

**IMMEDIATE
ATTENTION**

EBD/08/85

August 8, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Congo—Poverty Reduction Strategy Paper—Joint Staff
Advisory Note**

Attached for the **information** of Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on the Republic of Congo's poverty reduction strategy paper (EBD/08/84, 8/8/08). At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Congo indicating that they consent to the Fund's publication of this paper. It is intended to post this paper on the Fund's external website after **Friday, August 15, 2008**.

Questions may be referred to Mr. York (ext. 36895), Mr. Bessaha (ext. 38763), and Ms. Karpowicz (ext. 37007) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, August 18, 2008; and to the African Development Bank, the European Commission, the Food and Agriculture Organization, and the United Nations Development Programme.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF CONGO

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper

Prepared by the Staffs of the International Monetary Fund and
the International Development Association

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I. INTRODUCTION

1. **Since the adoption of the Interim-PRSP in 2004, Congo has further consolidated peace and national security, bolstered its institutions, and improved economic governance.** This has raised Congo's capacity to pursue a more effective development strategy. The context of this strategy has evolved substantially since then, as the large increases in world prices have provided significant amounts of additional resources to address the country's important development challenges.
2. **Congo's full PRSP was adopted by the Government in April, 2008, after validation by parliament and a national workshop including stakeholders from civil society, NGOs, and the private sector.** This was the culmination of an extensive consultation process, which extended across the country. This process was instrumental in informing and facilitating the preparation of the strategy, as well as raising the issue of poverty alleviation as a national concern and priority. Civil society organizations specialized in participatory approaches and techniques assisted in the development of the strategy, which included twelve validation workshops in different regions.
3. **The PRSP addresses a number of important recommendations made on the I-PRSP, including those of Bank and Fund staffs.** In particular, the strategy reflects a broad spectrum of interests, is based on more extensive poverty data and analysis, and is comprehensive in its coverage, encompassing key areas such as promoting greater oil revenue transparency, enhancing public financial management, strengthening governance and addressing fraud and corruption, and improving social services.

4. **This Joint Staff Advisory Note reviews the PRSP and provides the staffs' guidance on possible improvements in the period ahead.** Section II highlights the results of the poverty diagnosis while section III elaborates on the central aspects of the strategy, and section III comments on monitoring and evaluation. The conclusion is presented in section IV, together with proposed issues for Executive Directors' discussion.

II. POVERTY DIAGNOSIS

5. **Knowledge about poverty and its causes in Congo has advanced significantly since the adoption of the I-PRSP, primarily due to an ambitious program of surveys carried out by the government in recent years and a poverty assessment completed in 2006.** This program included a poverty survey, composed of a household expenditure survey and a poverty perception survey, as well as a Demographic and Health Survey (DHS). The poverty assessment, supported by the World Bank, was mainly based on the poverty survey, complemented by analyses on employment and income sources and access to basic services.

6. **The PRSP makes good use of the findings of the various diagnostics and provides a broad picture of the pervasive nature of poverty in Congo and its main causes.** Survey and analytical results revealed that: (i) 50.7 percent of Congolese households live below the poverty line; (ii) poverty varies significantly across regions and gender, as the highest poverty incidence is found in semi-urban (67.4 percent) and rural (64.8 percent) areas and 58.2 percent of poor households are headed by women; (iii) other important factors correlated with a higher incidence of poverty include age and level of education (inverse relation) of the head of household, and access of households to infrastructure services; and (v) according to the household perception survey, two-thirds of households consider that their income is not sufficient to cover their daily needs, requiring them to be active in more than one income-generating activity.

7. **There is little discussion in the PRSP on the implications of major policies and public spending on poverty.** This shortcoming of the PRSP reflects the general lack of poverty and social impact analyses in Congo. Building capacity in this area would be beneficial to improving design, implementation, and monitoring of structural reforms and sectoral policies. The few existing analyses in this area find that the results of the examined measures often favor the richer segments of society. A study conducted as part of the poverty assessment shows that more than half of the eleven service delivery programs examined are highly unequal and disadvantageous to the poor¹. In the same vein, a recent study conducted by the IMF staff shows that Congo's petroleum-related subsidies has a regressive distributional impact in recent years.

¹ This applies to direct service provision on solid waste removal, water and sanitation, secondary and higher education, motherhood preparation, as well as subsidies for water and electricity. The main factors leading to unequal results of these programs are inadequate targeting, weak access and weak quality.

