

Guinea-Bissau: Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper

This joint staff advisory note on the second poverty reduction strategy paper on Guinea-Bissau was prepared by the staff teams of the International Monetary Fund and the World Bank as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on September 15, 2011. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Guinea-Bissau or the Executive Board of the IMF.

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GUINEA-BISSAU

Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper

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I. OVERVIEW

- 1. This Joint Staff Advisory Note (JSAN) reviews Guinea-Bissau's Second National Poverty Reduction Strategy Paper (PRSP II) covering the period 2011–2015.** Consistent with the country's long-term development strategy (*Guinea-Bissau 2025: Djiti tem*), the PRSP II, adopted by the government in July 2011, provides the framework for the implementation of a comprehensive strategy aimed at consolidating macroeconomic stabilization and strengthening recent improvements in economic governance. Its successful implementation would help the country enhance its economic growth conditions, strengthen the rule of law, and accelerate progress toward the achievement of the Millennium Development Goals (MDGs).
- 2. The PRSP II was prepared in a participatory manner.** To support strong and enduring ownership of the strategy, extensive consultations were held with key stakeholders at the national and regional levels, including representatives from government agencies, civil society, the private sector, various national institutions and Guinea-Bissau's cooperating partners. The PRSP II describes in detail the participatory process through which it was formulated, but it is not made clear precisely how stake holders feedback was incorporated into the emerging strategy. The staffs recommend that this information be incorporated into the general publication of the document in order to inform participants as to whether and how their concerns were addressed.
- 3. The PRSP II represents a substantial improvement over its predecessor in terms of analytical rigor, statistical basis and structure.** To ensure technical quality, the framework of the PRSP II was grounded in a number of major statistical surveys, including the National Population Census (RGPH) of 2009, the Multiple-Indicators Clusters Survey (MICS) of 2010, the second Light Poverty Assessment Household Survey (ILAP II) of 2010, and studies specifically prepared for the PRSP II, including the Sources of Growth Study

(2010), the Assessment of Non-Monetary Poverty (2010) and the Cost Estimate for Achieving the MDGs (2011). The PRSP II preparation process also referred to a number of public-sector strategy documents prepared by the government, such as the Policy Letter for the Education Sector (CPSE), the Health and Sanitation Development Plan (PNDS), the Water and Sanitation Master Plan (PDAS), the National Program for Agricultural Investment (PNIA) and the National Strategy for Gender (to be finalized in late-2011).

4. **The objectives of the PRSP II are to significantly reduce poverty, create and expand income-generation opportunities, and improve access to public services in the context of strengthened public institutions and an enhanced rule of law.** The PRSP II represents a comprehensive development strategy based on four pillars: (i) strengthening the rule of law and improving the efficacy of public administration; (ii) guaranteeing macroeconomic stability, consolidating public financial management reforms and fostering robust private-sector development; (iii) promoting sustainable, broad-based economic growth; and (iv) enhancing human development. The issues of gender equality (especially in the access to education and health services), the protection of vulnerable groups and environmental sustainability have been incorporated as cross-cutting objectives in each of the four pillars. The staffs note the strong consistency between the objectives and structure of the PRSP II and the World Bank's Africa Regional Strategy.

5. **The PRSP II explicitly links its strategy to key MDG outcomes.** While the government recognizes that most of the MDGs are unlikely to be achieved by 2015, the PRSP II reaffirms its stated commitment to prioritizing MDG-related programs as part of a longer-term effort. The staffs concur with the government's estimate of the MDG's cost requirements and welcome the forthcoming Prioritized Action Plan (PAP) for accelerating progress towards the achievement of the MDGs.

II. POVERTY TRENDS 2002–10

6. **The PRSP II provides a detailed assessment of poverty trends, which indicate that poverty has worsened over the past decade.** Drawing on data from the 2010 ILAP II, the PRSP II notes that the poverty rate evidently increased from 64.7 percent in 2002 to 69.3 percent in 2010, while the rate of extreme poverty rose from 20.8 to 33.0 percent during the same period. This is primarily due to the continuous political instability that characterized the period, coupled with the poor economic policy record of previous administrations. Weak income-growth performance was further exacerbated by food and fuel price increases and by the global economic downturn in 2008–09.

