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EBD/91/281

October 4, 1991

To: Members of the Executive Board

From: The Acting Secretary

Subject: Guinea - Enhanced Structural Adjustment Facility - Economic and Financial Policy Framework Paper July 1991-June 1994

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Guinea, which is tentatively scheduled for discussion on Wednesday, November 6, 1991.

Mr. Kapur (ext. 8732) or Mr. Beaugrand (ext. 7009) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

GUINEA

Enhanced Structural Adjustment Facility

Economic and Financial Policy Framework Paper
July 1991-June 1994

Prepared by the Guinean authorities in collaboration
with the staffs of the Fund and the World Bank

September 28, 1991

I. Introduction

1. The policies followed in Guinea until 1984 had left the economy in an extremely poor condition, marked by the growing poverty of the rural population and the lack of basic socioeconomic infrastructure. A bloated public sector absorbed most of the surplus generated by the mining companies and impeded the development of private initiative. With the introduction of the economic and financial reform program in December 1985, the authorities began a massive, long-term effort to rehabilitate Guinea's economy so as to stimulate growth, reduce inflation, replenish foreign exchange reserves, and increase the rate of national savings. This program received the support of the international community with, in particular, two stand-by arrangements from the Fund (in 1986 and 1987) and a World Bank structural adjustment credit (1986), followed by the introduction of a three-year program supported by the Fund under the structural adjustment facility (1987) and a second World Bank structural adjustment credit (1988).

2. The execution of the Government's program during 1986-87 produced significant results. The main measures implemented included, notably, streamlining the civil service and privatizing a large number of public sector enterprises; liberalizing prices and foreign trade; and reforming the monetary system, in particular through a realignment of the exchange rate and a complete redesign of the banking system in 1986. However, despite the progress achieved and the maintenance of economic growth, the rehabilitation program lost momentum in 1988 and the implementation of structural measures was significantly delayed. As a result, the country faced renewed inflationary pressures, which reflected persistently large internal and external imbalances, caused mainly by difficulties in collecting nonmining tax revenue and the lack of financial discipline in the public enterprise sector. Weak domestic saving could not sustain the investment effort and endangered the continuation of economic growth.

3. Despite the Government's desire to pursue the structural adjustment effort, negotiations for a third annual program under the structural adjustment facility could not be completed in 1990. Mounting

delays in implementing planned reform measures resulted in a deterioration of the macroeconomic situation which included, in particular, major slippages in budget execution, a widening of the balance of payments deficit, and a significant buildup of external payments arrears. However, during the second half of 1990 the Government implemented several corrective measures and undertook to reinvigorate the structural reform process.

4. In view of the harmful consequences of financial imbalances on economic growth prospects, the Government is firmly committed to pursuing the adjustment effort. To this end, the Government has adopted a three-year program and requested support from the International Monetary Fund under the enhanced structural adjustment facility. This program was designed in a context of economic liberalization, with investment incentives aimed at promoting a steady expansion of the private sector, and infrastructure development. The program's objectives include a reduction in the rate of inflation and in financial imbalances, especially through a lowering of the external current account deficit in order to replenish international reserves. The reduction of financial deficits will allow a decrease in domestic arrears and the elimination of external arrears; at the same time, external debt contracting will be maintained at a level consistent with the economy's debt servicing capacity, in view of the medium-term growth targets. Economic growth is expected to stem mainly from agriculture and industry, and from the impetus given by a revival of the tertiary sector.

5. This policy framework paper (PFP) covers the period July 1991-June 1994. It examines developments in 1990 and in early 1991, describes the measures that the Government plans to implement during the first year of the program beginning July 1, 1991, and discusses the economic and financial outlook for 1991-94. 1/

II. Recent Economic Developments

6. The objectives set by the Government for 1990 included the maintenance of real economic growth at a rate of about 5 percent, the reduction of the rate of inflation to 16 percent, and the reduction of the external current account deficit (including official transfers, and including transactions with the USSR) at the equivalent of 2.8 percent of GDP. The 1990 central government budget anticipated a reduction in the overall deficit on a commitment basis, and including grants, to the equivalent of 3.7 percent of GDP (7.5 percent excluding grants). The planned reduction in the deficit was based on a significant increase in revenue, from both the mining and nonmining sectors, representing the equivalent of 2.2 percent of GDP. The expected increase in mining revenue

1/ Although the program refers to the three years beginning July 1, 1991, program projections effectively cover the four years 1991-94, since Guinea's fiscal year is the same as the calendar year.

mainly reflected the improvement in the financial position of the alumina-producing company (Friguia), as a result of an earlier restructuring. The increase in nonmining sector revenue anticipated in the budget, equivalent to 1.3 percentage point of GDP, was to be achieved in particular by a two-fold increase in the collection of the excise tax on petroleum products (TSPP--taxe spécifique sur les produits pétroliers) and by a significantly improved collection of direct taxes and customs revenue. On the expenditure side, the Government projected a large increase in public investment, a stabilization of wages and salaries in relation to GDP, and a relative decline in expenditure on other goods and services, excluding interest on external debt. Programmed inflows of balance of payments assistance, particularly the anticipated disbursement of the second tranche of the second structural adjustment credit (SAC II) from the World Bank and associated cofinancing, were expected to balance financing needs and to allow the elimination of external debt arrears.

7. The implementation of the Government's program in 1990 had mixed results. It is estimated that economic growth was about 4.3 percent, somewhat lower than projected, while inflation reached 19.6 percent on an annual average basis, which exceeded the target. Major slippages occurred in budget execution during the first half of 1990, compared with initial projections, mainly as a result of sizable shortfalls in the collection of the excise tax on petroleum products (TSPP) and in other tax revenue, but also because of current expenditure overruns, reflecting in particular wage adjustments in May 1990. The tax revenue shortfalls and expenditure overruns were partly attributable to delays in the implementation of structural reforms, including the administrative reform and the restructuring of public enterprises, particularly the oil company (National Hydrocarbons Office--ONAH), the National Electric Power Company (ENELGUI), and Air Guinée. However, with the larger-than-expected increase in mining sector revenue, the enhanced collection of duties on petroleum products following ONAH's restructuring, and the implementation of corrective measures in the second half of the year in the context of the revised 1990 budget bill, the budget deficit on a commitments basis (including grants) was contained at GF 103 billion, or 5.2 percent of GDP as in 1989. Although government indebtedness with the banking sector was reduced by some GF 16 billion in 1990, the net repayments were made possible only by a sizeable accumulation of domestic arrears (notably on account of local expenditure in the public investment program). Furthermore, external debt arrears could not be eliminated, mainly because of the scarcity of non-project aid disbursements, as a result of difficulties in implementing certain structural measures and because of the absence of a SAF-supported program.

8. Government finances were strengthened in the second half of 1990 through adjustment measures aimed at improving the collection of nonmining revenue. In March 1990, the Government increased customs duties from 10 to 15 percent and introduced an advanced deposit system for the payment of import duties and taxes. In June, the exemption from specific duties (10 percent) was withdrawn for rice imports. Major changes in customs administration also resulted in significant increases in collection, which

thus exceeded the targets for the year as a whole. In September 1990, the Government raised the retail prices of oil products by an average of 43 percent; in spite of the increase in import costs, the adjustment in retail prices resulted in a doubling of the effective tax to GF 210 per liter for gasoline. Hence, petroleum taxes were collected in full from September 20, 1990 onward, while still leaving a surplus for deposit in a stabilization fund for retail oil prices. In sum, duties and taxes on oil products collected between June and December 1990 amounted to GF 15.5 billion, compared with only GF 3 billion in the first half of the year.

