

# AFRICAN DEVELOPMENT FUND



Reference No.:  
Distribution:

Language: English  
Original: French

## Economic and Financial Reform Support Programme- PAREF

Country : Republic of Guinea

### APPRAISAL REPORT

March 2011

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This report was prepared by Mr. A. Mahdi, Chief Financial Analyst OSGE.2 following an appraisal mission to Conakry in February 2011. Inputs were also provided by the Lead Economist of ORWB, Mr. I. Koussoubé, ORPF colleagues as well as consultants recruited and interactions with economists from the World Bank and the European Union. Questions on this report should be referred to Mr. N. Lobe, Director, OSGE (Ext. 2077) and Mr. A. Mahdi, OSGE.2 (Ext. 2267).

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**FISCAL YEAR**

1 January- 31 December

**CURRENCY EQUIVALENTS**

(March 2011)

UA1	=	USD 1.51
UA1	=	EUR 1.19
UA1	=	GNF 9 055.96

**ACRONYMS AND ABBREVIATIONS**

ADF	:	African Development Fund
AFD	:	French Development Agency
ANLC	:	National Anti-Corruption Agency
BCRG	:	Central Bank of the Republic of Guinea
CFAA	:	Country Financial Accountability Assessment
CPAR	:	Country Procurement Assessment Report
CPIA	:	Country Policy and Institutional Assessment
CTSP	:	Project Monitoring Technical Unit
DNB	:	National Budget Directorate
DND	:	National Customs Directorate
DNEEP	:	National Economic Studies and Forecasting Directorate
DNI	:	National Tax Directorate
DNMP	:	National Public Procurement Directorate
DNP	:	National Planning Directorate
DNSI	:	National Computer Systems Directorate
ECF	:	Extended Credit Facility
PAREF	:	Economic and Financial Reform Support Programme
EITI	:	Extractive Industries Transparency Initiative
EITIG	:	Extractive Industries Transparency Initiative Guinea
GDP	:	Gross Domestic Product
GIZ	:	German Cooperation Agency
GNF	:	Guinean Franc
HIPC	:	Heavily-Indebted Poor Countries
HIPCI	:	Heavily-Indebted Poor Countries Initiative
IFAC	:	International Federation of Accountants
IMF	:	International Monetary Fund
ISA	:	International Standard on Auditing
MEF	:	Ministry of Economy and Finance
MEFDD	:	Ministry of Environment, Forestry and Sustainable Development
MMG	:	Ministry of Mining and Geology
MPC	:	Ministry of Planning and Cooperation
MSEGUI	:	Simulation Model for Guinean Economy
MTEF	:	Medium-Term Expenditure Framework
NTF	:	Nigeria Trust Fund
OHADA	:	Organisation for Harmonization of Business Law in Africa
PADIPOC	:	Project to Support Debt Management, Public Investments and Control Organs Capacity Building

PARCGEF	:	Economic and Financial Capacity Building Support Project
PEFA	:	Public Expenditure Financial Accountability
PER	:	Public Expenditure Review
PRSP	:	Poverty Reduction Strategy Paper
PSRFP	:	Public Finance Reform Strategic Plan
RBCSP	:	Result-Based Country Strategy Paper
RCF	:	Rapid Credit Facility
SDR	:	Special Drawing Rights
SMI	:	Integrated Monetary System
TA	:	Technical Assistance
TFP	:	Technical and Financial Partner
TOFE	:	Table of Government Financial Operations
UA	:	Unit of Account
UCEP	:	Project Coordination and Implementation Unit
UNDP	:	United Nations Development Programme
UNICEF	:	United Nations Children's Fund
WAEMU	:	West African Economic and Monetary Union

### **GRANT INFORMATION**

#### **Client Information**

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<b>DONEE:</b>	REPUBLIC OF GUINEA
<b>EXECUTING AGENCY:</b>	Ministry of Economy and Finance – Programme Monitoring Technical Unit

#### **Financing Plan**

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<b>Source</b>	<b>Amount</b>	<b>Instrument</b>
ADB	UA 20M	ADF Grant
World Bank	UA 50 M	IDA Grant

### **MAIN MILESTONES**

<b>Activity</b>	<b>Date</b>
1. Concept Note Approval	NA
2. Appraisal	16-25 February 2011
3. Country Team	7March 2011
3. Operations Committee	23March 2011
2. Grant Negotiations	4 April 2011
3. Board Presentation	18 Mai 2011
4. Effectiveness	25 May 2011
5. Disbursement of the First Tranche	5 June 2011
6. Supervision	July 2011
5. Disbursement of the Second Tranche	August 2011
8. Completion Report	April 2012

## PROGRAMME SUMMARY

Overview	<p><b><u>Programme Name/ Number:</u></b> Economic and Financial Reform Support Programme (PAREF) / P-GN-KF0-002</p> <p><b><u>Geographic Context:</u></b> Nationwide</p> <p><b><u>Overall Schedule:</u></b> 12 months from 1 May 2011 to 31 April 2012</p> <p><b><u>Financing:</u></b> UA 20 million (ADF) and World Bank (UA 50 million)</p> <p><b><u>Operating Instrument:</u></b> General Budgetary Support</p> <p><b><u>Sector:</u></b> Economic and Financial Governance.</p>
Description	<p>The overall goal of the proposed programme is to contribute to creating conditions needed for economic recovery and restoration of macroeconomic balance. This is a tripartite operation with the World Bank and the International Monetary Fund aimed at assisting the country to emerge from the difficult situation of the last two years, strengthening public finance management and improving governance in the extractive sector.</p>
Expected Outcomes and Target Beneficiaries	<p>The programme's main expected outcomes at the end of its implementation are: (i) substantial reduction of extra-budgetary expenditures from 85% of the budget in 2010 to 25% in 2011; (ii) an increase in Government revenue from 15% of GDP in 2010 to 17% in 2011; (iii) a sizable reduction of the proportion of directly negotiated contracts from 91% in 2010 to 20% in 2011, in terms of total monetary value; (iv) an improvement in the contribution of the mining sector to GDP from 14% in 2010 to 17% in 2011; (v) endorsement of the status of Guinea as an EITI member country in 2011.</p> <p>The final programme beneficiary will be the country's population in general. The intermediate beneficiaries will be public departments, national and international private economic operators and communities living around mining basins.</p>
Needs Assessment and Relevance	<p>Financial support amounting to UA 20 million to offset the 2011 public deficit and implement the poverty reduction strategy. Furthermore, Guinea is emerging from a military transition that caused major economic and financial imbalances, translating into a significant budgetary deficit and a runaway inflation. The new Government has undertaken to embark on wide-ranging reforms to stabilize the economy, reduce these malfunctions and improve public finances.</p> <p>The programme is relevant. PAREF's area of intervention, namely economic and financial governance, is consistent with the priorities of Government's Programme reflected in the Letter of Development Policy and the CSP for Guinea.</p>
Bank's Value-Added	<p>With the assistance that it has provided Guinea through institutional support projects, the Bank is resolutely committed to assisting the country in its economic reform process and, consequently, has acquired the relevant experience which it brought to bear in designing PAREF. The Bank has in-depth knowledge of the Guinean administrative sector that enables it to play this key role in formulating and monitoring PAREF implementation. In this regard, it managed to maintain high-quality dialogue with the authorities aimed at better targeting the reforms.</p>
Institutional Development and Knowledge Building	<p>PAREF will contribute to the institutional development of public administration and the private sector. Discussions held with government officials during the appraisal and specific studies under the programme (formulation of financial control procedures manual, TOR of the CTSP, Letter of Development Policy, etc.) constituted opportunities for knowledge dissemination. The analytical work as well as various drafts reviewed as input for programme formulation, contributed to knowledge building, which helped to improve programme design.</p>

## RESULTS-BASED LOG-FRAME

**Project Name** :Economic and Financial Reform Support Programme (PAREF)

**Project Goal** :The overall goal of the proposed programme is to contribute to creating conditions needed for economic recovery and restoration of macroeconomic balance.

OUTCOMES CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
		Indicators (including CSI)	Baseline Case	Target		
IMPACT	<b>Creation of conditions needed for economic recovery and restoration of macroeconomic stability.</b>	Average GDP growth rate	1.9 % in 2010	4.5% in 2012	Macroeconomic data of Ministry of Economy and Finance (MEF), Ministry of Planning (MP) and IMF	<u>Risk:</u> Political instability leading to lack of continuity of policies attributable to forthcoming legislative elections <u>Mitigative measures:</u> Satisfactory implementation of TFPs' budgetary support operations to the extent that these operations are effective in terms of public expenditure
		Budgetary deficit in relation to GDP	15% in 2010	2% in 2012		
		Rate of inflation	20.9% in 2010	5.3% in 2012		
OUTCOMES	<b>I. Strengthening of public finance management:</b>					<u>Risk:</u> Budgetary slippages and higher depreciation of currency due to over-liquidity of the economy <u>Mitigative measures</u> - Government adherence to the medium-term macroeconomic framework formulated jointly with the World Bank and IMF - Close monitoring of economy following, among others, the advice of technical assistants provided the country under institution building projects, including the Bank's PARCGEF. - The IMF's Rapid Credit Facility and the Extended
	<b>I-a- Restoration of fiscal discipline</b>	Proportion of extra-budgetary expenditure	80% of budget in 2010	25% in 2011	Macroeconomic data of MEF and IMF ADB data	
		Indicator 13 of County Policy and Institutional Assessment (CPIA) related to quality of financial and fiscal management	3 in 2009	3.5 in 2011		
	<b>I-b- Improved revenue mobilization</b>	Government revenue	15% of GDP in 2010	17% of GDP in 2011	Macroeconomic data of MEF, MP and IMF	
<b>I-c- Strengthening the procurement system</b>	Share of directly negotiated contracts in overall public procurement	91% in 2010	20% in 2011	Macroeconomic data of MEF, MP and IMF		

	OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
		Indicators (including CSI)	Baseline Case	Target		
	<p><b>II. Improved governance in the extractive sector:</b></p> <p><b>II – a – Establishment of a general framework for managing extractive sectors</b></p> <p><b>II- b –Improved transparency in the mining sector</b></p>	<p>Contribution of the mining sector to GDP</p> <p>Guinea’s EITI status</p>	<p>14% en 2010</p> <p>Status suspended in 2008</p>	<p>Above 17% in 2011</p> <p>EITI compliant member in 2011</p>	<p>Macroeconomic data of MEF, MP and IMF</p> <p>MMG and EITI</p>	<p>Credit Facility constitute major instruments for fiscal discipline</p> <p>-The Bank’s budgetary support will also enable the country to have the necessary foreign exchange reserves for conducting an exchange policy. This will limit the depreciation of the local currency, thereby reducing the threat of inflation.</p>
OUTPUTS	<p><b>I-a- Restoration of fiscal discipline</b></p> <p>I.a.1. MEF issues an order governing the use of exceptional budgetary execution procedures: (i) expenditures without prior payment order; and (ii) advance mechanisms</p>	<p>MEF order governing the use of exceptional budgetary execution procedures</p>	<p>Absence of specific framework for the use of exceptional budgetary execution procedures</p>	<p>MEF order governing the use of exceptional budgetary execution procedures is issued before end March 2011</p>	<p>Copy of the MEF order</p>	<p><u>Risk:</u></p> <p>Rationalization of expenditures, mobilization of revenue and weakening of the social context as a result of sharp reduction of the purchasing power of the national currency</p>
	<p>I.a.2. Updating of the financial control procedures manual in line with international standards</p>	<p>The financial control procedures manual is updated</p>	<p>The current manual does not take into account various budgetary procedures</p>	<p>The financial control procedures manual is updated before end 2011</p>	<p>Copy of procedures manual</p>	<p><u>Mitigation:</u></p> <p>- Adherence of all stakeholders will help to sustainably support reforms in the country.</p> <p>- Expected success in implementing Government’s Emergency Plan</p> <p>- Continuity of TFP support to vulnerable population groups through development projects</p> <p>- Budgetary support operations will enable the Government to acquire the budgetary capacity to implement PRSP measures</p>
	<p>I.a.3. Endorsement by MEF of an action plan for enactment of outstanding budget review acts (since 2005)</p>	<p>Action plan for enactment of budget review acts established</p>	<p>Absence of consultation between departments responsible for formulation of budget review acts.</p>	<p>The action plan is endorsed by end 2011</p>	<p>Copy of minutes of committee meeting endorsing the action plan</p>	
	<p>I.a.4. Transmission of the Draft Organic Law governing the institutional organization of the National Transition Council (CNT)</p>	<p>Draft Organic Law governing the institutional organization of the Court of Accounts (CC)</p>	<p>The Court of Accounts is created by constitutional arrangement but absence of organic instrument</p>	<p>Draft Organic Law governing the institutional organization of the Court of Accounts is forwarded to the National Transition Council by end March 2011</p>	<p>Copy of letter forwarding the draft law to CNT</p>	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSI)	Baseline Case	Target		
<b>I-b- Improved revenue mobilization</b>					
I.b.1. Signing of performance contracts between Ministry of Economy and Finance (MEF) and revenue agencies: National Tax Directorate (DNI) and National Customs Directorate (DND)	Performance contracts between the MEF and DNI; MEF and DND	Previous performance contracts do not include revenue collection targets set in the macroeconomic framework.	Performance contracts between MEF and the DNI, and between MEF and DND are signed by end July 2011	Letter from MEF forwarding copies of performance contracts signed by MEF with DNI and DND respectively.	<p><u>Risk:</u> The risk related to fiduciary aspects due to weakening of the control function in Guinea during the transition period</p> <p><u>Mitigation:</u> - Commitment and resolute will of Government to end practices that characterized the period of exceptional regime - Next, the objectives of the programme aimed at producing improvements at the fiduciary level, donor assistance in public finance management in line with international standards and improvements in the budgetary execution process. Furthermore, it was agreed as follows: (i) an external audit of financial flows between the Treasury and the Central Bank should be conducted to ensure the traceability of funds paid as part of budgetary support; (ii) quarterly auditing of budget execution; and (iii) quarterly auditing of public procurement by IGF</p>
I.b.2. Updating of the General Tax Code	The General Tax Code updated	The General Tax Code does not include mandates contained in successive budget acts	Updated General Tax Code is endorsed by MEF by end 2011	Minutes of endorsement of the updated General Tax Code	
I.b.3. Inventory of accounts of public establishments domiciled at commercial banks	Inventory of accounts of public establishments domiciled at commercial banks	Absence of inventory of accounts of public establishments domiciled in commercial banks	Inventory of accounts of public establishments domiciled at commercial banks finalized before end March 2011	Letter from MEF forwarding the inventory outcomes	
I.b.4. Endorsement by MEF of action plan aimed at creating a single Treasury account at the Central Bank	Action plan aimed at creating a single Treasury account at the Central Bank	Existence of several accounts of public establishments domiciled at commercial banks	Action plan aimed at creating a single Treasury account endorsed by MEF by end 2011	Minutes of action plan endorsement meeting	
<b>I-c- Strengthening the procurement system</b>					
I.c.1. Conducting an independent audit on the legality and transparency of directly negotiated contracts awarded in 2009 and 2010	Audit the legality and transparency of directly negotiated contracts awarded in 2009 and 2010	Absence of comprehensive information on the legality and transparency of directly negotiated contracts awarded in 2009 and 2010	Audit on the legality and transparency of directly negotiated contracts awarded in 2009 and 2010 is conducted by an independent committee by end March 2011	Copy of IR audit report : Ad-hoc commission composed of auditors of World Bank and representatives of the Government of Guinea	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSI)	Baseline Case	Target		
I.c.2. Conducting of quarterly procedural and financial audits of public procurement for 2009 and 2010 by the General Inspectorate of Finance (IGF)	Quarterly procedural and financial auditing of public procurement for 2009 and 2010	Delay in conducting quarterly audits for 2009 and 2010	Quarterly procedural and financial audits of public procurement for 2009 and 2010 are completed by end 2011	Copies of audit reports	
I.c.3. Adoption by Council of Ministers of an action plan to implement the recommendations of the audit on directly negotiated contracts	Action plan to implement recommendations of audit report on directly negotiated contracts	Absence of action relative to audit findings on the legality and transparency of directly negotiated contracts signed in 2009 and 2010	The action plan to implement the recommendations of the audit on directly negotiated contracts is endorsed by the Council of Ministers by end 2011	Letter of MEF testifying the endorsement of the action plan	
I.c.4. Endorsement by the Council of Ministers of the bill governing award, control and regulation of public procurement, and delegation of public services	Draft law governing the award, control and regulation of public procurement and delegation of public services	The current Public Procurement Code does not meet relevant international standards	The draft law governing the award, control and regulation of public procurement and delegation of public services is endorsed by the Council of Ministers by end July 2011	Letter from the MEF testifying the endorsement of the draft law governing the award, control and regulation of public procurement and delegation of public services	
<b>II – a – Establishment of a general framework to manage the extractive sectors</b>					
II.a.1. Adoption by the Council of Ministers of a mining policy letter	Mining policy letter	Absence of a general framework for the development of the mining sector	The mining policy letter is endorsed by the supervising ministry by end 2011	Mining policy letter	
II.a.2. Endorsement by the Council of Ministers of the Mining Code revision bill	Mining Code revised	The current mining code does not meet the mining sector development vision	The bill on the revision of the mining code is endorsed by the Council of Ministers by end July 2011	Letter from the Ministry of Mines and Geology testifying the endorsement of the bill on the revision of the Mining Code	

