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Republic of Guinea

Country Financial Accountability Assessment

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GUINEA

Country Financial Accountability Assessment

2003

HIGHLIGHTS

Guinea continues to make progress in the modernization of its public financial management processes and structures. There remains, however, considerable work to be done to ensure that the improvements are sustained and the implementation deepened. There is a need to strengthen both the components of public financial management and to strengthen the linkages between the components i.e. planning, budget preparation, budget execution, financial reporting, audit and control.

The quality of Public Financial Management in Guinea does not yet provide sufficient assurance for external donors to implement their projects through the government's own systems via, for example, direct budgetary support.

In some aspects of public financial management, e.g. the formal commitment control system, Guinea's simple and pragmatic approach is more effective than some of the more sophisticated and expensive systems in the sub region. The level of public expenditures processed outside the central commitment control system, in particular by means of payment orders and advances remains a concern.

Guinea has started a process of decentralizing (déconcentration) budget management for the priority sectors of Health, Education and Rural Services to the District (Préfectoral) level. This is a significant change from the highly centralized process that has characterized public financial management in Guinea to date. Moving budget management closer to the delivery of services should result in greater transparency and accountability of the use of the financial resources provided. It is too soon to assess whether the decentralization is achieving the desired results. There are, however, a number of steps that could be taken to enhance the implementation of decentralization.

The ex post audit structures in Guinea require significant strengthening

Corruption in public service remains a concern although there are encouraging signs from the activities of the anti-corruption Commission. Recent changes in particular high-level responsibilities have eased some perceived roadblocks to the follow through of anti-corruption activities.

GUINEA

Country Financial Accountability Assessment

2003

TABLE OF CONTENTS

PREFACE.....	5
ABBREVIATIONS/ ACRONYMS	6
EXECUTIVE SUMMARY	7
OVERVIEW	7
DECENTRALIZATION (DÉCONCENTRATION).....	7
EXPENDITURE CONTROL	8
REVENUE	9
FINANCIAL REPORTING.....	9
AUDIT FUNCTIONS.....	10
CORRUPTION.....	10
KEY RECOMMENDATIONS.....	12
PUBLIC FINANCIAL MANAGEMENT	1
GENERAL.....	1
OBJECTIVE OF THE CFAA.....	2
SCOPE OF THE CFAA.....	2
RELATIONSHIP TO COUNTRY STRATEGY	3
COUNTRY BACKGROUND.....	4
CURRENT GOVERNMENT STRUCTURES	8
PUBLIC FINANCIAL MANAGEMENT CYCLE	8
DECENTRALIZATION	9
<i>Current situation</i>	9
<i>Analysis</i>	10
<i>Recommendations</i>	14
LEGAL FRAMEWORK.....	14
<i>Analysis</i>	14
<i>Recommendations</i>	15
BUDGET FORMULATION.....	15
<i>Current System</i>	15
<i>Analysis</i>	16
<i>Recommendations</i>	18
BUDGET EXECUTION - EXPENDITURE	18
<i>Current situation</i>	18
<i>Analysis</i>	19
<i>Recommendations</i>	20

BUDGET EXECUTION - REVENUE	20
<i>Current situation</i>	20
<i>Analysis</i>	21
<i>Recommendations</i>	22
ACCOUNTING AND REPORTING	22
<i>Current situation</i>	22
<i>Analysis</i>	23
<i>Recommendations</i>	24
AUDITING	24
<i>Current situation</i>	24
<i>Analysis</i>	26
<i>Recommendations</i>	27
CORRUPTION.....	27
<i>Analysis</i>	28
<i>Recommendations</i>	29

GUINEA
Country Financial Accountability Assessment
2003

PREFACE

The 2003 Guinea Country Financial Accountability Assessment (CFAA) has been carried out conjointly with the 2003 Guinea Public Expenditure Review (PER) and both analysis will be reported as the Integrated Public Expenditure Review and Fiduciary Assessment (PER-FA) for Guinea. This approach has been followed in order (a) to have a cohesive and coherent set of analysis and recommendations on Public Finance (b) to reduce the demands on the government of Guinea which might have resulted from a duplication of reviews being carried out in the same time frame. This approach reduces the potential overlap in the scope of PER and CFAA.

This stand alone CFAA report is based on the chapter on Public Financial Management systems and processes in the Integrated Public Expenditure Review and Fiduciary Assessment, with some additional context added.

The government counterpart team designated by the Minister of Finance was led by Dr. Souare, the Inspector General of Finance and Mr. Doumbouya the Deputy Inspector General of Finance supported by representatives for key units.

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The World Bank gratefully acknowledges the enormous contributions made by the Guinean Government Counterpart Team, The Bank also expresses its gratitude to the numerous government and private sector officials and individuals who contributed information that made the CFAA possible

ABBREVIATIONS/ ACRONYMS

CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CRD	<i>Comite rural de développement</i>
DAAF	<i>Directeurs Administratives et Financiers</i>
DFID	Department for International Development
EC	European Commission
EU	European Union
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organization
MOF	Ministry of Finance
MOF IC	Ministry of Finance Implementing Committee
PER	Public Expenditure Review
PER – FA	Integrated Public Expenditure Review and Fiduciary Assessment
PFM	Public Financial Management
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on the Observance of Standards and Codes
WB	World Bank

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GUINEA
Country Financial Accountability Assessment
2003

EXECUTIVE SUMMARY

OVERVIEW

1. Guinea continues to make progress in the modernization of its public financial management process and structures. Over the last three years there has been a noticeable improvement in many of the basic elements of public financial management. Continued efforts will be necessary to ensure that these changes are sustained and that the implementation of the reforms is implanted in depth in the line Ministries and in the decentralized (déconcentration) structures.
2. The impact of the improvements is, however, mitigated by (a) the lack of a reliable and predictable revenue stream, (b) excessive government expenditures outside the commitment control systems, and (c) the weak linkages between various elements of public financial management processes.
3. The public financial management systems and processes in Guinea are not yet at a level that would provide reasonable assurances to the Bank or other donors that the government's own systems can be used to channel funds to donor funded projects or programs. It is, however, not unreasonable to believe that if the current progress in improvements is sustained and deepened that the objective of using the government's own systems for channeling donor funds could be realized in the medium term.

DECENTRALIZATION (DÉCONCENTRATION)

4. The Guinea CFAA 2003 is being carried out against a backdrop of a fundamental change in the management of public funds. The management of budgets for the high priority sectors of Health, Education and Rural Development is being delegated to the District (Préfectoral) level. This is a significant change from the highly centralized budget management structures that have characterized public financial management in Guinea to date. Starting in Fiscal 2002 certain budgets were decentralized on a pilot basis. For Fiscal 2003, the decentralization has been expanded to cover substantially all of the budgets for the decentralized operations of Education, Health and Rural Services.
5. Locating the management of the budgets for the priority sectors closer to the point of service delivery should improve the accountability and transparency of the use of public

funds. It is too soon to say whether these changes have resulted in improvements or a substantial increase in the flow of budgetary funds to the point of service delivery to the community.

6. A number of measures that should be taken to increase the likelihood of success include:

- Establishing a program to report actual vs budgeted expenditures at the decentralized community (i.e. CRD or village) level for education, health and rural services together with a requirement for regular accountability sessions.
- Implementing a policy of moving the management of budgeted expenditures to the closest point at which services can be delivered (i.e. a school or a health center) as cost effectively.
- Simplifying the expenditure control processes at the decentralized level
- Developing a more predictable flow of funds (*délégations de crédit*) to the decentralized level.

7. To sustain the decentralization process there is a need to:

- Support the development of fiduciary capacity at the decentralized level by providing the necessary personnel, training, and technical guidance.
- Provide the basic equipment, infrastructure and tools to support decentralized units
- Progressively to establish computer terminals for the commitment control system (*chaîne des dépenses*) closer to the decentralized level.

EXPENDITURE CONTROL

8. Expenditure control has improved in Guinea over the last three years with the introduction of the computerized commitment control system (*la chaîne des dépenses*). The system is simple, pragmatic and its operation is, in many respects, superior to far more expensive and elaborate systems in place or under development in West Africa. The commitment control system is centralized at the Ministry of Finance. Workstations are available at the Ministry of Finance for line ministries to enter their data. There are linkages with the tax systems that require that any company or individual receiving government contracts should be up to date with their tax payments.

9. The utility of the commitment control system as a budget control mechanism is diminished however by the extensive use of expenditure mechanisms such as *lettres de paiement* and advances which are outside the commitment control system.