9. During the second half of 1990, the Government endeavored to speed up the implementation of reforms already under way. With regard to budgetary matters, procedures were greatly improved through the adoption of an accounting code and the use of a detailed monthly flow-of-funds table to enhance the monitoring of government operations. Moreover, the Government strengthened the legal and regulatory frameworks by adopting a Customs Code and a Code of Direct Taxation, an organic law regulating government finances, and new regulatory procedures for public accounting. Although delays were experienced in the restructuring of key public enterprises, which contribute most to economic activity and have the greatest impact on government finances, considerable progress has been made since mid-1990. Reforms in the oil sector have resulted in a nearly complete elimination of fraud, a precondition for raising retail prices and collecting the TSPP. Following the agreement between the Government and its foreign partners, a new mixed company, which will gradually replace the National Hydrocarbons Office (ONAH), was established to manage the distribution of oil products. With regard to the National Electric Power Company (ENELGUI), a technical assistance firm took over the management responsibilities and established emergency plans on the basis of a diagnostic study. ENELGUI's chronic deficit will be reduced by a large-scale installation of electric meters, the introduction of a computerized billing system, and increases in rates. However, a number of enterprises whose privatization was not feasible could not be liquidated by end-1990. In particular, despite substantial cuts in staff and increases in fares, Air Guinée's financial situation has remained precarious, and complete restructuring or liquidation plans remain to be drawn; similarly, as concerns the PTT (posts and telecommunications) and the OBK (Soviet-operated bauxite producer), little progress has been made to improve management, grant greater autonomy, or overcome marketing problems.

10. With a view to promoting the monetization of the economy, the Central Bank of the Republic of Guinea (BCRG) has sought to increase its domestic purchases of small-scale gold output, against Guinean francs, during 1990. The success of this policy, however, combined with the expansion of credit to the private sector, led to a considerable increase in liquidity. At end-June 1990, the rate of growth of the money stock was 43.9 percent on a year-on-year basis, much beyond the target set in the Central Bank's quarterly program. At the same time, the demand for foreign exchange on the auction market continued to increase rapidly, which resulted in a drawdown of central bank foreign exchange reserves. In order to moderate monetary expansion, the Central Bank twice adjusted interest rates,

in February and in September 1990. The preferential refinancing rate was raised from 13 percent to 15 percent, and the rate for savings passbook deposits was increased from 14 percent to 17 percent. The normal refinancing rate remained unchanged at 24 percent. By end-December 1990, the increase in the money stock had slowed to 24.5 percent on a year-on-year basis, despite a sharp increase in the Central Bank's net foreign assets.

11. The overall balance of payments deficit is estimated at US\$69 million in 1990, as against US\$37 million in 1989. In spite of the sharp increase in the mining sector surplus, the current account deficit (excluding official transfers) rose by some US\$38 million, representing an increase from 8.9 to 9.4 percent of GDP. The increase in the overall payments deficit partly reflected the low level of disbursements on non-project external loans and led to a significant accumulation of arrears. Outstanding external arrears at end-1990 were estimated at US\$301 million (of which US\$199 million to non-Paris Club bilateral creditors, US\$69 million to Paris Club members, US\$21 million to suppliers, US\$6 million to international organizations, and US\$6 million to commercial banks).

12. In sum, although the additional measures introduced in the second half of 1990 made it possible to contain fiscal slippages, the Government's targets were not fully met. The slow pace of implementation of the structural measures--which are essential to a lasting reduction in the external and internal imbalances confronting the country--has jeopardized further progress in the reforms introduced since 1985. Consequently, during the first half of 1991, and in order to launch a new three-year program under the best of circumstances, the authorities tightened monetary and credit policies, in particular by instituting a system of reserve requirements for deposit banks and increasing interest rates; began quoting the Guinean franc against the SDR and adopted a more flexible exchange rate policy; sold part of the gold stock in order to replenish the Central Bank's foreign exchange reserves and service the external debt; adopted a timetable for clearing nonreschedulable arrears and initiated contacts with Paris Club creditors and other bilateral creditors; implemented a computerized payroll disbursement system in the civil service, and established a program aimed at reducing the number of civil servants; centralized with the BCRG all government accounts (except designated accounts for externally-funded projects) under the sole authority of the Treasury; increased retail prices of oil products by 10 percent and raised the TSPP (from GF 210 to GF 275 per liter for gasoline and from GF 230 to GF 265 per liter for diesel oil and jet-A1) as of February 1, 1991, while continuing the restructuring of the oil sector, in particular through the privatization of oil distribution and the independent management of gas stations in Conakry; raised SOGETRAG (urban mass transportation company) fares by an average of 12 percent, and water charges by 60 percent, as of March 1, 1991; doubled electricity charges, effective April 1, 1991, adopted a recovery plan for ENELGUI in May 1991; and limited Air Guinée service to domestic and regional country routes.

III. Objectives and Strategies for 1991-94

13. With a view to consolidating the financial situation of the public sector and building the foundations for sustained growth in the medium term, particularly by encouraging private initiative, the Guinean Government is committed to reinforcing the measures underway and effectively implementing structural reform policies aimed at activating the country's growth potential. In this respect, the Government will play a guiding role in defining economic priorities, mobilizing the resources necessary for rural development and for the improvement of social infrastructure and facilities, creating conditions for the smooth expansion of private initiative, and ensuring basic macroeconomic and financial stability.

14. The main objectives of the Government's program for 1991-94 are as follows: (1) to achieve a real economic growth rate of 5 percent annually; (2) to lower the inflation rate to 8 percent by 1994; and (3) to reduce the external current account deficit (including grants) to the equivalent of 8.2 percent of GDP (or 4.2 percent, excluding grants) in 1994, in order to allow a significant replenishment of official reserves. The Government accordingly plans to foster an increase in domestic savings, as a basis for a marked expansion of productive investment and the development of infrastructure. Considering the crucial importance of human resources in the development process, the Government's program will aim at developing education, health, training and employment, and protecting the environment.

15. The authorities recognize that, in the long run, lasting growth must originate outside the bauxite sector, through more intensive and productive uses of agricultural resources, a resumption of industrial activity, a revitalization of small-scale mining, and a revival of the services sector. Despite the modest growth in mining exports expected over 1991-94, bauxite and alumina will still be the mainstays of Guinea's economy for the decades to come. Yet, the mining companies will continue to employ only a small portion of the available work force at a time of growing population and a shrinking public sector. The revitalization of the rural sector and the development of small- and medium-sized enterprises will make the most significant contribution to employment.

16. The surplus of the mining companies is expected to fluctuate greatly during the program period. The Government is determined to limit as much as possible the impact of these fluctuations on the rest of Guinea's economy, particularly on government finances. This determination involves saving a large part of the mining surpluses above the medium-term trend and, correspondingly, partially offsetting shortfalls with discretionary measures. Over 1991-94, value added in mining is expected to grow by about 5 percent annually in real terms, reflecting intensified exploitation of bauxite, gold, and diamonds. The use of price adjustment formulas for bauxite and alumina exports, however, is expected to result in a stagnation of mining export receipts at a level of about US\$670 million (or some US\$590 million, excluding OBK) in 1991, and a reduction by US\$20 million in

1992, followed by a rebound in 1993 to reach US\$685 million in 1994. At the same time, it is projected that mining companies' imports will remain high in 1991-93, at about US\$190-200 million, taking into account current investment in the sector, before decreasing somewhat in 1994. The balance of payments position and, consequently, government finances could thus deteriorate markedly unless compensatory measures are taken.

17. The maintenance of a realistic exchange rate policy, the liberalization of distribution channels, the correction of tariff distortions, the expansion of the highway network, the rehabilitation of the Conakry port, and improved agricultural extension and training services should allow the rural sector to grow at an average rate of some 4 percent a year. Guinea will therefore be increasingly in a position to exploit its comparative advantage and meet the demand for food crops as well as develop cash crops, chiefly by improving competitiveness, but also by simplifying administrative procedures (including through the elimination of export taxes). With respect to the secondary sector, the expansion of small-scale mining and the development of small- and medium-sized enterprises in industry and construction should result in an average annual growth of 5 percent for this sector. Finally, the tertiary sector should grow by an average of 6 percent a year owing to the liberal economic system.

18. The strategy adopted to achieve the program objectives for 1991-94 involves consolidating the free interplay of market forces and improving macroeconomic management. In practice, this strategy is based on the pursuit of an appropriate exchange rate policy, an active interest rate policy, the maintenance of prudent credit and borrowing policies, withdrawal of the State from nonstrategic sectors, and the promotion of private economic activity. These actions will be accompanied by a consolidation of administrative and parastatal reforms, and by the adoption of a rolling investment program that can be financed with local or highly concessional external resources.

IV. Macroeconomic and Structural Adjustment Policies

19. Against the overall framework described above, the Guinean Government intends to implement a coherent set of macroeconomic measures aimed at strengthening the process of structural adjustment in order to ensure sustained growth and the viability of the external accounts in the medium term. Main macroeconomic indicators are shown in Table 1. Table 2 gives a summary and timetable of measures over the three program years. Finally, external financing requirements are presented in Table 3.