OUTCOMES CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATIVE MEASURES
	Indicators (including CSI)	Baseline Case	Target		
II.a.3. Endorsement by the Council of Ministers of the new Petroleum Code Bill	New Petroleum Code Bill	No petroleum code	New petroleum code bill is endorsed by the Council of Ministers by end 2011	Letter from MMG certifying the endorsement of Petroleum Code Bill	
<b>II- b –Improving transparency in the mining sector</b>					
II.b.1. Formulation of an action plan for auditing mining contracts in accordance with the current law	Action plan for auditing mining contracts	Absence of framework for establishing legality and transparency in the mining sector	The action plan for auditing mining contracts is endorsed by the Ministry of Mines and Geology by end 2011	Letter from the Ministry of Mines and Geology certifying the endorsement of the action plan	
II.b.2. Conducting of audits (2007 and following) required for implementing the Guinea EITI for the implementation of the action plan	EITI audit reports for 2007 and following	Delay in conducting EITI audits	The 2007, 2008, 2009 and 2010 audits conducted by end 2011	Copies of (EITI) audit reports	
<b>Financing Plan: ADF: UA 20 million; World Bank: UA 50 million</b>					

**REPORT AND RECOMMENDATION OF AFRICAN DEVELOPMENT BANK**  
**GROUP MANAGEMENT TO THE BOARD OF DIRECTORS CONCERNING THE**  
**AWARD OF A GRANT TO THE REPUBLIC OF GUINEA TO FINANCE THE**  
**ECONOMIC AND FINANCIAL REFORM SUPPORT PROGRAMME**  
**(PAREF)**

## **I PROPOSAL**

1.1 This proposal submitted to the Board for approval concerns an African Development Fund grant of UA 20 million to the Republic of Guinea to finance the Economic and Financial Reform Support Programme (PAREF). It entails a budgetary support to be executed over a 12- month period from May 2011 to 30 April 2012. It forms part of a tripartite operation with the World Bank and the International Monetary Fund. It is a follow-up to a request made by the Government to the Bank in February 2011 and preparatory missions, as well as a continuation of two institutional support operations supported by the Bank (PADIPOC and PARCGEF).

1.2 After over two decades of authoritarian rule and two years of military transition (2009-2010), Guinea has all the symptoms of a fragile State due to the mismanagement of public resources that led to:(i) excessive growth of public expenses essentially financed by advances from the Central Bank and commercial banks; (ii) slowdown of economic activities; and (iii) deterioration of social indicators. The intensification of inflationary trends, stagnation of budgetary revenue and aggravation of the incidence of poverty are key elements of the country's fragile status. In the absence of substantial financial support from Guinea's technical and financial partners, these indicators could deteriorate further with serious consequences such as social unrest that could jeopardize the recent democratic gains. Furthermore, the joint intervention of the Bank and the World Bank through the policy dialogue programme will contribute to improving the public finance management system. Thus, in the medium term, Guinea has an effective and transparent system that meets the budgetary support requirements.

1.3 The goal of PAREF is to contribute to creating the necessary conditions for economic recovery and restoration of macroeconomic stability, and this through improved governance in the extractive sector. The programme will support the Government's efforts to restore the normal functioning of the country's institutions, following the malfunction of the exceptional period. The main expected results of the programme are: (i) reduced extra-budgetary expenditure; (ii) increased Government revenue from 15% of GDP in 2010 to 17% in 2011; (iii) improvement in the mining sector's contribution to GDP from 14% to 17% for the 2010 to 2011 period; and (iv) endorsement of the country's EITI status in 2011.

## **II COUNTRY AND PROGRAMME CONTEXT**

### **2.1. Government Development Strategy and Medium-Term Priorities**

2.1.1 The Interim Poverty Reduction Strategy Paper (I-PRSP) for the 2011-2012 period, approved in February 2011, constitutes the sole intervention framework for the country's technical and financial partners. The I-PRSP aims to improve economic governance and

accelerate growth<sup>i</sup>. The Government's development strategy as contained in the interim paper is based on three objectives: (i) improving governance and building institutional and human capacity; (ii) accelerated growth and creation of employment opportunities for all; and (iii) improving access to quality social services. The PRSP is backed by medium- and long-term policy and sector strategies, including the public finance reform strategic plan. The formulation of the interim PRSP was based on a consultative process involving all stakeholders, notably civil society representatives, workers' representatives, private sector operators, communities around mining basins and donors.

2.1.2 The advent for the first time in the history of Guinea of a democratically-elected government in December 2010 has paved the way for opportunities leading to economic and social progress. Notwithstanding, the challenges are daunting and the expectations of the population high and urgent.

## **2.2. Recent Economic and Social Developments, Prospects, Constraints and Challenges**

### **Economic and Social Context**

2.2.1 **Recent economic and financial developments.** With economic growth ranging from -0.3% to 1.9% in 2009 and 2010, respectively, Guinea witnessed a slight increase in GDP, albeit well below the initial targets of 4.9% for 2009 and 3.7% for 2010. However, a slight economic recovery entailing about 4% growth is projected for 2011. This context of sharp GDP decline, weak mobilization of domestic revenue, suspension of external aid and unprecedented growth of public spending, notably military<sup>ii</sup>, resulted in a widening of the fiscal deficit to 12% of GDP. The authorities resorted to bank financing and creation of money to finance recurrent expenditures. In turn, this generated over-liquidity in the economy. Money supply rose by 71% over the 2009 to 2010 period. This has created an inflationary trend in the last three years (18.4% in 2008; 7.9% in 2009; and 20.9% in 2010) and a high depreciation of the country's currency in relation to those of its commercial partners.

2.2.2 **Regarding public finances,** the fiscal position which had deteriorated considerably in 2010 was expected to improve in 2011. In the absence of a formal budget due to the transitional military regime in 2009-2010, the Government did not follow any normal public expenditure rules of procedure. The fiscal deficit, excluding grants (commitments basis), was 15% in 2010<sup>iii</sup> as against 12.8% of GDP in 2009, essentially resulting from capital spending that did not observe normal public procurement procedures, with the bulk of government contracts awarded by negotiation (91% of the totality of procurement in 2010). The deficit was due to the constant increase in spending during the last two years (16.5% of GDP in 2009, 19.4% in 2010). Concurrently, revenue stagnated at 15% of GDP over the same period. Concerning the country's external position, the current account showed a deficit exceeding 8% of GDP in 2009 and 2010.

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<sup>i</sup>It comes as a follow-up to PRSP II (2007-2010) which, in view of the social unrest and military transition, was not fully implemented and led to the suspension of donor support. Its implementation should result in the formulation of PRSP III that will cover the 2012-2015 period.

<sup>ii</sup>These expenditures represented 10% of GDP from 3% in 2008, with the regional average ranging between 1.5 and 2%.

<sup>iii</sup> The first rank criteria of WAMZ, fiscal deficit, excluding grants, must be below 4% of GDP

2.2.3 The debt stock is estimated at USD 3 billion, corresponding to 84% of GDP and 290% of exports. Unfortunately, prospects for achieving sustainable external debt since 2007 have been futile and uncertain as a result of the mixed performance and setbacks in the reforms of recent years, as well as suspension of bilateral and multilateral aid, particularly during the transitional military intervention. Consequently, the country was unable to reach the HIPC Initiative completion point after reaching the decision point in 2000.

2.2.4 **At the social level**, poverty has worsened in recent years, with an incidence of 43.6% in 1996, 49.2% in 2002 and 54% in 2010. In 2010, Guinea ranked 156<sup>th</sup> out of 169 countries on the UNDP Human Development Index compared to 160<sup>th</sup> out of 174 in 2004, meaning that little progress has been made in recent years. The gross enrolment ratio (GER) dropped from 79% in 2007-2008 to 77% in 2008-2009 in relation to the 83% target. In the health sector, measles immunization coverage for infants aged below one declined to 65.4% in 2008 from 85.3% in 2007. Yet, these rates are key to achieving the MDGs. Lastly, it is worth noting that less than half of the population has access to safe drinking water and only 16% to electricity.

### **Prospects and Constraints**

2.2.5 Rising inflation, stagnation of fiscal revenue and aggravation of poverty have characterized the state of the country in the last two years. Despite this relatively gloomy economic and social situation, the advent of the new government end 2010 ushered the country into a new era. With the expected resumption of economic activities in all the sectors and the re-engagement of donors, GDP growth should attain 3.9% in 2011 and grow further to 4.5% and 5% in 2012 and 2013, respectively. However, constraints still remain high, notably with: (i) weak electricity and water supply; (ii) defective state of roads and lack of water control which prevents the country from fully harnessing its agricultural potential; and (iii) an unfavourable environment for private sector development.

2.2.6 In this regard, the Government intends to rely on a number of parameters to revive economic growth, namely: (i) rigour in public resource management; (ii) better governance in extractive industries that account for the bulk of Government revenue; and (iii) creation of a more favourable environment for private sector development. Overall, to improve the situation and revive the economy, the new Government should implement macroeconomic and financial stabilization policies. The main drivers of the latter should be the pursuit of a restrictive fiscal policy with public expenditure management on cash basis and better mobilization of internal and external resources. The 2011 fiscal year, prepared in collaboration with the IMF, should present a deficit of less than 2% of GDP.

## **2.3 Status of Bank Portfolio**

As at 30 January 2011, the active portfolio of the Bank comprised 12 on-going operations—made up of 11 ADF-funded operations and one operation funded with the Nigeria Trust Fund (NTF). This represents a net total of UA 107.60 million with a 42.2% disbursement rate. A breakdown by sector indicates the predominance of three major sectors, namely agriculture (30%), social sector (23.3%) and infrastructure (42.2%). Operations relating to economic and financial governance represent 4.5% of the total amount of the portfolio; PADIPOC, approved in 2006, recorded a 46% disbursement rate. It is worth mentioning the economic and financial capacity building programme (PARCGEF) approved in January 2011. Based on the last review conducted in 2010, the general performance of the portfolio is unsatisfactory with an overall rating of 2.21. The portfolio has three potentially problematic operations.

### III RATIONALE, MAIN ELEMENTS OF PROGRAMME DESIGN AND SUSTAINABILITY

#### 3.1 Linkages with CSP, Assessment of Country Preparedness and Underlying Analytical Elements

3.1.1 **Linkages with CSP:** The budgetary support is in line with RBCSP 2005-2009 extended to end 2011, aimed at reviving economic growth (targeted result of 5% of GDP) and strengthening basic infrastructure. The strategy hinges on two pillars: (i) strengthening infrastructure and promoting growth sectors; and (ii) support to basic social services. The proposed budgetary support aimed at moving the public finance management reforms forward, is in line with the third sub-pillar related to macroeconomic stabilization and economic governance (Pillar I of RBSCP–Technical Annex 1). Furthermore, these objectives encompass Thrusts 1 (improving governance and institutional and human capacity building) and 2 (acceleration of growth and creation of employment opportunities for all) of the Interim PRSP 2011-2012 (Technical Annex 2).

3.1.2 **Pre-requisites for implementation of budgetary support:** *overall, the 2009/2010 military transition resulted in transparent and credible presidential elections in December 2010.* In the economic sphere, the country's performance has been weak in the last two years. However, the strong commitment of the new government to implement the priority reforms has paved the way for economic growth. One of the priority actions of the new Government was to restore relations with its major development partners, notably the African Development Bank, the World Bank and the IMF. During the period of instability, the country's eligibility for the IMF facility arrangement was suspended. The IMF assessed the conditions for establishing, beginning June 2011, a 6-month Rapid Credit Facility (RCF) from January to June 2011 (cf. § 3.2.2). The Bank's intervention through PAREF will take into account the approval of the RCF proposal by the IMF Executive Board at its forthcoming June 2011 session. Indeed, the setting up of the RCF is a condition precedent to the disbursement of the first tranche of the grant (cf. §6.2.3).

