Board Meeting of Tuesday, December 16, 1997
Statement by Joaquim Carvalho

Guinea: Country Assistance Strategy

We endorse this Country Assistance Strategy and give our support to the proposed Public Expenditure Management Adjustment Credit to the Republic of Guinea. We would also like to commend the staff for the high quality of the document which they have prepared in close consultation with a cross-section of all stakeholders in Guinea. This CAS seeks to strike a meaningful balance between the country’s socio-economic realities on the ground and the volatile external environment which influences Guinea’s medium- to long-term development.

Following the changes in economic management in 1996, early but very encouraging results have been recorded on a number of fronts. Both inflation and the current account deficit have been kept at very impressive levels, at 3.5% and 8% respectively, while the overall growth is expected to be about 5%. This is the result of very prudent public expenditure management combined with a number of drastic measures aimed at generating revenue for the government. To continue to stay on the path of prudent fiscal policy will be key for restoring both internal and external equilibrium. In particular, tax reforms that would not only curb evasion and exemptions but would also find ways of broadening the tax-base are of great importance in this regard.

Notwithstanding what the document describes as Guinea’s past history of economic management failures, we note with delight the considerable improvement in the country’s portfolio management. This, in our view, is testimony to the wider understanding of issues by the local implementing units and, to a large extent, by the Bank’s intensive supervision. We note, however, that the Power II Project, which remains the only problem project in the portfolio, faces the prospects of cancellation. Power supply is a major issue in Guinea, and this is an area where external support will have to continue to make a difference in the country’s development. We, therefore, wonder whether restructuring this project, rather than closing it, would not improve the current situation.

We welcome the multi-pronged approach in the efforts to address poverty issues. It is gratifying to note that in addition to creating conditions for accelerated growth, the Guinean government is also giving high priority to the delivery of specific services in health and population; education; and public utilities and urban environment. The achievements recorded over the last few years in enrollment levels in elementary schools are encouraging, and we...
welcome the authorities' plan to direct more non-wage expenditures to health and education. We would, however, urge the Bank to continue to work more closely with specialized UN agencies and bilaterals in coordinating assistance packages in these sectors with a view to not over-burden local capacities.

We are also pleased with the prominent role given to rural development in the government's development agenda. Agriculture, in particular, has been identified as a major source of growth, not only because it employs 80% of the labor force, but also because it should provide the much-needed foreign exchange earnings especially as fortunes from bauxite earnings continue to dwindle. In this regard, we believe there is a great need for the diversification of the export base in the agriculture sector. Moreover, since agriculture provides the best opportunity for rural income growth, it has the greatest potential to reduce poverty.

We find the proposals in the Bank's Country Assistance Strategy (CAS), FY98-00 for Guinea broadly in line with the government's policy objectives and we, therefore, have no difficulty in supporting it. We are particularly pleased with the close linkage between lending and non-lending activities in the CAS.

The lending triggers for the Bank in Box 4 are appropriate based on the assessment of the risks in the document. We would, however, urge that these triggers be applied flexibly, with greater weight given to changing circumstances especially given to the level of uncertainty in the neighboring countries.

Finally, we are very encouraged by the emphasis this CAS has placed on partnership and selectivity. We strongly believe that broadening grass-root participation in the country's reform agenda reduces the risk of abandoning the reform program in the event of a change in government. We are very impressed by the steps adopted in Box 2 of the document. This approach is simple, clear, and very thorough. We would urge management, particularly in the Africa Region, to replicate this fine approach in other countries in the region with similar backgrounds.