

International Science and Technology Institute, Inc

---

**EVALUATION OF THE IMPACT OF A  
FIRST GRANT UNDER THE AFRICAN ECONOMIC  
POLICY REFORM PROGRAM (AEP RP) IN GUINEA**

**ENGLISH SUMMARY REPORT**

**Prepared for:**

**Agency for International Development  
USAID/Guinea**

**(Contract No. IQC PDC-0000-I-6134-00,  
Task No. 27)**

**Prepared by:**

**Xavier De La Renaudiere, Consultant  
Charles Moizeau, Consultant**

**International Science and Technology Institute, Inc.  
1129 20th Street, N.W., Suite 800  
Washington, D.C. 20036**

**June 1988**

## TABLE OF CONTENTS

	Page
Overview . . . . .	1
Outstanding Macroeconomic Performance . . . . .	2
Weak Performance in Implementing Specific Microeconomic Conditions of the AEPRP Grant . . . . .	4
Justification of a Second AEPRP Operation . . . . .	5
 ANNEX 1: Scope of Work	

EVALUATION OF THE IMPACT OF A  
FIRST GRANT UNDER THE AFRICAN ECONOMIC  
POLICY REFORM PROGRAM (AEPRP) IN GUINEA

ENGLISH SUMMARY REPORT

OVERVIEW

1. By the end of 1985 the Guinean government launched a major program of economic policy reform, which received strong political and financial support from the donor community. A group of multilateral and bilateral donors, including the U.S. Agency for International Development (USAID), provided substantial balance of payment support in the form of policy-based quick-disbursing loans and grants. A \$10 million AEPRP grant was made by USAID in September 1986. A first tranche of \$5 million was disbursed in June 1987. The second tranche has not yet been released.

2. In May 1988, two consultants provided by the International Science and Technology Institute, Inc. (ISTI) under its Macroeconomic IQC contract, visited Conakry to evaluate the impact of the AEPRP grant and make recommendations with respect to (i) the release of the second tranche and (ii) the possible merits of future similar AEPRP grants in the USAID program in Guinea. (See Annex 1 for a complete Scope of Work.) A full report in French is attached. The conclusions of the May mission can be summarized in four parts.

- o The performance of Guinea in implementing a comprehensive program of macroeconomic policy reform was clearly outstanding, at least during an initial two year period (late 1985 - mid 1987).
- o A number of more specific microeconomic conditions of the AEPRP grant have not yet been met, in particular, the government is reluctant to liquidate the two existing agricultural input state enterprises (AGRIMA and SEMAPE); a flexible approach is recommended.
- o The Guinean government is confronted with major political, economic and social difficulties. Vigorous action is required to reactivate the macroeconomic policy reform program undertaken in 1985. Key issues to be addressed are exchange rate management, budget performance, wage policy and food prices. Most of these issues will be discussed with a joint

International Monetary Fund (IMF)/World Bank mission tentatively scheduled for late June 1988.

- o If the Guinean government takes the appropriate measures to address these critical macroeconomic policy issues, USAID should definitely join with other donors to provide additional quick disbursing policy-based financing in support of the Guinean reform program. Future AEPRP assistance should be linked with improved food pricing policy, a key issue for the long-term future of the agricultural sector in Guinea.

### OUTSTANDING MACROECONOMIC PERFORMANCE

3. In 1985, the Guinean government launched a comprehensive economic policy reform program including a 93 percent devaluation of the currency; flexible management of the exchange rate thereafter; a major administrative reform; the liquidation/privatization of two thirds of existing state enterprises; a complete overhaul of the banking system; deregulation of production, trade, transport and other services; and in particular elimination of the cumbersome state-controlled food marketing system and food production quotas which had disrupted agricultural production during the previous regime.

4. Implementation was vigorous. The government resisted constant domestic pressure to reinstitute state controls, quantitative restrictions, price regulation and guaranteed employment practices. The reform program had a strong positive impact on economic performance. Gross Domestic Product (GDP) grew by 6 percent in real terms in 1987, as a result of substantial growth in agriculture, transport, trade, and small-scale service and manufacturing sector enterprises. The informal sector is thriving and is primarily responsible for the creation of about 21,000 new jobs in Conakry alone since 1984.

5. The international community played a major role in supporting the ongoing reform program and in stimulating a private trade induced economic recovery. Balance of payment support in the form of debt relief and quick-disbursing policy-based loans and grants averaged \$75 million annually during 1986-87 and is estimated at \$108 million for 1988. Most of these quick disbursing funds, including the AEPRP grant, transited through the auction system and encouraged a flexible trade policy and simplified foreign exchange allocation procedures for the private sector. Increased availability of imported raw materials, equipment and consumer goods, together with increased competition in domestic trade and transportation, was a major factor behind the recovery of agricultural output and increased

activity in the small-scale enterprise sector. More importantly, the strong political support and flexible financial assistance provided by the donor community helped sustain the political will of the Guinean government to implement a well conceived reform program which faces increasing resistance from a wide variety of local groups: civil servants threatened by administrative reforms; other employees of the public and parapublic sector; trade union leaders; tribal groups which do not hold an appropriate share of senior government posts and finally, increasingly vocal supporters of the previous regime.