Government finances

20. Fiscal adjustment will continue to be a key element in the Government's medium-term recovery effort. To reinforce the impact of structural measures, the program will aim at limiting public spending to the

level of available resources. The medium-term objective is to reduce the budget deficit on a commitment basis (excluding grants) to the equivalent of 5 percent of GDP. The Government's objective is to raise the ratio of nonmining budget revenue to GDP by at least 1.5 percentage points between 1990 and 1994, with most of the increase to be achieved in 1991 and 1992, thus offsetting the expected decline in mining revenue. The authorities will strengthen the monitoring and control of expenditure commitments, and ensure compliance with existing priorities; efforts will be further directed at streamlining payroll disbursement and monitoring the civil service roster, and ensuring the strict execution of the public investment program (PIP), which should be consistent with expected concessional financing and the overall macroeconomic framework.

21. With respect to nonmining revenue, the budget estimates for 1991 are 51 percent higher than the 1990 outturn, corresponding to an increase of 1 percentage point in terms of GDP. Most of this increase reflects the doubling of the excise tax on petroleum products (TSPP), following the retail price increases in September 1990 and February 1991 and the progress achieved in restructuring the petroleum sector. Beside the TSPP, efforts will focus on a thorough revamping of the customs and tax departments. The strengthening of the Directorate of Customs is one of the key elements of the program; it will consist of the setting up of mobile operational squads, as well as a customs exemption control unit and a customs valuation office, and the computerization of customs declarations in 1992. A number of measures will be taken in 1991 with respect to the implementation of the Government's accounting code at the special customs revenue office, the coordination of tax offices, improved use of staff, and the reorganization of various units. In particular, the customs exemption control and monitoring unit will act as the supervisory agency for the tax exemption policy, and will aim at preparing a list of exemptions, eligible parties, products covered, and expiration dates. The initial 1991 budget bill already provides for the tax-inclusive invoicing of government contracts, which will help limit the scope of tax exemptions. Regarding the strengthening of tax collection, the computerized file of enterprises subject to taxation, established in September 1990, will be regularly updated and will serve as a basis for intensified tax audits. Following the publication of the Direct Tax Code and the Customs Code in 1990, a Registration Code and Local Tax Code will be prepared in 1992, followed by an Indirect Tax Code in 1993.

22. The program calls for strictly curbing the growth of government expenditure. Control of expenditure commitments will be strengthened through a closer cooperation among the various Directorates of the Ministry of Economy and Finance (MEF). The growth of salary outlays will be limited to 24 percent in 1991, despite sizeable general increases in wages and salaries. The 1991 budget bill provided for a 20 percent across-the-board increase in salaries, effective January 1, 1991. Since then, in view of the low salary levels in the civil service, the Government has decided to grant an additional 100 percent general salary increase in two steps, on June 1 and October 1, 1991 (increase in the base index from 66 to 99, then to 132).

In addition, family allowances were raised from GF 150 to GF 1,500 per child, effective June 1, 1991. The combined effect of the latter measures is estimated at GF 17 billion over the remainder of 1991 and about GF 43 billion in 1992. The budgetary impact of these adjustments has been limited as a result of the introduction, in early 1991, of a computerized civil service payroll management system (SIG). Implementation of this system has already resulted in fewer irregularities, exemplified by the drawing of multiple salaries by certain employees, thus saving more than GF 800 million monthly (based on the 1990 wage bill) since the beginning of the year. For the remainder of 1991 the Government has decided to refrain from new hiring, which will reduce the number of civil servants by at least 3,000 through December 31, 1991. Further efforts to streamline the civil service roster are expected to yield additional savings in 1992.

23. With respect to other current expenditure, the planned growth in 1991 is significantly below the inflation target, despite increases in budget allocations for priority social sectors, including health and education. The revised budget bill, adopted in July 1991, includes a number of specific measures designed to curb public spending, especially on the government car fleet and on consumables. To monitor the commitments and expenditure authorizations of all the spending ministries, the team of financial inspectors at the Ministry of Economy and Finance will be strengthened. Following the centralization of government accounts under the authority of the Treasury, and in order to enforce the concept of the unity of government funds, the Government will ensure that all government financial operations are included in the budget. In this regard, for the first time, the 1992 national budget will include, on the revenue and expenditure sides, the noncommercial transactions (payments for public consumption and debt service, in particular) of the Kindia Bauxite Office (OBK).

Administrative reform

24. In the area of administrative reform, computerization of the civil service roster management system and revisions in updating procedures of the civil service roster will make it possible to control the wage bill. Despite start up technical difficulties, the computerized management system (SIG) was introduced in early 1991. Based on the audit of the SIG made in May 1991, total staff (excluding military personnel) was estimated at 51,922 as of April 30, 1990. However, the audit uncovered serious flaws in the working of the SIG, including the presence of inaccurate or fraudulent files. With a view to rebuilding the SIG and revising administrative procedures for updating files and payroll disbursement, the Government adopted a crash program. This program includes, in particular, the hiring of a technical assistance team to head the SIG, from September 1991 onward, whose work will be supported by the introduction of institutional reforms designed to ensure strict control over administrative acts affecting civil servants. To speed up the streamlining of the civil service roster, the Government decided to stop salary payments on all incorrect or illicit files, while disputes will be treated by a special claims office temporarily

set up to this end. The exact number of civil servants will thus be established by mid-December 1991. Government policy in the remainder of 1991 and in 1992 will aim at improving personnel management while maintaining a ceiling on staffing; necessary redeployment, especially in the education and health care sectors, will be effected through the reallocation of existing staff. The Government plans to study, by end-1992, the structure of the civil service so as to establish a rational inventory of its requirements given available resources.

Public investment

25. With regard to public investment, the Government has made significant progress in managing the public investment program (PIP) and launching a three-year rolling program. The Government's priorities are still to promote the productive sectors, rehabilitate and expand the infrastructure, streamline government operations, and develop human resources. Keeping in view available concessional resources and macroeconomic constraints, the medium-term program aims at encouraging growth in the rural sector, and developing basic infrastructure (particularly means of communication), energy, urban and village water supply systems, and finally the social sectors (education, health, training, and employment). The 1991-93 program calls for government investment expenditure amounting to GF 270 billion in 1991, GF 316 billion in 1992, and GF 355 billion in 1993. These amounts, which have been programmed in close cooperation with Fund and World Bank staffs, are consistent with the medium term macroeconomic framework, particularly the budget and balance of payments forecasts, and are based on realistic assumptions with respect to project execution. The Government of Guinea intends, by the end of 1991, to review public investment projections on the basis of developments in government finance, balance of payments, and external financing. The Government will reach understandings with the Fund and Bank staffs on any changes in expenditure levels for public investment. It is expected that about 85 percent of the program will be financed from external sources, most of which has been secured or is under negotiation at very favorable terms (45 percent in grants and 55 percent in highly concessional loans). Infrastructure in the broad sense (including urban water supply and energy) will account for roughly 50 percent of the program, with the launching of major projects (second Conakry water supply project, Conakry street network, and highway projects); the rural sector will account for 27 percent; and the social sectors 16 percent. Regular consultations will be held between the Government and its social partners, particularly in the corporate sector, with a view to harmonizing the orientation and priorities of national development policy and achieving a better complementarity of government and private initiatives.