10. The current configuration of the commitment control system is beginning to reach the limits of its capacity for reasons that include the addition of a substantial number of budget lines for decentralized operations, the usage demands of line ministries and advances in technology.

REVENUE

11. The Republic of Guinea is rich in natural resources, in particular Bauxite, the raw material for aluminum, for which Guinea is one of the leading exporters. Traditionally Guinea has relied on mining taxes and customs duties for a major proportion of its internally generated government revenues. More recently other sources of revenue, such as income taxes are being expanded.

12. One of the most significant constraints to establishing a solid tax base is the extent to which tax exemptions (*exonérations*) are granted. In fiscal year 2002 the value of tax exemptions amounted to some GNF 132 billion, equivalent to about USD 66 million.

13. The government has established regular reporting mechanisms to monitor tax exemptions. The government should:

- continue monitoring tax exemptions.
- ensure that the data on tax exemptions are complete.
- establish a policy framework within which exemptions may be awarded, and then take actions to reduce and minimize the level of exemptions.

FINANCIAL REPORTING

14. Guinea has made substantial progress in getting up to date in its statutory financial reporting. During the 1990's there had been a significant lag in the statutory financial reporting obligations (*la loi de règlement*). As at March 2003, with the approval of *la loi de règlement - 2001*, Guinea was fully up to date with the legal requirements.

15. Guinea has also made significant progress over the last three years in the quality and detail of the budget information published. The 2003 Budget (*la loi des finances*) includes, for the first time, a significant level of detail for the operating expenses (Titre III) and grants and contributions (Titre IV) down to the level of individual schools and health centers for the decentralized budget operations of Education, Health and Rural Development.

16. In order to improve accountability, there is a need to continue to improve the quality, timeliness and availability of financial information on budgets and expenditures and revenues.

17. Financial reports to the President and the National Assembly for the whole government should be in a form and content readily understandable by citizens with a non-financial background. Additional commentary and analysis on the financial reports could be useful to assist in the understanding of the reports.

18. To reinforce the accountability to communities, financial reports of expenditures compared to budget allocations should be prepared at a level of detail comparable to the allocations in the National Budget. Mechanisms for public dissemination and discussion of financial information should be reinforced to allow communities to more easily hold their governments to account.

AUDIT FUNCTIONS

19. Guinea has a fragmented and incomplete audit framework.

20. There is no overall independent, external government audit body responsible for providing assurance that state expenditures were actually used for the purposes intended with due regard for economy, efficiency and effectiveness.

21. The Audit Division of the Supreme Court (*la Chambre des Comptes*) provides assurance that expenditures and revenues conform to the legal authority. However, the Audit Division lacks the mandate and resources, in staffing, equipment and operating budget, to effectively engage in a broader audit role.

22. The lack of an effective and credible independent government audit body with a broad mandate is a significant obstacle to external donors being able to rely for assurance on the government's own systems when providing either general budgetary support or for executing donor funded projects using government systems rather than using stand alone Project Implementation Units (PIUs)

23. Until the government audit structures are significantly strengthened, external donors may have to continue conducting their own separate audits, a practice that does not necessarily assist in developing capacity within government.

CORRUPTION

24. There is a perception that corruption diminished the effectiveness of public financial management in Guinea. Corruption is an issue not solely in Guinea or West Africa but is an issue to a lesser or greater extent in all countries.

25. Guinea has taken some very positive and progressive steps to begin addressing the corruption issue.

26. A National Anti-Corruption Commission has been established with a wide membership representative of the main political parties in the National Assembly, the executive and judicial branches of government, civil society and the private sector.

27. The Anti-Corruption Commission has made progress in raising the public's awareness of corruption issues and in probing a number of higher profile cases. After some earlier rapid activity, institutional blockages appeared to slow down the progress. During 2003 there has been a reassignment of certain ministerial responsibilities and some of the key obstacles have been removed.

28. A comprehensive Governance and Corruption Survey will be completed during 2003. In addition to obtaining information about corruption per se and linking it to service delivery, the survey results will also provide information about the relationships between corruption and financial management, public procurement, and personnel management. These results will thus provide further insights into areas of financial management that need strengthening.

KEY RECOMMENDATIONS

Table 1: Development Action Plan						
ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 – 6 months	2004	2005-2007	2007 +
A. Strengthen the Decentralization process	i. Establish a program of reporting actual expenditures at the community level together with a requirement for regular accountability sessions.	MOF Support from WB PACV		X		
	Prepare comparisons of actual expenditures for the National Budget comparing budgets for operating costs and subsidies (Titre III and Titre IV).			X		
	Hold public accountability sessions in (5) Prefectures			X		
	Hold public accountability sessions in (50) Sous Préfectures				X	
	Hold public accountability sessions in all Prefectures				X	
	Hold public accountability sessions in (200) Sous Préfectures					X

Table 1: Development Action Plan						
ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 – 6 months	2004	2005-2007	2007 +

Strengthen the Decentralization process	ii. Implement a policy of moving the management of budgeted expenditures to the closest level to the delivery of services that can be accomplished in a cost effective manner.					
	Establish criteria for the management of budget funds at decentralized levels. Criteria to include action plans to improve capacity if the budget centers cannot be accredited to manage budget funds:		X			
	Assess (8) Préfectures and (3) Regional Hospitals or Universities against the criteria	MOF IC Support from WB PRCI	X			
	Assess remaining Préfectures and Regional Hospitals and Universities.			X		
	Assess Health and Education budget centers at the Sous Préfecture level for (8) Sous Préfecture			X		
	Assess Health and Education budget centers at the Sous Préfecture level for (90) Sous Préfectures.				X	
	Assess Health and Education budget centers at the Sous Préfecture level for remaining Sous Préfectures.					X

Table 1: Development Action Plan

ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 - 6 months	2004	2005-2007	2007 +

Strengthen the Decentralization process	iii. Simplify the expenditure control processes at the decentralized level: Implementation Committee to review the steps from commitment to authorization for payment and reduce the number of steps by 30%	MOF IC	X			
	iv. Develop a more predictable flow of funds (délégations de crédit) to the decentralized level. Implementation Committee to examine means of establishing a regular and predictable flow of funds for decentralized activities	MOF IC	X			

Table 1: Development Action Plan

ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 - 6 months	2004	2005-2007	2007 +
B. Budget Execution - Expenditure	i. The volume of expenditures that does not follow the formal commitment control system should be significantly reduced and regular summary reports of exceptions should be provided to senior officials. Establish an annual limit of 15% for expenditures which do not follow the formal commitment control system.	MOF	X			
	ii. The computerized commitment control system should be updated (in terms of equipment and technology) to ensure that it continues to be a useful and relevant part of the budget management structures	MOF Support from WB and other donors		X		
D. Budget Execution - Revenue	i. The government of Guinea should continue to monitor the level of tax exemptions and take actions to reduce or limit exemptions that include the development of a policy framework. Analysis of tax exemptions (including data from the Ports of Conakry and Kamsar) should be prepared every quarter and presented to senior officials within 60 days of the end of the quarter	MOF (Douane)	X			

Table 1: Development Action Plan

ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 – 6 months	2004	2005-2007	2007 +

E. Accounting and Reporting	i. There should be continuing support to modernize and update government accounting systems.	WB PRCI Other donors		X		
	ii. Support to the National Assembly for analysis and dissemination of financial information should be continued and expanded.	WB IDf Grant approved	X			
F. Auditing	i. In the shorter term there is need to strengthen the capacity of the three existing principal audit bodies in Guinea to ensure that they have the capacity in terms of staffing, equipment and operating budget to carry out their existing mandates	WB IDf Grant approved	X			
	ii. In the medium term consideration should be given to establishing an independent national audit agency with a wide mandate that would enable it to carry out many of the activities of the existing bodies				X	
G. Legal framework	i. Update the legal framework to clarify the program basis of budgeting under the Medium Term Expenditure Framework.			X		
	ii. Amend the basic legislation to allow for more flexible processes for small decentralized expenditures.			X		
H. Corruption	i. The government of Guinea should continue to give a high priority to the reduction of corruption in public financial management in Guinea by continue to support the activities of the National Anti Corruption Committee	GoG Support from WB PRCI and other donors	X			

Table 1: Development Action Plan						
ACTION	SUB-ACTIONS	RESPONSIBILITY	TIMING			
			Urgent	Priority	Medium-term	Long-term
			0 – 6 months	2004	2005-2007	2007 +

