

**INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

DJIBOUTI

Joint Staff Assessment of the PRSP Preparation Status Report

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

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1. The Djibouti authorities presented to the Executive Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) in November 2001 the Interim Poverty Reduction Strategy Paper (I-PRSP). The Boards agreed that the document provided a sound basis for developing a fully participatory PRSP and for continuing Fund and World Bank concessional financial assistance. At that time, the authorities expected to complete a draft PRSP by February 2002. They now expect to have a first draft PRSP completed in December 2002, to be discussed with stakeholders and development partners. The government expects to adopt the final version in March 2003. The PRSP preparation status report (hereafter the Status Report) explains that delays in the preparation of the PRSP were incurred owing to: (a) the need to complete the design of key sectoral strategies and enhance the limited capacity of line ministries; and (b) the strengthening of the participatory framework and time needed to develop broad consultations at national level. The staffs of the World Bank and the Fund consider the aforementioned delays in the PRSP process to be warranted and needed to ensure a good quality PRSP.

2. As more than a year has passed since the consideration of the I-PRSP by the two Boards, the authorities have issued a Status Report for presentation to the Boards of the World Bank and the IMF in conjunction with a third review of the PRGF.¹ The Status Report presents a summary of the implementation status of the main activities and a revised timetable for the preparation of the full PRSP. The activities undertaken to date include the development of main pillars of the poverty reduction strategy, establishment of an

¹ The Fund's staff report discusses progress made in implementing macroeconomic policies, key structural measures, and social policies.

institutional framework needed for the preparation of the final PRSP, and set-up of a framework to facilitate consultations with a broad set of stakeholders in all districts of the country.

3. Efforts were made to address macroeconomic data compilation weaknesses and to improve the availability and the quality of poverty and social indicators, as called for in the JSA for the I-PRSP, through better use of existing administrative data sources and the initiation of a series of field surveys. The first in this series is the household living standards survey (EDAM-IS2), which was conducted in May 2002. While there have been major difficulties, data collection and entry were completed, and the analysis is close to finalization.² The results of this survey will permit a better understanding of poverty and provide indicators to assess the situation of vulnerable groups. However, the staffs have yet to find the opportunity to assess the quality of the survey results. Another initiative was the creation of the DISEP by merging the National Directorate of Statistics with the Central Bureau of Census in order to enhance capacity of the statistical system and efficient use of available resources. The staffs encourage the authorities to dedicate adequate resources and further enhance the statistical capacity of the line ministries with a view to improving macroeconomic statistics and developing an effective socio-economic database and a reliable system for monitoring progress in the PRSP implementation.

4. The Status Report reflects the emphasis that the government places on achieving higher economic growth and restoring the competitiveness of the economy in order to reduce poverty. Following a seminar in Djibouti in February 2002 on the government's achievements during the last five years, the president and key ministers visited most districts of the country to explain the government's growth and poverty reduction strategies. The staffs welcome these initiatives and stress the need for a more detailed and better articulated presentation of the authorities' strategy to revive growth, which is related to the need to devise a comprehensive and realistic strategy to restore the external competitiveness of the country.

5. The national PRSP commission established in April 2001 plays a key coordinating role among line ministries, donors, NGOs, and the private sector in this process. The Status Report highlights some strengthening of the participatory process since the I-PRSP, as evidenced at the February 2002 seminar with 200 participants from different regions. In the same vein, the authorities held broad consultations at the regional and national levels to discuss the PRSP process and elicit suggestions for reducing poverty. A seminar in June 2002 involved the most active associations in Djibouti to discuss their role in the

² The main difficulties faced by the authorities related to: (a) the hasty preparation of EDAM-IS2; (b) the excessive workload of the staff of the National Directorate for Statistics and Population Studies (DISEP); (c) the delicate supervision of collecting and processing information by a limited number of staff; and (d) the lack of experience of the new staff recruited by the DISEP.

country's development and challenges. Another seminar in September 2002 discussed reforms of the judiciary system and was attended by lawyers and specialists. The Status Report envisages a round table in December 2002 with the participation of multilateral and bilateral donors as well as a new round of national consultations to endorse the PRSP before it will be submitted for the council of ministers' approval. In the staffs' view, the authorities should continue to deepen the participatory process, including by improving coordination and consultations between government agencies and by providing feedback to civil society participants on how their concerns are being taken into account.

6. The Status Report emphasizes the importance of maintaining a stable macroeconomic framework and pursuing implementation of structural reforms. It indicates that the authorities are currently being assisted by an international expert to prepare a macroeconomic framework and expresses the wish to receive further assistance in this area. The staffs note the importance of developing key elements of a full medium-term expenditure framework that would reflect the full cost of the envisaged programs and policies. In this context, there is a need for line agencies and the ministry of economy and finance to work with the PRSP committee in the preparation of a viable macroeconomic framework and to ensure that the costing of the poverty reduction strategy is properly linked to the budget process. The Status Report indicates that, in the absence of additional measures, the fiscal deficit would widen because of additional expenditure in priority sectors. While recognizing that the scope for an expansion of the tax base is limited, the staffs believe that the twin objectives of preserving medium-term fiscal sustainability and covering the cost of additional programs geared toward poverty reduction and job creation can be achieved by reallocating and enhancing the efficiency of public expenditure. In addition, the staffs consider that the sustained economic growth rate of 7 percent deemed by the authorities to be adequate for the poverty reduction strategy is overly ambitious in light of the current economic structure and pace of structural reforms and well above historical trends. Even to move part way toward such higher growth rates and reduce the share of the population living in extreme poverty would require measures to create the conditions for the emergence of new sources of economic growth and enhance the equity of income distribution. The staffs encourage the authorities to explore all the policy options to achieve these goals.

7. The staffs welcome the PRSP institutional arrangements, including the establishment of an interministerial committee (in September 2002) for the coordination of the government's action and the national PRSP commission set up in April 2001. The interministerial steering committee has key responsibility to monitor, coordinate, and push through technical work needed for the PRSP and related structural reforms. The national PRSP commission has prime responsibility for the PRSP and is assisted by eight thematic committees (competitiveness and infrastructure, growth and macroeconomic framework, education, health, social safety nets, decentralization and government modernization, governance, and information and participation). The staffs welcome the government's commitment to take into account gender issues in the PRSP, an area where further technical assistance is needed.

8. The Status Report alludes to the difficulties encountered in the preparation of the final PRSP, including developing the macroeconomic framework, an effective socio-economic database, and a reliable monitoring system of progress in the PRSP implementation. The staffs note that much work remains to be done before those database and monitoring systems can be established. Aware of the existing capacity weaknesses in Djibouti, the staffs recommend that the authorities should further seek donors' advice and support work related to the PRSP, including assistance in defining sectoral strategies, conducting the participatory process, and implementing the poverty reduction strategy. With regard to the available sectoral strategies, the staffs encourage the authorities to orient them more toward poverty reduction goals, to cost them fully, and to provide indicators for monitoring progress.

9. The staffs consider that the authorities' new timetable remains ambitious given the tasks still to be addressed. In particular, the extensive consultations that will need to be conducted and the data analysis that remains to be done for updating the poverty profile and for preparing a consistent medium-term macroeconomic framework that will reflect the full costing of the policies and programs are unlikely to be completed before March 2003. Under these circumstances, the staffs advise the government to adopt a more feasible deadline.

10. In conclusion, the staffs consider that progress on the development of the full PRSP, as evidenced by the Status Report, is satisfactory and provides a sound basis for continued access to Fund concessional assistance and IDA adjustment lending. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.