

**INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND**

GUINEA

**POVERTY REDUCTION STRATEGY PAPER—SECOND ANNUAL PROGRESS REPORT
JOINT STAFF ADVISORY NOTE**

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

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August 23, 2006

I. OVERVIEW

1. **Guinea's Poverty Reduction Strategy Paper (PRSP) was distributed to the Executive Boards of the IDA and the IMF early in 2002.**¹ The joint staff assessment concluded that Guinea's PRSP set out an adequate framework for fighting poverty, and that it was the result of high-level political commitment, strong country ownership, and extensive consultation. The staffs at the time also concluded that:

- The strategy presented well-defined, though ambitious, poverty reduction objectives.
- If it was to be implemented successfully, several gaps in information (related to the size and structure of poverty) would have to be filled.
- It was subject to significant risks, including some outside the government's control.

¹ www.imf.org, www.worldbank.org: "Poverty Reduction Strategy Paper," January 2002.

2. **Guinea's second Annual Progress Report (APR) on implementation of its Poverty Reduction Strategy (PRS) was substantially completed in December 2005.**² The APR covers 2004 outcomes. This JSAN, however, offers some discussion of policies beyond 2004, especially concerning macroeconomic policies.³ The report identified several weaknesses in a number of policy areas as retarding progress on the PRS, including macroeconomic policies, administration of public finances, and governance. Although Guinea has made some progress in these areas since early 2005, especially on macroeconomic stabilization, not only is the country's administrative capacity still weak but the weakness is compounded by a fragile political situation. As a result, the environment for implementing the PRS is difficult and volatile. Yet the PRS has been playing a noticeably important role in the policy discussions on development in Guinea and has enjoyed strong ownership since its inception.

3. **The APR builds on the recommendations offered by the preceding JSAN, issued July 2004.** It clearly identifies the shortcomings in macroeconomic management as a key hindrance towards effective implementation of the poverty reduction strategy. The government addressed crucial economic issues in the context of the IMF staff-monitored program, which covered the period April 2005 to March 2006. While the report shows how the government has made inroads on the follow-up of the other recommendations, including on governance and monitoring of poverty, numerous points raised in the past JSAN remain to be tackled, as noted below. However the government is working with its partners to address these shortcomings gradually, foremost on improving access to basic services and the effectiveness of public spending.

II. Accelerating Economic Growth

4. **Guinea's economic conditions deteriorated in 2004.** Shortly after the PRSP was adopted in 2002, Guinea relaxed fiscal and monetary policy discipline as security conditions in the subregion worsened, export prices weakened, and national elections approached. This weaker economic policy environment, described in the APR, and the ensuing deterioration of economic governance retarded implementation of the PRS, undermined macroeconomic stability, and contributed to an estimated increase in the incidence of poverty from 49.3 percent in 2002 to 50.1 percent in 2004. In response, early in 2005 the authorities adopted tighter economic policies, which were supported by a staff-monitored program (SMP). These policies led to a sharp reduction in the fiscal deficit (excluding grants), which declined from 5.9 percent of GDP in 2004 to 1.4 percent of GDP in 2005. Staff believes that the application of prudent macroeconomic policies and the improvement of governance, together with an inclusive and open dialogue with civil society groups, are essential to enhance Guinea's ability to achieve the objectives of the PRS.

5. **The second APR of the PRS underlines the need to restore macroeconomic stability and improve governance to promote sustainable growth and meet the PRSP's objectives:**

² www.imf.org, www.worldbank.org: "Second Progress Report on the Poverty Reduction Strategy," Ministry of Economy and Finance and Permanent Secretariat for the Poverty Reduction Strategy, Conakry, January 2006. The First Annual Progress report was submitted in April 2004. The second APR was formally transmitted to IMF and World Bank management in March 2006, to allow for inclusion of a revised macro-framework for 2006 to 2008.

³ The progress report covering 2005 outcomes is being prepared.

