related to the provisions of water to the poorest. Furthermore, as in the case of ENERCA, a significant investment will be needed in ICT and training to upgrade SODECA's commercial and financial management practices and strengthen its internal controls. Implementing the action plan devised by management in 2019 (included in the 2020 budget document) could be a good starting plan in that respect.

91. **The government should decide on SOCATEL's future, taking into account the country's growing needs for digital services.** SOCATEL is currently in a limbo and will continue incurring significant losses unless a restructuring program is implemented. The number of countries where the State still

controls the legacy telecom company is dwindling, most countries opting to promote the development of private service provision on the domestic market.

92. **To ensure adequate prioritization and sustained results, the government should develop a comprehensive, multi-year action plan for improving the governance of the SOE portfolio.** The action plan should assign clear responsibilities for carrying out the reform measures and identify the sources of support available from development partners (e.g., investment project financing). It should include a robust results framework to allow the tracking of progress.

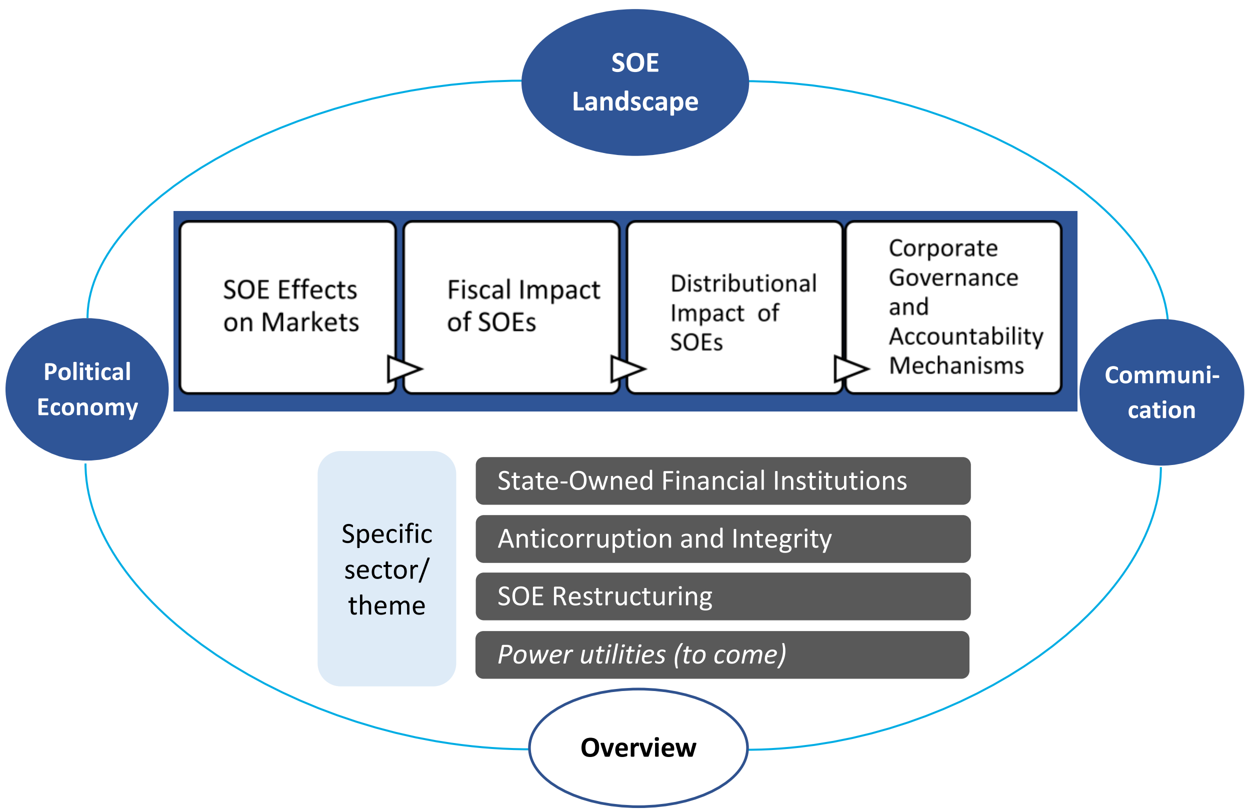
Table 8 – Overview of Policy Recommendations

Area	Recommendation	Technical Feasibility	Political Feasibility	Time Horizon
Legal Framework	Progressively phase out the external ex-ante control system over SOEs.	High	Low	Medium
Ownership Function				
• Centralize ownership management functions under MFB		High	Low	Medium
• Clarify the State's ownership objectives in SOCATRAF		Medium	Medium	Short
• Develop/ strengthen the monitoring of SOEs	Communicate to SOEs the practical aspects of meeting their reporting obligations.	High	High	Short
	Adopt a simple SOE monitoring dashboard.	High	High	Short
	Build in-house capacity for monitoring.	Medium	High	Medium
	Leverage the external audit by engaging with the CACs.	Medium	High	Medium
	Plan early for the preparation of the annual aggregate report.	Medium	High	Short
	Carry out a detailed assessment of the bottlenecks to timely SOE reporting.	Medium	High	Short
Boards of directors	Develop a capacity-building program for SOE boards.	High	Medium	Medium
Transparency, disclosure and controls	Develop a capacity-building program to improve the SOEs' budgeting, reporting and internal controls.	Medium	High	Medium
	(see also recommendations relating to monitoring)			
SOE-specific	Develop and Implement cross-arrears clearance plan for ENERCA, SOCATEL and SODECA. On that occasion, redefine the mechanisms to set penalties and accrued interest.	High	Low	Medium
	Upgrade MIS, adopt KPIs and strengthen internal controls at ENERCA and SODECA.	Medium	High	Medium
	Update SODECA's tariff structure.	Medium	Medium	Medium
	Decide on SOCATEL's future, taking into account the country's needs in digital services.	Medium	Low/ Medium	Short
Fiscal risk management	Put in place a process for reviewing and approving subsidies and transfers to SOEs.	Medium	Medium	Medium
Reform implementation	Develop a comprehensive, multi-year action plan for better SOE governance.	High	High	Short

Annex

Integrated SOE Framework (iSOEF): Overview

This iSOEF aims to provide guidance on assessing the performance of SOEs in an economy—their rationale, their economic implications, factors enabling their operational efficiency, and options for reforming the sector. The iSOEF takes a modular approach, allowing for flexible application in the country context and according to its development needs. Core individual modules summarize the key issues and approach for assessing each dimension of the SOE framework. Thematic modules take a sectoral perspective (e.g., financial institutions) or address cross-cutting factors (e.g., political economy considerations and communication strategies) or specialized areas (e.g., restructuring an SOE). Each module contains analytical tools, matrices, questionnaires and key indicators for diagnostics and assessments



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