

Guinea: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) on the Implementation of 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).

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GUINEA

JOINT STAFF ADVISORY NOTE ON THE POVERTY REDUCTION STRATEGY 2013–15

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Approved By
**Ousmane Diagana (IDA) and
Seán Nolan and Masato Miyazaki (IMF)**

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

OVERVIEW

1. This Joint Staff Advisory Note (JSAN) reviews Guinea’s third Poverty Reduction Strategy Paper 2013–15 (PRSP). Implementation of the second PRSP, adopted in August 2007 and covering 2007–10, was interrupted by a military coup in December 2008. In early 2011, a new democratically elected Government extended the original PRSP to cover 2011–12 and reported on this implementation in 2011. The JSAN 2012 commented on these documents.¹ Since then, the authorities have been preparing a full PRSP for 2013–15; on March 4, 2013, the authorities sent the draft PRSP to the Bank and Fund staff to benefit from a JSAN on the basis of a shared understanding that its priorities shall remain substantially unchanged pending validation. The JSAN is based on this version.

2. The PRSP aims to accelerate economic growth and progress toward the Millennium Development Goals (MDGs). The strategic vision of the PRSP-III is to use Guinea’s potentially large mining rents toward poverty alleviation and development of a competitive employment-generating private sector. Priority is given to the following issues: (1) strengthening democracy and state effectiveness; (2) accelerated and diversified growth; (3) employment; and (4) reduction of regional inequalities. The strategy aims to take advantage of the recent political and social stability to accelerate progress toward meeting the set objectives. As was the case on previous occasions, the PRSP was prepared with input from extensive public consultations.

¹ World Bank document IDA/SecM2012-0459/1, August 22, 2012; IMF Country Report n°12/297 (August 30, 2012).

3. The PRSP addresses the difficulty of implementing poverty alleviation in a resource rich environment with limited institutional capacity. Channeling resource revenues to poverty alleviation activities offers economic challenges—such as managing exchange rate expectations during a resources boom—but also tests governance and institutional structures. Staff notes that in this context sophisticated state institutions legitimized by credible elections will be particularly important. The upcoming parliamentary elections are important to increase the legitimacy of state institutions and policies.

POVERTY AND GENDER

4. As reported in JSAN 2012, poverty indices have deteriorated and poverty now affects some 55 percent of the population. Staff notes that the increase as of 2012 may reflect poor policies implemented by the government during 2009–10 and that recent improvement in the policy framework is not yet reflected in the data. Poverty rates are much higher in rural areas but increased sharply in urban areas, reaching 35.4 percent of the population. Rural-urban migration mitigated rising rural poverty, but contributed to poverty and income inequality in urban areas due to the lack of employment opportunities and rising food prices. The latter contributed to child malnutrition rates of over 30 percent.

5. The recently collected poverty data have adequately informed the poverty alleviation strategy. The most important determinants of poverty are location, gender and education of household head. The agricultural development strategy focuses on development of small-scale farms, which may help to address the most extreme poverty in rural areas and the related issue of child malnutrition. The transport strategy will reduce food to market costs and hence urban poverty. The implementation of the education strategy and the consequent rising school enrollment ratios for girls is expected to reduce poverty in particular because educated women may have more control over family budgets including health and birth control options. Staff welcomes these initiatives, but notes that a vibrant employment-creating private sector is vital to sustained poverty alleviation.

6. Labor market participation rates in the formal economy remain low, in particular for women. Guinea's formal enterprises employ only 10 percent of the workforce. Women are discriminated against in both private and public formal employment, while they dominate the informal sector and subsistence farming. The PRSP notes that gender-based violence remains widespread and there is insufficient institutional capacity to address this issue. Staff notes that gender equality is not only a moral concern but also an economic priority to sustain Guinea's long-term development.

MACROECONOMIC PERFORMANCE

7. Staff agrees with the baseline growth projections underpinning the PRSP. Baseline economic growth is projected to accelerate to 5.2 percent in 2014 and beyond up from just under 4 percent in 2012. This projection is based on an acceleration of economic

growth in the construction sector in response to massive investment outlays by mining companies. Private investment is projected to increase from 17.8 percent of GDP in 2012 to over 40 percent in 2014. This is an ambitious expansion, but realistic and based on firm commitments from mining companies. The PRSP also summarizes a more optimistic “accelerated” scenario. Staff appreciates the effort to assess the macroeconomic implications of alternative policies, but also note that this more optimistic scenario is not consistent with Guinea’s historical performance. A higher growth rate is desirable but such projections cannot be the basis for responsible policy making in a high-risk external environment.

