

THE INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF CONGO

**Interim Poverty Reduction Strategy Paper
Joint Staff Advisory Note**

Prepared by the Staffs of the International Monetary Fund (IMF) and
International Development Association (IDA)

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Background

1. On September 27, 2004, the government transmitted an Interim Poverty Reduction Strategy Paper (I-PRSP) to the IDA and IMF. The present Joint Staff Advisory Note (JSAN) has been prepared jointly by IDA and IMF staffs in order to provide advice for the preparation of the full Poverty Reduction Strategy Paper (PRSP).
2. During the 1990s, the Congo was caught in a vicious cycle of conflict and poverty that exacerbated each other. Since 2000, progress has been made to restore security and foster national reconciliation. Parallel progress has been made on the economic front, notably in enhancing oil sector transparency, strengthening fiscal discipline and management, and carrying out structural reforms with assistance from IDA and the IMF. The Congo has also benefited from high international oil prices. Nonetheless, while progress on the security and macroeconomic fronts in the post-conflict period are encouraging, poverty remains widespread and the external debt burden is extremely high. With a view to set the Congo on a path of sustainable pro-poor economic growth and poverty reduction, the government has decided that the nation's development efforts should be prepared and implemented within the framework of the I-PRSP initially and the PRSP subsequently.

Preparation of the I-PRSP and participation process

3. The I-PRSP was prepared under the supervision of a National Ministerial Committee for poverty reduction (Comité National de Reduction de la Pauvreté, CNLP) jointly chaired by the Ministers of Planning and Finance. The CNLP was assisted by a Permanent Secretariat composed of 34 members (20 civil servants, 8 representatives of civil society organizations, 4 members of parliament and 2 members of the Economic and Social Council). The Permanent Secretariat was in turn assisted by 11 sectoral and thematic groups.

In addition, the I-PRSP process was decentralized at the departmental and local levels through the creation of departmental and local Poverty Reduction Committees. The latter were composed of representatives of local government, religious groups, community organizations, women and youth and groups and local non-governmental organizations (NGOs). The I-PRSP process was conducted by the government, with assistance from IDA, UNDP, the European Union and the French cooperation, in organizing the consultations.

4. The I-PRSP reflects the results of the above-mentioned consultations. Drafts of the I-PRSP prepared by the Permanent Secretariat were discussed with representatives of various stakeholders in the second half of 2003 and in April 2004 to integrate the views of the population on the incidence and causes of poverty as well as on the proposed poverty reduction strategy.

5. For the preparation of the full PRSP, the staffs recommend the following:

- The ministerial-level leadership structure should be reinforced to better coordinate and manage the process in order to ensure efficiency, quality control, and wide participation.
- The views of all segments of the population need to be sought, discussed and incorporated early on in the process. IDA plans to further assist the government in enhancing the participatory process of the full PRSP.
- The composition of the Permanent Secretariat needs to be widened to a larger participation of civil society.

Poverty profile and incidence

6. The I-PRSP recognizes the lack of recent and good quality data on poverty, and recommends new surveys and studies to improve poverty assessment and analysis. On the basis of the sparsely available data, the I-PRSP estimates that at least 50 percent of the population is poor. The I-PRSP links the high poverty incidence to significant decline in per capita output and the deterioration of basic social services. These in turn were caused initially by weak economic management and relative neglect of social development, and subsequently aggravated by three episodes of civil strife in the 1990s.

7. In order to improve the poverty diagnosis in the full PRSP, the staffs recommend that the authorities finalize the preparation of the new household surveys envisaged in the I-PRSP, including a household budget-consumption survey to be carried out with assistance from IDA. In addition, a Core Welfare Indicators Questionnaire will be prepared and implemented with IDA and DFID support. Finally, beyond the national household survey to be implemented in 2004-05, steps will need to be taken to strengthen the country's monitoring and evaluation system for the full PRSP.

Core areas of focus in the I-PRSP

8. The I-PRSP states that the government aims at lowering poverty by half by 2015, in line with the Millennium Development Goals (MDGs), and sets interim goals to be achieved by 2007. The strategy to reduce poverty is built on the following five pillars:

- (i) Consolidation of peace and good governance;
- (ii) Consolidation of macroeconomic stability and promotion of key economic sectors;
- (iii) Improving access to basic social services and social protection;
- (iv) Developing infrastructure; and
- (v) Reinforcing the fight against HIV/AIDS.

9. In developing the full PRSP, staffs note that some of the objectives could be sharpened by analysis of poverty data (which will first require compiling these data) and grassroots discussions of sector policies and strategies. The staffs provide the following comments on the actions envisaged by the I-PRSP:

- Envisaged actions to consolidate peace and good governance are relatively well defined and are expected to benefit from further support and advice from IDA, the IMF, the AfDB and other partners.
- Envisaged actions to consolidate macroeconomic stability are also well defined and are expected to benefit from further support and advice from the IMF. However, the promotion of key economic sectors requires the design and implementation of efficient and cost effective sector policies and strategies. IDA will help the authorities to articulate such policies and strategies for the agriculture and forestry sectors. A similar effort will be needed for other sectors.
- Envisaged actions to improve access to basic social services and social protection include a projected increase in the share of pro-poor spending in the budget. Such an increase is a necessary, though not sufficient, condition for improving access to social services. Pro-poor spending needs to be properly targeted (e.g., towards primary schools, rural areas, school enrollment particularly for girls, and primary health care) and must take place within the framework of appropriate sector policies, notably in education and public health. A key issue which would need to be addressed is the shortage of skilled manpower, partly due to the quasi-hiring and pay freeze in effect since the mid-1990s. The staffs also note that a reform of the two ailing social security funds is needed, though the cost of the operation must remain affordable. Financial and technical assistance are expected, notably from IDA and the AFD.