Corruption	ii. Support the Corruption Survey, use its results as a basis for updating the national anti-corruption strategy and action plan and disseminate the results widely within the context of a national public awareness program	MOF Support from WB	X			
	iii. Clarify the role and responsibilities for investigating and prosecuting cases of alleged corrupt activities between those of the Anti-Corruption Committee, the judicial police and the judiciary and, if necessary, make appropriate changes to the relevant laws and regulations	MOF		X		

GUINEA
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2003
PUBLIC FINANCIAL MANAGEMENT

GENERAL

1. The 2003 Guinea Country Financial Accountability Assessment (CFAA) is being carried out as an integrated project with the 2003 Guinea Public Expenditure Review (PER). The findings, analysis and recommendations of the CFAA form part of the Integrated Public Expenditure Review and Fiduciary Assessment (the PER-FA) for Guinea and which, together with the Country Procurement Assessment Report (CPAR) completed in 2002, form the basic building blocks of the Bank's programme of fiduciary analytical work.
2. The CFAA team included representatives of the European Commission and Kreditanstalt für Wiederaufbau (KfW), the German Development Bank. Input was also sought from other development partners.
3. The PER-FA was carried out in close collaboration with the government of Guinea. The government counterpart teams prepared the initial documentation for the description of the public financial management processes. This documentation is available separately and provides more detailed descriptions of the current systems and processes than the summary in this report.
4. The CFAA has also made extensive use of the existing knowledge base for public financial management in Guinea, including the Rapid Fiduciary Assessment (2001), the series of reviews (supported by the European Commission) of elements of the structure and operation of the Ministry of Finance (2001 – 2003), the European Union audits and other recent reports.
5. The update of the HIPC tracking study in March 2002 indicated that Guinea met 5 out of the 15 basic public financial management criteria. In relative terms 12 out of the 24 countries met more than 5 of the criteria. Meeting less than 8 of the HIPC criteria is considered to indicate that public financial management requires "significant upgrading".
6. The European Commission has recently carried out a series audits of elements of public financial management in Guinea which identified the need for improvements in public financial management. Audits carried out include:

National Tax directorate (December 2001); National Budget Directorate (May 2002); National Financial Control directorate (June 2002); National Customs directorate (November 2001); Management of Public Debt; Chambre des Comptes (December 2002); Pensions division March 2002); National Investments directorate (March 2002); Inspection Générale des Finances (November 2002).

7. The IMF has completed a Safeguards Assessment of the Central Bank of Guinea in July 2002. The Fund has not completed a Fiscal Transparency ROSC, nor are there plans to complete a Fiscal Transparency ROSC in the near term

OBJECTIVE OF THE CFAA

8. The CFAA supports the Bank and other donors' development objectives by identifying strengths and weaknesses in public financial management systems. The CFAA facilitates a common understanding among the government, the Bank, and other development partners on the performance of the institutions responsible for managing the country's public finances. This common understanding helps to identify priorities for action and informs the design and implementation of capacity-building programs. The knowledge base developed in CFAAs also helps the Bank to respect its fiduciary objectives by identifying risks to the use of Bank and other development partners' financial resources posed by weaknesses in recipient government's public financial management arrangements.

SCOPE OF THE CFAA

9. In order to maintain a focus on the key current public financial management issues for Guinea the 2003 CFAA concentrated on a limited group of issues that may be constraints to the improvement over time of public financial management. These included:
 - Decentralization
 - Budget execution - Expenditures
 - Budget execution - Revenues
 - Financial Reporting
 - Auditing
 - Corruption
10. The rationale for this focus was to align the CFAA with the objectives of the country strategy for Guinea which is, over the medium term, to move to transferring financial resources through the Government's public financial management systems. The transitional strategy anticipates the transfer of resources through broader sector programs ie Health, Education and Rural

Services. The current CAS was approved by the Board in May 2003 and is available separately.

11. One major recent development in public financial management in Guinea is the decentralization of budget management for certain central government functions. The decentralization process started on a pilot basis. Budget decentralization was expanded in Fiscal 2003 to include the operating expenditures and subsidies for priority sectors of Health, Education Rural Services. In view of the importance of the decentralization process to the government of Guinea, the Bank and other donors the scope of the CFAA was expanded to have a higher level of coverage in this area.
12. The main State Owned Enterprises (SOE) include the Electricity and Water Utilities and the Port of Conakry. The strategy of the government, supported by the Fund, is to increase private sector participation in the major utilities; they are therefore not considered to be a long-term part of state public financial management and are not included within the scope of this report.
13. The private sector auditing and accounting profession in Guinea does not have any impact on public financial management and therefore is not included in the scope of this CFAA. Private sector auditors currently carry out audits of Bank funded projects implemented through stand alone Project Implementation Units (PIUs), however the Bank strategy of moving to a programmatic basis of funding will in the medium term gradually phase out the use of these PIUs .
14. Community Based Councils (CRDs) could a major factor in decentralized budget management and are therefore included in the assessment of the Decentralized activities. Other Non Governmental Organizations (NGO's) are not a major factor in public financial management in Guinea and are therefore not included in the scope of this CFAA.

RELATIONSHIP TO COUNTRY STRATEGY

15. A Poverty Reduction Strategy Paper (PRSP) has been prepared by the government through a process of extensive discussion and dialogue. The full PRSP was presented to the Boards of the Bank and the Fund in July 2002.
16. The major near term objectives of the PRSP are:
 - to consolidate macroeconomic stability as a prerequisite to sustainable growth;
 - to improve efficiency and effectiveness of the public sector and enhance the quality of public services that focus on strengthening public expenditure analysis and management;

- promote public sector governance, decentralize budgetary resources and decision-making; and rationalize the interactions between the public and private sector.
17. The Guinea CAS was presented to the Board of the Bank in June 2003. The previous full CAS for Guinea had been approved in November 1997. A CAS Progress Report for Guinea was presented to the Board in July 2001 covering a period of 12 to 18 months. An Interim Poverty Reduction Strategy Paper (I-PRSP) was presented to the Board in December 2000.
 18. The new CAS period will be a period of transition during which the Bank and other donors would move gradually towards more programmatic lending. During this period, the Bank will (a) support the implementation of the three pillars of the PRSP; and (b) ensure that sector reforms are consistent with cross-sectoral reforms in the areas of public finance management, management of human resources, and local administration to ensure that resources intended to reduce poverty are used efficiently and transparently. This would allow possible future support through PRSCs provided that Guinea maintains a stable macroeconomic framework and strengthens public finance management.
 19. The CFAA took into consideration the orientation of the 2003 CAS, with a specific focus on the increasing decentralization of budget management for the priority sectors of Health, Education and Rural Development and the need for capacity development to support the evolution of the decentralization process.

COUNTRY BACKGROUND.

20. Guinea's development over the last 50 years has followed a pattern at significant variance to that of neighboring countries in the sub-region. Guinea has a population of some 8.72 million (EIU 2002 estimate). Most development indicators are at the low end of the scale for the sub-region (which is also one of the lowest in the world). Male life expectancy at birth is 46 years and female 47 years (1997 data). This is an improvement over the life expectancy in 1965 of 35 years. Only 31% of the population outside the capital have access to basic health facilities.
21. The country is rich in natural resources. Guinea has 30% of the world's reserves of bauxite, the raw material for aluminum. Guinea has some 6% of the world's reserves of iron ore and there are significant deposits of other minerals including gold and diamonds. There is also significant agricultural potential
22. Guinea voted for independence from France in 1958. This was a fundamental break that resulted in a withdrawal of support from France and a break with the other French speaking countries in West Africa which retained close economic ties with France. Guinea adopted Marxist economic policies and for the next 26

years received technical assistance almost solely from the Soviet Union and other communist countries. The state took control over most aspects of economic life. During this period GNP declined steadily and the deterioration in infrastructure was evident.

23. Ahmed Sekou Toure, President of Guinea since 1958, died in 1984. Within a few months there was a military coup led by President Lansana Conte, who has remained in power ever since and has been elected twice in general elections. The next Presidential election is anticipated in late 2003.
24. Although there a long-standing tradition of strong Presidential government, in recent years the role of the National Assembly has evolved to be more active in reviewing and debating issues including issues relating to public financial management.
25. A legacy of the 1958 – 1984 period was a highly centralized government structure with central economic planning. The public sector financial management systems had deteriorated into an amalgam of the worst features of French colonial public accounting mixed with the opacity of Soviet accounting, aptly named “Revolutionary accounting”.
26. Since 1984 Guinea has reoriented its economy. There have been significant economic and public sector reforms. In particular, over the last six years, there has been significant support for improving public sector financial management systems and structures from the World Bank, the IMF, France, the European Union, Canada and other donors. The key areas improvement in public financial include:
 - Budget Formulation.
 - Budget Execution.
 - Public Expenditure Auditing and Monitoring.
 - Decentralization of budget resources, decision making, and service delivery.
 - Computerization of the public financial management systems.
 - New Public Procurement Code
27. **Budget Formulation.** To address weaknesses in budget formulation, the Government adopted a multi-year reform process. The key elements of the reform included: (i) adopting a medium-term approach in the budget formulation process; (ii) providing line ministries with three-year indicative ceilings which were linked

to annual budgets; (iii) undertaking, in collaboration with other stakeholders, public expenditure analysis and institutional reviews for key sectors to help set sectoral priorities; and (iv) improving management of donor assistance, ensuring coherence between projects and policies, and linking the public investment program (PIP) to the recurrent budget.

