INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

GUINEA

Preliminary Document on the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative)

Prepared by the Staffs of the Fund and the IDA[1]

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CURRENCY EQUIVALENTS

Currency unit	=	Guinean franc (GF)
US$1	=	1,373.5 Guinean francs (October 31, 1999)

WEIGHTS AND MEASURES

Metric system

ABBREVIATIONS AND ACRONYMS

AfDB/F	African Development Bank/Fund
BADEA	Arab Bank for Economic Development in Africa
BCRG	Banque Centrale de la Republique de Guinée
CAS	Country assistance strategy
CASFI	Financial sector adjustment credit
CNSS	Social Security Fund
CIRR	Commercial interest reference rate
CRDs	Urban and local communes (Communauté Rurale de Développement)
CTC	Comité Technique de Coordination
DSA	Debt sustainability analysis
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
ESAF	Enhanced structural adjustment facility
GDP	Gross domestic product
GNP	Gross national product
HIPC	Heavily indebted poor country
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPA net	Investment Promotion Agency network
IsDB	Islamic Development Bank
MDB	Multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium-term expenditure framework
NDD	National direction of debt
PDC	Prefecture Development Council
NPV	Net present value
OPEC	Organization of Petroleum Exporting Countries
PDC	Prefecture Development Council
PDSS	Health services development project
PEMAC	Public expenditure management adjustment credit
PER	Public expenditure review
PFP	Policy framework paper
PRGF	Poverty reduction and growth facility
PRSP	Poverty reduction strategy paper
PSI	Preshipment Inspection
PSN	Health and Nutrition Project
SAC	Structural adjustment credit
SAF	Structural adjustment facility
SSA	Sub-Saharan Africa
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union

I. INTRODUCTION

1. This paper presents a preliminary assessment of Guinea's eligibility for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). It summarizes the debt sustainability analysis (DSA) agreed by the staffs of the Fund and the World Bank with the Guinean authorities[2] and assesses Guinea's adjustment record and debt sustainability threshold. Based on this preliminary analysis, the staffs are of the view that, even with the full application of all traditional debt mechanisms,[3] Guinea's external debt situation is unsustainable over the medium term. The paper's proposals on possible levels of assistance are necessarily provisional, pending reconciliation and consultations with multilateral and bilateral creditors. The paper also describes Guinea's commitment to reduce poverty; in this context an interim poverty reduction strategy paper (PRSP) would be presented at the HIPC decision point. A full PRSP and one progress report thereunder would be required to reach the HIPC completion point.

2. The rest of the paper is organized as follows. Section II presents Guinea's ESAF-eligibility and IDA-only status, and assesses its performance since 1986; it includes a presentation of the macroeconomic performance, structural reforms, and a brief overview of social policies and indicators. Section III contains the main elements of the proposed medium-term macroeconomic, structural, social, and poverty reduction policies. Section IV provides the results of the DSA and presents a sensitivity analysis. Section V discusses possible decision and completion points, and summarizes the options for possible assistance under the Initiative and the views of the authorities. Section VI concludes with the issues for discussion by Executive Directors.

II. ASSESSMENT OF ELIGIBILITY

A. ESAF and IDA Category

3. Guinea is currently an ESAF-eligible and IDA-only country, and is likely to remain so in the foreseeable future. In 1998, Guinea's GNP was US$3,661 million, and its per capita GNP was US$540. Assuming a steady and continuous real GNP growth rate of at least 6 percent per annum over the next 20 years, through the period and an annual population growth rate of 2.8 percent, Guinea's per capita GNP would increase to about US$938 (in 1998 prices) by 2018.

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[2] This DSA was prepared jointly with the authorities during a mission in January-February 1999. It was updated during successive missions in May and September 1999. The Fund staff team involved in its preparation comprised Mr. Plant (head), Mrs. Devaux and Ms. Adenauer (all AFR), and Messrs. Herderschee and Kalonji (both PDR). The core IDA staff comprised Mr. Larbi and Mr. Ngo (both AFTM5), Messrs. Gunter, Sura, and van Trotsenburg (all AFTD1). Mr. Le Bouder, the Fund's Senior Resident Representative in Conakry, also participated in the mission's work.

[3] Including a possible 67 percent NPV stock-of-debt reduction on bilateral debt.

4. Despite a per capita income larger than the average in sub-Saharan Africa (SSA) in 1997, Guinea's social indicators are almost uniformly worse (Table 1).[4] Access to safe water is the only indicator where Guinea does better than the average. Nevertheless, as will be shown in more details in Sections II and III, during the period 1990 to 1997 Guinea made greater progress in social development than the average SSA country particularly in education. Table 1 shows that Guinea reduced the gap in primary school enrollment rates between itself and the average SSA country from 39 percent in 1990 to 26 percent in 1997. Underlying Guinea's favorable social development trends was an increase in GNP per capita for Guinea from US$440 to US$540 between 1990 and 1998. This stood in contrast to a decrease for the average SSA country from US$540 to US$480 over the same period.

Table 1. Guinea: Social Development Indicators, 1990 and 1998

	1990		1998 1/	
	Guinea	Average for Sub-Saharan Africa	Guinea	Average for Sub-Saharan Africa
GNP per capita (in current U.S. dollars)	440	540	540	480
Life expectancy (years)	44	50	46	51
Infant mortality (per 1,000 births)	136	100	120	91
Urban population (in percent of total Population)	26	28	31	33
Population with access to safe water (in percent)	55 2/	47 2/	…	…
Illiteracy (in percent of population aged 15 and higher)	76	50	64	42
Gross primary enrollment (in percent of school-age population)	37	76	54	77
Male	50	83	71	84
Female	24	68	37	69

Source: Government of Guinea (enrollment data for 1998); and World Bank, *World Development Indicators*, 1999 (all other data, except illiteracy rates for Guinea, which are taken from various World Development Reports).
1/ 1998 or latest available statistic.
2/ 1993 data as 1990 data are not available.

B. Adjustment Record

5. With the support of the international donor community, Guinea has been implementing a program of economic and financial rehabilitation since 1986. This program

[4] As of 1997, approximately 2 million Guineans live abroad. Remittances are included in national accounts but overseas income is not.

received the support of the international community, including Fund support of two Stand-By Arrangements (1986 and 1987), two annual arrangements under the Structural Adjustment Facility (ESAF) (1987 and 1989), and two three-year arrangements supported under the Enhanced Structural Adjustment Facility (ESAF) (1991 and 1997). Box 1 provides more details on Guinea's performance under Fund programs. IDA's support included four sectoral and structural adjustment credits (1986, 1988, 1994, and 1997), which are described in more detail in Box 2 and Appendix II. In addition, Guinea benefited from substantial debt relief from bilateral and commercial creditors.

Box 1. Guinea's Performance Under Fund-Supported Programs

Under successive Fund-supported programs Guinea has experienced brief periods of good performance, followed by slippages, in particular in the areas of tax and customs administration and expenditure control. The program supported by the first annual arrangement under the three-year ESAF arrangement approved in November 1991 quickly veered off track as the effects of exogenous shocks were exacerbated by significant policy slippages.

Satisfactory progress made in both macroeconomic policy and structural reforms during staff-monitored programs during 1993 and the first half of 1994 paved the way for the second annual arrangement under the ESAF. The midterm review of the program under this arrangement was completed with two waivers.[1/] The midterm review of the third annual arrangement, however, could not be completed, owing to serious shortfalls in government revenue and delays in structural reform, and the ESAF arrangement expired in December 1996.

Since 1997, however, Guinea has successfully implemented two successive annual ESAF-supported programs, with both midterm reviews completed as scheduled.[2/] Consideration of the third annual ESAF arrangement was postponed as macroeconomic imbalances widened in 1999, owing to both exogenous shocks (falling commodity prices and regional insecurity) and policy slippages. After a period of consolidation, the authorities have presented an economic and financial program to the Executive Board for consideration for support under a third annual ESAF arrangement.

1/ For the nonobservance of the performance criterion on the net foreign assets of the central bank, and the three-month delay in implementing a structural performance criterion (completion of an audit of the application of the investment code and elimination of abuses in the granting of tax exemptions).
2/ Waivers were granted for nonobservance of three quantitative performance criteria (net foreign assets of the central bank, short-term external debt, and reduction of external payments arrears) and one structural performance criterion for the first midterm review, and for the nonobservance of two quantitative performance criteria (on the net foreign assets of the central bank and on the reserve money) for the second midterm review.

6. When Guinea initiated its rehabilitation program, its economy was marked by large domestic and external imbalances, a bloated and inefficient public sector, a run-down economic and human infrastructure, and very little private activity outside mining and agriculture. A quarter century of a centrally planned economy under a one-party political regime had profoundly affected the social culture and inhibited private sector initiative.

Macroeconomic policies

7. Despite the stop-and-go nature of policy implementation during 1986-96, real GDP grew at an average annual rate of over 4 percent, with real per capita income rising by over

1 percent a year. Inflation, as measured by the Conakry consumer price index, declined from 65 percent in 1986 to about 3.5 percent in 1996. However, limited progress was made in attaining a viable external position, largely because of fiscal slippages and a deterioration in Guinea's external environment. A decline of about one-third in world aluminum prices since 1990 has led to a sizable drop in mining exports receipts and in government mining revenue, which were partly offset by corrective policy measures. As a result, the external current account deficit (excluding official transfers) widened from about 6 percent of GDP in 1986 to more than 10 percent in 1992 before declining to 8.5 percent in 1996.

Box 2: Guinea's Performance Under IDA Programs

Two IDA funded structural adjustment credits (SAC I and SAC II) helped to support a wide range of economic policy reform, which have increased the role of market forces in the economy by helping correct the most important economic distortions. The government's efforts in strengthening the regulatory, supervisory, and judicial environment for financial institutions were assisted by a financial sector adjustment credit (CASFI), which was approved in 1994.

Following significant steps at the beginning of the reform process, implementation of both structural adjustment operations (SAC I and SAC II) slowed significantly in later years. This reflects several factors, some of which were due to the government's weakened commitment, but also to deficiencies in technical capacities and to weaknesses in the institutional framework. Moreover, frequent slippages in financial discipline delayed implementation. Insufficient attention paid to local ownership of the reform process may also contribute to problems in implementing the reform program.

Since late 1996, the government has stepped up its efforts to reestablish the basis for sound macroeconomic management and—after extensive consultations at the grassroots level—decided to reorient public spending to pro-poor areas in line with its long-term development vision. To support this process, and based on the lessons of past structural adjustment operations, IDA approved in December 1997 a structural adjustment credit (PEMAC) to help the government improve the management of public expenditures. The PEMAC program is closely coordinated with the ESAF arrangements which focuses on issues of revenue mobilization.

8. A new government came into power in mid-1996, renewing the government's commitment to strengthen Guinea's structural adjustment effort. The ESAF-supported program that began in late 1996 focused on promoting private investment by improving the performance of the public administration in the context of a more dependable legal and regulatory environment and improved infrastructure. The key macroeconomic targets for the 1997-99 program were an annual real GDP growth rate of about 5 percent, an inflation rate limited to 5 percent in 1997[5] and 4 percent subsequently, and a reduction in the external current account deficit of about 1 percentage point of GDP (Table 2). Fiscal discipline and an improvement in government nonmining revenue is expected to increase the primary fiscal surplus to 2.6 percent of GDP in 1999.

[5] Owing to the price effect at end-1996 of the depreciation of the Guinean franc, which was prompted by the change in November 1996 in the central bank's intervention policy in the interbank market foreign exchange market.

Table 2. Guinea: Macroeconomic, Structural and Social Indicators, 1990-98

	1990	1992	1995	1996	1997	1998
Income indicators						
GDP growth (annual percentage change)	4.3	3.0	4.4	4.6	4.8	4.5
Income per capita indicators						
GNP per capita, Atlas method (in current US$)	440	530	540	570	570	540
GNP per capita growth (annual percentage change)	1.6	2.5	0.3	4.6	1.7	1.9
Sectoral shares of the economy 1/						
Agriculture, value added (in percent of GDP)	...	20.6	20.4	20.4	20.4	20.6
Industry, value added (in percent of GDP)	...	27.3	27.7	28.8	28.7	28.8
Services, etc., value added (in percent of GDP)	...	49.0	48.4	47.5	47.0	46.9
Investment and savings 1/						
Gross domestic investment (in percent of GDP)	...	14.7	16.4	16.9	17.1	17.1
Of which : government	...	7.3	6.2	5.3	5.9	3.9
Gross national savings (in percent of GDP)	...	10.3	12.0	12.6	14.1	14.4
Of which : government	...	8.3	7.1	5.5	11.2	8.3
Inflation and public sector						
Average consumer prices (percentage change)	19.6	16.6	5.6	3.0	1.9	5.1
Government revenue (in percent of GDP)	15.8	13.5	10.9	10.0	11.2	10.6
of which: nonmining revenue	5.2	7.4	7.9	7.3	8.3	7.9
Total government expenditure (in percent of GDP)	24.6	21.4	17.5	16.1	17.0	14.0
Budget primary balance	3.8	2.7	1.9	1.3	2.8	2.4
External sector indicators						
Exports of goods and services (in percent of GDP)	...	22.0	17.4	15.5	16.9	18.7
Imports of goods and services (in percent of GDP)	...	19.9	15.6	14.7	14.7	15.1
Current account balance, incl. off. transfers (in percent of GDP)	...	-4.3	-4.5	-4.4	-3.1	-2.6
Current account balance, excl. off. transfers (in percent of GDP)	...	-8.8	-8.5	-7.6	-6.3	-6.0
Social indicators						
Population, total (in million)	5.76	6.09	6.59	6.76	6.92	7.08
Life expectancy at birth, total (years)	44	44	...	...	46	...
Mortality rate, infant (per 1,000 live births)	136	128	...	...	120	...
School enrollment, primary (% gross)	37	40	48	...	51	54
Social spending, education, per capita (in US$) 2/ 3/	...	12.7	10.1	11.4	9.7	10.0
Social spending, health, per capita (in US$) 2/ 3/	...	3.6	2.9	2.6	2.9	2.4
Social spending, total, per capita (in US$) 2/ 3/	...	16.3	13.0	14.0	12.6	12.4

Source: IMF and World Bank data bases, updated with data from the authorities.

1/ National accounts revised, no consistent figures available before 1992.

9. **Economic developments in 1997-98 were generally favorable**, despite worsening of security conditions in three neighboring countries and the decline in world prices of Guinea's main exports in 1998. Real GDP grew at an average rate of about 4.7 percent, and inflation averaged 3.5 percent for these two years (1997-98). As a share of GDP, domestic savings and investment were unchanged on average over the two years, as compared with 1996, but were considerably higher than in the preadjustment period.

10. **Performance in the fiscal sector was broadly satisfactory**, as the authorities pursued their fight against government corruption and tax fraud. Government nonmining revenue rose from 7.3 percent of GDP in 1996 to 7.9 percent in 1998, as a result of the introduction of the value-added tax (VAT) in mid-1996, the contracting of a preshipment inspection (PSI) company for imports, the reduction in customs duty exemptions, and a strengthening of the tax department. However, faced with continued weaknesses in the collection of taxes at the borders, and with higher-than-expected costs for restructuring the banking system and for security-related outlays, the authorities reduced nonessential expenditures. The authorities strengthened expenditure control through streamlined budgetary procedures designed to improve its efficiency and transparency. The primary balance averaged 2.7 percent of GDP in 1997-98, compared with 1.3 percent in 1996, whereas the overall deficit averaged 4.2 percent of GDP in 1997-98. The government also undertook an audit of domestic payments arrears and reduced them, partly through the issuance of government bonds.

