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GUINEA: Country Assistance Strategy Progress Report, Fourth Structural Adjustment Credit, and Education for All Project

The 1997 CAS target

It has been almost four years since the Board discussed the Guinea CAS in November 1997. At that time the Board approved a base case lending program for SDR 120.0 million over a 3-year period, 1998-2000, for Guinea. Provided that a record of sound macro-economic and portfolio management was maintained and additional triggers in the CAS were satisfactorily fulfilled, the country could move to a high case lending level of SDR 200 million. These resources will be deployed to support the country’s development objectives—promoting broad based, private sector-led, equitable growth with a focus on the rural sector; enhanced service delivery for poverty reduction; and improved governance and institutional capacity.

The CAS targeted goal was achieving a growth rate of 5 percent per year on average during 1997-2000, sourced mainly from agriculture, mining, small scale services, and the manufacturing sector. In addition to GDP growth, the CAS projected a 4 percent inflation rate annually, and a moderate current account deficit of 7 percent of GDP, to allow for a restructuring of gross official reserves from a level equivalent to two months of imports at end-1996 to 3.5 months at end-1999. In public finance policy, the CAS promoted fiscal stability by insisting on further improvement in public expenditure management.

The actual performance and Challenges ahead

Today, we are discussing the progress report on the implementation of the aforementioned CAS. We welcome this opportunity and congratulate the Guinea authorities for having successfully passed a difficult time. We also commend staff’s effort and candid assessment in this report.

On the economic performance over 1996-2000, real GDP grew only at an average rate of 3.9 percent, below the CAS targeted level of 5 percent. We are however encouraged by the ability of the Guinean monetary authority to achieve a single figure inflation rate, averaged at less than 5 percent. Gross domestic saving was maintained at, 19 percent of GDP annually, a level that satisfied domestic investment demand. In addition, fiscal and external deficits (excluding...
transfers) were kept under control at 1.9 percent and 5.9 percent of GDP, respectively. We basically agree that, overall, Guinea’s economic performance in 1996-2000 was broadly satisfactory.

We are pleased with the progress that has been made in improving service delivery, particularly in the education and health sectors. The Government’s effort to decentralize delivery services was encouraging. In governance, we praise the Government’s demonstrated commitment to strengthening judicial capacity, part of it by establishing a National Anti-Corruption Committee. However, we are concerned with the political developments in Guinea, particularly on the cancellation of Parliamentary elections which were originally scheduled for November 2000. This may give rise to social unrest and opposition against the Government, which can impair the sustainability of recent Government policies if there is no clear majority in Parliament. We are also concerned with the existence of large number of displaced people caused by unresolved conflicts, which may slow down the Government’s effort in achieving the targeted poverty outcomes.

There are three unexpected events, which contributed significantly to the country’s economic slow down and to the unsatisfied achievement of CAS indicators, ranging from economic to social indicators:

(a) the continued worsening of the term of trade (TOT) due to a sharp decline in global demands for alumina and bauxite, which account almost two-thirds of Guinea’s total export;
(b) a growing number of refugees in the conflict zones, caused by the deteriorating security situation in neighboring countries; and,
(c) an uncertainty in business prospect linked to the domestic political environment, particularly the recent progress on the parliamentary election.

The continued TOT deterioration worsened against Guinea’s main exports. As a consequence, economic growth fell lower than projected. The influx of refugees and unstable regional security led to unexpected increase in, among others, military expenditure. At the same time, the postponement of the Parliamentary election raised uncertainty in the business climate. The country, even supported by the two Bretton Woods institutions, might not be able to cope with these problems as these issues were beyond the two institutions’ mandates. A strategy to overcome these dilemmas should be put forward as the first priority in the next full-PRSP.

To lessen the adverse impact of the TOT, new initiatives on a regulatory framework in the mining sector are needed, including guarantees and incentives to foreign investors and enlargement of private shares and ownership on the existing mining operation, especially in the bauxite and alumina sector. Access to the future commodity market should be enhanced, providing mining producer tools to hedge any possible risks arising from the worsening TOT due to external shocks. But the best way to do is to move the country’s exports away from its high dependency upon bauxite and alumina by diversifying its export commodities.

On regional security, the Government needs to be more active in mending its diplomatic relations with its neighbors, Liberia and Sierra Leone. Regional diplomacy alone may not be
sufficient. The Government also needs to call for an international effort to initiate a peace agreement among conflicting parties and invite UN support in resolving the problem of displaced people in the conflict zones. In the case of domestic political problems, we support attempts toward political reconciliation and the recent cabinet reshuffle, as it might reveal a positive sign to the business environment and, hence, sustain efforts toward economic reforms.

**Interim Assistance Program for FY02-03, SAC IV, Education for All Project**

Having acknowledged the development challenges and opportunities ahead, we support the Bank’s interim assistance program for FY02-03 to Guinea, for both lending and non-lending services, which is basically a completion of all programs set out in the previous CAS. The program rightly addresses key emerging themes and crosscutting issues such as refugees and HIV/AIDS, through the Reconstruction Project and HIV/AIDS Project. The initiation of the Education-For-All Project properly addresses the fundamental need for self-poverty alleviation through a human capacity building program. We agree with the need to strengthen judicial transparency and accountability concurrent with the Bank’s move toward community-based programs and an increase in programmatic lending.

With regard to the medium-term reform program under the Fourth Structural Adjustment Credit (SAC IV), which is presented to the Board together with this report, we recognize the importance of this program, particularly in supporting the implementation of Guinea’s poverty reduction strategy and the Government’s public management reforms. We, therefore, strongly support the program and endorse the proposed credit. However, we would like to draw attention to the weaknesses and risks embedded in this program, and call the Government to establish a tight monitoring and evaluation framework, among others, to cope with the weaknesses and mitigate the risks.

Finally, we wish all the best to the Government and to the people of Guinea. With the synergy arising from donor coordination and collaboration, combined with the commitment and mind of the Guinean people, we believe Guinea will step ahead to join other developing nations that have successfully combated poverty.