6. Since mid 1987, the government appears to be increasingly worried by growing opposition to major components of the ongoing reform program. Implementation of the administrative reform is slow. The state enterprise privatization process is at a stand still. After two years of rapid depreciation of real effective exchange rates, the trend has been reversed. While domestic inflation is estimated at about 30 percent annually, the official dollar value of the Guinean franc decreased by only 3 percent from August 1987 to May 1988. During a nine month period in 1986-87 the government effectively froze the domestic price of imported rice. Appropriate corrective measures, however, were taken at the end of 1987.

7. Although full implementation of the policy reform program designed by the Guineans in 1985 is threatened by current political and social pressures, the record so far remains impressive. In two years, Guinea did much more in the area of exchange rate adjustment, privatization and deregulation than any other African country so far. The need for slowing down the adjustment process is understandable, provided the necessary consolidation period is short and does not mean a gradual return to past economic policy. Two factors are encouraging: (i) the obvious popularity of President Lansana Conte, particularly in rural areas and his past performance in resisting pressure from a wide variety of political lobbies; and (ii) the emergence of a still very small group of young technocrats, who seem to understand all the political and social implications of the economic reform process, and appear to be committed to its success.

8. The next six month period will provide an adequate test of the Guinean commitment to the program, since several difficult decisions will need to be made in the context of the recently negotiated second adjustment credit from the World Bank and the forthcoming discussions with the June IMF/World Bank mission. If the government accelerates the pace of exchange rate adjustment, resists pressures for sharp increases in public and private sector salaries, implements the promised administrative reforms, privatizes the petroleum distribution system and establishes a small tax on rice imports, a major increase in donor support will be justified.

**WEAK PERFORMANCE IN IMPLEMENTING SPECIFIC MICROECONOMIC CONDITIONS OF THE AEPRP GRANT**

9. Specific conditions of the AEPRP grant included: (i) deregulation of consumer and producer prices, (ii) formulation of a satisfactory credit policy, (iii) issuance of revised investment and commercial codes and (iv) liquidation of two agricultural marketing agencies (PROSECO and FRUITEX) and two agricultural input state enterprises (SEMAPE and AGRIMA). In essence conditions (i), (ii) and (iii) have been met, but the four marketing and agricultural input state enterprise have not yet been liquidated.

10. Rather than closing the four existing state enterprises, the government has in mind to create mixed companies owned and managed by foreign and Guinean private investors, with a modest government participation. Promising results have been obtained in the case of two enterprises -- a Swiss company (L'Aiglon) and two Guinean traders are definitely interested in PROSECO (coffee marketing and processing). FRUITEX (fruit exports) is likely to become SOGUIFRUIT, a mixed company owned 51 percent by a large Italian firm, 24 percent by two Guinean traders and 25 percent by the government. Tentative agreements have been negotiated with the Swiss, the Italians and the Guinean shareholders of PROSECO and SOGUIFRUIT. The agreements are being reviewed by the Ministry of Justice, but the Ministry of Industry and Commerce believes that comments from Justice are likely to be minor. The government is therefore confident that the negotiated agreements will be finalized within the next few months.

11. Privatization of SEMAPE (fertilizers) and AGRIMA (agricultural equipment) is not progressing. The objective of the Ministry of Agriculture is to merge SEMAPE and AGRIMA into a single mixed company created with the support of a major fertilizer and/or agricultural equipment manufacturer. However the potential foreign and Guinean investors approached by the Ministry are less than enthusiastic. In the meantime, SEMAPE seems to be incurring modest losses, but the deficit of AGRIMA is probably more significant. Nevertheless the government is not ready to liquidate SEMAPE and AGRIMA until another enterprise takes over their assets and activity.

12. The case for maintaining SEMAPE and AGRIMA in operation is weak. The two companies do not perform a useful economic role. Other agricultural equipment companies have begun to operate in Guinea. Fertilizer distribution is likely to be handled by the many donor-financed agricultural projects currently under preparation. At the same time, AGRIMA and SEMAPE should be viewed as a relatively minor issue considering: (i) past inefficiency in the public enterprise sector; (ii) recent efforts to address the most critical problems in the sector, including

liquidation or privatization of two thirds of existing enterprises; and (iii) the high priority of addressing other very urgent but politically sensitive problems in the public enterprise sector (i.e. restructuring and privatizing the petroleum distribution system).

13. In the light of the foregoing, the attached detailed report (in French) recommends that USAID consider the following compromise.

