



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

January 2014

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper for São Tomé and Príncipe, prepared jointly by staff of the International Development Association and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Board of the two institutions. The object of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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International Monetary Fund
Washington, D.C.

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

**Second Poverty Reduction Strategy Paper (PRSP-II) 2012–16
Joint Staff Advisory Note**

March 20, 2013

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

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I. OVERVIEW

1. **The Democratic Republic of São Tomé and Príncipe’s (STP) Second Poverty Reduction Strategy Paper (PRSP-II) for the period 2012–16 was approved by the Cabinet in July 2012.** The PRSP-II was then sent to the International Development Association (IDA) and the International Monetary Fund (IMF) in October 2012. It will serve as the basis for a new World Bank Country Assistance Strategy (CAS) for the period 2013–16, which is currently being prepared, as well as for the government’s medium-term macroeconomic reform program (2012–15) supported by an IMF Extended Credit Facility (ECF) arrangement approved in July 2012.
2. **The PRSP-II is the successor to the government’s previous development strategy, the PRSP-I, and furthers the country’s commitment to promoting sustainable poverty reduction through broad-based growth.** The PRSP-I and PRSP-II share broadly similar objectives, but whereas the PRSP-I was built around five strategic axes the PRSP-II narrows its focus to four: (i) promoting good governance and public-sector reform, (ii) supporting sustainable and inclusive economic growth, (iii) enhancing human capital and extending basic social services, and (iv) reinforcing social cohesion and social protections, particularly for vulnerable groups. The inclusion of a cross-cutting thematic area covering the reform of economic and democratic institutions and the improvement of public-sector capacity further highlights the critical importance of the good-governance agenda.
3. **Overall, the PRSP-II presents a coherent analysis, offers an appropriate policy framework for long-term poverty reduction and sustainable economic growth, and improves upon the previous strategy (PRSP-I) in two critical programmatic areas:**
 - **First**, the PRSP-II prioritizes reforms that are urgent regardless of whether oil is produced or not, particularly in the areas of good governance, competitiveness, and

diversification. In addition, it includes a set of measures aimed at regulatory strengthening and capacity-building, especially in the nascent petroleum sector, in order to ensure that prospective natural resources are managed effectively and transparently. Given the inherently unpredictable timeframe for oil extraction and the pressing need for broader macroeconomic-management reform, the PRSP-II prioritizes an agenda focusing on good governance, competitiveness and diversification, and includes two alternative macroeconomic scenarios (see Section III, below).

- **Second**, drawing on lessons learned during the implementation of the PRSP-I, the PRSP-II sets more realistic objectives than its predecessor. The target GDP growth rate is reasonable given STP's recent economic performance, assuming that the implementation of structural reforms continues as planned and barring a serious deterioration of external conditions or other unpredictable shocks. The primary objective in terms of poverty reduction—a 10 percent decrease in the poverty rate over the next four years—is ambitious but feasible. However, as the experience of the last decade has shown, strengthening the connections between growth and poverty reduction will be vital to achieving broad and sustained improvements in poverty indicators. In this context, the PRSP-II focuses on achievable short- and medium-term targets as part of a broader long-term vision.

4. **Staffs acknowledge the participatory process through which the PRSP-II was developed.** As with its predecessor, numerous members of São Toméan society—including representatives of the private sector and civil society, as well as the country's developing partners—were involved in the formulation of the PRSP-II. Preliminary drafts of the strategy were discussed at workshops with the above-mentioned stakeholders. The process was well integrated with the strategic planning functions of the government and led by its sector working groups, in coordination with development partners. It is important to note that in contrast to the PRSP-I, the PRSP-II was produced with little financial and technical support from STP's developing partners. This is encouraging as the comprehensiveness, detail, and overall sophistication of the strategy reflect the increasingly solid analytical and planning capacity of the government, rather than that of its cooperating partners, while STP's high degree of independence in formulating its strategy ensures strong domestic ownership. Staffs recommend that the government describe the consultative process behind the PRSP-II more thoroughly in its accompanying documentation.