11. **The fiscal discipline during 1997-98 helped to improve Guinea's external position**. The external current account deficit (excluding official transfers) narrowed from 7.6 percent of GDP at end-1996 to 6 percent in 1998. This improvement in the current account benefited from an increase in the trade surplus, as imports were restrained by a depreciating currency and exports increased as the mining sector was opened to private investment. Despite repeated shortfalls in the accumulation of net foreign assets by the central bank, official gross reserves increased from the equivalent of 2.3 months of imports at end-1996 to 3.4 months at end-1998. Guinea also reduced its external debt arrears, benefiting from a flow rescheduling by Paris Club creditors on Naples terms and the conversion of its debt to the former Czechoslovakia. Its commercial debt was reduced by over US$100 million through a buyback supported by the IDA Debt Reduction Facility. Preparations have begun to **revise the external tariff,** with a view to streamlining it and reducing its rates, in line with the West African Economic and Monetary Union's common external tariff.

12. In 1999, economic performance was heavily influenced by external events, particularly the fall in demand and drop in prices of bauxite and alumina and the tenuous security situation in neighboring countries. Real GDP growth is expected to slow to 3.7 percent, with good growth in mining in gold, but trade activity being hampered by regional insecurity. Inflation is expected to increase to about 5 percent, because of an increase in domestic petroleum prices and a marked depreciation of the currency. The primary fiscal surplus in 1999 is projected to be 2.4 percent of GDP, with very weak customs revenue being offset by expenditure compression. Broad money grew quickly in the first four months of the year, as the government borrowed heavily from the central bank to meet an

expenditure hangover from 1998 and continuing expenses associated with supporting peace efforts in Sierra Leone; in the latter months, broad money stabilized. The current account deficit is projected to remain at about the same level as in 1998.

13. Progress was made in strengthening monetary policy formulation over the last several years. Guinea abandoned credit allocation and ceilings as well as fixed interest rate policies and adopted a more market-determined approach to monetary policy, with limited use of indirect monetary instruments. The more prudent monetary stance adopted by the authorities in recent years has helped to tame inflation.

14. On the exchange rate system, Guinea replaced the sylli with the Guinean franc in 1986 with a 13-fold devaluation and eliminated most exchange restrictions. Full liberalization of current account transactions took place in 1994. Since that time, Guinea has maintained a floating rate, but the official rate has, at times, been administratively constrained, thus constraining competitiveness and resulting in a substantial parallel foreign exchange market. This market was formalized through the establishment of foreign exchange bureaus; in 1998 and 1999 there was a 5-10 percent difference between the official rate and that offered by the bureaus. Attempts in 1994-97 to establish an interbank foreign exchange market were unsuccessful. In September 1999 the central bank instituted a foreign exchange auction in an attempt to unify the rates.

Structural reforms

15. To support stabilization efforts, wide-ranging structural reforms designed to promote the sound development of Guinea's economic potential in a market context were undertaken, beginning in early 1986. These reforms included the liberalization of the exchange system, the overhauling of the public sector, the restructuring of the banking system, a rationalization of the tariff structure, and the lifting of controls on prices and interest rates. Guinea also made progress in improving the regulatory environment, increasing the efficiency of the tax system, and introducing market-based instruments of monetary control. In addition, Guinea made notable progress in the areas of public sector management, the public enterprise sector, and the banking system.

16. The **banking system** underwent a restructuring, both financial and operational. Of the four insolvent banks, one (Banque Internationale pour l'Afrique en Guinée, BIAG) was liquidated. The three others were recapitalized with support from the government, audited, reorganized, and their management was strengthened. In addition, the central bank reinforced its supervision capacity to bring it in line with the recommendations of the Basel Committee on Banking Supervision. A new accounting plan for commercial banks was prepared. Steps were taken to improve the legal environment for business activity, including the creation of an arbitration court, which became operational in early 1999. The rehabilitation of the Social Security Fund (CNSS) has also been initiated with an audit, which uncovered a very fragile financial situation and serious flaws in financial management. A series of measures have been adopted to strengthen the CNSS's accounting department.

17. **Public enterprise reform**. Reform of Guinea's public enterprise sector began in 1985. By end-1990, through liquidations and privatization, the number of such enterprises had been reduced from over 200 to less than half that number. Most of the these were small enterprises in nonstrategic sectors. A second phase of divestiture occurred in the first half of the 1990s. Though more modest than the first phase in terms of number of enterprises affected, this program covered enterprises in strategic sectors, such as banking and insurance, petroleum distribution, and the management contract arrangements of the water and electricity sectors. Since 1995, the telecommunications company has been managed by representatives of a Malaysian company that has majority ownership of the firm. The government also sold part of its shares in the country's main bank (Banque Internationale pour le Commerce et l'Industrie de la Guinée, BICIGUI), which is now controlled by its private shareholders.

18. **Public expenditure management.** Based on a detailed public expenditure review issued in 1996 by the Bank, efforts were launched in 1998 to improve expenditure management. Based on priorities identified through extensive consultations at the grassroots level (see Box 3), the government has, in the last three years, reoriented public expenditures toward priority sectors (education, health, road maintenance, and rural development) in the context of a medium-term expenditure framework (MTEF). Budgetary allocations for these four sectors were raised from 27.6 percent of the total nonwage recurrent expenditure in 1997 to 31.5 percent in 1999. The reform has helped strengthen the links between public expenditures and sectoral objectives and priorities. In addition to efforts for improving the planning and implementation of public expenditures, the government has adopted performance indicators to measure the quality of public service. These will be supplemented by opinion polls and welfare indicator surveys, which would help sustain the reform process in this important sector.

19. In parallel to efforts to restructure expenditures using the MTEF approach, the government is also implementing a series of measures to (i) strengthen budgetary monitoring and control; (ii) strengthen the regulatory framework that governs the processing of public expenditures; and (iii) standardize and simplify budgetary processes (which also helps to minimize the risk of corruption). Key measures adopted since the project became effective in December 1997 include strengthening the monitoring of budget implementation with the adoption of a computer-based public sector financial information system and auditing actual expenditures until the end of 1997. This exercise helped clean up the government financial accounts as of end-1997, setting the groundwork for the governments production of realized expenditure outturns on a regular basis in the future. The regulatory framework that governs budget implementation has been streamlined and strengthened with (i) the creation of a separate financial control department, (ii) the strengthening of budget and finance staff in all line ministries, (iii) the effective implementation of the new procurement code, and (iv) the publication of a biweekly newsletter; all of which have vastly improved government procurement. Nonetheless, significant problems of budgetary control, particularly expenditure monitoring, are still being addressed.

Social policies and poverty reduction

20. The groundwork for Guinea's poverty reduction policy has been established in the context of the preparation of the Country Assistance Strategy (CAS) and the government's commitment to the development goals set out in mid-1996 by the strategy, "Guinea—Vision 2010." The MTEF plays an integral part in the government's allocation of resources toward poverty reduction (see paragraph 18).

21. In particular, the government has begun to develop a national strategic vision for poverty reduction through an in-depth consultation with key Guinean stakeholders, in which strategic priorities have been ranked by beneficiaries (see Box 3). In terms of specific actions, poverty alleviation measures have chiefly taken the form of increased efforts to fully fund agreed programs in primary education and basic health.

Box 3: National Strategic Vision—Ranking of Priorities by Beneficiaries

The following key broad priority areas were ranked highest by the stakeholders/beneficiaries who participated in both the grassroots consultative meetings and the National Forum and fully reflected the government's development strategy.

Social sector (29 percent of votes cast). Priorities: (i) health (13 percent), with a focus on primary health care, sanitation, effective and fair distribution of drugs, monitoring of outdated drugs, more training and qualified personnel, more operating health centers/hospitals; (ii) education (11 percent), with emphasis on basic education, adult education, correction of gender bias, vocational and technical education, nursery and tertiary education; and (iii) employment and housing (5 percent).

Infrastructure (25 percent of votes cast). Priorities: (i) bridges, feeder and trunk roads (18 percent), and (ii) communications, in city public transportation, low cost building materials, revival of railway, construction and maintenance, transboarder connections (7 percent altogether).

Rural development (24 percent of votes cast). Priorities: (i) agriculture (13 percent), with particular attention to food production, fisheries, horticulture, quality seed selection and multiplication; (ii) animal husbandry (3 percent); (iii) farm mechanization (6 percent); and (iv) market strategies (2 percent).

Small-scale enterprises/industries (13 percent of votes cast). Priorities: (i) establishment of agro-based, processing, and smelting industries; (ii) mining, with focus on control measures in buying and selling; (iii) establishment of mineral industries; (iv) environmental protection planning; (v) compensation to land-owners; and (vi) water, electricity, and solar energy.

Governance (9 percent of votes cast). Priorities: (i) justice and security, reconciliation and tolerance, democracy, accountability and transparency, immigration, decentralization, trade, gender equity.

The priority given to the above five broad areas, both in rural villages and urban cities, reflects a real concern about the ineffectiveness and inefficiency of these services. The relative importance attached to governance/justice/security issues, especially in urban areas, mirrors people's concern about the centralization of power in Conakry and resultant mixed service delivery results.1/

1/ The government's highly participatory and bottom-up strategic planning exercise to build a broad consensus on a national strategic vision involved consultation of 3380 beneficiaries/stakeholders (of which 1015 were women) from civil society, village communities, and women's groups in all four regions of the country and the capital city, Conakry. It culminated in a National Consultative Forum in Conakry at which participants ranked the above as their highest priorities.

22. **Education**. The government's education reforms, which dealt with the legacy of a poorly functioning educational system, have achieved significant results.[6] Guinea has been one of the region's better performers over the past decade in terms of increasing primary school coverage and the quality of services delivered. Particular accomplishments include an increase in gross primary school enrollments. Primary school enrollment for girls increased from 19 percent at the end of the 1980s to 37 percent in 1998; overall primary school enrollment increased from less than 30 percent in the late 1980s to 54 percent in 1998.

23. Guinea has also improved its capacity for delivering school services, evaluating student learning outcomes and providing pre- and in-service training to teachers. The record of budget allocations and execution has been mixed over this period. However, the management capacity of the sector has been considerably strengthened at the regional and prefectoral levels through initiatives such as the small grants program for in-service teacher education. There has also been considerable growth in private education over this period. Qualitative improvements have been limited for the most part to primary education while major reforms at higher levels of the education system have to be boosted. The government has begun to tackle these reforms, for example, by privatizing cafeteria management, reducing the number of scholarships offered to higher education students , and raising higher education fees.

24. **Health.** In assessing Guinea's achievement in the health sector, one needs to keep in mind that, 15 years ago, when the Second Republic was declared, the health care system had almost totally collapsed, with limited services coverage and poor quality of care, particularly in rural areas. While the following data illustrate the important achievements made during the last decade to develop a basic health care system, they also indicate that Guinea still compares poorly with other sub-Saharan African countries in terms of sector performance and health status indicators. In 1987, life expectancy at birth was 42 years, infant mortality rate per 1,000 live births 152, and utilization rate of beds in hospitals 13 percent. By 1998, these indicators improved but were still below Sub-Saharan African averages: life expectancy had increased to 46 years, infant mortality rate had decreased to 120, while bed occupancy rate had reached 58 percent.

25. Since 1988, IDA has financed three projects in the health sector in Guinea: The Health Services Development Project (PDSS), which was closed in June 1995; the ongoing Health and Nutrition Project (PSN); and the Population and Reproductive Health Project, which became effective May 15, 1999. While the first two projects (which focused on two

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[6] While the government has managed to increase the supply of textbooks in the classrooms, bringing the textbook-pupil ratio down from 1:20 to 1:2 (1998); to train teachers, and to hire them on contract basis, there are areas of continuing concern: the intake rate to grade 1 is currently about 50 percent and the survival to the end of the primary cycle is about 20 percent. Incomplete schools--i.e. schools with insufficient teachers to offer the full cycle of instruction--are part of the reason why so many pupils leave before completing their schooling. (World Bank staff suggested allocating 50 percent of new primary school teachers to incomplete schools.) Student learning remains poor, with only 52 percent of second graders passing a test of mastery of the intended curriculum for French and 44 percent for mathematics.

natural regions—middle and lower Guinea) supported the development of primary health facilities, district hospitals, and regional and district health administrations, they also assisted the Ministry of Public Health in developing its management capacity, decentralizing decision making, setting up a management information system, issuing a Health Infrastructure Development Plan, and strengthening selective technical programs, such as nutrition, family planning, infectious diseases, and health education.

26. Other salient developments in the sector were (i) the improvement in donor coordination work with the setup of regular meetings of a Technical Coordination Board (the Comité Technique de Coordination, CTC) and the Annual Primary Health Care Program Evaluation, (ii) the improvement of the sector policy in 1998, and (iii) the launch of a Three-year Rolling Budget Plan. Important progress has been made with the set up of the cost recovery system and by providing more accessible and affordable health services. However, the health sector is facing important problems with financial resources: the execution rate of nonsalary recurrent budget in the health sector was less than 60% (see Box 4) and total health expenditures in the public sector accounted for only about US$3 per capita (see Table 2 above).

27. The Population and Reproductive Health Project is nationwide in coverage and seeks to provide support to the government in its efforts to improve the well-being of the population by reducing the risks related to reproductive health; reducing the occurrence of illnesses among vulnerable groups; and, ultimately, reducing infant, child and maternal mortality rates. The project also focuses on the prevention of HIV/AIDS and the control of this epidemic which, at present, is still at comparatively low levels (the HIV prevalence rate in the population of reproductive age was estimated at 2.1 percent in 1997) but is increasing.

Box 4. Guinea: Execution Rate of the Nonsalary Recurrent Budget for Education and Health, 1997-1998

(In percent)

	1997	1998
Education	80	82
Health	59	56

Source: Implementation Completion Report of the PEMAC, December 1999.

28. **Water and roads.** Considerable improvements have been made in ensuring access to safe water. In 1987, less than 28 percent of the population had access to safe water, compared with over 65 percent in 1998, which implies that access to safe water more than doubled within the last ten years. In terms of roads, the government established a Road Fund, which contributed to improvements in Guinea's infrastructure.

III. MEDIUM-TERM POLICY OUTLOOK

29. Guinea's medium-term development strategy aims at achieving high and sustained growth and poverty reduction by maintaining macroeconomic stability and continuing structural reforms. The government's medium-term policies are described in the policy framework paper (PFP) for 1999-2001 of December 1999. The macroeconomic objectives for the next three years are to (i) gradually increase real growth to 5.5 percent per annum; (ii) reduce inflation to less than 4 percent; and raise international reserves to the equivalent of 3.5 months of imports. Regarding the longer term, the authorities' objective is to maintain at least 6 percent real growth.

A. Macroeconomic Policies

30. Achievement of macroeconomic objectives is predicated on increases in savings and investment. In Guinea, the sources of growth are mainly agriculture and the mining sector, where investment rates will have to rise to ensure the desired growth. In addition to the increase in savings, investment will be financed by attracting foreign capital. The increase in savings is expected to originate—in the first few years at least—in the government sector, with the private sector progressively increasing its share in line with the development of its activity.