3.1.3 *At the technical level, Guinea has met the technical pre-requisites of a medium-term development strategy, a viable macroeconomic framework, partnership between the country and the TFPs and collaboration between donors:*

- (i) **Existence of an interim poverty reduction strategy paper** (PRSP) covering the 2011/2012 period aims to improve the living conditions of the communities sustainably, pending the formulation in 2012 of a 3-year third-generation PRSP (cf. §2.1.1). With the implementation of reforms and institutional support projects in 2011, the country stands to benefit from a stable macroeconomic and financial framework;
- (ii) **Concerning the viability of the macroeconomic framework**, prospects for the next three-year arrangement with the IMF supported by the Extended Credit Facility compelled the authorities to keep the reforms on course by deepening them in order to implement the Government's medium-term development policy. The viability of the framework is based on well-targeted benchmarks in the Government's budget, whose primary balance excluding grants is set at -2% of GDP;

- (iii) *There is partnership between Guinea and its technical and financial partners*, which translates into periodic meetings, particularly under the Public Macro-finance Thematic Group or the Mining Sector Thematic Group (cf. §3.2.1). This partnership helped to put in place a common matrix of priority actions in public finance management in 2010, which was updated in February 2011.
- (iv) *There is high synergy in donor interventions in Guinea*. This is reflected by joint missions periodically undertaken by the Bank and the World Bank in Guinea as well as through continuous information sharing and the use of the same structures to monitor programmes or projects (for instance, the Programmes Technical Unit).

3.1.4 Thus, of all the technical pre-requisites, only the procurement systems and financial management have weaknesses that the on-going structural reforms will remedy.

3.1.5 *With regard to financial management and the procurement systems, the programme under consideration will support key structural reforms aimed at strengthening these systems. This will enable the country to meet the relevant technical pre-requisites in the medium term. In the short term, to ensure effective programme implementation, a number of fiduciary safeguards (cf. Box 1), shared with various partners involved in this operation, will be put in place.*

- (i) **Financial management:** The financial management system of Guinea is fraught by several inconsistencies, notably:
  - (i) existence of extra-budgetary operations;
  - (ii) lack of approval by financial controllers and; (iii) the control function is still poorly executed throughout the expenditure chain. These weaknesses were highlighted in the 2007 PEFA (summary in Technical Annex 5). The overall performance of the public finance management system in Guinea places the country among those with the lowest ranking. However, the PEFA recommendations enabled the Government to formulate with the assistance of the IMF, a strategic public finance reform plan (PSRFP) in 2008. This reform plan adopted by all the donors was updated in September 2010 and in February 2011 under the Public Macro/Finance Thematic Group. Several reform actions of the plan are undergoing implementation through the various TFPs operations. It was mainly during the military transitional period of 2009 and 2010 that fiscal discipline was relaxed. Indeed, overall fiscal discipline was observed until end 2008 despite these weaknesses.

The Bank drew on the fiduciary assessment made by the World Bank early 2011, as part of the preparation of its budgetary support, to have reasonable assurance on the reliability of the financial mechanisms of the Central Bank of the Republic of Guinea (BCRG), despite some remarks on the certification of its 2008 and 2009 financial statements and compliance with some statutory obligations. A restructuring process was initiated in 2010 to address these shortcomings. Furthermore, in 2007 the IMF undertook an

assessment of the safeguards<sup>iv</sup> at the BCRG. The assessment was deemed satisfactory.

The public finance management reforms contained in the PSRFP supported by this programme, the other Bank projects and the World Bank's programme will in the medium term help to meet the financial management pre-requisites. To ensure satisfactory implementation of this programme and the effective use of resources, and pending the restoration and strengthening of the public finance management system, a set of short-term safeguards will be put in place. The short- and medium-term measures agreed to are described in the box below. The adequate implementation of the structural reforms will play a determinant role in reducing the fiduciary risk.

**Box 1**  
**Financial Management Strengthening Measures**

The contingency (short term)safeguards and structural reforms (medium term), agreed with the Government, will make it possible to mitigate the fiduciary risk and strengthen the national public finance management system. This arrangement will thereby enable the efficient and economic use of resources, and the achievement of programme objectives.

1. Contingency measures to strengthen the short-term public finance management system:
  - i. **External Control:** Conducting an independent audit of financial flows between the Public Treasury and the special account opened with the BCRG to receive the Bank's financial resources under the budgetary support (within 180 days following PAREF closure). A similar audit will be conducted for financial flows between the Treasury and the World Bank's special account.
  - ii. **Internal ex-post control:** Establishment of quarterly budgetary execution reports (from commitment to payment order) which will be endorsed by the IGF (financed under PADIPOC).
  - iii. **Internal ex-ante control:** Formulation of a financial control procedures manual.
2. Structural reforms: These reforms concern the implementation of actions defined under the joint donor matrix for the reform of public finances. The Bank, under this programme and the two PARCFEF and PADIPOC projects, supports the implementation of a significant portion of these actions (cf. §4.2 on description of the reforms programme).

This programme is being implemented with a view to restoring fiscal discipline, improving resources and strengthening the procurement system. PADIPOC provides support to control organs and in particular to the General Inspectorate of Finance, in addition to contributing to improving public investment programming. With regard to the PARCFEF project, it will support the improvement of the budget preparation, implementation and monitoring process.

- (ii) **Regarding procurement**, the country does not meet the requirements for the use of the country system. This area has some shortcomings that were aggravated during the military transition period. However, the new Government has undertaken to definitively correct past practices through both anticyclical and structural measures as indicated in the box below. These measures will be supported by this programme, notably by strengthening the procurement legal framework. They will also be backed by PADIPOC, which is funded by the Bank to strengthen the ex-post control of public procurement.

<sup>iv</sup> Assessment of the IMF safeguards covered five areas: external audit mechanism, legal structure and independence, financial reporting framework, internal audit mechanism and internal control system

**Box 2**  
**Procurement Strengthening Measures**

1. Contingency measures to strengthen the short-term procurement system:
  - i. Conducting of quarterly procurement audits by the IGF
  - ii. Auditing of the legality of 2009 and 2010 directly negotiated contracts to be conducted by an independent committee made up of independent auditors
  - iii. Formulation of an action plan to implement the recommendations of the independent audit of 2009 and 2010 directly negotiated contracts
  
2. Structural Reform: Formulation of a draft law governing the control and regulation of public contracts and delegation of public services. This reform will help to provide Guinea with a regulatory framework that meets relevant regional standards

3.1.6 Notwithstanding the shortcomings noted in the public finance management system, the relevance of the Bank's intervention is justified in view of Guinea's financing needs for implementing its development strategy. This tripartite intervention will enable the restoration and enhancement of the public finance management system. To this end, significant reforms that are on-going will be implemented prior to the presentation of this operation for consideration by the Bank's Board of Directors (cf. §4.3.1). The short-term actions of the safeguards will also ensure the effectiveness of the agreed tripartite intervention.

3.1.7 The recent Country Policy and Institutional Assessments (CPIA) by the Bank reflect the net progress made by Guinea, which has improved its score from 3.24 in 2008 to 3.4 in 2010. This contributed to the increase in country allocation under ADF XII. This improvement essentially stemmed from efforts by the country to strengthen social inclusion and equity policies.

3.1.8 **Concerning institutional capacity**, Guinea is beset by inadequate institutional capacity both human and material. Bank assistance through the Project to Support Debt Management Capacity Building, Public Investments and Control Organs (PADIPOC), has helped to enhance the public investment project and debt management capacity. Furthermore, Bank assistance through the Project to Support Economic and Financial Management Capacity Building (PARCGEF), will endow the authorities with the human capacity and technical tools to undertake reliable and sustainable budget preparation and execution. The two institutional support projects, namely PADIPOC and PARCGEF, as well as the support provided by other donors in this area will enable the administration to meet the training and equipment needs of the beneficiary structures.

3.1.9 **Analytical work:** This operation has benefited from the findings of recent studies and analyses, especially the 2007 PEFA and IMF analyses on safeguards in 2007 public finance management. Furthermore, as part of PARCGEF implementation, several economic studies will be conducted, particularly on tax system assessment and possible contribution to mining sector development.

## **3.2. Donor Collaboration and Coordination**

3.2.1 Collaboration and coordination with the World Bank, co-financier of PAREF, follow the guidelines of the Paris Declaration on aid effectiveness. In order to provide a rapid response to the needs of Guinea after the transition period and pending their re-engagement, the TFPs agreed to coordinate their interventions starting 2010, notably through the Public

Macro/Finance Thematic Group comprising the Bank, the IMF, the World Bank, the European Union, etc. These efforts have led to the formulation of a joint matrix by the TFPs for the public finance reforms, indicating each partner's intervention areas (Technical Annex 7). Following the example of the Public Macro/Finance Thematic Group, a thematic group for the mining sector made up of the various TFPs and led by the French Development Agency (AFD) is active in coordinating TFP support in the sector. The table in Technical Annex 8 describes the intervention areas of the various TFPs in Guinea. Coordination will also occur through the Programme Monitoring Technical Unit (CSTP). The latter will receive technical assistance from the Bank and the European Union in order to fulfil its mission of coordinating donor interventions.

3.2.2 As part of the resumption of its relations with Guinea, the IMF opted to set up a Rapid Credit Facility (RCF) arrangement for 6 months (from January to June 2011) which, if successful, would be followed with an Extended Credit Facility (ECF). It is after the latter has been put in place that the one-year process leading to the attainment of the HIPC Initiative completion point will be launched. The proposed agenda implies that the country on its part will be able to reach the completion point by June 2012. For its part, the World Bank (WB) expects to resume its activities in the country as soon as the IMF's RCF arrangement is approved and the country has cleared its arrears<sup>v</sup>. The World Bank's intervention will take the form of budgetary support amounting to USD 75 million. The reviews of the World Bank support as well as the IMF's RCF by their respective Boards are scheduled for May/June 2011. The Bank will proceed to the disbursement of its budgetary support once the IMF RCF has been approved.

### **3.3. Results and Lessons from Similar Operations**

3.3.1 The Bank has financed several operations in economic governance improvement in countries emerging from fragile situations similar to that of Guinea. This experience shows that the reform measures related to budgetary support to these countries must be politically achievable. The reforms must have as priority objectives the restoration and strengthening of the basic operation of government and restoration of macroeconomic stability. Thus, PAREF will concentrate its intervention on priority measures by building on the Government's commitment to achieve these objectives.

3.3.2 The Bank has not financed budgetary support operations in recent years in Guinea. Nevertheless, it funded two institutional support projects: PADIPOC, in 2006, and PARCGEF approved in January 2011. PADIPOC, which will be completed in December 2011, has helped to achieve progress in debt and public investment management through the introduction of modern techniques, formulation of procedures manuals, training and technical assistance. PARCGEF entails three main intervention areas: (i) improving public finance management; (ii) improving governance in the extractive and forestry sectors; and (iii) strengthening the coordination and monitoring of economic and financial reforms.

### **3.4. Linkages with Other Bank Operations in the Country**

The achievement of PAREF outcomes is assured by the excellent complementarity between its objectives and those of PADIPOC and PARCGEF. Thanks to the programme, a favourable framework for implementing other Bank operations will be put in place, notably

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<sup>v</sup> For the clearance of arrears, it has been decided that a bridge loan be put in place. This will consist in requesting a third party (France or/and the Soros Foundation or the Guinean Government using its IMF Special Drawing Rights) to advance an estimated USD 64 million.

those of the private sector through improved governance in the extractive sector. Furthermore, the new UA 2.5 million targeted FSF undergoing preparation includes building capacity to manage PRSP III and emergency financial support to the National Statistics Strategy (SNDS), particularly the general population and housing census (GPHS – III) scheduled for December 2011. The last component of the targeted support entails financial and logistics support for holding the “Conference of Friends of Guinea”, the Preparatory Committee of which is being created.

### **3.5. Comparative Advantages and Bank’s Value Added**

On the basis of the experience acquired, the Bank has in-depth knowledge of the Guinean administration enabling it to play a key role in the formulation and implementation of the PAREF. Since it did not suspend its interventions in Guinea during the transition period, the Bank was able to serve as a catalyst in the establishment of the common TFP matrix of priority actions for the public finance reform. In this regard, it managed to maintain quality high level dialogue with the authorities aimed at better targeting of the reforms. The implementation of PADIPOC and PARCGEF activities will help to support Guinea in the executing over 50% of actions identified in the Joint Priority Action Matrix in the public finance reform and, consequently constitute vectors of the Bank’s value-added compared to other partners.

### **3.6. Application of Good Practice Principles with Regard to Conditionalities**

3.6.1 Good practice principles with regard to conditionalities were taken into account in PAREF design and formulation. Indeed, the Bank opted for measures precedent to presentation of the operation to the Board of Directors in order to enhance flexibility. Furthermore, the similarities in the measures defined for this programme with the actions agreed to in the Bank’s institutional support operations were maintained.

3.6.2 The ADB and the World Bank which support PAREF, held sustained consultations to strengthen the synergy and consistency of their respective interventions. The Government and various donors put in place a common matrix of measures and performance indicators in a coordinated manner, to harmonize the disbursement conditions and modalities for assessing progress made under the programme.

## **IV PROPOSED PROGRAMME**

### **4.1. Programme Goal and Objectives**

4.1.1 PAREF’s goal is to contribute to creating the necessary conditions for economic recovery and macroeconomic stability. Its specific objectives are: (i) strengthening of public finance management; and (ii) improvement of governance in the extractive sector.

4.1.2 PAREF is necessary to enable the Government to restore macroeconomic stability and have the fiscal space to put in place its poverty reduction strategy. To this end, structuring reforms on enhanced budget management and improved contribution by the extractive sector to development are immediate priorities for the new Government.

### **4.2. Programme Components, Objectives and Expected Outcomes**

4.2.1 PAREF consists of two main components: *(i) strengthening public finance management; and (ii) improving governance in the extractive sector.* The objectives of the

two components are complementary. The former seeks to improve the management of public resources while the latter aims to sustain these resources through better contribution by the extractive sector to the economy.

## **COMPONENT I –Strengthening Public Finance Management**

4.2.2 Several factors hamper public resource mobilization and expenditure effectiveness. These include the lack of consistency between the strategic vision reflected in the PRSP and the annual budget acts, delayed presentation of the annual budget act before the National Assembly and existence of extra-budgetary operations, abuse of the contract negotiation procedure and the poorly managed audit function due to the limited independence of auditors, poorly defined roles between the authorizing officer, financial controller and the public accountant throughout the expenditure chain. These structural weaknesses were highlighted in the 2007 PEFA assessment (Technical Annex 5). However, fiscal discipline was generally observed up to the end of 2008. Expenditures were in line with the budget as the satisfactory score of the PEFA indicator on “aggregate expenditure outturn compared to the original approved budget” shows. Furthermore, “timeliness and regularity of accounts reconciliation” at the Treasury were also deemed satisfactory. The PEFA recommendations enabled the Government to formulate, with the assistance of the IMF, a strategic public finance reform plan in 2008 for implementing structuring reforms to address the weaknesses noted.

