Statement by Bassary Toure  
Date of Meeting: July 24, 2001

GUINEA : Country Assistance Strategy Progress Report and Fourth Structural Adjustment Credit

On behalf of my Guinean authorities, I would like to commend staff for the comprehensive and candid CAS progress report and for the well articulated Bank Group assistance strategy for Guinea which responds well to the country’s objectives and priorities. My authorities are thankful to the Bank for the SAC IV submitted today to the Board as it will considerably consolidate the Government efforts towards poverty reduction. They are appreciative that partnership, participation, and country ownership continue to drive Bank’s assistance to Guinea. In this respect, I am pleased to stress that the preparation of the CAS progress report benefited from a broad consultation in Guinea.

As highlighted in the CAS Progress Report document, Guinea has for more than 10 years welcomed and sheltered nearly one million refugees from Liberia, Sierra Leone, and Guinea-Bissau following the civil wars that affected them. This hospitality entails considerable efforts from the authorities to provide the refugees with acceptable living conditions. As external assistance could not always be mobilized on time to cover the total cost related to refugees, the country had to contribute from its own budget, which constitutes a high burden. Moreover, Guinea has been for several years, the victim of repeated aggression from neighboring countries that has caused substantial loss of human life, property damage, and increase in security expenditures. Notwithstanding the deterioration of the situation as mentioned above, the authorities have shown in the past a strong record of program implementation and remain determined to continue the adjustment process. However, they will continue to need the strong support of the international community in their endeavors.

Macroeconomic situation

Since 1985, the Republic of Guinea has been engaged in a wide-ranging program of economic and financial reforms in the areas of price liberalization, privatization, financial sector reform, public expenditure management, trade reform, and foreign exchange regulation. The above reforms helped bring about: (i) non-inflationary growth; (ii) higher domestic and private investment; and (iii) more resources and better budget allocation for key social sectors. However in 1999, economic performance was adversely influenced by external events, particularly the fall in demand and drop in prices of bauxite and aluminum and the tenuous security situation in
neighboring countries. Despite this, the country managed to maintain a stable macroeconomic environment after some difficulties in the implementation of the third annual program supported by the PRGF. The authorities worked closely with the staff of the Fund/Bank to bring the program back on track. This has been achieved through an interim program which was successfully implemented with almost all the targets being met, especially in the fiscal sector.

Fiscal reform has been applied and has led to an increase of revenue and a better effectiveness of expenditures. Revenue mobilization efforts have included elimination of a large number of exemptions and reorganization of the custom services.

As far as expenditure management is concerned, the approach introduced with the Medium Term Expenditures Framework for priority sectors such as education, health, rural development, and road maintenance has been extended to justice, urban development housing, and social affairs. In addition, the Government implemented a package of measures aimed at strengthening budget tracking and supervision, enhancing the regulatory framework, improving the treatment of public expenditures, and simplifying budget procedures.

My Guinean authorities remain fully committed to the objective of further improving the macroeconomic situation, accelerating economic growth, and strengthening efforts at poverty reduction. They are delighted to report their medium term progress has been approved by the IMF on May 2001 to support a three-year arrangement under the PRGF covering the period of April 2001-2004. In the monetary area, the Government introduced a new instrument, central bank bills with a seven days maturity to replace the auction of treasury bills.

In the area of structural reforms, considerable progress was made on the privatization program and public enterprise restructuring. A review of the regulatory framework for private sector participation in the public utilities was conducted with the support of the World Bank and a technical unit in charge of preparing the privatization and restructuring of public enterprises. Moreover, the Government has adopted two laws to halt automatic advancement of civil servants and introduced a merit-based promotion system. As a consequence of the major reforms undertaken, the banking system has continued to consolidate its position during 2000.

**The Medium-term Program**

The medium term program will focus on fiscal consolidation, monetary, financial, and structural reforms to create an environment favorable to the private sector and to diversifying exports. Its major objectives are to enhance an average output growth of 6.1 percent during 2002-2004, reduce inflation to 3 percent by 2004 and, lower external current account deficit (excluding official transfers) of 5.5 percent of GDP on average during the period. The fiscal deficit is also expected to decline from 2.9 percent of GDP in 2000 to 1.3 percent in 2004.