8. **Looking ahead, staffs encourage more in-depth analysis of poverty, in particular on the impact of government policies and continued efforts to strengthen availability and quality of poverty data.** The latter would call for completing ongoing work on the new census (the last dates back to 1984), and the second poverty survey. The latter is particularly important as it would provide comparable household and expenditure data and thereby help better understand the dynamic character of poverty. In addition, this second survey could enable the production of detailed poverty data by region.

III. STRATEGIC ORIENTATION AND REFORM PRIORITIES

9. **While the five pillars of the strategy are coherent with the main challenges identified in the poverty diagnostic, further progress on developing strategies in key sectors will help further refine the strategic focus of the PRSP.** These pillars include: (i) improving governance and consolidate peace and security; (ii) promoting growth and macroeconomic stability; (iii) enhancing access to basic social services; (iv) improving social environment and integration of vulnerable groups; and (v) combating HIV/AIDS. These pillars would benefit from further refinement, in particular, through the preparation of results-oriented strategies for all key sectors, with detailed cost estimates. The recently adopted sector strategies in the health and transport sectors are good examples in this regard.

10. **The PRSP's monitoring and evaluation (M&E) framework represents a good first attempt to comprehensively measure results of public action in Congo.** This framework covers the key sectors and a selected number of cross-cutting poverty indicators. Most priority indicators have baseline numbers, as well as targets for the PRSP-implementation period and the MDG horizon. In the staffs' view, the focus on results is important as it increases the authorities' accountability to the public at large. Section IV below contains several suggestions on how to strengthen this framework further.

A. Large Oil Revenues

11. **The PRSP recognizes the excellent opportunity offered by the current oil revenue windfall to embark on an economically sustainable development path that has the desired effect on poverty and social policy outcomes.** Staffs believe that this is the critical challenge for successful PRSP implementation. Oil revenues have increased from 19 percent of GDP in 2002 to 35 percent in 2007, increasing by over 200 percent in current terms and accounting now for over 80 percent of total government revenues. They are expected to remain at high levels in the coming years, even at conservative oil price and reserve projections. This being said, the projections currently foresee a fall in production after 2011.

12. **The volatile and finite character of oil resources also poses important challenges to economic management.** Bold and concerted efforts will be required to significantly enhance transparency in managing public resources and in using them to help generate sustainable pro-poor economic growth. In general, as stressed by the PRSP, there is a need to reduce the economy's strong dependence on oil through economic diversification, expenditure rationalization and non-oil revenue mobilization, as well as a fiscal strategy that

focuses on the non-oil deficit as the means to promoting fiscal sustainability and a counter-cyclical stance. It is also worth noting the importance of the effective use of public resources in addition to transparency, and effective public spending through a reduction in fuel subsidies. The JSAN comments on these aspects more in detail in the following sections.

B. Macroeconomic and Fiscal Framework

13. **The staffs broadly agree with the underlying macroeconomic and fiscal frameworks detailed in the PRSP.** Annual real growth is targeted at about 10 percent per year over 2008-10 driven by an expansion of oil production. Real non-oil GDP is projected to grow by about 7 percent per year, supported by improved financial intermediation and public investment, particularly to rebuild the country's economic infrastructure. The authorities are pursuing gradual fiscal consolidation: the non-oil (basic) primary deficit is projected to decline to about 30 percent of GDP by 2011, which would ensure steady progress toward long term sustainability, which the Fund staff estimates at about 10 percent of non-oil GDP.

14. **While the PRSP defines sector allocations for 2008-10 that are broadly consistent with the overall macroeconomic framework, they do not correspond to preliminary cost estimates for meeting key sector objectives and are not yet tied to a medium term expenditure framework (MTEF).** The preparation of the MTEF is still underway (with technical assistance), and the PRSP contains a realistic timetable for completing it. Such a framework is essential to ensure adequate accountability and transparency across sectors on availability and use of public funds. This will also help correct the current gap between cost estimates of sector programs where they exist (health and education)— and lower amounts made available in the budget in recent years and indicated in the PRSP. Furthermore, medium-term projections of government revenue (linked to the oil revenue forecasting model to be introduced shortly) will have to be fully integrated in the MTEF.