31. Fiscal and monetary policies will be used to strengthen macroeconomic stability, and will be supported by structural reforms promoting private sector development, and a more effective use of public resources; these are described in more details in the next section. External debt reduction and rescheduling will aim at alleviating the burden of external debt service, while the cost of domestic debt service will fall in the medium term because of the projected net repayments over the next years. In addition to opportunities for increased income linked to growth, poverty reduction will be addressed through the provision of well-focused social services in an overall poverty reduction strategy.

Fiscal policy

32. In the long term, the government's objective is to provide basic government services and develop social sectors while maintaining a primary surplus sufficient to service government debt without resorting to exceptional financing. This would free financial resources in the domestic banking system for private sector development. Foreign resources, mostly loans, would be used to finance a large but decreasing part of government investment. In the medium term, the fiscal primary surplus would also cover the progressive reduction of interest obligations on domestic debt.

33. Exceptional budgetary assistance would be required for outlays linked to structural reforms and for domestic debt reduction.[7] In this framework, as a share of GDP, the primary

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[7] Government debt to the banking system stands at about 3 percent of GDP and its debt to nonbanks, including arrears, is about 1 percent of GDP. Domestic debt will be paid off as fiscal conditions permit.

surplus is projected to remain in 1999 at its 1998 level of 2.4 percent, and to be raised to 3 percent by 2002. This scenario assumes a progressive increase in revenue of about 2 percentage points of GDP to 12.5 percent by 2002, as the ongoing reforms in customs and tax administration are expected to boost revenue elasticity. The longer-term revenue-to-GDP ratio is projected to attain 14 percent. The primary expenditure (excluding exceptional outlays for restructuring operations) is projected to grow by 1 percentage point to 9 percent of GDP by 2002 to accommodate partially the needs of the social sectors, which would also benefit from savings in resources directed away from the military.

Monetary and exchange rate policy

34. Monetary policy is aimed at controlling inflation and supporting a stable exchange rate. To reach this goal, the central bank will increasingly rely on indirect instruments to control broad money expansion and domestic credit and the functioning of the money markets must be strengthened. The recent introduction of foreign exchange auctions is expected to lead to a unified rate that would protect external competitiveness, but the government will have to abstain in interfering in the exchange market, except to meet its foreign reserves targets. At the same time, the expected decrease in bank lending rates resulting from an improved economic and judicial environment should promote investment. On the structural side, an audit of the central bank is to be undertaken in 2000, and legislation reforming banking regulations and microfinance institutions will be promulgated. Central bank supervising functions are to be strengthened. The banking system suffers from institutional and structural handicaps, notably in loan recovery, high levels of non-performing loans and a dominant market position of the banks. Thus further reform and strengthening of the banking system will continue to be an important part of the medium term reform agenda.

External sector policy

35. The balance of payments remains vulnerable to fluctuations in commodity prices. This underscores the importance of maintaining a market-determined flexible exchange rate and a sufficient level of international reserves to cushion external and internal shocks. High rates of economic growth will require growing imports, part of the financing of which will come from the improvement of the environment for direct investment. The liberalization of exchange and trade is an important component of this improvement.

B. Structural Policies

36. Reforms aimed at fostering a favorable environment for economic growth and poverty reduction include (i) enhanced services delivery, which brings government closer to the Guinean people; (ii) a more proactive program in the privatization of major public enterprises; and (iii) the improvement of public expenditure management.

Decentralized services delivery framework for poverty reduction

37. Quality services delivery is key to poverty reduction because poor people live in remote rural areas and depend on government for basic services. The quality of the delivery of basic public services in Guinea has, however, been hampered by several factors, among

which are an excessive concentration of the decision-making process at the central government level, little decentralization of delivery services, and ineffective communication with major stakeholders to target poverty-focused interventions.

Box 5. Bringing Government Closer to the Guinean People

For the quarter century following independence in 1958, Guinea was governed by a top-down, centralized, bureaucratic, "command-and-control" state. The result was economic stagnation, deterioration of basic infrastructure, and reduced availability and quality of social services, especially in rural areas (where over 70 percent of the population lived). In 1984, a new government committed itself to a new institutional framework with much greater emphasis on decentralization: the new legal framework for decentralization established 33 urban and 303 rural communes (CRDs). Yet despite these changes in the formal rules, participation by rural citizens – and the provision of services to rural areas – remained low.

In the mid-1990s, the new reform-minded government, working closely with the World Bank, initiated an intensive process of civic consultation to identify what could be done to more effectively show results at the rural "front-line" of development. As a follow-up to this consultative process, the Bank has prepared two complementary Adaptable Program Loans to support the government's effort to implement a new approach: a Village Community Support Program, which works directly with local communities; and a Capacity Building for Service Delivery Program, which works to strengthen the ability of the public sector to support communities. Taken together, these programs will help foster the following political, fiscal, and administrative reforms:

- **Politically**, the representativeness of the elected CRD councils is being enhanced by broadening their membership to include representatives from a wide range of social, cultural, ethnic, and economic groupings. Furthermore, Prefecture Development Councils (PDCs) are being established, with membership elected by and accountable to the CRDs, and authority to advise on programs and budget trade-offs across CRDs. Increasingly, regional administrations will become accountable to these PDCs, not just to the hierarchies of central government.

- **Fiscally**, a $10 million demand-driven Local Investment Fund has already been established to directly support with matching grants the basic CRD social and infrastructure projects identified by communities. Additionally, a pilot initiative is under way that will enable some CRDs to keep head taxes (which have until now been paid into the central treasury) within their locality – with revenues shared according to a fixed formula among prefectures, subprefectures, and districts. Furthermore, as an initial step in increasing direct access of rural communities to the national treasury, these head tax resources will be matched by direct transfers of budgetary and donor-funded resources from the center.

- **Administratively**, a major initiative is being introduced to realign subnational administrations to reflect the growing shift in accountability to rural communities. This initiative includes a revision of the detailed administrative framework governing roles and responsibilities of different levels of government under decentralization; the establishment of decentralized delivery and management systems – and capacity building more broadly -- at the prefecture and CRD levels; the improvement of participatory mechanisms (such as school parent-teachers associations, health center management committees, and farmers groups) at the point of services delivery; and the introduction of a performance incentive system that will reward high-performing CRDs and teams of public officials at the prefecture and central levels on the basis of results, as measured by the quantity and quality of services delivered to the local population.

The aim is that at the end of a 10-15 year process of reform there will be an overall increase of 80 percent in access to and in the quality of all services provided to the rural population. Underlying such gains are major prospective fiscal reforms; whereas currently close to three-fourths of funds budgeted for sectoral line ministries are spent on administrative activities upstream, the Guinean program aims to ensure that at least 70 percent of all operating funds allocated to the sectors reach the services delivery level.

38. Since the mid-1990s, the government has been seeking to promote effective political, fiscal, and administrative decentralization, with a view to ensuring that communities and their local governments develop the capacity to (i) identify, prioritize, plan, manage, and oversee the provision of their own basic infrastructures and services; and (ii) mobilize and use transparently the resources necessary to provide and maintain these infrastructures and services.

39. The government would achieve this by (i) strengthening and rationalizing the legal and regulatory framework for local decentralized and deconcentrated entities; (ii) improving governance by ensuring the representativeness of local governments and rendering them accountable to their constituents; and (iii) rationalizing the system of intergovernmental fiscal relations, and fostering greater financial autonomy and management capacity of local governments.

40. At the institutional level, the government has transferred decision making authority with regard to community affairs to locally elected bodies (CRDs). The government has also confirmed the role of the prefect vis à vis the CRDs as one of facilitator and catalyst of local initiatives, and that the prefecture administration has the responsibility to support the decentralized entities in the identification and preparation of micro-projects. In particular, the government has established the Prefectoral Development Council, composed of representatives from CRDs, to assist the prefect in the review of project proposals as well as to handle the prefecture public affairs.

41. A Monitoring and Evaluation (M&E) system has been set up with the objective to provide pertinent and timely information to the key actors involved in the decentralization program. *Monitoring and Evaluation*, although complementary, would be carried out as two distinct activities. A small M&E team established under the Ministry of Planning would have direct responsibility for monitoring the overall service delivery activities and provide support to each of the participating agencies, which would be responsible for monitoring its own project activities as part of its regular management system. The M&E team would be directly responsible for monitoring the institutional changes at the prefecture level, and will provide them with support for the establishment and operation of their own internal monitoring systems. *Evaluation* would be carried out mostly as an independent activity to be contracted out to qualified organizations, including universities and NGOs. Evaluation would address both program processes and impact and would systematically include assessments of beneficiary satisfaction.

42. IDA is supporting the government's efforts to enhance the capacity to deliver better-quality service to the people through the Village Communities Support Project and the forthcoming Capacity Building for Service Delivery and Poverty Reduction Project.

Public enterprise reform

43. The government will reinforce its privatization program, reflecting its determination to accelerate divesture of public enterprises. Over the next three years, the government will

prepare and implement a comprehensive framework of public enterprise reforms, which include the following major objectives: (i) improving the business and regulatory environment necessary to encourage private sector participation in revitalizing the economy and, more particularly, in providing basic infrastructure; (ii) strengthening the efficiency, financial situation, and competitiveness of the para-public sector; and (iii) reducing government budgetary costs. Through these reforms, the government will aim at sending a clear signal to the private sector, nationals and foreigners alike, of the new role of the state.

44. For public utilities, the government will shortly finalize the concession arrangements for electricity and an improved management contract for the water sector. Concomitantly, efforts will be made to focus policy reform on efficiency and on the expansion of access to the population through an improved regulatory framework and more competitive market structures. In mining, the government policy will focus on three aspects: (i) privatization of state-owned companies; (ii) for companies remaining under state (partial) ownership, the exclusive reliance on private sector management; and (iii) the liquidation or privatization of support services in that sector.

45. Outside these so-called strategic sectors, the government will adopt a comprehensive sector-wide strategy involving full or partial privatization of some 40 small- and medium-sized commercial enterprises and the liquidation of about 12 enterprises deemed nonviable. Where only partial divestiture is achieved, the government will be reduced to a minority shareholder without veto power.

46. In addition, the government will strengthen the legal and institutional framework for privatization and utility sector reform, involving (i) the review of the legal framework for privatization, including privatization law and regulations, bankruptcy laws and procedures, and legislation governing public enterprise employee status; (ii) the creation of a privatization unit, with appropriate mandate, authority, and resources; (iii) the review of selected utility and transport sector legislation and regulatory instruments; and (iv) measures designed to alleviate the social impact of privatization, such as retrenchment plans and a communication strategy. Guinea will take steps to join MIGA’s Investment Promotion Agency network (IPA net), which aims at providing international investors with comprehensive information on its privatization program.[8] The government will also update the cross-debts situation between the state and public enterprises, with a view to eliminating it.

Public expenditure management

47. More recently, additional reforms were adopted to realign budgetary resources to the overall aim of improving public services delivery at the local level and to consolidate and deepen the medium-term expenditure framework approach. Starting in fiscal year 2000

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[8] MIGA IPA net (Investment Promotion Agency network) is MIGA's online global clearinghouse and communications network, linking private investors, investment intermediaries, business associations, investment promotion agencies, and providers of technology in over 150 countries.

(January-December), a new budget classification will be adopted, allowing the detailed allocation of recurring expenditures, beginning with the priority sectors, to lower levels of government (prefectures) in support of efforts to improve the capacity and delivery mechanisms at the local level, especially in rural areas, where the majority of the poor live.

48. The government has initiated a three-pronged approach to accompany these efforts: (i) improvements in human and institutional capacity, (ii)enhancements in the service delivery mechanism, and (iii) increased resources through the upcoming structural adjustment credit (SAC IV). In that context, through surveys and other monitoring mechanisms, the government will publish, on a regular basis, performance indicators to gauge the quality of public service and implement a tracking mechanism to ensure that resources allocated to local agencies and communities are effectively spent.

49. The medium-term expenditure framework, which was established as a performance-based management system of public expenditures, will be extended; first, to cover all ministries so that it will become the budgetary process for the entire government, and second, to consolidate the recurrent budget and the investment budget. It is envisaged that the framework will, over time, allow the transition from the current system, which focuses on inputs or the spending of financial resources, to a new system built upon the outcome and impact of public spending. In sum, the various elements described above will, by strengthening transparency and accountability of the budget process and the empowerment of services beneficiaries, result in improved services delivery with built-in monitoring and self-enforcing mechanisms.

C. Social Sector and Poverty Reduction Policies

50. The government will complement the structural reforms outlined above with cross-sectoral rural development and poverty reduction policies, that will make Guinea’s poverty reduction strategy even more effective. The government is committed, with the help of multilateral organizations and bilateral donors, to further move Guinea toward a strategy for poverty reduction and growth, as stated in the Guinea–Vision 2010 strategy. In order to achieve the following quantitative objectives, which have been agreed between the authorities and the IDA, the government will continue to increase the level, share, and the efficiency of social expenditure in the government budget.

Poverty reduction strategy paper

51. The government is committed to reducing poverty in Guinea. A long-term poverty reduction strategy has been developed through a participatory consultative process with civil society, embodied in the Guinea—Vision 2010. The government welcomes the initiative of the Bretton Woods institutions to deepen their involvement in Guinea’s poverty reduction efforts and fully supports the new poverty reduction strategy process. The government anticipates launching the consultative process leading to a PRSP in early 2000. The staffs of the Fund and IDA have discussed the PRSP process informally with the authorities. It is envisaged that a joint Bank-Fund mission will visit Conakry in early 2000 to work with the

authorities to develop a timeline for the PRSP, which would, as part of an interim PRSP, be presented at the HIPC decision point. It is anticipated that a full PRSP will be ready in 2001.

Poverty reduction policies in the education sector

52. The government of Guinea has pronounced its goal of reaching full primary school enrollment by 2007. This will require a net increase of approximately 2,000 teachers per year over the next eight years and the construction of an equivalent number of classrooms per year. Discussions are underway with the government on formulating a set of medium-term performance indicators. They could include those identified in Table 3.

Table 3. Guinea: Education Performance Indicators, 1998-2001

(In percent)

Objective	Indicator	Base 1998	1999	2000	2001
Increased access to primary education	Share of education expenditure on primary education	50	50	55	60
	Intake rate to grade 1	50	52	55	60
	Survival rate to end of primary cycle	20	22	25	30
	Share of girls in primary education enrollment	37	37	39	42
Decentralized budget management	Share of nonsalary budgets managed by sub-national units	0	10	25	50

53. In order to reach these objectives, the following policies will be necessary: (i) decentralization of budget and personnel management; (ii) recruitment and posting of teachers by available positions; (iii) increased nonsalary budget expenditures and improved execution; (iv) introduction of national languages at lower levels of schooling; (v) privatization of certain services within the ministries of education, notably textbook preparation and distribution; (vi) increase in length of school year and decentralized management of school calendar; (vii) exam reform; (viii) greater support for private

education, especially at higher levels of the system; and (ix) transformation of scholarship system at higher education.

Poverty reduction policies in the health sector

54. As described in Section II, Guinea has made remarkable progress in the health sector in a relatively short period of time: it has (i) developed a health care delivery system based on primary health services; (ii) emphasized in its sector policy prevention and other cost-effective strategies; (iii) started to decentralize decision making to regions and districts and set up decentralized health administrations; and (iv) introduced cost-recovery for drugs and services in primary health care, and, recently, in secondary health facilities. The future objectives, indicators, and policy measures related to the health sector are summarized in Table 4, whereby quantitative indicators for 1995 and 1997 provide a reference to past achievements.

