

**Guinea: Joint Staff Advisory Note on the Extended Poverty Reduction Strategy
Paper 2011–12 and the 2011 Progress Report**

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
Extended Poverty Reduction Strategy Paper 2011–12 and the
2011 Progress Report**

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

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I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews Guinea’s Extension of the Poverty Reduction Strategy Paper 2011–12 (EPRSP) and the 2011 Progress Report (PR).**¹ Implementation of the 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 over the period 2011–12. The progress report discusses (i) the EPRSP and (ii) developments in 2011 and 2012.

2. **The overarching objective of the EPRSP is to accelerate the nation’s economic growth and progress toward the Millennium Development Goals (MDGs).** The main pillars of the strategy are: (i) improving governance, (ii) accelerating growth and increasing employment opportunities while further stabilizing the economy, and (iii) improving access to basic services. The EPRSP attributes the disappointing implementation of the original PRSP for 2007–10 to poor governance caused by political and institutional instability. The EPRSP was prepared through extensive public consultations, particularly in the rural areas. Regional consultations were held in two major regional centers in January–February 2011.

3. **The PR shows the difficulty of implementing the EPRSP in a period of political turmoil despite a favorable resource endowment.** After 50 years of undemocratic regimes, Guinea held democratic elections in 2010. Alpha Condé, a longstanding opposition

¹ EPRSP (IMF Country Report n° 12/6, 2012) and PR, see www.imf.org

politician, was elected President in December 2010. President Condé inherited an economy in disarray and faced daunting sociopolitical challenges. However, some sectors, notably agriculture and mining, have significant growth potential as recognized by the EPRSP. The PR documents the actions taken by the Condé Government during its first year to reestablish government accountability, restore growth, and reduce poverty.

4. **This JSAN is issued for presentation to the Boards of IDA and the IMF at the time of their consideration of Guinea's proposed attainment to the enhanced HIPC completion point.** The JSAN draws conclusions that could be helpful to the ongoing preparation of the third PRSP (PRSP III) for the period 2013–15, expected to be finalized in December 2012. The JSAN has the same structure as the EPRSP and PR and concludes with staff recommendations, risks identification, and issues for discussion.

II. POVERTY AND GENDER

5. **Since publication of the PR new information on poverty developments has become available.** The EPRSP reports a poverty incidence increase from 49 percent in 2002 to 58 percent in 2010, while acknowledging that these estimates are based on different methodologies. The PR notes the preparation of a poverty profile using a Core Welfare Indicators Questionnaire (CWIQ) survey 2012 which covers 7,632 households in 8 regions. The preliminary survey results have now been released, indicating that 55 percent of the population lives below the poverty line, compared to 53 percent in 2007 when a similar survey was conducted. Staffs consider that these 2012 survey results provide a reliable and comprehensive basis for the preparation of a poverty profile and adequate framework for the monitoring and evaluating the evolution of poverty under PRSP III.

6. **The 2012 CWIQ survey results may also be used to update the gender profile and strategy.** The EPRSP reports modest improvements in gender indicators during the years up to 2010, which continued during 2011 according to the PR. The preliminary CWIQ 2012 survey data suggest that the declining differences in girl/boy school enrollment ratios may have gradually reduced the gender differences in reading and writing skills. The CWIQ data also document that the poverty incidence of female-headed households is lower than that of male-headed households. Staffs welcome the reported improvements in this area.

7. **Staffs observe that poverty is increasingly an urban issue and recommend that poverty alleviation policies include a focus on inclusive development of urban areas.** Rural-urban disaggregation of the poverty profile suggests that most poor still live in rural areas. Nevertheless, between 2007 and 2012, the aggravation of poverty was significantly more pronounced in urban areas.