- Some envisaged actions to improve access to infrastructure are relatively well defined (e.g., finalizing the railway concession, and rehabilitating the power and water utilities, all with IDA support). But future public investment, notably in infrastructure, should be subject to tight scrutiny. IDA's support to improve public investment management, including project selection, is to be provided under the proposed Economic Recovery Credit, scheduled for Board consideration before end-2004. Likewise, IDA's support to reform public procurement is to be provided under a Country Procurement Assessment Review.
- The full PRSP is expected to identify concrete actions to strengthen the fight against HIV/AIDS, with help from IDA (under the recently approved IDA grant) and the European Union.

10. In summary, priority areas for further analysis include: (i) poverty assessment and analysis, based on updated data on poverty; (ii) strategies for productive sectors, particularly agriculture, forestry and rural development; (iii) strategies for social sectors, notably education and health; and (iv) diagnosis of the two ailing social security funds.

Macroeconomic framework

11. The macroeconomic framework of the I-PRSP sets the following key objectives for 2004-07: (i) average real GDP growth of about 5½ percent per annum (about 5 percent for non-oil real GDP, based on expected good performance in agriculture, forestry, and public works); and (ii) primary fiscal surplus averaging about 10 percent of GDP per annum, thanks to expected high oil revenues, improved non-oil revenue mobilization, and strengthened expenditure management. The document underscores that high economic growth would require sustained macroeconomic stability and policies to foster the development of key sectors, especially oil, forestry and agriculture. The document also notes that attaining the growth objective would require that constraints to private sector development be alleviated notably through (i) rehabilitation and expansion of infrastructure; (ii) increased access to financing; and (iii) improved performance in the law and justice sector.

12. The staffs note that that the full PRSP needs to: (i) provide a fleshed out macroeconomic framework; (ii) identify the sources of growth; (iii) identify the constraints to higher growth and how they can be overcome; (iv) formulate sector policies to enhance pro-poor growth and create employment; (v) analyze the links between growth and poverty reduction in key sectors; and (vi) provide a costing of the strategy in the context of medium term expenditure framework, especially in the social sectors (education and health).

Public finance

13. The I-PRSP emphasizes the need to mobilize non-oil revenue to finance higher spending on social development and lower dependence on oil, through the broadening of the tax base (notably by better tapping the revenue potential of the forestry sector), the strengthening of fiscal administration, and the fight against fraud and tax evasion. The

I-PRSP highlights the importance of the oil sector in contributing to government revenues (especially now that the price of oil has increased) and the need for enhanced transparency in the sector.

14. The I-PRSP underscores the need to strengthen expenditure management through enhanced transparency and better control. To do so, it envisages: (i) the tracking of outlays through a computerized expenditure circuit (commitment, validation, payment order, and actual payment); (ii) the strengthening of appraisal, execution, and monitoring of public investment; and (iii) the reform of public procurement. With assistance from the Fund and IDA, a system for tracking pro-poor spending will be put in place, public investment management will be improved and government procurement will be strengthened. The staffs also recommend that the full PRSP provide an indication on the balance to be sought between current and capital expenditure.

15. The I-PRSP envisages an increase in current and capital expenditure in priority sectors for poverty reduction, namely: (i) basic health and fight against HIV/AIDS; (ii) basic education; (iii) basic infrastructure; (iv) electricity, water and sanitation; (v) disarmament, demobilization and re-insertion of former combatants; (vi) social protection; and (vii) agriculture. In the absence of a functional budget classification, priority sectors and associated budgets were defined using the existing administrative classification. The share of these priority sectors in total primary expenditure is projected to increase from about 23 percent in 2004 to 39 percent by 2007. The increase is to be made possible by a projected decrease in nonpriority spending. The staffs urge the authorities to adopt and implement rapidly a functional budget classification to ensure a better definition and programming of pro-poor spending (assistance under IDA's Emergency Recovery and Community Support Project is available to assist the government in this endeavor).

16. The I-PRSP underscores that the financial situation of the Congo is likely to be tight for the next two to three years owing to the obligation to clear non-reschedulable external arrears and pay high debt service on oil-collateralized loans. This will limit the ability of the government to achieve even higher levels of public spending in the priority sectors. In other words, the poverty-reduction strategy will be difficult to implement without an exceptional treatment of the said arrears, and special budgetary assistance from donors.