55. In order to achieve these ambitious objectives, the government will—in addition to sector reform and policy improvements—continue to focus its efforts on the major systemic hurdles and weaknesses, including:

- insufficient funding for the sector compared to other low-income countries, especially for the nonsalary recurrent budgets;
- low budget implementation (of both investment and nonsalary recurrent budgets);
- decline in government funding for primary health services and for regional and district health administrations;
- inadequate deployment of staff and a persistent by uneven distribution of health facilities; and
- low-quality and incomplete utilization of services.

56. The identification of new sources of financing for the health sector, through the launching of small-scale prepayment arrangements, additional reliance on the private sector, and more efficient use of donor resources, should also be among the government's priorities. Though HIV/AIDS is not as serious a threat in Guinea as in some other SSA countries (see above), the fact that the epidemic has increased and has become an important development issues during the last years should be publicly recognized by government at its highest levels. Every effort should be made to involve all concerned sectors to monitor periodically (i) the epidemic and (ii) the results of various interventions. For example, the innovative youth-to-youth awareness program has proven to be effective and is being expanded.

Table 4. Guinea: Health Performance Indicators, 1995-2001

Objective	Indicator	1995	1997	2000	2001
Increase public spending on health	Nonsalary recurrent expenditures as percent of total recurrent expenditures	20	23	25	28
	Percentage of nonsalary recurrent budget actually spent	14	59	90	95
Increase children's immunization	Immunization rates, for children under 1 year of age, % (DTP3: diphtheria, tetanus, pertussis)	55	53	55	60
Improve accessibility to quality health care	Percentage of pregnant women bene-fiting from at least 1 prenatal consultation	53	59	70	80
	Number of childbirths attended by trained attendants (percent of total)	21	31	42	50
	Contraceptive prevalence rate (percent)	-	5	6	8

Policy Measure	Implementation Date
Pursuing sector policy on family planning and maternal and child care	Continuous
Issuance of technical standards and procedures for Quality Assurance of Care and Services (QACS) for reproductive and child health	December 2001
Quarterly meetings with partners to assess progress in the implementation of the sector policy	Every 3 months
The development and adoption of Three-Year Rolling Plan (updated annually with the opportunity of the issuance of the Annual Operational Development Plan)	Annual

Rural development and poverty reduction policies

57. In addition to the policies in the health and education sectors, and related to the structural reforms described in the previous section, the government aims to strengthen rural development and poverty alleviation programs by (i) promoting farmers' production and productivity through support to rural development; (ii) improving services delivery in rural areas through devolution of responsibilities and resources to local institutions and the private sector; (iii) enhancing governance and institutional capacity; (iv) improving labor-intensive public work programs; and (v) extending credit-based programs, especially microfinance. The first three objectives are described in more detail in Table 5.

Table 5. Guinea: Rural Development and Poverty Reduction Policies

Objective	Verifiable Indicators	Year
Promotion of farmers' production and productivity and promotion of agricultural exports	• Extension services attain national coverage	1999
	• Adoption rate of at least 50 percent for major extension messages has been attained	2000
	• Quality and volume of exportable fruits and vegetable has increased by at least by 20 percent	2001
	• Wharves for exportation are rehabilitated (Fandje, Benty) and operational (Benty)	2001
Improved service delivery in rural areas through devolution of responsibilities and resources to local institutions and the private sector	• Urban and local communes (CRDs) participating in the Village Community Support Program (VCSP) benefit from the rural investment fund for implementing basic rural infrastructure	2001
	• Village Community Support Program: CRDs are planning and implementing local development plans in a participatory manner	2001
	• Privatization of input provision and distribution is well under way	2001
	• Pilot operations to test greater service providers' accountability to farmers are under way.	2000
Enhanced governance and institutional capacity	• Legal texts on decentralization are reviewed and streamlined	2001
	• Training programs on decentralization and management of local affairs have begun	2001
	• Implementation of the restructuring of the Ministry of Agriculture	2000/03

IV. DEBT SUSTAINABILITY AND SENSITIVITY ANALYSIS

A. Debt Sustainability Analysis

58. This debt sustainability analysis (DSA), based on macroeconomic projections through 2018, was prepared jointly by the Guinean authorities and IMF and World Bank staff on the basis of loan-by-loan data provided by the authorities and creditors for debt outstanding at end-1998 and projections for debt outstanding at end-1999. The debt estimates and net

present value (NPV) calculations are preliminary, pending the completion of the debt-reconciliation exercise with creditors based on actual end-1999 data.[9] The NPV of debt-to-export ratio is measured using the three-year average of exports of goods and nonfactor services, while the debt-service ratio is measured in relation to current-year exports.

59. At end-1998, the total external public debt stock is estimated to have been US$3.4 billion in nominal terms, including US$475 million in arrears (Table 6). The present value of this debt stock is estimated at US$2.5 billion, or 324 percent of exports and 66.2 percent of GDP.[10] At the end of 1998, total arrears amounted to US$475 million, of which US$333.2 million was owed to Russia, US$134.3 million to non-Paris Club bilaterals, and US$7.5 million to multilaterals. Arrears to multilaterals and Paris Club bilaterals other than Russia were cleared in the first two months of 1999.[11]

60. Fifty-two percent of the estimated public and publicly guaranteed debt outstanding and disbursed at end-1998 is owed to multilateral creditors (Table 8). IDA is the largest creditor, with 54.4 percent of the debt outstanding to multilateral creditors, while the African Development Bank/Fund (AfDB/F) account for some 20.8 percent, the European Investment Bank (including the European Development Fund) for 9.7 percent, and the IMF for 7.0 percent. Other multilateral creditors include the Islamic Development Bank (IsDB) the International Fund for Agricultural Development (IFAD), the Arab Bank for Economic Development in Africa (BADEA), the Fund for International Development of the Organization of Petroleum Exporting Countries (OPEC Fund), and the Fund for Cooperation, Compensation and Development of the Economic Community of West African States (ECOWAS Fund).

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[9] Data on multilateral debt are largely reconciled with creditors, while bilateral debt data are based on information provided by the Guinean authorities. Debt data remains to be reconciled with some bilateral creditors. Debt management issues are reviewed in Appendix IV.

[10] The debt sustainability analysis prepared in early 1998 projected the NPV of debt-to-export ratio at end-1998 to be 206.7 percent, dropping to 192.7 percent at end-1999 (EBS/98/54, March 20, 1998). The difference with the current analysis is caused by four factors: (i) traditional debt relief is now assumed to be applied by end-1999 as opposed to end-1998 in the earlier DSA, (ii) an update of the exchange and discount rates which are used for the analysis (see Table 7); (iii) an estimated NPV of debt at end-1999 of US$1,867.6 million as compared to US$1,728 million, because all eligible debt was not previously included; and (iv) the authorities and staff revised previous estimates and projections of the three-year backward-looking average of exports of goods and services for 1999 from US$897 million to US$819.4 million. The reestimation of merchandise exports is discussed in EBS/98/186, November 6, 1998; services exports were revised upward based on central bank data series that were compiled following 1995 IMF technical assistance.

[11] The treatment of arrears to Paris Club creditors and multilateral creditors is somewhat different as the primary source of the data is different. The debt sustainability analysis of bilateral loans is based on information provided by the authorities and excludes US$3.7 million in arrears to Paris Club countries that were paid in January 1999. Nevertheless arrears may be underestimated as some bilateral creditors (notably Russia) have indicated that larger amounts were due at the end of 1998 than the amounts reported in Guinea's debt-management system (see Appendix IV). Data on multilateral loans are primarily based on information provided by the creditors and include amounts due and not paid, as of January 1, 1999.

Table 6. External Debt Indicators /1

	1998	1999	2000	2001	2005	2010	2015	2018	Averages 1999-2008	Averages 2009-2018
					(millions of U.S. dollars)					
Nominal debt stock	3,441.6	3,010.2	3,136.8	3,244.1	3,571.5	4,005.4	4,591.4	5,009.0	3,443.9	4,420.7
Multilateral	1,785.3	1,869.1	2,001.4	2,129.4	2,548.8	3,071.6	3,734.8	4,223.1	2,387.6	3,545.1
Official Bilateral	1,640.0	1,131.1	1,125.4	1,104.7	1,022.7	933.8	856.6	786.0	1,052.4	875.7
Of which: Paris Club	1,192.1	754.7	748.4	726.9	632.7	513.7	405.8	327.7	665.4	435.9
Of which: Post Cutoff	445.7	340.7	320.5	299.1	206.8	105.6	40.4	10.7	241.2	61.0
Of which: ODA	278.5	270.0	257.4	242.4	178.6	102.3	40.4	10.7	201.9	60.0
Commercial	16.2	10.0	10.0	10.0	0.0	0.0	0.0	0.0	4.0	0.0
Nominal debt before rescheduling /2	3,441.5	3,453.0	3,518.6	3,568.5	3,737.3	4,060.9	4,556.7	4,973.2	3,679.7	4,422.2
NPV of debt	2,512.1	1,867.6	1,923.1	1,976.3	2,142.0	2,380.5	2,729.2	2,984.3	2,080.5	2,627.3
Multilateral	1,080.4	1,119.0	1,182.9	1,246.9	1,467.6	1,750.9	2,131.5	2,428.1	1,385.3	2,023.9
Official Bilateral	1,418.1	740.7	731.9	720.6	674.4	629.6	597.7	556.1	691.7	603.4
Of which: Paris Club	1,036.3	569.1	557.8	543.9	478.8	393.5	315.6	254.4	501.6	336.6
Of which: Post Cutoff	378.7	291.6	269.9	253.5	179.1	93.9	37.5	10.3	206.8	55.2
Of which: ODA	219.5	216.3	208.7	198.3	151.5	90.7	37.5	10.3	167.9	54.2
Commercial	13.5	7.9	8.3	8.9	0.0	0.0	0.0	0.0	3.4	0.0
NPV of debt before rescheduling /2	2,512.0	2,509.4	2,521.8	2,525.9	2,552.2	2,674.2	2,905.5	3,135.0	2,549.6	2,847.1
					(percent of exports of goods & services) /3					
NPV of debt /4	323.8	227.9	219.2	209.4	168.5	127.5	99.5	86.3	184.4	108.2
Of which: multilateral /4	139.3	136.6	134.8	132.1	115.4	93.8	77.7	70.2	121.3	82.7
Debt service	...	22.3	21.2	20.1	13.2	9.9	7.0	5.9	16.3	7.9
					(percent)					
NPV of debt-to-revenue ratio /5	623.4	465.3	466.0	442.9	351.3	264.2	205.0	177.4	385.6	223.5
NPV of debt-to-GDP ratio	66.2	50.6	54.1	53.2	43.7	32.9	25.5	22.1	46.7	27.8
Nominal debt-to-GDP ratio	90.7	81.5	88.2	87.4	72.9	55.4	42.9	37.1	77.1	46.8
Grant element in total debt	31.3	38.0	38.7	39.1	40.0	40.6	40.6	40.4	39.5	40.6
Grant element in new borrowing	0.0	54.3	53.7	52.1	48.5	47.3	46.5	45.4	50.1	46.7
Memorandum items:					(millions of U.S. dollars)					
Exports of goods and services	820.1	867.6	944.3	1,019.0	1,370.0	2,012.1	2,957.3	3,727.3	1,253.5	2,699.8
Three-year backward looking ave.	775.9	819.4	877.3	943.6	1,271.3	1,866.8	2,743.4	3,457.4	1,165.6	2,504.5
Central government revenue	403.0	401.4	412.7	446.2	609.8	900.9	1,331.1	1,682.4	558.1	1,214.0

Source: Guinean authorities and staff estimates.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling and new project borrowing and already identified loans to fill the financing gap in 1999 and 2000, but excluding unidentified loans to fill the financing gap.

2/ The Paris Club 1999 flow rescheduling is already included in the before rescheduling scenario for Paris Club members other than Russia.

3/ As defined in IMF Balance of Payments Manual, 5th edition, 1993.

4/ Based on a three-year average of exports on the previous year (e.g. export average over 1997-99 for NPV of debt-to-exports ratio in 1999).

5/ Revenues are defined as central government revenues, excluding grants.

Table 7. Discount Rate and Exchange Rate Assumptions

	Discount Rates 1/ (in percent)	Exchange Rates 2/ (U.S. dollar per local currency)
Currency		
Algerian Dinar	5.25000	0.01723
Austrian Shillings	5.27667	0.08415
Belgian Franc	5.59000	0.02871
Canadian Dollar	6.24833	0.64704
CFA Franc	5.35500	0.00177
Swiss Franc	4.05000	0.71875
Chinese Yuan	6.23000	0.31250
Deutsche Mark	5.16000	0.59217
Danish Kroner	5.63500	0.15575
Domestic Currency	6.23000	0.00077
European Currency Unit	4.99500	1.16390
Spanish Peseta	5.30833	0.00696
Finnish Markaa	5.34500	0.19476
French Franc	5.35500	0.17657
Italian Lira	5.57667	0.00060
Japanese Yen	2.21667	0.00830
Kuwaiti Dinar	5.25000	3.28726
Norwegian Kroner	6.53833	0.13381
Netherland Guilders	5.78333	0.52507
Portugese Peseta	5.25000	0.00549
Saudi Arabian Rial	5.25000	0.26702
Special Drawing Rights	5.25008	1.39660
Swedish Kroner	5.65667	0.12376
Russian Rubble	6.23000	1.66667
United Kingdom Pound	6.80667	1.65920
United States Dollar	6.23000	1.00000

1/ The discount rates used are the average Commercial Interest Reference Rates for the respective currencies over the second half of 1998.

2/ Exchange rates at end 1998.

Table 8. Guinea: Composition of Nominal Stock and Net Present Value of External Debt by Category, 1998-99

(In millions of U.S. dollars)

	1998			1999	
	Nominal Stock of Debt	Percent	Net Present Value of Debt 1/	Nominal Stock of Debt	Net Present Value of Debt 1/
Total	3,441.6	100.0	2,512.1	3,010.2	1,867.6
Multilateral Creditors	1,785.3	51.9	1,080.4	1,869.1	1,119.0
Bilateral Creditors	1,640.0	47.7	1,418.1	1,131.1	740.7
Paris Club	1,192.1	34.6	1,036.3	754.7	569.1
Post-cutoff date	445.7	13.0	378.7	340.7	291.6
Non-ODA	167.2	4.9	159.2	70.7	75.2
ODA	278.5	8.1	219.5	270.0	216.3
Pre-cutoff date	746.4	21.7	657.6	414.0	277.5
Non-ODA	593.9	17.3	547.5	247.6	188.9
ODA	152.4	4.4	110.1	166.3	88.6
Non-Paris Club	447.9	13.0	381.8	376.4	171.6
Post-cutoff date	101.2	2.9	83.6	78.7	71.1
Non-ODA	0.0	0.0	0.0	0.0	0.0
ODA	101.2	2.9	83.6	78.7	71.1
Pre-cutoff date	346.8	10.1	298.2	297.7	100.5
Non-ODA	90.3	2.6	90.3	39.2	24.6
ODA	256.4	7.5	207.9	258.5	75.9
Commercial	16.2	0.5	13.5	10.0	7.9
Post-cutoff date	16.2	0.5	13.5	10.0	7.9
Non-ODA	16.2	0.5	13.5	10.0	7.9

Source: Country authorities, and staff estimates.