III. MACROECONOMIC PERFORMANCE

8. **The PR surveys growth performance relative to targets but falls short of articulating the impact of adjustment policies on growth.** Real GDP growth accelerated to

3.9 percent in 2011, broadly in line with the EPRSP's projection of 4.0 percent.² The PR provides an informative list of supply-side measures that helped support growth. It omits however an analysis of the impact of demand management policies that reduced consumption, especially by the Government, by 19 percent and improved domestic savings and the current account balance. These policies stemmed the acceleration of inflation, stabilized the Guinean franc, and reduced the parallel exchange market premium to below 2 percent. As the Government gained credibility, risk premiums fell, confidence rose, and private investment increased with the crowding in effects from lower domestic bank financing of the budget. The PR could have highlighted the positive impact of the policies to reduce inflation on poverty. Similarly, the PR could have stressed the positive impact of the composition of fiscal adjustment— based on controlling transfers and military expenditure and improving public investments—on the economy's factor productivity.

9. **The PR satisfactorily highlights the Government's achievements in the conduct of fiscal policy and the central bank's conduct of monetary policy.** Accomplishments include (i) the improved domestic revenue mobilization; (ii) the freezing of 2009–10 irregular contracts; and (iii) the reestablishment of competitive bidding as the sole method for awarding government contracts. Staffs note that the increase in revenue collection to the unprecedented level of 17.5 percent of GDP reflected improvements in nontax revenue while non-mining revenue collection remained below the regional average. Staffs urge the Government to implement the automatic pricing mechanism for fuel products, to adopt implementing regulations for the mining code, and to develop a plan to improve non-mining revenue collection based on comprehensive action plans for reforming the taxation system and tax administration. On spending, staffs note that the two large public contracts awarded in 2011 on a single-source basis have increased the proportion of such contracts, in value. Staffs reiterate the recommendation of the last JSAN to safeguard value for money by banning this procurement method for large contracts; adoption and implementation of a procurement code may help to address these issues. The PR also notes the actions taken by the central bank to reduce inflationary pressures and stabilize the exchange rate through increases in the reserve requirement and the central bank rate. As macroeconomic stability is reinforced, staffs encourage the central bank to allow greater flexibility of the exchange rate.

10. **The fiscal consolidation undertaken also permitted the Government to clear its arrears to all multilateral institutions,** allowing the resumption of budget support and project assistance. The Government also benefited from the forbearance of bilateral creditors with respect to the clearance of arrears and payment of current debt service. Staffs welcome the more recent progress made by the Government in establishing normal financial relations with all its external creditors.

11. **There is no discussion in the PR on the financial sector.** Staffs note that steps have been taken to improve banking supervision and the legal framework for leasing operations. Notwithstanding this progress, important challenges remain and the staffs urge 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

² For macroeconomic developments in 2011, see IMF Country Report n° 12/63, February 13, 2012.

be extended to the insurance market and strengthened over microfinance institutions. The staffs urge the authorities to finalize a financial sector development plan before end-June 2013.

12. Public financial management (PFM) reforms are critical to a lasting improvement in the effectiveness of public expenditures and poverty reduction. On budget preparation, staffs reiterate the recommendation of the last JSAN and of the 2012 energy sector roundtable to prioritize government projects to guide medium-term expenditure policy. This is critical given the gap between funding and the cost of the measures in the EPRSP. Staffs welcome the authorities' intention to develop a medium-term investment plan, and conduct a PEFA to guide a multi-year PFM action plan. Staffs recommend that the next PR review the status of implementation of the new organic budget law (LORF) and other measures to improve PFM and to analyze the impact on growth and poverty reduction of the Government's public investment program. The staffs encourage the Government to seek advice from partners to develop a budget nomenclature to improve the tracking of priority spending and the pro-poor orientation of the budget.