26. Public investment programming and monitoring will remain under the responsibility of the Ministry of Planning and International Cooperation, in the context of a three-year rolling program consistent with the Government's financial resources and debt servicing capacity. The public investment program will be scrutinized to ensure funding for the

local components (BND) required in externally-financed projects. Investment projects will be programmed on the basis of their consistency with sectoral objectives and strategies, economic and social return, and impact on recurrent costs and indebtedness. The annual presentation of the investment program will review the sectoral priorities, in accordance with the economic and financial program, and will detail financing arrangements and sources as well as the overall impact of the program on the recurrent budget, debt, and the balance of payments. Financing agreements will be routinely subject to approval by the Minister of Planning and International Cooperation and, in the case of loans, also by the Minister of Economy and Finance. In the area of investment project monitoring, regulatory provisions will be adopted to facilitate the control of project execution, on a quarterly basis, by the Ministry of Planning and International Cooperation and the Ministry of Economy and Finance, whether the projects are domestically or externally financed. The Government will take special care to effectively implement monitoring procedures with respect to local expenditure with a view, in particular, to prevent building up arrears. An external audit will inventory existing arrears on the national investment budget (BND) by end-November 1991, and a timetable will be adopted to settle these arrears. The Government will aim at improving disbursement procedures out of BND funds and, in cooperation with donors, will set up a new management system that will integrate counterpart funds in budget bills, with strict accounting and disbursement rules. The new system will be administered by a special management team in charge of counterpart funds, to be operational by end-1991. The Government will also set up a monitoring unit for government contract awards and will review procedures to shorten terms of payment. As regards the crucial issue of recurrent costs, in particular, the Ministry of Planning and International Cooperation will carry out, by end-November 1991, a detailed analysis of the impact of public investment on the current budget. Estimates of the recurrent financing requirement profile will be prepared for each subsector and type of project and will be included in the budget bill. These estimates will be updated regularly to reflect changes in the project portfolios of the subsectors.

Public enterprise reform

27. The reform of public enterprises is a key element of structural adjustment, with respect to both its impact on financial balances and the revival of the productive sector. It will be vigorously pursued. It will continue to emphasize the disengagement of the Government from competitive sectors, and the reorganization of utilities and public enterprises in strategic sectors. Of the 131 public sector enterprises in 1985, 36 have been privatized and 66 liquidated, while 4 will be privatized or liquidated during the program period. The 25 that remain, apart from OBK and Air Guinée, are utilities or are in strategic sectors. To give a new boost to the reform of the public enterprise sector, the Government intends to pursue the following priorities: (1) reducing the size of the sector; (2) implementing the ordinance governing the relations between the Government and public enterprises; (3) reorganizing financially viable enterprises and introducing appropriate financial discipline; and, finally, (4) adopting

performance contracts defining the mutual responsibilities and obligations of the Government and each public enterprise. A key element of the management contracts will be the public utility pricing and subsidy policies, which will aim at recovering long-term marginal costs of public enterprises and providing for the gradual reduction of government transfers as recipient enterprises are restructured. By end-December 1991, detailed studies will be conducted to analyze cross indebtedness in the public sector and identify financial flows between the Government and public sector enterprises. These studies will provide an accurate picture of the situation, to serve as a basis for any future budgeting of direct and indirect subsidies; any further transfers will require an amendment in accordance with the organic law on budget bills. During the program period, transfers will be negotiated on a case-by-case basis in the context of the performance contracts. Moreover, the Government will strengthen the monitoring of bank deposits of, and credits to, public enterprises during 1991.

28. The March 1991 ordinance, which regulates relations between the Government and the public enterprises, subjects these enterprises to the legislation applicable to private corporations (unless exempted on grounds of their public service mandates) and grants them greater autonomy vis-à-vis the Government. All public enterprises will be subject to the new regulations, and their by-laws will be amended accordingly by end-March 1992. Subsequently, continuous monitoring of the position of these enterprises should ensure the maintenance of financial discipline and, in particular, prevent the erosion of their capital. To this end, price increases for public enterprises will be programmed over the medium term so as to ensure the full coverage of marginal costs. In particular, substantial price increases will be implemented in the course of 1992. The financial control exercised by the Ministries of Planning and Finance will be strengthened through the use of external audits.

29. In the petroleum sector, restructuring and privatization measures have been taken jointly since May 1990. Protective steps have been taken with a view to eliminating fraud and reducing the losses taking place in the distribution network. The process of liquidating ONAH, set in the Decree of December 7, 1988, went into effect with the establishment of an interim administration, the Petroleum Sector Agency (ASP), which is responsible for the management and transfer of assets. Following the establishment of the Guinean Petroleum Corporation (SGP) on December 20, 1990, the transportation of petroleum products was privatized and service stations in Conakry have been under independent management since July 1991; the leasing of service stations in the rest of the country will be completed by end-September, and all petroleum supply, storage, and bulk distribution activities will be transferred to the SGP by the end of 1991. In accordance with the agreement with private partners, the Government has undertaken to terminate the interim administration of the petroleum sector and formally liquidate ONAH by end-September 1992 at the latest.

30. Following the agreement reached in October 1990 between the Government and petroleum partners, the retail prices of petroleum products

are henceforth to be adjusted automatically to reflect fluctuations in import costs and to safeguard existing taxes. The agreement provides for the setting up of a stabilization fund with the Treasury, whose amount should normally range between GF 1-2 billion, financed by the excess of the retail price over costs and taxes. Should the stabilization account drop below the lower limit of GF 1 billion, the retail prices of petroleum products would be raised in order to restore a surplus and replenish the account; in the opposite case, the price structure would be lowered. For 1991, however, in view of the uncertainty with respect to import prices, the reduction mechanism has so far been delayed and the surpluses in excess of the GF 2 billion ceiling have been accruing to the budget as extraordinary revenue.

31. As for ENELGUI, following the two-fold increase implemented in April 1991, electricity rates will be raised further by the end of the year and, subsequently, periodically adjusted in line with the utility's costs. On the basis of proposals made by the technical assistance team, a recovery program was adopted in May 1991, covering both the technical aspects (particularly the investment required in the medium run) and the financial ones (including an inventory of, and a collection program for, accounts receivable). During 1991, it is anticipated that ENELGUI will complete the computerization of its invoicing system and install at least 13,300 meters, with a view to covering nearly all of the electricity consumption by the end of the year. New meters, in particular, will be installed in government agencies, which so far have been billed at a flat rate, and the 1992 budget will include allocations for electricity outlays by ministries. Finally, the Government will investigate the possibility of a new institutional structure, which could consist of a public agency that owns the investment and a mixed company responsible for managing the generation and distribution of electricity.

32. The recent measures taken concerning Air Guinée consist in limiting its operations to domestic and regional routes (Guinea-Bissau, Senegal, Mali, Côte d'Ivoire, Liberia, and Sierra Leone). Since June 1991, the Government has undertaken to wind up the accounts of Air Guinée, with a view to setting up a new autonomous company by September 1991; the new company will eventually enter into association contracts with one or more foreign partners. For 1991, the budget subsidy for domestic routes has been set at a maximum of GF 1.4 billion. Before the end of 1991, Air Guinée will adjust the composition of its fleet and reorganize its fare structure to ensure the profitability of external routes.

33. As regards the urban transit authority, SOGETRAG, fares have already been raised by an average of 12 percent, as of March 1, 1991, and by 15 percent as of August 20, 1991. The Government intends to implement additional measures, including further increases in fares, in order to reduce the budgetary burden in the years to come. A decision will be taken on the future of ONCFG (railways) based on the results of an ongoing study.

34. For OBK, the feasibility study of an expansion project will be completed by end-September 1991; it will determine whether the company should be fundamentally restructured or whether it should be liquidated within a few years, owing to the gradual depletion of the Kindia bauxite deposits. Following the financial audit, a reorganization plan aimed at conferring financial and managerial autonomy to OBK could thus be implemented by end-June 1992. With respect to the PTT, a restructuring program will be adopted by end-September 1991. The Government will prepare the legislation and regulations for the organization of the telecommunications sector by the end of 1991 and, before end-March 1992, will create a postal agency and a mixed telecommunications company, whose stock will be open to subscription beginning June 30, 1992. Following the liquidation of the GHI Company (Grand Hôtel de l'Indépendance), the Government decided in August 1991 to privatize its activities. Water rates, which were already raised by 60 percent in March 1991, will continue to be adjusted in accordance with the medium-term program established in cooperation with the World Bank with a view to full long-term marginal cost recovery. Finally, the Government is committed to completing by December 1991 the privatization or liquidation of AGRIMA (distribution of agricultural equipment), SEMAPE (fertilizers and fungicides), FRUITEX (marketing of agricultural products), and USCZ (plywood factory).