1/ Discounted on the basis of the average Commercial Interest Reference Rate for the respective currency, derive the six-month period prior to the latest data for which actual data are available (base date). The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate.

61. Bilateral creditors hold 47.7 percent of Guinea's public and publicly guaranteed debt, of which 34.6 percent was held by Paris Club creditors (including 12.7 percent by Russia) and 13.0 percent by other bilateral creditors.[12] Russia, France, the United States, and Japan were the main Paris Club creditors (Appendix V). Of the 13.0 percent of non-Paris Club debt, 5.1 percent was owed to China and 3.9 percent to Kuwait and Saudi Arabia, from which Guinea continues to receive new loans.[13] Commercial debt represents only 0.5 percent of total debt following the completion of the debt buyback operation in 1998 with assistance from the IDA Debt Reduction Facility and bilateral donors.[14]

62. Guinea has benefited from five Paris Club rescheduling agreements. In 1986, the Paris Club agreed to reschedule debt-service payments due between January 1, 1986 and February 28, 1987 that were related to loans over one-year maturity contracted before the cutoff date (January 1, 1986). Rescheduled debt service was to be paid over a ten year period, including a five-year grace period. Subsequent agreements rescheduled debt-service payments on Toronto terms (in 1989), on London terms (in 1992 and 1995) and on Naples 50 percent terms (in 1997). As Guinea's per capita income is estimated to be above the threshold of US$500, and the NPV of debt-to-exports ratio is estimated to be below 350 percent, Guinea was eligible for a 50 percent NPV reduction option and not the full Naples terms at a 67 percent NPV reduction.[15] The 1997 agreement notes that if, as of end-1999, Guinea has maintained satisfactory relations with Paris Club countries and has fully implemented all agreements with these countries and continues to have an appropriate arrangement with the IMF, these countries agree in principle to hold a meeting to consider a stock-of-debt operation.

63. Debt relief under the baseline scenario takes account of the 1997 Paris Club agreement and envisages an end-1999 stock-of-debt operation on all pre-cutoff date debt to Paris Club creditors, on Naples terms (67 percent NPV reduction).[16] Debt-service payments that have been rescheduled following previous Paris Club agreements have been topped up to reach the required 67 percent NPV reduction. Guinea is projected to reach a bilateral

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[12] Bilateral debt with some creditors is not yet reconciled. The impact of the positions taken by some creditors on the total debt stock is analyzed below.

[13] Other non-Paris Club bilateral creditors are Bulgaria, Egypt, Iraq, PDR Korea, Libya, Morocco, Romania, Thailand, and the former Yugoslavia. In early 1999, the arrears outstanding to Argentina were purchased by the Guinean authorities at a substantial discount, following similar procedures used in a 1997 buyback of Czechoslovakian debt. The staff has advised the authorities to refrain from further debt-buyback of debt-conversion operations prior to reaching the HIPC decision point, to ensure equitable burden sharing.

[14] The debt buyback, which provided a discount of 87 cents per $1 of principal, is considered to have been completed in 1998 although some aspects of this transaction were finalized in 1999. The remaining commercial debt is related to commercial loans to an alumina company that was taken over by the government in late 1998 but which was subsequently leased to an international company. As it concerns a leasing arrangement, the commercial loans remain formally government debt although they are serviced in full from the company's proceeds.

[15] The staff estimates Guinea's per capita income to be US$540 in 1998.

[16] A stock-of-debt operation which reduces the NPV of eligible debt by 67 percent is more concessional than the reductions that Guinea has so far received as part of previous rescheduling agreements. However, an assessment on such terms is used as the HIPC Initiative requires full use of traditional debt relief mechanisms.

agreement with Russia and non-Paris Club bilateral creditors by end-1999 on terms comparable to those agreed with the Paris Club.[17] Under the baseline scenario, which includes a buyback of debt owed to Argentina, a stock-of-debt operation of the Paris Club, and a treatment of non-Paris Club debt on terms comparable to those assumed of the Paris Club, the external debt stock at end-1999 is reduced to US$3.0 billion in nominal terms and US$ 1.87 billion in net present value terms (Table 9), or 228 percent of exports and 50.6 percent of GDP.

64. Disbursements on existing loans are projected to be US$50 million in 1999, US$35 million in 2000, US$23 million in 2001, and US$5 million in 2002. In addition to these disbursements, disbursements for project loans are projected from US$147.1 million in 1999 to US$148.4 million in 2001, rising further thereafter and reaching US$303 million in 2018.[18] In addition Guinea is projected to receive program support from the IMF (US$11 million in 1999 and US$22 million in 2000), from the IDA (US$30 million in 2000 and US$15 million in 2001), and from the African Development Bank (US$6.5 million in both 1999 and 2000). All new borrowing is projected to be on concessional terms from Guinea's traditional multilateral sources. Furthermore, it is assumed that Guinea will qualify for a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) of similar magnitude as the last arrangement. The remaining financing gap after debt relief is assumed to be financed on concessional terms.[19]

65. **Baseline balance of payments assumptions**. The baseline scenario assumes sound economic and financial policies, the deepening of structural reforms, continued increases in social spending, especially in the health and education sectors, and average climatic conditions for the development of Guinea's agricultural and hydroelectric potential. The scenario also critically depends on the evolution of bauxite, alumina, and gold prices, and climatic conditions. The key assumptions underlying this scenario are quantified in Tables 10 and 11, and summarized in Box 6.

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[17] The analysis follows the Guinean position in all bilateral negotiations, except that in the case of Russia the hypothetical terms follow the July 20 1997 agreement between Russia and the Paris Club; these assumptions are, of course, without prejudice to the outcome of these negotiations. Russia and some other bilateral creditors have indicated that their claims may be higher than reported in this DSA, which is based on data from Guinea's debt management system.

[18] New project borrowing in 1999 is based on the authorities' estimates and projections from 2000 onward are based on a real annual growth rate of project lending of 2 percent and inflation of 2 percent. As the rate of real growth of new project lending is well below projected long-term real GDP growth of 6 percent, the share of the project borrowing in GDP declines over time.

[19] From 2001 onward, the analysis assumes that half this gap is financed by multilateral loans on IDA terms (0.75 percent interest and a 10-year grace period followed by repayment over 30 years) while the other half is assumed to be financed from other sources at 2.5 percent interest and a 5-year grace period followed by repayment over 20 years.

Table 9. Net Present Value of Debt After Reschedulings /1

	1998	1999	2000	2001	2002	2003	2004	2005	2010	2015	2018	Averages 1999-2008	Averages 2009-2018
NPV of total debt (2+5+6) /2	2,512.1	1,867.6	1,923.1	1,996.1	2,059.8	2,108.1	2,142.2	2,190.3	2,450.9	2,835.7	3,129.5	2,115.7	2,726.2
NPV of old debt (3+4)	2,512.1	1,786.7	1,737.5	1,686.3	1,634.4	1,562.3	1,497.7	1,438.4	1,186.0	998.9	862.8	1,531.9	1,050.1
Official bilateral and commercial	1,431.6	730.8	705.0	686.1	666.8	633.4	612.9	595.0	512.4	449.6	393.2	630.4	465.1
Paris Club	1,036.3	559.1	538.9	524.6	510.5	492.2	475.2	457.5	374.5	301.5	243.6	482.1	321.1
Post-cutoff date	378.7	291.6	269.9	253.5	237.4	217.4	198.5	179.1	93.9	37.5	10.3	206.8	55.2
Of which: ODA	219.5	216.3	208.7	198.3	187.8	176.1	164.3	151.5	90.7	37.5	10.3	167.9	54.2
Pre-cutoff date	657.6	267.5	269.0	271.0	273.2	274.9	276.6	278.4	280.5	264.0	233.3	275.3	265.9
Of which: ODA	110.1	78.6	79.2	80.0	80.9	81.8	82.8	83.9	90.1	98.6	99.4	82.6	95.2
Of which: non-ODA	547.5	188.9	189.8	191.0	192.3	193.1	193.8	194.6	190.4	165.4	133.8	192.7	170.7
Other official bilateral	381.8	163.8	157.8	152.6	146.9	141.1	137.7	137.5	137.9	148.1	149.7	144.9	144.0
Post-cutoff date	83.6	71.1	63.2	55.7	47.5	39.2	33.1	30.2	15.2	7.8	5.7	41.2	10.3
Of which: ODA	83.6	71.1	63.2	55.7	47.5	39.2	33.1	30.2	15.2	7.8	5.7	41.2	10.3
Pre-cutoff date	298.2	92.8	94.6	96.9	99.4	101.9	104.5	107.3	122.7	140.3	143.9	103.7	133.7
Of which: ODA	207.9	68.1	69.7	71.7	73.8	76.0	78.4	80.9	95.8	115.3	122.3	77.8	108.4
Commercial	13.5	7.9	8.3	8.9	9.4	0.0	0.0	0.0	0.0	0.0	0.0	3.4	0.0
Multilateral	1,080.4	1,055.9	1,032.5	1,000.3	967.6	929.0	884.9	843.4	673.7	549.3	469.6	901.5	585.1
AfDB/AfDF	259.5	247.9	236.5	224.8	212.9	201.3	190.6	179.4	130.5	108.4	98.3	196.6	114.8
IBRD/IDA	478.1	487.1	492.8	497.5	501.7	504.8	506.9	507.8	478.1	401.0	340.5	500.8	422.3
IMF	104.2	101.0	96.4	87.2	78.3	64.9	45.9	29.6	0.0	0.0	0.0	52.6	0.0
Others	238.6	219.9	206.7	190.7	174.7	158.0	141.4	126.6	65.1	39.9	30.7	151.5	47.9
NPV of new debt, project financing /3	0.0	80.9	185.6	290.0	395.3	507.5	603.8	703.6	1,194.5	1,730.3	2,121.5	548.6	1,577.2
Multilateral	0.0	63.1	150.4	246.6	343.3	446.2	533.4	624.2	1,077.3	1,582.2	1,958.5	483.8	1,438.8
Bilateral	0.0	17.8	35.2	43.4	52.1	61.3	70.4	79.4	117.2	148.1	162.9	0.0	0.0
NPV of new debt, gap filling /4	0.0	0.0	0.0	19.8	30.0	38.2	40.6	48.3	70.3	106.5	145.2	35.2	98.9
Memorandum items:													
Exports of goods and services	820.1	867.6	944.3	1,019.0	1,088.3	1,175.1	1,268.8	1,370.0	2,012.1	2,957.3	3,727.3	1,253.5	2,699.8
Three-year export average	775.9	819.4	877.3	943.6	1,017.2	1,094.1	1,177.4	1,271.3	1,866.8	2,743.4	3,457.4	1,165.6	2,504.5
NPV of debt-to-exports ratio	323.8	227.9	219.2	211.5	202.5	192.7	181.9	172.3	131.3	103.4	90.5	187.2	112.1
Sensitivity analysis													
Exports of GNFS under lower export	820.1	867.6	919.9	975.3	1,034.1	1,096.4	1,162.5	1,232.6	1,651.8	2,213.9	2,639.3	1,145.0	2,056.5
volume growth NPV of debt-to-export ratio	323.8	227.9	221.3	216.7	211.0	203.6	195.2	188.2	157.1	135.7	125.6	198.9	142.3
NPV of new project loaned debt under less													
concessional financing	0.0	135.1	311.4	481.8	646.1	817.0	963.8	1,114.2	1,861.9	2,670.7	3,231.2	872.6	2,436.3
NPV of total debt	2,512.1	1,921.8	2,048.9	2,187.9	2,310.6	2,417.6	2,502.2	2,601.0	3,118.3	3,776.1	4,239.2	2,439.7	3,585.3
NPV of debt-to-export ratio	323.8	234.5	233.5	231.9	227.2	221.0	212.5	204.6	167.0	137.6	122.6	213.2	146.7

Source: Guinean authorities; and staff estimates.

1/ Refers to public and publicly guaranteed external debt only and assumes full use of traditional debt relief at end-1999.

2/ Discounted on the basis of the average July-December 1998 Commercial Interest Reference Rate for the respective currency.
The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate.

3/ Including gap filling loans for 1999 and 2000.

4/ As the 1999 and 2000 financing gap has been filled by the loans included in the project financing, it is assumed that such borrowing to fill the financing gap will take effect after 2001.

Table 10. Guinea: Main Assumptions on Macroeconomic Framework, 1997-2018

(In percent of GDP, unless otherwise indicated)

	1997	1998	1999 Est.	2000 Projected	2001 Projected	2002 Projected	2003 Projected	2004 Projected	2005 Projected	2006 Projected	1998-2006 Average	2007-2018 Average
Economic growth and inflation												
Real GDP (percentage change)	4.8	4.5	3.7	5.0	5.5	6.0	6.0	6.0	6.0	6.0	5.4	6.0
Real GDP per capita (percentage change)	2.1	1.8	1.1	2.4	2.9	3.3	3.3	3.3	3.3	3.3	2.8	3.0
Average inflation	1.9	5.1	4.5	5.8	3.7	3.5	3.0	2.8	2.5	2.0	3.7	2.0
National accounts												
Gross domestic investment	17.1	17.1	18.4	19.2	18.8	19.8	20.8	21.8	22.6	23.4	20.2	25.1
Of which: private	9.9	11.9	12.4	12.7	12.2	13.3	14.4	15.3	16.0	16.8	13.9	17.0
Gross national savings	14.1	14.4	15.0	15.6	15.7	16.9	18.4	19.6	19.8	20.7	17.4	23.2
Government revenue	11.2	10.6	11.0	11.6	12.1	12.5	12.7	12.9	13.0	13.3	12.2	14.0
Government expenditures	17.0	14.0	16.0	16.7	17.0	17.2	17.1	16.9	16.8	16.7	16.5	16.9
Overall government balance	-5.0	-3.4	-5.0	-5.1	-5.0	-4.7	-4.4	-4.0	-3.8	-3.4	-4.3	-2.9
Balance of payments												
Exports of goods and services 1/	19.8	21.6	23.5	26.6	27.5	27.1	27.1	27.0	27.0	27.0	26.0	26.8
Imports of goods and services 1/	22.0	23.4	24.4	27.5	27.6	27.3	27.0	26.8	27.3	27.1	26.5	26.3
Current account, inlcluding grants 2/	-3.1	-2.6	-3.3	-3.6	-3.1	-2.8	-2.2	-2.0	-2.5	-2.3	-2.7	-1.7
Current account, excluding grants 2/	-6.3	-6.0	-5.9	-6.3	-5.3	-5.0	-4.3	-4.0	-4.4	-4.1	-5.0	-3.1
Gross official reserves (in months of imports)	3.2	3.4	3.1	3.3	3.5	3.5	3.5	3.5	3.5	3.5	3.4	3.5
Exports volume growth (percentage change) 4	3.7	19.6	10.6	7.5	7.5	2.4	6.0	6.0	6.0	6.0	8.0	6.0
Import volume growth (percentage change) 4/	15.4	3.3	1.3	5.9	4.3	5.4	5.4	5.5	5.1	5.1	4.6	5.3
Terms of Trade (percentage change)	13.0	-2.2	-6.7	-0.9	1.0	3.2	0.0	0.0	0.0	0.0	-0.6	0.0

Sources: Guinean authorities; and staff estimates and projections.

