PEP impact brief

Central African Republic

How Chinese investment can provide economic opportunities in the Central African Republic

2013-2014

Project Milestones

May 2013	Selection of project for PEP support under the PAGE initiative
July 2013	Team members attend PEP School training sessions during the PEP Annual Meeting
July-Oct 2013	Team member participation in national and international seminar-workshops using newly acquired modeling techniques
March 2014	Consultation with the Minister of Economy, Planning and International Cooperation
April 2014	Consultation with the Cabinet Director for the Ministry of Agriculture
Aug. 2014	Team attends special advisory meeting at the Ministry of Finance and Budget to validate the proposed public spending reforms
Autumn 2014	Team's recommendations taken up by the Monitoring of Economic and Financial Reforms Unit of the Ministry of Finance and Budget for the 2015-16 Action Plan
Nov. 2016	Team organizes PEP national policy conference in Bangui

Context

In 2014 the Central African Republic (CAR) was ranked 187th of 188 on the Human Development Index and with 62% of the country's population living in poverty, the CAR is one of the poorest countries in the world.

Successive political and economic crises over recent decades have resulted in the decline in the CAR population's standard of living. These problems have been exacerbated by difficult climate conditions and exterior shocks such as the international economic crisis.

The CAR wants to promote economic growth while also reducing poverty and inequality. Due to low capital mobilization within the country, the CAR relies upon foreign direct investment (FDI) to support its development policies.

In 2012, China committed to invest 15 billion CFA francs in the CAR cotton industry, the country's principal exported cash crop.

Local research team

Roger Yélé, project leader
Institut Centrafricain des Statistiques
& des Etudes Economiques et Sociales (ICASEES)
Jean-Bertrand Kolondo Penguilet - ICASEES
Caprice Olivia Wili-Koe - ICASEES
Raissa Mbouzeliko - ICASEES

PEP mentors

Bernard Decaluwé
Erwin Corong
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PEP publications

Working paper 2016-12
Policy brief 131

Producing a reliable evidence base to inform policy debates

*Chinese FDI can significantly improve wellbeing in the Central African Republic*

China's presence in the CAR raises questions regarding the opportunities this investment offers for the CAR economy. This is why a team of local PEP researchers set out to understand and quantify the overall economic impact of China's involvement in the CAR cotton industry, from cottonseed production to transforming the seeds into fibers and the fibers into cloth.

Key findings...

The results from the team's analysis indicate that investment in cottonseed and fiber production would reduce cottonseed prices without increasing demand due to a limited market for cottonseed and cotton fibers. However, investment in the textile industry would increase the market for the cotton production sectors and increase income for cotton producers.

The findings also indicate that Chinese FDI can significantly improve wellbeing in the CAR with household purchasing power and business revenues increasing due to the depreciation of the euro (to which the CFA franc has a fixed exchange rate) against the US dollar. GDP would also increase in this scenario, while government debt decreases.
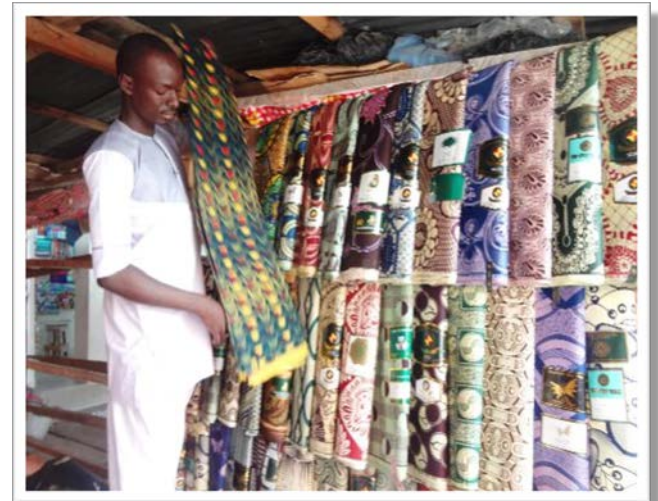
The team developed a computable general equilibrium (CGE) model and a social accounting matrix of the Central African Republic economy in order to simulate a 10% increase in productive capital in the textiles sector, and a 10% increase in world prices due to the depreciation of the euro.

...and conclusions

Based on these findings, the researchers recommend that Chinese investment be oriented towards restoring the CAR textile sector. A fully developed cotton industry in the CAR, from cottonseed to cloth, would support sustainable growth throughout the country.