15. **The envisaged improvement in the fiscal stance is to be effected through domestic revenue mobilization and better control of public spending.** On non-oil revenue, the strategy seeks to enhance domestic tax collections through broadening the tax base (including by eliminating tax and customs exemptions), expanding indirect taxation, improving administration, and addressing fraud and tax evasion. On spending, the priority is to implement the action plan on public financial management (PFM) reforms developed in consultation with Congo's development partners, and to adopt a procurement code in line with international standards.

16. **Enhancing effectiveness, transparency and quality in public spending is critical for successful PRSP implementation.** This highlights the importance of making progress on the following priority areas of the PFM reform plan: (i) establishing an adequate budget classification system; (ii) preparing high quality and timely accounts on a cash basis; (iii) moving to a single treasury account; and (iv) revamping expenditure execution procedures. An important objective of the latter is to progressively strengthen capacity and authority of line ministry in budget execution. Enhancing the impact of public spending on poverty reduction would also require improving the composition of spending. Priority measures in this regard could include reducing poorly targeted petroleum-related subsidies, bolstering

external and domestic debt management capacity, as well as conducting regular public expenditure reviews to provide an analytical basis for enhanced budget programming.

17. **The PRSP should include Congo's efforts to formulate a new external debt management strategy, which is important given Congo's debt distress.** This strategy is being prepared in line with CEMAC regional guidelines, and aims at strengthening management procedures, as well as institutional capacity to contract and monitor debt by public sector entities.

C. Good Governance and Post-Conflict Stabilization

18. **The PRSP recognizes recent progress on strengthening Congo's political and social institutions since the end of civil strife in 2001 and making them more inclusive, while identifying important remaining weaknesses.** The staffs agree with the PRSP's call for strengthening these institutions further, in particular by: i) building oversight capacity of legislative and judiciary branches of government; ii) raising political representation of women and other minority groups on society; and iii) enhancing voice and participation of civil society and the media. The government's relations with civil society have been acrimonious during the past several years, and the strategy's recognition of the need to move forward together is hence encouraging. In this sense, staying committed to further enhancing civil society representation on the recently established National Anti-Corruption observatory and national EITI structures is critical for successful PRSP implementation.

19. **Congo is making progress in enhancing effectiveness and transparency in natural resource management but there is still a long way to go.** Congo should now significantly expand these efforts to cover the use of public resources more generally. Petroleum-sector management is beginning to be conducted in the public domain, with revenue certified and published, and the commercialization of Congolese oil audited by international firms. However, as clearly outlined by the PRSP, more can be done to ensure that all oil revenue reaches the budget in a timely and transparent manner, commercialization of oil results in an optimal value for the Congolese people, oil provisioning in the local economy is improved, and sound environmental standards are introduced and respected in oil exploitation. Furthermore, given the increasing dominance of oil revenues in public finance, it is important to expand these reform measures to the use of public resources more generally, notably by enhancing public investment management.

20. **The PRSP reflects the Government's program of reforms to enhance transparency of forestry management and to develop sustainable management practices.** This was achieved through a well executed participatory process. The areas selected for reform include environmental and social standards, concession allocation practices, protection of endangered species, and taxation. Implementing these reforms as well as improved control and coordination of involved government entities should help the sector realize its potential to contribute to sustainable development from an economic, social and environmental perspective.

21. **Reform of the public administration has not been a priority for the Government in the recent past, but the PRSP places it prominently on the reform agenda.** Priority actions highlighted by the PRSP include important efforts already underway to improve civil service management through an ongoing public service census, removing ghost workers from the civil service and enhancing control of the payroll through a new integrated human resource management system. These measures, however, do not address the central challenge posed by the lack of skilled public servants deployed to rural areas. Without progress on this issue, it is unlikely that the widening gap in poverty levels between urban and rural areas can be bridged. Similarly, little progress has been made on decentralization, with Congo remaining one of the most centrally run governments in sub-Saharan Africa. This being said, staffs agree with the position stated in the PRSP that decentralization reforms should be addressed over the medium term.

D. Economic Diversification and Sector Strategies

22. **The PRSP declares the creation of a more competitive and diversified economy as central to achieving inclusive growth on a sustained basis.** The staffs agree that growth of the non-oil economy is essential to counter the finite character of oil reserves, as well as to reduce the macroeconomic risks created by the volatility of oil revenue. Such diversification is also critical for realizing the much larger potential of non-oil sectors to generate stable income and employment opportunities and add value to the economy.