28. The Government initiated a medium-term approach for the FY02 budget preparation cycle. The Ministry of Economy and Finance (MEF) provided a budget circular containing multi-year ceilings to ministries and agencies. Ministries of priority sectors were requested to prepare a two-year period budget, starting in 2002. Special emphasis was placed on establishing links between sectoral priorities and requested budget allocations and, to this end, all priority sectors were asked to initiate policy reviews to derive clear statements of objective and expenditure priorities in preparation of the FY02 budget. A training workshop was organized to enhance capacity in priority sectors by launching public expenditure and institutional reviews in the two key sectors of education and health. By the end of the reform program covered by SAC IV, it was expected that there would be: (i) a further increase in non-wage recurrent expenditures allocated to priority sectors from the current level of 35 percent of the total; (ii) better enforcement of sectoral budget ceilings to ensure fiscal discipline; (iii) complete public expenditure and institutional reviews for education and health, clearly articulating priorities; and (iv) the adoption of key features of an MTEF.
29. **Budget Execution.** The Government identified the following important actions for enhancing budget execution: (a) instituting quarterly cabinet-level reviews of budget execution and disseminating key results to the National Assembly, local media, and donor representatives; (b) reducing delays through more critical use of data provided by the financial management information system; (c) monitoring the variance between original budget allocations and actual spending, beginning with priority sectors; (d) initiating *ex-post* audits of investment projects; (e) adopting new measures to strengthen asset and inventory management; (f) undertaking *ex-post* audits of all procurement contracts exceeding GNF150 million and 15 percent, on a sampling basis, of all other contracts; (g) adopting sanctions, applicable to both government officials and suppliers, to prevent unlawful practices in managing procurement contracts; and (h) reinforcing conditions to participate in public tenders, thereby restricting participation to legitimate suppliers.
30. **Public Expenditure Auditing and Monitoring.** To strengthen auditing and monitoring capacity, the Government directed its actions in the medium-term to three key areas of reform: (i) the production and dissemination of audited budget accounts on a timely basis; (ii) reassessment of the roles of various oversight agencies such as the *Chambre des Comptes* with a view to strengthening the existing system; and (iii) capacity building for these agencies
31. **Decentralization of budget resources, decision making, and service delivery.** The Government has been implementing a decentralization policy with an

important budget component. A comprehensive set of measures was launched in the context of the FY01 budget, which aimed at: (i) enhancing the importance of decentralized structures in priority sectors by increasing their budgetary allocations and making these explicit in the budget document and, in the process, removing arbitrary practices of budget execution observed in the past; (ii) promoting transparency by making budgetary allocations directly to schools and health clinics; (iii) initiating tracking of expenditures in priority sectors to assess the efficiency of budget execution; and (iv) strengthening budget management at the local level. In addition, within a broad range of local taxes, the Government raised the share that local communities are allowed to retain and, most importantly, head tax.

32. The decentralization measures included the following: (a) increasing the share of non-wage recurrent budget resources allocated to lower tiers of government to at least 80 percent of the total for priority sectors; (b) making allocations directly to schools and health clinics in Conakry and the administrative region of Kindia which covers five prefectures; and (c) increasing the resource base of local government through fiscal transfers and local revenue mobilization (in 2000/01, government sharply increased the shares of these taxes to CRDs. For the Minimum tax (IMDL), this share jumped from 50 to 75 percent; for the Property Tax (CFU), from 22 to 68 percent; and for the Business tax (TPU), from 14 to 68 percent. The much larger shares to CRDs and the districts were expected to sharply improve collections of these taxes); (d) encouraging consultations of and participation by citizens in the budget process; and (e) creating awareness and demand for priorities and performance (through tracking surveys and participation in public expenditure review discussions).
33. ***Computerization of the public financial management systems.*** The systems for recording, controlling and administering commitments have been computerized. The system is centralized in the Ministry of Finance with data input terminals available to the line ministries. The system handles the commitment, the recording of the receipt of goods or services and the recording of the payment approval. The payments are made using a separate computer system (SAGE) in the Treasury division of the Ministry of Finance.
34. ***Public Procurement Code.*** A new Public Procurement Code was introduced in 1997. Public procurement issues were extensively reviewed jointly by the World Bank and the African Development Bank in the Country Procurement Assessment Report issued in June 2002. The overall conclusions of this assessment were that although the new procurement code represented an important improvement in the framework of public procurement many anticipated benefits had not materialized and there remained a lack of transparency, a lack of efficiency in public procurement, a non competitive private sector and administrative environment which was not favorable to the development of the private sector.

CURRENT GOVERNMENT STRUCTURES

35. The current government financial management structure is based on the French government tradition. This tradition includes strong centralized budget preparation and control and a powerful role for the Ministry of Finance. Another feature is an emphasis on clear legal guidance for the process and mechanisms to ensure compliance with this legal basis. A fundamental element of control in the French structure is the separation of the commitment authority (*l'ordonnateur*) and payment authorization (*le comptable*). The commitment authority is delegated from the Minister of Finance to the spending Ministry, e.g., the Minister of Health. Payments are authorized by the Directors of Finance in the spending Ministries (*Directeurs Administratives et Financieres* or *DAAF*) who are members of the Ministry of Finance. The laws, regulations and directives provide very detailed guidance on the ex ante controls for expenditures.
36. The highly centralized government structures remain in place from the First Republic (1958 – 1984). Up until FY 2001 virtually all government programs, i.e. health, education, agriculture, justice etc. were administered by the central government from the capital, Conakry. Recently initiatives are underway to decentralize (*deconcentration*) and to devolve (*decentralization*) many of these programs. Decentralization refers to the transfer of the administration of government programs from the capital to the regional units of the central government, i.e. the Regions (there are eight Regional governors for Labe, Kindia, Nzerekore, Boke, Kankan, Mamou and Faranahanah, plus the region of Conakry), 32 Districts (*Prefectures*) and 302 sub Districts (*sous Prefectures*). Devolution refers to the transfer of the administration of government programs to elected local authorities (*comites rurales de developement or CRD* or in urban areas *communes*).

PUBLIC FINANCIAL MANAGEMENT CYCLE

37. The public financial management cycle includes: budget formulation; budget execution; accounting and reporting; and audit and evaluation. This cycle operates within a legislative framework and is supported by information systems and qualified human resources.
38. A detailed description of the public financial management cycle in Guinea has been prepared by the government counterpart team as part of the Integrated Public Expenditure Review and Fiduciary Assessment (the PER-FA) of which this CFAA forms part. The detailed description of the public financial management cycle is incorporated by reference as volume II of this CFAA.
39. In view of the importance of the current decentralization initiative, both to the government and to the development partners the analysis and recommendation for

decentralization have been set out as a separate section preceding the usual order of the public financial management cycle as follows:

- a. Decentralization
- b. Control Environment
- c. Budget Formulation
- d. Budget Execution - Expenditure
- e. Budget Execution - Revenue
- f. Accounting and Reporting
- g. Auditing
- h. Corruption

DECENTRALIZATION

Current situation

- 40. Guinea is going through a period of fundamental change in the management of public funds. The management of the non-salary budgets for the priority sectors of Health, Education and Rural Services is being decentralized, initially to the District (Préfectoral) level. This is a significant change from the highly centralized budget management structures that have characterized public financial management in Guinea to date.
- 41. Starting in Fiscal 2002 management of budgets for operating expenditures and subsidies were decentralized to a limited number of subsectors, eg for the Education Sector in Conakry and Kindia, on a pilot basis to accumulate experience of decentralization
- 42. The budget (*la loi de finances*) for FY2003 continues the process by expanding the decentralization of the management of budgets for the non-salary expenditures for Health, Education and Rural Development. This decentralization is consistent with the Poverty Reduction Strategy Paper (PRSP) prepared by the government of Guinea and is supported by the Bank and other development partners. There has been a detailed manual of procedures prepared and workshops have been held for staff participating in the decentralized units.