13. Staffs support the emphasis in the PR on directing resources from the mining sector to support other sectors. Staffs notes that the PR makes no reference to the Special Investment Fund (SIF), established in early 2012 to promote the efficient and sustainable use of the remainder of the 2011 windfall mining revenue and possible new such revenue in the future. They underscore that the SIF offers a potential vehicle to boost the level and efficiency of the public capital stock. In that light, staffs recommend the rapid setting up of the governance structure for the SIF to provide adequate safeguards and ensure the appraisal, selection, and implementation of investment projects financed by the SIF are at par with best practices. In view of possible additional exceptional mining revenue—which could be substantial—staffs recommend that the forthcoming PRSP include a comprehensive strategy for the efficient and sustainable use and management of these revenues, given the importance of the sector to economic development and management. Staffs recommend acceleration of ongoing efforts to revamp the investment code and terminate the benefits received by ineligible companies. Staffs welcome the creation of the one-stop shop for investors and recommend swift action on the reform of the investment code and the judiciary.

14. Staffs reiterate that macroeconomic stability will be critical to deliver the EPRSP's objectives. Fighting inflation will necessitate continued sound fiscal and monetary policies. Given the economy's still high excess liquidity, the staffs note the optimistic inflation target of 5 percent in the EPRSP and encourage the authorities to provide in the next poverty reduction strategy more plausible projections. Mobilizing more public revenue, 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. Staffs recommend the development of a medium-term debt strategy to ensure debt sustainability after the HIPC completion point. Staffs urge the Government to exercise prudence in financing its participation in the Simandou iron ore project and other potential megaprojects to ensure that it does not destabilize the only recently won macroeconomic gains.

IV. STRATEGIC PILLARS

A. Reforming the State

15. **The EPRSP identifies poor governance of state institutions as the root cause of increased poverty in Guinea.** The document prioritizes security of property and persons, which is to be achieved through a reform of defense and security forces and the justice system and a modernization of the administration. Staffs welcome the progress achieved on these issues but they are also concerned about delays in initiatives to strengthen state legitimacy, notably the ongoing difficulties in organizing the legislative elections and the implementation of judicial reforms.

16. **The EPRSP presents the objectives of the reform of the defense and security forces, and the PR reports progress on this issue.** The objectives are to (i) reduce military spending to free up resources for poverty alleviation; and (ii) ensure the integrity of the national territory. The PR documents the progress made in implementing the security sector assessment under the aegis of ECOWAS, the African Union, and the United Nations in 2010. Implementation of the reforms is supervised by the National Steering Committee to Reform the Security Sector. Military spending declined from 16.8 percent of the budget in 2010 to 15.4 percent in 2011 and is projected to decline further. Staffs are encouraged by the program and recommend that the Government define the size, shape, and role of the new army of 2015, as well as how it will manage such comprehensive restructuring without undermining the country's political stability.

17. **The PR reiterates the EPRSP's objective to strengthen the credibility of the justice system.** Staffs commend the organization of broad consultations in the justice sector (États Généraux de la Justice) and the launching of institutional reforms programs. Staffs advise the Government to consider revitalizing commercial justice reforms to ensure that business disputes can be settled fairly and quickly.

18. **The EPRSP aims to improve state effectiveness by strengthening transparency and the demand for good governance.** This also requires follow-up on serious issues raised by the public or NGOs. For example staffs note the actions by the Inter-ministerial Asset Recovery Committee reported in the EPRSP. However, no recent cases are mentioned in the PR. The PR notes the difficulties in increasing participation in the political process during a period of instability, but also reports that the functioning of the National Transition Council (NTC) has improved. Staffs agree that a well functioning NTC—which should soon be replaced by an elected National Assembly—is important; however, they also encourage participatory local consultative processes since local demand-driven public investment remains crucial to strengthen peace and reconciliation.

19. **Staffs concur with both the EPRSP and the PR that strengthened public administration will remain a central element to poverty alleviation in Guinea.** Basic budget discipline and controls over public finances as well as the civil service have been restored, but there is scope for further improvement. Poor accountability of government

finances and public services remain fundamental problems that will need to be addressed. Staffs recommend that the reform of the structure of the Government administration and of the civil service be taken forward quickly.