Role of the private sector

35. The Government plans to let the private sector play a fundamental role in the development of the country. The gradual liberalization of political and economic life has already begun to create an environment conducive to a growing private sector. However, despite tangible results in agriculture (particularly as regards rice and coffee) and in small- and medium-scale enterprises, much remains to be done to improve an environment which still offers insufficient incentives, as witnessed by the stagnation of savings and investment in the productive sectors. The bulk of financial resources is being invested in activities offering fast return, such as import trade. Yet, in view of the Government's withdrawal from the industrial and commercial sectors and of the social repercussions of the fiscal adjustment effort, the private sector must provide the mainspring of investment, growth, and job creation. Under these circumstances, the Government launched a sectoral adjustment program in 1990 to promote the private sector, with technical and financial assistance from the donor community.

36. One component of the private sector promotion program aims at encouraging financial support, while the other seeks to improve the institutional framework and incentive environment for private investment. The financial component includes initiatives to set up mutual guarantee societies, the enhancement of the Central Bank's supervisory role vis-à-vis the banking system, the introduction of bonded warehouses to secure bank loans, the adoption of property laws favorable to the growth of the private sector, and, in the legal sphere, the improvement of civil and commercial procedures (see paragraph 40 below).

37. Concerning the institutional framework and incentive environment, the Government will, first, encourage a better organization of economic operators by strengthening the Chamber of Commerce, Industry and Handicrafts, promoting the establishment of professional organizations, and maintaining regular consultations between the authorities, economic operators and banks so as to identify hindrances to private sector development. Second, the Government will address the administrative hurdles faced by economic operators, particularly for the obtention of visas, the establishment and operation of enterprises, and transit at the airport, and will aim at instituting protective mechanisms against the arbitrary actions of some civil servants. Following the elimination of commercial authorization procedures and the confinement of technical authorizations to regulated professions only, the Government will continue to simplify administrative procedures, in particular through the introduction of new arrangements for the setting up of enterprises (including a "single window" for all formalities). Third, the Government has clarified provisions in the Investment Code and introduced procedures to control the tax and customs exemptions granted through the incorporation agreements and Investment Code authorizations; to this end, the Government has adopted an ordinance placing these exemptions under the authority of the Minister of Economy and Finance and under the scrutiny of the National Investment Board (Commission nationale des investissements). Fourth, with a view to clarifying the respective roles of the institutions involved in promoting private investment, the Government has adopted an ordinance regulating private sector promotion organizations, a decree transforming the Small and Medium Enterprise Promotion Office (ONPPME) into a Center for the Creation and Development of Enterprises (CCDE), charged with providing assistance to and promoting Guinean entrepreneurship, and a decree redefining the functions of the National Center for the Promotion of Private Investment (CNPIP) to convert it into an agency for promoting Guinea abroad and assisting foreign private investors in Guinea. By the end of 1991, the Placement Assistance Office for Former Civil Servants (BARAF) will be shut down, and part of its staff will be transferred to the CCDE to monitor efforts to relocate civil servants placed on special release status. Fifth, the Government has adopted regulations for the Labor Code and an ordinance converting the National Employment and Labor Office (ONEMO) into a labor and employment statistics service, with a view to eliminating all administrative obstacles to job creation. Finally, the Government will support the expansion of activities in the productive sectors (agriculture, industry, and small and medium-scale enterprises). In particular, an agricultural exports promotion program is being prepared with the technical and financial assistance from the donor community.

Monetary and credit policies

38. Regarding monetary and credit policies, the authorities will aim at strengthening financial intermediation while pursuing a prudent credit policy consistent with the growth, inflation, and balance of payments targets. To curb overall demand, the monetary authorities will endeavor to contain the growth of the net domestic assets of the banking system, while

providing adequate financing for the productive private sector. The target for broad money growth will be set in accordance with the expected growth of nominal GDP. In this connection, the Central Bank will adapt its interventions with a view to sterilizing the monetary effect of gold purchases in domestic currency. In accordance with the objectives of increasing net international reserves and reducing the Treasury's indebtedness to the banking system, the monetary targets should permit a significant expansion of credit to the private sector. During the program period, the pursuit of restrictive credit policies will be facilitated by the significant reduction in the Treasury's indebtedness to the Central Bank.

39. Measures will be taken to promote the creation and mobilization of national savings, with a view to encouraging productive investment. The objective of promoting time deposits and passbook savings accounts requires the maintenance of positive rates of remuneration in real terms. This policy will permit an increase in the banks' stable resources, which should contribute to a gradual reduction in the rate of inflation. The Central Bank will continue to diversify the range of its monetary policy instruments, so as to improve the quality of its interventions. On the basis of experience accumulated over the year, the Central Bank will assess the reserve requirement system, and will establish prudential ratios (liquidity and own resources ratios, in particular) for deposit money banks by end-December 1991. With regard to its refinancing policy, the Central Bank will maintain a substantial positive difference between the normal refinancing rate (TREN) and the rate of inflation. The gap between the TREN and the preferential refinancing rate (TREP), which was 9 points at end-1990, was reduced to 5 points in July 1991 and will be further reduced. The authorities are also committed not to expand the eligibility criteria for preferential refinancing during the program period and will re-examine the justification for existing criteria on a case-by-case basis. The strengthening of the Central Bank's supervision of the banking system will help improve the quality of banks' portfolios. Instructions will be prepared by the Central Bank for the periodic monitoring and gradual reduction of doubtful loans, at the same time as the Credit Directorate and the Supervision Directorate of the BCRG are reinforced. Lastly, the Central Bank will complete the computerization of the monetary survey and the database on the banking system by end-December 1991, and prepare the required data for the publication by the IMF of a page on Guinea in International Financial Statistics.

Reform of the financial sector

40. The authorities will keep on strengthening the financial intermediation system and encourage the revitalization of the interbank market. To significantly increase medium- and long-term credit to the economy, the allocation of which is impeded by inadequate repayment guarantees, the authorities will clarify the refinancing policy for such lending. Moreover, the Government will adopt measures aimed at strengthening the legal and judicial framework for granting credit. In the long run, banks will thus be able to demand sound guarantees from borrowers,

which will require, in particular, the preparation and adoption of a simplified cadastre and the elaboration of transferable land tenancy rights. In this regard, the Government will adopt a land tenure act in September 1991 and will revise the laws on guarantees (mortgages, security and pledges) by end-June 1992 so as to enable banks to obtain proper backing for their loans. Funds will also be released to rehabilitate the Mortgage Office. Furthermore, the Government will study the legal practice with a view to introducing arbitration procedures for litigations and claims arising out of contracts with banking implications, and begin to compile legal decisions in order to establish a body of legal precedents. Finally, the Government will support the establishment of bonded warehouses in Conakry, in order to facilitate bank financing of imports of goods, which could thus be seized should the borrower fail to meet his obligations. Bonded warehouses should also stimulate the financing of exports (especially of agricultural products), by allowing banks to exert physical control over them as they arrive from the interior to be exported.

Exchange policy

41. The gradual liberalization of the exchange system will be sustained and the competitiveness of the economy will continue to be ensured, inter alia, by a policy aimed at stabilizing the real effective exchange rate at an appropriate level. The introduction of the quotation of the Guinean franc against the SDR, effective February 1, 1991, rather than against the U.S. dollar as in the past, should cushion the effects of fluctuations of major currencies on the Guinean economy. While efforts will be made to reduce inflation (in particular through prudent fiscal policies, and the control of monetary growth) and strengthen the efficiency of customs taxation, the nominal exchange rate will be regularly adjusted in light of price developments in Guinea and in trading partner countries. The authorities are aware that the soundness of this policy implies the non-accumulation of external arrears and the maintenance of unimpeded access to the exchange markets for all current transactions.

International reserves policy

42. The maintenance of an adequate level of international reserves remains an important objective of the economic and financial recovery program. To strengthen Guinea's financial credibility, and to ensure that external commitments are promptly settled, the Government aims at maintaining a level of international reserves of the order of US\$100 million, at a minimum, or the equivalent of 2.6 months of nonmining imports, which is the target for 1991. In the medium term, the level of reserves is expected to rise to the equivalent of 3.3 months of nonmining imports by 1994, which would provide a cushion large enough for the needs of the Guinean economy.

43. Regarding the composition of reserves, the Central Bank's policy will be to diversify its assets, in order to limit speculative risks and increase the overall yield of reserves. In particular, the share of gold

will be reduced from the exceptionally high level reached at end-1990, and the BCRG will endeavor to maintain high levels of SDR holdings. As noted above, the high stock of gold accumulated at end-1990 reflects the success of purchases in domestic currency over the last two years. The BCRG intends to pursue this policy, which has proved to be a major stimulus to gold production by small-scale producers.