8. The macroeconomic projections could have paid more attention to the underlying risks. The scenario is based on prices for Guinea’s mineral exports remaining at the levels experienced during 2010–12. This is appropriate for a baseline scenario. However, the crisis of 2008/09 also illustrates that prices could abruptly decline with dire consequences for economic growth and fiscal revenues. Moreover, as recent developments have shown, investment in the mining sector could be much slower than anticipated, negatively affecting short-term growth. The PRSP notes that the economic diversification program will hedge these risks. This is true but it also takes time to materialize. Hence, the PRSP could give more attention to policy options in case economic growth and fiscal revenue is considerably lower than projected under the baseline scenario.

9. Staff welcomes the sectoral budget allocation proposed in the PRSP but notes that implementation requires well-defined institutional arrangements. The PRSP proposes a sharp increase in funding for education as a share of total public expenditures over the PRSP period, while total fiscal resources also increase. To yield results, a rapid expansion in public resources for this and any other sector requires an effective public financial management system and clear institutional arrangements. Currently, the overlapping mandates of various ministries and agencies undermine their effectiveness. Further, the PRSP Priority Action Plan is presented as a medium-term investment program; this is welcome, but also somewhat at odds with the budget planning in the Ministry of Economy and Finance, which has a one year time horizon.

10. Staff appreciates the authorities’ efforts to improve the remuneration of senior staff. Still, staff advises that this is done in the context of an overall civil service reform plan and that the authorities remain mindful of using the most efficient instruments towards this task. Specifically, distribution of subsidized gasoline and rice is not an efficient instrument to remunerate government employees.

11. The limited coverage of financial sector issues in the PRSP gives insufficient weight to the potential contribution of that sector to growth and productivity. Staff notes that steps have been taken to improve banking supervision and the legal framework for leasing operations. Notwithstanding this progress, important challenges remain and the staff urges the government to step up efforts in this area, including actions to deepen

financial intermediation, strengthen banks' compliance with minimum capital requirements, and improve the financing mechanisms of the agricultural sector. Regulatory reforms should also be extended to the insurance market and strengthened over microfinance institutions. The staff urges the authorities to finalize a financial sector development plan and stands ready to provide support on selected issues identified in that plan.

12. Staff reiterates that macroeconomic stability will be critical to deliver the PRSP's objectives. Reducing inflation will necessitate continued sound fiscal and monetary policies. Mobilizing more public revenue—including through limitation of tax exemptions—improving the quality of expenditure, and securing debt sustainability by borrowing only on highly concessional terms would create space for an increase in pro-growth and pro-poor spending. Staff recommends the development of a medium-term debt strategy to ensure debt sustainability after the HIPC completion point. Staff urges the government to exercise prudence in financing its possible participation in the Simandou iron ore megaproject and other large-scale infrastructure projects to ensure that these projects do not destabilize the hardly-won macroeconomic gains.

STRATEGIC PILLARS

A. Reforming the State

13. The PRSP highlights the need to reform the State but does not clearly delineate functions to be performed by the public and the private sectors. The legitimacy of the state is gradually strengthened by elections and the establishment of democratic institutions. The proposed partnerships of the State with private initiatives to alleviate administrative constraints is useful, but requires clearly defined roles for both partners to avoid capture of public resources by private partners. Among other things, this may require a sound diagnostic, well-designed policies, and clarification of—and commitment to respect—the institutional arrangements and expected intermediate and final results to deliver public goods such as the following:

- (a) **Security.** Guinea has a large and well-equipped army compared to some of its neighbors. Staff appreciates reforms that (1) modernize management practices of forces under the Ministries of Security and Defense; (2) encourage the army to focus on external security threats; and (3) clarify the legal status of contracts issued during the military regime but suspended after the democratically-elected Government took office. The PRSP could also elaborate on organizational, human resources, and financial issues, and the link between the PRSP and the strategy for the reform of the security sector.
- (b) **Justice.** Staff welcomes the efforts to restore the courts and legal structures to their former role of upholding the rule of law, testing and enforcing laws and adjudicating

disputes, including disputes between private parties with the state, and they recognize the challenges of implementing the PRSP objectives on this issue.