A. Lessons Learned from the PRSP-I

5. **As noted above, the PRSP-I was the government's first attempt at creating a comprehensive poverty-reduction strategy, and its effectiveness was hindered by several key weaknesses, both in the strategy itself and the institutional context in which it was implemented.**¹ The objectives of the PRSP-I were excessively ambitious—according to the authorities' own estimates, achieving the targets of the PRSP-I would have required

¹Many of these limitations were identified in previous World Bank and IMF assessments of the PRSP-I and subsequent progress reports on its implementation, as well as in other analytical work on STP.

an annual growth rate of over 8 percent throughout the entire 10-year implementation period—and even in a more favorable external economic climate their full realization would have been unlikely. Despite its accompanying Priority Action Plan (PAP), the overarching goals of the PRSP-I were not sufficiently linked to specific policy measures, and the cost of implementing these measures was not fully incorporated into annual budgets. Intermediate performance indicators were often difficult to measure, while the lack of a comprehensive monitoring and evaluation (M&E) system prevented the implementing agencies from adjusting their plans based on internal feedback. Finally, as the authorities themselves noted in their evaluation of the PRSP-I, a crucial lack of political will impeded progress on key elements of the structural reform agenda.

6. The PRSP-II builds on this experience in a number of areas, promoting economic diversification regardless of whether oil is produced or not, specifying a conservative macroeconomic framework, and laying out a set of ambitious but attainable development goals. While emphasizing a long-term vision for diversifying the economy, creating jobs and reducing poverty and inequality, the PRSP-II is based on a four-year timeframe (2012–16), significantly shorter than its predecessor; it focuses on immediate policy actions and on the achievement of medium-term goals prior to the start of oil production (expected by 2015). Staffs regard this timeframe as more practical from an implementation and evaluation perspective and believe that it will help to sustain the urgency of the government’s program, especially in terms of the first strategic axis on good governance and public-sector reform. The goals of the PRSP-II are informed by the slow rates of poverty reduction observed during the PRSP-I implementation period and by the considerable disparity between the objectives of the PRSP-I and current indicators. The more cautious approach of the PRSP-II is reflected in:

- The use of two macroeconomic scenarios and their generally conservative underlying assumptions, which allow the PRSP-II to better account for uncertainties in its economic outlook.
- The choice of appropriate strategic axes and overall focus, which demonstrate that serious attention has been paid to the importance of economic resilience and broad-based employment growth.
- The revision of the primary antipoverty target (now based on an absolute standard, see Box 1) to reducing the proportion of the population living below the moderate poverty line by 10 percent from its 2010 level (i.e., from 66 percent to 59 percent).
- The retention of the PRSP-I objective of extending basic social services to the entire population and broadly improving service quality.

Box 1. Poverty Measurement in the PRSP-I and PRSP-II

It is important to note a crucial methodological change in the poverty measures used in the PRSP-I and PRSP-II. The poverty statistics used in PRSP-I were based on a *relative* definition of poverty—i.e., the share of households with expenditures below a given fraction of the national average (e.g., two-thirds for moderate poverty). This poverty definition was also calculated as reference for the PRSP-II, using the 2010 household survey, and it served as the basis for evaluating progress under the PRSP-I. However, for the PRSP-II a more conventional measure of *absolute* poverty—i.e., the share of households in which daily calorie consumption per person falls below a given threshold—was computed, for the first time, using the 2010 household survey. This measure of *absolute* poverty, which is based on a standard cost-of-basic-needs (CBN) assessment that quantifies the consumption-poverty line at 30,000 São Toméan Dobras (about US\$1.60) per capita per day, indicates a national poverty rate of 66.2 percent in 2010. Absolute poverty was not computed using the 2000 household survey. Hence, the difference in methodologies allows only for a comparison of relative, not absolute, poverty rates between 2000 and 2010. Nonetheless, the objectives of the PRSP-II are based on the CBN assessment, and future progress will be evaluated in terms of absolute poverty. Staffs welcome this change and consider the absolute standard calculated for 2010 to be more appropriate to evaluate the cost of living.