4.2.3 In the context of the 2009-2010 transition period, fiscal discipline was lax, total government spending practically doubled from 17.5% to 29.6% of GDP between 2008 and 2010, and this in a context of significant reduction of external financing and internal revenue. This budgetary gap is mainly attributable to the execution of procurements awarded by direct negotiation, outside any control within the expenditure chain, as well as expenditures related to the organization of the presidential elections. The expenditures on directly negotiated contracts represent over 40% of GDP, equivalent to USD 1.6 billion, of which 45% was for security and defence services.

4.2.4 To restore macroeconomic stability and fiscal discipline aimed at obtaining the necessary leverage for development policies, the Government hopes to take rapid response measures while initiating the implementation of the structuring reforms agreed to under the PSRFP. To address the Government’s priorities, the first component of PAREF consists in putting in place necessary tools for restoring fiscal discipline, improving revenue mobilization and strengthening the procurement system.

### ***Sub-Component I.a–Restoring Fiscal Discipline***

4.2.5 **Initial context and justification:** the current legal framework governing public finance management is inconsistent and hampers transparency and fiscal discipline. It does not incorporate the reforms initiated by the authorities in previous years, for instance devolution in sector ministries and delegating the management of their budget credit to such ministries. The weaknesses noted in PEFA 2007 cover the entire scope of the budget cycle, from preparation to ex-post audit of the execution. However, the new Government prefers to give priority to the immediate restoration of fiscal discipline by strengthening internal and external control of budget execution. ***Concerning internal budget execution control:*** during the transition, financial control procedures were violated and simplified public expenditure execution procedures outside the legal framework were used instead. These particularly

concerned procedures entailing payments without prior authorization and the system of granting advances. The effect of the recent public finance management reforms, based on orders and circulars, was to render the public expenditure execution framework inconsistent and incomplete. **Concerning external budget execution control:** the current state of the assessment shows that budget control did not exist, with the exception of the rudimentary control carried out by the Chamber of Accounts of the Supreme Courts. This is attributable to the weak economic analytical capacity of the Chamber of Accounts and the absence of a framework governing its authorization and mandate (the case since the Chamber's inception). The Chamber of Accounts has never produced annual reports or issued opinions on government accounts. Furthermore, the draft budget review acts prepared by the Ministry of Economy and Finance and submitted to the Chamber of Accounts for scrutiny have not been turned in since 2005. While Government's management accounts are prepared annually, some expenditures, which were made without prior authorization, could not be justified, thereby blocking the drafting of the budget review bills.

**4.2.6 Recent Government Actions:** having noted the scale of extra-budgetary expenditures during the 2009-2010 period, the Government embarked on several actions to restore fiscal discipline. An order from the Minister of Economy and Finance governing exceptional budgetary execution procedures is being formulated. Furthermore, with the support of PADEPOC (a project financed by the Bank), a financial control procedures manual is being updated. Also, the Ministry of Economy and Finance issued Order No. 1083 dated 16 March 2011 defining the missions and responsibilities of the financial controller, who must: (i) ensure the regularity of commitment proposals and expenditure payments; and (ii) issue an opinion on draft bills with financial implications. Other actions supported by the Bank and other donors have also been initiated, such as the PARCGEF financed by the Bank and aimed at improving the pre-budget preparation process or the modernization of the expenditure chain funded by the European Union. The interim constitution adopted in May 2010 established the Court of Accounts, a body independent of the Supreme Court which hitherto housed the Chamber of Accounts. The Ministry of Economy and Finance finalized the revised management accounts up to 2009 and work on the 2010 accounts is being finalized. This will pave the way for the acquisition of basic information needed to draft budget review acts.

**4.2.7 Challenges to be met:** The Government must overcome the challenge of restoring fiscal discipline in order to have space for improving general public finance performance. For the improvement of internal control, *the Government must meet the challenge of putting in place a general internal control framework and take the necessary steps to supervise and enforce the legal procedures for executing public expenditure.* To improve external control, *the Government must take the necessary steps to catch up on the drafting of delayed budget review bills and submit them to the new Court of Accounts. Furthermore, it is also necessary to ensure that the Court of Accounts, which will examine these bills, becomes operational.*

**4.2.8 Programme Measures:** *Concerning the strengthening of internal control,* measures proposed under this programme are: (i) **issuing by the Ministry of Economy and Finance of an order on the use of exceptional budgetary procedures relative to unauthorized expenditures and the advances mechanism;** and (ii) **adapting the financial control procedures manual to international standards.** *Concerning strengthening of external control,* the measures agreed to are: (i) **endorsement by the Ministry of Economy and Finance of an action plan for formulating the delayed budget review acts** (since

2005);and (ii) **transmission of the Organic Bill governing the institutional organization of the Court of Accounts to the National Transition Council.**

4.2.9 **Expected results:** The implementation of PAREF measures will contribute to restoring fiscal discipline. Indeed, it is expected that the proportion of extra-budgetary expenditures would decrease from 80% of the budget in 2010 to 25% in 2011, and the Country Policy and Institutional Assessment (CPIA) Indicator 13, relating to the quality of financial and fiscal management would increase from 3 in 2009 to 3.5 in 2011 on a scale of 6.

#### ***Sub-Component I.b—Improving Revenue Mobilization***

4.2.10 **Initial Context and Justification:** To meet the economic and social development aspirations of the people, the mobilization of the country's domestic resources and improvement of the treasury must be strengthened. Efforts to increase revenue are facing several constraints mainly due to weak governance in government revenue collection agencies, especially the National Tax Directorate (DNI) and the National Customs Directorate (DND). Furthermore, the 2007 PEFA identified a single accounting system as a benchmark to be met to enable the Government to have supplementary financial resources. Indeed, over 200 accounts belonging to public establishments are domiciled at commercial banks. These banks invested these resources in Treasury bills for profit, representing a significant loss for public accounts. However, stringent fiscal discipline requires better management of ministerial financial flows by the Treasury by either periodically repatriating their credit balances to the Treasury or lodging them at the Central Bank to ensure the singleness of the Government account.

4.2.11 **Recent Actions of Government:** The Government is in the process of formulating performance contracts to be signed with the DNI and DND, two major institutions responsible for revenue collection. The performance contracts will define the resources released to them as well as the benchmarks to be met in terms of tax and customs revenue<sup>vi</sup>. Regarding the need for a single Treasury account, an inventory of public establishment accounts was launched early 2011.

4.2.12 **Challenges to be met:** The Government should formulate legal instruments and monitoring frameworks for revenue collection consistent with its ambitions and the country's economic development. Thus, the reforms concerning management of revenue collection and the legal instrument governing the tax system, together with capacity building actions to be undertaken under the institutional support project, will help to address the country's need to mobilize more domestic resources.

4.2.13. **Programme measures:** In a bid to *improve the performance of revenue collection agencies and modernize the regulatory frameworks for resource mobilization*, the measures consist in: (i) **signing performance contracts between the Ministry of Economy and Finance and the revenue collection authorities: National Tax Directorate and National Customs Directorate;** and (ii) **revising the General Tax Code.** *Concerning improving the management of the Government Treasury*, the programme plans to support: (i) **the**

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<sup>vi</sup>The Bank's institutional support project, PARCGEF, will contribute to improving internal procedures and streamlining the operation of the DNI through staff training and technical assistance for the study on the tax system and revision of the General Tax Code. PARCGEF will also provide the DND with an expert responsible for the revision of the Customs Code. The project will also support the DND in the proposed migration of its computerized customs system from the ASYCUDA ++ version to the ASYCUSA World version.

**compilation of an inventory of public establishment accounts lodged in commercial banks; and (ii) endorsement by MEF of an action plan aimed at creating a single Treasury account at the Central Bank.**

4.2.14 **Expected outcomes:** An increase in Government revenue from 15% of GDP in 2010 to 17% in 2011 will result in the successful implementation of PAREF measures contained in this sub-component.

*Sub-Component 1.c–Strengthening of the Procurement System*

4.2.15 **Initial context and justification:** The weaknesses in the legal framework governing public procurement largely account for the extra-budgetary operations undertaken during the 2009 and 2010 transition period. The current public procurement code does not provide safeguards for the use of the direct negotiation procedure. This has been the source of abuse. Given the renewed economic recovery prospects and the expected investments to harness the country’s potential, the Government intends to undertake an inventory of public contracts awarded between 2009 and 2010 as a way of sending a clear signal that a new era of transparency and enforcement of rules has dawned. It also plans to put in place the necessary reforms to strengthen the legal framework governing procurement. Beyond the tax and macroeconomic impact of the reform envisaged by the authorities, their efforts will also help to enhance governance in public expenditure execution.

4.2.16 **Recent Government action:** in line with the WAEMU guidelines, the authorities prepared a bill on a revised public procurement code that meets international standards. The authorities also intend to pursue the efforts initiated to conduct quarterly public procurement audits as part of the HIPC Initiative. The Bank will provide technical assistance under PADIPOC to conduct the outstanding audits of the 2009 and 2010 periods<sup>vii</sup>.

4.2.17 **Challenges to be met:** Government’s current challenge is to quickly have a legal framework that meets international public procurement standards. The aim is to start the implementation of public investments in a context of improved transparency and governance.

4.2.18 **Programme measures:** *To modernize the public procurement legal framework and strengthen ex-post control*, PAREF includes provision for: (i) **conducting an independent audit on the legality and transparency of directly negotiated contracts signed in 2009 and 2010** to be conducted by independent auditors; (ii) **auditing of procedures and quarterly financial auditing of public procurement for 2009 and 2010** as part of the conditions for the HIPC completion point; (iii) **adoption by the Council of Ministers of an action plan to implement the recommendations of the audit on directly negotiated contracts;** and (iv) **endorsement by the Council of Ministers of a bill governing the award, control and regulation of public procurement and delegation of public services.**

4.2.19. **Expected outcomes:** Undertaking measures to strengthen the procurement system under PAREF will help to reduce the share of directly negotiated contracts from 91% of the value of public procurement in 2010 to 20% in 2011.

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<sup>vii</sup>The World Bank also supported the public procurement reforms prior to suspending its operations during the transition period. The Bank continues to support the implementation of reforms under the PADIPOC project, particularly in respect of building the capacity of the National Procurement Directorate (DNMP) and widely disseminating legal and regulatory instruments. To ensure greater transparency, the Government, through the DNMP, will henceforth publish directly negotiated contracts in the local newspapers.

## COMPONENT II –Improving Governance in the Extractive Sector

4.2.20 This component of the Programme consists in putting in place a general framework to manage the extractive sector and improve transparency in the mining sector.

### Sub-Component II.a –Putting in Place a General Framework to Manage the Extractive Sector

4.2.21 **Initial context and justification:** Guinea is noted for its significant mining potential, with nearly one-third of world bauxite reserves for which it ranks as the second leading producer in the world after Australia. The country's bauxite production represents 94% of the African output. Guinea is also rich in iron ore, diamond and various base metals in addition to oil exploration in the offshore sedimentary basin. The extractive sector accounts for nearly 90% of the country's exports and its contribution to the GDP is estimated at 20% (Technical Annex 9). Major investments have been envisaged for actual mining as well as railway and port infrastructure activities. This is to be added to the proven hydrocarbon potential in the offshore sedimentary basin and the possible existence of uranium, nickel, calcium and granite deposits. With a mining code that no longer meets current needs and in the absence of a legal instrument covering oil exploitation activity, Guinea has an urgent need to adopt a mining policy letter and appropriate regulatory instruments.

4.2.22 **Recent Government actions:** The Government intends to adopt a mining policy letter that will help to clarify its guidelines on managing the sector. The Bank is providing support, through technical assistance under PARCGEF, for preparation of the letter. Furthermore, with AFD assistance, a new mining code is being drafted to clarify the rules and remove the ambiguities of the 1995 mining code. This will help to harmonize the legislation with relevant international standards. Furthermore, with financial assistance from the Bank (PARCGEF), a new oil code will be prepared to help fill the legal vacuum created by the absence of a legislative framework covering oil exploration and production activities. The World Bank will provide support in this area through a technical assistance project.

4.2.23 **Challenges to be met:** The authorities intend to quickly address the need to have a coherent legal and institutional framework. This will help to support the development of the extractive sector and increase its contribution to GDP in order to mobilize the necessary resources for conducting socioeconomic development policies countrywide. This need is immediate in view of the sizable investments expected in the sector following the political stabilization of the country.

4.2.24 **Programme measures:** The actions outlined in PAREF comprise: (i) **adoption by the Council of Ministers of a mining policy letter;** (ii) **endorsement by the Council of Ministers of a bill on the revision of the mining code** and; (iii) **endorsement by the Council of Ministers of a bill on the new petroleum code.**

4.2.25 **Expected outcomes:** The expected outcomes comprise the development of the private sector as a result of the renewed confidence of present and future investors in the sustainability of the government action to regulate the sector, attraction of investments into the country and its induced effects on economic growth and distribution of wealth through

employment creation, among others. Thus, the contribution of the mining sector to GDP could reach 17% in 2011, compared to 14% in 2010.

### **Sub-component II.b–Improving Transparency in the Mining Sector**

**4.2.26 Initial Context and Justification:** The Government took action to renegotiate mining contracts, entrusting management of the operation to the Inter-ministerial Committee on Renegotiation of Mining Conventions and Agreements. However, the renegotiation process was marred by lack of transparency, lack of clarity of the Committee’s mandate as well as lapses and shortcomings related to the political instability in the country. Despite the uncertainties and challenges affecting the process, the new Guinean authorities have made a political commitment to renegotiate mining contracts and agreements, at least those entered into since the beginning of the December 2008 military transition under conditions that were at variance with the current legislation. Furthermore, Guinea joined the Extractive Industries Transparency Initiative (EITI) in April 2005 following the transparent management of income derived from these resources. However, at its request, its status as a candidate country was suspended in December 2009 in view of the political instability (Technical Annex 9). Guinea recently requested the lifting of the suspension at the March 2011 session. EITI Guinea has already distributed the report on payments made by the mining companies and revenue received by mining departments for 2005. The 2006 report is undergoing finalization. In the action plan, EITI Guinea has set in its objectives, the auditing of payment and revenue flows for 2006, 2007, 2008 and 2009, and the publication of the corresponding reports (with the support of PARCGEF technical assistance). This aims at providing the best conditions to ensure that Guinea qualifies as an EITI-compliant country following the assessment.

**4.2.27 Recent Government action:** The Government plans to adopt a mining code in the coming days (with AFD funding). Furthermore, Guinea receives support from the Bank, the World Bank and the GIZ for mining sector capacity building. EITI Guinea is in the process of finalizing the reports for 2007 and subsequent years to ensure the timely endorsement of the country as EITI-compliant, notably with the support of the Bank. Several donors (AFD, ADB) have constituted a financial resource mobilization fund to undertake studies on the development of the mining sector.

