

Guinea: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper for Guinea prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND AND
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GUINEA

Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper

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And the International Development Association (IDA)

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I. Overview

1. **This Joint Staff Advisory Note (JSAN) reviews the second Poverty Reduction Strategy Paper (PRSP-II) covering the period 2007–10 prepared by the Government of Guinea.** The PRSP-II was prepared through a participatory process, drawing on lessons learned from the PRSP I implementation, and validated through a national conference with representatives from all regions and from civil society. It was approved and distributed by the government in August 2007.

2. **The PRSP-II acknowledges the disappointing outcome of the first PRSP, which covered the period 2002–06.** The political, social and economic environment in which it was implemented, was characterized by poor governance, political instability, high inflation and low growth; as a result, poverty increased from 49 percent in 2002 to an estimated 54 percent in 2005.¹ Living conditions for most Guineans worsened, and public service delivery deteriorated in terms of both quantity and quality.

3. **The worsening of social and economic conditions culminated in popular unrest and lead to the appointment of a reform-minded government.** A third nationwide strike in 12 months took place in January 2007, resulting in more than 100 deaths and eventually in an agreement by President Conté to appoint a prime minister acceptable to civil society and labor unions. A new government under the leadership of Prime Minister Lansana Kouyaté was formed on March 28. The government pledged to carry out fundamental reforms to restore good

¹ Estimates of 2006 poverty data are expected to be available by late 2007.

governance and promote sustainable growth, employment and poverty reduction and drew up an emergency program to address urgent short term needs. Guinea's development partners gave this emergency program substantial support in July 2007 at a special Donors' Forum in Paris, during which the key elements of PRSP-II were also presented. PRSP-II was initiated under the previous government and updated by the new administration after further broad domestic consultations.

4. **The objectives of the PRSP-II aim at recapturing ground lost over the past five years so that the Millennium Development Goals (MDGs) can be reached.** The strategy has three pillars: (i) improving governance; (ii) accelerating growth and increasing employment opportunities; and (iii) improving access to basic services. It covers many important economic, institutional, and structural reforms as well as mechanisms to reinforce the democratic process. Some of the objectives quantified appear overly ambitious, given Guinea's still fragile situation and weak implementation capacity. The staffs therefore recommend that in the annual reviews of PRS implementation, refining and updating the objectives in light of implementation experience should be given careful attention. Such updates will be supported by the government preparing longer-term sectoral development strategies that would strengthen the link between the current PRS and achievement of the MDGs.

5. **This JSAN presents the views of IMF and World Bank staffs on priority areas for strengthening PRSP-II as it is implemented in the next years with particular attention to three core elements:** (a) poverty diagnosis; (b) targets, indicators, and monitoring; and (c) priorities for government action.

II. Poverty Trends

6. **Deep and widespread poverty marks the starting point for Guinea's second PRSP.** Per capita income declined from US\$379 in 2002 to US\$332 in 2006; over half of the population is now below the poverty line. One of the poorest countries in Africa, Guinea ranks 160th out of 175 countries in the 2006 UNDP Human Development Index. The rural poor constitute the large majority (over 80 percent) of Guineans living in poverty and their number is increasing. Urban poverty, although less prevalent than rural poverty, is also estimated to have been on the rise since 2002.

7. **Although the PRSP-II acknowledges that meeting the MDGs would be a significant challenge, it does not discuss avenues to address some of its most stringent challenges.** Guinea has had some success in improving access to education, notably for girls and for the rural poor; net enrolment improved from 57 percent in 2001/2002 to 63 percent in 2005/2006, and Guinea could meet the MDG target on enrollment and gender equality in primary education by 2015. However, it is unlikely that all Guinean boys and girls will complete primary education by then. All other MDGs are also unlikely to be met. In particular, the document does not discuss the lack of progress in reducing maternal mortality rates, even though Guinea has one of the highest rates in the world (980 deaths per 100,000 deliveries) and there is a dearth of midwives

attendants who are crucial to improving ante-natal, delivery, and post-natal care. The staffs recommend that the problem of maternal mortality be given more attention, especially the contributory role of the widespread practice of female genital mutilation.