1/ Exports (imports) of goods and services as defined in the IMF Balance of Payments Manual, (5th ed. 1993), in millions of U.S. dollars.
2/ As a result of different rescheduling assumptions the current account deficit is different from that presented in the IMF Staff Report
3/ Imports of goods and nonfactor services.
4/ Total merchandise exports (imports).

Table 11. Guinea: Balance of Payments, 1999-2018

(In millions of U.S. dollars, unless otherwise indicated)

	1999 Prel.	2000 Proj.	2001 Proj.	2005 Proj.	2010 Proj.	2015 Proj.	2018 Proj.
Merchandise trade balance	174.4	189.1	230.1	297.3	451.5	679.7	870.5
Exports (f.o.b.)	754.5	823.4	889.8	1,201.0	1,774.5	2,621.8	3,313.8
Of which: mining products 1/	632.7	688.2	746.5	850.4	943.8	1,014.0	1,058.8
Imports (f.o.b.)	-580.1	-634.3	-659.7	-903.7	-1,323.0	-1,942.1	-2,443.3
Services trade balance	-207.4	-224.4	-234.5	-314.9	-453.9	-659.5	-826.4
Services exports	113.1	120.8	129.2	169.1	237.6	335.5	413.6
Services imports	-320.4	-345.2	-363.7	-483.9	-691.6	-995.0	-1,240.0
Income balance 2/	-152.6	-175.6	-180.5	-202.1	-238.9	-295.6	-338.6
Dividend payments	-82.4	-88.4	-93.8	-118.7	-159.5	-214.2	-255.7
Interest on public debt 3/4/	-55.3	-72.4	-71.9	-68.5	-64.5	-66.5	-68.0
Transfers	62.0	67.8	54.1	76.2	90.5	107.7	119.6
Official transfers	93.1	98.7	81.7	95.9	117.3	143.4	161.7
Current account							
Including public transfers	-123.5	-143.2	-130.7	-143.4	-150.8	-167.7	-174.9
Excluding public transfers	-216.6	-241.9	-212.5	-239.4	-268.0	-311.1	-336.6
Capital movements	5.0	39.1	53.3	115.4	146.5	187.4	219.7
Public (medium and long term)	-12.3	9.3	15.9	68.1	82.9	102.0	117.7
Project-related loans	147.1	148.4	154.4	180.9	220.5	268.8	302.7
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due 3/4/	-159.5	-139.0	-138.5	-112.8	-137.6	-166.8	-184.9
Public (short term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct and other private investment (net)	17.3	29.7	37.4	47.3	63.6	85.4	102.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-118.6	-104.1	-77.5	-28.0	-4.3	19.7	44.9
Financing	-418.0	-47.5	-37.4	-27.8	-40.3	-70.5	-88.4
Change in net official							
Reserves (increase -)	18.5	-47.5	-37.4	-27.8	-40.3	-70.5	-88.4
IMF (net)	-7.3	-8.5	-12.9	-22.2	-21.7	-0.3	0.0
Other reserves (net)	25.7	-39.0	-24.5	-5.5	-18.6	-70.2	-88.4
Changes in arrears (net) 5/	-478.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief 6/	42.3	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap 3/	536.5	151.6	114.9	55.8	44.5	50.8	43.5
Debt relief	508.0	81.4	75.0	44.0	35.5	33.4	19.9
New borrowing to fill financing gap	28.5	70.2	39.9	11.7	9.0	17.4	23.7
Memorandum items:							
Current account-GDP ratio (in percent)							
Including public transfers	-3.3	-3.6	-3.1	-2.5	-1.8	-1.4	-1.2
Excluding public transfers	-5.9	-6.3	-5.3	-4.4	-3.4	-2.7	-2.3
Exports of GNFS-GDP ratio (in percent)	23.5	26.6	27.5	27.0	26.8	26.7	26.6
Imports of GNFS-GDP ratio (in percent)	-24.4	-11.1	-27.6	-27.4	-26.9	-26.5	-26.3
External medium-and long-term public debt 7/	3,031.5	3,164.9	3,312.1	3,692.4	4,227.2	4,962.8	5,449.4
In percent of GDP	82.1	89.0	89.2	72.8	56.4	44.8	38.9
Debt-service ratio 8/	24.8	20.5	19.0	11.7	8.8	6.9	5.7
Gross reserves	220.1	257.6	298.5	404.7	587.6	856.7	1,074.3
In months of imports (GNFS)	2.9	3.2	3.5	3.5	3.5	3.5	3.5
Short-term liabilities	-129.1	-129.1	-129.1	-129.1	-129.1	-129.1	-129.1

Sources: Guinean authorities; and staff estimates and projections.

1/ Covering only exports of mining products from facilities identified in 1999.

2/ Including debt service from debt rescheduling.

3/ The debt service and financing gap differs from the gap reported in Staff report as a result of the different rescheduling assumptions.

4/ For 1999 assuming a flow rescheduling on terms comparable to Paris Club terms for all bilateral debt (in case of unreconciled debt, Guinea's proposals have been followed). Further, assuming a stock-of-debt operation at 67% discount for all bilateral debt as of end-1999.

5/ The total amount of arrears outstanding and the terms on which they should be rescheduled is not yet reconciled with all creditors. The balance of payments follows the Guinean proposals for rescheduling this debt. Details of the proposals of some of the creditors are . discussed in the preliminary HIPC document. In the case of Russia, rescheduling is to be based on a 70 percent discount on pre-1992 debt. The remaining and credits from non-Paris Club creditors are assumed to be rescheduled on terms at least comparable to those of the 1997 Paris Club Agreement followed by a 67 percent stock of debt operation at end 1999.

6/ Including the forgiveness component of the debt buybacks. The presentation assumes that the debt buyback of commercial debt was completed even though some aspects of the transaction were finalized in early 1999.

7/ Including public guaranteed debt from 1998 onwards, 1997 data do not fully capture debt to non-Paris Club bilaterals.

Box 6. Main Assumptions in the Debt Sustainability Analysis (DSA)

Growth

- The Guinean economy is projected to recover from its relatively poor growth performance of 3.7 percent in 1999 to 5.0 percent in 2000, 5.5 percent in 2001, and 6 percent per year thereafter until 2018. Exports, in particular of mining products, are projected to continue to be an important determinant of growth, but an increasing share of growth is expected to be driven by domestic sectors – in particular agriculture, trade, construction, and services.
- The investment-to-GDP ratio is projected to increase from 16.4 percent in 1998 to over 26 percent in 2018 and the domestic savings rate is projected to increase from 14 percent in 1998 to 23 percent in 2018, as government finances are strengthened and domestic investment opportunities deepen.

Exports and imports

- Merchandise export growth is projected to slow from the strong increase of 19.6 percent in 1998, which resulted from an expansion in gold production by 84 percent with the opening of a new gold mine. However, export growth is projected to remain well above GDP growth during most years. Until 2003 export projections are largely based on company-by-company data; thereafter, they are based on products and companies that are not yet identifiable. Until 2003, export prices are projected to develop in line with the IMF's World Economic Outlook and the World Bank's Commodity division projections. From 2003 onward, export prices are projected to increase by 2 percent per year. Receipts from service exports are assumed to remain constant in real terms in 1999 and 2000 and to increase by 6 percent per year in real terms, with 2 percent annual price increases from 2001 onward.
- Growth of food and petroleum imports is projected to be somewhat slower than GDP growth as domestic food production expands and the country's hydroelectric potential is exploited, while other imports grow in line with GDP growth. Import prices are in line with the IMF's World Economic Outlook and the World Bank's Commodity Division projections until 2003; thereafter, they are projected to increase by 2 percent per year.

Income and transfers

- Project grants are projected to increase by 2 percent per year in real terms; net private transfers abroad are projected to decline until 2003 and to grow modestly thereafter.
- Private interest and dividend payments are projected to grow, driven by privately financed projects in the mining sector.

Capital account:

- Net foreign direct investment is projected to increase from US$33.8 million in 2000 to over US$100 million in 2018.
- A net outflow of official financing during 1999-2003, is likely to be offset by debt relief from China and Russia. The country continues to receive substantial concessional financing, which is projected to increase from US$95 million in 1999 to US$250 million in 2018.
- The residual financing gap over 2001-2018 is forecast at US$333 million, which is less than one percent of exports and about one quarter of one percent of GDP.

66. Based on the assumptions of Box 6 the current account deficit (excluding official transfers) is projected to initially deteriorate from 5.9 percent of GDP in 1999 to 6.3 percent of GDP in 2000, as the result of the rehabilitation of an alumina smelter by its recently acquired foreign management partner. In 2001, the current account deficit is projected to narrow to 5.3 percent of GDP and to remain under 5 percent of GDP from 2003 onward, reaching 2.3 percent of GDP in 2018. The difference between the current account deficit as a share of GDP, excluding and including public transfers, is projected to decline as public transfers are projected to grow more slowly than GDP. It is envisaged that the capital account will improve with increasing private capital inflows, as the region stabilizes and the country exploits its considerable mineral production potential. A continued flow of project-related loans is anticipated to assist the country in its poverty alleviation strategy. Gross reserves are projected to recover to 3.5 months of imports of goods and nonfactor services in 2001 and to remain at that level from 2002 onwards. After the full application of traditional debt-relief mechanisms, a financing gap is projected to remain over the medium term.

67. The debt-service ratio of public and publicly guaranteed debt before debt relief would decline gradually from 22.3 percent in 1999 to 20.1 percent in 2001. In comparison with the full use of traditional debt-relief mechanisms, the ratio would fall over the same period from 17.0 percent to 14.4 percent (Table 12). As new project loans, net of amortization, are projected to increase from a modest US$11 million in 2000 to US$98 million in 2018, the nominal debt-to-GDP ratio declines from just under 90 percent in 2001 and 2002 to 37 percent by 2018. Before rescheduling and after new borrowing, debt-service payments could decline to 5.9 percent in 2018. After rescheduling, which would delay amortization, debt-service payments are projected to decline to 6.3 percent of exports of goods and nonfactor services.

68. An analysis of Guinea’s debt-service obligations could also take account of the substantial private sector dividend and interest payments, which are in addition to public sector debt-service payments. While private investment clearly contributes to Guinea’s economic performance, private dividend and interest payments increase total debt-service payments and reduce resources available for imports of goods and services. Including private sector payments would increase Guinea’s debt service ratio after debt relief from 14 percent in 2000 and 2001 to over 25 percent; this level would decline thereafter to under 15 percent in 2015. Interest and dividend payments due to private foreign direct investors are mostly related to private investments in the mining, telecommunications, and financial sector. Foreign investments in these sectors has restrained the growth in Guinea’s public debt and contributed to economic efficiency.

69. Based on the assumptions and policies outlined above and after the application of traditional debt-relief mechanisms, Guinea’s external debt ratios would remain at unsustainable levels as defined under the debt-to-export criteria. The NPV of debt-to-export ratio would decline from 323.8 percent in 1998 to 228 percent in 1999 and remain at 212 percent in 2001. The debt-service-to-revenue ratio before debt relief is just over 50 percent in 1999-2000. Using traditional debt relief mechanisms it would be reduced to 36 percent in 1999 and 33 percent in 2000-2001.

Table 12. Debt Service Payments on Public and Publicly Guaranteed External Debt

	1999	2000	2001	2005	2010	2015	2018
Total debt service before full application of traditional debt relief	204.7	220.2	223.8	204.0	224.2	233.9	253.3
Debt service on outstanding debt 1/	191.4	195.4	198.3	159.7	120.6	101.3	83.2
Principal	144.4	146.1	151.4	125.2	99.7	88.4	75.1
Multilateral	46.9	54.1	62.8	70.5	58.6	47.1	49.3
AfDB/AfDF	13.2	13.8	14.0	14.4	13.3	6.8	7.3
IBRD/IDA	9.1	13.0	14.4	19.4	32.3	35.3	37.5
IMF	7.3	8.5	12.9	17.6	0.0	0.0	0.0
Others	17.3	18.9	21.6	19.1	13.1	5.0	4.5
Official bilateral	91.3	92.0	88.6	54.7	41.1	41.2	25.9
Paris Club	43.5	62.7	57.5	37.5	34.2	37.7	25.3
Post-cutoff date	24.0	28.4	26.9	20.5	13.2	12.2	8.5
Of which: ODA	8.5	12.6	15.0	16.8	13.2	12.2	8.5
Pre-cutoff date	19.5	34.3	30.5	17.0	21.0	25.5	16.8
NPRD	16.8	21.6	18.2	8.2	4.0	2.5	1.4
ODA	2.4	5.5	5.4	3.8	3.7	2.5	1.4
Non-ODA	14.4	16.1	12.7	4.4	0.3	0.0	0.0
PRD-Toronto	0.0	9.6	8.9	2.9	2.9	0.0	0.0
ODA	0.0	0.0	0.0	1.3	1.3	0.0	0.0
Non-ODA	0.0	9.6	8.9	1.5	1.5	0.0	0.0
PRD-London	2.5	2.8	3.2	5.5	13.0	20.2	11.1
ODA	0.0	0.0	0.0	0.0	2.6	2.8	1.5
Non-ODA	2.5	2.8	3.2	5.5	10.4	17.4	9.6
PRD-Naples	0.2	0.3	0.3	0.5	1.2	2.9	4.3
ODA	0.0	0.0	0.0	0.0	0.1	0.6	1.1
Non-ODA	0.2	0.3	0.3	0.5	1.1	2.2	3.2
Other official bilateral	47.7	29.3	31.2	17.2	6.9	3.5	0.6
Post-cutoff date	13.6	9.1	9.7	4.0	2.4	1.4	0.3
Pre-cutoff date	34.1	20.2	21.4	13.2	4.5	2.1	0.3
Commercial	6.2	0.0	0.0	0.0	0.0	0.0	0.0
Interest	46.9	49.3	46.9	34.5	20.9	13.0	8.1
Multilateral	25.0	23.4	22.3	16.3	8.5	6.2	5.1
AfDB/AfDF	10.2	9.0	8.5	5.6	1.6	1.2	1.1
IBRD/IDA	7.3	7.2	7.1	6.6	5.7	4.4	3.6
IMF	1.4	1.4	1.4	1.0	0.0	0.0	0.0
Others	6.2	5.8	5.3	3.1	1.2	0.5	0.4
Official bilateral	21.6	26.0	24.6	18.2	12.4	6.8	3.0
Paris Club	18.8	23.3	22.2	16.7	11.7	6.6	3.0
Post-cutoff date	6.0	6.0	6.0	3.9	2.0	0.9	0.3
Of which: ODA	4.4	4.6	4.7	3.3	2.0	0.9	0.3
Pre-cutoff date	12.8	17.3	16.2	12.8	9.7	5.7	2.7
NPRD	2.0	3.0	2.5	1.4	0.6	0.2	0.0
ODA	1.4	2.0	1.8	1.1	0.6	0.2	0.0
Non-ODA	0.5	0.9	0.7	0.2	0.0	0.0	0.0
PRD-Toronto	0.2	3.6	2.9	1.2	0.5	0.0	0.0
ODA	0.2	0.4	0.4	0.3	0.1	0.0	0.0
Non-ODA	0.0	3.2	2.4	0.9	0.4	0.0	0.0

Table 12. Debt Service Payments on Public and Publicly Guaranteed External Debt (concluded)