7. **However, staffs recommend further work on several critical areas in which the PRSP-II could be strengthened.** The first of these is monitoring and evaluation (M&E), both in terms of the specific mechanisms related to the PRSP and the government's permanent M&E infrastructure. A lack of comprehensive M&E presented a serious challenge during the implementation of the PRSP-I, and M&E systems could be further strengthened in the design of the PRSP-II. Second, although the Budget Proposal for the 2013 fiscal year (which was submitted to the National Assembly in November 2012) identifies sources of financing for key activities in the PRSP-II, the full cost of PRSP-II activities is not reflected in the annual budget documents. Incorporating these costs into the annual budget will be important not only to ensure that adequate funding is available and that budget projections remain consistent with the implementation of the strategy, but also to formalize priority actions as mandates for their implementing agencies. Based on the experience of the PRSP-I and given the inherent constraints on resources, staffs recommend including concrete policy prescriptions in the forthcoming PAP, which the government plans to adopt by May 2013, to link specific PRSP-II goals with quantifiable and, to the extent possible, easy-to-monitor indicators. Staffs agree with the government's decision to issue a single, uniform set of directives to its implementing agencies in the form of the PAP, and are prepared to offer guidance and support to the government regarding the timeframe, sequencing, and budgetary incorporation of PAP actions.

II. POVERTY DIAGNOSTICS

8. **The PRSP-II is based on an accurate and useful poverty assessment, which encompasses key dimensions of both monetary and nonmonetary poverty in STP.** The assessment provides disaggregated poverty data by location, employment status and sector, as well as a range of demographic characteristics. The attention paid to gender-based disparities is particularly welcome, as is the inclusion of important cross-cutting phenomena such as the impact of rural-urban migration. In terms of nonmonetary poverty, the PRSP-II notes a number of important and occasionally counterintuitive findings, notably the inverse relationship between literacy rates and average income at the district level. While the assessment could be more detailed, especially the breakdown of poverty by employment sector, staffs consider it an adequate summary of the information captured in the 2010 household survey. The relative speed with which the data were processed and incorporated into a broader strategy also represents an important improvement in the government's analytical capacity: the poverty profile for the PRSP-II is based on data that are less than two years old, while the poverty profile in the PRSP-I was based on data that were over five years old.

9. **Current trends in poverty reduction reveal that some progress was made under the PRSP-I, but they also highlight the limited connectivity between economic growth and income dynamics.** While the overall poverty-reduction rate was well below the PRSP-I target, other indicators show considerable improvement. Although neither metric was explicitly included in the objectives of the PRSP-I, the Gini coefficient decreased from 49 percent in 2000 to 33 percent in 2010, while the poverty-gap index (*severidade de pobreza*) fell from 9.3 percent to 6.9 percent.

10. **Staffs believe that subsequent poverty analyses should more thoroughly examine the causes of recent poverty reduction in STP and evaluate its linkages to specific PRSP policies and interventions.** Strengthening the poverty assessment in future strategic documents would be an important step in building M&E capacity and using its findings to inform future antipoverty programming. Though highly informative, the PRSP-II's poverty assessment could be strengthened by examining how positive developments in poverty reduction and income inequality were the direct results of PRSP-I policies. The World Bank staff is currently preparing a poverty assessment for STP and will work with the government on strengthening its analysis of poverty dynamics.

III. THE SECOND POVERTY REDUCTION STRATEGY PAPER

A. Macroeconomic Framework and Policies

11. **The government presents two realistic macroeconomic scenarios and related medium-term fiscal frameworks.** Given the large potential impact of STP's nascent oil sector, but recognizing the considerable uncertainty regarding the timing and extent of oil revenues, the PRSP-II includes two macroeconomic scenarios: a baseline scenario in which oil production begins in 2015 and an alternate scenario in which production does not begin during the implementation period. Staffs strongly approve of the government's decision to

use multiple scenarios, each accompanied by a corresponding fiscal framework, rather than basing their medium-term development strategy on expectations that may fail to materialize.