III. Macroeconomic Developments and Growth and Employment Policies

8. **Despite notable potential in mining and agriculture, Guinea's macroeconomic situation deteriorated between 2002 and 2006.** Although the mining sector attracts strong foreign investor interest, and Guinea has an underexploited growth potential in agriculture, average annual growth from 2002 through 2006 reached only 2.7 percent—the target was 5 percent—and inflation hit close to 40 percent by 2006. Central bank gross foreign reserves have been substantially depleted, and external arrears have continued to accumulate. Moreover, the poor macroeconomic track record delayed the delivery of debt relief and the return to public external debt sustainability.

9. **Since April 2007, the government has begun to stabilize the economy by tightening fiscal and monetary policies.** Its major accomplishments have been reducing the public deficit significantly, avoiding central bank financing of the government, and eliminating extra-budgetary spending. These efforts brought inflation down to 17 percent in September 2007, and the Guinean franc has appreciated in value since the end of 2006.

10. **The macroeconomic objectives in PRSP-II are broadly consistent with the most recent medium-term macroeconomic framework.**² The framework underpinning the PRSP-II is projected to lead to a resumption of growth to around 5 percent a year up to 2010, a rapid decline in inflation to single digits, and a reconstitution of international reserves. Attaining these objectives would make it much easier to implement the poverty reduction strategy. Moreover, reaching the completion point under the Heavily Indebted and Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) would release funds for much needed poverty reduction expenditure and public investment. Staffs encourage the government to continue its efforts to stabilize the economy, notably by improving revenue mobilization (medium-term government revenue targets are quite ambitious) and expenditure management while maintaining disciplined monetary policy. In addition, to maintain a prudent external debt management, financing should be in the form of grants or only on concessional terms in order to avoid a buildup of external debt.

11. **Public finance management (PFM) reforms are critical to the attainment of the MDGs.** The poor quality of the public expenditure cycle undermined the impact of public spending on poverty reduction in PRSP-I. The PRSP-II rightly identifies the deficiencies of the medium-term expenditure programming process but does not sufficiently stress the negative role of inappropriate budget execution and accounting procedures and controls and of recourse to off-budget spending. On budget preparation, given the large gap between available funding and the

² This framework is presented in the IMF's staff report on Guinea 2007 Article IV consultation and request for financial support under the Poverty Reduction and Growth Facility.

likely cost of the measures in the PRSP, prioritization of the projects is essential to guide spending over the medium term. The staffs encourage the government to use the Public Expenditure and Financial Assessment (PEFA) and Fund recent technical assistance reports for guidance on public expenditure tracking (including poverty-reducing spending), accounting, strengthening of internal and external controls, and transparency of the budget implementation process. They welcome the authorities' intention to elaborate a multi-year action plan for PFM reforms by year-end and to strengthen the coordination of donors' PFM technical assistance. Also, they recommend that the next APR review the status of the ongoing procurement reform.

12. The staffs support the PRSP-II's emphasis on supporting private sector-led growth and on directing public spending to support productive sectors, but believe that the strategy needs more detail on how to attract private investment and foster private sector productivity growth. While Guinea's rich natural resources attract large mining investments, there is little private investment outside that sector. Private investors face significant challenges in doing business due to the lack of an adequate infrastructure (notably for electricity, water, and rural roads); the poor quality of public institutions and rule of law; and burdensome and costly business regulations; and considerable red tape.³ Regulatory capacity needs to be strengthened in order to stimulate competition and reduce the role of the state in the functioning of markets. The staffs recommend that detailed and prioritized reform actions be defined to address key constraints for the private sector, drawing *inter alia* on the analysis and recommendations of the Development Policy Review recently completed by the International Development Association (IDA).

13. Staffs recognize the significant potential of agriculture in setting the stage for accelerated and more inclusive economic growth in Guinea. They recommend that the government move aggressively to put in place the building blocks for a more dynamic agriculture sector; the recent government letter on sector policy provides a good point of departure. Staffs look forward to supporting government's efforts in this area.

IV. Improving Governance

14. The PRSP-II identifies weak governance as a major reason for the lack of progress in poverty reduction. The recent World Bank-financed survey of governance and corruption perception in Guinea testifies to widespread corruption and governance issues in the country. The staffs support the government in its broad-based approach to improving governance. They encourage the government to work closely with civil society and seek the support of its development partners, especially in its efforts to improve economic management and the judicial system, where capacity building would be particularly beneficial. Staffs encourage the Government to pursue its efforts to curb corruption in service delivery, notably in electricity

³ The World Bank's *Doing Business Indicators 2006* discusses the high cost of business operation in Guinea. <http://www.doingbusiness.org> .

provision, and to adopt similar initiatives in other sectors such as water. Future progress reports would benefit from a discussion of progress and constraints under such initiatives.