B. Promoting Private Sector Development

20. **The EPRSP makes a convincing case that Guinea’s natural resource endowment offers abundant opportunities for private sector development.** The PR emphasizes the importance of developing the agricultural and mining sectors. Staffs agree that these sectors are important and that their development is constrained by poor infrastructure, an unfavorable business environment (including poor trade facilitation), and difficult access to credit, as discussed below. Staffs caution against a state-led industrial policy that may be signaled by the nationalization of nineteen privatized industrial units as reported in the PR, and state interventions in the importation of basic food items. Staffs note that the authorities envisage to reprivatize these units and encourage them to conduct the operation transparently.

(1) Growth Sectors

21. **Agriculture.** Staffs encourage the authorities to empower farmer organizations in the distribution and cost recovery of government goods and services as a transition to a more market-based mechanism. A supply-driven approach tends to be less successful, as demonstrated by the distribution of agricultural inputs during the 2011 campaign. Allocations during this campaign were not transparent and the subsequent low cost-recovery rate resulted in an effective subsidy of over 70 percent. Medium-term policies are framed by the Government’s adoption of the agricultural sector investment plan (PNIASA). Staffs commend the Government for focusing on (i) the need to improve the role of the private sector; (ii) developing sector policies that aim to improve competitiveness; and (iii) organizing the public sector as an enabler rather than an executor of agricultural development.

22. **Mining.** Staffs are encouraged by the adoption of the new mining code but disappointed that the PR does not report on EITI accession despite the attention to this initiative in the EPRSP.³ Staffs note that EITI and other transparency initiatives, such as the Kimberley process, are important instruments to achieve the authorities’ EPRSP policy goals, which are reiterated in the PR. Staffs urge the Government to abide by the provisions of the new mining code relating to transparency and accountability in all of its dealings with operators and investors. Specifically, the PR mentions that the new code includes a principle establishing the need for transparency in awarding titles and licenses. Staffs caution that as a result of the large number of exploration licenses awarded during 2008–10, some of the concessions has overlapping titles of unknown legal status. Staffs therefore also recommend addressing these legal issues and developing new systems, regulations, and capacities to build a transparent process that will bring considerable stability to investments and value creation.

³ The 2006 EITI report mentioned in the EPRSP was published in 2011. Copies of the 2007–10 reports were received by the World Bank on June 13, 2012. Validation of these reports is ongoing.

23. **Urban development.** The rising urban poverty reported above highlights the need for an urban development strategy to inform the preparation of the PRSP III. Such strategy should address: (i) development of commuter services; (ii) decongestion of port activities; and (iii) urban water services.

(2) Cross-Cutting Issues

24. **Infrastructure.** The EPRSP 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. Staffs concur with this approach and make the following observations:

- **Power.** Staffs stress the importance of developing a strategy for sustainable biomass harvesting and use of more efficient stoves, as well as encouraging the use of butane gas, as outlined in the Government's recently updated Energy Sector Policy Letter. Moreover, staffs recommend that the Government prepare a clear calendar to implement sector reform and develop hydropower public-private partnerships (PPPs).
- **Telecommunications.** Staffs welcome the EPRSP's emphasis on PPPs that will allow the private sector to play a key role in the development of the telecommunications sector.
- **Transport.** Staffs encourage the authorities to include performance and output based road contracting. Further, staffs recommend the creation of road maintenance projects where local enterprises are contracted on a performance basis to maintain sections of the road network.
- **Water.** Water supply headed the list of priorities in the 2011 Survey on Subjective Poverty, with 21 percent of poor communities ranking water access as their number-one priority. Staffs caution that the reported 11.6 percentage point increase of the access rate to water services over five years, reaching 73.8 percent at national level, should be qualified by the low quality of urban water services, in terms of both service continuity and water quality.