	1999	2000	2001	2005	2010	2015	2018
PRD-London	7.8	7.7	7.8	7.2	5.8	2.7	0.9
ODA	1.3	1.3	1.3	1.3	1.2	0.7	0.3
Non-ODA	6.4	6.4	6.4	5.8	4.6	2.0	0.6
PRD-Naples	2.8	3.1	3.1	3.0	2.8	2.8	1.7
ODA	0.7	0.8	0.8	0.8	0.8	0.7	0.7
Non-ODA	2.1	2.3	2.3	2.3	2.0	2.1	1.0
Other official bilateral	2.8	2.7	2.4	1.5	0.8	0.2	0.1
Post-cutoff date	1.3	1.2	1.1	0.6	0.4	0.1	0.1
Pre-cutoff date	1.5	1.4	1.3	0.9	0.4	0.1	0.0
Commercial	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt service on new borrowing	2.1	4.4	6.4	21.6	78.7	106.5	135.3
Debt service on rescheduled amounts	11.3	20.5	19.0	22.7	24.9	26.1	34.7
Total debt service after full application of traditional debt relief	147.2	137.7	147.1	158.3	187.2	199.2	233.4
Principal	99.5	84.3	92.8	103.5	132.5	138.2	167.8
Interest	47.7	53.4	54.3	54.8	54.6	61.0	65.6
Private sector dividend and interest payments /2							
Dividends	82.4	88.4	93.8	118.7	159.5	214.2	255.7
Interest	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Memorandum items							
Debt-service ratio on public debt before rescheduling 3/	22.3	21.2	20.1	13.2	9.9	7.0	5.9
Debt-service ratio on public debt after rescheduling 3/	17.0	14.6	14.4	11.6	9.3	6.7	6.3
Debt-service on public debt before rescheduling (percent of fiscal revenue)	47.5	48.4	45.7	27.5	19.1	13.1	10.6
Debt-service on public debt after rescheduling (percent of fiscal revenue)	36.1	33.4	32.8	24.0	18.0	12.6	11.3
Sensitivity analysis							
Debt-service ratio on public debt after rescheduling Lower export growth 3/	17.0	15.0	15.1	12.8	11.3	9.0	8.8
Debt-service ratio on public debt after rescheduling Less concessional project financing 3/	17.5	15.7	16.1	14.3	12.3	9.6	9.0
Debts service ratio on private investments and public debt after new borrowing and rescheduling 3/	29.5	26.7	26.2	22.1	18.5	14.9	13.8

Sources: Guinean authorities and staff estimates.

1/ For 1999, excluding debt service on debt covered by the 1997-99 Paris Club rescheduling.
2/ Private foreign direct investment inflows, reported in the balance of payments are net of amortization.
3/ As a percentage of exports of goods and non-factor services.

70. In 1999, Guinea's projected export-to-GDP ratio is 23.5 percent, and its budgetary revenue-to-GDP ratio is projected at 11 percent. Given these ratios, Guinea does not qualify under the fiscal criteria of the Enhanced HIPC Initiative. Furthermore, Guinea's export-to-GDP ratio is projected to remain under 30 percent until 2018. The government revenue-to-GDP ratio is not projected to surpass 15 percent before 2018. In this context, the following sensitivity analysis focuses solely on the NPV of debt-to-export ratio.

B. Sensitivity Analysis

71. The sensitivity of Guinea's long-term balance-of-payments projections to the assumed export volume growth rates and the new borrowing conditions are summarized in Table 9. If the volume of Guinea's exports of goods and non-factor services grew by only 4 percent (the average rate for 1991-98) instead of the 6 percent assumed under the baseline scenario, nominal exports of goods and non-factor services would amount to US$2.6 billion in 2018 as compared to US$3.7 billion under the baseline scenario. The NPV of debt-to-export ratio would be 126 percent in 2018 as compared to 90.5 percent under the baseline scenario. Debt service on public and publicly-guaranteed debt would be 8.8 percent as compared to the baseline scenario of 6.3 percent.

72. Exports during 1999 remain subject to considerable uncertainty as they depend on fluctuating commodity prices and the performance of a small number of mining companies. Exports in 1999, at 5 percent below the baseline projection, would increase the ratio of the NPV of debt to the three-year backward-looking export average by 4.1 percentage points to 232.0 percent. Under this scenario, the required debt relief would increase to US$660.1 million, the common reduction factor would rise to 35.3 percent, and the required NPV reduction on rescheduable debt would increase to 108.0 percent.

73. Similarly, less concessional new borrowing to finance projects and the immediate financing gap would increase the NPV of debt-to-export ratio to 123 percent and the debt service ratio to 9 percent in 2018.[20] Less concessional borrowing during 1999 could increase the NPV of new borrowing during 1999 from US$ 80.9 million to US$135.1 million (see above). This would increase the NPV of debt-to-export ratio in 1999 from 227.9 percent to 234.5percent. Thus, the required debt relief would increase to US$692.6 million, and the common reduction factor for multilateral debt would rise to 36.0 percent. The required NPV reduction on rescheduable debt would increase from 106.6 percent to 108.8 percent.

74. The analysis of Guinea's debt-to-export ratio remains subject to uncertainties related to the reconciliation of debt outstanding with some bilateral creditors, the amount and concessionality of financing during 1999, the level of exports during 1999, and the timing of the decision point.

[20] This sensitivity test assumes a 4 percent interest rate on new project financing and the financing to fill the gap in 1999 and 2000, while leaving the repayment schedules applied to these identified loans as well as the hypothetical loans to fill the financing gap unchanged.

75. The Guinean authorities have contacted all creditors to reconcile the stock-of-debt and repayment terms. Debt reconciliation with some bilateral creditors is ongoing. In a number of cases, the available data allowed the staff to estimate the creditors' understanding of the amounts outstanding, but the reconciliation of the actual debts outstanding remains up to the parties concerned. Taking the creditors' positions increased the NPV of debt at end-1999 from US$1,867.6 million to US$1912.4 million, equal to 233.4 percent of exports.[21] The required debt relief to reduce the NPV of debt-to-export ratio to 150 percent would thus increase by US$45.2 million. To achieve this debt relief, the common reduction factor would increase from 34.2 percent to 35.7 percent. The required NPV reduction on rescheduable debt would increase from 106.6 percent to 108.4 percent.

V. DECISION AND COMPLETION POINTS, ASSISTANCE, AND THE AUTHORITIES' VIEWS

A. Decision and Completion Points

76. Guinea's eligibility for HIPC Initiative assistance has been assessed on the basis of full use of traditional debt-relief mechanisms, which would involve a 67 percent NPV reduction on pre-cutoff date nonofficial development assistance debt. Guinea has established a first-stage track record under the ESAF and IDA-supported programs of sustained adjustment and structural reform albeit with some slippages. On this basis, the Bank and Fund managements recommend that Guinea reach the decision point under the HIPC Initiative at the time the interim PRSP has been prepared and the first review of the third annual ESAF arrangement has been completed, which is expected in 2000. Prior to the preparation of the decision point document, all outstanding debts with multilateral and bilateral creditors are to be reconciled. A decision point during the first half of 2000 would allow for consultations with the Paris Club and other bilateral creditors, as well as with multilateral institutions, on their expected support.

77. Provided Guinea is deemed eligible for assistance under the HIPC Initiative, the staffs and management of the Fund and IDA intend to present in the final decision point document specific recommendations with respect to the conditions needed to be fulfilled before Guinea would reach the completion point under the HIPC Initiative. Possibilities for such reforms are listed in Box 7.

B. Assistance Level and Burden Sharing

78. With a target of 150 percent NPV of debt-to-export ratio, the potential debt relief for Guinea in the baseline scenario would amount to some US$638 million (Table 13). Based on projected debt outstanding at end-December 1999 and after full application of traditional debt relief (Naples terms 67 percent NPV stock-of-debt operation), the share of multilaterals is 59.9 percent and the share of the bilaterals and commercials is 40.1 percent. Preliminary calculations by the staff suggest that bilateral creditors could deliver their share of assistance required with an NPV reduction on eligible debt of approximately 100 percent. The common reduction factor for multilateral creditors would be 34.2 percent of their exposure in NPV terms at the decision point.

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[21] The nominal value of the 1999 stock of debt would increase by US$57.5 million to US$3,067.7 million.

Table 13. Guinea: Estimated Assistance at Decision Point in 2000 1/

(In millions of U.S. dollars in NPV terms at end-1999, unless otherwise indicated) 2/

	Total (US$ m.)	Multilaterals 3/ (US$ m.)	Bilateral and Commercial (US$ m.)	Common Reduction Factor 4/ (In percent)	Required NPV Debt Reduction on: Comparable Treatment of Comparable Debt (In percent)	Required NPV Debt Reduction on: Overall Exposure (In percent)
Debt relief baseline scenario	638.4	382.5	255.9	34.2		
Memorandum items:						
NPV of debt	1,867.6					
Multilateral institutions	1,119.0					
Bilateral and commercials	748.5					
Paris Club	569.1				79.9	78.2
Of which: pre-cut off non-ODA debt	188.9				106.6	101.4
Non-Paris Club bil. creditors	171.6				72.4	78.2
Of which: pre-cut off non-ODA debt	24.6				106.6	147.0
Commercial creditors	7.9					
Three-year export average 5/	819.4					
NPV of debt-to-export ratio (in percent) 5/	227.9					

Sources: Guinean authorities; and staff estimates and projections.

1/ Assumes a proportion of burden-sharing approach as described in "HIPC Initiative: Estimated Costs and Burden Sharing Approaches" (EBS/97/127; 7/7/97, and IDA/SEC M97-306;7/7/97), that is, after full application of traditional debt relief mechanisms.

2/ Using 6-months backward looking discount rates at end-1998 and end-1998 exchange rates.

3/ IDA's cost would be US$173.2 million; the AfDB/F's cost would be US$88 million; the European Investment Bank's cost would be US$42.8 million; and the IMF's costs would be US$37 million.

4/ Each multilateral institution's NPV reduction in percent of its exposure at the end of 1999.

5/ Three-year back-ward looking export average (1997-99) of exports of goods and non-factor services.

Box 7. Guinea: Possible Main Areas of Reform to be Implemented Before the Completion Point

- Preparation of a PRSP and one progress report thereunder.

Macroeconomic and financial sector

- Maintain macroeconomic stability.
- Take actions in the reform of customs operations.
- Audit the central bank and elaborate a reform plan.
- Implement a legislation on the banking system and microcredit institutions.
- Ensure regular publication of monthly budget implementation.

Governance

- Establish new authority with prosecuting power to combat corruption.
- Adopt new procedures to ensure implementation of court decisions.
- Implement procedures to audit all large procurement contracts.

Social sector

- Publish information on resource allocations for schools and health centers for pilot prefectures. 1/
- Achieve quantitative goals in social sectors as suggested in Section III.

1/ This suggestion is additional to the suggested publication of monthly budget implementation, to make sure that this important detail is part of the government's information policy.

C. The Authorities' Views

79. In the discussions of the debt sustainability analysis, the authorities emphasized that the stock of Guinea's external public debt and debt service remained large. While they viewed Guinea's fiscal outlook as sustainable thanks to donor support, fiscal resources were likely to remain scarce over the coming years. For this reason, they noted that the relief that might be available under the HIPC Initiative could free up scarce fiscal resources to help accelerate structural reforms or finance key social programs, without compromising the government's goal of maintaining macroeconomic stability and promoting economic growth. Thus the fruits of structural adjustment would begin to be felt by the populace.

80. The authorities further noted the particular circumstances arising from the situation in three neighboring countries which were subject to civil strife, and the positive role Guinea had played and continued to play in resolving these conflicts. While the analysis has made some allowance for the impact of these developments on exports of services and the inflow of foreign direct investment, the negative impact of developments in any of the three countries on Guinea could be more severe. Finally, the authorities are seeking the cooperation of all creditors in Guinea's stabilization and structural adjustment efforts.

VI. Issues for Discussion

81. This paper presents a preliminary assessment of Guinea's eligibility for assistance under the enhanced framework of the HIPC Debt Initiative and seeks the Executive Boards' endorsement of the assessment. Executive Directors' views and guidance are sought on the following issues:

- **Eligibility.** Do Directors consider Guinea eligible for assistance under the HIPC Initiative?

- **The decision point.** Do Directors agree with Bank and Fund management that the decision point could be reached at the time the interim PRSP has been prepared and the first review of the third annual ESAF arrangement has been completed, which is expected in the first half of 2000?

- **The completion point.** Do Directors have comments on the proposed reforms to be enacted before the completion point?

GUINEA: KEY STRUCTURAL MEASURES—PAST REFORMS AND FUTURE MILESTONES

A. Capacity Building and Governance

Reforms

- Improved allocative efficiency by restructuring public expenditures toward four priority areas (education, health, rural development, and road maintenance) within the context of a medium-term expenditure framework (MTEF) (1998/99).
- Strengthened the regulatory framework that governs the processing of public expenditures (1998/99).
- Standardized and simplified budgetary processes to expedite the processes as well as to minimize the risk of corruption (1998/99).

Future milestones

- Strengthen budget management, accountability and transparency (2000/01).
- Strengthen audit functions of the MOF, State Audit Office (IGE) and Cour des Comptes (2000/01).
- Promote decentralization of resource allocation and utilization to improve effectiveness of public service, thus effectively bringing public services to local administrations, prefectures and rural development communities (CRD) (2000/03).
- Through fiscal decentralization, raise fiscal revenue to local governments: increase of revenues collection by prefectures and CRD's (2000/03).
- Governance improvement and corruption control (2000/02).
- Design and implement a system of performance indicators to measure the quality and effectiveness of public service (2000/02).

B. Energy

Reforms

- Limit the role of the Government to policy, strategy and regulation (1997/1999)
- Encourage the participation of private operators in electricity generation, transmission and distribution (1998/1999).
- Transfer of Enelgui's management to private operators (1998/1999).
- Selling the majority of Sogel capital to a strategic partner (1999).
- Adoption of a tariff system with a price cap and establishment of a framework for regulating the private distribution of petroleum products (1997/1999)

Future milestones

- Create a sustainable capacity for regulation of the electricity sector (2000/02).
- Delegate the supervisory functions of Enelgui to Sogel and liquidate Enelgui thereafter (2000).

- Set measures/conditions to help Sogel to adopt and maintain a satisfactory collection strategy (2000/03).
- Strengthening the capacity of the Ministry of Energy for policy making, planning, monitoring of sector investments, and training of relevant staff (2000/03).

C. Exchange Rate System

Reforms

- Replacement of the sylli by the Guinean franc with a 13-fold devaluation (1986).
- Establishment of a flexible exchange rate with weekly central bank auctions (1986).
- Removal of most exchange restrictions (1986).
- Full liberalization of current account transactions (1994).
- Introduction of interbank foreign exchange market (MID) (1994).
- Foreign exchange bureaus allowed to participate in MID (1997).
- Introduction of foreign exchange auction at central bank (1999).

Future milestones

- Strengthening surveillance of foreign exchange bureaus (2000).
- Continued policy of non-intervention of central bank in foreign exchange market except to meet foreign exchange reserve targets (ongoing).

D. Financial Sector Reforms

Reforms

- Liquidation of five state-owned commercial banks and establishment of new banks with foreign participation and management (1985).
- Audit of National Social Security Fund (CNSS) (1998).
- Audit, reorganization, recapitalization and/or closure of ailing banks (1996-98).
- Reorganization of bank inspection department at the central bank 1998/99).
- Reorganization of financial and accounting directorates of CNSS (1998).