12. **The government’s macroeconomic framework under the baseline scenario envisages a global economic environment that improves gradually during the implementation period, with oil production beginning in 2015.** The assumptions used in the PRSP-II’s baseline scenario are broadly consistent with the IMF’s most recent World Economic Outlook. Staffs regard the projections for key macroeconomic indicators to be appropriate; basing policies on these projections should help the government achieve macroeconomic stability and long-term fiscal and debt sustainability. While the medium-term GDP growth target of 6 percent remains unchanged, staff’s current growth projections for 2012–13 have been revised downwards to 4.5 and 5 percent, respectively, reflecting a lower rate of implementation of donor-financed public investment projects due to continued difficulties in securing financing. The government is strengthening its own capacity to make independent macroeconomic projections with appropriate sensitivity to key economic risks, and the 2013 Budget Proposal includes a revised three-year fiscal framework. Staffs recommend that the government continue updating its macroeconomic framework on a regular basis, including estimating the economic and fiscal impact of potential delays in oil production.²

13. **Staffs agree with the government’s plan to continue to stabilize the domestic primary deficit by accessing concessional financing.** The fiscal objectives of the PRSP-II are consistent with the ECF-supported program. The government’s plan to step up tax collection and mobilize more domestic revenues in advance of the anticipated start of oil production is especially welcome. Strengthening revenue collection by improving the tax and customs administration will be especially important, and it is critical that the government finalize its action plans to modernize the tax and customs administrations in line with the authorities’ policy commitments under the ECF-supported program and incorporate these into its PAP. To enhance fiscal discipline staffs stress the importance of adopting an action plan to address the issue of cross-arrears between the government, the national oil-importing company (ENCO), and the state-owned water and electricity company (EMAE), and prevent the future accumulation of arrears between these entities. Staffs recommend that this action plan also be incorporated into, and budgeted for, in the PAP.

14. **Staffs concur with the government that under the alternative (non-oil) scenario it will be crucial to accelerate efforts to mobilize domestic revenues.** Staffs recommend that the authorities present a detailed strategy in the PAP that describes these measures and quantifies their fiscal impact. The PAP should focus on increasing domestic revenue sufficiently to achieve long-term fiscal sustainability even in the absence of oil-related income.

15. **Staffs recommend that the authorities include an overall cost estimate for the implementation of the PRSP-II and describe how it will be funded.** Given the government’s currently limited domestic resources, and the fact that about 80 percent of STP’s budget is donor-financed, costing the various measures—and prioritizing actions in

² See for example the IMF Country Report No 12/216, Appendix II.

light of their expected cost—will greatly enhance the financial efficiency of the PRSP-II and its ability to adapt to funding contingencies. The government will use the PAP to define specific actions to be implemented in support of the goals of the PRSP-II. It will also be important that the PAP include a precise description of how the intended results will be achieved with the limited resources available and which activities will be given priority if the expected donor funding does not materialize. In this context it will be important to identify and regularly update all financing sources for PRSP-II expenditures, and staffs recommend including this information in the PAP.