Analysis

43. The management of the budgets for the priority sectors closer to the point of service delivery should improve the accountability and transparency of the use of public funds. It is too soon to say whether these changes have resulted in improvements or a substantial increase in the flow of budgetary funds to the level where services are provided to the community.
44. The budget commitment and management authority (*l'ordonnateur*) for the decentralized budgets has been delegated to the Prefects of the Districts.
45. The expenditure process at the decentralized level is based on the same comprehensive, complex and time-consuming processes that are used centrally. In practice additional controls have been added at the decentralized level. For example, all expenditures have to be authorized by the Prefect at two points of the expenditure cycle – once at the commitment stage (*engagement*) and secondly at the approval stage (*ordonnancement*).
46. Effectively there is no decentralized budget management below the District (*Préfecture*) level. Districts (*Préfecture*) incorporate, on average, nine sub Districts (*Sous Préfectures*) and a wide range of educational institutions ranging from small primary schools to Universities, and health facilities ranging from community health centers to Regional Hospitals.

47. The evolution of the decentralized budget management can be seen from the following table:

GNF billions

	Operating expenditure						Grants and subsidies					
	2000		2001		2002		2000		2001		2002	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Central Services	26,19	22,11	31,3	27,84	39,05	38,61	0	0	0	0	0	0
Decentralized Services Conakry	7,16	7,13	10,02	6,98	14,09	12,8	8,99	8,76	10,42	10,63	12,91	13,72
Decentralized Services Regional	23,4	22,3	42,16	27,71	54,99	58,99	8,08	8,08	11,35	10,6	13,13	17,09
Decentralized Total	30,56	29,43	52,18	34,69	69,08	71,79	17,07	16,84	21,77	21,23	26,04	30,81
Foreign	12,55	11,66	13,67	17,85	17,98	22,75	23,56	52,11	104,7	137,4	99,46	140,29
Common expenses	49,85	44,38	63,17	43,63	66,5	62,16	36,27	21,06	60,22	25,52	59,13	38,11
TOTAL	119,2	107,6	160,3	124	192,6	195,31	76,9	90,01	186,7	184,1	184,6	209,21

Source: lois de finances et chaîne des dépenses

48. The greatest benefit of decentralizing budget management is the increase in the resources used for the delivery of priority services such as education and health. It is generally accepted that the closer budget management is to the delivery of the service, the more effective is the outcome of the budget decentralization. It is recognized that in the early stages of the decentralization of budget management, and Guinea is at the early stages, there will be concerns, both real and perceived, about the capacity of the lowest level of budget centers to manage funds. There will also be concerns about the potential cost of such changes. There are financial accountability challenges in this decentralization process to ensure that the tight budget controls remain in place and to ensure timely accounting for expenditures.

49. There are, however a number of measures that should be taken in order to increase the likelihood of success. These measures include:

- **Reporting to the community.** Establishing a program of reporting the actual expenditures at the community (i.e. CRD or village) level compared to the amounts budgeted to be spent at a decentralized level for education, health and rural services together with a requirement for regular accountability sessions.

- **Moving budget management to the local level.** Implement a policy of moving the management of budgeted expenditures to the closest level to the delivery of service (i.e., a school or a health center) that can be accomplished in a cost effective manner.
- **Simplify the process.** Simplify the expenditure control processes at the decentralized level
- **Predictable flow of funds.** Develop a more predictable flow of funds (*délégations de crédit*) to the decentralized level

Reporting to the community

50. One of the more powerful non-formal financial control mechanisms is for the communities who should be benefiting from government services to be informed about the value of the services that have been approved for their communities and then to be informed of the actual expenditures. If this information is transparent and readily available the communities will inevitably have some questions or need clarification from those who should be held accountable.

51. Accountability sessions with the government officials can clear up misunderstandings between all parties. For example, it is not unusual for communities to look at their budgets and compare them with the expenditures at the local level and assume that the differences are a result of funds being diverted. Accountability sessions give the opportunity for officials to explain which expenditures charged to the budgets were for materials more efficiently procured centrally or regionally, e.g., text books for schools. The sessions would also allow the communities to give feedback on which goods and services are available locally or what quantities of centrally procured goods are actually needed. Having to participate in accountability sessions is also a good incentive for officials to continue to take community considerations into account. A model of community accountability in Guinea is found in those communities participating in the Village Improvement Program (PACV).

52. On a broader level, accountability sessions at the District (*Préfecture*) level can ensure an overall understanding of the distribution of resources and raise issues of the equity of the distribution. The broader based District Development Councils, currently being introduced on a pilot basis may be the appropriate vehicle for the broader accountability sessions. These Councils include the Prefect, other government officials, elected officials and civil society.

Moving budget management to the local level

53. To support a policy of moving budget management closer to service delivery a series of procedures needs to be put in place:

- Establish the basic criteria that a budget center must meet to become a Budget Management Center.
- Create a mechanism for reviewing budget centers to see if they meet the accreditation criteria, with periodic subsequent reviews to update the accreditation on a regular basis (i.e. every three years or five years)
- Start a program to develop the fiduciary capacity of those budget centers that do not meet the basic accreditation criteria, and to support those that qualify as Budget Management Centers

54. Budget centers that do not meet the accreditation criteria should have their budgets managed by the closest (hierarchical or geographic) budget center that qualifies as an accredited Budget Management Center.

55. It is reasonable to expect that at the beginning of the process most Districts (*Préfectures*) will meet the criteria, as will most Universities and Regional Hospitals.

56. Although the above concepts are relatively simple and straightforward, in reality they represent a major capacity building effort that may take many years to develop and implement.

Simplify the processes

57. The budgets for operating expenses and grants and subsidies which are currently decentralized to the District (*Préfecture*) level are managed following the same comprehensive, complex and time consuming procedures as for other central government expenditures. These are followed even for expenditures as small as GNF 40,000 (some USD 20). Some additional process steps have also been added at the decentralized level. There is a risk that these processes will strangle the decentralization movement.

58. Simplifying the process could include the establishment of minimum thresholds and fewer process steps.

Predictable funds flow

59. The total budget allocated is one factor in budget management; another is the availability of the funds to implement the activities to be financed by the budget. At present the release of budget funds (*délégations du crédit*) is unpredictable and not linked to the patterns of expenditure, e.g., for the schools there is a peak of resource needs to prepare for the beginning of the school year in September.

Recommendations

60. Establish a program of reporting the actual expenditures at the community level together with a requirement for regular accountability sessions.

61. Implement a policy of moving the management of budgeted expenditures to the closest level to the delivery of service that can be accomplished in a cost effective manner.

62. Simplify the expenditure control processes at the decentralized level

63. Develop a more predictable flow of funds (*délégations de crédit*) to the decentralized level.

LEGAL FRAMEWORK

64. The legal basis for public financial management in Guinea includes:

- The Constitution (1990) – provides the general powers to establish laws for the public service
- The Organic Finance Law (1991) – provides the legal basis for the public financial management procedures and processes including the requirement for approval by the National Assembly of the fundamental financial documents, i.e. the National Budget, Supplementary Budgets and the Public Accounts.
- The Finance Ministry Regulations (1997) – which set out the organization and functions of the Ministry of Finance.
- The Organic Supreme Court Law (1991) – which gives the Supreme Court the responsibility and authority to audit the Public Accounts.

Analysis

65. The legal framework for public financial management provides a reasonably comprehensive foundation for the existing public financial management procedures and processes.

66. The legal framework provides for a very comprehensive and detailed ex-ante financial controls and relatively less substantial ex-post. The basic control framework is similar to that found in many countries in West and Central Africa.

67. A fundamental element of the ex-ante control in the structure in Guinea is the clear separation of officials who can authorize commitments and implement expenditure (*l'ordonnateur*) and officials who can authorize payments (*le contrôleur*). The commitment authority is delegated from the Minister of Finance to the spending Ministry, e.g., the Minister of Health. Payments are authorized by the Directors of Finance in the spending Ministries (*Directeurs Administratives et Financières* or *DAAF*).

68. The National Assembly may make amendments to the proposed National Budget Law to reduce expenditure, increase revenue or to improve controls but cannot increase expenditures.

69. The modernization of budget procedures that has taken place over the last three years has not yet been reflected in changes to the basic legislation.

70. The program approach to budgeting, which is a basis for the Medium Term Expenditure Framework, does not have legal authority in existing legislation.