- **Weaknesses in macroeconomic policies have constrained the authorities' ability to address poverty reduction.** Notably, inadequate revenue mobilization, including from the mining sector, severely limited the scope for more poverty-related spending, while accommodative monetary policies pushed annual average inflation up from 12.9 percent in 2003 to 17.5 percent in 2004.
- **Lax administrative and economic management undermined application of the medium-term expenditure framework (MTEF)** in priority ministries and in the coordination of sector policies.
- **Failure to improve basic infrastructure services—notably the supply of electricity—increased constraints on growth and poverty reduction.** However, the second APR avoids a frank assessment of the causes of the poor performance and does not offer policy recommendations.
- **The range of other governance problems is wide.** It would have been useful if the APR had focused on the need for better and more effective control of the budget and for sanctions against corrupt officials who take advantage of their public position. It does appropriately highlight the need to improve the business climate by tackling corruption and poor governance.

6. **The government's macroeconomic framework for 2006-08, described in the APR and now being implemented, underlines the government's commitment to macroeconomic stabilization and poverty reduction.** The main medium-term macroeconomic targets are to achieve an economic growth rate above 5 percent, single-digit inflation, and a sustainable external position. These targets are consistent with the proposed prudent fiscal and monetary policies (see Annex 7 of the APR). Revenue mobilization and expenditure control efforts will help further reduce the overall government deficit in 2006. At the same time, a prudent monetary policy will be implemented. A range of structural measures would help to improve basic infrastructure and stronger governance. Moreover, despite continued financial constraints in 2006, spending on priority sectors will still rise moderately as a share of total budgetary expenditure.

7. **The authorities' medium-term economic program is subject to a number of risks.** Expected financing from major donors as well as debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) would provide adequate levels of financing to implement the authorities' macroeconomic program, and critically depends on the approval and satisfactory implementation of an arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF). There are, however, also risks to program implementation, which are related to the volatile political situation, poor governance, weak implementation capacity in some policy areas, and regional instability.

8. **The staffs concur with the APR view that improving conditions for agriculture, mining, and export diversification, the prime drivers of growth, will help Guinea to accelerate its progress toward poverty reduction.** For agriculture (including fisheries), the report identifies major problems—among them access to credit, transport and storage, and natural events and health-related concerns like plagues—and comments on the lack of adequate support for training, dissemination of research, extension services, and other elements that could raise productivity, but the APR provides

no policy guidance on how to respond. In discussing mining, the APR did not mention the fiscal revenue losses implied by wide-ranging tax exemptions, the distortions introduced by the abundant regulatory discretion allowed by current laws for investment in mining, and the discriminatory impact of these policies on non-mining investment. A review of the legal framework for mining and its administration is urgently needed. The APR would have benefited from an explicit reference to the recommendations made in the Diagnostic Integrated Trade Studies; this could usefully be undertaken in future APRs, in particular indicating how these recommendations are being applied in the poverty reduction strategy. Full integration of these recommendations and the policies that will be pursued to diversify exports should be an important part of the updated PRSP.

9. **In the APR, the authorities emphasize progress toward long-term fiscal sustainability.** Against this background Guinea must improve revenue performance to allow priority expenditures to increase. The new tariff reform, which brings the Guinean external tariff in line with the one applied by the West African Economic and Monetary Union (WAEMU), is a step forward, as is the APR's call for measures to increase revenues from mining. Planned revenue reforms in the mining sector and elsewhere are expected to increase fiscal revenues from 10.4 percent of GDP in 2004 to an average of about 13 percent of GDP over the period 2006-2008, which is still below Guinea's potential and the average performance reached by countries in the region. Technical assistance from donors will be needed to strengthen the government's efforts.

10. **The APR rightly emphasizes the need to strengthen the management of public resources and direct the national budget to the achievement of PRS objectives.** This will require specific measures to improve budget formulation, execution, and control, governance, as well as domestic and external debt management. It will also require stepped-up efforts on MTEFs and a budgeting approach that better links PRSP priorities with annual budgets. Improving the quality of spending through program budgeting, adhering strictly to budgetary procedures, strengthening financial accountability and addressing weaknesses in public debt management will be essential. Unfortunately, the APR falls short on specifics in these areas.