B. Macroeconomic Management and Structural Reform

16. **The government’s public financial management (PFM) reform program is broadly adequate, but would be strengthened by greater specificity in terms of policy actions and evaluative benchmarks.** Staffs agree with the need to strengthen the budget-preparation and execution process and promote greater public accountability and more effective financial oversight, and welcome ongoing efforts including the development of an Integrated Financial Management System (IFMIS), “SAFE-e”, which became operational in 2012. However, although it provides a general policy orientation, the PRSP-II would be improved by a description of the specific measures that the government plans to implement to strengthen public financial management and tax and customs administration. Staffs recommend including this information in the forthcoming PAP by drawing from specific medium-term PFM measures recommended in the IMF’s recent technical assistance reports, the Public Expenditure Review prepared by the World Bank, and the Public Expenditure and Financial Assessment (PEFA). Staffs regard the following actions as critical for strengthening PFM systems: (i) developing and implementing a medium-term fiscal framework (MTFF); (ii) improving internal controls and external audit mechanisms; (iii) strengthening commitment and arrears controls; and (iv) improving the government’s administrative and technical capacities in terms of public-sector accounting and fiscal reporting. Actions (ii) and (iii), as well as the modernization of the tax and customs administrations, are also priority areas that the government plans to address in the context of its existing ECF-supported program with the IMF.

17. **With respect to the broader public-sector reform agenda, staffs concur with the authorities’ focus on strengthening government institutions and promoting good governance as the basis for sustainable growth and effective public-service delivery.** It would be beneficial, however, for the authorities to provide more detail regarding their plans to adjust the size of government agencies and the administrative reform measures they intend to implement, drawing from analytical work by the government’s cooperating partners including the World Bank’s recent Country Economic Memorandum. The strategy could be further improved if the authorities would be more specific about their plans to rationalize resource management and increase public-sector labor productivity and efficiency, streamline and computerize government services, and simplify administrative procedures.

18. **One of the key priorities identified in the PRSP-II is natural-resource management, especially transparency in the use of oil revenues and strong oversight capacity in oil-sector institutions.** Staffs support the Extractive Industries Transparency

Initiative (EITI) Work Plan, which identifies actions to be undertaken in preparation for an EITI reconciliation report on oil revenues received by the government in preparation for STP's prospective validation.³ The government plans to work closely with civil society representatives and support their active role as members of the EITI National Committee in monitoring the ongoing reconciliation process.

19. **Strengthening the administrative capacity of oil-sector agencies requires clear mandates, including defining the responsibilities of the supervisor and regulator of oil operations in STP as well as the domestic energy market.** Although building the capacity of the National Petroleum Agency (ANP) is established as a PRSP-II objective, the strategy would be strengthened by including more specific guidance as to how the ANP will fulfill its role of supervisor and regulator. Staffs consider that the ANP should have the authority to ensure compliance with sectoral legislation, including all relevant health, safety and environmental regulations. Staffs regard the following steps as essential: (i) the clear definition of administrative roles and responsibilities described above, with related capacity-building measures complemented by international technical assistance where needed; (ii) a thorough review of ANP's exploration and production strategy to address current challenges in the international oil and gas sector; (iii) the revision of ANP's budget allocation to ensure that the agency's resources will be sufficient to achieve its objectives; and (iv) an assessment of the potential expansion of ANP's regulatory role to encompass fuel-product imports.

20. **Overcoming the lack of adequate physical infrastructure, particularly in the energy, telecommunications and transportation sectors, is identified as an important constraint limiting opportunities for growth and development.** The PRSP-II highlights STP's need to expand its access to information technology and better utilize air and water transport to reduce its isolation, as well as the importance of providing affordable access to electricity. Concerning energy, the PRSP-II presents a strategy to revitalize the sector based on measures aimed at strengthening management capacity in the state-owned Electricity and Water Company (EMAE), as well as undertaking investments designed to reduce the costs of electricity generation and distribution. Based on recent analytical work by the World Bank and IFC, staffs regard that the following steps are critical to improve energy services: (i) enhancing sector governance to support the financial sustainability of EMAE and ensure that it has sufficient access to investment capital; (ii) extending the Energy Regulatory Agency's (AGER) jurisdiction to cover the whole of the electricity and water sectors; (iii) implementing cost-effective tariffs and targeted subsidies; and (iv) progressively decreasing reliance on fossil fuels for power generation.