- (c) **Administration of mineral rights and other public assets.** Land, mineral rights, as well as other state assets require a functioning public record system, whether administered directly by the State or through State-owned enterprises or agencies. Staff welcomes the progress that has been made on this issue but note that more needs to be done—notably, sector ministries could establish asset registries.
- (d) **Public administration.** Staff welcomes the focus on administrative governance as an important element for implementing the objectives of the PRSP. This effort could be further strengthened through a more comprehensive description of the Program for the Modernization of the State, the legal framework, and the responsibilities of the different institutions and stakeholders.
- (e) **Public financial management (PFM).** The authorities recognize that Guinea’s PFM system needs to be strengthened. Staff welcomes the reforms that aim to address this issue, notably, the reform of the procurement and public investment management systems. The current cash-based expenditure managed system has contributed to macroeconomic stabilization, but at this stage it serves mainly to accommodate urgent expenditures that are being decided outside the regular procedures. Hence, implementation of a modern system based on the budget adopted by Parliament and executed through commitments made at the sector ministry level, is desirable. The rapid increase in public investment is in itself welcome, but will only have the expected impact if projects are properly prepared and monitored (see below).
- (f) **Decentralization and deconcentration.** Staff welcomes the decentralization/deconcentration agenda, but notes that implementation requires greater monitoring and evaluation (M&E) of policies and projects implemented at the local level. Such M&E can be realized by development of social accountability networks or by oversight from the national Government.
- (g) **State-Owned Enterprises (SOE) and Agencies.** The mandate of state-owned enterprises and agencies and their effective oversight by the state could be further highlighted given their importance and potential for the economy, service delivery, investments, and employment.

B. Promoting Private-Sector Development

14. The PRSP documents the abundant opportunities for economic growth. The PRSP highlights the potential for environmentally sustainable growth in all sectors. Staff notes that the agricultural sector in particular provides good prospects for forward and backward linkages, certainly in comparison to the mining sector. In contrast, the tourism

sector's small size will prevent it from making a significant contribution to growth, employment, or poverty alleviation over the PRSP period, but it may attract private investment. The PRSP rightly emphasizes the need for a vibrant private sector to spearhead economic growth, employment creation, and thus poverty reduction. It lists obstacles to this development: deficient infrastructure, corruption and low efficiency of public services, a deficient judicial system, lack of skills and training, high tax rates that penalizes tax compliance, and limited access to the financial sector. Staff notes that the growth pole approach proposed in the PRSP could be presented as an effort to overcome coordination and information failures. However, development of effective coordination among decision makers takes time. Hence, it may be prudent to learn from policies and investment decisions applied in pilot growth pole regions before applying these policies more widely as proposed in the PRSP.

(1) Growth Sectors

15. Agriculture. The PRSP rightly highlights the importance of the agricultural sector in terms of employment and prospects for backward and forward linkages. Further, agriculture has a direct impact on food prices, which have by definition a disproportionate share in the poor's consumption basket. Staff encourages the authorities to empower farmer organizations in the distribution of government goods and services as a transition to a more market-based mechanism. Medium-term policies are framed by the Government's adoption of the agricultural sector investment plan (PNIASA). Staff commends the Government for focusing on (1) the need to strengthen the role of the private sector; (2) developing sector policies aiming at improving competitiveness and private sector productivity; and (3) organizing the public sector as an enabler rather than an executor of agricultural development, which would include a reform of the extension services, seed development and delivery of rural infrastructure.

16. Mining. Staff notes that the mining sector contributes to national development mainly through its impact on fiscal revenues. Employment in modern mines typically is relatively small. The PRSP reports that some 20,000 positions may be created in the mining sector, which represents less than half a percent of the labor force. Further, following the construction, phase the prospects for backward and forward linkages are modest. To safeguard the sector's contribution to fiscal revenues, staff is encouraged by the publication of all mining contracts—required by the mining code—but they are disappointed with the slow progress with meeting the requirements of the Extractive Industries Transparency Initiative (EITI), which would offer a well-established process for monitoring actual against expected revenues. The institutional mechanisms guiding the use of exceptional mining revenues and the functioning of the Special Investment Fund could be further elaborated.

17. Urban development. The rising urban poverty highlights the need for an urban development strategy that creates employment and offers access to food and basic services. Such strategy should address: (1) zoning for industrial development and commuter services;

(2) decongestion of port activities; and (3) urban potable water services. Staff notes that these issues are covered but not adequately prioritized in the PRSP.