71. There are elements of public financial management relating to the decentralization of budget management that would benefit from clarification and simplification. The same comprehensive, complex and time-consuming processes that are applied to central expenditures continue to be required for small expenditures at the local level.

Recommendations

72. Update the legal framework to clarify the program basis of budgeting under the Medium Term Expenditure Framework.

73. Amend the basic legislation to allow for more flexible processes for small decentralized expenditures.

BUDGET FORMULATION

Current System

74. Guinea, for much of its history, has practiced a very centralized “top down” approach to preparation of the National Budget. The Ministry of Finance has traditionally dominated this budget process. Historically, government budgeting has been within a framework of single year budgets.

75. In 1999 the Government of Guinea, with the support and encouragement of the Bank and the IMF, started a process of modernizing the budget process and establishing a Medium Term Expenditure Framework (MTEF).

76. The move to a multi year budget framework represents a fundamental change in approach. It may take a number of years for the changes to be fully internalized in the government structures and there will be continuing training requirements to support this change initiative.

77. The detailed description of the budgetary procedures that has been prepared by the government of Guinea is included as Volume II .

Analysis

78. The government budgeting process has been progressively improved over the last three years. The government is in the process of improving the programming of medium-term expenditure for the priority ministries of Health, Education and Rural Services including provisions to train financial staff attached to the line Ministries (the *DAAF*).

79. The structure of the National Budget was substantially revised starting with FY2000. The National Budget document (*la loi des finances*) is detailed and includes all central government activities including defense expenditures. State owned enterprise (SOE e.g. the Port of Conakry) and municipal governments are not consolidated on the recommendation of the IMF.

80. The Government has already a fairly comprehensive set of procedures in place, which, for the past two fiscal years, has been facilitating the establishment of a medium-term macroeconomic fiscal account by the year 2005, based on the sectoral policies developed in the PRSP. The next step is to include in the process a number of objectives to be attained by the ministerial departments and to take into account progress made with the decentralization (*déconcentration*) of expenditures.

81. The FY2003 National Budget, for the first time, includes detail of operating budgets at the level of units that provide delivery of services, e.g., schools, health centers.

82. Expenditures funded from the HIPC initiative are being tracked separately within the budget. The HIPC savings are targeted at priority sectors e.g. health and education.

83. The table below shows the evolution of the budget allocations to the priority sectors from 1997 to 2003 (Titre III – Operating Expenses; Titre IV – Grants and Subsidies):

Billions of GNF

PRIORITY SECTORS	1997		1998		1999		2000		2001		2002		2003	
	T III	T IV	T III	T IV	T III	T IV	T III	T IV	T III	T IV	T III	T IV	T III	T IV
EDUCATION	7,93	8,88	12,29	11,87	14,61	12,47	17,41	13,68	25,45	16,32	32,69	17,83	32,52	20,50
HEALTH	2,17	2,00	3,00	2,00	2,88	2,54	3,85	3,54	18,20	20,36	19,89	16,42	18,19	11,37
RURAL DEVELOPMENT	0,71	0,00	1,55	0,17	1,19	0,18	1,28	0,24	3,22	0,66	3,79	0,66	4,08	0,84
INFRASTRUCTURE	7,00	0,00	8,60	0,10	11,48	0,08	12,80	0,08	22,22	0,09	21,80	0,09	0,00	30,28
JUSTICE	1,97	0,00	2,08	0,08	2,02	0,12	2,69	0,14	3,01	0,20	3,32	0,20	3,07	0,31
URBAN	0,21	0,00	1,55	0,00	1,50	0,00	0,27	0,27	0,25	0,00	0,30	0,00	0,49	0,00
SOCIAL AFFAIRS	0,47	0,00	0,78	0,50	0,87	0,35	0,94	0,57	0,96	0,82	1,11	0,82	1,34	3,38
PRIORITY SECTORS TOTAL	20,46	10,88	29,84	14,71	34,54	15,73	39,23	18,52	73,31	38,45	82,90	36,02	59,70	66,67
ALL SECTORS TOTAL	84,11	22,60	92,84	34,56	99,32	44,53	119,15	76,91	160,32	186,69	192,61	184,63	171,90	208,47
DEFENCE	7,53	0,30	0,85	9,30	11,36	18,76	12,44	19,25	16,04	98,87	8,71	93,21	7,38	81,00
NON-DEFENCE TOTAL	76,58	22,30	92,00	25,26	87,96	25,77	106,72	57,66	144,28	87,83	183,90	91,42	164,53	127,47
PRIORITY SECTORS	31,35		44,56		50,27		57,75		111,76		118,91		126,37	
ALL SECTORS	106,72		127,41		143,85		196,06		347,01		377,25		380,37	
NON DEFENCE	98,89		117,26		113,73		164,37		232,11		275,33		291,99	
Priority / All Sectors	29,4%		35,0%		34,9%		29,5%		32,2%		31,5%		33,2%	
Priority / Non Defense	31,7%		38,0%		44,2%		35,1%		48,1%		43,2%		43,3%	

Source: DNB/ Lois de finances.

84. Weakness in the budget system are (a) a lack of public participation and transparency and (b) a relatively weak medium term expenditure framework (described in more detail in the Integrated Public Expenditure Review and Fiduciary Assessment)

85. The National Budget document (*la loi des finances*) is a technically complex and voluminous document that is difficult for an ordinary reader to comprehend and therefore question or challenge. It would be useful to have a simplified, condensed version of the budget that could be provided to the National Assembly and to the media to explain the budget in a way that could be understandable to a broader section of the population.

86. The setting of Revenue levels in the National Budget has been problematic and continues to be one of the sources of the disconnect in the implementation of the budget.

The Revenue budgets for taxes are based in a large measure on a mechanical calculation of the estimated growth in the tax base and anticipated improvements in the level of collection. These Revenue levels are often unrealistically high and do not provide a reliable indicator of the budget resources that will be available to meet the budgeted expenditures.

Recommendations

87. The reforms to the budget process should be continued, reinforced and deepened.

88. There should be more extensive dissemination of the National Budget to all levels of society, including the poorer and more remote rural and urban areas. There should be simplified budget information prepared that includes the information relevant to individual communities.

89. A methodology should be developed for calculating the revenue potential and the cost of collection for each category of revenue with a view to using such information, along with other factors, to develop a revenue collection strategy.

BUDGET EXECUTION - EXPENDITURE

Current situation

90. The PER exercise in 1996 had noted serious deficiencies in the budget execution systems and processes including very weak commitment control.

91. The budget control systems have been computerized with financial assistance from the Bank and the EU. The new computer system became operational in January 2000; budget execution for FY2000 and subsequent years are controlled in the computerized system. The system covers all aspects of budget control, i.e., commitments, budget utilization, approvals control. The process makes it impossible, in the commitment control system, for a fund center to commit funds in excess of budget authority, and any commitment requires the approval, through the system, of the financial control unit, the budget directorate and the Treasury directorate.

92. In addition over the last three years there have been significant improvements in expenditure control processes and procedures. Regulations and Directives have been updated. Certain procedures have been simplified. The ex-ante controls have been reorganized. The Financial Control division (*la Direction Nationale du Contrôle Financier or DNCF*) within the Ministry of Finance was established at the end of 1997. This Financial Control division plays a key role in reviewing the commitments made by the line ministries.

Analysis

93. Expenditure control has improved in Guinea over the last three years with the introduction of the computerized commitment control system (*la chaîne des dépenses*). This system is simple, pragmatic and its operation is, in many respects, superior to far more expensive and elaborate systems in place or under development in other countries in West Africa. The commitment control system is centralized at the Ministry of Finance. Workstations are available at the Ministry of Finance for line ministries in Conakry to enter their data. Linkages with the tax systems require that any company or individual receiving government contracts must be up to date with their tax payments.

94. For FY 2003 the commitment control system has been programmed and loaded with a far greater level of detail for operating expenditures (*Titre III*) and grants and subsidies (*Titre IV*) relating to the decentralized budgets. This should allow a greater ability to track, control and analyze the actual expenditures at the decentralized level.

95. The utility of the commitment control system as a budget control mechanism is, however, diminished by the extensive use of expenditure mechanisms that are outside the commitment control system such as payment orders (*lettres de paiement*) and advances (*sous forme de régie*). A comparison between the expenditures in the commitment control system (*la chaîne de dépenses*) compared to the summary of expenditures (the *Tableau des Opérations Financière*) for the FY2002 in millions of GNF.