V. Sectoral Adjustment Policies and Programs

44. Since the inception of the recovery program, the Government has emphasized the rebuilding of transport infrastructures. As the obstacles to private sector growth have become more evident, sectoral policies will aim at removing constraints to private initiative, with a view to promoting growth and job creation.

Agriculture and fisheries

45. Rural development, which is the chief driving force of economic growth and social progress in the long run, is a priority sector. In this respect, the Government intends to enhance the national rural support services, especially agricultural research and extension services, including the provision of seeds. These measures will be supported by a training policy designed to develop human resources. One key aspect of agricultural policy will be to promote the creation of farmers' associations capable of effectively defending the interests of the rural population and, in the long run, of taking over from the State the provision of basic services. To strengthen local production, the Government will spare no effort to promote private enterprise in the areas of processing and marketing of agricultural products. In this context, the Government has already corrected the tariff structure, which over the years has discriminated against agricultural production, so as to promote the development of local products in competition with imports, such as rice. A major Rural Infrastructure Program is to be launched to lower transportation costs and to open up the interior.

46. The promotion of small-scale fishing is an important aspect of the policy of generating revenue and diversifying exports. The fishing sector is also a significant source of fiscal revenue. Measures implemented over the recent years have not produced the expected results, however, and the Government plans to redirect its policy of promoting the fishing sector to improve the management of Guinea's fishery resources.

Mining, industry, and energy

47. The bauxite/alumina subsector will continue to occupy a predominant position in Guinea's economy in the foreseeable future, especially insofar as the main bauxite company (CBG) is committed to expanding its output capacity in 1992, and as the alumina producer (Friguia)

has been implementing a restructuring program. Furthermore, a new project is being studied to phase in the exploitation of the Dian-Dian deposits around 1995. The overall government policy will be to develop mining resources in collaboration with private partners. Because the bauxite subsector generates little employment, the Government will encourage the development of private small-scale mining activities by enhancing incentives and liberalizing mining-related activities, especially for gold and diamonds.

48. In the industrial sector, private initiative should gradually replace State intervention. In view of the narrowness of the domestic market, the lack of experience of local enterprises and the scarcity of capital, the logical development of the private sector is in the direction of small- and medium-scale industries. In this regard, the operation of the Labor Code has been modified to improve the settling of hiring and pay conditions through free negotiations between employers and employees.

49. In the energy sector, the supply of low-priced electricity is one of the most crucial actions to support the private productive sector. Government policy aims at promoting rational consumption through appropriate pricing measures and an efficient use of energy (especially in the newly formed industrial sector), providing a cost-effective supply of electricity, and, by the late 1990s, developing economically viable hydroelectric resources. The steps taken by the Government to reform the electricity and petroleum sectors have already been described above. In both cases, the Government will continue to apply flexible pricing policies and implement an overdue bill collection system.

Education and health

50. As regards education, a sectoral adjustment program aims at strengthening and improving the educational system. The program will focus on primary education and the encouragement of school enrollment. The quality of education will be improved by a teacher retraining program and a significant increase in budgetary funding for teaching materials and other nonwage education expenditure. In addition, a training policy geared more directly to the private sector will be adopted, with particular emphasis on the technical and business management professions.

51. The aim of the Government's human resources development program is to improve the health and welfare of the population and to make a better use of the productive capacity of the Guinean labor force. In the area of health, the Government intends to accelerate and expand the basic health care and preventive medicine system currently in place, through its primary health care scheme. Efforts will focus on the promotion of community participation and the decentralization of the management system. In 1988, the authorities launched a rehabilitation program for existing health units with a view to introducing a comprehensive reference system and a cost recovery scheme, whereby each unit will have greater autonomy as regards pharmaceutical supplies and financial management. The Government has also

decided to strengthen the institutional capacity of the Ministry of Public Health and Population in the areas of strategic planning, coordination within the donor community, investment programming, establishment of a budgeting system, and staff management and training. In a second phase, Government and NGO efforts in the population area will be enhanced by fine-tuning population policies and by improving and expanding the availability of family planning services.

52. In the short term, the Government faces a twofold problem, as the staff working in the rural health sector and in primary schools needs to be enlarged, while excessive administrative staff should be reduced, especially in Conakry. At the same time, the Government is facing a large number of graduates from teachers' colleges and medical schools, whose training does not properly fit the needs of the health and education sectors. Under these circumstances, the Government has decided to adopt a detailed action program for staff management in these two sectors. By end-1991, the Government will prepare staffing and staff redeployment plans for the education and the health sectors, in cooperation with the World Bank; finalization of these plans, previously expected in July for the education sector and in September for the health sector, were delayed by strikes in the first half of the year. Revised admission policies for the medical, paramedical, and teacher training schools will be ready by end-March 1992, to help match the number of graduates to the projected needs of the two sectors. In the meantime, the Government will refrain from any recruitment that would not be consistent with either the staffing and redeployment plans or the aggregate ceiling for the civil service. Additional staff will be employed in the regions whose needs are clearly established (especially basic rural health services and primary education), in accordance with the ministerial posting decisions of January 10, 1991. This measure will thereby avoid increasing staff in already overmaned areas. The Government will not launch new programs of activity that would run counter to the policies and priorities adopted for the sector at risk, and will act to ensure the effectiveness of the existing priority programs. Appropriations for nonwage expenditure in the budgets of the education and health ministries will not be reallocated to pay newly hired staff, pursuant to the provisions of the Finance Act. Finally, by December 1991, the Government will draw a plan for introducing a permanent system to assess performance and retraining needs, in order to match skills with the positions to be filled in the two sectors and reach the goals for staffing and staff redeployment.

The role of women

53. The role of women in Guinea's economic development remains unsatisfactory. Since 1958, the Government has been adopting legislative measures to increase girls' access to education and to allow women to possess and manage their own resources. Despite these provisions, cultural proclivities have kept women in a position that prevents them from fully participating in the economic development of the country. Consequently, the Government intends to reinforce its policy so as to increase the rate of

female school enrollment, lighten the burden of too frequent child-bearing, and promote the cooperative movement through specific projects.

The environment

54. Since June 1989, the Government has undertaken to implement, with the support of the donor community, a Program of Action for Environmental Protection. On the basis of the work of the existing sectoral commissions, an overall environmental policy will be defined, which will serve as a guide when implementing major public investment projects, particularly in the agricultural, mining, energy, and infrastructure sectors. In this context, a study of Mount Nimba (declared part of "World Heritage" by UNESCO) is under way to analyze and evaluate the impact that exploitation of the region's iron ore deposits would have on its bio-diversity and socio-cultural dynamics.

VI. Social Impact of the Program

55. Structural adjustment policies ultimately aim at improving the living conditions of the population. Although implementation of the program may have adverse effects on some socioeconomic groups, whose living conditions could temporarily deteriorate, the impact of the reforms can be mitigated. While maintaining strict control of budgetary expenditure, the Government will provide sufficient funds for education and health, and will give priority to improving basic health and mother/child care, especially in the poorest areas. Rural development policies should also help alleviate poverty and improve living conditions. Moreover, the projected decline in the inflation rate should benefit the more destitute, while fiscal policy will aim at promoting a better distribution of income. Finally, the opening up of the economy and the maintenance of a liberal economic system will contribute to reducing economic rents, creating new jobs, and developing small- and medium-scale enterprises.

56. In the context of the Socioeconomic Development Support Program, the Government introduced in November 1989 a test program to finance community development projects. These projects aim at providing social services to the poorest regions, thereby promoting job creation. Furthermore, to remedy the scarcity of data on the nature and distribution of poverty in Guinea, a system of periodic household surveys was introduced in June 1991, with a view to monitoring changes in welfare and assessing the impact of adjustment on the population. At the same time, the social planning components in the design of the three-year investment programs will be strengthened. In addition, the Government will continue to provide the required funds to compensate civil servants leaving the public enterprises that are being restructured.