15. **The staffs note that PRSP-II includes measures and objectives to improve the management of the country's natural resources.** They recommend reporting in future APRs on progress the government makes to strengthen natural resource management and transparency—including, the implementation of the Extractive Industries Transparency Initiative (EITI) exercises for 2005 and 2006 and progress in reform of the mining code and mining taxation.

16. **The PRSP-II notes that the institutional capacity to monitor governance issues and combat corruption is inadequate.** It argues for reinforcing the institutional control mechanism of the state to improve governance—including the National Assembly, the Supreme Court, and the various advisory councils for economic and political issues. The staffs believe that other oversight institutions, like the State Inspection Unit (IGE), the State's Financial Inspection Units (IGF), the Chamber of Accounts, and the National Agency to Fight Corruption (ANLC) need reinforcing, more independence and adequate resources. They also recommend that the government ensure that these institutions engage actively in dialogue with civil society and the media on governance issues.

17. **The staffs urge the authorities to implement the envisaged decentralization in a gradual but resolute way and carefully supervise the program.** Following the example of other countries in the region, and building on the positive experience of local community development in Guinea (PACV) and the *Education for All Initiative*, education might well be the first sector for strengthened decentralization. Decentralization could help in better targeting, especially disadvantaged areas. The IDA recently issued a report on decentralization in Guinea that offers policy advice. The staffs recommend that an assessment on progress made in decentralization be conducted in the context of the next APR.

V. Promoting Access To Basic Services

18. **Achieving the targeted completion rate in the education sector will require considerable financial and human resources.** As noted above, progress in primary education access and gender equity will not necessarily translate in achieving the targeted completion rates. The PRSP-II acknowledges the poor quality of much of the current education system and the proposed strategy strikes an appropriate balance between the need to substantially increase public resources devoted to this sector and measures for improving quality in education. Staffs urge the authorities to closely monitor progress in this area.

19. **The PRSP-II lays out ambitious and comprehensive objectives for the health sector but does not present a detailed roadmap to achieve them.** Staffs believe that the overall thrust of the health strategy is in the right direction, but a detailed action plan and medium-term quantitative spending targets and outcomes will be necessary to reverse significantly the neglect of the sector, whose share of public expenditure has been declining since 2002. Also needed are

specific measures to motivate health workers to service remote places in Guinea and ensure effective and secure distribution of pharmaceuticals. The staffs recommend close monitoring of results in order to identify needed policy adjustments.

20. **The authorities are to be commended for their success in containing the HIV/AIDS pandemic under PRSP-I—a success they aim to consolidate under PRSP-II.** The latest estimates show the HIV/AIDS prevalence rate at 1.5 percent of the active population, with rates significantly higher in urban areas. Consistent with the government’s intention to lower the prevalence rate further, the staffs recommend more precise targeting based on epidemiological evidence and also more intensive prevention and other campaigns.

21. **The staffs welcome the emphasis in PRSP-II on improving access to clean water and electricity services as a key development priority.** The staffs encourage the authorities to develop a clear financial and institutional strategy for the restructuring of these sectors’ public utilities. Water and electricity services, largely limited to Conakry and a few other cities, are provided by two inefficient and poorly-managed state-owned enterprises, Electricity of Guinea and the Guinean Water Company. There are frequent service interruptions, and users have to develop expensive and inefficient service substitutes. The PRSP-II objectives are ambitious—access to electricity is expected to improve from 18 percent of the population in 2002 to 65 percent by 2010, and access to potable water to increase from 62 percent to 93 percent by 2015. Progress on those targets will require aggressive efforts to put the two utilities on a sound footing, government action to combat fraud, regular tariff adjustments, extensive investments, and close monitoring of performance indicators.

22. **The fragile social environment in Guinea calls for targeted social protection policies.** The authorities plan to support employment promotion programs, especially targeted at youth in urban areas. The staffs recommend that carefully prioritized and targeted interventions for employment promotion and other social protection interventions be designed and integrated in the poverty reduction strategy; subsidies should be well-targeted and consistent with the overall fiscal framework.