Future milestones

- Reorganization and strengthening of microcredit institutions (2000-01).
- Financial reform of CNSS (2000-01).
- Harmonization of special tax agreements for banks (2000).
- Bring banking laws into compliance with Basle committee principles (2000-01).
- Promulgate new chart of accounts for banking system (2001).
- Audit of central bank (2000-01).

E. Fiscal and Expenditure Management Reforms

Reforms

- Adoption of a comprehensive budget (1989).
- Increase recurrent budgetary resource allocations to priority sectors (1998-99).
- Reorganization of treasury operations (1999).
- Elevation of debt operations to national directorate (1999).

Future milestones

- Y2K compatible computerized expenditure monitoring system (2000).
- Production of monthly treasury balances (2000 onwards).
- Further increase recurrent budgetary resource allocations to priority sectors (2000-02).
- Decentralize budgetary resource management (2000-07).

F. Mining and Transport

Reforms

- Privatization of road maintenance (1989).
- Creation of the Autonomous Port of Conakry (1988).
- Elimination of subsidies to public bus company and Air Guinée (1996/97).
- Merging of Ministry of Public Works and Ministry of Transport (1997).
- New mining Code (1995).
- Abolishment of OFAB (1995).

Future milestones

- Creation of a second generation road fund (2000).
- Elimination of tax on foreign shipping companies (2001).
- Restructuring of the Ministry of Mining (2001).
- Complete the arrangement to privatize the management of Friguia (2000).
- Restructuring of Société de Bauxite de Kindia (SBK) (2000).

G. Monetary Policy and Instruments

Reforms

- Lifting of all interest rate controls (1993).
- Introduction of uniform bank reserve requirements (1993).
- Introduction of treasury bills issued through an auction system (1993).
- Conversion of government debt to the central bank to treasury bills (1997).
- Introduction of savings bonds (1999).

Future milestones
- Development of effective indirect instruments of monetary control (2000-01).

H. Price Liberalization

Reforms
- Removal of most price controls (1986).

Future milestones
- Liberalization of the price of petroleum products (2000-01).

I. Public Enterprise Reforms/Privatization

Reforms
- Number of PE's reduced from 234 to less than half (by 1990).
- Second phase: divestiture included enterprise in strategic sectors (1991-95).
- Partial privatization of Telecom, BICIGUI since 1995.

Future milestones
- Adoption of a comprehensive divestiture strategy (2000).
- Revision of laws and regulations pertaining privatization and liquidations (2000).
- Reorganization of the institutional arrangements including the creation of a privatization unit (2000).
- Liquidation of 12 enterprises deemed not viable (2000-01).
- Full or partial privatization of 40 public enterprises (2000-02).
- Strengthening of regulatory framework (2000-02).

J. Tax and Trade Reforms

Reforms
- Establishment of a large enterprise tax unit (1995).
- Introduction of a value-added tax (1996).
- Transfer of collection responsibilities from the treasury to the tax directorate (1996).

Future milestones
- Reform of customs operations (1999-2001).
- Reduction and strengthened control of tax exemptions (1999-2000).
- Reform of petroleum tax and pricing (2000).
- Harmonize external tariff with the West African Economic and Monetary Union (WAEMU) (2000-01).

K. Social Policies - Education

Reforms

- Teacher redeployment (1993).
- Increase in percentage of recurrent budget going to education (1991).
- Changed approach to school construction (1995).
- Increased hiring/regular payment of contract teachers (1995/98).
- Introduction of teacher-driven school improvement program (PPSE) (1994).
- Abolition of school fees in primary education (1999).

Future milestones

- Move to use of national languages in lower levels of primary school (2000/04).
- Site-based teacher posting/teacher redeployment (2000/03).
- Decentralized budget management (2000/04).
- Decentralized personnel management (2000/04).
- Abolition of school fees (2000/04).
- Increase in length of school year and decentralization of school calendar (2000/04).

L. Social Policies - Health

Reforms

- Adoption of the National Health Sector Policy (in 1995 and updated in 1998).
- Set up of the cost recovery system (1995).
- Adoption of Population Policy (1999/2000).

Future milestones

- To increase the financing to the health sector as indicated in Table 4 and to increase the execution rate from year to year.
- To maintain the share of the non-salary recurrent expenditures spent on primary health care at the minimum of 30 percent of the total nonsalary recurrent expenditure.
- To issue a document clarifying the role of various decentralized bodies (2000).
- Government to issue a statement recognizing HIV/AIDS importance, its commitment to AIDS prevention and mobilizing all sectors to control the epidemic (2000).
- To commit to progressively increase the budget allocated to the district health administration, to make possible their adequate functioning (2000/02).
- Population action plan to lift legal barriers to the sale and advertisement of contraceptives (to be implemented by December 2001).
- Adoption of a plan to tackle drug procurement and distribution, and drug policy issues (2001).

M. Urban Development

Reforms

- First lease of the Guinea Urban Water Supply facilities management (1989/1999).
- Eight secondary cities have prepared their demand based priority investment programs and 6 cities have signed their municipal adjustment programs(1999).

Future milestones

- Second lease of the Guinea Urban Water Supply facilities management (2000/2010).
- A sustained allocation of 800 million GF from the city of Conakry for the operation of the Solid Waste Transfer Agency (2000/03).
- Transfer by the central government to a dedicated account in a commercial bank of a depreciation allowance for the renewal of SPTD transfer trucks (2000/03).
- Proper allocation and financing of secondary roads and drainage ditches maintenance program for 465 million GF (2000/03).
- revision of the distribution between the different tiers of the government of the local fiscal taxes (2000/02).

Guinea: Reforms Supported by IDA Adjustment Credits and Waivers

Credit Title/ Year of Approval	Key Reforms Supported	Waivers of Conditions
First Structural Adjustment Program (SAC I)/1986	Providing support to the transition towards market economy; downsizing the public sector; flattening out the economy.	None
Second Structural Adjustment Program (SAC II)/1988	Supporting economic reforms efforts to establish a free market economy; reform of the civil service; continuation of reforms of public enterprises; uplifting legal and institutional framework to spur the promotion and development of the private sector; developing the overall social policy.	None
Financial Sector Adjustment (CASFI)/1994	• Strengthen the monetary, regulatory, supervisory and judicial environment of financial institution operations; • Develop a bridge between the informal and formal financial sectors; • Improve financial institutions' management and operational capacity and operational capacity.	None
Public Expenditure Management Adjustment Credit (PEMAC I)/1997	Shifting public expenditures through a medium-term expenditure framework (MTEF) to benefit four priority sectors (education, health, rural development, road maintenance); improving budget implementation and control through computer-based public expenditure channels establishing a framework of rules and regulations to govern financial control and procurement; standardization and simplification of budgetary procedures.	None

Guinea: Compliance with Quantitative and Structural Performance Criteria in ESAF Programs, 1994-98

	Test Dates		
	December 1994	March 1997	June 1998
Quantitative			
Central government primary balance	...	Met	Met
Net bank credit to the government	Met	Met	Met
Reserve money	...	Met	Met
Net foreign assets of the central bank	Not met	Not met	Not met
New non-concessional external loans contracted or guaranteed by the government or the central bank	Met	Met	Met
Short-term external debt outstanding contracted or guaranteed by the government or the central bank	Met	Not met	Met
Outstanding external payments arrears	Met	Not met	Not met
Net domestic assets of the banking system	Met	...	...
Structural			
Shift to an interbank system for exchange rate determination	Met	...	...
Completion of an audit of the application of the Investment Code, and elimination of abuses in the granting of tax exemptions	Met	...	...
Complete survey of government domestic payments arrears as of end-1996 by creditor and by date	...	Met	...
Convert the permanent advance of the central bank to the government into treasury bills	...	Not met	...
Complete ongoing revision of the legal basis of customs and indirect tax exemptions as described in paragraphs 13 and 14 of the Memorandum of Economic and Financial Policies	...	Met	...
Complete the independent audit of the financial situation of the national social security fund (CNSS) as of December 31, 1997	...	...	Met
Conclude audits of the price stabilization and transport equalization funds	...	...	Met
Approve timetable for the implementation of the Basle Committee recommendations for bank supervision	...	...	Met
Define balance sheet items in the new accounting plan for commercial banks	...	...	Met

GUINEA: DEBT MANAGEMENT ISSUES

1. Two ministries and the *Banque Centrale de la Republique de Guinée* (BCRG) are involved in managing Guinea's foreign debt. The National Direction of Debt (NDD) at the Ministry of Finance is responsible for maintaining records of all outstanding debts and payments due, but poor documentation of existing loans complicates the NDD's task of estimating debt service payments due. Up to now, the NDD does not directly monitor the overall level of government guaranteed debt. However, the NDD is ultimately responsible for reconciling debt data maintained by the Guinean authorities and data recorded by foreign creditors. Actual debt service payments are executed by the BCRG upon instruction of the Minister of Finance. Disbursements from contracted loans are monitored by the Ministry of Planning and reported to the NDD.

2. Guinea's foreign debt management is complicated by the fact that communications with bilateral creditors has proved difficult and that 29 loans from multilateral development banks (MDBs) are denominated in multiple currencies, in which case creditors require specific administrative arrangements.[22] Furthermore, many MDB loans are related to development projects with multi-year disbursement schedules which are modified during the implementation period, causing changes in scheduled debt service payments. Miscommunications between the three institutions (the Ministries of Finance and Planning and the BCRG), and inadequate administrative procedures at the NDD, have in some cases led to late payment of debt service due.

3. The authorities are committed to installing a modern debt management system which will be able to provide up to date information on the original and revised terms of agreement, dates and currency-denomination of actual and planned disbursements, repayment schedules of interest and principal and an projection system for future maturities. As of the end of September 1999 the process of implementing this system started by installing microcomputers using internationally-recognized software in the Ministry of Economy and Finance. The authorities have contacted creditors to inquire about the debt service schedules to these creditors as recorded by their debt management system. During follow-up communications the authorities intend to make every effort to reconcile Guinea's records of debt service payments with those of external creditors.

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[22] Three loans are denominated in 3 currencies; eight in 4 currencies; six in 5 currencies; one in 6 currencies; one in 7 currencies; three in 8 currencies; two in 9 currencies; three in 12 currencies and one loan is denominated in as many as 14 currencies. Guinea calculates its debt service payments on these loans by using the African Development Bank's Unit of Account whose values may deviate somewhat from actual required debt service payments.

Guinea: Nominal and Net Present Value of Debt by Creditor, 1998-99 1/

(End of year data, in millions of U.S. dollars)

	Nominal Stock Outstanding		Net Present Value	
	1998 1/	1999 2/ Projected	1998 1/	1999 2/ Projected
Multilaterals		1,869.1	1,080.4	1,119.0
AfDB	125.2	123.7	134.1	126.6
AfDF	246.7	258.2	125.4	130.7
BADEA	33.2	36.5	28.9	30.8
EIB	173.8	166.6	130.7	125.3
ECOWAS Fund	5.1	4.3	5.4	4.5
IDA	970.8	1012.6	478.1	506.6
IFAD	41.9	49.3	21.7	24.5
IMF	125.8	129.5	104.2	108.3
IsDB	49.5	71.9	40.3	47.4
OPEC Fund	13.3	16.5	11.8	14.2
Paris Club creditors	1,192.1	754.7	1,036.3	569.1
Austria	14.9	14.6	8.7	4.6
Belgium	10.8	10.5	8.1	6.3
Brazil	11.3	11.3	4.4	2.9
France	397.3	344.5	334.8	282.3
Germany	4.5	3.0	5.2	3.0
Italy	56.8	55.1	45.6	37.7
Japan	103.9	99.3	87.6	80.1
Norway	6.0	2.2	12.5	2.1
Russia	436.7	71.1	419.8	76.2
Spain	17.6	16.7	11.2	7.7
United Kingdom	2.7	2.7	2.5	1.0
United States	129.5	123.7	95.9	65.1
Non-Paris Club Creditors	447.9	376.4	381.8	171.6
Argentina	22.2	0.0	22.2	0.0
Bulgaria	10.4	3.5	10.4	1.1
China	176.6	170.2	136.2	41.4
Egypt	8.9	7.7	8.1	7.0
Irak	5.8	5.8	5.8	2.9
Kuwait	54.1	48.6	44.6	36.7
Libya	32.8	10.9	32.8	8.3
Morocco	24.7	24.7	24.7	13.5
North Korea	2.1	2.1	2.0	0.3
Romania	15.3	9.6	15.3	5.5
Saudi Arabia	79.4	79.0	64.1	48.4
Shelter Afrique	1.0	0.3	1.0	0.4
Thailand	1.3	0.4	1.3	0.3
Yugoslavia	13.5	13.5	13.5	5.9
Commercial Creditors	16.2	10.0	13.5	7.9

Source: Country authorities.

1/ Including arrears, before assuming future debt relief.
2 /After full use of traditional debt relief instruments.

HIPC Initiative: Status of Country Cases

Country (In order of expected decision point within groups)	Decision Point	Completion Point	NPV of Debt-to-Export Target (In percent)	Assistance at Completion Point (In millions of U.S. dollars, present value, at completion point): Total	Bilateral	Multilateral	IMF	World Bank	Percentage Reduction in NPV of Debt 1/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
Completion point reached											
Uganda	Apr. 97	Apr. 98	202	347	73	274	69	160	20	650	Received
Bolivia	Sep. 97	Sep. 98	225	448	157	291	29	54	13	760	Received
Guyana	Dec. 97	May 99	107 2/	256	91	165	35	27	24	410	Received
Mozambique	Apr. 98	Jun. 98	200	1,716	1,076	641	125	381	63	3,700	Received
Decision point reached and assistance committed by IMF and World Bank											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 2/	345	163	182	23	91	6 3/	800	Being sought
Mali	Sep. 98	Dec. 99	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed (of seven countries)				3,355	1,618	1,737	305 4/	801	20	6,770	
Preliminary HIPC document issued; targets for Guinea-Bissau, Ethiopia, and Mauritania are based on majority view in IDA and IMF Boards before the adoption of the enhanced framework; for Nicaragua and Tanzania, targets are based on the enhanced framework; preliminary assessments are subject to change.											
Guinea-Bissau	2000 5/	n.a.	200	300	148	153	8	73	73	600	...
Ethiopia	1999 6/	n.a.	200	636	225	411	22	214	23	1,300	...
Mauritania	Jul. 99 7/	n.a.	200	271	114	157	21	43	25	550	…
Nicaragua	2000	n.a.	150	2,507	1,416	1,091	32	188	66	5,000	
Tanzania	2000	n.a.	150	2,485	1,314	1,171	110	728	59	5,000	
Debt judged sustainable under original framework											
Benin	Jul. 97	...	...	...	...	...	...	...	…	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	…	...	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ In percent of net present value of debt at completion point, after full use of traditional debt-relief mechanisms.
2/ Eligible under fiscal/openness criteria; NPV of debt-to-exports target chosen to meet NPV of debt-to-revenue target of 280 percent, as projected at the decision point.
3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation ratio.
4/ Equivalent to SDR 212 million.
5/ Debt situation needs to be revisited after the violent internal conflict has ended.
6/ Country case is delayed due to conflict.
7/ Staffs suggested that Mauritania could be considered to have reached the decision point in July 1999. The formal decision point is expected in Spring 2000, when assistance will be committed by the Boards on the basis of the enhanced HIPC Initiative.