Guinea and the International Monetary Fund: A Poverty Reduction and Growth Facility 2007-2010

Presented by Alvin Hilaire, IMF Resident Representative in Guinea and Sierra Leone, at a Press Conference in Conakry, Guinea on December 24, 2007

Ladies and gentlemen, I am very pleased to address you on the occasion of an important milestone in the relationship between the Republic of Guinea and the International Monetary Fund (IMF)—the approval on December 21, 2007 of a three-year Poverty Reduction and Growth Facility (PRGF).

For most of its almost fifty years as an independent nation Guinea has been a member of the International Monetary Fund. Guinea joined the Fund in September 1963, sharing the organization's vision of promoting international monetary cooperation, economic growth and employment. Guinea has had six previous borrowing arrangements with the Fund over the past two decades—the most recent started in May 2001 and was expected to cover up to May 2004 but the program lapsed by 2002. Outside of financial arrangements, the IMF maintains a constant dialogue and also provides technical assistance to Guinea—in 2007 alone, there were six such missions from IMF headquarters dealing with budgetary, fiscal and monetary policy issues.

Despite its enormous potential, Guinea still suffers from significant economic problems. In the face of enormous social needs, growth remains lackluster, inflation relatively high, a large part of the government's budget is still devoted to debt service, and external reserves are quite low. PRGF arrangements are designed to help IMF member countries facing such difficulties and willing to pursue the appropriate policies. The current Guinean government has put in place an economic plan that has been discussed with the Fund and will be supported by a PRGF. Consequently, the PRGF clearly reflects the priorities of the government as outlined in its minimum emergency program unveiled in Paris in July 2007 and the Poverty Reduction Strategy Paper (PRSP) which has as its principal objective improving governance.

Guinea's new arrangement is for a period of three years, in an amount of around US$75 million which will reinforce the reserves of the Central Bank (BCRG). The set of actions for the first year of the program have been elaborated so far, and detailed policies for subsequent years will be developed based on how the economic situation evolves. We should recall that in 2000 Guinea reached the "decision point" of the Highly Indebted Poor Countries (HIPC) Initiative—the first phase of the international mechanism aimed at providing substantial debt relief to eligible countries. A new program means that the Fund will immediately resume debt relief to Guinea which had been suspended following the lapse of the last program.

Disciplined fiscal policy and restraining a buildup of debt are key ingredients of the program. For many years, the government's expenditure has far outstripped its income, resulting in an expansion of its external and domestic debts and a mounting cost of servicing these obligations. The program aims to gradually improve this state of affairs—initially by extending the adjustment efforts begun in 2007 to the 2008 budget—through building revenue, streamlining spending and managing debt. Modernizing revenue-collecting units such as the tax and customs administrations while reducing exemptions in these areas will help to expand the tax base and raise collection. This would facilitate a much needed reorientation of current expenditure and investment toward the social sectors, especially education and health. At the same time a prudent debt strategy must be put in train to eliminate existing arrears and ensure that any new financing from abroad must be in the form of grants or very low cost "concessional" loans.

Since galloping prices could clearly frustrate the ability of Guineans to improve their living standards, the program also focuses on rigorous monetary policy. It is crucial to continue the measures adopted since mid-2007 to restrict central bank financing of the government's expenditure—which contributed so much to the high inflation in 2006. Steps have already been initiated to improve the internal operations of the BCRG and the year 2008 will be an important period for following through on plans for: (i) strengthening accounting and internal control; (ii) assuring that payments on behalf of the government do not circumvent approved budgetary procedures; (iii) energizing monetary policy; and (iv) addressing the operational problems of the official foreign exchange market.

The program also incorporates structural issues—designed to improve the way of doing business in Guinea. Solid economic performance in Guinea cannot be sustained unless certain deep seated issues are tackled. Consequently, while the first year of the PRGF concentrates on maintaining a stable economy, the program includes structural reforms which are expected to feature more prominently over time. As discussed earlier, strengthening fiscal management and operations of the central bank are at the top of the structural agenda. In areas where the IMF does not have specific expertise, the government has solicited the participation of other development partners such as the World Bank. The list of reforms includes measures to combat corruption and reform the civil service, public enterprises and the judiciary. In the mining sector, the legal framework will be revised and model contracts based on international best practices finalized with World Bank assistance. Moreover, audited reports in the context of the Extractive Industries Transparency Initiative for 2006 will be published.

Good program implementation will pave the way for much needed debt relief. Maintaining a stable macroeconomic environment in the context of a PRGF is one of the conditions for Guinea's reaching the second phase ("completion point") of the HIPC Initiative. The other conditions are: a) satisfactory implementation of the PRSP; b) development of an appropriate regulatory framework for microcredit institutions; c) publishing annual progress reports of an Anti-Corruption Committee and auditing large procurement contracts; (e) increasing the gross enrollment rate and the number of teachers in primary schools; and (f) increasing immunization rates for infants and prenatal consultations of pregnant women. Securing the debt relief from the HIPC Initiative, as well as the Multilateral Debt Relief Initiative (which provides for 100 percent relief on eligible debt from the IMF, World Bank and African Development Bank) would free up a lot of funds that could be used to improve social conditions.

Successful implementation of the program over the next three years requires a strong sense of commitment. To quote a December 2004 IMF review: *"The main lesson of the experience under IMF-supported programs in Guinea is the need to ensure ownership and commitment at the highest level of government at the onset of the program."*[1] Broad-based understanding of the program, as well of the Poverty Reduction Strategy Paper on which it is based, is essential. It is a very welcome sign that, in the spirit of transparency, the Government has agreed to publish the program documentation with all the details of the current commitments. I would encourage everyone to familiarize themselves with the

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[1] *Guinea: Ex Post Assessment of Longer-Term Program Engagement, IMF Country Report 04/377 (November 2004) available at* http://www.imf.org/external/pubs/ft/scr/2004/cr04377.pdf.

documents and seek clarification where necessary, including from our Resident Representative's office in Conakry.

All in all, the PRGF arrangement offers a good opportunity for the country to weather the inevitable shocks that may occur over time. It is no exaggeration to say that the global environment can be quite hostile and unpredictable. In the first eleven months of 2007 international wheat prices have risen 56 percent, rice by 16 percent and palm oil by 84 percent—all important items in the food basket of Guineans. To compound it all, international petroleum prices jumped 55 percent! The West African subregion is now relatively tranquil, but a recurrence of civil war in neighboring countries could once again put a strain on Guinea. Although it certainly cannot prevent such shocks, implementation of the policies underlying the PRGF can enhance Guinea's resilience to such developments by strengthening monetary and fiscal safeguards and the country's external position.

Ladies and gentlemen, let me conclude on the note that I begun by saying that the International Monetary Fund looks forward to a very positive engagement in this renewal of a program relationship with Guinea.