**4.2.28 Challenges to be met:** There is a growing need to have a clear institutional and regulatory framework to review mining contracts in view of the investments expected in the sector, and their impact on the level of public revenue and economic growth. The review process must be clearly defined to avoid any investment backlash that could have adverse effects on employment and Government. In this regard, the authorities in charge of the mining sector are exploring the possible use of the African Legal Support Facility for assistance in the review and renegotiation of mining contracts. The Government also needs to be supported to reach the stages defined under the EITI and enable the country regain its status.

**4.2.29 Programme measures:** The actions agreed to with the Government to improve transparency in the mining sector are: (i) **formulation of an action plan to review mining contracts in accordance with current legislation;** and (ii) **conducting of necessary audits (2007 and following) as part of the implementation of the EITI Guinea action plan.**

4.2.30 **Expected outcomes:** The expected outcomes comprise improved investor confidence in the management of the mining sector giving rise to increased public revenue and induced effects of mining activities on the economy. It is also expected that Guinea will regain its member country status in accordance with EITI 2011 requirements.

### 4.3 Status of Implementation of Programme Reforms

4.3.1 Based on the foregoing, and to accelerate programme implementation, the Bank and the Government agreed that the measures outlined in the box below must be taken before presentation of the programme to the ADB Board. These structuring reforms will mark the resumption by the Guinean Authorities of efforts to restore the basic functions of public administration. They will have a catalytic effect on other PAREF measures and be determinant to achieving its objectives.

**Box3**  
**Measures Prior to Presentation of PAREF to the Board of Directors**

Precedent Measure 1:	<i>MEF issues an order governing the use of exceptional budgetary execution procedures relating to expenditures without prior authorization and the advances mechanism</i>
Precedent Measure 2:	<i>Conduct an inventory of the accounts of public establishments domiciled at commercial banks</i>
Precedent Measure 3:	<i>Prepare an audit report on the legality and transparency of directly negotiated contracts signed in 2009 and 2010</i>

### 4.4 Financing Requirements and Arrangements

4.4.1 The external financing needs of the Republic of Guinea in 2011 are estimated at USD280 million (UA 187 million). External financing will mainly be used to offset the 2011 budget deficit. The Government put in place a major emergency investment plan to provide access by the communities to basic infrastructure. Furthermore, this external financing will also help reconstitute sufficient foreign exchange reserves to shore up the national currency exchange rate. Indeed, a sharp depreciation of the Guinean Franc will have a negative impact on inflation with its corollary of reduced purchasing power. The current Bank grant amounting to UA 20million represents 11% of the external financing required for 2011.

4.4.2 Donor contributions to cover the 2011 external financing gap under the PAREF, is presented in Table 1, below.

**Table 1**  
**Programme External Financing Needs by Source**

Source	Financing Amount	
	UA Million	USD Million
African Development Bank	20	30
World Bank – First Budgetary Support	50	75
World Bank – Second Budgetary Support <sup>viii</sup>	22.6	34
Other Resources	14.4	22
<b>Total</b>	<b>107</b>	<b>161</b>

<sup>viii</sup>The World Bank is planning a second budgetary support in 2011 as soon as the IMF adopts the ECF. The programme will amount to USD 34 million.

#### **4.5. Programme Beneficiaries**

The end programme beneficiary is the Guinean population in general, which will enjoy improved standard of living resulting from the implementation of poverty reduction policies, better access to social services and basic infrastructure, employment and income-generating economic recovery. The programme seeks to support the government budget to enable it to implement the PRSP as well as the emergency investment plan for providing social services and basic infrastructure to the population. The intermediate beneficiaries are: public departments, which will have new procedures and regulatory frameworks to fulfil their missions; national and international private operators which will operate in an improved business environment made possible by the enactment of coherent legislation of international standards and; communities living around the mining basins that will benefit from a new mining operational policy that protects their interests and improves their living conditions.

#### **4.6. Impact on the Business Environment**

By improving public finance management, the programme will contribute to stabilizing the country's macroeconomic framework. This stability will positively influence the business environment and investment promotion. Indeed, the wait-and-see stance of economic operators in the face of inflation and foreign exchange uncertainties will cede place to greater confidence, resulting in the return of local investments and foreign direct investments. Furthermore, PAREF's support to improve the service delivery of tax collection agencies would enable private sector operators to benefit from better services and greater transparency. The programme also aims to enhance governance in the extractive sector thereby making it possible to propose a consistent, transparent and investment-friendly framework for harnessing the huge potential of the mining sector.

#### **4.7. Impact on Poverty**

On the social front, the implementation of PAREF reforms will contribute to improving discipline in budget execution and, in particular, adherence to allocations to the priority sectors identified in the PRSP namely health, education and access to basic social services. Furthermore, the focus on community development as part of improving governance of the extractive sector will enable the communities living around the mining basins to benefit from allocations from mining companies. By improving the effectiveness of public finances and the capacity of the Government to execute budget priorities, the programme will also enable the Government to put in place its investment plan designed to improve access by the population to basic infrastructure services. Thus, PAREF will have a positive impact on poverty which should decrease from 55% in 2010 to 53% in 2011.

#### **4.8. Impact on Gender**

Women account for 51% of a total population of over 10 million. PAREF does not have any gender-specific actions. However, the proposed reforms to strengthen public finance management will help to uphold budgetary allocations earmarked for priority sectors in the PRSP, geared toward gender support.

#### **4.9. Impact on the Environment**

The programme is a budgetary support operation. It was classified under Category III, based on the Bank's criteria. As such, PAREF will not have any negative impact on Guinea's natural environment. On the contrary, it will have a positive effect by improving the management of the country's natural resources. This will enable Guinea to stay on course towards achieving MDG7 related to sustainable development and natural resource management.

### **V IMPLEMENTATION, MONITORING AND EVALUATION**

#### **5.1. Implementation Arrangements**

5.1.1 *Institution in charge:* Programme measures will be implemented under the auspices of the Programme Monitoring Technical Unit (CTSP). Located within the Ministry of Economy and Finance, CTSP also has representatives from sector ministries and is responsible for coordinating and monitoring the reform programmes of various TFPs. This entity which oversees the coordination of various donor interventions follows the commitments outlined in the Paris Declaration. Furthermore, CTSP will be supported through technical assistance to PARCGEF provided by the Bank and the European Union.

5.1.2 *Disbursements:* The UA 20 million grant will be disbursed in two tranches, subject to the fulfilment by the Donee of the relevant general and specific conditions mentioned in § 6.2 below. At Donee's request, the Bank will disburse the funds into a Treasury account specially opened at the Central Bank of the Republic of Guinea. The Bank and the World Bank are committed to aligning their support with the 2011 budgetary cycle.

5.1.3 *Procurement of goods and services:* Since the programme is budgetary support, its implementation does not raise direct issues regarding the procurement of goods and services.

5.1.4 *Audits:* An audit of financial flows between the Public Treasury and the special account opened at BCRG to receive the Bank's budgetary support funds will be conducted and submitted to the Bank by an independent external auditor, within 180 days of the programme completion date.

#### **5.2. Monitoring and Evaluation**

The macroeconomic monitoring framework and the matrix of measures adopted will serve as the common PAREF monitoring/evaluation framework. The Ministry of Economy and Finance, through the CTSP, will collect data, coordinate the monitoring/evaluation effort and make the information available to the Bank. A joint supervision mission will be conducted with the World Bank and the IMF during the programme implementation period to assess the progress made based on the output and impact indicators of the matrix of measures appended to this report, as well as the macroeconomic results achieved by the country. At the end of the programme, a completion report will be jointly prepared with the Government.

## **VI. LEGAL INSTRUMENTS AND AUTHORITY**

### **6.1. Legal Instruments**

The legal instrument to be used under the programme will be the Grant Protocol Agreement. Parties to this Agreement will be the African Development Bank and the Government of the Republic of Guinea.

### **6.2. Conditions Precedent to Bank Group's Intervention**

#### **A. *Conditions precedent to presenting the Programme to the Board of Directors.***

6.2.1 Based on dialogue with the Government, it is understood that the Government will implement a number of measures prior to programme presentation to the Bank Board of Directors. These conditions are indicated in Box 3 (§ 4.3.1).

#### **B. *Conditions Precedent to Grant Effectiveness***

6.2.2 Grant effectiveness will be subject to the fulfilment of conditions stipulated in Section 10.1 of the General Conditions Applicable to ADF Grant Protocol Agreements.

#### **C. *Conditions Precedent to Disbursements***

6.2.3 Disbursement of the first tranche of UA 15 million will be subject to the fulfilment of the above conditions precedent to disbursement, namely:

- Condition 1: Evidence of opening a Treasury account with the BCRG to receive the grant resources (§ 5.1.2);
- Condition 2: Put in place a Rapid Credit Facility (RCF) with the International Monetary Fund.

6.2.4 Disbursement of the second tranche will be subject to the positive assessment of the macroeconomic framework and fulfilment of the following conditions:

- Condition 1: Signing of two performance contracts between the Ministry of Economy and Finance and the revenue collection agencies: National Tax Directorate and National Customs Directorate;
- Condition 2: Endorsement by the Council of Ministers of the bill governing the award, control and regulation of public procurement and delegation of public services in accordance with the reforms recommended in the analytical review of the public procurement system;
- Condition 3: Endorsement by the Council of Ministers of the bill on the revision of the Mining Code.

### **6.3. Compliance with Bank Group Policies**

PAREF objectives are consistent with the Bank's Medium-Term Strategy (2008-2012) and the Governance Strategic Orientations and Action Plan (GAP, 2008). It is also in keeping

with the Guidelines on Development Budget Support Loans/Grants (ADB, 2004). No waiver is requested in this proposal in respect of these Guidelines.

## VII RISK MANAGEMENT

7.1. The achievement of programme objectives could be hampered by four major risks: political, macroeconomic, social and fiduciary.

7.2. ***Political instability leading to discontinuity of policies:*** The political risk, although largely reduced, is still significant in view of the forthcoming legislative elections and the potential violence that could mark the campaigns. However, the satisfactory implementation of TFP budgetary support operations constitutes a mitigative measure since they would help to fund public expenditure.

7.3 ***Budgetary slippages and greater depreciation of the currency due to the over liquidity of the economy:*** this risk which is related to the country's macroeconomic context will be mitigated by: (i) Government's adherence to the medium-term macroeconomic framework jointly formulated with the IMF; and (ii) close monitoring of the economy through advice provided by technical assistance staff put at the country's disposal within the framework of institution building operations. Furthermore, the IMF's RCF constitutes a significant leverage for observing fiscal discipline - a guarantee of macroeconomic stability. The Bank's support through this operation will also enable the country to build up foreign exchange reserves for the exchange policy needed to forestall the depreciation of the local currency and reduce the inflationary threat.

7.4. ***Rationalizing expenditures, mobilizing revenue and weakening of the social context due to a steep fall in the purchasing power of the national currency:*** the expected successful implementation of Government's Emergency Plan will help to reduce this risk. Furthermore, the continued TFP support to vulnerable population groups through development projects as well as budgetary support operations will also mitigate this risk.

7.5 ***Fiduciary risk:*** This relates to the fiduciary aspects. As mentioned in the section on public finance assessment (cf. §3.1.4), the control function in Guinea was undermined during the transition period. Therefore, the fiduciary risk related to the programme should be considered. The mitigative measures are on two levels: firstly, the Government's demonstrated commitment and firm will to end practices that characterized the transition period; and secondly, the programme objectives aimed at making improvements at the fiduciary level and donor assistance in public finance management areas, with a view to achieving international standards and ultimately improving the budget execution process. Furthermore, a set of safeguards was agreed to for the effective use of the Bank's resources (cf. § 3.1.4).

## VIII RECOMMENDATION

It is recommended that the Board of Directors approve an African Development Fund grant not exceeding UA 20 million to the Government of the Republic of Guinea to finance the Economic and Financial Reform Support Programme, subject to the satisfactory fulfilment of the conditions stipulated in this report.

**LETTER OF DEVELOPMENT POLICY**

**To Mr. Donald Kaberuka  
President of the African  
Development Bank Group  
Rue du Ghana, Tunis, Tunisia**

**Subject:** *Letter of Development Policy*

**Mr President,**

1. I have the honour to forward to you the Letter of Development Policy of the Government of the Republic of Guinea in support to its request for a grant equivalent to about USD30 million from the African Development Bank.

2. The Republic of Guinea, following the democratic election of its new President and taking into account the situation left behind by the transition, needs emergency support to kick-start the implementation of its economic and social programme in a highly difficult national and international context. The Government is determined to embark on economic and financial reforms indispensable for economic recovery in order to sustainably enhance pro-poor growth and thereby significantly influence poverty reduction through the implementation of the Interim Poverty Reduction Strategy Paper (2011-2012). The economic and financial situation inherited from the transition is highly worrying, with a weak growth rate of -0.3% in 2009 and 1.9% in 2010, which is far below the original growth targets of 4.9% in 2009 and 3.7% in 2010. The weak mobilization of domestic revenue associated with this situation as well as the suspension of external aid and the unprecedented increase in public spending, notably military<sup>ix</sup>, have widened the fiscal deficit which reached 15% of GDP in 2010. The monetary financing of current expenditures created a high over liquidity in the economy. Thus money supply increased by 71% over the 2009-2010 period, resulting in accelerated inflation which rose from 18.4% in 2008 to 20.9% in 2010 accompanied by a steep depreciation of the national currency. Furthermore, the debt stock rose significantly to about USD3 billion, representing 84% of GDP and 290% of exports. It is necessary to quickly bring this trend under control in order to reduce the debt stock and associated servicing to a sustainable level. In these conditions, the Government is not in a position to ensure the satisfactory running of public services, notably social, or

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<sup>ix</sup> This spending represented 10% of the GDP compared to 3% in 2008; the average in the region ranges between 1.5% and 2%.

implement the priority action plan designed to meet the most urgent needs of the population. However, without significant progress in the economic and social situation, the enhancement of security, consolidation of social peace and the achievements of the democratic transition will be seriously jeopardized.

3. The grant we are requesting, in the form of support to the economic and financial reforms, must contribute to improving the situation on two levels: increased mobilization of internal and external resources, and rationalization of public expenditures. The country's own internal resources are insufficient in view of the scale of Government's financing needs. Thus, the resources made available to us by your Institution will support part of our financing needs and the rest will be covered by other donors. The preparation of a 3-year programme supported by the Rapid Credit Facility (RCF) is on course following the joint IMF/WB/ADB/EU mission of February 2011. Reaching the HIPC completion point at the end of 2011 or by mid-2012 will enable us to yet again service the reduced debt.

