

THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF DJIBOUTI

**Interim Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by the Staff of the International Monetary Fund and
The International Development Association

Approved by Paul Chabrier and Masood Ahmed (IMF)
and Jean-Louis Sarbib and Gobind T. Nankani (IDA)

November 6, 2001

I. INTRODUCTION

1. Djibouti is an extremely poor country, with more than 60 percent of its population—including nomads, refugees, and homeless—living below the poverty line.¹ Almost 10 percent of the population cannot acquire the minimal daily calories. Life expectancy is 50 years and infant mortality reaches 114 per thousand. Serious malnutrition is widespread, affecting at least 14 percent of children under the age of five. Unemployment is extremely high, at about 44 percent of the active population, and affecting 58 percent of the population in the age bracket of 21 to 25 years.

2. Progress towards reversing this poor social situation was hindered by a decline in the economic environment of the country, particularly from the late 1980s to the mid-1990s,² mainly as a result of the outbreak of an armed conflict and a deterioration of external competitiveness, in particular as compared with regional partners. Since 1996, Djibouti has

¹ According to the Interim Poverty Reduction Strategy Paper (I-PRSP), based on the “Enquête Djiboutienne Auprès des Ménages (EDAM I) survey in 1996 and a complementary participatory assessment, the poverty line was defined at DF 216,450 (US\$1,225) per adult per year, and the indigent poverty line stands at DF 100,229 (US\$576) per adult per year.

² During that time, real GDP growth averaged less than 1 percent, domestic payments arrears accumulated, reserves declined, and per capita income fell steadily to US\$618 in 1998 down from US\$1,505 twenty years before.

made some progress in reducing macroeconomic imbalances and restructuring its economy,³ but economic growth has been modest and real per capita growth has remained negative.

3. In this context, the government has prepared an Interim Poverty Reduction Strategy Paper (I-PRSP)⁴ based on two pillars: first, any meaningful poverty reduction strategy (PRS) requires measures to accelerate growth and to ensure that the population shares in its benefits; and second, country ownership and broad participation by civil society are necessary for a successful reform program.

4. More specifically, the I-PRSP proposes a strategy that focuses on: (a) strengthening political stability and peace;⁵ (b) implementation of structural measures in support of a viable macroeconomic framework; (c) efforts to strengthen sectoral policies, especially in the areas of education, water, urbanization and housing, labor, and the environment; (d) protection of vulnerable groups through the development of initiatives such as income-generating activities, high labor-content public works, and microcredit; and (e) good governance and accountability. Staff believe that fully developed, these elements will provide the basis for a comprehensive PRS that moves well beyond previous anti-poverty interventions that were more narrowly defined. The I-PRSP expresses government's commitment to poverty reduction, presents a cursory description of monetary and nonmonetary aspects of poverty, outlines a proposed PRS, and presents plans to prepare a full PRSP.

II. THE ELEMENTS OF A PRSP

5. The Djibouti authorities have taken seriously the preparation of the I-PRSP, which was prepared under the supervision of an Interministerial Committee (IC)⁶ and included a number of participatory workshops. The document has a number of strengths that are worth highlighting and some areas that could be strengthened as the full PRSP is prepared.

³ The IMF provided support under a stand-by arrangement (1996–98) and more recently under a three-year arrangement under the Poverty Reduction and Growth Facility (1999–2002). Financial assistance from the World Bank is expected through a fiscal consolidation credit operation (FCC), slated to be considered by the Bank's Board in December 2001.

⁴ The I-PRSP was first submitted by the Djibouti authorities in February 2001 and revised in June 2001 to take into account comments from additional donors.

⁵ In that context, highly commendable efforts have already been deployed which have led to the Arta Conference initiated and financed by Djibouti for the reconciliation of warring factions in Somalia and the signing of the peace accord between the government and the Armed Opposition Front in May 2001.

⁶ The IC includes representatives of the central government, local government, civil society and the private sector. It is seconded by a technical committee, which coordinates various sectoral commissions conducting technical studies and analysis.

6. First, in terms of process, preparation of the I-PRSP was more *participatory* than was previously the norm in Djibouti. Further, the government viewed the participation of civil society and private sector groups to be useful, and there was significant movement along the learning curve with the content and impact of the participation improving over time, even though the nature of the dialogue remained uneven within groups. Staff commend the authorities for their efforts to develop a participatory I-PRSP and encourage them to continue to broaden the process to bring in more nongovernmental and nontraditional partners. To achieve a more active participation and the ownership of all stakeholders, the authorities should develop the details of the participatory process as soon as possible and seek support of foreign donors in this process.

7. Second, while the description of poverty in the I-PRSP is weak, staff welcome that the document clearly recognizes the need for better *poverty diagnostics* and for collecting and analyzing comprehensive poverty data in order to understand the trends and determinants of poverty.⁷ The I-PRSP could have been clearer in discussing the range of activities—including timeframes—aimed at identifying and filling data gaps and building the government’s capacity to update, analyze, and use such data in policy making. In fact, a household survey—including coverage of nomads, refugees, and street children—is expected to be completed by May 2002. An essential analytical underpinning to the full PRSP will require analysis of the nature and trends in poverty based on these survey results. Staff encourage the authorities to widen consultation and broaden coordination among the local institutions and potential donors involved in collection and analysis of poverty data.