7. **The PRSP II presents a useful assessment of the country's non-monetary poverty profile, which addresses access to public services and the quality of those services.** The results of the RGPH show that non-monetary poverty affects 40 percent of the population. Non-monetary poverty disparities are extremely acute between the urban (8 percent) and rural populations (60 percent).

8. **The MICS indicated that education, health and gender indicators have improved somewhat in the last four years.** The significant deterioration of human development indicators (or in some cases very modest progress) observed between 2000 and 2006 was reversed between 2006 and 2010. Total infant mortality rose from 124 deaths per 1000 births in 2000 to 138 in 2006, but then dropped to 104 in 2010. School enrollment rates rose marginally from 42 percent in 2000 to 45 percent in 2006 and then jumped to 65 percent in 2010. Indicators of gender equality in education had already been increasing, with the ratio of girls' primary-school enrollment rate vs. boys' growing from 0.67 in 2002 to 0.83 in 2006; this ratio reached 0.94 in 2010.

9. **Despite these improvements, Guinea-Bissau is not expected to achieve the MDGs by 2015.** To achieve the MDGs, the cost-estimation exercise indicates that the government should triple the resources allocated in 2008 to the education, health, agriculture, energy and infrastructure sectors. The staffs concur with this assessment, and note that reaching this goal would also require substantially enhanced implementation capacity among government agencies.

III. THE SECOND NATIONAL POVERTY REDUCTION STRATEGY (PRSP II)

Pillar 1. Strengthening the rule of law and public administration

A. Internal security: reforming the defense and security sector; combating drug trafficking and the illegal arms trade

10. **The staffs support the government's intention to prioritize reinforcing internal stability and promoting efficiency and openness in public administration under the first pillar of the PRSP II.** These objectives are vital to sustaining economic growth and constitute prerequisites for the success of the government's overall strategy. The PRSP II rightly focuses on establishing widespread and reflexive adherence to Constitutional roles, and demonstrates a thorough understanding of the devastating socioeconomic effects generated by a climate of lawlessness, insecurity and the abuse of political power.

11. **Sustained progress in the Reform of the Defense and Security Sector (RDSS) program in particular has long been recognized as fundamental to ensuring basic political stability, institutional fidelity and the integrity of democratic processes.** The PRSP II clearly recognizes the foundational importance of the RDSS and includes a forthright assessment of the limited progress made to date in achieving essential RDSS objectives. The government's newly revised and expanded strategy aims at addressing conflicts between the military and civilian government, reflecting the recent and ongoing dialogue with its cooperating partners. The staffs welcome efforts to renew the RDSS under this strategy. The establishment of financial assistance mechanism in the RDSS, including a pension system would be crucial to downsizing and modernizing the security forces. Assistance from and close engagement with development partners would help secure its implementation. The primary challenge will be to successfully implement existing

agreements and corresponding legislation, as the parameters of the RDSS program have already been established.

12. **The spread of drug trafficking and the small arms trade in Guinea-Bissau are raising concerns both regionally and among the international community.** The PRSP II recognizes the importance of a more forceful and concerted approach to combat the spread of drug trafficking and the illegal arms trade and provides a strong and unequivocal restatement of the government's commitment to fighting the rise of organized crime. The staffs approve of the government's forthright assessment of the situation and support its two-tiered strategy of strong national enforcement efforts bolstered by regional and international cooperation.

B. The rule of law: reforming public administration, normalizing judicial processes, and ensuring adherence to constitutional procedure

13. **Guinea-Bissau's economic development has been impeded by multiform failures of governance.** The PRSP II recognizes that the systemic nature of poor governance in Guinea-Bissau is the joint product of a severe and pervasive lack of administrative capacity coupled with a history of abuse in the exercise of political power. The staffs commend the government's candid assessment of its own weaknesses, and again note that the success of the RDSS will be fundamental to the broader agenda for governance reform; such reforms should therefore be sequenced to support the RDSS and its objectives as the PRSP II's top political priority.