57. Regarding employment, the policy of rationalizing the framework of incentives for private investment is expected to result in the

integration of numerous activities of the informal sector within the organized sector, particularly in the areas of services and crafts. In this respect, the Government intends to commission a study to better assess the scope and vitality of the informal sector, which, at a time of growing population and unemployment, is likely to keep on providing new jobs. Moreover, it is expected that the training policy pursued since 1986, particularly vocational training, will henceforth help young people to hold jobs as support staff, foremen, and many other semi-skilled positions.

VII. Balance of Payments and External Financing Requirements

58. The balance of payments position will remain weak in the coming years. It is expected that the decline in bauxite export prices will lead to a deterioration in the terms of trade of 4.8 percent in 1991, 6.0 percent in 1992, and 3-3.5 percent in 1993 and 1994. Although the Government anticipates a sharp upswing in nonmining exports (especially coffee, tropical fruits, and fish), their contribution will remain small considering the needs of the economy as a whole. However, despite the significant drop in the surplus earned by the mining companies, the policy of containing overall demand should limit the deterioration of the external current account, particularly as the Government is committed to effectively implementing structural measures in accordance with the set timetable. The increase in nonmining, non-PIP imports should reach about 6 percent in 1991, including more than 10 percent in the private sector in light of the curtailment of public sector imports. In all, the current account deficit, excluding official transfers, is projected to reach US\$323 million in 1991, or 10.3 percent of GDP, as against US\$283 million in 1990, or 9.4 percent of GDP. In the subsequent two years, the external current account deficit should fall to about 9-9.5 percent of GDP and reach the equivalent of 8.2 percent of GDP in 1994.

59. According to this scenario, and taking into account projected debt repayments, capital flows in the mining sector, as well as the planned elimination of external payments arrears in 1991, the external financing requirement for 1991-94 is projected at about US\$1,391 million. This sum includes financing needed in 1991 to clear external arrears (estimated at US\$301 million, of which about US\$199 million are to non-Paris Club bilateral creditors), part of which could be rescheduled or consolidated in 1991. Over 1991-94, the inflow of concessional funds for the public investment program is projected at US\$835 million. Inflows of private capital (direct investment) are expected to reach US\$48 million. Donors, including the World Bank, are expected to provide program loans equivalent to US\$140 million. In addition, the authorities have requested the use of Fund resources for the equivalent of US\$80 million, over the three program years (July 1991 to June 1994), under the enhanced structural adjustment facility.

60. The debt cancellations obtained since 1989 and the concessional nature of financing sources will make it possible to continue reducing the debt service ratio; furthermore, considering nominal income growth, expected financing flows should be consistent with a continued reduction in the debt to GDP ratio. Thus, it is projected that the debt service ratio on public debt, which stood at 51 percent of exports adjusted for imports of goods and services by the mining sector (or 31 percent of total exports) in 1990, will decline to about 41 percent in 1994. During the same period, outstanding medium- and long-term public debt should continue to decline to reach 69 percent of GDP in 1994.

Table 1. Guinea: Selected Economic and Financial Indicators, 1987-94

(Including transactions with the USSR)

	1987	1988	1989	1990	1991	1992	1993	1994
							Projections	
	(Annual change in percent)							
Income								
GDP at constant prices	3.1	6.0	4.1	4.3	4.0	5.0	5.5	5.5
GDP at current prices	34.3	27.8	39.7	21.6	25.0	19.2	16.5	12.0
GDP deflator	30.4	20.7	35.4	16.7	20.1	14.0	10.6	6.3
Consumer prices								
Average	36.8	27.3	28.2	19.6	25.0	17.0	12.0	8.0
End of period	33.7	26.3	26.0	27.1	23.0	14.5	10.0	8.0
External sector (in U.S. dollars)								
Exports, f.o.b.	3.4	-0.2	12.3	12.7	1.3	0.5	4.9	3.7
Imports, c.i.f.	20.3	19.3	-2.6	17.5	5.1	1.2	5.8	3.0
Terms of trade (deterioration -)	-13.3	-10.2	5.9	4.2	-4.8	-6.0	-2.9	-3.4
Nominal effective exchange rate (depreciation -)	-30.1	-11.1	-15.1	-21.4	...	...	...	...
Real effective exchange rate (depreciation -)	-6.6	10.3	4.7	-10.6	...	...	...	...
Government finance								
Revenue and grants	67.6	16.9	37.7	32.6	31.0	21.2	13.4	10.8
Total expenditure	47.7	34.4	25.7	34.6	12.6	16.5	13.1	10.7
Money and credit								
Net domestic assets 1/	18.4	55.1	8.3	-19.4	11.5	5.6	9.8	-0.4
Public sector, net 1/	-23.7	25.8	-4.2	-22.7	-10.6	-11.2	-12.4	-16.0
Private sector 1/	31.9	22.7	10.6	15.4	16.1	15.8	16.7	16.4
Broad money	39.9	34.4	29.3	24.5	21.0	16.5	16.5	8.1
Interest rate 2/	...	12.0	14.0	17.0	21.0	...	...	...
Velocity of circulation (GDP/average M2)	17.8	16.7	17.7	17.0	17.4	17.4	17.4	17.4
	(In percent of GDP)							
Overall government balance								
Including grants (commitments)	-3.8	-6.6	-4.5	-5.2	-2.0	-1.2	-1.1	-1.0
Excluding grants (commitments)	-7.6	-9.7	-7.7	-8.7	-5.8	-5.3	-5.2	-5.0
Including grants (cash)	-4.0	-6.0	-4.6	-2.8	-5.0	-1.4	-1.1	-1.0
Net domestic financing	-0.2	0.9	-0.6	-0.9	-0.8	-0.8	-1.0	-1.2
Net external financing	4.1	5.0	5.1	3.7	-3.6	2.2	2.1	2.2
Gross domestic investment	16.1	16.5	15.9	18.8	17.6	17.0	18.3	17.5
Gross domestic saving	9.3	5.6	8.4	10.7	8.7	9.4	10.3	10.7
External current account								
Including public transfers	-4.5	-8.5	-5.3	-6.1	-6.5	-4.9	-5.3	-4.2
Excluding public transfers	-8.4	-11.9	-8.9	-9.4	-10.3	-9.1	-9.4	-8.2
External public debt	90.7	84.5	73.6	70.8	74.3	73.6	71.3	69.0
	(In percent of exports) 3/							
External debt service ratio								
Scheduled	49.3	64.9	49.4	50.7	52.0	47.2	43.8	40.9
Actual 4/	37.7	36.0	36.7	29.9	...	...	...	...
	(In millions of U.S. dollars)							
Exports	624	622	699	788	798	802	841	872
Imports	507	605	589	693	728	737	779	803
External current account	-97	-209	-147	-182	-204	-162	-189	-161
Overall balance	-11	-139	-37	-69	-25	-36	-46	-23
External arrears outstanding (end of period)	215	295	278	301	--	--	--	--
	(In months of nonmining imports)							
External reserves (end-period)	2.6	1.2	2.1	2.8	2.6	2.8	2.9	3.3

Sources: Data provided by Guinean authorities; and staff estimates and projections.

1/ In percent of broad money stock at beginning of period.

2/ Minimum annual rate on passbook savings deposits.

3/ Net of mining companies' imports, service payments, transfers, and net capital flows.

4/ Including IMF charges and repurchases, and cash payments for arrears reduction.