8. Third, the I-PRSP appropriately emphasizes most *key sectoral challenges* in areas such as education, health, and water. Further, it emphasizes infrastructure development that focuses on transport, foreign trade, and telecommunications through the development of an “open ports and skies” policy. However, the I-PRSP does not outline a strategic direction in how to meet sectoral priorities. The PRSP will need to establish one. It should give high priority to the development of services around the transport sector, considering the expected multiplier effects in the whole economy, particularly on government revenue. Further, policies and institutional and financial requirements associated with achieving specific objectives in particular sectors need to be better specified. For example, the I-PRSP has not sufficiently highlighted the measures already developed and/or planned by the government in key human resources areas such as education. Further, critical issues such as the spread of HIV/AIDS, qat, and female genital mutilation are not discussed in the I-PRSP, and important

⁷ The last overall census in Djibouti took place in 1983. Data used in the description of poverty in the I-PRSP are drawn from a survey of 2,400 households carried out in the nationally representative 1996 EDAM I household survey, which focused on the settled population. This household survey was supplemented by a participatory evaluation to gather information on groups that were not captured by that survey including street children and nomads.

cross-sectoral themes, such as gender and the environment, receive relatively little attention. Their treatment in the full PRSP will need to be deepened. The I-PRSP also did not adequately emphasize the need for implementing an efficient safety net system.

9. Fourth, staff welcome attention in the I-PRSP to ***institutional development and governance*** and agree with the broad focus on budgetary reforms (both on the expenditure and tax side), decentralization and greater participation, and reform of judicial institutions.⁸ However, more attention could have been placed on issues related to the efficiency of public expenditure allocations, including both inter and intrasectoral allocations as well as allocations across budget chapters. In the PRSP, additional attention will be needed to prioritize and sequence these reforms and match them with strengthened resource mobilization and implementation capacity.

10. Fifth, the I-PRSP does not discuss any system to ***monitor and evaluate progress*** in poverty reduction. The full PRSP will need to describe: (a) a set of outcome and intermediate indicators (e.g., on budget management and efficiency of resource use) to be monitored; (b) an information collection and access system to ensure that these indicators are regularly monitored; (c) an evaluation system; and (d) mechanisms by which beneficiaries and stakeholders will be informed and able to provide feedback. Effective monitoring of poverty reduction programs will require capacity building as well as a strengthened database, with more frequent collection of data to assess the impact of the upcoming social programs. The full PRSP should also emphasize the importance of carrying out the second population census as soon as possible. It will need to establish quantitative and qualitative targets for poverty reduction, which should be clearly linked. Finally, the full PRSP will need to specify detailed institutional arrangements within government agencies, donor community, and involve civil society in the implementation and monitoring of social programs.

11. Sixth, the ***medium-term macroeconomic framework***, spelled out in the document, illustrates the government's commitment to structural reform, prudent fiscal policy, and establishing conditions for economic growth. In particular, the I-PRSP reconfirms the government's commitment to critical reforms in the fiscal policy area that are supported by the ongoing IMF program and the upcoming International Development Association (IDA) Fiscal Consolidation Credit.

12. However, in the staff's view, the macroeconomic scenario presented has two shortcomings. First, the targeted economic growth rate of 2 percent is too modest to reduce poverty. That will require sustained higher growth rates, which are predicated on the implementation of more ambitious macroeconomic and structural policies than currently envisaged, particularly to improve productivity and external competitiveness. Second, the

⁸ The staff commend the authorities for the recent establishment in early 2001 of an Auditor's office, which is expected to address, inter alia, issues such as the control of budgetary execution and efficient use of public resources.

I-PRSP did not address the issue of much higher factor costs in Djibouti compared with other competitors in the sub-region. The PRSP should identify the potential sources of sustainable economic growth and focus on the necessary policy mix to improve competitiveness and provide a sound basis for faster growth. The staff intend to raise these issues with the authorities in the context of upcoming reviews.

III. PREPARATION PLANS FOR THE FULL PRSP

13. **Strengthening the government policy framework.** The full PRSP will need to link the proposed policies and programs, including actions to improve governance and transparency, and accountability in public policy with the poverty reduction goals. In this connection, the full PRSP should give more prominence to: (a) streamlining of the public sector; (b) reinforcing Djibouti's comparative advantages related to the transport sector and its open financial and trade system; (c) strengthening projects and program implementation; and (d) setting up and monitoring a safety net system (social protection strategy), targeted on the extreme poor by addressing the roots of poverty as well as distributing social subsidies. Regarding the latter, the full PRSP should benefit from the recent experience of existing programs and projects such as the IDA-supported Social Development and Public Works Project. Particular attention should be paid in the full PRSP to the identification of new sources of growth in the context of restored external competitiveness through appropriate policy actions. Moreover, measures to improve transparency and accountability of the budget process and to promote good governance need to be further developed and implemented rapidly.