25. **Business registration.** Other than large-scale companies operating in the mining sector, the economy is dominated by informal economic operators. Development of small and medium-sized companies is important for employment creation, since the few hundred jobs created by a small number of large firms, as reported in the PR, had a negligible impact on youth unemployment. To allow small and medium-sized companies to emerge and access financial services, some form of registration is required, for example, through a one-stop shop as recently established with support from the IFC. Staffs encourage the Government to further advance this reform by computerizing some of the processes.

26. **Financial sector concerns.** These concerns need to be addressed systematically. Supervision should focus not only on improving financial stability but also on constraining predatory behavior. Staffs recommend that obstacles to credit access should be addressed in the financial sector development plan. This plan also needs to (i) emphasize the importance

of increasing financial inclusion; (ii) encourage competition in the financial services industry; and (iii) propose preparatory measures that the Government could take (institutions, capacity, and funding) to implement its recommendations.

27. **Trade facilitation.** Staffs welcome the emphasis on the role of foreign trade as an engine of economic growth, including for the agricultural sector. The realization of this vision requires better trade facilitation procedures. Further liberalization of trade in goods and services will also provide a more competitive environment to the detriment of inefficient monopolists.

C. Human Development

28. **The EPRSP envisages a continuation of the human development strategy presented in the original PRSP discussed by the Boards of the World Bank and IMF in January 2008.**⁴

29. **Education.** The EPRSP commends the approach that was suggested in the 2008 JSAN for its balance between the need to provide additional resources and measures to improve education quality. Staffs note, however, that the EPRSP and PR address insufficiently some issues. In particular, more emphasis could be placed on the low primary school passing rate (about 32 percent in 2011). Staffs also note that the following issues deserve attention: (i) the need for improving human capital and for ensuring that the colleges and universities in the country produce skills that are in demand in the labor market; (ii) the misalignment between the distribution of resources and sectoral objectives; and (iii) the inefficient allocation of funding across schools.

30. **Health.** The 2008 JSAN agreed with the health strategy objectives but noted the absence of a detailed roadmap to achieve them. The EPRSP and PR address these concerns, providing a candid diagnostic of the sector's performance. However, staffs recommend that greater attention be given to the negative consequences on maternal mortality of low government spending in the health sector, the low institutional capacity at all levels of the health administration, and the need for a stronger health information system. Staffs advise the Government to take action on key policy priorities by: (i) improving human resources; (ii) strengthening child vaccinations; (iii) widening geographic accessibility; (iv) strengthening disease control and quality of basic services; and (v) encouraging citizen participation. In addition, staffs recommend that the Government increase health spending over the medium term, especially on basic health care programs that benefit the poor, and strengthen the institutional capacity of the regional health offices and districts health teams. The ongoing preparation of the Health sector Monitoring and Evaluation system could benefit from the use of the new 2012 CWIQ data to established base line indicators for monitoring performance of the sector.

31. **Social protection.** The 2008 JSAN called for targeted social protection policies to be implemented consistent with the overall fiscal framework. The objectives set out in the

⁴ "Guinea: Poverty Reduction Strategy Paper—Joint Staff Advisory Note," see IMF Country Report n° 08/8, December 2007 and World Bank IDA/SecM207-0684, December 12, 2007.

EPRSP are important but need to be prioritized. The PR provides neither a clear vision nor a definition of the key elements of a strategy. Today Guinea does not have an explicit social protection policy and the existing limited interventions are scattered among several institutions with very limited coordination. Financing is insufficient and largely funded by donors. The Bank's 2011 Interim Strategy Note (ISN), which is closely aligned with the main pillars identified in the EPRSP, advocated a two-stage approach towards social protection: (i) in the short term, assisting the poorest and most vulnerable population groups to weather the negative effects of reforms and rising prices; while (ii) developing a comprehensive safety net system in the medium to long term. Staffs urge the Government to expedite preparation of the comprehensive social protection strategy (being supported by the Bank) to define the institutional arrangements and monitoring and evaluation systems

V. MONITORING AND EVALUATION

32. **The EPRSP makes an effort to present information that allows monitoring and evaluation (M&E) of the execution of the strategy and its impact.** An annex to the EPRSP presents (i) the Government's Priority Action Plan; (ii) the Monitoring Matrix for PRSP Results; and (iii) the Matrix of Priority Actions for Public Finance Management, dated February 7, 2011.⁵ However, staffs note that the PR lacks a presentation of the institutional arrangements for tracking the results defined in the matrices. Staffs advise the Government to improve the existing capacity and quality of monitoring systems across sectors, as elaborated below, and to ensure that household surveys' comparability over time is maintained through appropriate design.