21. **The arrival of an international fiber-optic cable and the introduction of market competition in the telecommunications industry have the potential to significantly improve the affordability and quality of both international and domestic services, thereby supporting STP's strategy to strengthen regional integration.** In addition to specifying actions to improve transport infrastructure, including investments in the country's international airport and the development of a deep-water seaport, the PRSP-II identifies the

³ "Validation" refers to the initial determination by the Board of the EITI that a country has achieved full compliance with EITI standards.

reform of the telecom sector as key to facilitating sustainable and inclusive growth. The new undersea cable, which became operational in early 2013, will enable the delivery of expanded information and communications services over the medium term. An improved regulatory regime will be essential to ensure that the cost and quality advantages of the new cable will translate into open and affordable access by the whole population. This will require further legal and regulatory reforms designed to ensure respect of the principles of open competition and non-discriminatory access to the new telecom infrastructure represented by the undersea cable. Staffs believe that promoting competition in this sector is critical to encourage technological progress and improve the affordability and quality of telecommunication services in STP, as well as its prospects of regional integration. The government has launched a tender to select a second telecommunications operator (the sector is currently a monopoly) and should also consider adopting universal and non-discriminatory access policies. In this context, staffs regard improved communications capacity, reflected in the general public's ability to access information and affordable international communications services, as fundamental to STP's development by mitigating its natural isolation as a small-island state.

22. **The PRSP-II also recognizes that in order to accelerate sustainable and broad-based economic growth it will be necessary to enhance the investment climate, increase productivity in the agriculture and fisheries sector, and bolster the country's tourism prospects.** Staffs support the objectives of the PRSP-II in terms of simplifying regulatory procedures to reduce the cost of starting a business and facilitate international trade, boosting the productivity of export crops, improving the quality of agricultural production in a context of environmental sustainability, and promoting increased tourism activities. However, the PRSP-II would be improved by a more detailed description of the specific measures that the government plans to implement in these areas. Staffs recommend using the PAP to further specify actions to be undertaken in these areas, drawing from specific medium-term measures recommended in recent IFC Investment Climate Assessments as well as the World Bank's most recent Country Economic Memorandum.

C. Social-Sector Policies and Cross-Cutting Issues

23. **The PRSP-II recognizes that the success of its growth and diversification agenda and the achievement of its poverty-reduction objectives will require broad and sustained improvements in human capital.** The PRSP-II demonstrates an impressive sensitivity to the condition of STP's educational and public health systems. It offers a detailed description of the problems affecting each sector and goes on to examine an impressive range of cross-cutting issues, including water and sanitation, environmental quality and gender equity. Staffs commend the government on its thorough, nuanced, and forthright appraisal of the complex challenges facing STP.

24. **The authorities have made considerable strides in improving education indicators since the adoption of the PRSP-I, but important challenges remain.** Access to primary education has increased rapidly, exceeding even the government's ambitious targets. Yet serious quality concerns, due in large part to insufficient materials, obsolete facilities and a lack of well-qualified teachers, remain a major obstacle. This is especially true for

secondary and tertiary education, which the PRSP-II recognizes as vital to the country's long-term economic competitiveness.

25. **Public health indicators have exhibited similar trends, and the sector also faces challenges.** Healthcare coverage has expanded significantly, and impressive improvements have been registered in a number of indicators, including substantial decreases in infant and maternal mortality and a dramatic decline in malaria incidence. Overall service quality, however, remains relatively poor, and the availability of more sophisticated treatments is limited. As with education, healthcare quality is compromised by a lack of adequate facilities, equipment, highly trained staff, medical supplies and other essential infrastructure. The PRSP-II ascribes the deficiencies in both the public health and education systems to a lack of resources; staffs commend the government on its sustained commitment to increasing funding for public health and education and regard its recent achievements in these areas as a direct result of increased financial support on the part of both the government and its cooperating partners.

26. **The PRSP-II offers a candid assessment of gender-based inequalities in STP, covering their political, economic and social dimensions.** The portions of the strategy dealing with gender—as well as youth development, social protection, population growth, environmental quality and other cross-cutting issues—demonstrate an informed assessment of the complex challenges facing STP. It would be beneficial for the forthcoming PAP to further specify relevant policy prescriptions, detailing how the government plans to address these challenges.