For the year 2001, the program emphasizes further efforts aimed at fiscal consolidation as the main challenge for the medium term. To this end, revenue mobilization will be improved in order to raise the ratio of revenue to GDP from about 11 percent in 2000 to over 15 percent by
2004, the immediate objective of this current year being targeted at about 13 percent. In this context, my authorities have taken the necessary additional fiscal steps laid out in the amended budget submitted to the National Assembly at end-March 2001.

My authorities are also strongly committed to improve expenditure management by strictly adhering to the monthly cash-flow plan, the implementation of the medium term expenditure framework (MTEF), and the use of computerized expenditure tracking system. I am pleased to point out that the Government has opened a special account with the Central Bank to host all interim debt relief under the HIPC initiative to be used for expenditures in the priority sectors. Moreover, monetary policy for year 2001 will be tightened in line with the single-digit inflation target. My authorities would like to take this opportunity to reiterate its appreciation to the donor community for the external debt relief granted in the context of the enhanced HIPC initiative. However, because of their debt burden, they intend to request from their Paris Club creditors a rescheduling of eligible debts on Cologne terms in addition to the interim relief already secured from multilateral creditors. Therefore, we wish to convey their request for a support from their respective Paris Club creditors The Guinean authorities also expect to meet the main convergence criteria associated with the introduction of a second monetary zone in the Economic Community of West Africa and to align gradually the tariff structure with the Common External Tariff (CET) of the West African Economic and Monetary Union. A study on the impact of the introduction of CET will be conducted with Fund technical assistance.

The performance of the Guinean economy will be enhanced through fiscal transparency by reinforcing auditing procedures with the assistance of the Accounts Chamber of the Supreme Court and will submit to the National Assembly the new accounting laws. The authorities place great importance on continuing and deepening the structural reforms aimed at removing the remaining obstacles to private economic activity and on improving the efficiency, and access to public service delivery. In this regard, my authorities intend to take strong actions to improve the quality of public expenditure and reform the civil service. With regard to the public enterprise privatization and restructuring program, it will be conducted with the assistance of the World Bank.

In the financial sector, my authorities will continue to strengthen the supervision and prudential regulations of the banking system.

Governance aspect

My Guinean authorities are very much committed to fight corruption and promote good governance. The National Anticorruption Committee (CNLC) has started its work and is currently investigating cases of frauds. The recommendations of the CNLC will be disclosed to the public. The Ministry of justice will be strengthened in the context of a major program of judicial reform, aimed at improving the quality and accessibility of justice, particularly in commercial matters.
**Poverty reduction challenge**

The preparation of the full PRSP expected to be completed by December 2001, on a wide participatory approach, is proceeding according to the schedule set out in the I-PRSP. My authorities are fully aware that the successful implementation of the poverty reduction strategy will require continued efforts to improve the capacity to monitor poverty and to measure the impact of the policies implemented. In this regard, a plan for improving the statistical apparatus will be prepared starting in December 2001. My authorities made significant progress in human development. However, social indicators are still below the average for Sub-Saharan Africa. Although illiteracy is still high in Guinea, my authorities have implemented several actions which contributed to improving the education sector. Consequently enrollment rate increased from 30 percent in 1980 to 54 percent in 1999.

The Bank’s interim assistance program (FY 02-03) is built on the poverty reduction strategy being developed by the country and address issues such as the HIV/AIDS epidemic, reconstruction needs arising from the refugee situation, governance, corruption, and the social sectors. Gender issues have been given special attention in the preparation of the PRSP. In this respect, a gender analysis will be included in the surveys for special consideration in the final document.

Finally, I would like to convey my authorities’ appreciation for Bank Group assistance during the period covered by this ending CAS objective of which is to reduce the incidence of poverty through increased growth.