14. **The PRSP II describes a set of complementary strategies covering multiple dimensions of governance reform.** Its far-reaching objectives range from promoting respect for human rights to establishing legislative conformity with international norms. The staffs view measures related to the judicial system, the exercise of legal authority and the reform of public administration as the most critical. The staffs support the government's strategy in these areas as set out in the PRSP II. However, as with other key elements of the government's agenda, implementation risks are substantial and require strong government efforts.

Pillar 2. Guaranteeing macroeconomic stability, consolidating public financial management reforms and fostering private-sector development

A. Macroeconomic framework

15. **The PRSP II underlines the critical importance of a stable macroeconomic environment and sound fiscal management to stimulate economic growth and to assure sustainable economic development.** The macroeconomic framework underlying the PRSP II is broadly aligned with the Extended Credit Facility (ECF)-supported program. The authorities renew their commitment to achieve an average annual GDP growth of 5 percent within the period 2011–2015 and to improve the fiscal balance by further enhancing revenue mobilization and consolidating reforms in public financial management. The staffs regard the

PRSP II's objectives for the country's economic growth performance as achievable, and recommend attention to downside risks, especially those stemming from adverse external conditions and exogenous shocks. In particular, risks derived from a probable worsening of the global economic crisis are substantial and would affect the country exports, economic growth and government revenues needed to finance the implementation of the PRSP II

16. **The staffs welcome the PRSP II's focus on macroeconomic stability and fiscal sustainability.** The authorities recognize the shortcomings of the first NPRSP and present concrete proposals to correct them. The emphasis on diversifying production and the export base to decrease vulnerability to external shocks is well placed. The staffs support the strategy's emphasis on aligning its objectives and policies with the government's commitment to maintaining its budget within available resources.

17. **The PRSP II identifies appropriate financing sources for the strategy's implementation.** The strategy relies on both domestic resources and foreign assistance. The staffs welcome the authorities' efforts to increase domestic financing resources, which would help reduce large donor financing needs. The PRSP II envisages the continuing support from donors. While support from the EU has been suspended, during consultations under the Article 96 of the Cotonou Agreement last March, the EU and the authorities agreed on commitments that once implemented could permit the EU to resume financial support to Guinea-Bissau. The authorities are committed to making best efforts to seek financial assistance from all development partners. In the event that donor assistance fails to meet current projections, implementation of the strategy would be at risk, and the authorities would need to recover more revenues or contain spending to make up for assistance shortfalls. The staffs also underline the importance of presenting detailed data on donor activities to reinforce coordination and maintain the accuracy of public financial reporting. The terms of any new external borrowing should remain highly concessional to pursue prudent external borrowing policies aligned with the IMF supported program and IDA Non-concessional Borrowing Policy. The authorities should maintain low debt vulnerabilities with foreign currency borrowing to address pressing development needs while avoiding the re-accumulation of unsustainable debt.

18. **The PRSP II acknowledges the challenges ahead for implementing the medium-term program. It would be essential to sustain the post-HIPC momentum of economic reforms.** The authorities should continue to mobilize more revenue, improve the quality of spending, and contain spending within available resources. Staffs also emphasize that further progress in public sector reforms and fiscal management are needed to successfully implement and realize the PRSP II's objectives.

B. Public finance reform

19. **Since 2009 the government has been implementing a priority action plan for public financial management (PFM).** This plan encompasses the establishment of a new

institutional framework, including the installation and operationalization of information technology systems for expenditure management, a new budgetary classification system and complementary legislation. The staffs note that significant progress in this area has been achieved with the introduction of the Integrated System for Public Financial Management (SIGFIP), now in full operation and utilizing all budget preparation, execution and accounting modules.