14. The full PRSP should also provide a detailed analysis of the costs of the proposed poverty reduction program and the sectoral allocations. In addition, it should be reviewed for consistency with the government's Economic and Social Orientation Law.

15. **Filling knowledge gaps.** A full PRS is predicated on the availability of solid data indicating poverty distribution. It also hinges upon the definition of clear sectoral strategies. Related tasks will take time to complete. In this regard, the staff encourage the authorities to indicate how they intend to fill their current knowledge gaps and enhance their database as soon as possible.

16. **Timetable.** For the elaboration of the full PRSP, the government reinforced the Steering Committee in February 2001, which now includes representatives of line ministries and members of civil society. This committee expects to have a draft PRSP ready by February 2002 to be presented for adoption at a National Round Table on Poverty. In the staff's view, however, this time line is not realistic on account of the need to: (a) strengthen the database, update the poverty profile including the completion of EDAM II, develop coherent anti-poverty sectoral strategies and define priorities; and further analyze poverty implications and costs of various policy options; and (b) significantly improve the participatory process in order to build strong consensus among officials and the civil society for the strategy. Under these circumstances, the staff advise the government to target a more reasonable deadline to complete its full PRSP, presumably not before end-2002.

17. **Donors' assistance.** During the preparation phase of the I-PRSP, the donor community provided feedback during several meetings organized to assess progress in producing the I-PRSP. Key donors underscored the need for full participation of the private sector and all institutions in a position to make a contribution to poverty reduction, while encouraging the authorities to make greater use of all available studies prepared by the United Nations institutions. They also urged the authorities to include other donors operating in Djibouti. Staff of the IMF, IDA, and United Nations Development Program have provided advice and technical assistance in the preparation of the I-PRSP and will continue to do so as work on the full PRSP continues. In particular, IDA is partly financing the upcoming household survey EDAM II through two ongoing projects and will also provide resources to help update the poverty profile. Given the country's limited institutional capacity, the staff consider it essential for development partners to provide, upon government request, substantial and coordinated assistance to strengthen local capacities for developing the PRS.

18. **Risks to the program.** Preparing a cohesive national strategy will take time, given the country's administrative and technical capacity constraints that will make it difficult to collect data and conduct survey analyses as well as to define sectoral development strategies and public investment program. Consequently, the government should identify its technical assistance needs and approach the donor community to mobilize their support. In addition, maintaining a true collaborative dialogue throughout the process will be a challenge for the government and civil society. There is a substantial risk that the broad participatory process will generate a long list of wishes and high expectations for rapid changes in economic and social conditions that could not be fulfilled in the short term, given the resource constraints and the lack of direct private investment. The authorities will need to work with all participants of civil society, development partners, and religious leaders to convince them of the real efforts being made to give everyone an opportunity to take part in the development process. The parliamentary elections scheduled for November 2002 could distract the authorities' attention from the content of the PRSP, while also delaying the implementation of the agreed upon macroeconomic and sectoral reforms, and reduce the chance of attaining the goals described in the PRS. Additional risks to the program include negative impacts of external shocks as well as the possibility that the authorities may not be able to mobilize the financial resources needed to carry out their program.

IV. CONCLUSION

19. Djibouti is emerging from a protracted internal armed conflict and is located in an unstable region. As such, its economic and social situation remains fragile. In addition to these constraints, there are other impediments standing in the way of the government's efforts to define a PRS, including an inadequate database and weak institutional capacities. With these constraints in mind, the staff are of the view that the present document meets the requirements of an I-PRSP. It represents an important step toward formulating a comprehensive PRS, ensuring country ownership of this strategy, and consolidating the participatory approach initiated during the preparation of the I-PRSP. This I-PRSP was prepared with limited direct contribution from the staff of the Fund, the Bank, and other donors.

20. The government has made a commendable effort in preparing this I-PRSP. It has used the limited data available to analyze the current poverty situation and plans to sharpen its PRS on the basis of improved poverty data and analysis in the future. To prepare the full PRSP by end-2002, sustained action on the part of the government will be needed in sharpening the growth strategy, notably by formulating more ambitious policies that take into account the need to address the competitiveness issue in a forceful way and improving reforms coordination and implementation. This will facilitate the unlocking of much needed concessional lending as well as technical assistance from the international community.

21. The staff of the IMF and IDA consider that this I-PRSP provides a rather sufficient basis for the development of a participatory PRSP and for Fund and IDA concessional assistance. The staff recommend that the respective Executive Directors of the IMF and IDA reach the same conclusion.

Djibouti: Key Bank/ Fund Events Related to the PRSP

Institution	Event	Expected Date
World Bank	JSA of I-PRSP	November 27, 2001
IMF	JSA of I-PRSP	November 28, 2001
IMF	2001 Article IV and Second Review under the PRGF	November 28, 2001
World Bank	Fiscal Consolidation Credit	December 18, 2001
IMF	Third Review under the PRGF	May 2002
World Bank	Health Project	June 2002
IMF	2002 Article IV and fourth review under the PRGF	October 2002
World Bank	HIV/AIDS Project	March 2003
IMF	Presentation of the full PRSP	March 2003
World Bank	Presentation of the full PRSP	March 2003