23. **The PRSP clearly shows Congo's comparative advantages, which could support broad-based and inclusive growth.** These include its (i) geographical location, which offers the potential to develop a major transport industry that links the country to the relatively large markets in neighboring countries; (ii) wealth of natural resources, which offers opportunities for developing mineral and forest-based activities and related services; and (iii) vast and fertile territory with ample rainfall, which could support a vibrant and profitable agriculture sector and thereby decrease Congo's dependence on food imports.

24. **The staffs agree with the key elements of the PRSP to diversify the economy by better exploiting this growth potential.** These elements include better economic and social infrastructure, investment in human capital, and a business (regulatory and legal) environment conducive to private sector development. Going forward, the main policies to support this thrust could be refined in a more detailed growth strategy, which proposes concrete actions consistent with relevant sector strategies.

25. **Using oil revenues productively to bridge Congo's infrastructure gap is a key challenge for PRSP implementation and this would benefit from an integrated and well-planned investment program.** In this context, the authorities have committed to prepare an action plan to strengthen public investment management. The following reform objectives appear as particularly important in this regard: employing rigorous, objective, and transparent criteria for choosing the level and composition of capital spending; strategically allocating the capital budget to sectors, sub-sectors, and regions, i.e. in line with the PRSP; conducting systematic and transparent project selection, in view of maximizing economic and social returns on investment; and instituting an effective system to monitor and evaluate the impact

and outcomes of public investment. Such an investment program should be fully embedded in the regional integration agenda.

26. **To create better conditions for private sector development, future updates to the PRSP would benefit from addressing the concrete impediments to the investment and business environment.** The planned Investment Climate Analysis to be supported by the Bank should provide further guidance on how to tackle this. Congo's unfavorable assessment by the 2008 Doing Business report confirms that private initiative is seriously stifled by cumbersome regulations and legal hurdles to establish and operate a business. Another important constraint is the limited access to financial services, particularly for small and medium enterprises.

E. Provision of Social Services

27. **The PRSP's poverty diagnosis indicates clearly that limited coverage and poor quality of basic social services have contributed to poor social outcomes and the deterioration of human capital.** Indeed, Congo's social indicators are low compared with other countries in sub-Saharan Africa with similar income levels, most notably on maternal and child health, access to safe water and sanitation, food security and nutrition. The lack of adequately skilled labor is also a main constraint to growth. Administrative data and perception surveys indicate that access to health, education, and public utilities (potable water, sanitation, electricity) is limited, particularly in rural areas. The quality of services is another concern.

28. **The PRSP proposes a comprehensive set of priority actions and output and outcome indicators to improve performance in health, while being less clear on the way ahead for education.** The staffs encourage the authorities to further refine these proposals, in particular in the education sector, and to set them within the context of a sector-specific strategy — such as the one that exists now for health — with detailed cost estimates. This would help establish priorities within and across sectors, and identify measures to use existing resources more effectively. Beyond this, substantially reallocating budget resources to health and education appears as necessary, as these sectors are currently underfinanced relative to other public expenditure categories, and regional averages. In addition, changes in intra-sectoral allocations could improve the pro-poor orientation of public spending, such as by shifting more resources to basic education and skills development.

29. **The PRSP identifies a number of important institutional and policy deficiencies in the health and education sectors, which should be tackled as a high priority.** The weak administrative capacity in these sectors is reflected most importantly in inadequate service delivery. The staffs agree with the strategy's proposals to overcome these weaknesses through decentralization of civil servants to schools and health centers, particularly in rural areas, strengthening payroll management, improving availability of essential medicines in health centers across the country, giving more autonomy to line ministries for spending decisions, and improving complementarities between public service provision and private-sector initiatives. This could be complemented by other measures, particularly those aimed at

enhancing quality of services, such as enhancing training of teachers and health workers, textbook distribution and curriculum development.

30. **The PRSP contains a candid discussion on how to strengthen social protection policies, in particular through better targeting of the poor.** Staffs agree with the authorities' commitment to assess effectiveness of social security and conditions of employment. Such an exercise could aim at increasing support to marginalized groups, who are not captured under social protection programs. Staffs encourage the authorities to take stock of the measures to protect the poor, with a view to evaluating their effectiveness in delivering assistance. In this regard, reforming petroleum-related subsidies is a high priority.