20. **The PRSP II aims at building upon these improvements to further raise the efficiency of PFM.** The government's immediate agenda will focus on updating the legal framework for PFM in a manner consistent with West African Economic and Monetary Union (WAEMU) standards. Over the next two years the government's strategy envisages the adoption of a programmatic budgetary classification system and the establishment of a Medium-Term Expenditure Framework (MTEF). Establishing an MTEF is an ambitious goal requiring an enormous amount of administrative and technical groundwork; the staffs therefore recommend that in the short term the government should concentrate on other, more pressing PRSP II priorities, expenditure management in particular. To improve expenditure management the PRSP II reinforces the government's demonstrated commitment to controlling the civil service payroll and progressively reducing its weight in total expenditures. Building on recent achievements in this area will foster a more sustainable fiscal stance and preserve scarce resources for priority spending. Finally, as part of its expenditure-side agenda the PRSP II includes a set of actions designed to improve the public procurement system, which the staffs consider prudent.

21. **The PRSP II places strong emphasis on enhancing the government's ability to mobilize domestic revenue, and the staffs view this as a positive development.** The staffs note that the share of domestic revenue financing out of total cost would rise substantially in the PRSP II, compared with the previous NPRSP. However, Guinea-Bissau's revenue base is very narrow, and public revenues as a share of GDP are among the lowest in the world; the government must do its utmost to increase revenues by implementing additional measures and tightening collection mechanisms. The PRSP II includes reforms to the customs service and in tax administration, the expansion of tax collection coverage and other revenue-generating efforts, the centralization of revenue collection under the authority of the Ministry of Finance (MoF), and the establishment of a value-added tax system. The staffs strongly support the authorities' efforts to increase the share of domestically mobilized revenues; the staffs recommend prioritizing the collection of existing revenues in the short term, but emphasize the importance of expanding and diversifying the tax base over the longer term.

C. Private-sector development

22. **The staffs welcome the PRSP II's accurate appraisal of the major obstacles to private-sector development in Guinea-Bissau.** These include the extraordinary difficulty of obtaining necessary information related to starting a business, the needlessly complex and

burdensome requirements for business registration and formal hiring, and the excessive number of public agencies involved in the private sector.

23. **The staffs welcome the PRSP II's emphasis on private-sector growth as the primary driver of economic development.** The government has simplified business licensing procedures and passed new legislation reforming the investment code. The PRSP II builds on the progress made under these programs, but the clarity of its objectives for the business climate is occasionally lost amid numerous competing priorities. The staffs consider further reforms designed to reduce administrative costs, e.g. through streamlining formal procedures and reducing bureaucratic redundancies—to be among the most cost-effective policy options for this area and recommend they be prioritized.

Pillar 3. Promoting sustainable, inclusive and broad-based economic growth

A. Support to economic sectors with strong growth potential

24. **The PRSP II includes a growth-promotion strategy based on targeted interventions in key sectors.** The government selected cashew and rice production, fisheries and tourism as sectors with high pro-poor growth potential. This assessment is shared by the Diagnostic Trade Integration Study (DTIS) and the Bank's recent Country Economic Memorandum (CEM) for Guinea-Bissau. However, the PRSP II does not explicitly describe the specific interventions to be implemented or their potential impacts. The staffs recommend the government undertake additional analytical work with appropriate technical assistance from its cooperating partners and review the DTIS' action matrix priorities endorsed by the authorities in January 2010.

25. **The cashew sector is enormously important to the Bissau-Guinean economy: it represents nearly all of the country's export revenue and has strong pro-poor growth potential due to its labor-intensive nature.** While raw cashew yields continue to increase, the government is attempting to boost domestic processing through the establishment of a levy on raw cashew exports to be managed with the Chamber of Commerce, Industry, Agriculture and Services (CCIAS). This levy was enacted after the PRSP II was already complete, and consequently it is not included in the strategy, but it must be taken into account in the implementation of PRSP II policies for the cashew sector. Although not technically a tax, the levy on the cashew sector has the same economic effect as an export tariff: the cost of raising funds through the levy is expected to reduce farm gate prices paid to producers with a likely negative impact on poverty. The staffs are of the view that detailed assessment on its economic and social impact will be needed and recommend further dialogue between the government and its cooperating partners to fully assess the appropriateness of this policy to the objectives for the cashew sector set out in the PRSP II.