(2) Cross-Cutting Issues

18. Infrastructure. The PRSP envisages energy and telecommunications services to be largely provided by private suppliers, subject to government regulation. By contrast, road and potable water services are to be provided directly by public agencies. Staff concurs with this approach and have the following observations:

- **Power.** Staff suggests that across-the-board subsidies be replaced with an escalating price structure with lower rates for small consumers. This will target subsidies at low income households and reduce subsidies from the budget to the power generating and distribution company (*Electricité de Guinée*). Liberalization of the electricity price for large consumers will also help to develop Guinea as a hub for regional power generation and distribution. Furthermore, a legal framework for public private partnerships would attract private investors. In parallel, a poverty-oriented power strategy could focus on sustainable biomass harvesting and more efficient stoves.
- **Telecommunications.** Staff welcomes the proposed approach that will allow the private sector to play a key role in the development of the telecommunications sector. As noted, this requires a legal framework for public-private partnerships (PPPs).
- **Transport.** Staff concurs with the “road fund approach” but notes that this Fund may need more resources to be able to adequately fulfill its functions. Further, it could become more efficient by issuing performance-based road maintenance contracts. The authorities may also wish to address regulatory issues that limit the efficient use of existing infrastructure.

19. Business registration. The PRSP gives adequate attention to small- and medium-sized enterprises (SMEs) as an instrument for poverty alleviation. Staff notes that some form of registration is required to provide these companies access to financial services, hence they encourage the Government to further facilitate company registration.

20. Financial sector. The PRSP documents the obstacles to financial sector growth. Staff welcomes the increase in market penetration of microfinance institutions to 25 percent. To maximize the benefits from this strategy, the authorities may wish to (1) encourage competition in the financial services industry; and (2) establish a credit registry to generate and disseminate information on existing financial services.

21. Trade policy and facilitation. Staff welcomes the emphasis on the role of foreign trade as an engine of economic growth, including growth in agricultural, electricity and transport services to regional markets. Since 2005, Guinea has aligned its import duties with

the tariffs of the Economic Community of West African States (ECOWAS) and staff encourages continuing this policy. Staff agrees that deeper integration with neighboring countries may require better trade facilitation, and reform of the customs code and other legal instruments. Further, liberalization of trade in goods and services will also provide a more competitive environment to the benefit of downstream companies and—ultimately—consumers.

C. Human Development

22. The PRSP human development strategy should be assessed in the context of a rapidly growing population. Guinea has one of the highest population growth rates in the world and projected aging of the population, both of which will contribute to a rapid increase in education and health services.

23. Education. The PRSP balances the need to provide additional resources and measures to improve education quality. It also highlights appropriately the reforms undertaken to strengthen personal management. Staff notes, however, that some issues may need to be addressed more explicitly:

- (a) **Over the past few years, the private schools' share of enrollment in primary education has grown sharply.** Private schools represent 63 percent of students enrolled in Conakry and close to 30 percent nationally. The government needs to closely investigate this development to assess the reasons why parents are sending their children to private school despite worsening living standards.
- (b) **Reforms are needed to make sure Guineans have the right skills for the needs of emerging and export-oriented sectors such as agriculture, tourism, and mining.** The lack of vocational training programs in secondary and tertiary education leads to an excessive orientation towards general education with a focus on humanities. This is a serious problem for a country that requires manpower with technical and scientific knowledge and competencies—including basic problem solving, communication, and adaptability skills—for its economic and social development. Staff further suggests that short-term courses and degrees may be targeted towards alleviating this constraint.
- (c) **There is a positive relationship between the development of human capital and quality of work.** The analysis of household surveys shows that higher education graduates have slightly higher unemployment rates than primary and secondary completers. However, they have also the tendency to be more selective and to benefit ultimately from higher income, demonstrating the demand for higher skills.
- (d) **The education budget does not reflect the government's priorities and objectives.** The budget envelop (2.3 percent of GDP in 2011 which is much below the SSA average of 4.5 percent GDP) would need to increase, but the current

inefficient allocation within the subsectors also needs to be addressed. While a medium-term expenditure framework has been developed for education, the authorities do not yet use this framework to plan the education budget.