4. The overall aim of Government's Economic and Financial Reform Support Programme (PAREF) is to create the necessary conditions for economic recovery and maintain macroeconomic stability through enhanced public finance management and improved governance in the extractive sector. The specific objectives are: (i) restoration of fiscal discipline, (ii) improvement of revenue mobilization, (iii) strengthening of the procurement system; and (iv) putting in place of a general governance framework in the extractive sectors. The Bank's support is in harmony and in collaboration with those of the World Bank and other donors.

5. The prior measures that the Government of the Republic of Guinea undertakes to implement under this budgetary support operation are as follows:

- (i) Preparation of an audit report on the legality, transparency and budgetary impact of directly negotiated contracts signed in 2009 and 2010;
- (ii) Conducting an exhaustive inventory of accounts held by public entities at the Central Bank and commercial banks;
- (iii) Issuing by the MEF of an order governing the use of exceptional budgetary execution procedures: (i) expenditures without prior payment authorization and (ii) advance mechanisms.

6. Beyond these prior measures, the Government is determined to strengthen macroeconomic and fiscal policy as well as monetary and exchange policy.

7. Despite an unfavourable global economic situation, marked by increase in commodity prices including oil and cereals, the outlook for the Guinean economy for 2011 is relatively favourable, with an expected growth of about 4%. This recovery should result from a 6% growth of the service sector, notably in view of the robustness of the public buildings and works subsector whose growth is expected to reach 7% and the water and electricity subsector which is expected to grow by 6%. At the same time, the adherence to the convergence criteria of the second monetary zone of West Africa, to which Guinea belongs, should lead to better control of public spending, limitation of the monetary financing of the deficit and limitation of the increase in money supply. The implementation of these measures should allow for the drastic reduction of inflation to about 9%. The balance of current transactions, excluding public transfers, is expected to show a deficit in 2011, but improve by 27.4% in relation to 2010. Thus, the current deficit, excluding public transfers, would reduce from -8.2% of GDP to -5.3%. Lastly, external assets should record a notable increase. The 2011 budget management will contribute to restoring fiscal discipline, improving revenue mobilization, strengthening the procurement system and minimizing the financing of the deficit by the Central Bank and the banking system.

8. The main thrust of the 2011 monetary policy is to limit the increase in money supply and reduce the high preference for liquidity manifested over the last 2 years. As much as possible, this will be achieved through sterilization and the encouragement of private savings by ensuring positive real interest rates. To this end, the BCRG will take all the necessary steps towards stabilizing the Guinean franc in relation to foreign currencies.

9. In the area of foreign exchange, priority will be given to unifying and improving foreign exchange market operations. This will entail the introduction of an automatic mechanism by which the official exchange rate will be adjusted daily to the free market rate. Furthermore, foreign exchange bureaux have been urged to provide a weekly report of their daily transactions in order to measure the scale and nature of the transactions on the parallel market.

10. The measures supported by this operation form an integral part of our economic and social programme of which, to some extent, it constitutes the foundation. We reiterate our determination to resolutely address the challenges facing our country as indicated by the adoption in record time of the set of precedent measures mentioned above. The economic and social programme which the Government is submitting to your Institution for consideration is in line with our priority action plan as well as the overall poverty reduction programme developed in the Interim Poverty Reduction Strategy Paper (PRSP)

– 2011-2012 already adopted with the support of the Bank and other donors. A strong mobilization of the international community will be requested to support its implementation.

11. We hope that this request will be favourably considered by the Bank Group

Kindly accept, Mr. President, the assurances of our highest consideration.

**Mohamed DIARE**  
**Deputy Minister of Budget of the**  
**Republic of Guinea**

**GUINEA– Economic and Financial Reforms Programme (PAREF)**

**MATRIX OF PROGRAMME MEASURES**

DS: Data Sources; RI: Responsible Institution;

(\* Condition precedent to Board presentation; (\*\* Measure precedent to disbursement of second tranche)

Objectives	Actions	Measures/Outputs Tranche 1	Measures/Outputs Tranche 2	Targeted Output Indicators	Targeted Outcome Indicators	Sources of Data	
<b>COMPONENT1: Strengthen Public Finance Management</b>							
<b>I.a. Restoration of fiscal discipline</b>	Strengthening internal budgetary execution control	(*) <b>Issuing by the Ministry of Economy and Finance(MEF)of an order governing the use of exceptional budgetary execution procedures: (i) expenditures without prior payment order and (ii) advance mechanisms</b>		The order of the MEF supervising the use of exceptional budgetary procedures is issued by end March 2011	The proportion of extra-budgetary expenditures decreases from 80% of the budget in 2010 to 25% in 2011	SD: Order of Ministry of Economy and Finance (MEF)  RI: Ministry of Economy and Finance	
			* Updating financial control procedures by adapting them to international standards	The financial control procedures manual is updated by end of 2011		CPIA 13 relative to the quality of the budgetary financial management increases from 3 in 2009to3.5in 2011	SD: Copy of procedures manual RI: MEF Financial Control Directorate
	Strengthening of external budgetary control	Endorsement by MEF of an action plan to clear the backlog of budget execution reviews (since 2005)			The action plan is endorsed by end 2011		SD: Copy of minutes of committee meeting endorsing the action plan RI: Ministry of Economy and Finance
		Transmission of Organic Bill governing the institutional organization of the Court of Account and the National Transition Council			The Organic Law governing the institutional organization of the Court of Accounts is transmitted to the National Transition Council by end 2011		SD: Copy of the letter forwarding the bill to the CNT RI: Ministry of Economy and Finance

Objectives	Actions	Measures/Outputs Tranche 1	Measures/Outputs Tranche 2	Targeted Output Indicators	Targeted Outcome Indicators	Sources of Data	
<b>I.b. Improving revenue mobilization</b>	Improve the performance of revenue collection agencies and modernization of revenue mobilization regulatory frameworks		<b>(**) Signing of a performance contract between the Ministry of Economy and Finance and revenue collection: National Tax Directorate and National Customs Directorate</b>	The performance contracts between the Ministry of Economy and Finance and the DNI and between the Ministry of Economy and Finance and the DND are signed before end July	Government revenue increase from 15% of GDP in 2010 to 17% of GDP in 2011	SD: Letter from MEF forwarding copies of separate performance contracts signed by the Ministry of Economy and Finance with DNI and DND, respectively  RI: MEF	
			Updating of General Tax Code	The updating of the General Tax Code is endorsed by the Ministry of Economy and Finance by end 2011		SD: Report endorsing the updating of the general tax code RI: MEF	
	Improving Government Treasury management	(*) Inventory of public establishment accounts at commercial banks		Inventory of public establishment accounts at all commercial banks finalized by end March 2011			SD: Letter from MEF forwarding the inventory RI: MEF
			Endorsement by MEF of an action plan aimed at creating a single account of the Treasury at the Central Bank	The action plan aimed at creating a single account at the Treasury is endorsed by the MEF 2011			SD: minutes of meeting endorsing the action plan RI: MEF
<b>I.c. Strengthening of the procurement system</b>	Modernize the legal framework on public procurement and strengthen ex-post control	<b>(*) Independent audit on the legality and transparency of directly negotiated contracts awarded in 2009 and 2010</b>		Audit on the legality and transparency of directly negotiated contracts awarded in 2009 and 2010 is conducted by an independent commission by end March 2011	Reduction of the proportion of directly negotiated contracts from 91% of total public procurement to 20% in 2011	SD: Copy of audit report RI: Ad-hoc committee composed of World Bank auditors and representatives of Guinean Government	
				Conducting by the General Inspectorate of Finance (IGF) of quarterly		The audits are conducted by end 2011	SD: Copies of audit reports: IGF

Objectives	Actions	Measures/Outputs Tranche 1	Measures/Outputs Tranche 2	Targeted Output Indicators	Targeted Outcome Indicators	Sources of Data
			procedural and financial auditing of public procurement for the years 2009 and 2010			
			Adoption by the Council of Ministers of an action plan to implement the independent audit recommendations on directly negotiated contracts	The action plan is endorsed by the Council of Ministers by end 2011		SD: MEF letter certifying endorsement of action plan RI: MEF
			<b>(**)</b> Endorsement by Council of Ministers of bill governing the award, control and regulation of public procurement and delegation of public services	Bill governing award, control and regulation of public procurement and delegation of public services is endorsed by the Council of Ministers by end July 2011		SD: Letter from MEF certifying the endorsement by the Council of Ministers of the revised Procurement Code RI: MEF
<b>COMPONENTII: Improve Governance in the Extractive Sector</b>						
<b>II.a. Put in place a general framework for extractive sector management</b>	Putting in place an institutional and legal framework for extractive industries by adopting a mining policy and legal codes governing the extractive sector	Adoption by the Council of Ministers of a mining policy letter		The mining policy letter is endorsed by the supervising minister by end 2011.	Contribution by the mining sector to GDP increases from 14% in 2010 to over 17% in 2011	SD: Mining policy letter IR: Ministry of Mines and Geology (MMG)
			<b>(**)</b> Endorsement by the Council of Ministers bill on revision of the Mining Code	Bill on revision of the mining code is endorsed by the Council of Ministers before end July 2011		SD: Letter from MMG certifying the endorsement of the bill on revision of the Mining Code RI: MMG

Objectives	Actions	Measures/Outputs Tranche 1	Measures/Outputs Tranche 2	Targeted Output Indicators	Targeted Outcome Indicators	Sources of Data
			Endorsement by the Council of Ministers of the new petroleum bill	The bill on the new petroleum bill endorsed by the Council of Ministers before end 2011		SD: Letter from MMG certifying the endorsement of the petroleum code bill RI: MMG
<b>II.c. Improving transparency of the mining sector</b>	Review of mining contracts and strengthening of transparency in the sector		Formulation of an action plan for the review of mining contracts in accordance with the current legislation	The action plan for reviewing the mining contracts is endorsed by the Ministry of Mines and Geology by end 2011	Endorsement of status of Guinea as EITI compliant member country by end 2011	SD Letter from MMG certifying endorsement of the action plan RI: MMG
			Conducting audits (2007 and following) required in implementing the EITI Guinea action plan	Audits for 2007, 2008, 2009 and 2010 conducted by end 2011		SD: Copies from audit reports(EITI) RI:MMG

**NOTE ON RELATIONS BETWEEN IMF AND GUINEA**

**Guinea—Assessment Letter for the African Development Bank, the European Commission, the World Bank, and other Multilateral and Bilateral Development Partners**  
**April 18, 2011**

*Following a break in relations during the period of military rule, the IMF resumed official relations with Guinea in January 2011. The new government that took office in January has inherited a very difficult macroeconomic and financial situation. In consultation with Fund staff, the government has adopted a short-term stabilization program aimed at restoring the fiscal position and reducing inflation. This program will be presented to the Fund's Executive Board as the basis for providing financial support to Guinea under the Rapid Credit Facility (RCF), covering the period January–June 2011. Board consideration of the RCF request is scheduled for June 1, 2011.*

- 1. Guinea's economy developed serious macroeconomic imbalances during 2009–10, reflecting a sharp increase in the fiscal deficit financed largely by domestic bank credit and external arrears.** Following a coup d'état in December 2008, the military regime abandoned fiscal control. The fiscal deficit averaged about 1 percent of GDP per month during 2009–10, financed in large part by advances from the central bank (BCRG) (Table 1). Broad money doubled, creating a large liquidity overhang and contributing to an increase in inflation to 21 percent by end-2010; and to significant depreciation of the Guinea franc. Foreign reserves were largely eroded by end-2010 while the government accumulated arrears on its external debt service obligations.
- 2. Following presidential elections, the new government has taken important steps to address the imbalances.** Fiscal control has been restored, including by executing public expenditure on a cash basis, re-enforcing procurement regulations—including withdrawing the military's exemption from competitive bidding processes—and by freezing most new hiring in the civil service and eliminating ad-hoc customs exemptions. A World Bank-financed review of large public procurement contracts awarded in 2009–10 pointed to widespread irregularities; the government has suspended project implementation and the making of any payments until thorough audits can be completed. Legislation has been passed to bring all state funds under the control of the Treasury, with a view to ensuring tight central control over public sector financial flows.
- 3. The BCRG has moved to tighten monetary policy.** The discount rate was increased from 16.5 percent to 22 percent on March 23, while simultaneously the reserve requirement was raised from 9.5 percent to 17 percent. The BCRG sees these moves as an initial measure to contain inflation, and stands ready to tighten further, including through open market operations, if warranted by monetary developments.

4. **Following initial actions to support the exchange rate by administrative controls, the BCRG is now moving towards management of the exchange rate by (indirect) market measures.** Following the closure of foreign exchange bureaus in early-March, the BCRG has issued new regulations to ensure the prudent operation of such bureaus and some have already been relicensed and reopened. The authorities have indicated their commitment to allow market determination of the exchange rate, supported by limited intervention consistent with program reserve targets; the official exchange rate, affecting government foreign exchange transactions, is to be set as the weighted average of commercial bank rates.

5. **Guinea's external debt position is unsustainable** Expectations that Guinea would reach the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative by mid-2009 were dashed by the occurrence of the military coup. With previous rescheduling agreements coming to an end, external debt service falling due is set to rise to 4.3 percent of GDP in 2011, while existing arrears on payment obligations amounted to some 8 percent of GDP as of end-2010.

6. **The authorities' initial administrative and policy reform agenda focuses on measures to improve public financial management and enhance revenue collection.** A key priority is governance reform in the mining sector, which they expect could yield considerable additional revenue (not yet factored into the budget) later in 2011.

7. **In consultation with the staff of the IMF, the government has formulated a short-term stabilization program for which it is requesting financial support under the IMF's RCF.** The key element of the program, which aims at reversing the rising trend in inflation and on reducing the pressure on the exchange rate, is to restore fiscal sustainability through substantive spending cuts, buttressed by a tightening of monetary policy. The budget deficit (as a share of GDP and excluding grants) is set to decline from some 15 percent in 2010 to 6 percent in 2011, with an equally sharp decline in domestic bank financing; the latter would be back-loaded to the second half of the year to limit the budgetary burden on the central bank as it seeks to contain inflation. Expenditure cuts are focused on areas where outlays increased sharply in 2009–10—notably military-related outlays—while some new allocations are being made available for the administration's Emergency Action Plan, focused in the main on improving critical infrastructure and education and health services.

8. **Given external debt service requirements, along with the need to supplement domestically-generated resources to finance the sharply reduced fiscal deficit, the 2011 budget currently has a sizeable financing gap of about 11 percent of GDP (\$500 million).** In light of the country's fragile financial and debt position, coordinated donor support, including from the African Development Bank, the European Commission, the World Bank, and others, will be critical to the program's success. Such support would need to include program and project financing on highly concessional terms, preferably grants. The draft budget provides for the clearance of arrears to multilateral creditors, notably the World Bank, along with the resumption of debt service payments to these creditors. With respect to other external creditors, the authorities plan to initiate discussions on the modalities that could be used to clear existing arrears and defer debt service pending formal resolution in the context of the HIPC Initiative.