		Financial Summary	Commitment Control	Difference
T I	Salaries and Benefits	214.55	215.03	(0.48)
T 2	Operating Expenditure	128.42	123.83	4.59
T 3	Grants and Subsidies	240.10	183.70	56.40
T 4	Capital Expenditure	32.36	36.30	(3.94)
T 5	Foreign exchange	388.68	154.80	233.88
	TOTAL	1,004.11	713.66	290.45

96. Given delays in recording some expenditures the difference in the above table is not necessarily an absolute indication of the level of government expenditures that are outside the commitment control system. The data, however, support the contention that payments outside the commitment control system are substantial and concentrated in expenditures which use foreign exchange, which may include defense expenditures.

97. High levels of expenditure outside the formal commitment control systems reduce (a) the effectiveness of ex-ante financial controls and (b) the predictability of financial planning

98. The processes and procedures for the commitment, execution and authorization of expenditures are very comprehensive, complex and time consuming. These very onerous procedures not only cause delays, but also dilute specific accountability for expenditures and give opportunities for inappropriate interventions. In the shorter term, given the weakness of the ex-post financial controls described elsewhere the current ex-ante controls should be kept in place, with minor simplifications. As the ex-post financial controls are strengthened consideration could be given to a more substantive revision of the ex-ante financial controls.

99. The current configuration of the commitment control system is beginning to reach the limits of its capacity. Causal factors include the addition of a substantial number of budget lines for decentralized operations, the usage demands of line ministries and advances in technology.

100. In addition, given the progress towards managing a greater percentage of expenditure at the decentralized level, consideration should be given to installing terminals for the computerized commitment control system in each of the regions.

Recommendations

101. The level of expenditures that do not follow the formal commitment control system should be significantly reduced, and regular summary reports of exceptions should be provided to senior officials.

102. The computerized commitment control system should be updated (in terms of equipment and technology) to ensure that it continues to be a useful and relevant part of the budget management structures.

BUDGET EXECUTION - REVENUE

Current situation

103. Historically government revenues in Guinea have been highly dependant on revenues from mining operations and customs duties. There has, however, been substantial erosion over the last twenty years of the specific tax on bauxite extraction and the product of the mining taxes. This has led to efforts to develop an income tax base in the non-extractive domestic economy.

104. The concept of income taxes is relatively young in Guinea. The tax base of organizations and individuals that are part of the formal economy and of a sufficient scale to enable the efficient collection of taxes is developing but remains narrow.

Analysis

105. Progress has been made in establishing a domestic income tax base and collections have been increasing over time. The routine of paying taxes is beginning to become habitual.

106. There is room, however, for improvements in income tax processes and procedures.

107. There is little follow up of uncollected taxes after the end of the tax year. Efforts are made to collect taxes due during the year; however, once the annual cycle is completed there is often little subsequent follow-up collection activity.

108. Some of the tax rates do not reflect the capacity of individuals to pay. Standard national rates may be appropriate in major urban centers, yet may be beyond the capacity to pay in poorer rural areas. The consequence may be higher levels of tax avoidance or informal locally set reductions.

109. In certain cases it may be more productive to change the dates of the tax cycle to coincide with the periods of higher cash flows of taxable individuals or organizations.

110. The most significant issue is the level of tax exemptions granted or assumed. These exemptions may be under the Investment Code, the Mining Code, diplomatic exemptions or other specific-purpose exemptions.

111. It is estimated that in FY 2002 the value of the taxes forgone for exemptions was some GNF 132 billion equivalent to some USD 66 million, and for the last six years the taxes forgone are estimated to be GNF 721 billion equivalent to some USD 317 million.

112. The following table shows the estimated loss of tax revenue as a result of exemptions:

ESTIMATED VALUE OF REVENUE LOSS

GNF billions

	1997	1998	1999	2000	2001	2002	TOTAL
Investment Code	20.90	28.85	19.62	15.10	22.55	19.32	126.34
Mining Code	0.00	0.00	0.00	30.33	77.83	45.89	154.05
Development Grants	30.47	0.44	29.67	7.87	12.52	9.32	90.29
Specific exemptions	57.71	8.29	36.91	7.29	2.41	10.90	123.51
Grants to refugees	0.00	0.00	0.00	2.05	6.90	0.57	9.52

Diplomats privilege	10.20	0.01	7.27	1.73	5.03	0.72	24.96
NGO Imports	0.00	0.00	0.00	0.27	0.34	0.04	0.65
Project and Public Procurement	0.00	0.00	0.00	6.09	4.87	9.91	20.87
Fuel	8.80	0.31	82.72	12.61	30.76	35.95	171.15
Vehicles	0.01	0.00	0.00	0.00	0.00	0.00	0.01
TOTAL	128.09	37.90	176.19	83.34	163.21	132.62	721.35

Source:
DND/BREP

Recommendations

113. *The government of Guinea should continue to monitor the level of tax exemptions and take actions to reduce or limit the exemptions when the opportunity arises.*

ACCOUNTING AND REPORTING

Current situation

114. The accounting and reporting systems of the government of Guinea reflect the legal requirements to manage and account for the funds allocated in the National Budget (*la loi des finances*) and any supplementary allocations.

115. There is a statutory requirement to report the actual expenditures for each fiscal year in the Public Accounts (*la loi de règlement*) which should be audited by the Audit division of the Supreme Court (*la Chambre des Comptes*) for conformity with the Budget Law. The Public Accounts are required to be submitted to the National Assembly within twelve months of the end of the fiscal year.

116. In addition to the requirement to maintain accounts for statutory purposes, the government maintains management or administrative accounts to support ongoing decision making and budget control. The “SAGE” information system is used for recording payments through the Treasury system. Management reports (*tableau des opérations financières de l'état* or TOFE) and “dashboard reports” (*tableau de bord*) provide the Minister of Finance and senior officials with up-to-date data on government expenditures and revenues.

Analysis

117. Guinea has made great progress in getting its approval of the Public Accounts by the National Assembly up to date. For many years the approval of the Public Accounts had been in arrears, sometimes exceeding the legal requirements by several years. Arrears of approving Public Accounts had also been chronic in many other countries in West Africa.

118. In March 2003 the Public Accounts for fiscal year 2001 were approved by the National Assembly, and therefore Guinea is currently up to date with its statutory requirements for Public Accounts.

119. In relation to the management accounts, the computerization of the commitment control system has allowed for greater budgetary control of commitments. In the near future the Treasury payment system, "SAGE," and the commitment control system (la chaîne de dépenses) will be linked. This should provide a sound foundation for managing public finances, so long as there is a reduction in the transactions that are executed outside the commitment control system.

120. Financial reporting is key element to assure that there is accountability for the use of public funds. Accountability is needed at many levels.

121. At the National level there is a need to be held accountability for all government expenditures to the President, the National Assembly and to citizens. The media are an important institution for transmitting government financial information to the population. To be useful the financial information should be:

- Timely
- Comprehensive
- Simple and comprehensible

122. Progress has been made in the timeliness of the overall government financial information. The Budget Law and the Public Accounts are very comprehensive and detailed, however it appears very difficult for lay readers to understand, to analyze or to draw conclusions from them. Efforts have been made recently to provide simplified information and to disseminate information to the press and through speeches by the Finance Minister. Continuing efforts could be made in this area. The Finance Commission of the National Assembly has been increasingly playing a role in reviewing the financial information and making analysis available to the media. This progress should be encouraged and supported.

123. There is also a need to have accountability at the local level. The National Budget for fiscal 2003 provides significantly greater detail than previous years of allocations for operating expenditures as well as grants and subsidies. There is a need to begin to close

the accountability loop by reporting actual expenditures against budgeted amounts at the local level.

124. At the community (CRD) level there should be annual expenditure reports comparing budgeted amounts with actual amounts. These reports could be provided to the community institutions created under the Village Community Support Program (the PACV).

125. At the District (*Préfectoral*) level summary financial information could be provided to the broader based Development Committees that are being piloted in certain districts.

Recommendations

126. There should be continuing support to modernization and updating of the government accounting systems.

127. Support to the National Assembly for the analysis and dissemination of financial information should be strengthened and continued.

128. Financial reports should be developed for the community (CRD) and District (Préfectoral) level.

AUDITING

Current situation

129. Guinea has a fragmented and incomplete government audit framework.

130. There is no overarching, independent government audit body responsible for providing assurance that state expenditures were actually used for the purposes intended, with due regard for economy, efficiency and effectiveness.

131. During the years since independence in 1958 there have been several configurations of the government's audit control framework with varying degrees of emphasis on different dimensions of control.