26. **The PRSP II's strategy for the sector includes greater support for extension services to cashew farmers and facilitating access to credit, particularly for processing and related activities.** Access to credit is a particular concern, since the PRSP II largely

treats this as a supply-side problem; while lack of access is certainly a constraint, insufficient attention is paid to dysfunctions in the credit market as a whole—especially the unpredictability of contract enforcement and the absence of systems for recording vital screening information.

27. **Rice production is accorded special attention in the PRSP II due to its role in food security.** The PRSP II regards increased domestic rice production as a means to both improve the country's terms-of-trade balance by offsetting staple food imports and boosting rural incomes. The staffs agree with this assessment, and further point to the rice sector's potential for reducing income inequality. The staffs recommend that the implementing agencies prioritize the production of irrigated lowland rice, which is the most cost-effective modality of rice production and among the least environmentally damaging.

28. **The PRSP II underlines the role of marine fisheries in promoting economic growth.** Guinea-Bissau currently 'rents out' its fishery resources to foreign users in exchange for public revenue. However, this strategy is unlikely to remain viable, as resource-management measures are insufficient and the revenues generated from fishing are neither reflective of market values nor sufficient to offset the depletion of natural capital by the fishing industry. The staffs recommend that the government develop a more effective and remunerative fisheries management system. This should include assistance from the government's cooperating partners in the monitoring and enforcement of fisheries policy, and the renegotiation of rents for bilateral fishing rights.

29. **The PRSP II also describes a framework for developing the enormous and largely untapped potential of the country's tourism assets.** Tourism currently represents a marginal but growing contribution to Guinea-Bissau's economy. The staffs agree with the PRSP II's goal to enhance strategic planning in the tourism sector, as the authorities' commitment and community engagement will be essential for protecting the country's natural-resource base. Guinea-Bissau has made unusually strong commitments to protect its biodiversity, with 14 percent of the country's land area devoted to national parks, but park services and related agencies remain largely underfunded. The staffs note the importance of linking tourism-industry revenues to environment-agency funding, and thereby encouraging the public and private sectors to work together to boost the value of natural capital assets.

30. **The prospective exploitation of exhaustible natural resources presents both attractive opportunities and serious risks.** Guinea-Bissau is known to possess significant mineral deposits, especially phosphates and bauxite, and there is evidence that it may also hold exploitable oil reserves in its territorial waters. The problems of resource exploration and extraction are complex in terms of their economic and political consequences, and the PRSP II does not consider these issues in sufficient detail. The staffs underline the importance of presenting a more comprehensive analysis of major sectoral challenges, including defining mineral rights, setting tariff rates, tendering contracts, and ensuring proper operational oversight. Additionally, the assessment of how rising mineral-product

commodity exports may affect other economic sectors should be developed further. The staffs strongly recommend that the authorities, with the support and active engagement of their cooperating partners, develop a much more circumspect and comprehensive policy for the mining and mineral-resource sector.

B. Infrastructure

31. **The staffs share the PRSP II's assessment of the dire state of basic infrastructure in Guinea-Bissau, which has become a binding constraint on economic growth.** The PRSP II strategy rightly focuses on three key sectors: energy, seaports, and the road network, with a view to improve the country growth conditions. In the electricity sector, the challenges—and the policy and financial efforts needed to meet them—are staggering. The prolonged electricity crisis have led to regular blackouts, high operating costs, large losses including electricity theft through illegal connections, high retail tariffs to cover these inefficiencies, low bill collection rates, a significant fiscal burden through direct and indirect subsidies, and very high consumer costs for self-generated power. The port of Bissau suffers from a host of problems that include poor operational performance, high tariffs, decaying infrastructure and poor corporate governance. A viable strategy for the port must address both the sizeable physical investment and institutional needs. The staffs welcome the government plans to promote institutional reforms on the energy sector to improve the financial, operational and commercial performance of the state energy and water utility EAGB. Differently, the PRSP II does not provide sufficient information on how the improvement of the port should be achieved. Staffs consider appropriate the focus on the maintenance of the national network and the expansion of rural access roads and emphasize the necessity of integrating policy actions into the strategic framework for the transportation sector.