III. MONITORING OF THE POVERTY REDUCTION STRATEGY

11. **PRS implementation needs to be better monitored.** As the APR rightly points out, progress toward objectives currently cannot be adequately monitored because there is a lack of intermediate input/output indicators linking policies and budget allocations in such priority areas as education, health, and agriculture. Recent government initiatives to update sector policies may make it possible to identify such indicators. The second PRSP, planned for late 2006, should incorporate monitoring and performance indicators that are consistent with the MTEF and are clearly results-based. This will require the authorities to make progress on the analytical foundation of main poverty reduction objectives in order to improve the quality of the PRSP and its process.

12. **Simplifying and updating the poverty indicators based on the 2002 household survey, as the APR recommends, will help to enhance the quality of monitoring.** However, to make effective use of these new indicators, the staffs agree that assistance is urgently needed to strengthen the statistical capacity of the Permanent Secretariat for the Poverty Reduction Strategy and the National Statistical Office.

13. **Public expenditure in priority sectors needs to be better tracked so that policy performance can be monitored.** The 2003 public expenditure tracking surveys (PETs) for health and education were an important first step but need to be repeated regularly to address weaknesses in budget execution. A similar PET in the agriculture sector would also be useful. This APR would have been an excellent opportunity to report on the PETs' conclusions; the next APR should certainly do so.

IV. PROMOTING ACCESS TO BASIC SERVICES

14. **The APR gives a positive assessment of Guinea's progress in education especially primary education.** Yet while Guinea could achieve 100 percent gross enrollment by 2015, it is unlikely to meet the education Millennium Development Goals (MDGs). Staffs estimated gross enrollment in primary schools in 2004–05 to be 82 percent (72 percent for girls). This enrollment rate is not sufficient to meet the 100 percent completion rate in primary education by 2015 (the actual MDG). Moreover, the lack of transparency and predictability in the amounts and allocation of education resources and the difficulty of paying for the additional teachers needed could undermine progress. Expenditures on education are low and had declined as a share of GDP from 2.3 percent of GDP in 2003 to 1.5 percent of GDP in 2004, before recovering to about 2 percent of GDP in 2005 (as compared to an average 3 percent of GDP for sub-Saharan African countries). More resources for the sector and better allocation are needed to improve quality and meet demand.⁴ Failure to address the problems could put at risk achievement of the PRS targets in education.

15. **The APR does not respond to questions about the health sector that were raised in the Public Expenditure Review (PER) and by the last Joint Staff Assessment (JSA).**⁵ The PER found public financial management in the health sector to be a major concern. The PRS target for spending on health was 10 percent of public expenditures. The APR recognizes that public spending actually decreased from 3.4 percent of total expenditures in 2003 to 1.7 percent in 2004, while recovering to 3.8 percent in 2005. If donors had not borne the vast majority of the cost, the sector's results could not have been maintained. Moreover, only about 20 percent of the budgeted nonsalary expenditures intended for health centers reached their target; the shortfall clearly undermined the quality of services and the availability of drugs. Recruitment of administrative staff is disproportionate compared to that of health care workers. Obtaining financial resources and technical staff in a timely fashion are essential to achieving health objectives.

16. **The APR calls for increased attention to the HIV/AIDS pandemic.** The staffs recognize the government's efforts to decrease the price of antiviral medicines from GNF 240,000 to GNF 35,000, but with an HIV prevalence rate of about 1.5 percent, the report should also have assessed HIV prevention policies. No information is provided about the number of HIV orphans, a question raised in the previous JSA, or the types, costs, and future financing requirements for programs now underway. The APR would have been stronger if it had updated these figures and given information about decentralized expenditures, progress toward a clean blood supply, reduction in opportunistic infections, and assistance to AIDS orphans.

⁴ The pupil-teacher ratio deteriorated from 42 in 2001–2002 to 45 in 2003–2004.

⁵ www.imf.org, www.worldbank.org: "Poverty Reduction Strategy Paper Joint Staff Assessment," July 1, 2002.