33. **Staffs recommend the preparation of a strategy for monitoring the result indicators with clearly assigned responsibilities for data collection.** Once focal persons for each sector are identified, staffs advise the Government to assess sector capacity in monitoring the indicators. Where there are obvious weaknesses, staffs advise the initiation of an M&E capacity-strengthening program, which the World Bank could assist in implementing. Staffs also recommend the Government develop sector M&E plans and templates to facilitate continuous monitoring and transmission of data to the Ministry of Finance and Economy and other central coordinating ministries or agencies.

34. **Staffs advise the Government to encourage third parties to monitor progress against the PRSP.** For example, agencies of the United Nations system present in Guinea and civil society organizations could contribute to the tracking and reporting of progress made against the PRSP, and developing a communication strategy to reach key constituents.

35. **Finally, staffs recommend that the Government ensure that PRSP outcome reports are fully disseminated and used by key stakeholders.** A coherent strategy to encourage the utilization of monitoring information would enable the Government to gauge the usefulness of the information being tracked and to strengthen the demand side of the monitoring system.

⁵ Staffs note that the Priority Action Plan attempts some results-based budgeting by defining key activities to be implemented under each pillar and their related costs. The Government's share of the budget for each intervention is clearly defined and the expected contributions of development partners are equally highlighted. Additionally, the Monitoring Matrix for PRSP Results defines short-term and medium-term results indicators with baseline values and targets for 2011 and 2012.

VI. CONCLUSIONS, RISKS, AND ISSUES FOR DISCUSSION

36. **Staffs commend the Guinean authorities for their sustained efforts in implementing the EPRSP and in preparing the PR.** The PR provides valuable analysis of many of the socio-economic challenges facing Guinea and offers a generally realistic assessment of the policy reforms necessary to address these challenges. The main weakness of the PR is that it lacks an adequate poverty diagnosis. However, this has been compensated for by the recent release of the preliminary 2012 CWIQ survey results.
37. **The PR notes the importance of improving economic governance through public financial management reforms.** The review and update of procurement regulations should be a priority area for reform. Lack of progress in the area of economic governance, particularly the implementation of the Extractive Industries Transparency Initiative and the Kimberly Process, needs immediate Government attention. Continued efforts to maintain expenditure within available means will be important to cement the recent gains in fiscal and macroeconomic stability.
38. **The main risks to successful implementation of the EPRSP are:** (i) a deterioration in the security situation; (ii) a sharp fall in international commodity prices; (iii) lack of progress in achieving macroeconomic stability; and (iv) the long-term risk of state capture by vested interest, a major concern in a small economy dominated by a limited number of major companies surrounded by widespread poverty.
39. **In preparing the PRSP III, staffs encourage authorities to assess strategic priorities on the basis of projected costs and benefits as well as to initiate a multi-year budget framework.** Staffs suggest that the ongoing preparation of the next PRS take the following lessons into account: (i) priorities should be based on projected benefits and realistic cost estimates and their medium-term fiscal implications; and (ii) additional resources will be required to strengthen the capacity of the PRS Secretariat to coordinate the efforts of the various ministries, participation of civil society groups, legislative branch of the Government and development partners.
40. **In considering the Guinea EPRSP for 2001–12, PR for 2011 and associated JSAN, Executive Directors' views are sought on whether they concur with the advice and recommendations made by staffs in the priority areas identified.**