32. **Finally, the PRSP II appropriately stresses the importance of environmental sustainability and the need for improving natural resource management regulations.** The staffs note that the government has been adopting a number of regulations that provide the procedural framework for the concession of environmental licenses and establishes the requirements for private and public projects that use natural resources or activities that generate environmental externalities. The staffs encourage the government efforts to enhance the institutional capacity of the natural resource management entities.

Pillar 4. Enhancing human development

A. Public education and vocational training

33. **The PRSP II notes that evident successes mask serious underlying problems in the national education system, despite some improvements in recent years.** The staffs concur that increases in enrollment rates, though encouraging, have not been adequately matched by improvements in service quality, which appears to have degraded as coverage has expanded. This trend is particularly acute in terms of gender equality. For instance,

although girls' enrollment rates for both primary and secondary school are nearing parity with those for boys, female students remain between 1.4 and 2 times less likely to graduate than their male counterparts. This issue deserves greater attention, as women's educational attainment has significant impacts on their health and the health of their families.

34. **The educational system in Guinea-Bissau suffers from numerous systemic problems, of which the management of the public teaching staff is by far the most salient.** The hiring system for public school teachers is chaotic: there are effectively no qualifications required, and the number of teachers hired routinely exceeds the salary budget. The consequent accumulation of arrears in the wage bill prompts frequent teacher strikes. This issue is not adequately addressed by the PRSP II and the staffs strongly recommend that the government address personnel management directly, utilizing similar methods to those employed in the ongoing reform of the public service.

35. **Adult education and vocational training are virtually absent from the PRSP II,** and the staffs consider this a significant weakness given the importance of increased human capital to the government's larger economic growth strategy. The staffs recommend that the government develop a separate action plan for vocational training consistent with its sector-specific economic objectives.

B. Health

36. **The staffs welcome the authorities' focus on the health sector in the PRSP II and note improvements in health-status indicators during the past decade.** Despite a context characterized by political instability and high levels of poverty, infant and under-five mortality rates dropped significantly, though the maternal mortality rate remains one of the highest in Africa. The provision of immunizations, antenatal care and deliveries assisted by a health professional also increased as a result of investments in healthcare infrastructure, including the training of public health professional and administrative improvements.

37. **The staffs agree with the PRSP II's attention to systemic issues and equity considerations (including the gender dimension), regarding service delivery** and encourage the authorities to consider an in-depth analysis of human-resources needs, as well as the prospective expansion of facilities and the financial implications of both. The staffs also encourage the authorities to consider alternative models of service delivery, including community-based and public outreach interventions, which could potentially increase the pace of MDG achievement.

38. **Staffs commend the government on its commitment to scale-up preventative efforts and the treatment of HIV/AIDS as expressed in the NPSRP II.** The authorities clearly recognize the seriousness of the HIV/AIDS epidemic and have prepared a National Strategic Plan (PEN) for the period 2011–2013, which emphasizes prevention, the provision of care and treatment, and a multisectorial approach to the epidemic. HIV prevalence in

Guinea-Bissau relatively low at an estimated at 2.6%, but in some urban areas it now reaches as high as 5.6%.

39. **Official information campaigns appear to have been effective in combating the spread of HIV/AIDS.** Awareness of the disease and its transmission vectors has been raised throughout the country, though information on preventative measures is still limited. In many cases, the increasing economic connectivity of areas that were previously relatively isolated is accompanied by rising HIV/AIDS infection rates, as the commercial ties that link more remote communities with larger national and international markets can also function as transmission vectors and authorities should concentrate its awareness and prevention efforts on areas targeted for more rapid economic growth.