IV. IMPLEMENTATION FRAMEWORK, MONITORING, AND EVALUATION

27. **The success of the government's strategy will require providing a set of mandates to its implementing agencies that is clear, well-sequenced, and appropriate to the available resources.** Responsibility for implementing PRSP-II programs and interventions has been vested in a set of focal-point groups (*pontos focais*—FPs) operating under the authority of the government's Poverty Monitoring Unit (*Observatorio da Pobreza*—PMU), which was established in 2008 to supervise the implementation of the PRSP-I. FPs have been formed at multiple levels of the public administration, from the national level (coordinating actions by line ministries and central government agencies) to the district level (coordinating actions by local and municipal authorities) and include a special FP for the autonomous region of Príncipe. These groups comprise members of the government, agency officials, and representatives from the private sector and civil society; their mandate encompasses both the implementation of PRSP-II activities and the collection of key M&E data, which are to be reported to the PMU.

28. **Staffs regard the existing administrative mandates for implementing the PRSP-II to be broadly appropriate, but recommend that the authorities strengthen the government's M&E capacity.** The government's evaluation of the PRSP-I noted a number of limitations that must be overcome in order to provide thorough and accurate oversight of PRSP-II activities. Although notable improvements have been made in recent years in a number of important areas, including the establishment of a comprehensive computerized statistical database (DevInfo) at the National Statistical Institute and the completion of the

2010 household survey, little progress was made during the implementation of the PRSP-I in building the technical capacity of relevant agencies. Previous IMF-World Bank staff assessments on the implementation of the PRSP-I⁴ noted the lack of effective mechanisms for recording changes in relevant indicators and incorporating feedback into ongoing programs as a serious obstacle to achieving the strategy's objectives.

29. **Staffs recommend strengthening the country's statistical capacity and more clearly defining the authority and responsibilities of both the PMU and FPs in the PAP.** Though in principle the PMU/FP system provides a sound framework for data collection and analysis, in practice it has proven inadequate to ensure effective M&E. A combination of weak technical capacity and limited institutional authority compromised the PMU and FP's ability to execute their M&E functions. Insufficiently clear institutional mandates resulted in irregular data reporting by the implementing agencies, while a lack of strong statistical capacity constrained the PMU's ability to process and publish timely and accurate assessments of progress on PRSP indicators. Staffs stand ready to support the authorities in developing a detailed and pragmatic PAP to guide the implementation of the PRSP-II, including the clear codification of institutional powers and responsibilities, especially those regarding data collection and reporting requirements. In addition, staffs recommend including a plan in the PAP for strengthening the statistical and analytical capacities of the PMU and continuing to improve the efficiency and scope of operations at the National Statistical Institute.

30. **In terms of national-level data collection, staffs welcome the preparation of a new nationwide census and strongly recommend that a new household survey be completed before the end of the PRSP-II implementation period.** Previous household surveys were conducted only once per decade, but the shorter implementation timeframe of the current strategy demands that a new household survey be conducted upon (or shortly before) the completion of the PRSP-II in 2016. The government currently plans to complete a new national census in 2013. Collecting national-level data on relevant indicators will be critical not only to assess progress on PRSP-II objectives against the government's stated goals, but will also be a necessary step in producing a new poverty profile to guide the development of a subsequent poverty-reduction strategy—just as the 2010 household survey was instrumental to the formulation of the current PRSP. Preparing and executing a new survey so shortly after the census and only six years after the previous survey will serve as an important test of the government's national data-collection capacity. It will also provide an opportunity to permanently shift the household-survey schedule to shorter multiyear intervals, which will represent an enduring improvement in national-level M&E.