Good governance

17. The I-PRSP emphasizes that good transparency/governance, notably in the oil and forestry sectors, is a key condition of civil peace, economic growth and poverty reduction. Likewise, it views the reform of the government procurement system as key to efficiency and transparency. Furthermore, the I-PRSP views decentralization as an effective way to improve efficiency of government intervention and citizen participation. To further boost government efficiency, the document proposes the reform of the civil service. The staffs recommend that the identified issues be addressed in the full PRSP. The staffs note that the IMF and IDA are already assisting and plan to continue to assist the authorities in the following areas: (i) enhancing transparency in the oil and forestry sectors; (ii) reforming government

procurement; and (iii) decentralization. However, there is no envisaged assistance, at present, in the area of civil service reform.

Implementation of the I-PRSP and timetable for the preparation of the full PRSP

18. To implement the strategy, the I-PRSP proposes the same institutional setting used to prepare it. The staffs recommend that this setting be first assessed to identify possible weaknesses and ways to address them. In addition, it would be useful to clarify how civil society will be associated to the preparation of the full PRSP and the monitoring of the I-PRSP implementation; and to define the roles to be played by different bodies, including the CNLP, the Comités Départementaux de Lutte Contre la Pauvreté (CDLP) and the National Poverty Observatory (“Observatoire National de la Pauvreté”).

19. The timetable calls for the completion of the household survey and poverty profile by June 2005; and for the formulation of sector strategies between August 2004 and September 2006. The full PRSP is expected to be completed by December 2006. The staffs consider that the timetable for the key intermediary steps (household expenditure survey, poverty profile, and sector strategies) and for the full PRSP is ambitious, among others because results based on the household survey and other diagnostic work will often be needed in order to design appropriate sectoral strategies, and adequate time will then be required to discuss these strategies in a participatory manner. The staffs recommend to clarify how the participatory approach used to prepare the I-PRSP will be improved to ensure more effective participation of civil society from the outset.

20. The I-PRSP identifies certain risks and constraints that could undermine the implementation of the I-PRSP and the preparation of the full PRSP, but does not propose actions that could mitigate them. These and other risks are related to: (i) the ability to deepen the ongoing reforms in enhancing transparency and good governance, in particular in the natural resource sectors (oil and forestry); (ii) the ability to further deepen the ownership structure of the poverty reduction strategy; (iii) a weakening of the peace process; (iv) a significant decline in oil prices; and (v) the ability to reach agreement with the international financial community on debt rescheduling and relief. The staffs recommend that the government pay close attention to these risks when implementing the I-PRSP and preparing the full PRSP.

Conclusion

21. The Congolese government is making strong efforts to consolidate civil peace, improve transparency and promote economic growth and poverty reduction after years of mismanagement and armed conflict. The I-PRSP process offered a nascent framework for a national dialogue on poverty reduction, which yielded a home-grown preliminary assessment and analysis of poverty, as well as a preliminary road map for poverty reduction and growth. The Bank and Fund programs are broadly in line with the priorities laid out in the I-PRSP. Nonetheless, a more thorough understanding of poverty and a sharper prioritization in terms of recommended actions will be needed over time as the country prepares its full PRSP.

22. The I-PRSP framework will need to be strengthened for the preparation of the full PRSP, with a special emphasis on the following areas identified by the staffs:

Process: Assess the institutional setting used to prepare the I-PRSP before using it for the PRSP. Seek and incorporate the views of all segments of the population early on in the PRSP process. Widen the composition of the Permanent Secretariat to allow a larger participation of civil society. Clarify how civil society will be associated to the monitoring of PRSP implementation.

Poverty diagnosis and monitoring: Improve analysis of poverty notably through conducting the relevant envisaged surveys, in particular the household expenditure survey. Adopt and implement rapidly a functional budget classification to ensure a better definition and programming of pro-poor spending. Put in place a system for tracking pro-poor spending. Outline a strategy for monitoring and evaluation of the implementation of the full PRSP and key development targets.

Areas of focus: On transparency: continue to improve transparency and governance notably in oil and forestry. On growth: (i) identify the sources of growth; (ii) identify the constraints to higher growth and how they can be overcome; (iii) formulate sector policies to enhance pro-poor growth and create employment; and (iv) analyze the links between growth and poverty reduction in key sectors. On public finance: (i) strengthen non-oil revenue mobilization; (ii) ensure full mobilization of the government's share of oil revenue; (iii) reorient spending towards pro-poor spending; (iv) improve public investment management and strengthen government procurement; (v) adopt a fiscal rule with a view to alleviating oil revenue volatility; and (vi) provide a costing of the strategy in the context of a medium term expenditure framework. On law and justice: formulate appropriate programs to improve performance in the law and justice sector.

23. The implementation of the I-PRSP and preparation of a full PRSP will be formidable challenges for the Congo. Partnerships among national stakeholders will need to be built, and their capacities will need to be strengthened. Generous technical and financial assistance will be needed from the donor community to accompany the Congo's efforts.

24. Executive Directors views are sought on whether they agree with: (i) the broad direction of the proposed strategy as outlined in the five pillars; (ii) the priority areas staffs have identified as key to developing a full PRSP; (iii) the process proposed by the authorities for finalizing the PRSP; and (iv) the characterization of implementation risks.