IV. IMPLEMENTATION, MONITORING AND EVALUATION

40. **The PRSP II comprises a number of institutional restructuring arrangements that are expected to facilitate its implementation.** The implementation structure consists of three levels: (i) the steering committee, which is the decision-making level responsible for defining strategic orientations, approving the prioritized action plan, and generally overseeing the PRSP II's implementation; (ii) the technical committee responsible for the coordination PRSP II programs and for the monitoring and evaluation of its progress; and (iii) the planning and monitoring committees at the sector levels, which will support the implementing agencies and collect raw data on relevant PRSP II programs. Representatives of Guinea-Bissau's partners are included as members of the steering committee to enhance coordination between the government and the donor community. The staffs find the proposed implementation arrangement comprehensive and appropriate with well defined responsibilities. However, existing institutional and technical capacity constraints need to be addressed to ensure a timely implementation of programs.

41. **The explicit link between the PRSP II and the budget cycle is an important improvement over the NPRSP I.** The solid progress observed in establishing a clear system for budget classification, planning and execution is expected to allow the alignment of budget allocations with the strategic priorities of the PRSP II. Furthermore, with the support of its cooperating partners the government intends to adopt an MTEF, which is intended to enhance the predictability of available resources, allowing for more consistency in the implementation of PRSP II programs. As noted above, the staffs encourage the government to maintain a realistic view on the timeframe and administrative groundwork required for the implementation of the MTEF.

42. **To gauge progress in the implementation of the PRSP II the government has proposed a strengthened M&E system including new institutional arrangements.** The proposed M&E system has two primary components: (i) the continuing assessment of poverty trends and household living conditions, which will be coordinated by the National Institute of Statistics (INE); and (ii) monitoring the PRSP II's implementation, which will be

coordinated by the National Directorate of Planning (DNP) at the Ministry of Economy, Planning and Regional Integration (MEPIR).

43. **The staffs are concerned with the allocation of responsibilities for managing the M&E system and with the specificity of objectives for strengthening the system's institutional framework.** The staffs are concerned that a lack of sound statistics at the sector level could jeopardize the functioning of the envisaged M&E system, and that the government is relying too heavily on its cooperating partners in this area. The INE has designed an action plan under the National Strategy for the Development of Statistics (SNDE) that focuses on strengthening statistical capacity to ensure robust data collection and high quality analysis, but the staffs note the absence of statistical capacity development as an PRSP II priority. The staffs highlight that while the cooperating partners are capable of providing support, particularly technical assistance, for strengthening the M&E system, they cannot supplant the government's primary role in both data collection and analysis.

V. CONCLUSION

44. **The PRSP II represents a comprehensive medium-term development strategy, but it faces key challenges stemming from low technical, financial, institutional and aid-absorption capacities.** Political instability remains a persistent risk to the continuity and consistent implementation of actions envisaged in the PRSP II, and the staffs share the government's view that sustained progress in the reforms of the defense and security sector is a fundamental prerequisite for political stability. The staffs recognize that alleviating implementation-capacity constraints and attenuating political risks will require the continued support and active engagement of the international community.

45. **The success of PRSP II will depend on the development of prioritized action plans based on reliable estimates of available resources and accurately reflecting the implementation capacity of government agencies.** Recent improvements in public financial management will help the authorities improve their strategic allocation of resources and enhance the efficiency of expenditure execution. In addition, as the government intends to increase domestic-revenue mobilization to finance the PRSP II, it will be especially crucial to consolidate recent improvements in budgetary and financial management reforms.

46. **In consideration of the PRSP II and the associated JSAN, the Executive Directors' views are sought** regarding their agreement with the main areas identified by the staffs as priorities for strengthening the government's strategy and its implementation, as well as areas identified as key implementation risks.