Strengthening and promoting local expertise for policy analysis in the Central African Republic

Before producing such high quality research and findings, the research team underwent PEP-supported training in cutting-edge econometric modeling and data analysis techniques specific to the methodology of the study. Roger Yélé, the team leader, and Caprice Olivia Wili-Koe benefitted from this training during their participation in the 2013 PEP Annual Conference in South Africa. Shortly afterwards, team member Jean-Bernard Kolondo Penguilet participated in a seminar-workshop looking at macroeconomic modeling to compile the national accounts more efficiently and another organized by the Bank of Central African States (BEAC) to promote understanding and use of data regarding the Economic and Monetary Community of Central Africa (CEMAC).

A significant career-promoting experience

The expertise that the team developed during this project led to multiple invitations to both share their knowledge and undertake further research using the same methodologies.

The national Ministry of Agriculture asked the project leader to support analysis of rural issues using the new tools the team built during the PEP project (the social accounting matrix and CGE model). They also requested that he provide CGE modeling and data collection and analysis training for the senior analysts and officials at the Ministry. CEMAC also recognized Roger Yélé's expertise in CGE modeling and recruited him to help develop member countries' macroeconomic models.

In addition to funding, all PEP-supported research project teams benefit from intensive training activities (at the onset of the project), access to related resources (recommended readings, training materials, software tools, etc.), a unique international peer-review experience, as well as ongoing mentoring and technical support provided by PEP mentors (world leading experts in relevant research methods/areas) throughout the project lifecycle.

In the summer of 2015, Roger Yélé was appointed by the Minister of Commerce as head of the modeling team in charge of assessing the fiscal impact of the Economic Partnership Agreement between Central Africa and the European Union. The team undertaking this project used and continues to use the social accounting matrix (SAM) created for the PEP project. Later in 2015, he was elected as a research delegate for the Association of Central African Statisticians and Demographers.

Team member Jean- Bernard Kolondo Penguilet was invited to participate in an ICASEES food security evaluation where his expertise using the CSPro (Census and Survey Processing System) and SPSS (Statistical Package for the Social Sciences) programs was central to analyzing the evaluation study's data.

"Our expertise in modeling and the social accounting matrix of the CAR for 2012 that we developed with PEP's technical support led to my appointment as the head of the team using these techniques to assess the fiscal implat of the EU-Central Africa Economic Partnership Agreement."

- Roger Yélé

Engaging with key policymakers, advisors and stakeholders

PEP recommendations incorporated into CAR Ministry of Finance action plan

From the outset of the project, the research team held consultation meetings with an impressive number of high-level government stakeholders, including the Minister of Economy Planning and International Cooperation, the Minister of Economy of Solidarity and Microfinance, the Minister of Commerce, and a presidential advisor responsible for environment and sustainable development policy. These meetings raised considerable interest in both the project and the new expertise and tools being built with PEP support.

In March 2014, the team presented their progress to the Minister of Economy, Planning and International Cooperation during which she expressed her particular interest in the project and offered to help the team overcome any obstacles they may encounter. The Director of the Cabinet also requested to work with the team again in the future.

A month later, the Cabinet Director for the Ministry of Agriculture met with the team stating that the project and project tools (SAM and CGE model) were of particular interest to the Ministry in order to analyze the impact of rural development projects.

In August that year, the team was called on for a special advisory meeting at the Ministry of Finance and Budget to validate the proposed public spending reforms. **The team's advocacy with the Ministry of Finance and Budget led to the team's recommendations being taken up as part of the 2015-16 Action Plan for the Ministry's Monitoring of Economic/Financial Reforms Unit.**

The team's dissemination strategy has been equally effective, with a successful partnership with national media meaning the team was able to reach key stakeholders at both the national and international levels including the IMF, the World Bank, the African Development Bank, UNDP, UNFPA, and NGOs as well as civil society.

In November 2016, the team organized a national policy conference in Bangui to present and discuss their findings and policy recommendations. the event attracted nearly 100 participants, including most notably, the national minister responsible for investment attending as the representative of the President. Representatives of the Ministry of Economic Planning and of the Ministry of Defense also attended.

During the event, the President's representative invited the team leader and main speaker at the conference to join a work group looking at governmental investments.

Added to the significant turnout for the conference, the attendance of several journalists reporting from the event meant that the team's findings and recommendations were broadcast on national radio and television channels.