9. **The authorities' plans to restore macroeconomic stability are soundly based, but significant risks remain to achieving program objectives.** The fiscal adjustment is

ambitious, and requires significant spending cuts along with adjustments in domestic fuel prices against the backdrop of a still-fragile socio-political environment. Financing of the budget depends to a large extent on the provision of new external financial support, along with the cooperation of external creditors in finding temporary solutions to contain debt service payments until the debt burden can be addressed more decisively in the context of the HIPC Initiative. Reducing inflation will rely to a significant extent on achieving exchange rate stability, which in turn will require the rebuilding of domestic confidence in the economic and political outlook; separately, further increases in world food and fuel prices would threaten both living standards and the inflation outlook. Finally, there is a need for urgent improvement in the authorities' policy coordination to avoid counterproductive ad hoc measures. However, the authorities' strong commitment, as demonstrated by the significant supporting measures already implemented, augurs well for the success of the program.

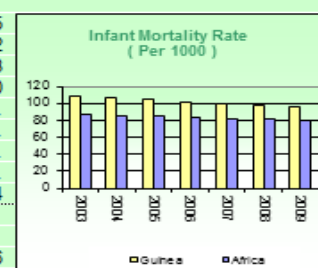
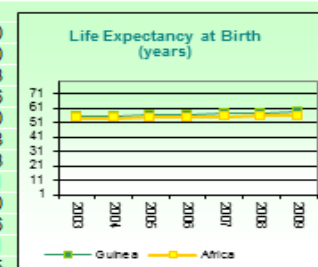
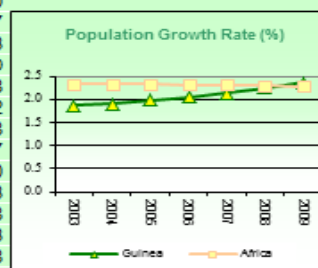
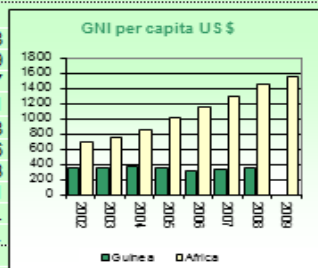
10. **The IMF's Executive Board is expected to consider Guinea's request for financial support under the RCF on June 1, 2011.** Possible additional support to Guinea during the second half of the year could include a second disbursement under the RCF, to support policy implementation during the second semester of the year, or, and depending on the strength of the policy framework and track record, the initiation of a multi-year macroeconomic and structural reform program that would be supported under the Extended Credit Facility (ECF).

## COMPARATIVE SOCIOECONOMIC INDICATORS

## Guinea

## COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Guinea	Africa	Developing Country	Developed Country
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		246	30 323	80 976	54 658
Total Population (millions)	2010	10.3	1,031.5	5,629	1,069
Urban Population (% of Total)	2010	35.4	40.0	44.8	77.7
Population Density (per Km <sup>2</sup> )	2010	42.0	3.4	66.6	23.1
GNI per Capita (US \$)	2008	350	1 550	2 780	39 688
Labor Force Participation - Total (%)	2010	48.1	39.5	45.6	54.6
Labor Force Participation - Female (%)	2010	47.1	41.4	39.8	43.3
Gender -Related Development Index Value	2007	0.425	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	156	n.a	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2003	70.1	42.3	25.0	
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2010	2.5	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2010	3.9	3.3	2.4	1.0
Population < 15 years (%)	2010	42.6	40.3	29.2	17.7
Population >= 65 years (%)	2010	3.6	3.8	6.0	15.3
Dependency Ratio (%)	2010	84.9	77.6	52.8	49.0
Sex Ratio (per 100 female)	2010	102.0	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	23.0	24.4	53.3	47.2
Life Expectancy at Birth - Total (years)	2010	58.9	56.0	66.9	79.8
Life Expectancy at Birth - Female (years)	2010	55.1	57.1	68.9	82.7
Crude Birth Rate (per 1,000)	2010	38.7	34.2	21.5	12.0
Crude Death Rate (per 1,000)	2010	10.4	12.6	8.2	8.3
Infant Mortality Rate (per 1,000)	2010	93.0	78.6	49.9	5.8
Child Mortality Rate (per 1,000)	2010	136.4	127.2	51.4	6.3
Total Fertility Rate (per woman)	2010	5.2	4.4	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	680.0	530.2	440.0	10.0
Women Using Contraception (%)	2005	10.5	...	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2005	5.5	42.9	78.0	287.0
Nurses (per 100,000 people)*	2004	53.9	116.6	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	38.0	52.7	63.4	99.3
Access to Safe Water (% of Population)	2008	71.0	64.9	84.0	99.6
Access to Health Services (% of Population)	2005	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	19.0	41.0	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	1.6	4.6	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	287.0	315.2	161.9	14.1
Child Immunization Against Tuberculosis (%)	2009	93.0	81.8	89.0	99.0
Child Immunization Against Measles (%)	2009	87.0	81.0	81.7	92.6
Underweight Children (% of children under 5 years)	2005	25.8	30.9	27.0	0.1
Daily Calorie Supply per Capita	2007	2 568	2 462	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	0.8	2.4	4.0	6.9
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2008	89.9	102.8	106.8	101.5
Primary School - Female	2008	82.6	99.0	104.6	101.2
Secondary School - Total	2008	35.8	35.0	62.3	100.3
Secondary School - Female	2008	26.4	30.6	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2008	27.6	38.1	...	...
Adult literacy Rate - Total (%)	2008	38.0	64.8	81.0	...
Adult literacy Rate - Male (%)	2008	49.6	74.0	86.6	...
Adult literacy Rate - Female (%)	2008	26.4	55.9	75.6	...
Percentage of GDP Spent on Education	2008	2.4	4.6	...	5.4
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2008	9.8	7.8	9.9	11.6
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2008	0.1	1.2	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update :

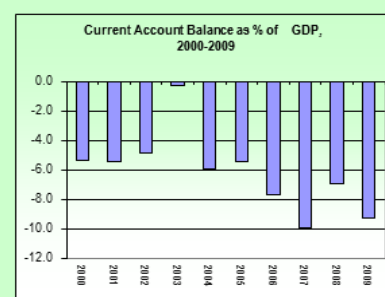
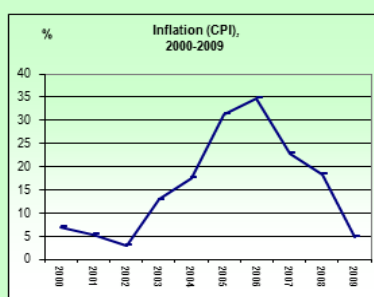
January 2011

UNAIDS; UNSD; WHO; UNICEF; WRI; UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

**MACROECONOMIC INDICATORS****Guinea****Selected Macroeconomic Indicators**

Indicators	Unit	2000	2004	2005	2006	2007	2008	2009
<b>National Accounts</b>								
GNI at Current Prices	Million US \$	3,367	3,824	3,862	3,722	3,722	...	...
GNI per Capita	US\$	400	420	420	400	390	...	...
GDP at Current Prices	Million US \$	2,995.4	3,597.0	2,940.6	2,867.4	4,152.5	4,519.9	4 417.9
GDP at 2000 Constant prices	Million US \$	2,995.4	3,383.4	3,484.8	3,571.9	3,634.6	3,814.1	3 837.9
Real GDP Growth Rate	%	-1.9	2.3	3.0	2.5	1.8	4.9	0.6
Real per Capita GDP Growth Rate	%	-3.8	0.4	1.0	0.4	-0.4	2.6	-1.7
Gross Domestic Investment	% GDP	13.6	24.5	25.3	23.2	19.9	21.9	18.0
Public Investment	% GDP	5.0	3.8	3.2	3.1	2.7	2.8	3.3
Private Investment	% GDP	8.5	20.6	22.1	20.1	17.2	19.1	14.8
Gross National Savings	% GDP	13.3	18.0	19.1	15.0	5.4	5.2	5.3
<b>Prices and Money</b>								
Inflation (CPI)	%	6.9	17.5	31.4	34.7	22.9	18.4	4.8
Exchange Rate (Annual Average)	local currency/US\$	1,746.9	2,267.9	3,640.0	5,264.0	4,179.3	4,597.0	4,964.7
Monetary Growth (M2)	%	...	36.5	33.4	...	...	...	...
Money and Quasi Money as % of GDP	%	11.7	18.4	18.7	...	...	...	...
<b>Government Finance</b>								
Total Revenue and Grants	% GDP	13.7	12.6	15.2	17.6	15.7	16.2	17.6
Total Expenditure and Net Lending	% GDP	17.2	17.9	16.1	18.0	15.2	17.4	19.1
Overall Deficit (-) / Surplus (+)	% GDP	-3.4	-5.4	-0.9	-0.3	0.5	-1.2	-1.5
<b>External Sector</b>								
Exports Volume Growth (Goods)	%	5.0	-5.6	4.1	-3.5	3.9	10.2	-1.5
Imports Volume Growth (Goods)	%	-3.1	2.7	-1.7	9.3	22.2	-3.3	-10.2
Terms of Trade Growth	%	-5.1	-10.8	-6.5	8.8	11.8	6.8	-12.6
Current Account Balance	Million US \$	-161.9	-213.9	-160.4	-221.4	-412.4	-314.0	-411.4
Current Account Balance	% GDP	-5.4	-5.9	-5.5	-7.7	-9.9	-6.9	-9.3
External Reserves	months of imports	1.6	0.9	0.8	...	...	...	...
<b>Debt and Financial Flows</b>								
Debt Service	% exports	14.2	7.3	10.1	9.0	8.3	9.5	7.9
External Debt	% GDP	108.9	91.5	110.0	111.2	78.1	66.3	65.0
Net Total Financial Flows	Million US \$	329.3	229.4	160.8	177.1	232.2	224.2	...
Net Official Development Assistance	Million US \$	152.9	278.5	198.1	169.5	228.1	319.0	...
Net Foreign Direct Investment	Million US \$	9.9	97.9	105.0	125.0	385.9	1,349.6	...



Source : ADB Statistics Department; IMF: World Economic Outlook, September 2009 and International Financial Statistics, February 2010; ADB Statistics Department: Development Data Platform Database, March 2010. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available

Last Update: May 2010

## COUNTRY PROFILE

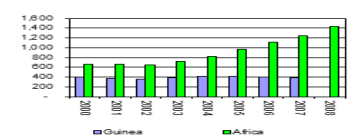


## Guinea - Country Profile

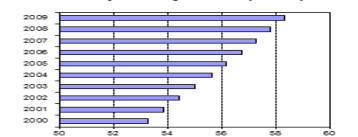


	Guinea		Africa Developing countries		
	Year	Value	Most Recent Year		
<b>Social</b>					
Population, mid-year (millions)	2009	10.1	1008	5629	
Population growth (annual) (%)	2009	2.4	2.3	1.3	
GNI per capita (Atlas method, US\$)	2007	390	1,428	2,780	
Urban population (% of total population)	2009	34.9	39.6	44.8	
Life expectancy at birth (years)	2009	58.4	55.7	66.9	
Infant mortality (per 1,000 live births)	2009	95.1	80.0	49.9	
Child malnutrition (% of children under 5)	2005	25.8	130.2	80.8	
Access to an improved water source (% of population)	2006	70.0	64.0	84.0	
Illiteracy (% of population age 15+)	2003	29.5	59.4	19.0	
Gross primary enrollment (% of school-age population)					
Male	2008	96.9	101.6	108.9	
Female	2008	82.6	91.7	104.6	
Human Development Index	2007	0.435	0.514	0.679	
<b>Macroeconomic indicators</b>					
GDP (US\$ billions)	1990	2000	2007	2008	2009
Real GDP Growth Rate (%)	4.3	-1.9	1.8	4.9	0.6
Real Per Capita GDP Growth Rate (%)	0.7	-3.8	-0.4	2.6	-1.7
Gross capital formation (% of GDP)	24.5	13.6	19.9	21.9	18.0
Gross national savings (% of GDP)	14.6	13.3	5.4	5.2	5.3
Inflation (%)	19.4	6.9	22.9	18.4	4.8
Growth of Money Supply, M2 (%)	...	...	...	...	...
Export Growth of Goods, volume (%)	...	5.0	3.9	10.2	-1.5
Import Growth of Goods, volume (%)	...	-3.1	22.2	-3.3	-10.2
Terms of Trade (%)	-8.0	-5.1	11.8	6.8	-12.6
Debt Service (% of Exports of G&S)	15.4	14.2	8.3	9.5	7.9
Current Account (% of GDP)	-10.0	-5.4	-9.9	-6.9	-9.3
Total external debt (% of GDP)	79.6	108.9	78.1	66.3	65.0
Average exchange rate (National Currency Per US \$)	660.167	1,746.870	4,179.250	4,596.970	4,964.728
Reserves including gold (US\$ millions)	48.2	116.0	...	...	...
Reserves (months of imports of goods & services)	0.6	1.6	...	...	...
<b>STRUCTURE OF THE ECONOMY</b>					
<b>By sector (% of GDP)</b>					
Agriculture	20.2	20.9	23.8	25.3	24.8
Industry	29.9	31.2	39.9	39.5	41.5
Manufacturing	3.8	3.6	6.2	7.0	6.9
Services	49.9	47.9	36.3	35.1	33.8
<b>By sector (Annual growth rate)</b>					
Agriculture	3.4	-29.5	3.9	2.8	3.6
Industry	3.9	3.6	1.9	1.9	8.8
Manufacturing	5.0	7.0	1.8	-0.1	4.0
Services	5.1	-41.1	1.4	0.3	3.2

GNI Per Capita, Current US \$



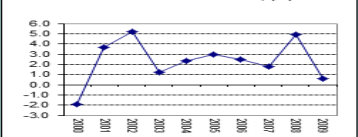
Life Expectancy at Birth (Years)



CPI Inflation, (%)



Real GDP Growth Rates, (%)