IV. MONITORING AND EVALUATION

31. **The PRSP reflects a serious effort to put in place an institutional structure for coordinating PRSP implementation and building the necessary capacity for M&E.** Looking ahead, the functioning of this structure could be enhanced by ensuring strong ownership of the PRSP by all major government units. Its implementation will be overseen by the National Poverty Reduction Committee, which will need to be equipped with adequate authority and resources to carry out its mandate effectively. In addition to this, the staffs suggest that PRSP monitoring could be strengthened by efforts to:

- Enhance participation of sector ministries in the National Poverty Reduction Committee and the Permanent Technical Secretariat, to increase legitimacy and capacity of these bodies;
- clarify roles and build capacity of institutions involved in data collection and analysis, in particular the National Center for Statistics and Economic Analysis and the proposed poverty observatory, and formally adopt and implement the Multi-Year Program for Statistics Development;
- strengthen the results framework by better linking the choice of indicators to the findings of the poverty diagnosis and the content of the four strategic pillars, reducing the number of sector indicators to a manageable level, increasing the use of readily available and cost-effective administrative data such as on vaccinations and births attended by health personnel, and adding concrete targets for all indicators.
- Given the strategic nature of the sequencing decisions, there is an urgent need for prioritization of sectoral programs in the PRSP, taking into account their impact on poverty reduction. Also, this needs to be linked with the budgetary allocation of resources through the MTFF.

32. **M&E efforts in PRSP implementation would be most effective if they lead to concrete findings on how public spending in priority sectors relate to tangible results on the ground.** This could entail tracking public expenditures in health, education, and transport, and comparing them with changes in key output indicators such as on vaccinations, maternal health, primary enrolment and teacher-to-pupils ratio, and coverage and quality of the road network.

V. CONCLUSIONS AND ISSUES FOR DISCUSSION

33. **Congo's PRSP provides a sound basis for strengthening and diversifying the economy and reducing poverty.** The consultation process was extensive and included representatives of government, civil society, the private sector, and the general population at the national, regional, and local levels. Notwithstanding some logistical constraints, all regions were included in the process, and a large number of those consulted were women, and other minority groups. The strategy derives part of its strength from the broad and inclusive consultation process. It is also grounded in a comprehensive poverty diagnosis, which helps identify policy priorities. The staffs welcome the introduction of first elements of a results-oriented framework as well as the five strategic pillars proposed to address Congo's challenges over the medium term. To improve the strategy in the period ahead, the staffs suggest that:

- consultation efforts be deepened to achieve broad ownership of the strategy, in particular by further reaching out to minority and marginalized groups, and to Congo's development partners, who could provide much needed assistance to build institutional and administrative capacity;
- data collection and analysis be strengthened and updated for better understanding of the main dimensions of poverty, as well as the impact of policies on the poor;
- the strategy is further concentrated on a few key actions in view of the greatest possible impact of using public resources to reduce poverty;
- the results framework be refined and capacity to monitor PRSP implementation be strengthened; and
- a medium-term expenditure framework be developed, based on detailed strategies with cost estimated in PRSP priority sectors.

34. **While growing oil revenues constitute an extraordinary opportunity to meet the PRSP objectives, strong exposure to this highly volatile revenue source comes with important risks.** The significant uncertainties on short-term movements and long term trends in world oil prices stress the importance of a medium-term fiscal policy to make best use of the expected revenue windfall. Such a policy would also help reduce a second main risk, which stems from possible spending pressures in the run up to the Presidential election next year. A loss of expenditure control could set back reform efforts and jeopardize moving back to a Fund-supported program, which is essential for achieving debt relief under the enhanced HIPC Initiative. It could also shift resources away from the medium-term objectives laid out in the PRSP for more immediate goals.

35. **PRSP implementation also faces other important challenges, such as ensuring strong ownership.** Meeting the authorities' commitment to disseminating the strategy and broad consultations on its refinement would mitigate this risk. Deepening efforts on enhancing economic and political governance, in particular, further enhancing access of the public to information on public resources is critical to gain widespread acceptance of the strategy.

36. **In considering the authorities PRSP, the staffs would like to seek Executive Directors' views on the priority actions put forward in this JSAN on:**

- refining the PRSP, in particular as regards establishing a strong connection between the strategy and the budget process; and
- addressing the main implementation risks identified, in particular with a view to seize the extraordinary opportunity offered by oil revenues.