V. RISKS AND CONCLUSIONS

31. **The PRSP-II provides a concise description of the principal macroeconomic risks, both external and domestic, including unpredictable budget-support inflows that may impact the government's ability to achieve its medium-term development**

⁴ See, e.g., the JSAN that accompanied the government's 2008 Annual Progress Report on the implementation of the PRSP-I.

objectives. Domestic risks are largely related to the uncertainties inherent in the oil-exploration process and in the timing and extent of prospective oil revenues. Staffs consider these risks to be adequately accounted for in the non-oil macroeconomic framework and associated projections included in the PRSP-II. External risks are both more complex and more difficult to accommodate, as they stem from the ongoing European sovereign debt crisis and its unpredictable impacts on both international trade and budget-support flows, as well as from STP's structural sensitivity to global food- and fuel-price shocks. STP's ability to build resilience in these areas is inherently limited, but staffs regard the PRSP-II's fiscal and debt-management objectives to be fundamentally responsible and circumspect, reflecting an accurate understanding of STP's macroeconomic vulnerabilities and prudently attempting to compensate for them.

32. **Political disagreement or legislative gridlock could threaten the pace of the structural reform agenda and consequently represent an implementation risk.** STP is a functioning multiparty democracy and, as such, enduring political consensus cannot be taken for granted. The risk of a delay in the pace of reform due to political disagreement is partially mitigated by the participatory process through which the PRSP-II was prepared and the broad consensus among the major political parties regarding the need to advance its structural reform agenda. Staffs will continue to work closely with the government and other cooperating partners to support the implementation of PRSP-II at both the national and sector level through frank and open dialogue.

33. **Overall, staffs regard the PRSP-II as an adequate foundation for achieving the government's medium-term growth and poverty-reduction objectives.** The PRSP-II's goals are ambitious but attainable, the government's growth strategy is rooted in a fundamentally sound macroeconomic and fiscal framework, and its poverty-reduction strategy is predicated on a thorough and candid poverty assessment that demonstrates a sophisticated understanding of complex cross-cutting issues. The PRSP-II includes a list of policy reforms that will support the transformation of STP's economy, but there is also a clear need to prioritize and sequence these policy reforms, to develop a comprehensive financing plan, and to link key policy actions with performance indicators that could be measured periodically by the authorities. It is critically important that these issues be addressed in the forthcoming Priority Action Plan, and staffs would welcome the opportunity to continue their close collaboration with the government in this regard. World Bank support will be provided through policy advice and the reform measures supported by its current Development Policy Operation series, coupled with ongoing and planned operations linked to the PRSP-II's strategic pillars. The IMF will continue to provide support through policy advice and financing under the ECF arrangement, complemented by targeted technical assistance to further strengthen the authorities' capacity for macroeconomic management and statistical analysis.

34. **In their review of the PRSP-II and accompanying JSAN the Executive Directors may wish to consider the following questions:**

- Do the Executive Directors concur with the staffs' assessment of the appropriateness of the PRSP-II's macroeconomic framework? Do the Directors agree that the

inclusion of two macroeconomic scenarios and corresponding fiscal frameworks adequately addresses the inherent uncertainty of future oil production?

- Do the Directors agree that the PRSP-II's poverty-reduction objectives are feasible given current macroeconomic projections? Do the Directors regard the government's strategy as fundamentally suitable to achieving those objectives?
- Do the Directors concur with the staffs' evaluation of the poverty profile that underpins the PRSP-II, particularly its treatment of cross-cutting issues, and agree that it will provide a sound analytical basis for the government's ongoing poverty-reduction efforts?
- Do Directors agree with staffs' assessment of risks to the implementation of the PRSP, in particular the risks to the macroeconomic outlook? Do Directors concur with staffs' recommendation that to address the financing risk to the implementation of the PRSP-II, the authorities need to establish the overall cost of the PRSP-II implementation and how it will be funded?
- Do the Directors agree that the areas for improvement in the PRSP-II identified by this JSAN can be adequately remedied in the forthcoming Priority Action Plan, and that this represents a valuable opportunity for continuing support and collaboration between staffs and the government?