132. The lack of an effective and credible independent government audit body with a broad mandate is a significant obstacle to external donors being able to rely for assurance on the government's own systems when providing general budgetary support or for executing donor funded projects using government systems rather than using stand alone Project Implementation Units (PIUs)

133. Until the government audit structures are significantly strengthened, external donors may have to continue conducting their own separate audits which do not necessarily assist in developing capacity within government

134. Current elements of the government audit framework include:

- The Audit Division of the Supreme Court (*la Chambre des Comptes*)
- The State Inspector General (*l'Inspection Générale d'Etat- IGE*)
- The Inspector General of Finance (*L'Inspection Générale des Finances – IGF*)

The Audit Division of the Supreme Court (la Chambre des Comptes)

135. The Audit Division of the Supreme Court (*la Chambre des Comptes* – the *chambre*) provides assurance that expenditures and revenues conform to the legal authority. However, the Audit Division lacks the mandate and resources, in staffing, equipment and operating budget, to effectively engage in a broader audit role. The *chambre* is under the authority of the Supreme Court. Although it has an authorized establishment of 13 professional staff there have only been 7 or 8 professionals on strength in recent years. In addition, the *chambres* operational budgets have been extremely meager so they have definitely not been able to engage external expertise from the market. The principal output of the chamber is the report on the public accounts (*la loi de règlement*), a statutory reporting obligation.

The State Inspector General (l'Inspection Générale d'Etat- IGE)

136. The State Inspector General (*l'Inspection Générale d'Etat- IGE*) was established in 1997 and reports directly to the President of the Republic. Up to 1996 there was a Ministry of Economic and Financial Control (*le Ministère du Contrôle Economique et Financier*) that incorporated elements often found in centrally planned economies. The mandate of the IGE is broad and includes financial and operational oversight roles.

137. The IGE has significant powers but limited resources. There is a staff of 25.

The Inspector General of Finance (L'Inspection Générale des Finances – IGF)

138. The Inspector General of Finance (*L'Inspection Générale des Finances – IGF*) is the largest of central audit organizations. The IGF is under the authority of the Minister of Finance. The mandate of the IGF includes carrying out audits in the line departments; auditing officials who have financial authority; making recommendations for

improvements in public financial management and administration; and has responsibilities as advisor to the Minister of Finance on technical financial administration matters.

139. The IGF has a staff of some 50 professional and technical personnel. There are units of the IGF in the seven administrative regions; however, at present the regional units are not fully staffed (there is only one agent per region).

140. The IGF carried out some 98 audits in FY2002. The audits are heavily skewed towards audits of revenue related matters (72 audits) compared to expenditure related audits (26 audits). The IGF work program is also weighted more towards central services and less on decentralized services.

Analysis

141. An effective and credible independent government audit body with a broad mandate is a feature of a well functioning public financial management system. Such an audit body provides assurance that funds included in the budget, developed by the executive government and approved by the legislature have been used for the purpose intended. Assurance about the use of funds for the purpose intended is broader than solely ensuring that expenditures correspond to the funds that were budgeted. For example, it is not sufficient to simply ensure that the funds budgeted for teachers salaries are disbursed as teachers salaries, it is also important to ensure that individuals who are paid teachers' salaries are actually teaching in the schools.

142. In Guinea there is no credible independent government audit body with the mandate to provide this broad assurance that budgeted funds are actually used for the intended purpose and that value for money is obtained in the process.

143. The reports of an independent government audit body are also useful for providing information on government activities which can be used by elected members of National Assemblies, the media and the general public to help hold government officials to account.

144. The mandates of the three principal audit bodies (the IGE, the IGF and the *chamber*) that are the foundation of the audit framework in Guinea need to be established with more precision and clarity.

145. The overall level of resources (staff, equipment and operating expensed) in all three of the principal audit bodies is not sufficient to adequately fulfill existing mandates, let alone a broader assurance role.

146. It is not unusual in public financial management systems derived from the classical French system to have more emphasis placed on the ex ante controls than the ex post audit controls. This is based on the assumption that the strong ex ante controls

which include the fundamental principles of the clear separation of those officials who have the authority to make commitments of expenditure (*l'engagement*) from those who may approve the expenditure (*l'ordonnateur*), together with the key role of the accountant (*le comptable*) to ensure that the required processes have been followed and who has a personal liability if the procedures have not been followed. This model has many inherent strengths. Over the years, however, the strength of the ex ante controls has eroded in many countries. There have been no cases in recent history of the *chambre* having required public accountants (*les comptables*) to make restitution for income foregone or expenditure irregularly paid as provided for in the law. The erosion of such practices and the ex ante financial controls results in a need for a significant strengthening of the ex post control structures.

147. There is no Guinean government audit oversight of the audits of donor-financed projects that are a significant element of public expenditures. Most donors require audits of the projects they finance. It would be appropriate that copies of the audit reports be provided for the review of an appropriate Guinean government audit agency, in order that government may be informed about financial mis-management and able to take appropriate remedial actions.

148. There is an absence of clear procedural manuals for the principal audit bodies in Guinea. This may result in a lack of consistency, inefficiency or effectiveness of these bodies

Recommendations

149. In the shorter term there is need to strengthen the capacity of the three existing principal audit bodies in Guinea to ensure that they have the capacity in terms of staffing, equipment and operating budget to carry out their existing mandates

150. In the medium term consideration should be given to establishing an independent national audit agency with a broad mandate which would enable it carry out many of the activities of the existing bodies.

CORRUPTION

151. Corruption in public finances is an issue to a greater or lesser extent in all countries. The control and reduction of the effects of corruption is a high priority in lower income countries where the distortions of income resulting from corruption have a more dramatic effect. Corruption in public finances (including government procurement) in North America and Europe is also a serious matter, however in these areas there are stronger institutions which act as a restraint and deterrent (e.g., strong investigative journalism as part of an independent media functioning within an environment where there is effective freedom-of-access-to-information legislation, active reviews by an

unfettered political establishment, an assertive police and judiciary, a robust challenge by civil society and greater opportunities for competitors to use these institutions).

152. There is a widely held perception amongst citizens that corruption has diminished the effectiveness of public financial management in Guinea. Corruption can take many forms. Policemen may supplement their income by systematically demanding cash payments for minor infractions. Politicians could benefit from influencing the award of major contracts or creating a policy environment that provides exemptions from the payment of taxes and customs duties. As with all perceptions it difficult if not impossible to draw conclusions or take appropriate mitigation measures. A corruption survey is currently being planned to probe the issue in greater depth.

153. The value of the diversion of funds by corrupt activities reduces the amount of funds available for direct development activities such as educational or health expenditure.

Analysis

154. Guinea has taken some very positive and progressive steps to begin addressing the corruption issue.

155. A National Anti-Corruption Committee (the *Comité National de la Lutte contre la Corruption or CNLC*) was established in 2000 with a wide membership including members of the National Assembly, opposition members, civil servants and civil society.

156. The Anti-Corruption Committee has made progress in heightening the awareness of corruption issues and in probing a number of higher profile cases. After some earlier rapid activity, institutional blockages appeared to slow down the progress of some of these cases within the legal-judicial system.

157. Some high profile cases have been investigated by the Anti-Corruption Committee but, after make much progress, they appear to have been waylaid when they entered the judicial system. A number of investigative cases appeared to have been suspended after political intervention. This had a discouraging effect on the activities of the Anti-Corruption Committee. After a reassignment of Ministerial responsibilities in early 2003 the apparent blockages appear to have lessened.

158. One of the lessons of the initial period of the Anti-Corruption Committee is the need to establish a clearer definition of the roles and responsibilities of the Anti-Corruption Committee, the judicial police (*la police judiciaire*), and the courts for criminal investigations of alleged corrupt activities.

159. The government of Guinea with support from the World Bank is in the process of carrying out a Corruption Survey. This survey is anticipated to be completed in late 2003. The corruption survey will provide an in depth analysis of the extent that citizens

perceive that they have to pay bribes or make informal payments for government services or for compliance with government laws and regulations. The contract for the Corruption Survey was signed in April 2002 and the questionnaires and other survey tools have been finalized

Recommendations

160. The government of Guinea should continue to give a high priority to the reduction of corruption in public financial management in Guinea. In particular the government of Guinea should:

161. Continue to support the activities of the National Anti Corruption Committee.

162. Support the Corruption Survey and disseminate its results.

163. Clarify the role and responsibilities for investigating and prosecuting cases of alleged corrupt activities between the Anti-Corruption Committee, the judicial police and the judiciary and, if necessary, make appropriate changes to the relevant laws and regulations.

Marie j. bolou

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