Table 2. Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

	Objectives and Policies	Strategies and Measures	Implementation Date
1. Exchange rate policy	Ensure the external competitiveness of the economy	Maintain the real effective exchange rate constant	1991-94
		Maintain free access to foreign exchange for current transactions	1991-94
2. Credit policy	Pursue a prudent credit policy in keeping with growth, inflation, and balance of payments targets	Maintain the growth of net domestic assets of banking system below the growth of nominal GDP to curb aggregate demand	1991-94
		Pursue active interest rate policy	Reduce the gap between the normal refinancing rate (TREN) and the preferential refinancing rate (TREP)	1991-94
	Improve the financial intermediation and financial condition of the banking system	Continue net repayments by the Treasury to the Central Bank	1991-94
		Computerize the monetary accounts in accordance with recommendations of the Fund technical assistance mission of February 1988	September 1991
		Study the introduction of a mutual guarantee scheme and a stabilization fund for private sector credit	1991-92
		Adopt a land tenure act; gradually develop a simplified land registry, and create land titles; help banks secure loan guarantees	1991-92
		Adopt laws on protective mortgages, pledges, and liens on vehicles	1991-92

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
	Promote the establishment of bonded warehouses in Conakry	1991-92
Strengthen bank supervision	Expand the Credit Directorate and the Supervision Directorate at the BCRG	1991-92
	Adopt and implement liquidity and capital requirement ratios	December 1991
3. Fiscal policy	Increase nonmining revenue, limit expenditure, and streamline the public investment program (PIP)	1991-94
a. General provision	Grant performance bonuses to the staff of government financial offices	December 1991
	Establish timetable for training the staff of government financial offices	September 1991
b. Financial operations of the Treasury	Implement strict principles of cash unity, separate authorizing agents from accountants, and conduct Treasury operations on a verifiable basis	1991-94
c. Revenue	Strengthen Customs Administration: (i) Establish precise schedule for reform measures designed to upgrade efficiency of Customs Directorate	September 1991

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
	(ii) Establish at operational levels: - mobile squads - valuation office - customs exemption control and monitoring unit	September 1991
	(iii) Computerize customs declarations	December 1992
	(iv) Issue a monthly customs report on: - exemption control and monitoring - quantitative revenue benchmarks	From September 1991 onward
	Strengthen other revenue departments:	
	- adoption of a registration code and a local tax code	June 1992
	- adoption of an indirect tax code	June 1993
d. Expenditure	Control the growth of expenditure and implement expenditure priorities	
	Improve Budget-Treasury cooperation and eliminate off-budget expenditure	1991-94
	Establish tax-inclusive government expenditure and contracts	From 1991 onward
	Enforce regulation giving the Minister of Economy and Finance sole authority to sign financing agreements	1991-94

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date	
	Implement financial control of spending ministries using a team of inspectors under the authority of the Minister of Economy and Finance	From June 1991 onward	
	Analyze the requirements for strengthening the debt management and monitoring unit	September 1991	
	Monitor civil service personnel and the wage bill with the computerized payroll management system	1991-94	
	Prepare a detailed study of government transfers and subsidies	September 1991	
4. Public investment program	Promote productive sectors, rehabilitate the infrastructure, streamline government operations, and develop human resources	Improve project selection and management	1991-94
		Assess recurring project costs and update this assessment annually	November 1991
		Establish an inventory BND arrears through an audit, and adopt a timetable for their elimination	November 1991
		Set up a unit for counterpart fund management	December 1991
		Establish a list of new commitments on a quarterly basis, and make payments as scheduled and, at the latest, by the end of the following quarter	1991-94

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
	Carry out a study of public contract award procedures and a study of contract settlement flows	June 1992
	Continue to establish three-year PIPs	1991-94
5. Reform of public enterprises	Disengage the Government from competitive and nonstrategic sectors, and improve efficiency of remaining units	1991-94
	Streamline the size of the sector, implement ordinance governing the relations between the Government and the public enterprises, and financially restructure viable public enterprises	1991-94
	Gradually adopt performance contracts	1991-94
	Analyze structure and level of utility charges; and prepare a detailed inventory of all flows between the Government and public enterprises	December 1991
	Renew technical assistance contracts for ENELGUI and ASP	September 1991
	Petroleum sector	
	Privatize fuel transportation and place service stations under independent management	September 1991
	Implement automatic price adjustment formula; budgetize any surplus built up in the stabilization fund	1991-94

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
	Terminate interim administration of petroleum sector and liquidate ONAH	September 1992
Electricity	Raise charges and adopt a flexible price strategy	1991-94
	Implement the program for restructuring ENELGUI	1991-92
	Complete computerization of invoicing and install at least 13,300 new meters	December 1991
	Develop training programs in anticipation of withdrawal of technical assistance team	1991-92
Air Guinée	Limit subsidies for domestic flights and ensure that regional routes are profitable	1991-94
SOGETRAG	Raise tariffs to permit a reduction of subsidies	1991-94
OBK	Assess the medium-term viability of OBK; if appropriate, initiate a restructuring designed to convert OBK into an autonomous company	December 1991
	Improve procurement and bauxite sales policies	1991-94
PTT	Prepare laws and regulations governing organization of the sector	December 1991

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
	Adopt by-laws and set up a mixed telecommunications company and a postal office	March 1992
	Open up the subscription of stockholder shares	June 1992
6. Administrative reform	Put in place a rational and reliable system for the management of the civil service, and improve government efficiency	1991
	Maintain freeze on hiring in the civil service to reduce the number of civil servants	
	Rebuild the computerized civil service management system and revise administrative procedures at the DNFP; streamline the civil service roster	July-December 1991
	Draw up rationalized inventory of civil service needs	1992
7. Incentive measures for private initiative	Entrust the private sector with a pivotal role in the development process	1991-94
	Improve the financial environment for the private sector	
	Strengthen the Chamber of Commerce and Industry	1991-92
	Study and launch the promotion program for agricultural exports	1992-93

Table 2 (continued). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

	Objectives and Policies	Strategies and Measures	Implementation Date
8. Rural development and fishery policies	Increase and diversify local production and reduce income gaps between urban and rural areas	Reinforce national extension, agricultural research, and seed services	1991-94
		Implement the Rural Infrastructure Program and open up the hinterland	1991-94
	Develop fishing activities	Gradually strengthen the management of fishery resources	1991-92
9. Mining, industrial, and energy policy	Increase and diversify production, and increase profitability of investments	Promote development of small-scale mining sector (gold and diamonds, in particular)	1991-94
		Study possibility of exploiting deposits at Dian-Dian in association with the private sector	1991-94
10. Social development and environment policy	Improve living conditions of the population, promote the role of women in development, and preserve the environment	Conduct regular household surveys to obtain a clearer picture of the nature and distribution of poverty	1991-94
		Health	Encourage preventive medicine and basic health services, and redeploy medical personnel in the interior	1991-94
		Renovate hospitals and grant them greater autonomy	1991-94
	Education	Encourage primary education and increase enrollment	1991-94

Table 2 (concluded). Guinea: Summary and Schedule of Macroeconomic and Structural Adjustment Policies, July 1991-June 1994

Objectives and Policies	Strategies and Measures	Implementation Date
Employment	Promote education geared to the private sector, particularly for managerial professions	1991-94
	Study job creation potential in the informal sector	1991-92
Environment	Implement the Environmental Protection Action Program	1991-94
	Evaluate general impact of Mount Nimba iron ore extraction project	1991-94

Table 3. Guinea: External Financing Needs, 1986-94
(In million of U.S. dollars; including transactions with the USSR)

	1987	1988	1989	1990	1991	1992	1993	1994
	Projections							
Financing requirements	-228.6	-219.7	-335.6	-205.3	-582.3	-276.4	-265.8	-266.4
Current account balance	-96.7	-209.3	-146.9	-181.9	-203.6	-162.6	-189.0	-161.2
Amortization of public debt	-96.4	-141.4	-121.2	-116.3	-146.2	-157.5	-135.9	-135.5
Mining company capital	16.0	18.0	16.4	25.1	46.5	31.2	40.6	23.0
IMF repurchases	-13.9	-5.4	-8.7	-14.2	-8.7	-1.0	-3.1	-5.5
Reserves (including gold)	-36.2	44.1	-27.0	3.6	30.8	13.1	21.1	12.2
Changes in arrears	7.5	77.5	-26.1	87.3	-301.1	--	--	--
Other	-8.9	-3.3	-22.2	-1.8	--	--	--	--
Resources	228.6	219.7	335.6	205.3	290.1	276.4	265.8	266.4
Official capital, long term	169.7	190.0	227.3	194.4	267.0	241.2	226.2	238.0
Project loans	(125.2)	(143.1)	(166.7)	(190.6)	(189.9)	(200.1)	(216.2)	(228.0)
Other loans	(44.5)	(46.9)	(60.7)	(3.8)	(77.1)	(41.1)	(10.0)	(10.0)
Direct (private) investment	5.2	6.5	10.0	10.9	11.4	11.8	12.3	12.8
IMF drawings	21.9	--	22.5	--	11.7	23.4	27.3	15.6
Paris Club rescheduling	6.3	--	62.8	...	...	...	...	...
Other rescheduling	25.5	23.2	13.0	--	...	...	...	...
Residual financing gap	--	--	--	--	292.2	--	--	--

Sources: Data provided by the Guinean authorities; and estimates by Fund staff.