17. **The staffs concur with the APR's call for urgent improvements in water and electricity services.** The PRSP rightly identified poor access to water and electricity as a very important impediment to poverty reduction in Guinea. Yet, since 2002, water access has generally stayed steady at 64.3 percent of the population and electricity access at 18.8 percent of the population. The APR does not give any explanation for the lack of progress and does not discuss the serious quality and management shortcomings that have caused this stagnation. It will be important in the upcoming APR and PRSP to discuss the economic viability of the enterprises managing the two sectors and the need for improved cost recovery and tariff reforms

V. AGRICULTURE AND RURAL DEVELOPMENT

18. **The APR highlights progress in food security.** Smallholder farmers have adopted new varieties and new farming practices; the sector also benefits from increased productivity, strengthened services and targeted support to vulnerable households, promotion of offshore fishing and commercial farming, and improved access to markets. While all this has helped to reduce food insecurity in rural areas, other poverty reduction programs crucial to the long-term sustainable productivity of smallholder agriculture are largely unfunded. A renewed emphasis on productivity-enhancing measures for small-holders—the vast majority of the rural poor—is recommended.

19. **Though the APR describes rural sector and policy reforms, it does not assess the outcomes of related programs.** The assessment is quantitative (crop and livestock production figures, kilometers of rural roads maintained/renovated); there is no analysis of impact on productivity and how the projects listed are likely to reduce poverty. There is also a lack of explanation of what has been achieved in forestry. The staffs recommend that the government soon evaluate its forestry policies to prepare for a revised strategy that relates policies and poverty reduction objectives.

VI. PROMOTING GOVERNANCE

20. **The broad discussion in the APR of governance weaknesses and corruption issues is welcome.** The staffs agree with the report's recommendation that future APRs should discuss progress in addressing governance issues, which is a key cross-cutting obstacle to sustainable development in Guinea. In this context, the staffs welcome the government's adherence in May 2005 to the Extractive Industries Transparency Initiative (EITI), given that the mining sector accounts for about 25 percent of Guinea's public revenues, as well as the important reforms now underway to improve public expenditure management, including in the area of procurement, which the APR could have noted. The staffs thoroughly support the APR's call for a stronger role for governance in the current and future PRSs; they call on the government to seek the assistance of its development partners to help the authorities to make sound improvements in governance.

21. **The APR notes that institutional capacity to improve governance and combat corruption needs to be reinforced.** The authorities are working to strengthen the financial and human capacity of the National Agency to Combat Corruption (ANLC) so that it can fully execute its functions as coordinator of national policy on fighting corruption and improving governance. Other institutions, like the State Inspection Unit (IGE), will also need strengthening to become more effective in improving governance. The government is planning a comprehensive reform of the legal system—including training judges, which the APR considers a priority—but has limited financial

resources. The staffs recommend that the government seek the assistance of the donor community in tackling this issue.

VII. CONCLUSION

22. **The APR highlights many of the results achieved by the current PRS and some of its weaknesses and implementation constraints.** The APR is comprehensive in its coverage; it warns of the main risks ahead; and it points to areas for further improvement, especially in economic management and governance. Because these areas should form the agenda for future work, the staffs recommend the following:

- Avoid stop-and-go macroeconomic policies and ad hoc decisions, while ensuring that the composition of expenditure is shifted toward sound pro-poor expenditures.
- Use the APR process to identify policy weaknesses related to governance and public service delivery, especially access to basic services like electricity and water, and set out appropriate policy responses. As part of this process, seek a dialogue with civil society and development partners to identify measures to improve governance in Guinea.
- Improve policy implementation in the health and education sectors, including by strengthening the budget management process and by allocating an appropriate level of resources.
- Clearly link policies and poverty-reduction strategies to policy targets and outcome indicators. The upcoming discussion of the second PRSP should provide for a more comprehensive framework in this regard, as well as an opportunity to make progress in costing the MDGs.
- Strengthen capacity to monitor policy and PRS outcomes to facilitate the central role of the PRS as both policy document and tool to coordinate policies. To do so, it will be necessary to upgrade the national statistical system.