- (a) The government reduces operating costs of SEMAPE and AGRIMA immediately, and in particular limits AGRIMA's activities to the sale of small agricultural tools.
- (b) With the help of USAID, the government organizes a meeting in Conakry with all donors involved in the agricultural sector. The objective of the meeting would be to obtain donor agreement that they would organize on a modest scale provision of fertilizers and small tools to farmers in the region covered by their respective projects.
- (c) Liquidation of AGRIMA and SEMAPE when implementation of (b) begins.

#### JUSTIFICATION OF A SECOND AEPRP OPERATION

14. In the past an appropriate combination of project financing and quick disbursing assistance has played a major role in stimulating economic growth and private sector activity in Guinea. If the Guinean government agrees to reactivate the ongoing policy reform process, it will need and deserve the full support of all donors and flexible balance of payment financing in the form of quick disbursing policy-based operations should become a permanent feature of most donor programs in Guinea. Current balance of payment projections indicate that balance of payment support -- including debt relief -- should be maintained at an annual average of \$80 million during 1989-93, i.e. 40 percent of projected donor assistance.

15. No new balance of payment support, however, should be provided at this stage until the government has begun to implement key policy reforms defined in the second World Bank-financed structural adjustment program and, more importantly, addressed critical exchange rate, budget management and wage policy issues in the context of a new IMF program.

16. When these conditions are met, USAID should join with multilateral and other donors and provide flexible quick-disbursing assistance, through a series of large AEPRP operations.

17. These operations should have as a major objective to support appropriate food policies. In contrast with many other African countries, Guinea has a major comparative advantage in the area of rice production and long-term prospects in the agricultural sector will mainly depend on the performance of the food sector.

18. The aim of the proposed food policy should be to gradually reduce/eliminate consumption of imported rice first in key provincial centers and eventually in Conakry. The main policy tool would be to remove price distortions resulting from any kind of direct or indirect subsidization of food imports (including an overvalued exchange rate).

19. The design of the proposed policy package would require strong donor coordination. It would also involve substantial efforts to develop a better data base on food markets outside of Conakry.

## ANNEX 1: SCOPE OF WORK

The objective of the evaluation/impact assessment is to: assess the AEPRP mode of assistance to Guinea and the impact of the assistance on the economy with particular attention on the Central Bank's foreign exchange auction system; assess the macroeconomic impact of the conditions precedent to the disbursement of the first tranche on the economy; and, review the CPs to the disbursement of the second tranche, project their impact on the economy, assess the GOG's ability to meet the CPs before September 30, 1988, the Program Authorized Completion Date, and recommend to USAID/Guinea and AID/W second tranche CP options for negotiating and policy dialogue positions with the GOG.

A team composed of a macroeconomist and a fiscal/monetary economist from outside of the Agency will review the GOG's economic and administrative structural adjustment program since its beginning, December 22, 1985. This review will cover the original planned objectives of the reform program, the AEPRP's goal, purpose, rationale, conditions, and benchmark indicators for measuring achievement of its goal and purpose. The mid-term evaluation/impact assessment will assess the impact of the policy changes and make recommendations on the need for additional policy reforms, if any, for future program assistance to achieve AID's policy reform objectives.

Specifically, the team members will, prior to their arrival in Guinea: (1) review IMF and World Bank documents related to the Standby Agreements and Structural Adjustment Loans in support of the GOG's reform program begun in December 1985; interview relevant AID/W Africa Bureau personnel on the history and intent of the AEPRP for the Bureau and for Guinea; and (3) review program documentation, PAAD, and AID/W to USAID/Guinea AEPRP approval cable, and subsequent USAID/Guinea economic and AEPRP reporting cables.

Once in Conakry, the team members will: (1) review with USAID/Guinea and GOG officials, the CPs for the first tranche and the benchmark indicators for measuring progress contained in the evaluation section of the PAAD related to the first tranche; (2) review and analyze with USAID/Guinea and Central Bank staff, the impact on the Central Bank's foreign exchange auction of the release of the \$5 million from the AEPRP between June 19, 1987 and August 31, 1987; (3) assess the macroeconomic policy impact resulting from the GOG's meeting the first tranche CPs on the Guinean economy; (4) analyze the CPs and benchmark progress

indicators for the disbursement of the second tranche; (5) based on this analysis, advise USAID/Guinea and AID/ on (a) the continued relevance of these CPs to the Guinean reform program, (b) the progress made by the GOG toward meeting the CPs, (c) an assessment of the macroeconomic impact on the Guinean economy of these CPs, (d) the various options for establishing the AID position vis-a-vis the GOG on the CPs not yet met and, (e) the division of the second tranche into two disbursements and the length of the extension of the PACD; (6) evaluate the effectiveness of the AEPRP and the program assistance mechanism as a means of providing assistance to speed the implementation of the GOG's economic reform program; and (7) recommend additional policy reform conditionalities or refinements, if necessary, for future U.S. assistance.