VI. Monitoring and Evaluation and Implementation Risks

23. **The staffs support the authorities in their pursuit of a broad and transparent PRSP monitoring process.** Weaknesses in Guinea’s monitoring capacity are rightly identified as one of the main failures of the previous strategy. The new PRSP can be monitored in terms of improved statistical data and poverty indicators from the 2002 household survey, but this information needs updating; staffs recommend that a new survey be conducted to establish a baseline to monitor implementation of the new strategy.

24. **The staffs support the government’s objective of improving its capacity to analyze the poverty impact of policy choices.** The government plans to improve the relevance of poverty analysis by adding a poverty module to its macroeconomic simulation model, based on data from the 2002 household survey. The government also wishes to improve its ability to

assess the poverty impact of short-term policy choices and to disentangle it from the impact of business cycles. Such efforts would be reinforced if a new household survey could be launched.

25. **Staffs recommend that the APR emphasize improving the tracking of PRS performance.** The relevance of the indicators for achieving the objectives of the strategy should be reviewed. Moreover, several objectives in the PRSP II need to be translated into quantitative operational goals that can be monitored annually. For example, the objectives of reaching universal primary school enrollment, increasing the adult literacy from 35 to 50 percent by 2012, or increasing access to potable water to 93 percent by 2015, could be translated into intermediate operational goals (such as the number of schools or other facilities to be built annually, the number of teachers to be hired, or the number of wells to be drilled).

26. **Significant risks remain regarding the implementation of the strategy.** The pro-reform government operates in context of social fragility and political uncertainty. The Guinean economy is highly vulnerable to changes in international energy and commodity prices, particularly petroleum and food. Implementation risks are linked to the country's weak governance and administrative capacity, the lack of an effective medium term fiscal framework and uncertainty regarding the costing and financing of policies. Success in the current efforts to improve governance and build capacity, especially in the areas of public financial management and policy planning, would go a long way toward mitigating some of these risks.

VII. Conclusions and Issues for Discussion by the Executive Directors

27. **The PRSP-II identifies the major obstacles to poverty reduction in Guinea and put forward a substantial set of measures for implementing the Government's growth and poverty reduction agenda over the next four years.** It recognizes the considerable challenges to achieve the MDGs. Risks to the implementation of PRSP-II remain substantial, largely because of weak implementation capacity and political uncertainty. For progress towards sustained growth and attainment of the MDGs, the strategy requires a realistic costing and strong political commitment for the sustained implementation of a core set of policies and reforms to increase productivity and investment, improve governance, and achieve and maintain macroeconomic stability.

28. **Looking ahead, the staffs see several priority areas where strengthened strategy and resolute policy implementation are required to meet the PRSP-II goals, particularly as future APRs are drawn up.**

- **Strengthen governance and enhance the investment climate to accelerate private sector growth and employment creation.** The staffs recommend that the authorities move to enhance governance, with particular attention to public financial management, the central bank, and the mining sector. Identification of prioritized and time-bound reform actions to improve the investment climate is also needed.

- **Pursue prudent fiscal and monetary policies to achieve and sustain macroeconomic stability.** Mobilizing more public revenue, including from the mining sector, making expenditure management more efficient; and securing debt sustainability (through reaching the HIPC completion point and qualifying for the MDRI, and ensuring that new public borrowing is on highly concessional terms) would create space for an increase in pro-poor spending.
- **Improve access and quality of basic services.** Improving public expenditure **management** in health and education, restructuring and improving governance of the electricity and water public utilities and continued progress in decentralization are critical to achieve the PRSP-II ambitious public service delivery targets.
- **Improving the monitoring of the strategy implementation.** The PRSP-II benefits from an enhanced monitoring framework based on previous PRSP implementation experience. The staffs recommend that future APRs identify and monitor intermediate operational goals and progress indicators to identify early on areas of bottlenecks, especially in basic service provision.

29. **In terms of the authorities' PRSP-II and the associated JSAN, it will be useful to know whether Executive Directors' agree with the main areas identified by staffs as priorities for strengthening the strategy and its implementation and with the areas identified as key implementation risks.**