Board Meeting of December 16, 1997  
Statement by José Justiniano on behalf of Mr. Juan Cariaga

Guinea - Country Assistance Strategy

We are in broad agreement with this CAS and the proposed assistance for Guinea through the Bank’s lending and non-lending services. It is well-balanced, comprehensive, and its three pronged-approach is in line with the extensive components of the Government’s medium term strategy (rural development, governance, and improved service delivery). The fact that this CAS has been built on the foundation of broad based participation by the civil society, involving key stakeholders in decision-making, is very welcome. We therefore have no difficulty in lending our full support to it, and commend the staff for its preparation in conjunction with the partnership of a country-wide consultation process.

Although the stop and go character of Guinea’s past adjustment record could require caution, we have to recognize the efforts made by the new Government in adjustment and reform since July 1996. The measures undertaken since then, aim at promoting growth and continuing transformation of the former, centrally planned economy to a market-oriented one and are therefore welcome. Also, they have paid off in some significant developmental gains in the social sector. In spite of some difficulties encountered early in 1997, Guinea has continued making good progress towards macroeconomic rehabilitation and establishing the conditions necessary for sustainable growth. It has been encouraging to learn from staff that the ESAF Fund program is on track, portfolio management has improved and sound fiscal and expenditure policies have been instituted. We laud these achievements, as well as the Government’s full commitment to maintaining prudent macroeconomic policies and adhering to further structural reforms. However, we have been struck by the fact that, in recent years, poverty has increased sharply. Real GDP growth has remained at about 4 percent, a rate which is insufficient for substantial progress toward poverty reduction. Further efforts are needed to consolidate macroeconomic stabilization and deepen structural reforms and they should be especially targeted toward eliminating poverty.
We have these comments.

The lending levels proposed for the three-year period constitute appropriate case scenarios to help the country to move toward a path of high growth and poverty reduction. This approach gives us the flexibility to ensure the Bank supports necessary for the new Government to sustain its current reform program and thus to take advantage of the present window of opportunity. Under the base case lending program, full implementation of the Government’s medium-term strategy, would, if it succeeds, most likely lead to an estimated increase in real GDP per capita growth rates from 1.6% in 1996 to only at about 2.2% in 2000. In our view, this is too moderate a gain and must be considered as a minimum for achieving poverty alleviation.

This brings us to another, related point. Considering the country’s large economic potential, it seems to us that the Government should make efforts to identify areas which have competitive advantages and develop them as part of an effort to diversify and expand the export sector of the economy. This would contribute not only to acceleration of the pace of the economic growth but also towards external viability, as it could mitigate the adverse effects of continued volatility of terms of trade and receipts from bauxite and aluminum. To this end, the additional triggers for the High Case lending level are crucial, provided that the country remains on track on its ESAF/Fund supported adjustment and reform program. We therefore believe that the Government should strive to reach the conditions necessary to meet the enhanced Bank financial support in response to improving performance, on the understanding that, in conjunction with the Government’s national population policy aimed at curbing the rate of population growth, it constitutes the optimal solution for Guinea. Also, IFC should perhaps play a more important role in facilitating the development of the private sector in Guinea.

Another important issue which needs to be addressed is the public administration’s weak institutional structure and capacity for implementing the program. We appreciate the emphasis that the CAS puts on improving governance and capacity building. In this connection, the Public Expenditure Management Adjustment Credit (PEMAC) constitutes a step in the right direction, as credible management of public finance and institutional capacity building are essential for both private sector development and the provision of basic social services.

As regards risks, there is no doubt that this is a task beset with difficulties. As the political situation remains fragile, and, in order to avoid a policy reversal, we can concur with staff that it would be necessary for the Government to look for tangible results on the economic front quickly and to continue the reform effort. In other words, the Government needs to take advantage of this “window of opportunity” in order to set itself on a secure path toward accelerated growth and poverty reduction. Furthermore, we share Mr. Singh’s view that the overall approach to identifying the priorities of the national agenda through the participation of key stakeholders represents one cause for optimism. A more ambitious reform agenda, however, could put at risk the balance between political stability and the pace of the reform process. We do therefore think that these proposed programs and indicators strike the right balance in promoting further improvement in performance while allowing enough flexibility for adjustment to changes in the country’s circumstances.
Finally, we are also pleased to lend our full support to the credit --the PEMAC. It will help to ensure macroeconomic stability and facilitate fiscal and financial discipline, as well as require actions and measures critical to improved governance and the delivery of basic social services (education, health, rural development and road maintenance) to the population.

With these remarks we wish the Government of Guinea every success in its future endeavors.