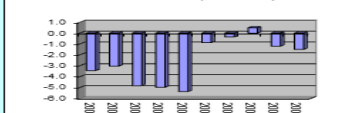


## Guinea - Country Profile

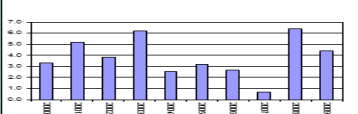


<b>Private sector development</b>					
Time to start a Business (days)	...	...	41	41	41
Registering Property (days)	...	...	104	104	104
Paying Taxes - Payments (number)	...	...	56	56	56
Enforcing Contracts - Time (days)	...	...	276	276	276
Protecting Investors - Investor Protection Index (0-10)	...	...	2.7	2.7	2.7
<b>Government finance (% GDP)</b>					
Total revenue and grants	20.6	13.7	15.7	16.2	17.6
Total expenditure and net lending	26.0	17.2	15.2	17.4	19.1
Overall surplus/deficit (including grants)	-5.5	-3.4	0.5	-1.2	-1.5
<b>BALANCE OF PAYMENTS</b>					
(US\$ millions)					
Trade balance	85.5	99.3	28.8	288.3	193.4
Exports of goods (fob)	671.2	686.4	1,094.1	1,441.2	1,165.7
Imports of goods (fob)	585.8	587.1	1,065.3	1,152.8	972.3
Services balance	-148.6	-244.4	-247.4	-397.9	-395.8
Net income	-148.9	-77.6	-63.2	-64.4	-64.1
Current account balance	-265.7	-161.9	-412.4	-314.0	-411.4
<b>BALANCE OF PAYMENTS</b>					
(% of GDP)					
Trade balance	3.2	3.3	0.7	6.4	4.4
Exports of goods (fob)	25.2	22.9	26.3	31.9	26.4
Imports of goods (fob)	22.0	19.6	25.7	25.5	22.0
Services balance	-5.6	-8.2	-6.0	-8.8	-9.0
Net income	-5.6	-2.6	-1.5	-1.4	-1.5
Current account balance	-10.0	-5.4	-9.9	-6.9	-9.3
<b>Financial Flows and External Debt</b>					
(US\$ millions)					
Net Total Flows from All Donors	283.2	329.3	232.2	224.2	...
Net Total ODA (Official Dev. Assistance) from All Donors	291.5	152.9	228.1	319.0	...
Foreign Direct Investment Inflows from All Donors	17.9	9.9	385.9	1,349.6	...
Total debt outstanding at year-end	2,123.5	3,261.0	3,242.2	2,996.8	2,873.4
Total debt service	15.4	14.2	8.3	9.5	7.9

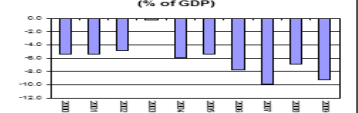
Fiscal Balance (% of GDP)



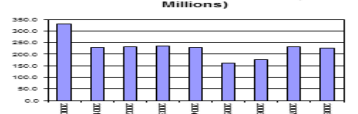
Trade Balance (% of GDP)



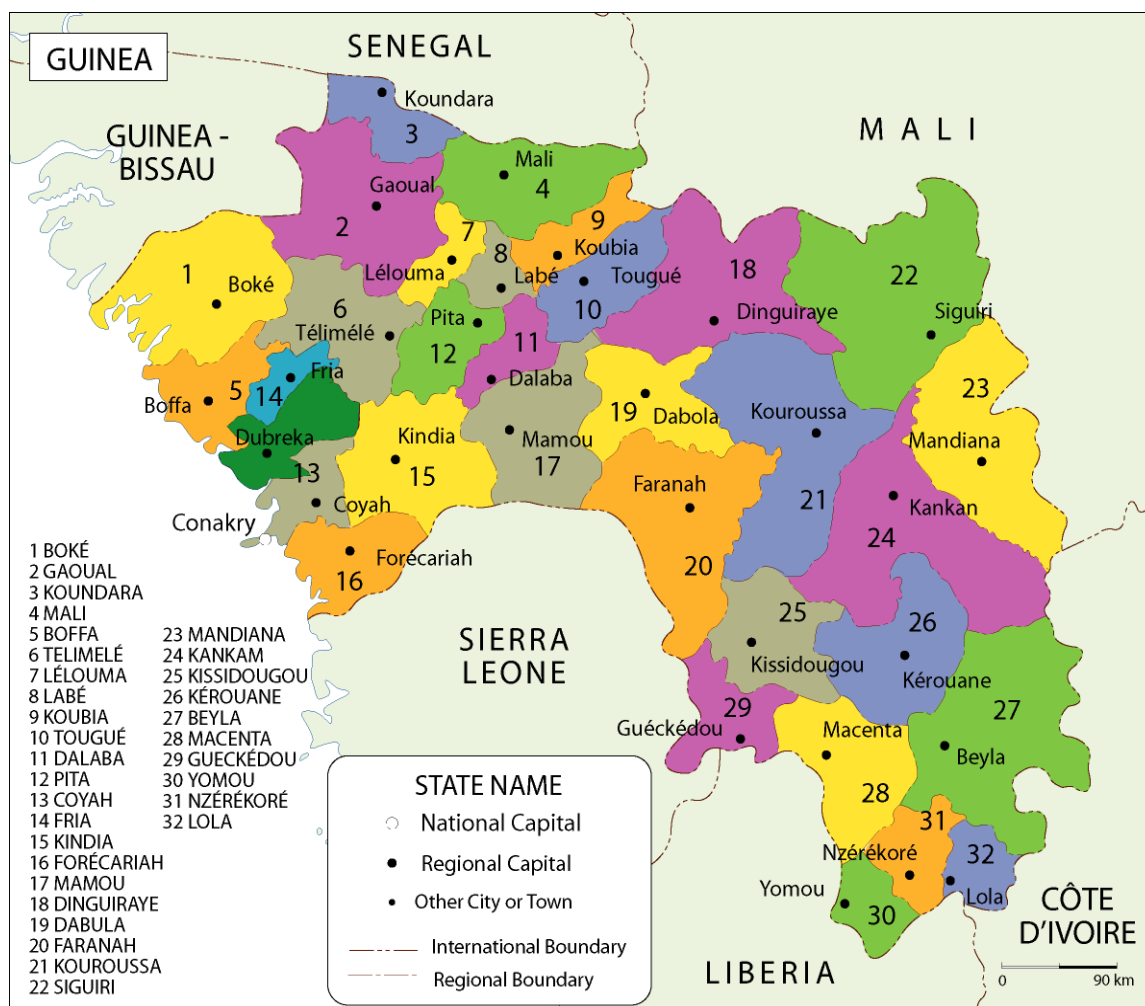
Current Account Balance (% of GDP)



Net Total Flows from All Donors (US\$ Millions)



**ADMINISTRATIVE MAP OF GUINEA**



## REPUBLIC OF GUINEA

### ECONOMIC AND FINANCIAL REFORM SUPPORT PROGRAM (PAREF)

#### CORRIGENDUM

Below is a list of corrections to the Appraisal Report of the proposal submitted to the Board for consideration. These corrections are responses to the recent developments regarding the financial windfall received by Guinea (see explanatory note circulated to the Board).

	<b>Original Report</b>	<b>Revised Report</b>	<b>Comments</b>
§ 3.1.2	PAREF will take into account the approval of the RCF proposal by the IMF Executive Board at its forthcoming June 2011 session. Indeed, the setting up of the RCF is a condition precedent to the disbursement of the first tranche of the grant (cf. §6.2.3)	PAREF will take into account the <u>agreement of a program between Guinea and the International Monetary Fund (IMF)</u> . <u>Consequently, the setting up of a program with the IMF</u> is a condition precedent to the disbursement of the first tranche of the grant (cf. §6.2.3)	Following the recent developments regarding to the financial windfall received by Guinea (USD 700 million), the IMF is considering to put in place a formal program taking into account the financial windfall.
§ 3.2.2	For its part, the World Bank (WB) expects to resume its activities in the country as soon as the IMF's RCF arrangement is approved and the country has cleared its arrears. The World Bank's intervention will take the form of budgetary support amounting to USD 75 million. The reviews of the World Bank support as well as the IMF's RCF by their respective Boards are scheduled for May/June 2011. The Bank will proceed to the disbursement of its budgetary support once the IMF RCF has been approved.	For its part, the World Bank (WB) has approved its budget support through a grant of USD 78, 6 million on April 19 <sup>th</sup> 2011. The unique tranche has already been disbursed.	
§ 6.2.3	Condition 2: Put in place a Rapid Credit Facility (RCF) with the International Monetary Fund.	Condition 2: Put in place a <u>program with</u> the International Monetary Fund.	

**AFRICAN DEVELOPMENT FUND**

**BOARD OF DIRECTORS**

**Resolution N° F/[ ]/2011/[ ]**

Adopted at the [ ] Meeting of the Board, on [ ] 2011

**Grant to the Republic of Guinea to assist in the financing of the  
Economic and Financial Reform Support Program - PAREF**

**THE BOARD OF DIRECTORS,**

**HAVING REGARD** to Articles 1, 2, 11, 12, 14, 15, 16 and 26 of the Agreement Establishing the African Development Fund (the "Fund"), the ADF-12 financing guidelines provided in the Report on the Twelfth General Replenishment of the Resources of the Fund, the currently applicable ADF-12 Country Resource Allocation, and the Grant proposal contained in document ADF/BD/WP/2011/37 (the "Appraisal Report");

**NOTING** the availability of sufficient resources to enable the Fund to commit the amount of the Grant;

**DECIDES** as follows:

1. To award to the Republic of Guinea, from the resources of the Fund, a Grant of an amount not exceeding the equivalent of Twenty Million Units of Account (UA 20,000,000) to assist in the financing of the Economic and Financial Reform Support Program (PAREF);
2. To authorize the President of the Fund to conclude a Protocol of Agreement between the Fund and the Republic of Guinea on the terms and conditions specified in the General Conditions Applicable to Protocols of Agreement of the Fund and in the Appraisal Report;
3. The President may cancel the Grant if the Protocol of Agreement is not signed within one hundred and eighty (180) days from the date of approval of the Grant; and
4. This Resolution shall become effective on the date above-mentioned.

1. This Note is intended to inform the Board of Directors of major developments in Guinea since the distribution of the Appraisal Report on the Economic and Financial Reform Support Programme (PAREF). The developments mainly concern two points:

(i) approval by the World Bank Governing Board of a budget support of US\$ 78.6 million on 19 April 2011. This amount has been fully disbursed.

(ii) the payment of seven hundred (700) million U.S. dollars to Guinea by Rio Tinto company, following the first reviews of mining contracts, initiated by the new authorities on the recommendation of development partners.

2. Regarding point (ii) above, the joint ADB, World Bank and IMF mission in February 2011 had recommended, as part of actions to improve governance in the extractive sector, that the new authorities of Guinea should review the mining contracts. The aim of this recommendation was to ensure that the contracts best meet the requirements of good governance of the country's resources, mainly in terms of equity and transparency. The above-mentioned payment by Rio Tinto is the outcome of the contract renegotiations initiated by the authorities.

3. Following this payment, the IMF slowed down the review of its programme so as to obtain clarifications on its implication on the budget and the macroeconomic framework. Accordingly, the Guinean Government has sent a letter to development partners (copy attached) in which it provides clarifications on the transaction and affirms its commitment to continue and deepen reforms to stabilize and boost the economy in its relations with the development partners including the IMF, the Bank and the World Bank. In the letter, the Government makes the following commitments:

(i) to keep the exceptional financial resources of the Rio Tinto payment separate from the budget. The transaction will therefore not affect the current budget discussed with the development partners;

(ii) not to use the exceptional resources to finance recurrent expenditures;

(iii) to obtain advice from the IMF and other development partners on how best to use the resources;

(iv) to continue discussions with the IMF so as to conclude a program.

4. In light of the foregoing, the Bank's intervention is all the more relevant. Discussions with the IMF to establish a programme have not been interrupted, but are continuing. The IMF has confirmed its intention to undertake a mission to Guinea in June 2011 for this purpose. The disbursement of the first tranche of the budget support from the Bank will be subject to the conclusion of the said programme. The Bank's intervention will therefore encourage the Government to accelerate discussions with the IMF so as to conclude a programme. It will also enable the Government to continue the reforms it has initiated, in collaboration with the development partners, including the strengthening of public financial management so as to ensure rational use of the country's financial resources.

REPUBLIC OF GUINEA

*Travail- Justice-solidarite*

Conakry, 13 May 2011-05-17

MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

Ref. No. 439/EF/CAB/ASS/MEF/2011

From **THE MINISTER**

To:

Ms. Antoinette SAYEH

Director, Africa Department

International Monetary Fund

Washington DC.

Subject: *Agreement with Rio Tinto*

**Madam Director**

Permit me, firstly, to thank you once more for the wonderful welcome extended to the Guinean delegation in Washington during the Spring Meetings of the International Monetary Fund (IMF) and the World Bank Group, held in April 2011. I also wish to express my great appreciation of the very meaningful discussions that our delegation had with the IMF Deputy Managing Director, yourself, as well as the technical units of the Africa Department, the Finance department and the Monetary and Capital Markets Department. I take this opportunity to reiterate my Government's commitment to pursuing and deepening the reforms initiated to stabilize the economy and help Guinea return to the path of growth.

As you are aware, in line with the policy of breaking with the past adopted by the President of the Republic, Professor Alpha Conde, the Government has embarked on a reorganization of natural resource management with the aim of improving the populations' living conditions. In that regard, the Government is applying a series of initiatives geared towards modernizing our Mining Code, building up our Administration's negotiation capacity and renegotiating certain mining agreements that are particularly unfavorable to Guinea.

It is in this context that the Government took up discussions with SIMFER, a *Rio Tinto* subsidiary, with a view to ending a dispute that has arisen from a series of misunderstandings and incomprehension. I am pleased to inform you that these exchanges have culminated in an agreement whereby the *Rio Tinto* Group will, amongst other undertakings: a) pay Guinea compensation in the amount of 700 million US Dollars; b) offer Guinea SIMFER equity shares; and c) work with Guinea to construct a railroad for iron ore evacuation.

Notwithstanding the Guinean populations' immense socioeconomic needs, I can assure you that the Government has no intention of departing from the program laid down with the IMF. It has thus decided to isolate the funds received from *Rio Tinto* from the budget and place them in a special account held by the Central Bank of the Republic of Guinea with a foreign correspondent, pending guidance from your institution and the other development partners as to the best manner of utilizing these funds.

The Government is well aware that exceptional resources cannot be used in financing recurrent expenditure, and, for the time being, the agreement concluded with the *Rio Tinto* Group has no implications for the budget discussed with your technical units. The Government is moreover determined to avoid contracting or guaranteeing non-concessional loans for construction of mining infrastructure; such projects will rather be financed through public/private partnerships.

I therefore reaffirm the Government's determination to abide by the schedule prepared by your technical departments for the programme supported by the Rapid Credit Facility covering the period of January to June 2011, as well as for the Extended Credit Facility starting from 1 July 2011, with the aim of reaching the HIPC completion point as soon as possible.

To that end, I request the support and understanding of IMF and the other technical and financial partners, and especially of Guinea's Paris Club creditors.

I thank you in advance for your support and remain, Madam Director,

Yours sincerely,

(sgd.)

Kerfalla YANSANE

(Stamp of Minister of Finance and Economic Planning,

Republic of Guinea)

CC:

- African Development Bank President
- Paris Club Secretariat
- IMF Executive Director for Francophone Africa
- IMF Resident Representative
- World Bank Resident Representative