24. Health. Staff endorses the PRSP's health strategy objectives and are heartened by the intention to (1) prioritize service delivery to the poorest people; and (2) improve maternal and child health including neonatal services to reduce maternal and child mortality. Staff thinks that more emphasis should be put on:

- (a) **Improving community-based health service delivery.** Results Based Financing (RBF) of the nutrition and health outcomes of mothers and children could contribute to realizing this objective;
- (b) **Mobilizing resources.** This is a big issue in Guinea given the very low budget share directed to health, but no mention has been made in the document on a new strategy to increase health financing; and
- (c) **Introducing new ways of doing business.** In particular by introducing a result-based financing scheme to improve health indicators, while maintaining health personnel in the poorest areas.

25. Social protection. Staff welcomes the approach to the delivery of social services, which is particularly important because Guinea does not have an explicit social protection policy. The current limited interventions are scattered among several institutions with very limited or no coordination. Financing is inadequate and largely funded by donors on an ad-hoc basis. The Government should take measures to extend social protection coverage and improve its quality in the short to medium term. It also needs to develop a coherent social protection strategy and an effective safety net system capable of reducing inequality and increasing the population's resilience to shocks and access to socio-economic opportunities and participation in the development process.

MONITORING AND EVALUATION

26. The PRSP plans to monitor and evaluate Guinea's progress towards the Millennium Development Indicators based on three sources of information:

- (a) Regular household surveys;
- (b) Reinforced established procedures, through which programs and policies will be monitored continuously; and
- (c) Self-standing impact evaluations.

27. Staff notes that greater efforts should be made to systematically plan specific actions and/or projects, as well as to monitor and evaluate the overall implementation of the PRSP. Possible steps to improve this are:

- (a) **Planning, monitoring and evaluation of investment projects**, including standardized appraisal techniques that allow selection of projects based on rational criteria and which diminish the risk of politicized prioritization and implementation. The result of monitoring and evaluation of projects should inform revisions to the standardized appraisal techniques. To prevent this process from becoming politicized itself, it should be implemented by an agency that is independent of the agency implementing the project.
- (b) **Regular household surveys** can be useful to assess the impact of policies and practices on the households. Such assessments do not require necessarily a new survey but can also be done on the basis of partial information.
- (c) **Explicit poverty targets.** The PRSP should include an ambitious poverty target based on a macroeconomic assessment that quantifies the relationship between non-mining GDP growth and poverty alleviation.

28. Staff welcomes the communication strategy included in the PRSP. A coherent communication strategy to encourage the utilization of collected data will enable the Government to gauge the usefulness of the information being tracked and to strengthen the demand side of the monitoring system.

CONCLUSIONS, RISKS, AND ISSUES FOR DISCUSSION

29. Staff commends the Guinean authorities for the strategy presented in the PRSP but notes that it could benefit from greater prioritization. The PRSP provides valuable analysis of many of the socio-economic challenges facing Guinea and offers a good overview of the policy reforms necessary to address these challenges. The comprehensive approach provides many possible policy options, but does not offer a strategic prioritization of the options.

30. The approach to public financial management reforms is welcomed, notably transparency in revenue mobilization, expenditure prioritization, and contract allocation. Staff welcomes the greater transparency in the mining sector and the publication of all contracts, but regrets the lack of progress in the implementation of the EITI Initiative and the Kimberly Process. Staff also notes the need to design and implement a medium-term expenditure framework to implement the priority action plan attached to the PRSP.

31. Staff recommends a deeper commitment to monitoring and evaluation, that is to be independent from the ministries and agencies implementing policies and projects. Application of standardized appraisal methods that are revised in view of monitoring and evaluation results may contribute to more information-based project and policy selection, which is inherently more robust to resist political interference in the process.

32. The main risks to successful implementation of the PRSP are: (1) a deterioration in the political and security situation; (2) a sharp fall in international commodity prices and delays in developing the country's abundant mineral resources, which would weaken the outlook for growth and limit Guinea's financial resources; and (3) the long-term risk of state capture by vested interests, a major concern in a small economy with a history of weak governance and institutions, dominated by a limited number of major companies and surrounded by widespread poverty.

33. The PRSP and JSAN are submitted for the Executive Directors' consideration, in view of the ongoing implementation of Guinea's program that is supported under the IMF's Extended Credit Facility (ECF) and the upcoming discussion of the World Bank Country Partnership Strategy (CPS).